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Office of the President

TO MEMBERS OF THE HEALTH SERVICES COMMITTEE:

INFORMATION ITEM

For Meeting of March 17, 2026

PIVOTAL STATE POLICY CHALLENGES FOR 2026 AND BEYOND

EXECUTIVE SUMMARY

The Health Policy and Regulatory Affairs Department at UC Health works in partnership with the Offices of Federal and State Governmental Relations to advance public policies that support the University of California's six academic health centers and 21 health professional schools. These efforts enable UC to deliver high-quality patient care, train the next generation of health professionals, and drive research that advances new treatments and cures. The current topic focuses on the State's Office of Health Care Affordability, a new regulatory effort to set and enforce cost growth targets on health systems, providers, and health plans.

BACKGROUND

UC Health's 2026 Policy and Advocacy Agenda

The UC Health 2026 policy and advocacy agenda focuses on four core priorities:

- Strengthening the healthcare workforce and training pipeline: graduate medical education (GME) funding, student financial aid programs, workforce pipeline initiatives
- Protecting patients' access to care: Medicaid and Medicare financing, coverage policy, and safety net support
- Supporting health system capital and operational capacity: facility and infrastructure needs and regulatory requirements
- Advancing research and innovation: State and federal research funding and infrastructure

Across these priorities, UC Health's advocacy is focused on protecting resources for health workforce training, sustaining funding for care provided to Medicare and Medicaid beneficiaries, particularly in light of recent federal funding reductions under H.R. 1, ensuring health system capacity to meet growing patient demand, and supporting biomedical research.

The Office of Health Care Affordability

The Office of Health Care Affordability (OHCA) was established by California's Health Care Quality and Affordability Act as part of the 2022–23 State budget to address rapidly rising healthcare costs and improve affordability for consumers and purchasers. OHCA is housed within the Department of Health Care Access and Information and responsible for collecting and analyzing comprehensive healthcare spending data, increasing cost and quality transparency, and developing policy tools to slow cost growth while maintaining quality, equity, and access. Its statutory responsibilities include setting statewide and sector-specific healthcare spending growth targets, promoting high-value system performance (such as alternative payment models and primary care investment benchmarks), and reviewing healthcare market consolidation that may increase costs or reduce competition. This discussion focuses specifically on the establishment and enforcement of cost growth targets for California and their implications for healthcare entities.

California's Healthcare Cost Growth Targets

A core mechanism in OHCA's strategy is the establishment of healthcare cost growth targets designed to cap the annual rate of increase in per capita healthcare expenditures across the system. In April 2024, the Health Care Affordability Board (Board) approved a target that starts at 3.5 percent annual growth for 2025 and 2026, declines to 3.2 percent for 2027–28, and ultimately reaches three percent by 2029, aligning spending growth with typical household income growth.

Progress against the 2025 target will be publicly reported in OHCA's first annual report, expected in June 2027. The 2025 target will not be subject to enforcement and will be used for reporting purposes only; enforcement will begin with the 2026 target (with results reported in 2028).

These targets apply to most healthcare entities, including payers and providers (hospitals and physician organizations with 25 or more physicians, unless the practice is a high-cost outlier), and fully integrated delivery systems. UC's hospitals and medical groups are subject to the cost growth targets. The targets do not apply to healthcare suppliers such as pharmaceutical manufacturers. The statewide target is the initial benchmark; however, the Board may establish sector-, geographic-, or entity-specific targets over time, including targets for fully integrated delivery systems or individual organizations.

The statute requires the Board to adjust cost targets for a provider to account for actual or projected nonsupervisory employee organized labor costs. In order for the adjustment to be effectuated, the provider must submit a request with supporting documentation in an OHCA-prescribed format. OHCA has not yet established the process or methodology for such adjustments.

Hospital Sector Target and High-Cost Hospitals

In January 2025, the Board voted to establish a hospital sector and, in April 2025, defined high-cost hospitals and set hospital sector spending targets. The hospital sector target is equal to the statewide spending target.

Additionally, the Board identified seven hospitals as high-cost hospitals based on a pricing analysis and set lower spending targets for these facilities (1.8 percent in 2026, 1.7 percent in 2027–28, and 1.6 percent in 2029). Annually, OHCA will update the list of hospitals meeting the high-cost criteria and the factors used in that determination. UC hospitals are included in the hospital sector, and none have been designated as high-cost hospitals.

Progressive Enforcement of Cost Growth Targets

California's law provides stronger enforcement authority than many other State healthcare spending benchmark programs. The law establishes a progressive enforcement framework intended to help healthcare entities meet spending targets while increasing accountability over time. Enforcement actions may include:

- Providing technical assistance to support compliance;
- Requiring public testimony regarding failure to meet targets;
- Requiring submission and implementation of performance improvement plans; and
- Assessing escalating administrative penalties.

The first enforcement period will apply to performance against the 2026 statewide spending target. Data collection will take place in 2027 and public reporting in 2028. Accordingly, enforcement actions would not occur until 2028 at the earliest.

Other States' Experience with Cost Growth Targets

California is among ten states that have established cost growth target programs. Massachusetts implemented the first program in 2013, followed by Delaware, Oregon, Rhode Island, Connecticut, Washington, Nevada, and New Jersey between 2018 and 2021, and Vermont in 2025. For 2025, statewide cost growth targets across these states range from approximately 2.6 percent to 4.2 percent. Available performance data show that total spending across health entities in most states with active programs exceeded targets in 2023, reflecting growth in both prices and utilization.

OHCA Implementation Process is Ongoing

Many details regarding how OHCA will implement and enforce cost growth targets remain under development. For example, OHCA has not yet delineated how providers can seek adjustments for organized labor costs or finalized how hospital outpatient spending will be measured or how Medi-Cal financing arrangements—such as designated public hospitals financing the nonfederal share for supplemental payments—will be incorporated.

OHCA plans to promulgate regulations in late 2026 to clarify the enforcement process, including:

- whether and how factors outside an entity's control will be considered;
- treatment of investments intended to reduce future costs;
- consideration of extraordinary circumstances; and
- detailed requirements for each stage of progressive enforcement.

Enforcement of Cost Growth Targets

The adoption of spending growth targets has generated significant discussion among healthcare stakeholders. Proponents argue that shared expectations for spending growth will incentivize cost control strategies, reduce pressure on premiums and out-of-pocket costs, and encourage investment in preventive and value-based care.

However, enforcement of spending caps could strain hospital finances if reimbursement and operational costs continue to rise faster than permitted spending levels. Compliance pressures may also affect access and quality—particularly for safety net providers—and require difficult trade-offs in workforce investments, facility expansion, and service availability. External factors such as public health emergencies, economic conditions, and federal or State policy changes may also affect entities' ability to meet spending targets.