

OHCA Releases New Regulations and Guidance on Health Care Spending Targets

Insights

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California's Office of Health Care Affordability (OHCA) recently released significant new materials that bring the state's health care spending-target program closer to active measurement and enforcement. The materials provide new details on how OHCA proposes to measure compliance, what may happen when an entity exceeds its target, and when certain organized labor costs may support an adjustment to the applicable target.

For regulated entities, the developments warrant attention now, including assessing performance under OHCA's proposed methodology, evaluating potential labor-cost adjustments, and preparing for the possibility of future enforcement.

As a reminder before we dive in, OHCA's statewide spending target is 3.5% for 2025 and 2026, declining to 3.2% in 2027 and 2028 and 3.0% in 2029. OHCA has also established lower targets for seven hospitals identified as high-cost hospitals, beginning with a 1.8% target in 2026.

Spending Target Adjustments for Organized Labor Costs

OHCA's [emergency regulations](#), effective October 12, 2026, establish a process for providers and fully integrated delivery systems to request adjustments to OHCA spending targets for costs associated with organized nonsupervisory labor. Any adjustment allows qualifying collectively bargained wage and benefit costs to be reflected in the spending target against which an entity's performance is measured. The adjustment is limited to organized labor costs and does not extend to increased compensation or benefit costs associated with nonunion employees.

Eligible providers include hospitals, psychiatric health facilities, chemical dependency recovery hospitals, and physician organizations. A provider, fully integrated delivery system, or labor organization representing nonsupervisory employees may submit a request. Requests generally are due by the last business day of October two years before the year for which the adjustment is sought, with a November 16, 2026 deadline for requests made in 2026. For requests submitted by the **November 16, 2026** deadline, the requested adjustment would thus apply to the entity's 2028 spending target. Request materials are public unless OHCA approves confidential treatment.

OHCA also released a [File Specifications Document](#) for providers submitting adjustment requests.

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The target-adjustment process is separate from OHCA's proposed enforcement framework discussed below. The emergency regulations allow OHCA to adjust an entity's spending target prospectively beginning in 2028. Section 97452 of the draft enforcement regulations discussed below would allow qualifying organized labor costs to be considered as a potential explanation for exceeding a target, which may be particularly relevant to performance years before prospective labor-cost adjustments become available in 2028. Entities with organized workforces should therefore consider both whether they qualify for an adjustment and how those costs could affect a later compliance assessment. Because adjustment requests must be submitted well in advance, potentially eligible entities should evaluate their options early.

OHCA's Proposed Enforcement Framework

On October 8, OHCA released three additional documents addressing how it proposes to measure and enforce the spending targets. Together, these materials begin to establish the framework OHCA would use to determine whether an entity exceeded its spending target and what happens next.

In particular, OHCA proposed [draft regulations for progressive enforcement](#), which are open for informal comment through October 30, 2026.

The proposed framework begins with notice and an opportunity for the entity to explain or dispute the apparent exceedance and may progress to technical assistance, public testimony, a performance improvement plan (PIP), and penalties:

Stage	What Happens
1. Preliminary Determination	OHCA notifies the entity of the apparent spending target exceedance. The entity has 30 days to respond, explain, and explain or dispute the excess spending growth.
2. Final Determination	OHCA considers the response and determines the amount of excess spending. If the entity's response is not satisfactory, enforcement is warranted.
3. Progressive Enforcement	OHCA may require technical assistance, public testimony, and/or a PIP. OHCA may require an entity that exceeds its spending target to prepare, submit, and approve a PIP, describing how it will come into compliance with the target. The entity generates a PIP, and OHCA approves the proposed PIP.
4. Performance Improvement Plan	OHCA's October 8 proposed PIP process document provides additional details on the PIP process and public review.
5. Penalties	An entity that fails to comply with its PIP and fails to meet the applicable spending target may be subject to penalties of up to 125% of the initially commensurate amount of excess spending growth.

Importantly, OHCA would not be required to proceed through each enforcement measure in sequence. Separate procedural violations that impede or impair the enforcement process may carry penalties of up to \$10,000 per day or \$500,000 per violation. Penalties may be appealed within 30 days. OHCA's proposed penalties are substantial relative to those under other state spending- or cost-target programs.

The draft regulations would allow a health care explain why its spending growth exceeded the applicable cost target. They identify seven specific factors and a catch-all for "any other information the entity determines is relevant to its spending growth." However, any such relief would be applied only after it is determined that the entity exceeded the cost target, which will be several years after the year for which the cost target was exceeded. Apart from the organized labor cost adjustment discussed above, there does not appear to be a mechanism to obtain a prospective adjustment to a cost target. In addition, under the draft regulations, OHCA would have substantial discretion to determine whether to excuse revenue in excess of the cost target, and if so, to what extent relief should be given.

Measuring Compliance

The draft [Spending Target Performance Measurement Manual](#) is particularly important because an entity's compliance will depend not simply on its own year-over-year financial results, but on OHCA's methodology for measuring spending growth.

For hospitals, OHCA has stated that it will separately calculate, by market, year-over-year growth in inpatient and outpatient unit spending before combining the two spending growth measures. Inpatient spending is measured as NPR per case-mix adjusted discharge, using the Case Mix Index (CMI) to account for patient acuity. Outpatient spending is measured as net patient revenue (NPR) per intensity-adjusted outpatient visit, using Average Visit Intensity (AVI). Revenue data would be derived from each hospital's Annual Financial Disclosure Report (AFDR), so that these reports take on added importance. The CMI would be derived from HCAI Patient Discharge Data and the AVI would be derived from the Health Care Payments Database.

While there is a lack of clarity in OHCA's material, it appears that OHCA may measure compliance separately for Medicare, Medi-Cal and commercial payer categories. If so, a hospital potentially could exceed the applicable spending target for one payer category even if its overall spending growth remains below the target.

Key Takeaways

Health care entities subject to OHCA's spending targets should consider taking several steps now:

- **Review the proposed enforcement and PIP requirements** and consider whether aspects of the proposed framework warrant comment (Comment deadline: October 30).
- **Evaluate potential labor-cost adjustments**, including upcoming deadlines (November 16, 2026) and documentation requirements.
- **Assess performance using OHCA's proposed methodology**, rather than relying solely on internal financial measures.
- **Identify potential areas of exposure early**, particularly where OHCA's methodology produces results that differ from an entity's internal analysis.
- **Carefully review AFDRs** for prior and current periods for accuracy and make needed corrections.
- **Identify and document**, on an ongoing basis, factors that could explain growth above the applicable target so the organization is prepared to respond promptly to OHCA.

OHCA's recent actions mark a significant development in the implementation of California's spending-target program, as OHCA turns from setting targets to determining how compliance will be measured and enforced. For regulated entities, these implementation details may ultimately be as consequential as the spending-target percentages themselves.

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