California Health Care Foundation

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Policy Opportunities to Control Unreasonable Hospital Prices

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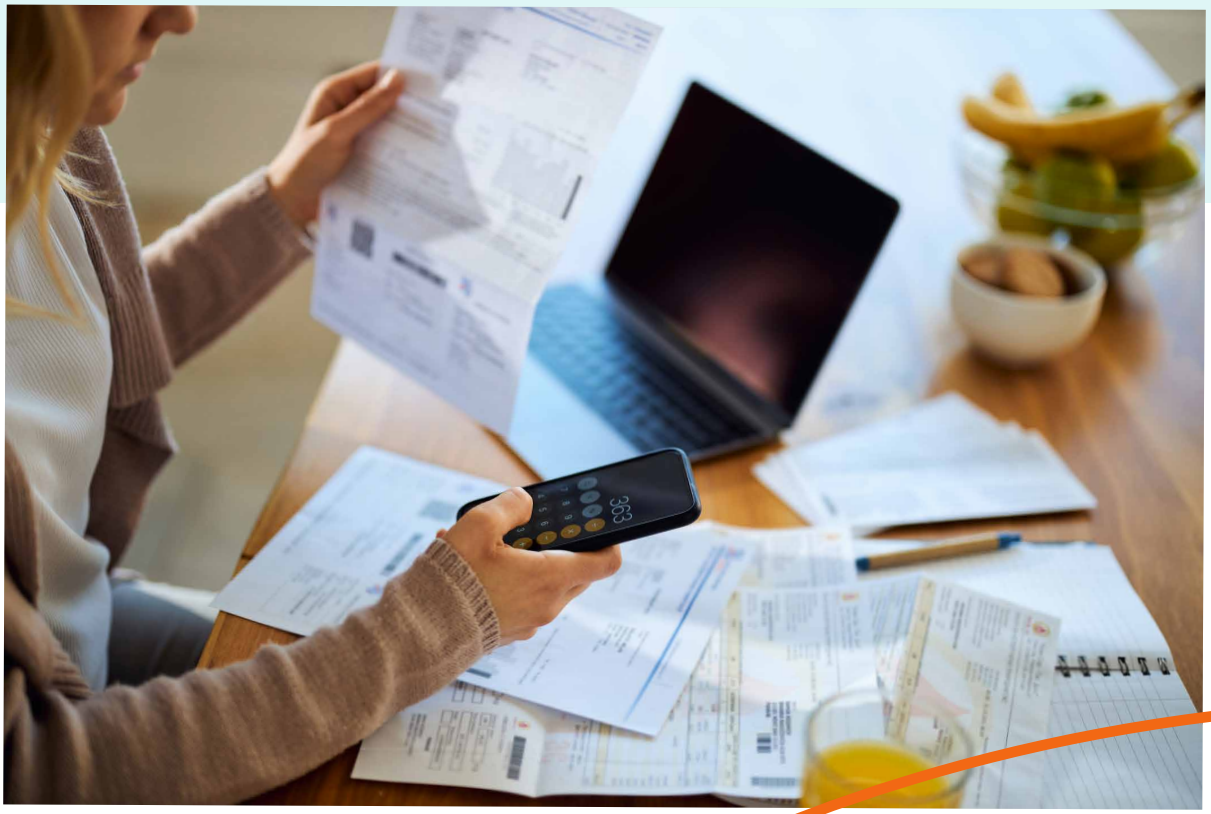

Issue Spotlight

For years, California's health care costs have grown faster than wages, leaving individuals and families under mounting pressure. Unsurprisingly, Californians across the political spectrum want health care affordability to be a top priority for policymakers.[1]

California enters this health care affordability reform moment from a position of relative strength — with established institutions, significant market influence, and a track record of meaningful policy action. *Policy Options to Improve Health Care Affordability: What California Can Learn from Other States* examined state activity across the United States over the past five years to control health care costs and identified policy opportunities for California in four priority areas. This issue spotlight summarizes policy opportunities to control unreasonable hospital prices.

Hospital spending is a dominant driver of health care cost growth. To constrain this growth, California established the Office of Health Care Affordability (OHCA) and a Health Care Affordability Board in 2022.[2] In 2025, these entities set a statewide growth target of 3.5% based on historical median household income growth. This will phase down to 3% by 2029. A stricter sector-specific target, also set in 2025, will apply to the state's highest-priced hospitals. Other states are pursuing additional approaches to constrain hospital prices that California could consider, ranging from direct price caps to site-neutral payment requirements and facility fee bans.

1) Cap Commercial Hospital Prices

Commercial hospital prices are set through private negotiations between hospitals and insurers, with little regulatory constraint. This has allowed hospitals with significant market power to extract payment amounts that bear little relationship to cost or quality. Hospital price caps address this directly by limiting hospital payments to a set benchmark. This benchmark is typically a percentage of Medicare's rate for the same service.

California could cap hospital payments within the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System. Together these plans cover a substantial number of enrollees, giving the state significant purchasing leverage without requiring new insurance regulation or provider rate-setting authority.3 A broader approach for California would be to cap hospital prices across all commercial payers.

2) Cap Hospital Price Growth

Managing hospital price growth has emerged as a central policy strategy for improving health care affordability. OHCA has made California a state leader in implementing hospital cost growth targets. With tiered targets that impose stricter growth limits on higher-price hospitals, California's program goes further than those of most other states.[4] By directly limiting hospital price increases, growth caps can effectively constrain commercial market spending growth.

California could build on this existing authority by rigorously enforcing OHCA's hospital price growth caps across the state's approximately 400 hospitals through consistent use of performance improvement plans and assessment of administrative penalties for noncompliance.

3) Implement Hospital Global Budgets with Regulated Growth Cap

Global budgets pay hospitals a fixed amount for a defined set of services. These payments are determined prospectively based on historical utilization and are adjusted annually to account for changes in demographics, market share, and service mix. Hospital global budgets can be implemented narrowly for state-procured plans (e.g., public employee health plans and Medicaid), or broadly to include commercial and Medicaid payers, depending on federal and state authorities. California could consider implementing hospital global budgets with regulated growth caps within its current regulatory authority.

4) Require Site-Neutral Payment or Ban Facility Fees

Site-neutral payment and facility fee regulations both address the same fundamental issue: higher prices that are driven by where care is delivered rather than what care is provided. California could mitigate this dynamic through either site-neutral payment requirements or facility fee restrictions. Site-neutral payments prohibit payment differentials based on service delivery location for certain ambulatory services. Facility fee bans seek to bar hospitals from applying additional fees to medical bills that are not tied to any service or clinical value.

Learn More

Read *Policy Options to Improve Health Care Affordability: What California Can Learn from Other States* for more information or explore the issue spotlights on the other three priority areas:

- Addressing consolidation and anti-competitive market practices
- Reducing administrative waste and complexity
- Preventing medical debt and providing consumer relief

About the Authors

January Angeles, MPP, is managing director at Bailit Health and has over 20 years of experience in health care policy and management. Her work focuses on helping states advance strategies to address health care affordability, develop and implement payment and delivery system reforms, and strengthen their Medicaid programs.

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Anna Rothenberg, MPH, is a consultant at Bailit Health. Anna supports states in their efforts to advance commercial health care affordability. Her work also focuses on Medicaid and supporting state Medicaid agencies, managed care organizations, and nonprofit partners with evaluations, quality strategies, and procurements. Anna previously conducted qualitative and quantitative clinical research at Boston Children's Hospital.

Michael Bailit, MBA, is founder and president of Bailit Health, where he focuses on how purchasers and regulators can influence health care markets to operate as effectively and efficiently as possible. He has worked with state agencies and employer purchasing coalitions in more than 30 states.

Bailit Health is a health policy consulting firm that assists state agencies and their partners with strategy development and implementation, program design, multistakeholder process management, project management, and health policy research and analysis.

About the Foundation

The **California Health Care Foundation** is dedicated to advancing meaningful, measurable improvements in the way the health care delivery system provides care to the people of California, particularly those with low incomes and those whose needs are not well served by the status quo. We work to ensure that people have access to the care they need, when they need it, at a price they can afford. CHCF informs policymakers and industry leaders, invests in ideas and innovations, and connects with changemakers to create a more responsive, patient-centered health care system.

Endnotes

1. The 2026 CHCF California Health Policy Survey
2. Cal. Health & Safety Code §§ 127502–127502.5.
3. "CalPERS Now: New Strategies to Provide You Affordable, High-Quality Healthcare," *PERSpective*, 2026.
4. "Slow Spending Growth," HCAI, Office of Health Care Affordability, accessed February 13, 2026.