



DATE: June 3, 2026

DRAFT CLINIC POLICY LETTER 26-001

TO: FEDERALLY QUALIFIED HEALTH CENTERS AND RURAL HEALTH CLINICS

SUBJECT: CHANGES TO REIMBURSEMENT FOR STATE-ONLY SERVICES IN THE
MANAGED CARE DELIVERY SYSTEM

PURPOSE:

This Clinic Policy Letter (CPL) establishes Medi-Cal reimbursement policy for state-only services provided by Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs) to Medi-Cal members enrolled in Managed Care Plans effective for dates of services on and after July 1, 2026.

BACKGROUND:

Medi-Cal reimburses eligible FQHC and RHC services at an all-inclusive PPS rate for encounters with a PPS-billable provider. Medi-Cal Managed Care Plans (MCPs) are required to reimburse contracted FQHCs and RHCs in a manner that is no less than the level and amount of payment that the MCP would make for the same scope of services if the services were furnished by another non-FQHC and RHC provider type, pursuant to Welfare and Institutions Code (WIC) section 14087.325(d). DHCS provides a differential “wrap” payment that is equal to the difference between visits reimbursed at the FQHC’s or RHC’s PPS rate and the amount received by third-party payers including MCPs and Medicare. DHCS pays the “wrap” payment in two stages: an interim payment is paid on a per visit basis each time the FQHC/RHC files a claim, and, if necessary, a final payment once the reconciliation process is complete. FQHCs and RHCs must complete and submit a reconciliation request annually to reconcile the amount of Medi-Cal interim payments and third party payments received by the FQHC or RHC against the PPS rate and actual number of visits the FQHC or RHC reimbursed by the Medi-Cal Program.

Assembly Bill 116 (Chapter 21, Statutes of 2025) amended Welfare & Institutions Code (WIC) section 14132.100, subdivision (c), effective July 1, 2026, to specify that only services that are eligible for federal financial participation shall be reimbursed using the PPS.

DHCS provided public notice of this change to policy on April 24, 2026¹ and issued a clarifying addendum on May 8, 2026.² As described in the May 8, 2026 addendum, DHCS is implementing these changes in a phased approach for Medi-Cal members in the Managed Care and Fee For Service (FFS) Delivery System. To the extent any system changes are operationalized after July 1, 2026, they will be applicable retroactively to dates of service on and after July 1, 2026. Additional guidance applicable to members receiving services in the FFS Delivery System is forthcoming.

POLICY:

Effective for dates of service on and after July 1, 2026, the Medi-Cal Fiscal Intermediary will deny reimbursement of managed care differential “wrap” payments submitted by FQHCs and RHCs for state only services. The Medi-Cal Fiscal Intermediary will note each applicable denial via Remittance Advice Detail (RAD) code(s).

State-only services are services ineligible for federal financial participation under the federal Medicaid program, but are covered under California’s Medi-Cal program, including services provided to members with federal Unsatisfactory Immigration Status (UIS) other than pregnancy and emergency-related services, as well as certain other Medi-Cal services.

Emergency & Pregnancy Services Exempt

DHCS will continue to reimburse differential “wrap” payments for federally-eligible pregnancy and emergency-related services identified through complete and appropriate service-level coding including procedure codes, diagnosis codes, and emergency indicator on the claim consistent with the *Medi-Cal Provider Manual*.

Reimbursement from MCPs

State-only services will continue to be reimbursed at the negotiated rate between the MCP and the FQHC or RHC, subject to any state, federal, or contractual requirements, without additional managed care differential “wrap” payments from DHCS that apply to PPS-eligible services. Pursuant to WIC section 14087.325(d), MCPs must reimburse contracted FQHCs and RHCs in a manner that is no less than the level and amount of payment that the MCP would make for the same scope of services if the services were furnished by another non-FQHC and RHC provider type. FQHCs and RHCs should bill MCPs with complete procedure code and diagnosis code information for each service rendered.

¹ <https://www.dhcs.ca.gov/wp-content/uploads/2026/05/FQHC-PPS-for-State-Only-Public-Notice.pdf>

² <https://www.dhcs.ca.gov/wp-content/uploads/2026/05/Addendum-to-FQHC-PPS.pdf>

Differential “Wrap” Payment Reconciliation

Effective for fiscal years including dates of service on or after July 1, 2026, FQHCs and RHCs will be required to exclude state-only services on the submitted annual Reconciliation Request, with the exception of FFP-eligible visits for emergency and pregnancy-related services. Since state-only visits are not eligible for PPS reimbursement, the visits are not subject to the MCP and Medicare crossover visit reconciliation.

CLINIC POLICY LETTER ADOPTION:

Subdivision (r) of WIC section 14132.100 authorizes DHCS to implement, interpret, or make specific FQHC and RHC PPS reimbursement policies by means of policy letter without taking regulatory action, notwithstanding Chapter 3.5 of Part 1 of Division 3 of Title 2 of the Government Code (commencing with Section 11340). Therefore, this policy letter has the full force and effect of California law.

This CPL 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 CPL. This CPL 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 CPL is posted on the Medi-Cal [FQHCs and RHCs](#) website under Clinic PL 26-001.

If you have any questions regarding this CPL, please contact the Medi-Cal FQHC and RHC inbox at: FQHCBenefitsandRates@dhcs.ca.gov.