

DATE: October 31, 2025

LTC RATES POLICY LETTER 26-001

TO: ALL MEDI-CAL FREESTANDING SKILLED NURSING FACILITIES

SUBJECT: FREESTANDING SKILLED NURSING FACILITY CY 2026 RATES

PURPOSE:

This Long-Term Care (LTC) Rates Policy Letter adopts the Medi-Cal Calendar Year (CY) 2026 rate study for Freestanding Nursing Facility Level-B (FS/NF-B) and Freestanding Adult Subacute (FS/SA) rates.

BACKGROUND:

The Medi-Cal Long-Term Care Reimbursement Act (Article 3.8 of Chapter 7 of Part 3 of Division 9 of the Welfare and Institutions Code (WIC), beginning with section 14126) and the California Medicaid State Plan (Supplements 4 and 6 of Attachment 4.19-D) establish a cost-based, facility-specific reimbursement rate methodology for FS/NF-Bs and FS/SAs. Assembly Bill (AB) 186 (Chapter 42, Statutes of 2022) most recently amended the Medi-Cal Long-Term Care Reimbursement Act. 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 Chapter 3.5 (commencing with section 11340) of Part 1 of Division 3 of Title 2 of the Government Code.

AB 186 and State Plan Amendment (SPA) 24-0004¹ authorized the Workforce Standards Program (WSP) for Freestanding Skilled Nursing Facilities (SNF) Level-B and Adult Freestanding Subacute Facilities Level-B effective for calendar years (CY) 2024 through 2026. The WSP provides an enhanced Medi-Cal per diem rate, including a workforce rate adjustment, to facilities that maintain a collective bargaining agreement, participate in a statewide multi-employer labor management committee (LMC), or meet basic wages and benefit standards established by DHCS. DHCS launched the WSP Opt-in process for CY 2024 and CY 2025 on October 1, 2024 as described in LTC Rates Policy Letter 24-0001.²

¹ <https://www.dhcs.ca.gov/SPA/Documents/CA-24-0004-Approval.pdf>

² <https://www.dhcs.ca.gov/services/medi-cal/Documents/AB186%20Workforce%20Standards/LTC-Rates-PL-24-001-SNF-CY2024-Rates-and-WSP.pdf>

DHCS published the CY 2026 opt-in process on the WSP Website on June 2, 2025 and notified facilities subscribed to the AB 186 Email List.³

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) 24-009⁴ and 24-010.⁵

POLICY:

I. Ratesetting Calculations

DHCS hereby adopts the ratesetting calculations described in the CY 2026 FS/NF-B and CY 2026 FS/SA Rate Study Workbooks, 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 rate study as specified in Appendix Tables 1 through 4 of each Rate Study Workbook and will not be recalculated on the basis of any future facility-specific rate recomputations.

AB 186 requires a split aggregate growth limit for labor and non-labor rate components and provides for an enhanced per diem rate for facilities participating in the WSP for the CY 2026 rate year. In CY 2026, the maximum facility-specific annual increase for the basic per diem rate for the labor rate component is 5 percent, and the maximum aggregate annual increase for the non-labor rate component is 1 percent. The aggregate annual increase of the non-labor rate component is demonstrated in Appendix Table 4 of each Rate Study Workbook. Additionally, the maximum annual growth limit is increased for the projected cost of complying with new state or federal mandates as described

³ <https://www.dhcs.ca.gov/services/medi-cal/Pages/FFSRDD-LTC/SNFWSP.aspx>

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<https://www.dhcs.ca.gov/formsandpubs/Documents/MMCDAPLsandPolicyLetters/APL%202024/APL24-009.pdf>

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<https://www.dhcs.ca.gov/formsandpubs/Documents/MMCDAPLsandPolicyLetters/APL%202024/APL24-010.pdf>

below.

The Rate Study Workbooks calculate the basic per diem rate for each facility, as well as the enhanced per diem inclusive of the workforce rate adjustment that will apply to facilities that opt-into the WSP. The workforce rate adjustment is facility-specific and based on the difference between the facility's pre-growth limit labor rate component and final labor rate component in CY 2025, increased by up to 5 percent per year. Furthermore, the sum of the workforce rate adjustment and the final labor rate component cannot exceed the facility's pre-growth limit labor in the present rate year. Facilities with newly established rates have a workforce rate adjustment calculated based on the facility's pre-growth limit labor and the peer group weighted average ratio of the workforce rate adjustment.

The California Medicaid State Plan provides for the reimbursement of specified facilities at the peer group weighted average rate. Out of state facilities are reimbursed at the statewide average rate.

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 at 95 percent of the Medi-Cal facility-specific rate where the patient resides.

Special Treatment Programs (STPs) are distinct part units of FS/SNFs that are approved by DHCS to provide mental health services for patients who have diagnosed with chronic psychiatric impairment and whose adaptive functioning is moderately impaired.

Pursuant to the State Plan and California Code of Regulations, Title 22, Section 51511.1, the supplemental payment is \$5.72 per day. Pursuant to subdivision (b) of WIC section 14126.02, facilities that are designated as institutions for mental diseases, as defined in Section 1396d(i) of Title 42 of the United States Code, are excluded from the Medi-Cal Long-Term Care Reimbursement Act methodology.

A. Minimum Wage Adjustments

Senate Bill (SB) 3 (Chapter 4, Statutes of 2016), phased-in an eventual \$15 minimum wage with dollar increases each year with varying schedules by employer size. Beginning in 2024, SB 3 provides for the minimum wage to be annually adjusted for inflation.

DHCS will not provide a separate rate add-on for the inflation adjustment to the

SB 3 statewide minimum wage effective on or after January 1, 2024, as the minimum wage cost increase is already accounted for in the inflation factor used to trend facilities' reported costs to the rate year.

B. 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 2026. 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.

Pursuant to paragraph B.3.b of section IV of Supplement 4 to Attachment 4.19-D, the CY 2026 growth limit is not adjusted for the SB 616 because the growth limit was increased in CY 2023 for this purpose.

C. Changes in Ownership

As initially described in LTC Rates Policy Letter 23-002⁶ rates for facilities with a pending or recently completed change of ownership or licensed operator (CHOW) are calculated using the regular ratesetting methodology utilizing the latest available audited cost report with the required minimum number of months of cost data. Pursuant to the State Plan and WIC section 14126.023(c)(4), the required minimum number of months of audited Medi-Cal cost data is 12 months for FS/SA units and 6 months for all other FS/NF-Bs. Once a CHOW is completed, DHCS will consider a facility's rate to be "newly established" for the application of the ratesetting calculation once the prospective rate is established using an audited cost report for a reporting period beginning after completion of the CHOW and with the required minimum number of months.

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<https://www.dhcs.ca.gov/formsandpubs/Documents/MMCDAPLsandPolicyLetters/APL2023/APL23-002.pdf>

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/LTCRU.aspx>. If you have any questions regarding this Policy Letter, please contact the Medi-Cal Long-Term Care Reimbursement Inbox at AB1629@dhcs.ca.gov for rate issues and the SNF WSP Inbox at SNFWSP@dhcs.ca.gov for WSP issues.

Sincerely,

ORIGINAL SIGNED BY ADITYA VOLETI

Aditya Voleti, Division Chief
Fee-For-Service Rates Development Division