California Hospital Association

CHA Area Wage Index Litigation Update
January 2026

On behalf of its members, CHA continues to support a legal challenge to the Medicare area wage index (AWI) policies adopted by the Centers for Medicare & Medicaid Services (CMS) in its federal fiscal year (FFY) 2020 inpatient prospective payment system (IPPS) final rule — policies that disproportionately impact California's hospitals.

Since 2020, CHA has engaged Hooper, Lundy & Bookman, P.C. (HLB) to challenge two separate issues: a reduction to the standardized IPPS payment amount for all hospitals to fund an AWI increase for hospitals in the lowest quartile (Issue #1) for FFYs 2020-2024, and the exclusion of wage data of hospitals located in urban areas that have reclassified as rural hospitals, but that had not subsequently reclassified to another urban area from the determination of the rural floor (Issue #2) for FFY 2020 only.

While the litigation is ongoing, CHA has secured several key victories, including an initial $30.7 million settlement for hospitals participating in CHA's lead case in Issue #2. HLB continues to pursue an additional $74.3 million settlement for the remaining hospitals impacted by the 2020 policy.

The litigation has also helped to secure regulatory victories, as CMS reversed course on both policies that CHA challenged. CMS rescinded its policy of excluding the wage data of urban to rural reclassified hospitals from the rural floor calculations for FFY 2023, and in FFY 2024 further clarified the treatment of dually reclassified hospitals, resulting in a $1 billion increase in Medicare payments for California hospitals. CMS also formally rescinded its unlawful low-wage index policy – which cut California hospitals by about $120 million – in its FFY 2026 final rule. HLB continues to pursue a settlement to recoup these funds for CHA's member hospitals.

Additional details on the litigation are provided below. CHA encourages members to review this information with their finance and reimbursement departments. **In particular, health systems participating in Issue #2 should carefully review information related to the pending settlement to determine if their organization has any other wage index appeals for all or part of FFY 2020 that could interact with the pending settlement.**

Members with questions should contact Megan Howard, vice president, policy, at mhoward@calhospital.org to schedule a one-on-one call.

Litigation Update

Issue #1: Reduction to the Standardized Amount

CHA strongly opposes CMS' "rob Peter to pay Paul" approach, which represents a dangerous precedent: CMS can choose to increase payments to one group of hospitals by decreasing payments to another group. The policy resulted in a payment reduction to all California hospitals paid under the IPPS of approximately $120 million across FFYs 2020-2024. CHA has supported a legal challenge to these policies in each of those FFYs.

The complaint for the lead case on Issue #1, *Kaweah Delta Health Care District, et al. v. Becerra,* Case No. 2:20-cv-06564 CMB (SPx), was filed on July 23, 2020. A hearing took place on Sept. 20, 2022.

On Dec. 22, 2022, the U.S. District Court for the Central District of California issued a decision in favor of California's hospitals. The court found that CMS' reduction to the IPPS standardized amount violates the Medicare Act, consistent with a ruling on a separate case (*Bridgeport Hospital, et al. v. Becerra*) in the U.S. District Court for the District of Columbia (D.D.C). The government appealed to the U.S. Court of Appeals for the Ninth Circuit. **On December 11, 2024, the Ninth Circuit affirmed that CMS's "low-wage-index hospital" policy exceeded CMS's statutory authority and vacated the policy.**

Notably, the U.S. Court of Appeals for the District of Columbia Circuit (U.S. Court of Appeals – D.C. Circuit) rejected the government's appeal in the mirroring case — *Bridgeport, et al. v. Becerra* — concluding that the wage-index provision does not authorize the redistribution policy and that the policy is not a permissible exception or adjustment. Accepting the hospitals' cross appeal on the remedies, the D.C. Circuit also held that the policy must be vacated, and the district court must award interest, even before a resolution is reached on the base payment amount owed to the hospitals.

In response to this decision, on Sept. 30, CMS issued an interim final rule eliminating its low-wage index hospital policy for FFY 2025, resulting in an increase of approximately $37 million to California's hospitals compared to the final rule that would have maintained the policy in FFY 2025. CHA's appeals that were pending at the Provider Reimbursement Review Board (PRRB) for FFYs 2020-2024 were moved into federal court in the District of Columbia to take advantage of the favorable decision by the U.S. Court of Appeals – D.C. Circuit and to strengthen the hospitals' position that they are entitled to interest on any additional Medicare payments they receive with respect to Issue #1.

In the FFY 2026 IPPS final rule, CMS further clarified that its elimination of the policy applied in 2026 and subsequent years. However, the final rule did not specify a remedy for impacted hospitals. HLB continues to negotiate with the government on behalf of CHA's members in an effort to secure reimbursement with interest for the approximately $120 million in unlawful payment reductions during FFYs 2020-2024.

Issue #2: Exclusion of Rural Reclassified Hospitals from the Rural Floor Calculation

CHA challenged CMS' FFY 2020 policy to exclude the wage data of hospitals located in urban areas that reclassified as rural hospitals but that had not subsequently reclassified to another urban area from the determination of the rural floor for FFY 2020 only. In FFY 2020, this policy resulted in an estimated cut to about one-half of California's IPPS hospitals totaling $123 million. In the subsequent years before CMS rescinded its policy, the impact on California was either positive or neutral, and accordingly, CHA did not pursue a legal challenge in FFYs 2021 or 2022.

The complaint for the lead case on Issue #2, *Enloe Medical Center, et al. v. Becerra,* Case No. 2:20-cv-09278 CBM (SPx), was filed on Oct. 8, 2020. As described in more detail in the following section of this memo, the government and the *Enloe* participants fully executed a settlement agreement effective on November 4, 2025.

On April 8, 2022, the D.D.C found (*Citrus HMA v. Becerra*) that the HHS secretary did not have authority under section 4410(a) of the Balanced Budget Act of 1997 to establish a rural floor lower than the rural wage index for hospitals in that same state. This case is separate from, but similar to, CHA's sponsored challenge to the FFY 2020 policy. CMS voluntarily withdrew its U.S. Court of Appeals – D.C. Circuit appeal in *Citrus HMA*; withdrawal was granted by the D.C. Circuit on Sept. 16, 2022.

Following this decision, CMS eliminated its policy of excluding the wage data of urban to rural reclassified hospitals from the rural floor calculations for FFY 2023 and subsequent years. In the FFY 2024 IPPS final rule, CMS stated that it now fully agrees with the court's decisions on this and will treat redesignated rural hospitals the same as geographically rural hospitals for the rural wage index calculation, including those hospitals with other reclassifications. **The FFY 2024 policy brought on by these legal challenges significantly increased the rural floor in California, resulting in increased Medicare payments by more than $1 billion across the state.**

Issue #2 Settlement Update and Alternative Appeal Strategies

Given CMS' elimination of its Issue #2 policy for FFY 2023 and subsequent years, CHA's Executive Committee instructed HLB to explore settlement on behalf of all Issue #2 participants with appeals in federal court or at the PRRB.

After preliminary discussions, the government offered to settle at 70% of the amount at issue for the Enloe plaintiffs. CHA instructed HLB to seek an increase in amount, as well as to ensure hospitals at the PRRB would also receive the same treatment. In response, the government increased its offer to pay 80% of the amounts at issue for the Enloe hospitals and all Issue #2 hospitals at the PRRB, so long as there are no jurisdictional impediments at the PRRB. Additionally, the government agreed to not further pursue substantive claim challenges to bar reimbursement where hospitals did not protest Issue #2 in their cost reports overlapping with FFY 2020. The Executive Committee approved this approach which, once finalized, will net more than $100 million for CHA members.

On November 4, 2025, a settlement for the hospital plaintiffs in the *Enloe* case was finalized, and a dismissal of the entire case was granted on November 14. This settlement resulted in $30.7 million for these hospitals, which is to be paid within 60 days of the dismissal. HLB continues to

negotiate a settlement for the hospital participants with appeals remaining at the PRRB. When finalized, this will result in another $74.3 million settlement for California's hospitals.

CHA is aware that several law firms and reimbursement consultants are working with CHA members to pursue additional wage index appeals that may cover all or part of FFY 2020. This includes an effort arguing that CMS' policy, finalized in FFY 2024, to include wage data from all hospitals reclassified as rural in the rural floor calculation — even those later reclassified to another urban area — should apply retroactively as far back as FFY 2018.

After further evaluating the merits and procedural considerations of the additional wage index appeals, the CHA Executive Committee reaffirmed its instruction to HLB to finalize the planned Issue #2 settlement agreement, and 32 member hospitals executed a settlement agreement in the *Enloe* case. Agreement to the Issue #2 settlement would all but preclude CHA members from pursuing the alternative rural floor issue (*i.e.*, applying the FFY 2024 policy, retroactively) for that portion of cost reporting periods that overlap with FFY 2020. For example, if a hospital has a June 30 fiscal year end date, it would be precluded from pursing the alternative rural floor issue for the last nine months of its cost reporting period ending in 2020 and the first three months of the cost reporting period ending in 2021, but not for other time periods, including other time periods in the hospital's 2020 and 2021 fiscal years. **As such, members with Issue #2 appeals pending at the PRRB who have filed or are considering filing these alternative rural floor issue appeals for periods that overlap with FFY 2020 (10/1/2019 - 09/30/2020), should reach out to Megan Howard, at mhoward@calhospital.org, to discuss the interaction of these appeals with the Issue #2 settlement.**

Key Contacts

CHA welcomes one-on-one conversations with your hospital and health system teams if you have any questions related to the CHA-supported AWI litigation.

For general questions:

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