California Hospital Association

January 18, 2024

Mark Ghaly, MD
Chair, Health Care Affordability Board
1215 O St.
Sacramento, CA 95814

Subject: **Urge Serious Scrutiny of the Proposed Spending Target and Significant Changes to Avoid Negative Consequences**
(Submitted via Email to Megan Brubaker)

Dear Dr. Ghaly:

The Office of Health Care Affordability (OHCA) has an obligation to improve the affordability of health care **without sacrificing access to or the quality of health care**. While the office is clearly committed to the first goal, its final recommendation for California's first statewide spending target misses the mark on the second goal — putting patient care in jeopardy.

On behalf of our more than 400 hospital and health system members, the California Hospital Association (CHA) urges the OHCA board and advisory committee to reconsider OHCA staff's proposed 3% target for 2025-29. We specifically are concerned that the proposal:

- Fails to strike a balance between promoting affordability and maintaining access to high-quality, equitable care
- Ignores external factors that influence health care costs, such as inflation and California's aging population
- Sets California apart as an outlier from other states with spending targets

Proposed Spending Target Fails to Strike a Balance Between Promoting Affordability and Maintaining Access to a High-Quality, Equitable Health Care System

While establishment of a spending target is intended to promote affordability, that is not the only goal. State law clearly requires the spending target to be set in a manner that preserves high-quality, equitable care. OHCA's proposed spending target is:

- Incompatible with the spirit, if not the letter, of state law, as a sudden 40% drop in the growth in health care spending, in the current inflationary environment, is not achievable without serious negative consequences for patients
- Arbitrary and lacking consideration of the underlying drivers of health care costs

- Devoid of proper evaluation of its likely impacts on access to high-quality care

Ultimately, this spending target — if finalized as proposed — would significantly harm patients across California.

Proposed Spending Target Fails to Consider the Reasonable Costs of Operating a High-Quality Health Care System

OHCA's proposed target entirely ignores the drivers of health care spending. In doing so, it would force health care providers to significantly cut back on the care they provide or face penalties. To avoid this negative outcome, OHCA must recognize at least the following four essential components when setting a spending target:

- **Inflation.** Over the next five years, the Legislative Analyst's Office projects inflation to be 3.5% annually. In other words, OHCA's proposed spending target would dictate a decline in real health care spending of 0.5% over time, assuming no change in utilization despite the growing health needs of California's population and concerted efforts, in Medi-Cal and beyond, to improve access to care. Hospitals and other providers would find themselves not only unable to afford medical supplies and infrastructure updates, but also hamstrung in their ability to compete with other states and sectors for workers.
- **Growing health needs of an aging population.** The Department of Finance projects California's 65 and over population to grow by 13% (over 900,000 people) between 2024 and 2029, while the under 18 population is projected to shrink by nearly 6% (over 500,000 people). In fact, the 85 and older population is projected to grow the fastest, by 17%, over the same time period. Health care costs for seniors are five to nine times those for children and youth. Aging alone is projected to increase health care spending in California by 0.7% annually, a far greater impact than what OHCA staff presented, and yet another factor unaccounted for in OHCA's proposed spending target.
- **Health care policies that drive up costs.** Policies adopted by the Legislature — such as the dedication of new tax revenues to raise Medi-Cal reimbursement rates and the enactment of a health care worker minimum wage — will add billions of dollars in health care spending once fully implemented. In fact, these two recent policy changes, on their own, will raise health care spending by over 2% in tandem over the next several years. The proposed spending target does not accommodate these or any other changes enacted by policymakers.
- **Facilitation of thoughtful, meaningful change.** For the spending targets to be effective in promoting affordability without harming access, quality, and equity, health care entities will need to make new investments and change their care processes to shift toward value-based care. While this has the potential to lead to long-term cost savings, it requires significant up-front investment and will not produce cost savings overnight. By setting a flat, multiyear target, OHCA has failed to recognize the time needed to truly improve the value proposition of health care. Instead, in effect, OHCA is encouraging the hasty slashing of costs. Patients will bear the brunt of this, as health care entities would be left scrambling to cut their spending growth in the fastest ways possible: closing

service lines, reducing workforce, not offering the latest drugs and medical technologies, and curtailing investments in their infrastructure and care processes.

Proposed Spending Target Is an Outlier Among Other States

Spending target programs have been implemented in eight other states. As the figure below shows, ***California's proposed target is lower than all other states'*** when considered on a multiyear basis. In fact, while the other states set their targets to exceed the historical growth in their economies by about 1 percentage point (or 45% higher) on average, OHCA's proposed target would be nearly 2 percentage points (39%) lower than California's historical economic growth rate. Moreover, inflation in the year prior to the other states setting their target averaged a mere 1.8%, whereas for California, prior-year inflation came in at 4.2%. This factor is entirely unrecognized in OHCA's proposal.

California's Spending Growth Target Would Be the Lowest in the Nation Despite Higher Inflation and a Faster Growing Economy

State	Year Target Was Set	Average Target	GSP Growth	Difference (Target - GSP)	Prior Year Inflation
California	2024	3.0%	4.9%	-1.9%	4.2%
Massachusetts	2012	3.1%	2.5%	0.6%	3.1%
Nevada	2021	3.1%	2.9%	0.2%	1.3%
Connecticut	2020	3.2%	1.2%	2.0%	1.8%
Rhode Island	2021	3.2%	1.3%	1.9%	1.3%
Washington	2018	3.2%	4.7%	-1.5%	2.1%
Delaware	2018	3.3%	0.4%	2.9%	2.1%
Oregon	2021	3.4%	3.2%	0.2%	1.3%
New Jersey	2021	3.5%	1.7%	1.8%	1.3%
Average Among Peer States		**3.3%**	**2.2%**	**1.0%**	**1.8%**

GSP = average gross state product for the period 2016-2019.

Average Target = average growth in the health care growth target 2021-23 (for states other than California).

Main Source: Melnick, Glenn. CHCF Issue Brief, Health Care Cost Commissions: How Eight States Address Cost Growth. April 2022.

OHCA's Proposal Is Incompatible With the Health Care System Californians Need and Deserve

California's health care system provides world-leading, life-saving care to millions of patients every year. It employs 1.7 million highly skilled and specialized workers, and hospitals generate more than $343 billion in economic output annually. A poorly considered, hastily developed cost growth target would have dire consequences for millions of Californians — the importance of a thoughtful, data-driven approach cannot be overstated.

OHCA has an historic opportunity to transform California's health care system in a meaningful way, allowing it to progress toward the system patients so crucially need. To strike the right balance between cost savings and preserved access to high-quality health care, the board must critically evaluate the methodology underlying the proposed target, seriously consider whether it meets the spirit and letter of state law, demand a robust and multifaceted rationale to support a final target methodology, and ensure the impact on patients is thoroughly understood.

Sincerely,

Ben Johnson
Vice President, Policy

cc: Elizabeth Landsberg, Director, Department of Health Care Access and Information
Vishaal Pegany, Deputy Director, Office of Health Care Affordability
Members of the Health Care Affordability Board:
David M. Carlisle, MD, PhD
Secretary Dr. Mark Ghaly
Dr. Sandra Hernández
Dr. Richard Kronick
Ian Lewis
Elizabeth Mitchell
Donald B. Moulds, Ph.D.
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