SENATE COMMITTEE ON HEALTH
Senator Akilah Weber Pierson, Chair

BILL NO: AB 1672
AUTHOR: Solache
VERSION: March 26, 2026
HEARING DATE: June 3, 2026
CONSULTANT: Jen Flory

SUBJECT: Medi-Cal: Program of All-Inclusive Care for the Elderly: rates

SUMMARY: Requires the Department of Health Care Services to negotiate with Program of All-Inclusive Care for the Elderly (PACE) organizations in setting the PACE capitated rate, make a good faith effort to reach agreement on the capitation rates, notify a PACE organization of the proposed rates at least 60 days prior to their submission for federal approval, and respond in writing to any questions or feedback on the proposed rates by a PACE organization at least 30 days prior to submission.

Existing federal law:

1) Establishes the PACE program, the requirements for PACE providers, and eligibility requirements for PACE program participants. Authorizes PACE services to be provided under Medicare and as an optional benefit under a state's Medicaid state plan. [42 USC §1395eee]

2) Requires the Centers for Medicare and Medicaid Services (CMS) to make a prospective monthly payment to PACE organizations under a PACE program agreement of a capitation amount for each participant in a payment area based on the rate it pays to a Medicare Advantage organization. [42 CFR §460.180]

3) Requires states to make a prospective monthly payment to PACE organizations under a PACE program agreement of a capitation amount for each participant. Specifies that the amount is negotiated between a PACE organization and the state administering agency, that the amount or methodology used to calculate the amount be specified in the PACE program agreement, and that the amount:
   a) Is less than the amount that would otherwise have been paid under the state Medicaid plan if the participants were not enrolled in PACE;
   b) Takes into account the comparative frailty of PACE participants;
   c) Is a fixed amount regardless of changes in the participant's health status; and
   d) Can be renegotiated on an annual basis. [42 CFR §460.182]

4) Requires PACE organizations to accept the Medicaid capitation payment amount as payment in full for Medicaid participants and prohibits any other form of payment from the state administering agency or the participant, except for the Medicare payment or payments required by the participant due to their eligibility status (e.g. share of cost payments). [42 CFR §460.182]

Existing state law:

1) Establishes the Medi-Cal program, administered by the Department of Health Care Services (DHCS), under which low-income individuals are eligible for medical coverage. [WIC §14000, et seq.]

2) Requires DHCS to establish the California PACE program to provide community-based, risk-based, and capitated long-term care services as optional services under the state's Medi-Cal State Plan and under contracts entered into between CMS, DHCS, and PACE organizations. [WIC §14592]

3) Authorizes DHCS to contract with public or private organizations for the implementation of the PACE program. Establishes requirements of the PACE program model. [WIC §14593]

4) Requires DHCS to pay capitation rates to health plans participating in the Medi-Cal managed care program using actuarial methods and authorizes establishing plan-specific and county-specific rates. Requires DHCS to provide health plans with information on how the rates were developed, including rate sheets for that specific health plan, and provide the plans with the opportunity to provide additional supplemental information before finalizing Medi-Cal managed care capitation rates. [WIC §14301.1]

5) Requires the specific rate methodology for developing the rates applied to PACE organizations to address features of PACE that distinguishes it from other managed care plan models, and requires that the rate methodology be consistent with actuarial rate development principles and to provide for all reasonable, appropriate, and attainable costs for each PACE organization within a region. Specifies that the primary source of data used to develop rates for each PACE organization to be its Medi-Cal cost and utilization data or other data sources as deemed necessary by DHCS. [WIC §14301.1]

6) Requires DHCS to consult with PACE organizations in developing a rate methodology. [WIC §14301.1]

7) Requires DHCS to calculate an upper payment limit for payments to PACE organizations consistent with federal law. Requires the calculation of the upper payment limit to consider the risk of nursing home placement for the comparable population when estimating the level of care and risk of PACE participant. [WIC §14301.1]

This bill:

1) Replaces the requirement for DHCS to consult with PACE organizations in developing a rate methodology with a requirement for DHCS to negotiate with each contracting PACE organization consistent with existing federal regulation. Requires DHCS to make a good faith effort to reach agreement with the contracting PACE organization on capitation rates.

2) Requires DHCS to notify the contracting PACE organization of the proposed rates at least 60 days prior to submitting rates to CMS for approval.

3) Authorizes DHCS to define a reasonable date by which the PACE organization shall submit written questions or feedback concerning proposed rates. Requires DHCS to respond in writing to those questions or feedback by no later than 30 days prior to the CMS submission. Requires DHCS to provide the rationale for any assumptions or calculations concerning the proposed rates, including the actual data and methodologies used to determine the amount that would otherwise be paid, the experience-based rate range, and the capitation payment rate for the PACE organization upon request by a contracting PACE organization.

FISCAL EFFECT: According to the Assembly Appropriations Committee, this bill would have costs of an unknown, but likely minor and absorbable, amount for DHCS to increase

communication to enable negotiation with the existing 40 PACE organizations. DHCS had not provided a fiscal estimate when this analysis was prepared.

PRIOR VOTES:

Assembly Floor:	68 - 0
Assembly Appropriations Committee:	14 - 0
Assembly Health Committee:	16 - 0

COMMENTS:

1) *Author's statement.* According to the author, PACE organizations provide comprehensive care to our older residents, who deserve our best efforts to ensure their well-being. This bill seeks to establish clear, reasonable expectations for transparency and meaningful engagement in PACE rate development. This improved transparency supports responsible planning, program stability, and continued access to care for vulnerable older adults.

2) *PACE.* According to a June 2025 Medicaid and CHIP Payment and Access Commission (MACPAC) report, *Understanding the Program of All-Inclusive Care for the Elderly,* PACE originated in San Francisco, in 1971 when On Lok Senior Health Services established an adult PACE center as a way to provide culturally competent care to the elders of immigrant families in a community-based alternative to nursing facility care. It first was a state pilot program and then operated as a CMS demonstration program throughout the 1980s and 1990s. Congress codified what became known as "PACE" as a permanent Medicare program and Medicaid state plan option as part of the Balanced Budget Act of 1997 (P.L. 105-33).

   According to the California PACE Association (CalPACE), the sponsor of this bill, California PACE organizations currently serve over 30,000 participants in 28 counties. DHCS describes PACE as a model of care that provides a comprehensive medical/social service delivery system using an interdisciplinary team approach in a PACE center that provides and coordinates all needed preventive, primary, acute and long-term care services. Services are provided to older adults who would otherwise reside in nursing facilities. According to CalPACE, services include an interdisciplinary team to create comprehensive and coordinated care, make all necessary appointments, coordinate specialists, provide transportation to PACE centers and provide hot meals, social interactions, and recreational activity in addition to medical services while at the PACE center. Although services are designed to keep older Californians out of nursing homes, nursing home care is also covered by PACE. To be eligible, a person must be 55 years or older, reside in a PACE service area, be determined eligible at the nursing home level of care by DHCS, and be able to live safely in their home or community at the time of enrollment. For those eligible for Medi-Cal, PACE services are covered at no additional cost. Those eligible for only Medicare pay a premium.

   According to MACPAC, research suggests that PACE participants generally have better health outcomes compared to similar groups. Several studies have found that PACE participants experience reduced mortality rates and nursing facility use when compared to non-PACE individuals, including people who are dually eligible, residents of nursing facilities, and people enrolled in home- and community-based services waivers, despite having a higher mortality risk and being more likely to be medically needy. The report also cites a recent study showing that despite being the oldest, having the greatest number of comorbidities, and having the highest mortality rates on average, PACE enrollees were less likely to be hospitalized, less likely to visit the emergency department, less likely to use

institutional care, and no more likely to die compared to enrollees in Medicare Advantage plans, including fully integrated Medicaid-Medicare plans.

3) *PACE capitation rate setting.* Federal law does not require PACE Medicaid capitation rates to be actuarially sound as it does for other Medicaid managed care rates, but it does require the rate to be less than the amount that would otherwise have been paid under the state Medicaid plan if the participants were not enrolled in PACE, taking into account the frailty of the participants. It also requires states to negotiate with PACE organizations, as often as annually. According to the MACPAC report, California's PACE capitation rate setting may most closely reflect that of other managed care models because it pays PACE organizations within a rate range, developed based on experience data while staying below the amount that would otherwise have been paid for Medi-Cal services. For PACE organizations that are "fully credible," meaning the organization has a minimum number of members over a two-year period, this is an individualized rate. For those PACE organizations that are not, this is a blended rate based on the experience of PACE organizations in nearby or similar regions. The report noted that PACE stakeholders in California voiced the most substantial complaints about the adequacy of Medicaid capitation rates. Most PACE organizations interviewed that operate in California said that because PACE organizations can use the capitation payments to provide services not covered under Medicaid or Medicare but determined necessary by the interdisciplinary team, current encounter reporting does not accurately capture organizational costs. However, one PACE organization acknowledged that it benefits from cost savings when services it provides can generate reductions in hospitalizations and nursing facility placements. DHCS and PACE organizations in California disagree on how transparent this process is and PACE organizations would like more information on the assumptions DHCS is using to develop its rates.

4) *Governor's May Revise PACE rate proposal.* According to DHCS's 2026-27 May Revision highlights and the May 14 Medi-Cal Local Assistance Estimate, the Newsom Administration proposes to implement a rate cap for PACE organizations, except for new entrants in their first two years, at the actuarially sound lower bound rate, effective January 1, 2027. Each rate range contains a lower bound, midpoint, and upper bound. DHCS selects and pays each PACE organization capitation rates within the actuarial rate ranges, not to exceed the amount that would otherwise be paid as required by CMS and federal regulation. Except as may be necessary to comply with the exception for new entrants or new service areas in existing state law, DHCS proposes to cap payments to PACE organizations beginning January 1, 2027, at the lower bound of the actuarial rate ranges. The 2025 Budget Act included a rate cap at the mid-point effective January 1, 2027. This change would have an estimated General Fund savings of $33.7 million in 2026-27 and $80.9 million ongoing by reducing rates to PACE organizations. This proposal makes no mention of rate negotiation with PACE organizations.

5) *Related legislation.* AB 2327 (Lowenthal) would authorize plans subcontracting with a Medi-Cal managed care plan to request a review by DHCS to determine if the subcontracted rates are actuarially sound. *AB 2327 was held on the Assembly Appropriations suspense file.*

6) *Prior legislation.* SB 833 (Committee on Budget and Fiscal Review, Chapter 30, Statutes of 2016) standardized the rate-setting process for PACE to allow DHCS to determine capitation rates based on comparability of cost and experience between PACE and like population subsets served through long-term services and supports integration into managed care health plans.

7) *Support.* The sponsor of this bill, the California PACE Association, writes that PACE organizations submit detailed cost and utilization data to DHCS to inform rate development, but they do not get to see how that data is translated into final rates, making it difficult for providers to understand or plan around the rate-setting process. This bill aligns with existing federal requirements that require capitation rate negotiation between the PACE organization and DHCS and that the rate or methodology used to calculate the rate be specified in the PACE program agreement. They state because this bill is grounded in existing federal standards any impact to DHCS should be modest and manageable.

SUPPORT AND OPPOSITION:

Support: California PACE Association (sponsor)
AltaMed Health Services Corporation
Alzheimer's Association
Alzheimer's Greater Los Angeles
Alzheimer's Orange County
Alzheimer's San Diego
Bakersfield PACE by Innovative Integrated Health
California Assisted Living Association
California Association for Adult Day Services
California Association of Medical Product Supplies
California Collaborative for Long-Term Services and Supports
California Foundation for Independent Living Centers
California Senior Legislature
Center for Elders Independence
Chinatown Service Center
Family Health Centers of San Diego
Fresno PACE by Innovative Integrated Health
Gary and Mary West PACE
Golden Valley Health Centers
Innovative Integrated Health INC.
LeadingAge California
Neighborhood Healthcare
North East Medical Services
On Lok
Orange County PACE by Innovative Integrated Health
PACE by Innercare
Redwood Coast PACE
San Diego PACE
San Ysidro Health

Oppose: None received.

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