



California Department of Health Care Access and Information (HCAI)
Office of Health Care Affordability (OHCA)

The Spending Target Performance Measurement Manual

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Version History

Version	Date	Summary of Changes
1.0	October 2026	Draft version

1 Introduction

This Spending Target Performance Measurement Manual documents the calculations and formulas the Office of Health Care Affordability (OHCA) uses to measure spending growth for payers, hospitals, and physician organizations.

Payers and fully integrated delivery systems are required to submit data and other information necessary for OHCA to measure Total Health Care Expenditure (THCE) and per capita THCE pursuant to Health and Safety Code section 127501.4 of the California Health Care Quality and Affordability Act (the “Act”) and its implementing regulations.¹ The THCE Data Submission Guide (the “Guide”) instructs payers and fully integrated delivery systems to report spending by market, payer, service category, product type, and geographic region, as well as to attribute total medical expenses to physician organizations based on a member attribution hierarchy described in the Guide. OHCA actively maintains a website (<https://hcai.ca.gov/ohca/>) with information about OHCA’s mission and reporting responsibilities, including background, links to state statutes and regulations, and a link to the Guide.

On an annual basis, health facilities (also referred to as hospitals) report detailed facility-level data to HCAI on numerous measures that include inpatient and outpatient utilization, revenues and expenses by type and payer, balance sheet and income statement. For this reason, OHCA does not directly collect new data from hospitals, but uses the Hospital Annual Financial Disclosure Report Data to measure hospital spending. This approach is consistent with Health and Safety Code section 127501.4 of the Act, which permits OHCA to use existing and emerging public and private data sources to minimize administrative burdens and duplicative reporting on health care entities. Because OHCA’s hospital measurement approach also adjusts for the intensity of services delivered, OHCA uses the HCAI Patient Discharge Data for inpatient intensity and the Health Care Payments Database for outpatient intensity.

1.1 Contact Information

For questions, please contact OHCA at SpendingTarget@hcai.ca.gov.

¹ California Health and Safety Code sections 127500 *et seq.* (Health Care Quality and Affordability Act).

2 Payer Calculations

OHCA measures payer year-over-year (YoY) growth, calculated by market, in Total Medical Expense (TME) and Total Non-Medical Expense (TNME) on a per-member-per-year (PMPY) basis.

2.1 Payer Total Medical Expense (TME) Calculations

The TME PMPY Formula:

$$TME\ PMPY_t = \frac{TME_t}{Member_t}$$

The Members Formula:

$$Member_t = \frac{Member\ Months_t}{12}$$

The YoY TME PMPY Growth Formula:

$$YoY\ TME\ PMPY\ Growth_t = \frac{TME\ PMPY_t - TME\ PMPY_{t-1}}{TME\ PMPY_{t-1}}$$

2.2 Payer Total Non-Medical Expense (TNME) Calculations

The TNME PMPY Formula:

$$TNME\ PMPY_t = \frac{TNME_t}{Member_t}$$

The Members Formula:

$$Member_t = \frac{Member\ Months_t}{12}$$

The YoY TNME PMPY Growth Formula:

$$YoY\ TNME\ PMPY\ Growth_t = \frac{TNME\ PMPY_t - TNME\ PMPY_{t-1}}{TNME\ PMPY_{t-1}}$$

2.3 Variables

Variable	Description
Members	Member Months divided by 12 (one member year equals twelve member months). This output serves as the annual enrollment denominator used to calculate TME on a per member per year basis.
Member Months	Total months of coverage across all members. Any month in which a member had at least one day of coverage is counted.

Variable	Description
t	Identifies the spending year. It can be either “t,” the performance year, or “t-1,” the base year used to measure the change in performance year spending.
Total Medical Expense (TME)	Total medical expense for covered health benefits during the reporting period means the total sum of the following: (1) All claims-based payments and encounters for covered health care benefits. (2) All non-claims-based payments for covered health care benefits, such as capitation, salary, global budget, other alternative payment methods, or supplemental provider payments pursuant to the Medi-Cal program. (3) All cost sharing for covered health care benefits paid by residents of this state, including, but not limited to, copayments, coinsurance, and deductibles.
TME PMPY	TME divided by Members (equivalently, TME per member month multiplied by 12).
Total Non Medical Expense (TNME) (also known as Administrative Costs and Profits)	“Administrative costs and profits” means the total sum of all expenses not included in the numerator of the medical loss ratio calculation under state or federal law, including, but not limited to, all of the following: (A) All categories of administrative expenditures. (B) Net additions to reserves. (C) Rate dividends or rebates. (D) Profits or losses. (E) Taxes and fees.
TNME PMPY	TNME divided by Members (equivalently, TME per member month multiplied by 12).

3 Hospital: Year-over-Year Growth in Inpatient and Outpatient Unit Spending

OHCA first separately measures year-over-year (YoY) growth, calculated by market, in inpatient and outpatient unit spending. OHCA later combines the inpatient and outpatient unit spending growth measures into a combined growth measure.

For the inpatient unit spending measure, the first step is to multiply the number of inpatient discharges by the inpatient intensity adjustment, or the Case Mix Index (CMI), which yields case mix adjusted discharges or CMADs. Then, inpatient net patient revenue (NPR) is divided by CMADs to arrive at the inpatient unit spending measure of Inpatient NPR per Case Mix Adjusted Discharge.

For the outpatient unit spending measure, the first step is to multiply the number of outpatient visits by the outpatient intensity adjustment, or Average Visit Intensity (AVI), to yield intensity adjusted outpatient visits. Then, outpatient NPR is divided by intensity adjusted outpatient visits to arrive at the outpatient unit spending measure of Outpatient NPR per Intensity Adjusted Outpatient Visit.

3.1 Inpatient Unit Spending Calculations

The Case Mix Adjusted Discharge Formula:

$$CMAD_t = Inpatient\ Discharges_t * CMI_t$$

The Inpatient Net Patient Revenue per Case Mix Adjusted Discharge Formula:

$$IP\ NPR\ per\ CMAD_t = \frac{IP\ NPR_t}{CMAD_t}$$

The YoY Growth Formula for Inpatient Net Patient Revenue per Case Mix Adjusted Discharge:

$$YoY\ IP\ Growth_t = \frac{(IP\ NPR\ per\ CMAD_t) - (IP\ NPR\ per\ CMAD_{t-1})}{(IP\ NPR\ per\ CMAD_{t-1})}$$

3.2 Outpatient Unit Spending Calculations

The Intensity Adjusted Outpatient Visit Formula:

$$IAV_t = Outpatient\ Visits_t * AVI_t$$

The Outpatient Net Patient Revenue per Intensity Adjusted Outpatient Visit Formula:

$$OP\ NPR\ per\ IAV_t = \frac{OP\ NPR_t}{IAV_t}$$

The YoY Growth Formula for Outpatient Net Patient Revenue per Intensity Adjusted Outpatient Visit:

$$YoY\ OP\ Growth_t = \frac{(OP\ NPR\ per\ IAV_t) - (OP\ NPR\ per\ IAV_{t-1})}{OP\ NPR\ per\ IAV_{t-1}}$$

3.3 Combined and Weighted YoY Growth Calculation

The YoY Growth Weighted by Inpatient and Outpatient Ratio of Services Formula:

$$YoY\ IP\ and\ OP\ Growth = (YoY\ IP\ Growth_t * IP\ NPR\ Payer\ Specific\ Share_{t-1}) + (YoY\ OP\ Growth_t * OP\ NPR\ Payer\ Specific\ Share_{t-1})$$

3.4 Variables

Variable	Description
Ambulatory Payment Classification (APC) weight	Medicare's Ambulatory Payment Classifications (APC) groups together items and services that are similar clinically and in terms of resource use. APC relative weights are obtained from the CMS Outpatient Prospective Payment System (Addendum A) and then assigned to Healthcare Common Procedure Coding System (HCPCS) procedure codes on each outpatient claim.
Average Visit Intensity (AVI)	Average Visit Intensity is a measure of the relative cost or resources needed to deliver an outpatient visit in a hospital. The AVI is the sum of APC weights on outpatient claims in the HPD divided by the number of outpatient visits. AVI can be calculated and applied by market using the HPD.
Case Mix Adjusted Discharges (CMAD)	Case mix adjusted discharges are calculated by multiplying the case mix index by inpatient discharges. By applying the CMI as an inpatient intensity adjustment, case mix adjusted discharges consider the volume and types of services hospitals performed.
Case Mix Index (CMI)	The Case Mix Index (CMI) is a measure of the relative cost or resources needed to treat the mix of patients in a hospital. The CMI is the average relative diagnosis-related group weight of a hospital's inpatient discharges, calculated by summing the Medicare Severity-Diagnosis Related Group (MS-DRG) weight for each discharge and dividing the total by the number of discharges. The CMI can be calculated and applied by market using Patient Discharge Data.
Inpatient Discharges	Count of inpatient discharges for the reporting year as reported in the Hospital Annual Financial Disclosure Report.
Inpatient Net Patient Revenue (IP NPR)	Inpatient net patient revenue on an allowed amount basis as reported in the Hospital Annual Financial Disclosure Report.
Inpatient NPR per CMAD	The inpatient unit spending measure is calculated by dividing inpatient net patient revenue by case mix adjusted discharges.
Intensity Adjusted Visits (IAV)	Intensity adjusted outpatient visits are calculated by multiplying Average Visit Intensity by outpatient visits. By applying the AVI as an outpatient intensity adjustment, intensity adjusted

Variable	Description
	outpatient visits consider the volume and types of services hospitals performed.
Outpatient Net Patient Revenue (OP NPR)	Outpatient net patient revenue on an allowed amount basis as reported in the Hospital Annual Financial Disclosure Report.
Outpatient NPR per IAV	The outpatient unit spending measure is calculated by dividing outpatient net patient revenue by intensity adjusted outpatient visits.
Outpatient Visits	Count of outpatient visits as reported in the Hospital Annual Financial Disclosure Report.
t	Identifies the spending year. It can be either “t,” the performance year, or “t-1,” the base year used to measure the change in performance year spending.

4 Physician Organization (PO): Year-over-Year Growth in Attributed TME PMPY

OHCA measures physician organization year-over-year (YoY) growth, calculated by market, in attributed Total Medical Expense (TME) on a per-member-per-year (PMPY) basis.

4.1 Physician Organization Attributed TME Calculations

The Attributed TME PMPY Formula:

$$\text{Attributed TME PMPY}_t = \frac{\text{Attributed TME}_t}{\text{Attributed Member}_t}$$

The Attributed Members Formula:

$$\text{Attributed Member}_t = \frac{(\text{Attributed Member Months}_t)}{12}$$

The YoY Attributed TME PMP Growth Formula:

$$\begin{aligned} \text{YoY Attributed TME PMPY Growth}_t \\ = \frac{(\text{Attributed TME PMPY}_t) - (\text{Attributed TME PMPY}_{t-1})}{(\text{Attributed TME PMPY}_{t-1})} \end{aligned}$$

4.2 Variable definitions

Variable	Description
Attributed Total Medical Expense (Attributed TME)	Total medical expense for covered health benefits during the reporting period attributed to a physician organization, broken out by market category, age, and sex. Includes all spending for the attributed members, including care from providers outside the attributed physician organization. The component definitions (claims, non-claims, member cost sharing) are identical to statewide TME. Payers report attributed TME data by physician organization in accordance with the Total Health Care Expenditures Data Submission Guide.
Attributed Member Months	Total months of coverage across the attributed members. Any month with at least one day of coverage counts.
Attributed Members	Attributed Member Months divided by 12 (one member year equals twelve member months). This output serves as the annual enrollment denominator used to calculate attributed TME on a per member per year basis.
Attributed Total Medical Expense per Member per Year (Attributed TME PMPY)	Aggregated Attributed TME divided by attributed member.

Variable	Description
t	Identifies the spending year. It can be either “t,” the performance year, or “t-1,” the base year used to measure the change in performance year spending.

5 Initially Commensurate Calculations

An initially commensurate (IC) penalty is the difference between a health care entity's actual spending and the amount it would have spent if it had met the target.

For each entity type, OHCA first calculates what spending would be for the entity if it had met the target:

- For payers, fully integrated delivery systems, and attributed physician organizations, as well as the category of total non-medical expenses, this calculation is performed on a PMPY basis.
- For hospitals, the calculation is performed separately for the inpatient and outpatient unit spending measures.

OHCA calculates average excess spending by subtracting the amount the health care entity would have spent if it had met the target from the actual spending for the performance year. Average excess spending is then multiplied by the respective unit at which spending is being measured to arrive at the aggregate IC penalty amount.

- For payers, fully integrated delivery systems, and attributed physician organizations, as well as the category of total non-medical expenses, excess spending is multiplied by the number of members in the performance year.
- For hospital inpatient unit spending, excess spending is multiplied by the number of case mix adjusted discharges in the performance year. For hospital outpatient unit spending, excess spending is multiplied by the number of outpatient intensity adjusted visits in the performance year. OHCA then combines the inpatient and outpatient IC penalty amounts to arrive at combined hospital penalty amount.

5.1 Payer TME Calculations

The TME PMPY at Target Formula:

$$TME\ PMPY\ at\ Target_t = TME\ PMPY_{t-1} * (1 + Cost\ Target_t)$$

The Average Excess Spending TME Formula:

$$Average\ Excess\ Spending\ TME = TME\ PMPY_t - TME\ PMPY\ at\ Target_t$$

The Initially Commensurate TME Penalty Formula:

$$Initially\ Commensurate\ TME\ Penalty_t = Average\ Excess\ Spending\ TME * Member_t$$

5.2 Payer TNME Calculations

The TNME PMPY at Target Formula:

$$TNME\ PMPY\ at\ Target_t = TNME\ PMPY_{t-1} * (1 + Cost\ Target_t)$$

The Average Excess Spending TNME Formula:

$$\text{Average Excess Spending TNME} = \text{TNME PMPY}_t - \text{TNME PMPY at Target}_t$$

The Initially Commensurate TNME Penalty Formula:

$$\begin{aligned} \text{Initially Commensurate TNME Penalty}_t \\ = \text{Average Excess Spending TNME} * \text{Member}_t \end{aligned}$$

5.3 Hospital Calculations

The Inpatient NPR per CMAD at Target Formula:

$$\text{IP NPR per CMAD at Target}_t = \text{IP NPR per CMAD}_{t-1} * (1 + \text{Cost Target}_t)$$

The Average Excess Spending IP NPR per CMAD Formula:

$$\begin{aligned} \text{Average Excess Spending IP NPR per CMAD} \\ = (\text{IP NPR per CMAD}_t - \text{IP NPR per CMAD at Target}_t) \end{aligned}$$

The Initially Commensurate Inpatient NPR per CMAD Penalty Formula:

$$\begin{aligned} \text{Initially Commensurate IP NPR per CMAD Penalty}_t \\ = \text{Average Excess Spending IP NPR per CMAD} * \text{CMAD}_t \end{aligned}$$

The Outpatient NPR per IAV at Target Formula:

$$\text{OP NPR per IAV at Target}_t = \text{OP NPR per IAV}_{t-1} * (1 + \text{Cost Target}_t)$$

The Average Excess Spending OP NPR per IAV Formula:

$$\begin{aligned} \text{Average Excess Spending OP NPR per IAV} \\ = (\text{OP NPR per IAV}_t - \text{OP NPR per IAV at Target}_t) \end{aligned}$$

The Initially Commensurate Outpatient NPR per IAV Penalty Formula:

$$\begin{aligned} \text{Initially Commensurate OP NPR per IAV Penalty}_t \\ = \text{Average Excess Spending OP NPR per IAV} * \text{IAV}_t \end{aligned}$$

The Initially Commensurate Combined Hospital Penalty Formula:

$$\begin{aligned} \text{Initially Commensurate Combined Hospital Penalty}_t \\ = \text{Initially Commensurate IP NPR per CMAD Penalty}_t \\ + \text{Initially Commensurate OP NPR per IAV Penalty}_t \end{aligned}$$

5.4 Physician Organization Calculations

The Attributed TME PMPY at Target Formula:

$$\text{Attributed TME PMPY at Target}_t = \text{Attributed TME PMPY}_{t-1} * (1 + \text{Cost Target}_t)$$

The Average Excess Spending Attributed TME Formula:

$$\begin{aligned} \text{Average Excess Spending Attributed TME} \\ = \text{Attributed TME PMPY}_t - \text{Attributed TME PMPY at Target}_t \end{aligned}$$

The Initially Commensurate Attributed TME Penalty Formula:

$$\text{Initially Commensurate Attributed TME Penalty}_t = \text{Average Excess Spending Attributed TME} * \text{Attributed Member}_t$$

5.5 Variables

Variable	Description
Payers	
Average Excess Spending TME	Average excess spending is calculated by subtracting the amount the payer would have spent if it had met the target from the actual spending for the performance year.
Average Excess Spending TNME	Average excess spending is calculated by subtracting the amount the payer would have spent for the category of TNME if the payer had met the target from the actual spending for the category of TNME for the performance year.
Initially Commensurate TME Penalty	This penalty amount is calculated by multiplying Average Excess Spending – TME by Members for the performance year. This figure represents the aggregate initially commensurate TNME penalty amount.
Initially Commensurate TNME Penalty	Average Excess Spending – TNME multiplied by Members for the performance year. This figure represents the aggregate initially commensurate TNME penalty amount.
Members	Member Months divided by 12, as defined in Section 2.
t	Identifies the spending year. It can be either “t,” the performance year, or “t-1,” the base year used to measure the change in performance year spending.
TME PMPY at Target	Prior year (“t-1”) TME PMPY multiplied by the target value for the performance year (t). This represents what spending would be for the payer if it had met the target
TNME PMPY at Target	Prior year (“t-1”) TNME PMPY multiplied by the target value for the performance year (t). This represents what spending would be for the category of TNME if the payer had met the target.
Physician Organizations	
Attributed Members	Attributed Member Months divided by 12, as defined in Section 4.
Attributed TME PMPY at Target	Prior year (“t-1”) Attributed TME PMPY multiplied by the target value for the performance year (t). This represents what spending would be for the physician organization if it had met the target
Average Excess Spending Attributed TME	Average excess spending is calculated by subtracting the amount the physician organization would have spent if it had met the target from the actual spending for the performance year.

Variable	Description
Initially Commensurate Attributed TME Penalty	Average Excess Spending multiplied by Attributed Members for the performance year. This figure represents the aggregate initially commensurate Attributed TME penalty amount.
Members	Member Months divided by 12, as defined in Section 2.
t	Identifies the spending year. It can be either “t,” the performance year, or “t-1,” the base year used to measure the change in performance year spending.
Hospitals	
Average Excess Spending IP NPR per CMAD	Average excess spending is calculated by subtracting the amount hospital inpatient unit spending would have been if the target had been met from the actual spending for the performance year.
Average Excess Spending OP NPR per IAV	Average excess spending is calculated by subtracting the amount hospital outpatient unit spending would have been if the target had been met from the actual spending for the performance year.
Case Mix Adjusted Discharges (CMAD)	Case Mix Adjusted Discharges as defined in Section 3.
Initially Commensurate Combined Hospital Penalty	Combines the inpatient and outpatient IC penalty amounts to arrive at combined hospital penalty amount.
Initially Commensurate Inpatient NPR per CMAD Penalty	Average Excess Spending – IP NPR per CMAD multiplied by CMADs for the performance year. This figure represents the aggregate initially commensurate Inpatient NPR per CMAD penalty amount.
Initially Commensurate Outpatient NPR per IAV Penalty	Average Excess Spending – Outpatient NPR per IAV Penalty for the performance year. This figure represents the aggregate initially commensurate Inpatient NPR per CMAD penalty amount.
IP NPR per CMAD at Target	Prior year (“t-1”) IP NPR per CMAD multiplied by the target value for the performance year (t). This represents what inpatient unit spending would be for the hospital if it had met the target.
Intensity Adjusted Outpatient Visits (IAV)	Intensity Adjusted Outpatient Visits as defined in Section 3.
Outpatient NPR per IAV at Target	Prior year (“t-1”) Outpatient NPR per IAV multiplied by the target value for the performance year (t). This represents what outpatient unit spending would be for the hospital if it had met the target.

Variable	Description
t	Identifies the spending year. It can be either “t,” the performance year, or “t-1,” the base year used to measure the change in performance year spending.