CALIFORNIA UPDATE

**June 26, 2026**

**Welcome to America's Physician Groups' *California Update*. Each week APG reports the latest on health care happenings in the Golden State.**

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**DHCS Confirms PAVE Enrollment Requirement Applies To LOA Specialists, Signals Phased Implementation Approach**

APG continues to monitor the implementation of the Department of Health Care Services' (DHCS) new Medi-Cal provider enrollment policies, which require ordering, referring, and prescribing (ORP) providers to enroll in Medi-Cal through the Provider Application and Validation for Enrollment (PAVE) system.

Following questions raised during a recent DHCS stakeholder briefing, APG sought clarification regarding whether specialty physicians providing care under a one-time Letter of Agreement (LOA) arrangement would be exempt from the enrollment requirement. In a June 23 response to APG, DHCS confirmed that all providers performing ORP functions must be actively enrolled in Medi-Cal, regardless of whether they are contracted providers, credentialed providers, low-risk specialists, or physicians participating under an LOA arrangement for a single episode of care.

The Department stated that specialty services may continue to be arranged through LOAs and other contracting mechanisms; however, Medi-Cal reimbursement associated with ordering, referring, or prescribing services can only occur if the rendering provider is enrolled in Medi-Cal. DHCS further confirmed that there is no temporary

participation period that would permit a non-enrolled provider to bill while a PAVE application is pending.

At the same time, DHCS acknowledged concerns raised by APG and other stakeholders regarding the potential impact on access to specialty care. The Department specifically recognized that many risk-bearing organizations (RBOs), restricted licensees, and independent practice associations (IPAs) rely upon highly specialized physicians affiliated with organizations such as UC Medical Groups, Stanford, Cedars-Sinai, and other tertiary referral centers that may not currently participate in Medi-Cal through PAVE enrollment.

Most significantly, DHCS advised APG that the frequently discussed July 23, 2026 date is **not intended to serve as a hard cutoff for compliance.** According to the Department, DHCS does not expect all ORP providers to be enrolled by that date and instead intends to utilize a phased implementation approach designed to support provider readiness and stakeholder transition over time.

While this clarification provides some reassurance regarding immediate enforcement, substantial concerns remain regarding the long-term impact of the policy. Many specialty physicians currently serving Medi-Cal managed care patients through Letters of Agreement have historically declined Medi-Cal fee-for-service enrollment because they do not participate in the Medi-Cal fee schedule and instead contract at negotiated rates with health plans, medical groups, and delegated provider organizations. APG continues to evaluate potential policy alternatives that would preserve beneficiary access to these specialty providers while satisfying federal and state program integrity requirements.

We encourage members to share examples of specialty provider access concerns or operational challenges associated with the PAVE enrollment requirement as APG continues its discussions with DHCS and other stakeholders.

**DHCS Issues Guidance Confirming Expiration Of Federal Payment Restriction**

The Department of Health Care Services (DHCS) has issued APL 26-013 confirming that the one-year federal restriction on Medicaid payments to certain entities under Section 71113 of H.R. 1 will expire on July 4, 2026. Beginning on that date, Medi-Cal managed care plans must resume

processing and paying claims for covered services furnished by affected providers under normal claims payment procedures.

The APL serves primarily as an operational notice to managed care plans and does not establish new compliance obligations. DHCS directs plans to communicate the change to subcontractors, downstream subcontractors, and network providers to ensure a smooth transition when the federal restriction ends.

APG members should review any plan communications issued in response to the APL and confirm that claims processing systems are prepared to accept and adjudicate affected claims for dates of service on or after July 4, 2026. The brevity of the APL reflects DHCS's view that this is simply the expiration of a temporary federal funding limitation rather than a broader policy change in the Medi-Cal managed care program. As a result, providers should expect a return to the pre-H.R. 1 payment framework rather than the implementation of any new state-level restrictions or oversight mechanisms.

**OHCA Reviews 2023-2024 Commercial And Medicare Advantage Spending Trends**

At its June 24 meeting, the Office of Health Care Affordability (OHCA) reviewed new spending data for California's commercial and Medicare Advantage markets. The presentation highlighted continued growth in health care expenditures across both markets and identified several categories driving spending increases.

For commercial coverage, total spending increased 7.8% between 2023 and 2024. Hospital inpatient and hospital outpatient services remained the largest spending categories, each accounting for approximately 20% of total spending per member. Outpatient hospital spending grew particularly rapidly, increasing 12.4% during the year, while pharmaceutical spending increased 11.9%.

Medicare Advantage spending increased 6.6% between 2023 and 2024. Pharmacy spending represented the single largest category of claims spending, accounting for approximately 19% of total spending. Hospital inpatient spending grew 9.7%, while hospital outpatient spending increased 16.9%, representing one of the fastest-growing categories identified in the report. Professional services spending also increased significantly, rising 15.0%.

OHCA also reported that claims-based spending grew substantially faster than non-claims spending. Commercial claims spending increased 9.3% between 2023 and 2024, while Medicare Advantage claims spending increased 10.5%. By comparison, non-claims spending grew only 3.7% in the commercial market and 2.1% in Medicare Advantage.

**From APG's perspective,** the presentation is noteworthy because the largest spending increases continue to be concentrated in hospital and pharmaceutical categories. These findings reinforce the importance of distinguishing between statewide spending measurement and provider accountability. Physician organizations participating in capitated and delegated arrangements have significant tools to manage utilization, quality, and population health. However, they generally do not control hospital pricing, pharmaceutical pricing, or many other factors that OHCA's Total Health Care Expenditures framework attributes to provider organizations. The spending data presented to the Board therefore highlight the need to ensure that affordability accountability remains aligned with areas over which physician organizations possess meaningful authority and operational control.

**APG Urges OHCA To Align Its Enforcement Standards And Performance Improvement Plans With California's Delegated Care Model Capabilities**
On June 25, APG submitted formal comments to the Office of Health Care Affordability (OHCA) on the agency's proposed Progressive Enforcement Framework, which will govern how OHCA responds when health care entities exceed the State's Total Health Care Expenditures (THCE) spending target. The comments build upon APG's June 16 meeting with OHCA leadership and physician organization representatives to discuss the agency's evolving approach to Performance Improvement Plans (PIPs).

APG stressed that California's physician organizations have spent decades operating under capitated and delegated payment arrangements that were specifically designed to improve quality while bending the health care cost trend. The letter emphasizes that physician organizations have long accepted prospective financial accountability through population health management, care coordination, quality improvement, and other value-based care strategies that align financial incentives with better patient outcomes, and most importantly, OHCA’s core mission.

The principal recommendation advanced by APG is that **"accountability must follow authority."** While physician organizations should remain accountable for the costs they are positioned to influence, APG cautioned

that many significant components of OHCA's THCE methodology—including hospital pricing, pharmaceutical costs, certain behavioral health expenditures, and health plan benefit design—are frequently outside the contractual authority or operational control of delegated physician organizations. The letter therefore recommends that OHCA evaluate whether the spending categories driving excess growth are actually within a physician organization's ability to manage before imposing cost target enforcement that would require a Performance Improvement Plan.

APG also encouraged OHCA to recognize California's delegated physician organizations as existing affordability infrastructure. The comments recommend that physician organizations participating in capitated and delegated-risk arrangements, demonstrating strong Total Cost of Care (TCOC) performance, maintaining robust population health and care coordination programs, and accepting prospective financial accountability should receive appropriate consideration within the enforcement framework. Similar to adjustments OHCA has proposed for other categories of health care entities, APG recommends that these organizations be eligible for modified compliance pathways or other adjustments that recognize their longstanding role in advancing affordability.

Finally, APG urged OHCA to distinguish between measuring statewide spending growth and assigning provider accountability. While THCE serves an important statewide affordability purpose, APG noted that Total Cost of Care methodologies better evaluate a physician organization's effectiveness in managing the resources it actually controls. The comments recommend that OHCA incorporate TCOC performance and other value-based care measures when determining whether corrective action is warranted and how Performance Improvement Plans should be structured.

APG will continue working closely with OHCA as the Progressive Enforcement Framework is refined to ensure that California's affordability policies build upon—rather than inadvertently undermine—the physician-led delegated care model that has successfully promoted value-based care and cost containment for decades.

**Modern Cochlear Implant Pioneers Receive 2026 Merkin Prize**

The Broad Institute has announced that the 2026 Richard N. Merkin Prize in Biomedical Technology has been awarded to five pioneering scientists whose decades of research led to the development of the modern cochlear implant—the first medical device to restore a human sense

through direct interaction with the nervous system. Today, more than one million people worldwide benefit from cochlear implants, which have transformed the treatment of profound hearing loss while helping to establish the scientific foundation for a new generation of neural interface technologies.

APG congratulates Dr. Richard Merkin and the Merkin Family Foundation for recognizing this extraordinary achievement, which exemplifies the power of physician-led innovation to improve the lives of patients around the world. The full press release is attached here for your review.

**APG Seeks Submissions For The 2026 Case Studies in Excellence**
All APG members are invited to submit an innovative care initiative or best practice in value-based care for consideration in the next edition of Case Studies in Excellence. Click here to submit your abstract by ***June 26***.

APG's annual Case Studies in Excellence series highlights our members' innovative care initiatives and best practices. It remains a highly sought-after publication and serves as an effective educational tool that helps policymakers, purchasers/payers, partners, prospective APG members, and others understand value-based care.

We welcome member submissions showcasing "value" in coordinated, patient-centered, high-quality care delivery and payment models. This 2026 series will continue to cover a broad range of topics and also feature a special spotlight on artificial intelligence in value-based care.

**Selected case studies will be featured at APG's Annual Fall and Spring Conferences and shared via social media spotlights!**

Please review the submission guidelines and submit your abstract by ***June 26***.

If you have content or program questions, please contact Dr. Susan Huang at cmo@apg.org.

**2026 APG California Policy & Advocacy Meeting Dates**
*Members, please mark your calendars for APG's California Policy Forum and California Medi-Cal Forum meetings. You can download APG's 2026 events calendar here.*

**California Policy Forum**
**2:00 - 3:00 pm**

- December 3

**California Medi- Cal Forum**
**4:00 - 5:00 pm**

- August 11
- October 13
- November 10
- December 8

**APG California Advocacy Member Resources**

- 2025 Legislative Implementation Guide
- **Tracked Health Care** Bills 2025-26: bills we're following in the California State Legislature
- November 2025 IHA Provider Directory webinar recording
- **Office of Health Care Affordability** regulations and explanatory slide deck
- **DMHC Quality and Equity Reporting** program All Plan Letter

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**For more news and resources, please visit APG's website** or contact a member of APG's California advocacy team.

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