

DATE: October 31, 2025

LTC RATES POLICY LETTER 26-003

TO: ALL MEDI-CAL INTERMEDIATE CARE FACILITIES,
DEVELOPMENTALLY DISABLED (ICF/DD), HABILITATIVE (ICF/DD-H),
AND NURSING (ICF/DD-N)

SUBJECT: INTERMEDIATE CARE FACILITIES, DEVELOPMENTALLY DISABLED
(ICF/DD) FACILITY CY 2026 RATES

PURPOSE:

This Long-Term Care (LTC) Rates Policy Letter adopts the Medi-Cal Calendar Year (CY) 2026 rate study for Intermediate Care Facilities, Developmentally Disabled (ICF/DD), Habilitative (ICF/DD-H), and Nursing (ICF/DD-N).

BACKGROUND:

Reimbursement rates for Intermediate Care Facilities for the Developmentally Disabled (ICF/DD), Habilitative (ICF/DD-H), and Nursing (ICF/DD-N) are updated annually using an unfrozen, peer-grouped, cost-based rate methodology in accordance with Attachment 4.19-D of the California Medicaid State Plan. Facilities are classified into peer groups by level of care and bed size. 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) 24-011¹.

POLICY:

I. Rate Setting Calculations

¹ <https://www.dhcs.ca.gov/formsandpubs/Documents/MMCDAPLsandPolicyLetters/APL%202024/APL24-011.pdf>

DHCS hereby adopts the rate setting calculations described in the CY 2026 ICF/DD Rate Study Workbook, which is 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 2026 CY Calculations tab of this Rate Study Workbook and will not be recalculated on the basis of any future facility-specific rate re-computations.

The reimbursement rates for each peer group are established at the 65th percentile of the peer group's projected costs based on the most recent reported and audited cost data adjusted for inflation, plus the projected cost of complying with any new state or federal mandates (such as statewide minimum wage increases) and the Quality Assurance Fee (QAF).

In accordance with Welfare and Institutions Code (WIC) section 14105.075 and Attachment 4.19-D of the California Medicaid State Plan, for dates of service after the last day of the COVID-19 Public Health Emergency (PHE), the reimbursement rate for ICF/DD, ICF/DD-H, and ICF/DD-N facilities will be the greater of: (1) the unfrozen, cost-based rate as described above, or (2) the reimbursement rate in effect for the facility on the last day of the COVID-19 PHE, inclusive of the COVID-19 PHE temporary rate increase.

Assembly Bill (AB) 118 (Chapter 42, Statutes of 2023) amended WIC section 14105.075 to shift reimbursement for ICF/DD, ICF/DD-H, and ICF/DD-N 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 the August 1, 2023, through December 31, 2023, rate period; for the January 1, 2024, through December 31, 2024, rate period; and each calendar rate year thereafter.

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. 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.

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.ICF_DD.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
Fee-For-Service Rates Development Division