

# California Cracks Down on Spending at High-Cost Hospitals

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- Eleven facilities would be ordered to lower spending growth
- Proposed rules come after outcry from labor, consumer groups

California regulators are trying to rein in prices charged to consumers at 11 hospitals they contend are too expensive.

Hospitals covered by proposed rules would have to cap annual increases in costs charged to patients and insurers to 1.8% per capita starting in 2026. That target from the state's Office of Health Care Affordability would decrease in future years, reaching 1.6% in 2029. Hospitals that exceed the level could face financial penalties. The office's board is likely to vote on the proposal by June 1 as it finalizes the list.

The regulation is the latest effort by state officials to curb health-care expenses that have become a source of frustration for employers, labor unions, and consumers already strained by the state's high cost of living. The hospitals argue the mandated targets wouldn't allow them to keep up with costs from other parts of the health-care system—such as drugs and equipment—that are increasing at an even faster clip. One hospital on the list plans to leave California, citing state regulations as one of several reasons for its exit.

“The proposed caps are well below the rate of inflation. Those limits will make it harder, if not impossible, for hospitals to continue providing care,” Carmela Coyle, president and CEO of the California Hospital Association, said in a statement.

Consumer advocates counter that curbing costs at those particularly expensive hospitals would reduce a major driver of health-care spending in the state, which topped \$405 billion in 2020, up 30% from 2015, according to the Centers for Medicare and Medicaid Services.

“If the Board can lower hospital cost growth, then it will slow health plan cost growth as well as making progress toward slowing the growth of consumer costs for premiums and cost sharing,” Health Access California, a consumer advocacy group, said in a March 20 letter to regulators.

## High Costs

The [11 hospitals](#) are largely clustered around some of California's most expensive communities, such as Stanford Health Care in Palo Alto, Barton Memorial Hospital in

South Lake Tahoe and several around the coastal communities of Monterey Bay and Santa Barbara.

The costs at these hospitals regularly exceed those of others in the state when considering net patient revenue and the prices paid by commercial insurers, compared to the prices paid by Medicare, the state contends.

### High-Cost Hospitals

California regulators have singled out 11 hospitals in an effort to curb spending growth

Hospital	Location
Barton Memorial	South Lake Tahoe
Community Hospital of the Monterey Peninsula	Monterey
Doctors Medical Center - Modesto	Modesto
Dominican Hospital	Santa Cruz
Goleta Valley Cottage Hospital	Santa Barbara
Marshall Medical Center	Placerville
Northbay Medical Center	Fairfield
Salinas Valley Memorial Hospital	Salinas
Santa Barbara Cottage Hospital	Santa Barbara
Stanford Health Care	Palo Alto
Washington Hospital - Fremont	Fremont

Source: California Office of Health Care Access and Information

Bloomberg Government

A 2023 by Bloomberg News highlighted, for example, how a patient in Monterey County would pay \$10,000 more to give birth at a local hospital than one in a neighboring county.

Local labor unions have pushed the state to crack down after the organization managing health insurance for school districts around Monterey Bay sank into debt last year and charged school districts to cover the \$11 million shortfall. The carrier cited rising hospital costs for its overrun. The charges came on top of increased insurance costs, which have outstripped pay raises for teachers, unions argue.

“While our local hospital is continuing to build additional structures in the area, they are taking money directly from our pockets in more ways than one. This year we are making less than we were last year, and we lay much of the blame for that at the feet of our local hospitals,” the Monterey Bay Teachers Association said in a March 10 letter to regulators.

Two hospitals in the area—Salinas Valley Memorial Hospital and Community Hospital on the Monterey Peninsula—are on the state’s list of high-cost facilities.

The spending growth targets for high-cost hospitals are part of the board’s broader targets for the health-care industry spending, adopted last year.

The board set a target that will require the industry, including health plans, provider organizations and other hospitals, to keep annual per capita cost increases below a target of 3.5%. The broader cap will drop to a maximum of 3.2% in 2027 and 2028 before settling at 3% starting in 2029.

### Lobbying Over Carve-Outs

Hospital executives argue the state's formula for high-cost facilities is misleading, ignoring sections with major expenses, such as burn units, shouldered by some hospitals and not others. The state's list has shifted dramatically over the last few months, with regulators rolling out several different versions and sparking a fight over which facilities should be included.

Some of the biggest players among California's 439 hospitals are not currently covered by the calculations for high-cost facilities.

Kaiser Permanente, a major health care system in the state, is excluded from the calculations, as are state hospitals, those for children and psychiatric ones.

Public hospitals were not entirely excluded, though, and neither were rural hospitals that argued it is unfair to lump them with bigger systems in metropolitan markets.

Executives at Barton Memorial, in South Lake Tahoe, argued the state should carve out rural facilities, noting it's located in an outdoors vacation destination where business is highly seasonal. The hospital now plans to leave California due in part to state regulations, such as earthquake preparedness requirements. The hospital [announced](#) in November it would build a new facility a few miles away in Nevada.

"Including small hospitals to these limits will not move the needle in the state's overall goal to limit cost," Barton executives said in a March 20 letter to regulators.

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