LLOYD A. BOOKMAN (State Bar No. 89251)
ALICIA W. MACKLIN (State Bar No. 266325)
M.H. JOSHUA CHIU (State Bar No. 341519)
HOOPER, LUNDY & BOOKMAN, P.C.
1875 Century Park East, Suite 1600
Los Angeles, California 90067
Telephone: (310) 551-8111
Facsimile: (310) 551-0304
E-Mail: lbookman@hooperlundy.com
amacklin@hooperlundy.com
jchiu@hooperlundy.com

ERIN SCLAR (State Bar No. 334471)
HOOPER, LUNDY & BOOKMAN, P.C.
44 Montgomery Street, Suite 3500
San Francisco, California 94104
Telephone: (415) 875-8500
Facsimile: (310) 362-8937
E-Mail: esclar@hooperlundy.com

Attorneys for Petitioner California Hospital Association

SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SAN FRANCISCO

CALIFORNIA HOSPITAL ASSOCIATION,

Petitioner,

vs.

OFFICE OF HEALTH CARE AFFORDABILITY; CALIFORNIA DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION; ELIZABETH LANDSBERG, in her official capacity as Director of the OFFICE OF HEALTH CARE AFFORDABILITY and Director of the CALIFORNIA DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION; and THE HEALTH CARE AFFORDABILITY BOARD,

Respondents.

Case No. CPF-25-519370

PETITIONER'S OPPOSITION TO RESPONDENTS' DEMURRER TO SECOND AMENDED PETITION FOR WRIT OF MANDATE; COMPLAINT FOR DECLARATORY RELIEF

Judge: Hon. Joseph M. Quinn
Date: September 9, 2026
Time: 9:00 a.m.
Dept.: 302

Action Filed: October 15, 2025

HOOPER, LUNDY & BOOKMAN, P.C.
1875 CENTURY PARK EAST, SUITE 1600
LOS ANGELES, CALIFORNIA 90067
TEL (310) 551-8111 • FAX (310) 551-0304

TABLE OF CONTENTS

Page

HOOPER, LUNDY & BOOKMAN, P.C.
1875 CENTURY PARK EAST, SUITE 1600
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TEL (310) 551-8111 • FAX (310) 551-0304

HOOPER, LUNDY & BOOKMAN, P.C.
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TABLE OF AUTHORITIES

Page(s)

Cases

HOOPER, LUNDY & BOOKMAN, P.C.
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TEL (310) 551-8111 • FAX (310) 551-0304

Statutes

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I. INTRODUCTION

The cost targets adopted by Respondents (collectively, OHCA) are already reshaping the way California hospitals operate, undermining the statutory objectives they were intended to advance: access, quality, equity, and workforce stability. Hospitals are making decisions today, not years from now, in response to cost targets that OHCA adopted contrary to the Legislature's directives in Health and Safety Code sections 127500 et seq. ("Sections 127500 et seq."). To avoid future penalties, hospitals must now accept reduced reimbursement, negotiate rates with payers under illegally-adopted spending caps, delay capital projects, reevaluate workforce plans, and forgo patient care investments. The Second Amended Verified Petition ("SAVP") explains how exemplar hospitals have faced these specific, concrete, and ongoing injuries to the detriment of their patient care missions. These harms cannot be unwound if a court later confirms OHCA acted unlawfully. The damage will be done, and will only compound with time. Without relief, these harms will threaten access to care for patients across California. They are already—contracts influenced by unlawful caps have been negotiated, programs scaled back, layoffs implemented, and expansions forgone. This is just the start, not even one year into the enforcement period. It will get worse.

As OHCA notes, Petitioner CHA does not challenge the mere existence of cost targets in this litigation. Instead, CHA brings this action to compel OHCA to adopt cost targets that properly take into account Sections 127500 et seq. and stakeholder feedback. OHCA's Demurrer largely dismisses the cost targets' consequences by attributing the harms CHA and its members are facing to federal funding cuts. These cuts, however, exacerbate, not negate, the cost targets' harm. To fulfill its statutory duties to promote access and other considerations, OHCA should have taken these cuts into account so hospitals could mitigate their impact. It did not. Even without federal cuts, the cost targets as promulgated would have caused harm to hospitals by arbitrarily constraining their revenue. The federal cuts just magnify the cost targets' impacts and resultant harm.

The dispositive question is whether the SAVP pleads a beneficial interest. It does, because of the specific, concrete, and ongoing harms that CHA and its members face. Contrary to OHCA's assertions, CHA need not identify a hypothetical lawful cost target framework and compare injuries under it. CHA simply must plead that OHCA's framework is inconsistent with the statute, causing

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harm to CHA and its members. The SAVP does exactly that. OHCA's position also leads to untenable results. Under its logic, even an admittedly unlawful cost target could escape review until a regulated entity endured years of compliance burdens and faced enforcement. A target adopted in violation of statutory procedures, unsupported by required data, or otherwise contrary to Sections 127500 et seq. could continue reshaping hospital operations for years before any court could review its legality. That is not how mandamus works, and it is not what the Legislature intended.

The stakes here extend well beyond the parties before this Court. Hospitals are experiencing rising labor costs, increasing pharmaceutical and supply expenses, seismic compliance obligations, and substantial reductions in federal funding. The challenged cost targets further constrain hospitals' abilities to invest in staff, services, infrastructure, and patient care initiatives at precisely the moment investments are most needed. The public has a weighty interest in ensuring OHCA implements the cost targets consistent with statutory directives to protect patients and the changed health care landscape. The SAVP pleads adequate standing. The Demurrer should be overruled.

II. FACTUAL BACKGROUND

The Legislature created OHCA under the California Health Care Quality and Affordability Act in 2022 to promote affordability while maintaining access, quality, equity, and workforce stability. (SAVP ¶¶ 30–32, 86.) OHCA must adopt cost targets informed by historical cost data and economic indicators, consider labor costs and state mandates, and ensure its actions do not compromise quality patient care or the health care workforce. (*Id*. at ¶¶ 36–37, 86.) Rather than do so, OHCA acted prematurely and arbitrarily. (See, e.g., *id*. at ¶¶ 12–13, 60, 82–84, 216, 259–263.) The Legislature provided a phased timeline—requiring only a statewide target for 2025 and deferring sector-specific targets until 2028—so OHCA could gather comprehensive data and evaluate impacts first. (*Id*. at ¶¶ 12, 40–41, 87.) But OHCA rushed ahead, creating a hospital sector and a 3.5% hospital sector cost target in 2025 without completing baseline analyses or finalizing a compliance methodology, even though enforcement began in January 2026. (*Id*. at ¶¶ 5, 59–65, 87, 216, 250–275.) OHCA compounded these errors by designating certain hospitals as "high-cost" and applying a stricter 1.8% starting target using flawed criteria that ignore geographic cost differences, payer mix, and statutory equity adjustments. (*Id*. at ¶¶ 73–81, 179–193, 276–292.) OHCA's actions

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directly contravene its statutory duties. It disregarded evidence and public comments warning that its targets would destabilize hospitals, force service cuts, and trigger workforce reductions. (See, e.g., *id*. at ¶¶ 147–229, 250–285.) Stakeholders repeatedly urged OHCA to make compliance attainable without harming patients, and offered concrete ways OHCA could do this—accounting for unprecedented federal funding cuts, rising labor costs, and significant seismic safety mandates. (See, e.g., *id*. at ¶¶ 7–9, 68, 93–95, 180, 196–211, 260–261.) Instead, OHCA adopted targets that threaten the viability of California's hospitals and the larger health care delivery system, contrary to its statutory mandates. (See, e.g., *id*. at ¶¶ 9, 54–55, 67–69, 76, 151, 181–193, 209, 217–240, 263.)

CHA challenges OHCA's actions now because hospitals have made and are making significant operational changes that impact care access, equitable service provision, and workforce stability, to absorb the revenue constraints the cost targets impose. (*Id.* at ¶¶ 127–134.) Hospitals otherwise face certain enforcement. (*Id*. at ¶¶ 82–84.) This cannot be undone if the cost targets are found to be unlawful in some later proceeding. (See, e.g., *id*. at ¶¶ 82–83, 127, 144.) CHA filed its original Petition on October 15, 2025, to preserve access, quality, and workforce stability, consistent with OHCA's statutory obligations. On February 17, 2026, this Court sustained OHCA's Demurrer, holding that CHA lacked a beneficial interest. On June 1, 2026, CHA filed the SAVP, which alleges, among other things, that the cost targets are causing adverse effects on payer negotiations, reimbursement rates, budgeting, workforce planning, capital investments, operational decision making, and patient care initiatives for CHA's members, while forcing CHA to divert substantial resources from its mission to represent and serve hospitals. (*Id.* at ¶¶ 27, 115–117, 127–134.)

III. LEGAL STANDARD

In reviewing a demurrer, "courts must assume the truth of the complaint's properly pleaded or implied factual allegations." (*Schifando v. City of Los Angeles* (2003) 31 Cal.4th 1074, 1081.) The pleading's "allegations must be liberally construed" (Code Civ. Proc., § 452), which means "the reviewing court draws inferences favorable to the plaintiff, not the defendant." (*Perez v. Golden Empire Transit Dist.* (2012) 209 Cal.App.4th 1228, 1238.) "If the factual allegations of the complaint are adequate to state a cause of action under any legal theory, the demurrer must be overruled." (*Charpentier v. Los Angeles Rams Football Co., Inc.* (1999) 75 Cal.App.4th 301, 307;

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accord, *Quelimane Co. v. Stewart Title Guaranty Co.* (1998) 19 Cal.4th 26, 38.) "If a complaint does not state a cause of action, but there is a reasonable possibility that the defect can be cured by amendment, leave to amend must be granted." (*Quelimane*, 19 Cal.4th at 39.)

IV. ARGUMENT

CHA alleges concrete and particular harms that it and its members are suffering now because of OHCA's unlawfully adopted cost targets.[1] That is all CHA is required to do. Mandamus is granted where, like here: (1) the agency has a clear, present, and ministerial duty to adhere to the Legislature's mandates to consider access, quality, and workforce stability when setting cost targets, developing the hospital sector, and designating high-cost hospitals; and (2) CHA has a beneficial interest in the performance of that duty. (See *City of Dinuba v. County of Tulare* (2007) 41 Cal.4th 859, 868.) Both prongs are met here.[2] CHA and its members satisfy the "broad" beneficial interest standard because they have a "special interest over and above the interest of the public at large" in enforcing the Legislature's mandates that OHCA consider the statutory factors intended to facilitate the adoption of fair and reasonable cost targets. (See *California Hospital Assn. v. Maxwell-Jolly* (2010) 188 Cal.App.4th 559, 569 ["CHA has standing to enforce the Department's duties" to follow the law when setting Medi-Cal rates].)

CHA and its members likewise stand to gain a direct benefit from mandamus relief. Ensuring that OHCA adheres to Sections 127500 et seq. corrects for CHA's past and ongoing diversion of its resources. Similarly, it benefits CHA's members by restoring balance to hospital-payer negotiations, allowing for sustainable reimbursement rates, and making resources available for workforce development, capital projects, and other service developments without the cost targets interfering in these budgeting and operational decisions.[3] (See *Synergy Project Mgmt., Inc. v. City & Cnty. of San*

[1] Because compliance with the cost targets will cause CHA's members to suffer concrete, particularized, and imminent harms, CHA has associational standing. (See *California Community Choice Assn. v. Public Utilities Com.* (2024) 103 Cal.App.5th 845, 853.) OHCA only challenges the first associational standing prong (whether CHA's members would have standing to sue in their own right) and does not address the other two prongs. (See Dem. at 13–18.)

[2] The Demurrer is directed solely at standing. It does not otherwise challenge the SAVP or address CHA's ministerial duty, constitutional, or California Administrative Procedure Act claims.

[3] OHCA's reliance on *SJJC Aviation Services, LLC v. City of San Jose* is misplaced. The

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Francisco (2019) 33 Cal.App.5th 21, 31 [direct benefit where petitioner's business and contract interests are impacted].) Absent relief, CHA and its members will continue to suffer the direct detriment of forgoing activities that further their missions due to OHCA's cost targets, as well as "a realistic danger of sustaining a direct injury as a result of the statute's operation or enforcement." (*Coral Construction, Inc. v. City and County of San Francisco* (2004) 116 Cal.App.4th 6, 25.) Hospitals will also continue to experience diminished leverage in payer negotiations, lower reimbursement, and subversion of efforts to promote high-quality care, such as investments in workforce, capital developments, and service improvements. (See *Synergy*, 33 Cal.App.5th at 31 [direct detriment where petitioner's contract and business decisions are affected].)

To the extent the federal injury in fact test applies, CHA and its members satisfy it too. (*Associated Builders and Contractors, Inc. v. San Francisco Airports Com.* (1999) 21 Cal.4th 352, 362.) They have "suffered an invasion of a legally protected interest that is (a) concrete and particularized, and (b) actual or imminent, not conjectural or hypothetical."[4] (*Ibid.* [quotations omitted].) And they "need only establish a *risk* or *threat* of injury." (*East Bay Sanctuary Covenant v. Trump* (9th Cir. 2018) 932 F.3d 742, 764; *Coral Construction*, 116 Cal.App.4th at 17 [a "very significant possibility of future harm" sufficient]; *B. C. Cotton, Inc. v. Voss* (1995) 33 Cal.App.4th 929, 948 ["threatened injury" sufficient].) Under any articulation of the standing test, the SAVP shows that CHA and its members are suffering concrete and imminent harm.

A. CHA's Members Have Standing, Conferring Standing on CHA

OHCA attempts to draw attention away from the injuries CHA's members are suffering by arguing those harms would occur regardless of the cost target levels, or stem from other pressures on

petitioner there lacked a direct benefit in a bid outcome because its bid was nonresponsive and ineligible for selection. ((2017) 12 Cal.App.5th 1043, 1053.) Here, CHA's members are the very entities the cost targets regulate. Relief directly alters the framework impacting their revenue.

[4] As CHA has argued, the "over and above" test is the proper beneficial interest standard that governs standing here. It does not require an injury in fact—it is sufficient, but not necessary. (See, e.g., *Maxwell-Jolly*, 188 Cal.App.4th at 569.) The injury in fact test is a creature of Article III, and "California courts are not constrained by article III standing." (*Kashanian v. National Enterprise Systems, Inc.* (2025) 114 Cal.App.5th 1037, 1047; see *Parsonage v. Wal-Mart Associates, Inc.* (2026) 118 Cal.App.5th 399, 411, 422–425 ["neither the California Constitution nor the Legislature has ever established a heightened default requirement for standing"].) While CHA understands that this Court previously disagreed, CHA invites reconsideration of this issue.

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hospital financing. But CHA is not required to predict how hospital finances, budgets, and operations would be impacted under some theoretical lawful scheme, or absent other strains on hospitals. The relevant question is whether CHA pleaded that the cost targets are presently causing (or risk or threaten causing) injury to its members. CHA did.

1. The Cost Targets Are Causing Hospitals Economic Injury *Now*

The cost targets are causing CHA's members to suffer "lost money or property—economic injury—[which] is itself a classic form of injury in fact." (*Kwikset Corp. v. Superior Court* (2011) 51 Cal.4th 310, 323.) To avoid enforcement actions, a hospital's revenue in 2026 cannot increase annually by more than 3.5% for most, and 1.8% for seven supposed high-cost hospitals (with lower cost targets for subsequent years). (SAVP ¶¶ 5, 35, 65, 81.) And, as discussed in Section IV.A.3, *infra*, enforcement is certain absent compliance. Hospitals must therefore either accept harm by diminished reimbursement[5] (and also forgo investments in workforce, capital infrastructure, and service expansions, as discussed below), or by enforcement.

OHCA asserts that any harm is "self-inflicted" because enforcement is "too remote." (Dem. at 13.) Not so. Already, payers are relying on the cost targets in negotiations, reimbursement is being constrained, and operational decisions are impacted. Hospitals did not create these market conditions; OHCA did. Moreover, the cases OHCA cites are not on point. In addition to being Article III cases, in *Twitter, Inc. v. Paxton*, compliance was voluntary ((9th Cir. 2022) 56 F.4th 1170, 1176), and in *International Partners for Ethical Care Inc v. Ferguson*, the enforcement scheme did not apply to plaintiffs ((9th Cir. 2025) 146 F.4th 841, 849). Here, the cost targets apply to hospitals within a binding regulatory regime, and the enforcement period has begun. (See Section IV.A.3, *infra*.) Hospitals therefore have no choice but to incur some form of harm. This dilemma of accepting revenue loss to comply or facing potentially more economic harm via enforcement confers standing. (*Abbott Laboratories v. Gardner* (1967) 387 U.S. 136, 152–153.)

Hospitals have accepted lower rates because of the cost targets, including San Antonio

[5] Payers are separately subject to statewide cost targets, which, like the hospital cost targets, OHCA illegally promulgated. (SAVP ¶¶ 153–159, 321.) Accordingly, CHA's members suffer the same injury whether reduced payer revenues result from the statewide or hospital cost targets.

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Regional Hospital ("SARH") **(**SAVP ¶ 129), Cedars Sinai Health System ("CSHS," including Cedars Sinai Medical Center ("CSMC")) (*id.* at ¶ 130.a), Montage Health ("CHOMP") (*id.* at ¶ 132.a), Lucile Salter Packard Children's Hospital at Stanford ("LPCH") (*id.* at ¶ 133.a), and Stanford Health Care ("SHC") (*id.* at ¶ 134.a). Reduced reimbursement resulted in previously unbudgeted reductions and rates significantly below historic trends, lower than hospitals would have received absent OHCA's actions. (*Id.* at ¶¶ 130.a, 132.a, 133.a, 134.a.) This is an injury in fact. (*Kwikset*, 51 Cal.4th at 323 [injury is inflicted by causing an entity to "surrender in a transaction more, or acquire in a transaction less, than [they] otherwise would"].) OHCA faults CHA for not proving the cost targets were the sole or decisive factor in payer negotiations, but that is not required. It would be improper for this Court to weigh competing causes and draw reasonable inferences against CHA on demurrer. (*Liapes v. Facebook, Inc.* (2023) 95 Cal.App.5th 910, 919.) That payers invoked the cost targets to lower reimbursement shows nexus and injury. (See *Barnum Timber Co. v. U.S. E.P.A.* (9th Cir. 2011) 633 F.3d 894, 901.)

Hospitals have also experienced worse bargaining positions because of the cost targets:

- **CSHS:** "payers are regularly relying on the cost targets…to offer payment rate increases that are constrained by the cost targets rather than rates that are based on either market conditions or cost increases impacting CSMC or its affiliated hospitals…The cost targets have been brought up in contract negotiations and discussion by various payers such as Aetna and United Health Care…" (SAVP ¶ 130.a.)
- **Sharp Health Care ("Sharp"):** "The cost targets have materially impacted and diminished Sharp's negotiating leverage with payers, and resulted in lower contract rates than Sharp would have expected if not for the OHCA cost targets." (*Id.* at ¶ 131.a.)
- **LPCH:** "… since OHCA announced [the cost targets], engaging payors…during contract negotiations has become increasingly difficult. [Payor focus] has shifted almost exclusively to OHCA cost targets, with one…stating…intent to limit rate increases…within [the] cost targets." (*Id.* at ¶ 133.a.)

(See also *id.* at ¶¶ 132.a [CHOMP subjected to accepting contract amendment due to cost targets or termination by payer]; 128.a, b [Cottage Health plans cite cost targets to cut rates]; 134.a. [SHC payer would not deviate from cost target].) Such harm in the negotiations is an injury in fact.[6] (See

[6] OHCA's attempt to distance itself from payer negotiations is unpersuasive. While OHCA does not sit at the negotiating table, it established the framework that governs payer spending under both the statewide and hospital cost targets. This predictably influences payers and ties the harms resulting from their actions to OHCA. (See *City and County of San Francisco v. U.S. Citizenship and Immigration Services* (N.D. Cal. 2019) 408 F.Supp.3d 1057, 1122, 1124 ["predictable result[s] from a broad policy" are "sufficiently-specific to allege irreparable harm."].)

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Clinton v. City of New York (1998) 524 U.S. 417, 432–433, n. 22.) By displacing ordinary market negotiations, the cost targets are causing reductions that force hospitals to divert resources, to the detriment of access, quality, equity, and workforce stability. OHCA's assertion that hospitals must show the cost targets "overwhelm[] every other source of leverage" grossly overstates what is required. (Dem. at 15.) That the cost targets "alter competitive conditions" to result in lower rates is sufficient to show injury in fact. (*Clinton*, 524 U.S. at 433.) Absent relief, hospitals will continue to suffer those harms. That direct detriment confers standing. (See, e.g., *Friends of the Earth, Inc. v. Laidlaw Environmental Services (TOC), Inc.* (2000) 528 U.S. 167, 184–185; see also *Agan v. Carroll County, Ga.* (N.D. Ga., Oct. 25, 2005, No. CIV. 3:04-CV-0037-JT) 2005 WL 2875097, at *3 [harm to economic interests is an injury].)

OHCA's unlawful actions are also causing hospitals to divert resources they otherwise would have dedicated to carrying out their missions to comply with the cost targets. (See SAVP ¶¶ 130.c ["The financial challenges arising from the OHCA cost targets are a major reason that CSMC has engaged McKinsey. McKinsey has spent a significant portion of its time and efforts in this engagement analyzing and addressing the OHCA cost targets."]; 132.b–c [CHOMP incurred nearly $1 million in unbudgeted investments and internal resources responding to reputational and stakeholder concerns from designation as a "high-cost" hospital]; 134.b–c [SHC estimated costs of approximately $300,000 in analyst and management time related to tracking, reviewing, and calculating the impact of OHCA's actions].)[7] Such diversion of resources constitutes an injury in fact. (California Medical Assn. v. Aetna Health of California Inc. (2023) 14 Cal.5th 1075, 1095 ["an organization's diversion of resources," such as expending "staff time or other resources on responding to a new threat to its mission," can establish "economic injury in fact"]; America's Health Ins. Plans v. Hudgens (11th Cir. 2014) 742 F.3d 1319, 1334.) This is particularly true where these resources would have been used on other activities that further hospitals' missions, as discussed in Section IV.A.2, infra.

[7] See also *id.* at ¶¶ 128.b, 131.b, d (describing executive, legal, and consulting resources for compliance efforts and resulting changes to budgeting, investment, and workforce planning).

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2. The Cost Targets Impair Hospitals' Abilities to Carry Out Their Missions

The revenue limitations that the cost targets impose have already resulted in hospitals having to forgo or delay projects intended to strengthen services, including:

- **Sharp** delayed or reprioritized investments in specialty services, capital improvements and workforce development because the cost targets reduce projected net revenue below amounts projected absent the cost targets, and below amounts required to cover increases in expense, like the cost of labor, supplies, and pharmaceuticals. (SAVP ¶ 131.b.)
- **LPCH** instituted a hiring freeze and a reduction in force, affecting staffing and patient-care capacity because of lower reimbursement rate increases from commercial payers, on top of systemically low government reimbursement rates.[8] (*Id.* at ¶ 133.b.)
- **SHC** has reevaluated investments in population health programs and, to minimize the impact of OHCA's actions, eliminated positions in its family caregiver program. (*Id.* at ¶ 134.c.)

This effect is amplified by the reality of increased expenses year-over-year.[9] (*Id.* at ¶¶ 92–96, 157.) These impairments to hospitals' "ability to provide the services [they were] formed to provide" is injury in fact. (*East Bay*, 932 F.3d at 765; *Nnebe v. Daus* (2d Cir. 2011) 644 F.3d 147, 157 ["only a 'perceptible impairment' of an organization's activities is necessary for there to be an 'injury in fact'"].) The cost targets cause direct detriment by requiring hospitals to scale back efforts that promote quality patient care. OHCA acknowledges that CHA's members also face an exceptionally difficult health care landscape, including unprecedented federal funding cuts and related policy changes, rising pharmaceutical, supply, and labor costs, increased expenses from new tariffs, and seismic obligations. (SAVP ¶¶ 6–8, 75, 94–96.) These realities magnify, not undercut, OHCA's unlawful conduct and do not exclude OHCA's failure to promulgate cost targets consistent with Sections 127500 et seq. In any event, CHA "need not eliminate any other contributing causes to establish its standing." (*Barnum,* 633 F.3d at 901.) The inquiry here is whether CHA and its members have a beneficial interest in mandamus relief. They do, based on the harms articulated above. Relief directly benefits them by ensuring cost targets account for Sections 127500 et seq. Without that, they will continue to incur direct harm, which will only compound over time.

3. Cost Target Enforcement Causes Hospitals Harm

Hospitals are taking action now, to their detriment, to avoid penalties and other enforcement

[8] This occurred in December 2025, after OHCA already adopted the statewide target in 2024, the hospital sector in January 2025, and the hospital cost target in April 2025. (SAVP ¶¶ 56, 63, 65.)
[9] Many hospitals project expense growth above the cost targets. (SAVP ¶¶ 7, 131.c, 157, 173–174.)

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consequences. Indeed, if CHA's members "fail to observe [OHCA's] rule they are quite clearly exposed to the imposition of strong sanctions," giving them "sufficient standing as plaintiffs," especially when paired with the "significant changes" they are making "in their everyday business practices." (*Abbott Laboratories*, 387 U.S. at 154.) It is undisputed that enforcement began on January 1, 2026 (SAVP ¶ 4), OHCA will pursue enforcement (§ 127502.5(a) ["The director shall enforce the cost targets"]; SAVP ¶ 82), and OHCA is not considering pre-enforcement waivers, contrary to statute (SAVP ¶ 83). CHA's members face direct detriment from a vague enforcement process, compelling disruptive resource diversions to address unpredictable enforcement actions.

OHCA downplays the effect of its enforcement scheme by arguing that it is phased and hospitals may avoid penalties by implementing a performance improvement plan (a "PIP"). (Dem. at 13–14.) But a threat of injury is enough. (*B. C. Cotton*, 33 Cal.App.4th at 948.) Being subject to a phased enforcement process causes harm even before financial penalties are imposed—hospitals will be burdened with justifying their spending, including providing robust and complex data and corresponding with OHCA about it over an "extended" process. (Dem. at 13.) And, with any PIP, hospitals will be forced to adjust behavior to conform to such a plan and to take actions they may otherwise not take. (SAVP ¶¶ 125–126.) The delayed enforcement makes this worse. Hospitals must conform their conduct now while remaining exposed to penalties years later, after circumstances, budgets, contracts, and operating conditions have materially changed. Contesting retrospective enforcement is much more burdensome than obtaining clarity now.

Regardless, risk of enforcement of an illegal policy is harm in and of itself. "[A] realistic danger of sustaining a direct injury as a result of the statute's operation or enforcement" is sufficient to confer standing. (*Coral Construction*, 116 Cal.App.4th at 25.) Litigants may challenge such policies even pre-enforcement. (*America's Health Ins. Plans v. Hudgens* (11th Cir. 2014) 742 F.3d 1319, 1327 [association had standing to bring a pre-enforcement challenge against new laws because members would be forced to comply or risk penalties].) This is particularly true where hospitals are forced "to choose at once between complying with regulations of questionable validity and risking" penalties. (See *Pacific Legal Foundation v. California Coastal Com.* (1982) 33 Cal.3d 158 163, 172–174 [discussing *Abbott Laboratories*, 387 U.S. at 152]). Worse, the harm is heightened because

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OHCA has not clearly set forth the enforcement process, leaving hospitals to guess how it might impose penalties or other consequences. (SAVP ¶¶ 84, 131.d.) This confers standing.

4. CHA's Members Are Direct Targets of OHCA's Unlawful Policies

A regulation that directly injures the entities it regulates establishes standing. (See, e.g., *Lujan v. Defenders of Wildlife* (1992) 504 U.S. 555, 561–562 [when "the plaintiff is himself an object of the [government] action (or forgone action) at issue . . . there is ordinarily little question that the action or inaction has caused him injury" to establish standing].) Indeed, "where an agency imposes concrete and particular burdensome requirements on a party," like OHCA has on hospitals, "a party will have standing." (*California Sea Urchin Commission v. Bean* (9th Cir. 2018) 883 F.3d 1173, 1181.) Such is the case here where hospitals' missions are threatened by workforce reductions, capital projects put on hold, and forgone service investments. (SAVP ¶¶ 127, 131, 132.c, 133.b, 134.c, 183, 186, 238.) CHA's members have standing and the Demurrer should be overruled.

B. CHA Has Standing

OHCA does not seriously dispute that CHA devoted substantial resources to the cost targets. Instead, it argues those expenditures would have been incurred under any cost target regime and therefore cannot establish standing. OHCA is factually wrong and applies the wrong legal standard.

1. The Cost Targets Forced CHA to Divert Resources

CHA has diverted "salaried staff time and other office resources" from "useful projects to respond to" OHCA's promulgation of cost targets inconsistent with their authorizing statutes. (*CMA*, 14 Cal.5th at 1088–1090.) This is an economic injury that "suffices for standing purposes." (*Id.* at 1090.) CHA was forced to pull its "finite resources" away from other activities that further its mission. (*Id.* at 1089; see SAVP ¶ 27.) This is necessarily a diversion of resources that causes injury. (*CMA*, 14 Cal.5th at 1089 ["When staff are diverted to a new project undertaken in response to an unfair business practice, the organization loses the value of their time, which otherwise would have been used to benefit the organization in other ways."].) Since the adoption of the statewide cost targets in April of 2024, CHA has devoted extensive employee time to analyzing OHCA's actions, submitting public comments, participating in hearings, engaging lawmakers, and educating hospitals about the cost targets and their enforcement. (SAVP ¶ 115.) Seventeen CHA employees spent time

HOOPER, LUNDY & BOOKMAN, P.C.
1875 CENTURY PARK EAST, SUITE 1600
LOS ANGELES, CALIFORNIA 90067
TEL (310) 551-8111 • FAX (310) 551-0304

in non-litigation activities related to the cost targets, totaling over a million dollars of personnel time. (*Id.* at ¶¶ 115, 117.) CHA staff devoted approximately 8,737 hours to OHCA-related work outside of litigation, with 6,603 of those hours dedicated to analysis and ongoing member education. (*Id.* at ¶ 115.) CHA also compensated consultants to analyze OHCA's high-cost hospital methodology. (*Id.* at ¶ 116.) All of this work is well above what CHA otherwise would expend and to the detriment of other activities it would have carried out. (See *id.* at ¶¶ 115, 117.)

Moreover, as it became clear that OHCA was not adhering to Sections 127500 et seq., CHA devoted even more resources into its cost target work. (See *id.* at ¶ 117.) After the OHCA Board adopted the last of the five actions the SAVP challenges in April 2025, CHA's activities intensified, including analyzing the final rules, intensive member education, and engaging leadership. This totaled $953,098 in compensation, including $375,279 for impact analysis and $103,617 for member education, which again was independent of litigation.[10] (*Ibid*.) If OHCA had acted consistent with the law, CHA would not have incurred these expenses—the magnitude of CHA's resource diversion was necessarily a reaction to OHCA's unlawful actions harming members. (See *id.* at ¶¶ 114–117.)

As our state's high court established in *CMA*, an organization has standing when it incurs such economic losses. (See 14 Cal.5th at 1089.) Recognizing that *CMA* is fatal to its position, OHCA urges this Court to rely on *FDA v. Alliance for Hippocratic Medicine*, (2024) 602 U.S. 367, instead. But *CMA* is "binding upon and must be followed by all the state courts of California" as a California Supreme Court decision. (*Auto Equity Sales, Inc. v. Super. Ct. of Santa Clara County* (1962) 57 Cal.2d 450, 455.) Indeed, analyzing standing under a state statute like Code of Civil Procedure § 1085 here is a matter for the state high court, not the federal one. (See *Adolph v. Uber Technologies, Inc.* (2023) 14 Cal.5th 1104, 1119–1120; see also *People v. $8,921 United States Currency* (1994) 28 Cal.App.4th 1226, 1232 [federal Supreme Court decisions are not binding on California courts as to state law].) And although *CMA* arose in the UCL context, it is controlling because it relied on the same injury in fact principles that inform the beneficial interest analysis

[10] OHCA suggests these costs could have been incurred to investigate or pursue litigation. (Dem. at 12 n. 7.) But the SAVP plainly states they were separate from litigation (SAVP ¶¶ 115, 117), which, like the sum, is accepted as true on a demurrer (see *Blank v. Kirwan* (1985) 39 Cal.3d 311, 318).

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here. (14 Cal.5th at 1087.) To the extent *FDA* may require a more detailed linkage to specific aspects of an organization's mission harmed by resource diversion, it is inconsistent with the controlling *CMA* authority.

Regardless, the SAVP satisfies *FDA.* CHA expended more than $1 million and alleges these resources were "diverted," which necessarily means they were diverted from other CHA activities, as *CMA* indicates. (SAVP ¶ 115; see also *id.* at ¶¶ 116–117.) Further, on demurrer, factual allegations are taken as true and reasonable inferences are drawn in plaintiff's favor. (*Liapes*, 95 Cal.App.5th at 919.) Where a trade association dedicated to advancing the interests of its members expends the level of resources alleged here, it is both implied and reasonably inferred that the expenditure diverted funds from the association's core activities.[11] Nothing more is required at this stage even if this Court applied *FDA.* CHA has shown injury.

2. Caselaw Confirms CHA's Injury Confers Standing

OHCA disregards the applicable beneficial interest test and cites a variety of legal standards that are not controlling. First, OHCA asserts a causation requirement that applies under the UCL statute, but not to an injury in fact analysis under the beneficial interest test.[12] (Dem. at 10; see *Two Jinn, Inc. v. Government Payment Service, Inc.* (2015) 233 Cal.App.4th 1321, 1332; *Daro v. Superior Court* (2007) 151 Cal.App.4th 1079, 1098.) Second, OHCA incorrectly asserts that CHA must prove that it would not have incurred similar resource expenditures under a legal cost target. But CHA has no burden to compare the harm it is facing to harm incurred under some hypothetical alternative. Regardless, it is clear that CHA's expenditures were caused by OHCA's illegal actions given that CHA ramped up its work after it became clear that OHCA was finalizing a framework contrary to its statutory directives and stakeholder input. (SAVP ¶¶ 115, 117.) *Two Jinn* and *Daro* are further inapposite for this reason—unlike in those cases, CHA's injuries arise from responding to OHCA's wrongful implementation of the statute authorizing the cost targets, not the law itself. It

[11] Nor is this a case of "manufactured" standing. (See *FDA*, 602 U.S. at 394.) Resources of this magnitude were intended for other mission-driven work. (SAVP ¶ 115–117.)

[12] Indeed, OHCA overstates any causation burden, particularly at this phase of the litigation where facts are accepted as true. And, to the extent that the beneficial interest test incorporates the federal injury in fact test (see note 4, *supra*), it does not incorporate the federal standing test's causation and redressability elements. (*Associated Builders and Contractors, Inc.*, 21 Cal.4th at 362.)

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LOS ANGELES, CALIFORNIA 90067
TEL (310) 551-8111 • FAX (310) 551-0304

is clear that CHA would have expended fewer resources had OHCA finalized cost targets in a manner consistent with the law. (See *id.* at ¶¶ 115, 117.) Last, OHCA characterizes CHA's expenses as litigation-related and thus insufficient to show standing. But, as the SAVP alleges, the resources CHA diverted were exclusive of litigation. (*Ibid.*)

C. CHA and Its Members Have Public Interest Standing

Public interest standing applies when the agency's duties are "sharp" (i.e., clear and well-defined) and the public need for enforcement is "weighty." (Order at 3 [citing *Citizens for Amending Proposition L v. City of Pomona* (2018) 28 Cal.App.5th 1159, 1174].) Both are met here. First, Sections 127500 et seq. impose clear duties on OHCA to set cost targets and enforcement frameworks that rest on adequate, complete data and transparent methodologies, are consistent with Section 127502, including the designation of certain hospitals as high-cost, and reflect Advisory Committee and public input, while protecting quality, access, equity, affordability, and workforce stability. (See, e.g., SAVP ¶¶ 85–87.) OHCA departed from those duties. (*Id.* at ¶¶ 8–9, 61–68, 158–229, 236, 241–292). CHA's interest "in having the laws executed and the duty in question enforced" triggers public interest standing. (See *Green v. Obledo* (1981) 29 Cal.3d 126, 144.) Second, the public need to enforce those duties is weighty. The Legislature created OHCA not merely to reduce health care spending, but to do so while maintaining access to care, promoting quality and equity, and preserving workforce stability. (SAVP ¶¶ 6, 42, 46, 86.) The challenged cost targets are already undermining hospital operations to those ends. (*Id.* at ¶¶ 127–134, 172–176.) This is contrary to the unique public interest in health care and the financial viability of hospitals. (*Potvin v. Metropolitan Life Ins. Co.* (2000) 22 Cal.4th 1060, 1070; *Integrated Healthcare Holdings, Inc. v. Fitzgibbons* (2006) 140 Cal.App.4th 515, 524.) The broader general public has an interest to preserve the Legislature's goals, which promote statewide health care access and affordability.

OHCA's sole argument against public interest standing is that a hospital could challenge a penalty in a future proceeding. (Dem. at 18.) But the doctrine turns on the agency's duty and the public need for judicial enforcement, not the possibility of later, narrower review. It exists to ensure that no governmental body "impairs or defeats the purpose of legislation establishing a public right." (*Save the Plastic Bag Coalition v. City of Manhattan Beach* (2011) 52 Cal.4th 155, 166.) OHCA's

HOOPER, LUNDY & BOOKMAN, P.C.
1875 CENTURY PARK EAST, SUITE 1600
LOS ANGELES, CALIFORNIA 90067
TEL (310) 551-8111 • FAX (310) 551-0304

own authority proves the point. *California Department of Consumer Affairs v. Superior Court* denied standing because the challenged interpretation "has been and continues to be litigated in other cases," and aggrieved parties had an "express legal remedy" and adequate administrative relief. ((2016) 245 Cal.App.4th 256, 263–264.) But here no proceeding tests whether OHCA set the targets consistent with its mandate, and there is no express legal remedy apart from this mandate proceeding. (SAVP ¶¶ 140, 315.) The sole avenue OHCA identifies is a writ petition by a single hospital after exceeding a target, exhausting enforcement, and absorbing a penalty. (See Dem. at 18.) But that would solely test the individual hospital's penalty, not the adopted targets' legality. Were the possibility of such review enough, every quasi-legislative rule with a delayed penalty would escape challenge during the years it takes effect. (Cf. *Cultiva La Salud v. State of California* (2023) 89 Cal.App.5th 868, 878 [requiring violation before review "would provide a framework for insulating laws from judicial review"].)

This action is the classic case for public interest standing: without relief, the public right in enforcing proper implementation of the cost targets "will go unaddressed and unvindicated." (*Consumer Affairs*, 245 Cal.App.4th at 263.) Nothing outweighs the public's weighty interest in enforcing OHCA's sharp duties before the targets inflict their further harm.

V. CONCLUSION

This Court should overrule the Demurrer. If the Court is inclined to sustain it, leave to amend is warranted because there is a reasonable possibility that any deficiency can be cured through additional allegations. (*Aubry v. Tri-City Hospital Dist.* (1992) 2 Cal.4th 962, 970–971.)

DATED: August 10, 2026

HOOPER, LUNDY & BOOKMAN, P.C.

By: /s/ Lloyd A. Bookman
LLOYD A. BOOKMAN
ALICIA W. MACKLIN
ERIN R. SCLAR
M.H. JOSHUA CHIU
Attorneys for Petitioner California Hospital Association

HOOPER, LUNDY & BOOKMAN, P.C.
1875 CENTURY PARK EAST, SUITE 1600
LOS ANGELES, CALIFORNIA 90067
TEL (310) 551-8111 • FAX (310) 551-0304

PROOF OF SERVICE

CHA v. OHCA et al.
Case No. CPF-25-519370

STATE OF CALIFORNIA, COUNTY OF SAN DIEGO

At the time of service, I was over 18 years of age and not a party to this action. I am employed in the County of San Diego, State of California. My business address is 101 W. Broadway, Suite 1200, San Diego, CA 92101.

On August 10, 2026, I served true copies of the following document(s) described as **PETITIONER'S OPPOSITION TO RESPONDENTS' DEMURRER TO SECOND AMENDED PETITION FOR WRIT OF MANDATE; COMPLAINT FOR DECLARATORY RELIEF** on the interested parties in this action as follows:

David Houska
Sophia T. Tonnu
Malinda Lee
Deputy Attorneys General
455 Golden Gate Avenue, Suite 11000
San Francisco, CA 94102-7004
Tel: (415) 510-3374
Fax: (415) 703-1107
E-mails:
David.Houska@doj.ca.gov
Sophia.TonNu@doj.ca.gov
Malinda.Lee@doj.ca.gov

BY E-MAIL OR ELECTRONIC TRANSMISSION: I caused a copy of the document(s) to be sent from e-mail address mhampshire@hooperlundy.com to the persons at the e-mail addresses listed in the Service List. I did not receive, within a reasonable time after the transmission, any electronic message or other indication that the transmission was unsuccessful.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on August 10, 2026, at San Diego, California.

/s/ Meghan A. Hampshire
Meghan A. Hampshire

HOOPER, LUNDY & BOOKMAN, P.C.
1875 CENTURY PARK EAST, SUITE 1600
LOS ANGELES, CALIFORNIA 90067
TEL (310) 551-8111 • FAX (310) 551-0304