Private Essential Access Community Hospitals
California's Community Safety Net Hospitals
Essential to Access, Essential to Health

California Hospital Association

CALIFORNIA CHILDREN'S HOSPITAL ASSOCIATION

September 8, 2026

Michelle Baass, Director
Department of Health Care Services
Via email to michelle.baass@dhcs.ca.gov

Supplemental Medi-Cal Funding for Private Hospitals

Dear Director Baass:

On behalf of nearly all private hospitals in California, Private Essential Access Community Hospitals (PEACH), the California Children's Hospital Association (CCHA), and the California Hospital Association (CHA) have significant concerns about delayed federal approval of Medi-Cal supplemental funding, as well as both the timeliness and transparency of Department of Health Care Services' (DHCS') commitments regarding the calendar years (CY) 2026 and 2027 Hospital Quality Assurance Fee (HQAF) Program periods.

PEACH, CCHA, and CHA appreciate hospitals' ongoing partnership with DHCS to treat and serve Medi-Cal beneficiaries. Continuing to meet Medi-Cal patients' needs will depend on obtaining Centers for Medicare & Medicaid Services (CMS) approval and timely implementation of pending programs, particularly given the coverage reductions slated to take effect in 2027, authorized under the One Big Beautiful Bill Act (OBBBA) and related federal actions. To ensure the state is able to serve the millions of Californians who rely on Medi-Cal, private hospitals respectfully ask DHCS to allocate resources and prioritize:

- Securing CMS approval of the state fiscal year (SFY) 2025-26 Private Hospital Supplemental Program State Plan Amendment (SPA) (SPA-25-0010-Pending.pdf)
- Securing CMS approval of the CY 2025 HQAF Fee-for Service Supplemental Payment SPAs (SPA 25-0012 Pending; SPA 25-0013 Pending)
- Submitting to CMS the amended CY 2026 Private Hospital Directed Payment Pre-Print

And, with respect to the HQAF Program 11 (CY 2027 program), private hospitals respectfully request that DHCS:

- Maximize the size of the remaining available Managed Care Pass Through Payments available to private hospitals for CY 2027
- Create a Medi-Cal Managed Care Subacute Directed Payment in the CY 2027 Private Hospital Directed Payment Program
- Ensure that all eligible inpatient Medi-Cal inpatient mental health days are included in the SPA

Secure Approval of the Private Hospital Supplemental Fund State Plan Amendment for SFY 2025-26
Set up two decades ago, the Private Hospital Supplemental Fund program provides supplemental Medi-Cal payments to private Medi-Cal disproportionate share hospitals (DSHs) and eligible teaching hospitals that provide emergency care and has been highly successful in supporting meaningful emergency department access for Medi-Cal beneficiaries. The program is typically approved by CMS by August of each year and, based on prior years' timelines, payments would typically have begun flowing to hospitals in December 2025 for the SFY 2025-26 program. Under the SFY 25-26 SPA, private California safety-net hospitals should be eligible for $360 million in funding — but **hospitals have yet to receive any funding** because it has not yet been approved by CMS.

Hospitals recognize that CMS has been very slow to review California's SPAs. However, hospitals also understand it took approximately one month for DHCS to respond to the latest round of questions from CMS about this program and to date, neither the questions nor responses have been shared with the hospital associations. **It is critical that, when DHCS receives questions from CMS, it promptly shares those questions, asks for technical assistance from the hospital associations, and prioritizes responding as quickly as possible.**

Secure Approval of the HQAF SPAs for CY 2025
Hospitals also request that DHCS follow up more regularly with CMS and request approval of the still-pending HQAF inpatient and outpatient SPAs (which were submitted March 28, 2025) as soon as possible. Approval of these packages is necessary to fully operationalize the CY 2025 HQAF Program and avoid further disruption to implementation cycles that are already posing significant financial challenges to participating hospitals.

Submit the Amended CY2026 Private Hospital Directed Payment Pre-Print
Hospitals also request that DHCS promptly submit the CY 2026 Private Hospital Directed Payment Pre-Print. The program structure is essentially the same as that approved for CY 2025; the only difference is the reduced amount of managed care organization tax funding supporting the non-federal share as compared to the prior year. **This needs to be submitted as soon as possible.** It is of critical importance to private hospitals that the state secure approval for the entirety of the HQAF Program 10 prior to Dec. 31, 2026. This timing would be back in line with prior program approvals and is crucial for financial planning in an already historically strained environment. DHCS must submit the required documentation quickly to avoid any further delays in CMS consideration and ultimate approval of the program.

HQAF 11 Program
While many of OBBBA's most harmful components will not impact California's HQAF Program until CY 2028, the decreased availability of Medi-Cal Managed Care Pass-Through Funding will significantly reduce funding for certain services. DHCS must ensure that the remaining Medi-Cal managed care pass-through allowance for CY 2027 is as large as possible.

Hospitals also ask that DHCS include, as part of its CY 2027 rate setting and Private Hospital Directed Payment program, a sub-acute supplemental payment. DHCS has been working with the hospital associations for several years to strategically transition populations and services out of pass-through funding and into permissible payment methodologies. A most recent example of this was the creation of a children's class in CY 2025. The next logical service that was in discussions was subacute services, particularly given the recent statewide carve-in of the service category into managed care. Hospitals understand that the state now believes additional time is needed to implement this transition. However, delaying the CY 2027 subacute transition would unnecessarily impact these providers and act against the state's longstanding efforts to strategically and responsibly transition services out of pass-through funding. Hospitals have worked for the last several months with the Capitated Rates Development Division on establishing such a solution and urge DHCS to continue the work necessary to establish a subacute rate in CY 2027.

Lastly, hospitals request that DHCS include all eligible Medi-Cal covered inpatient psychiatric days as eligible for supplemental payments under the HQAF State Plan Amendment for CY 2027. Hospitals have previously requested to engage with DHCS on pass-through successors, including recent requests to the HQAF and Medi-Cal DSH units to make the technical changes needed to implement the inpatient psychiatric shift. Hospitals ask DHCS to make those changes as soon as possible to ensure that private hospitals providing inpatient psychiatric care are not forced to provide care at a net loss due to DHCS inaction.

PEACH, CCHA, and CHA appreciate the partnership and collaboration currently shared with DHCS. We respectfully request that DHCS prioritize the above requests and dedicate resources so these concerns can be resolved as soon as possible. The hospital associations stand ready to promptly engage with DHCS on any necessary technical or strategic assistance. Expedient collaboration will help private hospitals secure their financial situations prior to OBBBA's projected reductions in Medi-Cal coverage and additional harmful reductions in the HQAF Program starting in CY 2028. Ultimately, this will mean that we are better prepared to meet our shared goal: Supporting care for the millions of Californians who rely on Medi-Cal for lifesaving, life-changing health care.

Sincerely,

Private Essential Access Community Hospitals

California Hospital Association

California Children's Hospital Association

cc: Tyler Sadwith, State Medicaid Director
Rafael Davtian, Deputy Director, Health Care Financing