CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES
Michelle Baass | Director

DATE: October 30, 2026

LTC RATES POLICY LETTER 27-005

TO: ALL MEDI-CAL DISTINCT PART ADULT SUBACUTE (DP/SA)

SUBJECT: DISTINCT PART ADULT SUBACUTE (DP/SA) FACILITY CY 2027 RATES

PURPOSE:

This Long-Term Care (LTC) Rates Policy Letter adopts the Medi-Cal Calendar Year (CY) 2027 rate study for Distinct Part Adult Subacute (DP/SA).

BACKGROUND:

Reimbursement rates for Distinct Part Adult Subacute (DP/SA) are updated annually using a cost-based rate methodology in accordance with Attachment 4.19-D of the California Medicaid State Plan. Facilities are classified into Ventilator and Non-Ventilator patient categories. Welfare and Institutions Code (WIC) section 14126.027 authorizes the Department of Health Care Services (DHCS) to implement the Medi-Cal Long-Term Care Reimbursement Act by means of provider letters or other similar instructions, without taking regulatory action, notwithstanding the rulemaking provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

As part of the California Advancing and Innovating Medi-Cal (CalAIM) initiative, Medi-Cal institutional Long-Term Care (LTC) services were fully carved into the managed care delivery system effective January 1, 2024. Requirements applicable to Managed Care Plans, including payment rates, are described in All Plan Letter (APL) 26-010[1] and 26-011[2].

POLICY:

I. Rate Setting Calculations

DHCS hereby adopts the rate setting calculations described in the CY 2027 DP/SA Rate Study Workbook, which are incorporated by reference, to effectuate the methodologies specified Medi-Cal Long Term Care Reimbursement Act and State Plan. All necessary peer group percentile caps, adjustment factors, growth factors, and weighted average rates are calculated prospectively at the time of the initial

[1] https://www.dhcs.ca.gov/wp-content/uploads/2026/06/APL26-010.pdf
[2] https://www.dhcs.ca.gov/wp-content/uploads/2026/06/APL26-011.pdf

rate study as specified in the CY 2027 Calculations tab of this Rate Study Workbook and will not be recalculated on the basis of any subsequent facility-specific rate re-computations that may occur.

The reimbursement rates for DP-SA are reimbursed by their projected costs up to the median, regardless of whether reimbursement is for ventilator or non-ventilator patients. Also, if a facility's projected cost is lower than its rate established in the prior rate year, the facility will continue to receive the prior year rate (Hold Harmless).

Assembly Bill (AB) 118 (Chapter 42, Statutes of 2023) amended WIC section 14105.075 to shift reimbursement for DP-SA facilities from an August to July 31 rate year basis to a calendar rate year basis (January 1 to December 31), effective January 1, 2024. Changes to the California Medicaid State Plan necessary to effectuate the changes made by AB 118 are approved in State Plan Amendment 23-0032. Reimbursement rates will be established pursuant to the methodology described above for each calendar rate year.

Pursuant to the State Plan, payment to facilities for members who are on bed hold for acute hospitalization or who are on an approved leave of absence shall be at the appropriate facility daily rate less a bed hold adjustment for raw food costs. Pursuant to the State Plan, payment for hospice room and board is 95 percent of the Medi-Cal facility-specific rate where the patient resides.

A. Senate Bill 616 Adjustment

SB 616 (Chapter 309, Statutes of 2023) increased, effective January 1, 2024, the amount of paid sick leave required under California law from three days to five days. Cost reports FYE 2023 are adjusted for the projected cost of complying with SB 616 by applying a 0.769% adjustment to facilities' projected labor costs in CY 2027. DHCS derived the 0.769% adjustment by determining the ratio of the 16 additional hours of leave required and the 2,080 working hours assumed to be reflected in cost reports. This adjustment applies to total salary, wage, overtime, and benefit costs reported for all workers and is inclusive of inflation adjustments between the cost reporting period and rate year. This adjustment will be provided in subsequent rate years until rates are developed with FYE 2024 cost reports.

II. Policy Letter Adoption

This Policy Letter supersedes all prior guidance, bulletins, instructions, and regulations issued by DHCS on the matters described herein. DHCS reserves the right to modify, waive, or rescind any provision of this Policy Letter. This Policy Letter is not intended to, and does not, create any rights or benefits, substantive or procedural, enforceable at law or in equity, against the State of California, its agencies, departments, entities, officers, employees, or any other person.

A copy of this Policy Letter is posted on the Medi-Cal Long-Term Care Reimbursement website at https://www.dhcs.ca.gov/services/medi-cal/Pages/Subacute.aspx. If you have any questions regarding this Policy Letter, please contact the Medi-Cal Long-Term Care Reimbursement Inbox at LTCReimbursement@dhcs.ca.gov for rate issues.

Sincerely,

ORIGINAL SIGNED BY ADITYA VOLETI

Aditya Voleti, Division Chief
Provider Rates Division