CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES
Michelle Baass | Director

July 2, 2026

THIS LETTER SENT VIA EMAIL

Ms. Courtney Miller, Director
Division of Program Operations
Medicaid and CHIP Operations Group
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 355
Kansas City, MO 64106

STATE PLAN AMENDMENT 26-0017: Updates Methodology and Per Diem Rates for Acute Psychiatric Hospitals in the Specialty Mental Health Services (SMHS) Program to account for additional staffing requirements until these costs are reflected in the CMS 2552 hospital cost report.

Dear Ms. Miller:

The Department of Health Care Services (DHCS) is submitting State Plan Amendment (SPA) 26-0017 for your review and approval. This SPA proposes to update the methodology and per diem rates for Acute Psychiatric Hospitals in the SMHS Program to account for additional staffing requirements until these costs are reflected in the CMS 2552 hospital cost report. DHCS seeks an effective date of July 1, 2026, for this SPA.

CMS approved SPA 23-0045 on July 20, 2023. SPA 23-0045 outlines the methodology for DHCS reimbursement of psychiatric inpatient hospital services provided in Acute Psychiatric Hospitals and General Acute Care Hospitals. The methodology described in SPA 23-0045 limits rates paid to Acute Psychiatric Hospitals and General Acute Care Hospitals to the hospital's cost per day as determined in the most recently audited CMS 2552 Cost Report. Since CMS approved SPA 23-0045, the California Department of Public Health issued regulations requiring Acute Psychiatric Hospitals meet specific nursing staff to patient ratios. These regulations will increase the cost for Acute Psychiatric Hospitals in the current year and subsequent years. Because of the timing of cost report submission and settlement, these increased costs will not be reflected in the CMS 2552 cost report used to calculate the rate maximum for a few years. This SPA amends the methodology to recognize these increased costs in the rate maximum.

DHCS posted SPA 26-017 for public comment on June 15, 2026. At the time of SPA submission, no comments were received. DHCS has determined that a Tribal notice is not necessary for this proposal.

Included in this submission are the following:

- CMS 179 Form
- Standard Funding Questions
- Attachment 4.19-A pages 40, 40.1, 43, 43.1 (redline & clean version)
- Public Notice

If you have any questions or need additional information, please contact Charles Anders, Chief of Local Governmental Financing Division, at 916-713-8804, or by email at Charles.Anders@dhcs.ca.gov.

Sincerely,

[redacted]

Tyler Sadwith
State Medicaid Director
Chief Deputy Director, Health Care Programs
California Department of Health Care Services

Enclosures

cc: Saralyn M. Ang-Olson, JD, MPP
Chief Compliance Officer
Office of Compliance
Department of Health Care Services
Saralyn.Ang-Olson@dhcs.ca.gov

Rafael Davtian
Deputy Director
Health Care Financing
Department of Health Care Services
Rafael.Davtian@dhcs.ca.gov

Charles Anders, Chief
Local Governmental Financing Division
Department of Health Care Services
Charles.Anders@dhcs.ca.gov

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

FORM APPROVED
OMB No. 0938-0193

TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL

FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES

1. TRANSMITTAL NUMBER: 26-0017

2. STATE: CA

3. PROGRAM IDENTIFICATION: TITLE OF THE SOCIAL SECURITY ACT: (●) XIX ( ) XXI

TO: CENTER DIRECTOR
CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE
July 1, 2026

5. FEDERAL STATUTE/REGULATION CITATION
42 CFR 440 and 42 CFR 447

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)
a. FFY 2026 $ 0
b. FFY 2027 $ 0

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT
Attachment 4.19-A Pages 40, 40.1, 43 and 43.1 (NEW)

8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT *(If Applicable)*
Attachment 4.19-A Pages 40, 40.1, 43

9. SUBJECT OF AMENDMENT
Updates the methodology and per diem rates for Licensed Acute Psychiatric Hospitals to account for additional staffing requirement until these costs are reflected in the CMS 2552 hospital cost report in FY 2026-27 in the Attachment 4.19-A reimbursement pages.

10. GOVERNOR'S REVIEW *(Check One)*

( ) GOVERNOR'S OFFICE REPORTED NO COMMENT
( ) COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
( ) NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL
(●) OTHER, AS SPECIFIED:
Please note: The Governor's Office does not wish to review the State Plan Amendment.

11. SIGNATURE OF STATE AGENCY OFFICIAL
[redacted]

12. TYPED NAME
Tyler Sadwith

13. TITLE
State Medicaid Director and Chief Deputy Director

14. DATE SUBMITTED
July 2, 2026

15. RETURN TO
Department of Health Care Services
Attn: Director's Office
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

FOR CMS USE ONLY

16. DATE RECEIVED

17. DATE APPROVED

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL

19. SIGNATURE OF APPROVING OFFICIAL

20. TYPED NAME OF APPROVING OFFICIAL

21. TITLE OF APPROVING OFFICIAL

22. REMARKS

Instructions on Back

The State will publish the rate to the following webpage: https://www.dhcs.cca.gov/services/MH/Pages/medi-cal-behavioral-health-fee-scheedules.aspx.

b. Acute Psychiatric Inpatient Hospital Services – Acute Psychiatric Hospitals
The State will use the following steps to calculate one per diem rate for each county where SD/MC Acute Psychiatric Hospitals are located in California.

1. On an annual basis, gather, for each SD/MC Acute Psychiatric Hospital, hospital-specific data regarding the total allowable Medi-Cal Acute Psychiatric Inpatient Hospital Service costs and total allowable Medi-Cal Acute Psychiatric Inpatient days as determined and reported I n the most current CMS 2552 hospital cost report and supplemental schedules on file with the State as of December 31st prior to the beginning of the State Fiscal Year (July 1 through June 30). For State Fiscal Year 2023-24, starting with dates of service on or after December 12, 2023, the State will gather this data from the most current CMS 2552 hospital cost report and supplemental schedules on file with the State as of March 31, 2024. All SD/MC Acute Psychiatric Hospital cost reports used in each county have a uniform cost reporting period.
2. Adjust each SD/MC Acute Psychiatric Hospital's total allowable Medi-Cal Acute Psychiatric Inpatient Hospital Service costs to account for prior year audit adjustments.
3. Sum the total allowable costs, after applying the audit adjustment, and total allowable days for all SD/MC Acute Psychiatric Hospitals located in each county.
4. Divide the sum of total allowable costs by the sum of total allowable days to calculate a cost per day for SD/MC Acute Psychiatric Hospitals located in each county.
5. Adjust the result in Step 4 by 16% to account for new staffing requirements that will not be reflected in the CMS 2552 hospital cost report and supplemental schedules until Fiscal Year 2026-27. This adjustment will not be applied after the new staffing requirements are reflected in the CMS 2552 hospital cost report and supplemental schedules.
6. Multiply the result in Step 5 above by one plus the percentage change from the four-quarter average of the cost reporting fiscal year to the four-quarter average of the rate setting fiscal year from the IHS Global Inc. CMS Market Basket Index Level for Inpatient Psychiatric Facilities. This will result in the per diem rate for each county for the rate setting fiscal year.

The State will publish the rates to the following webpage: https://www.dhcs.ca.gov/services/MH/Pages/medi-cal-behavioral-health-fee-schedules.aspx.

c. Acute Psychiatric Inpatient Hospital Services – General Acute Care Hospitals
The State will use the following steps to calculate one per diem rate for each county where SD/MC General Acute Care Hospitals are located in California.

1. On an annual basis, gather, for each SD/MC General Acute Care Hospital, hospital specific data regarding the total allowable Medi-Cal Acute Psychiatric Inpatient Hospital Service costs and total allowable Medi-Cal Acute Psychiatric Inpatient days as determined and reported in the most current CMS 2552 hospital cost report and supplemental schedules on file with the State as of December 31st prior to the beginning of the State Fiscal Year. For State Fiscal Year 2023-24, the State will gather this data from the most current CMS 2552 hospital cost report and supplemental schedules on file with the State as of March 31, 2024. All SD/MC General Acute Care Hospitals cost reports used in each county have a uniform cost reporting period.
2. Adjust each SD/MC General Acute Care Hospital's total allowable Medi-Cal Acute Psychiatric Inpatient Hospital Service costs to account for prior year audit adjustments.
3. Sum the total allowable costs, after applying the audit adjustment, and total allowable days for all SD/MC General Acute Care Hospitals located in each county.
4. Divide the sum of total allowable costs by the sum of total allowable days to calculate a cost per day for SD/MC General Acute Care Hospitals located in each county.
5. Multiply the result in Step 4 above by one plus the percentage change from the four-quarter average of the cost reporting fiscal year to the four-quarter average of rate setting fiscal year form the IHS Global Inc. CMS Market Basket Index Level for Inpatient Psychiatric Health Facilities. This will result in the per diem rate for each county for the rate setting fiscal year.

The State will publish the rates to the following webpage: https://www.dhcs.ca.gov/services/MH/Pages/medi-cal-behavioral-health-fee-schedules.aspx.

C. REIMBURSEMENT METHODOLOGIES AND PROCEDURES

1. RATE SETTING FOR PSYCHIATRIC INPATIENT HOSPITAL SERVICES PROVIDED BY FEE-FOR-SERVICE/MEDI-CAL CONTRACT HOSPITAL

a. Reimbursement (a per diem rate) for acute psychiatric inpatient hospital services for each Fee-for-Service/Medi-Cal contract hospital will be based on a negotiated per diem rate negotiated between the negotiating entity and the hospital on an annual basis. The starting point for this negotiation will be the hospital's routine and ancillary costs of providing psychiatric inpatient hospital services as reported in its most recently settled CMS 2552 cost report. The negotiating entity and hospital will also consider the trend of the hospital's routine costs, the trend of the hospital's ancillary costs, and the hospital's usual and customary charge for psychiatric inpatient hospital services in negotiating the rate. The negotiated per diem rate negotiated between the negotiating entity and a hospital may be less than, equal to, or greater than the starting point and will not exceed the lower of the hospital's usual and customary charge or the hospital's rate maximum described in section C.1.b and C.1.c.

When a hospital is owned or operated by the same organizational entity as the negotiating entity, the per diem rate will be submitted by the negotiating entity and is subject to approval by the State. The State will approve the per diem rate submitted by the negotiating entity if it is no greater than the lower of the following:

- The hospital's rate maximum as described in section C.1.b and C.1.c.
- The hospital's usual and customary charge.

b. The rate maximum for FFS/MC hospitals licensed as General Acute Care Hospitals is the hospital's cost per day as determined in its most recently settled CMS 2552 hospital cost report trended to the rate year using the percentage change in the IHS Global Inc. CMS Market Basket Index Levels for Inpatient Psychiatric Facilities or another cost-of-living index approved by CMS.

c. The rate maximum for FFS/MC hospitals licensed as Acute Psychiatric Hospitals is the hospital's cost per day as determined in its most recently settled CMS 2552 hospital cost report, increased by 16% through the Fiscal Year 2025-26 CMS 2552 cost report and trended to the rate year using the percentage change in the HIS Global Inc. CMS Market Basket Index Levels for Inpatient Psychiatric Facilities or another cost-of-living index approved by CMS.

d. The negotiated per diem rate includes routine hospital services and all hospital-based ancillary services.
e. Only one negotiated per diem rate for each allowable accommodation code for each negotiated rate Fee-for-Service/Medi-Cal hospital may be established. The negotiated per diem rate will not be subject to retrospective adjustment to cost.
f. Intentionally Left Blank
g. The per diem rate for administrative day services will be based upon the prospective class median rate for nursing facilities that are distinct parts of acute care hospitals and offer skilled nursing services, plus an allowance for the cost of ancillary services equal to 16 percent of the prospective class median rate. The state will calculate one statewide rate for administrative day services that is applied to all FFS/MC contract hospitals that provide administrative day services. The statewide rate for administrative day services to be effective from August 1st through July 31st of each rate year, will be calculated using the following steps:
    - Enter into a spreadsheet the skilled nursing facility rates calculated under Attachment 4.19-D for each hospital that operates a distinct part nursing facility for the prospective nursing facility rate-year, which runs from August 1st through July 31st.