



Board of Administration

July 16, 2025

Item Name: Senate Bill 351 (Cabaldon) – Private Equity or Hedge Fund Ownership of Health Care Practices

Program: Legislative

Item Type: Action

Recommendation

Adopt a **Support** position for Senate Bill (SB) 351, as amended June 16, 2025.

Executive Summary

SB 351 codifies the Medical Board of California's (Medical Board) guidance on corporate practice of medicine (CPOM) to explicitly prohibit private equity (PE) groups or hedge funds (or entities fully or partially controlled by them) doing business in California from interfering with the professional judgment of physicians or dentists making health care decisions and exercising power over specified actions. The bill also voids contractual clauses that prevent health care and dental providers from competing with their former practice after leaving, or from commenting on a practice's quality of care, ethics or the financial practices of a PE group or hedge fund. Finally, SB 351 authorizes the Attorney General (AG) to seek injunctive relief for violations of these provisions and makes the provisions severable.

Strategic Plan

This item supports the California Public Employees' Retirement System (CalPERS) 2022-27 Exceptional Health Care Strategic Goal to ensure CalPERS members have access to equitable, high-quality, affordable health care.

Background

Ban on the Corporate Practice of Medicine

The CPOM defines the ways a physician may be employed, generally by a hospital or government or a for-profit or non-profit entity. The Medical Practice Act within the Business and Professions Code states that a person must have a valid license to practice medicine and that "[c]orporations and other artificial entities shall have no professional rights, privileges, or powers."¹ In turn, existing case law has determined through precedent that corporations are

¹ [Section 2400 of the Business and Professions Code](#)

prohibited from practicing medicine by employing physicians because corporations and other artificial entities cannot obtain medical licenses and are therefore not entitled to professional rights, privileges, or powers required to practice medicine.

The Medical Board has provided additional guidance on prohibitions against the CPOM, including guidance on health care decisions, business or management decisions and activities, and medical practice ownership and operating structures.

It states the following health care decisions made by a physician licensed in the State of California:

- Determining what diagnostic tests are appropriate for a particular condition;
- Determining the need for referrals to, or consultation with, another physician/specialist;
- Responsibility for the ultimate overall care of the patient, including treatment options available to the patient; and
- Determining how many patients a physician must see in a given period of time or how many hours a physician must work.

It also provides that the following business or management decisions and activities should also be made by a licensed California physician, and cannot be delegated:

- Ownership is an indicator of control of a patient's medical records, including determining the contents thereof, and should be retained by a California-licensed physician;
- Selection, hiring/firing (as it relates to clinical competency or proficiency) of physicians, allied health staff and medical assistants;
- Setting the parameters under which the physician will enter into contractual relationships with third-party payers;
- Decisions regarding coding and billing procedures for patient care services; and
- Approving of the selection of medical equipment and medical supplies for the medical practice.

It further specifies that the following types of medical practice ownership and operating structures are prohibited:

- Non-physicians owning or operating a business that offers patient evaluation, diagnosis, care and/or treatment;
- Physician(s) operating a medical practice as a limited liability company, a limited liability partnership, or a general corporation;
- Management service organizations arranging for, advertising, or providing medical services rather than only providing administrative staff and services for a physician's medical practice (non-physician exercising controls over a physician's medical practice, even where physicians own and operate the business); and
- A physician acting as "medical director" when the physician does not own the practice.

Guidance provided by the Medical Board was created to help ensure compliance with existing CPOM law. If a complaint is filed with the Medical Board, the Medical Board investigates and may issue an administrative citation or fine or pursue disciplinary action through the AG's Office.

Acquisition of Health Care Practices

According to an issue brief by the America's Health Insurance Plans (AHIP) in September 2022, "[o]ver the past decade, private equity acquisitions of health care companies have risen sharply. Estimated annual deal values have gone from \$41.5 billion in 2010 to \$119.9 billion in 2019, for

a total of approximately \$750 billion in just 10 years.” Similarly, the number of transactions between PE firms and physician practices rapidly increased from 75 deals in 2012 to 484 deals in 2021,² and the estimated annual deal value for PE-backed, physician practice acquisitions rose from about \$41.5 billion in 2010 to \$200 billion in 2021.

PE groups and hedge fund ownership can inject needed capital into struggling health care organizations, improve operational efficiencies, and leverage economies of scale to reduce administrative costs. However, these entities are known to employ additional tactics to generate profit from health care acquisitions. For instance, some firms capitalize on the growing demand for health care by consolidating practices, thereby reducing competition. Others leverage a health care organization’s assets, such as land and buildings, as collateral to secure loans to pay investors while saddling the practice with debt. Additionally, some sell off an acquired entities’ land, facilities or other assets, obligating health care organizations to pay rent to the new owners. It is also common practice for PE groups or hedge funds to ‘flip’ or sell acquired entities to new buyers.³ Overall, the potential upsides of PE group and hedge fund acquisitions in health care are outweighed by the downsides. Research has found that such acquisitions have contributed to rising health care costs and have been linked with reduced quality of care, lower patient satisfaction, and worse clinical quality and financial outcomes for acquired health care entities.^{4,5,6}

Prior Legislative History

Last year Assembly Bill (AB) 3129 (Wood) would have authorized the AG to consent to, give conditional consent to, or decline consent to a transaction between a PE group or hedge fund and a health care facility, provider group, or provider. AB 3129 also included provisions to reinforce existing prohibitions on the CPOM for PE groups and hedge funds and bar non-compete clauses. In June of 2024, the CalPERS Board of Administration adopted a Support position on AB 3129, if amended to expand the AG’s oversight to include additional types of mergers and acquisitions. Governor Newsom vetoed AB 3129, stating that the Office of Health Care Affordability (OCHA) “was created as the responsible state entity to review proposed health care transactions, and it would be more appropriate for the OHCA to oversee these consolidation issues as it is already doing much of this work.”⁷

Analysis

SB 351 does the following:

- Defines “hedge fund” to mean a pool of funds managed by investors for the purpose of earning a return regardless of the strategies used to manage the funds.

² https://www.antitrustinstitute.org/wp-content/uploads/2023/07/AAI-UCB-EG_Private-Equity-I-Physician-Practice-Report_FINAL.pdf

³ <https://www.commonwealthfund.org/publications/explainer/2023/nov/private-equity-role-health-care>

⁴ *Private Equity in Health Care: Prevalence, Impact, and Policy Options for California and the US*. California Health Care Foundation. May 2024. <https://www.chcf.org/wp-content/uploads/2024/05/PrivateEquityPrevalenceImpactPolicy.pdf>

⁵ *What Happens When Private Equity Takes Over a Hospital*. Harvard Medical School. December 26, 2023. <https://hms.harvard.edu/news/what-happens-when-private-equity-takes-over-hospital>

⁶ Evaluating trends in private equity ownership and impacts on health outcomes, costs, and quality: systematic review. BMJ. 2023. <https://www.bmj.com/content/382/bmj-2023-075244>

⁷ [AB 3129 \(Wood\) - veto message](#)

- Hedge funds include, but are not limited to, a pool of funds managed or controlled by private limited partnerships.
- Defines “private equity group” to mean an investor or group of investors who primarily engage in the raising or returning of capital and who invest, develop, or dispose of specified assets.
- Excludes the following from the definition of “hedge fund” or “private equity group”:
 - Natural persons or entities that contribute, or promise to contribute, funds to the hedge fund or PE group, but otherwise do not participate in the management of the hedge fund or PE group or their assets, or in any change in control of the hedge fund or PE group or their assets.
 - A hospital or a hospital system that owns one or more licensed general acute care hospitals, as defined in subdivision (a) of Section 1250; an affiliate, as defined in Section 150 of the Corporations Code, of a hospital or hospital system; or any entity managed or controlled by a hospital or hospital system.
- “Hedge fund” also excludes entities that solely provide or manage debt financing secured in whole or in part by the assets of a health care facility, including, but not limited to, banks and credit unions, commercial real estate lenders, bond underwriters, and trustees.
- Prohibits a PE group or hedge fund involved in any manner with a physician or dental practice doing business in California from doing the following with respect to that practice:
 - Interfering with the professional judgment of physicians or dentists in making health care decisions, including:
 - Determining what diagnostic tests are appropriate for a particular decision.
 - Determining the need for referrals to, or consultation with, another physician, dentist, or licensed health professional.
 - Being responsible for the ultimate overall care of a patient, including treatment options available to the patient.
 - Determining how many patients a physician or dentist shall see in a given period of time or how many hours a physician or dentist shall work.
 - Exercising control over, or being delegated the power to do, any of the following:
 - Owning or otherwise determining the content of patient medical records.
 - Selecting, hiring, or firing physicians, dentists, allied health staff, and medical assistants based on clinical competency or proficiency.
 - Setting the parameters under which a physician, dentist, or physician or dental practice shall enter contractual relationships with third-party payers.
 - Setting the clinical competency or proficiency parameters under which a physician or dentist shall enter contractual relationships with other physicians or dentists for the delivery of care.
 - Making decisions regarding the coding and billing of procedures for patient care services.
 - Approving the selection of medical equipment and medical supplies for the physician or dental practice.
- Specifies that the corporate form of that practice as a sole proprietorship, a partnership, a foundation, or a corporate entity does not affect the applicability of this bill.

- Prohibits a PE group or hedge fund, or an entity controlled directly, in whole or part, by a PE group or hedge fund from entering into an agreement or arrangement with a physician or dental practice doing business in California that would enable them to interfere with the professional judgement of physicians or dentists in making health care decisions or exercising control over or being delegated powers, as specified.
- Prohibits any contract involving the management of a physician or dental practice doing business in California from explicitly or implicitly including any clause barring a provider in that practice from competing with the practice in the event of a termination or resignation of the provider from the practice, or from disparaging, opining, or commenting on the practice regarding quality of care, utilization of care, ethical or professional challenges in the practice of medicine or dentistry, or revenue-increasing strategies employed by a PE group or hedge fund.
- Authorizes the AG to have injunctive relief and other equitable remedies a court deems appropriate for enforcement of these provisions and entitles the AG to recover attorney's fees and costs incurred in remedying any violation of these provisions.
- Specifies that these provisions:
 - Ensure clinical decision-making and treatment are exclusively in the hands of licensed health care providers and safeguards against non-licensed individuals or entities, such as PE groups and hedge funds, exerting influence or control over care delivery.
 - Do not narrow, abrogate, or otherwise lower the bar on corporate practice of medicine or dentistry set forth in the Business and Professions Code or the Corporations Code, or any other applicable state or federal law.
 - Do not prohibit an unlicensed person or entity from assisting, or consulting with, a physician or dental practice doing business in California, provided that the physician or dentist retains the ultimate responsibility for, or approval of, those decisions and activities.

Author's Intent

According to the author,

"Over the past decade the health care industry has seen a significant increase of PE investors. In 2022, PE firms completed around 863 healthcare-related service deals. Over 90% of PE deals go without review due to the lack of regulation in PE investments.

...

"SB 351 strengthens the current ban on the Corporate Practice of Medicine by granting the Attorney General (AG) the authority to take legal action against private equity groups and hedge funds (PE) that interfere with or exert control over medical practices. The AG's oversight will ensure that healthcare decisions are made exclusively between patients and their physicians."

Strengthens Enforcement of CPOM Improving Provider Autonomy

Currently, violations of the CPOM doctrine in physician and dental practices are primarily enforced by the Medical Board, the Osteopathic Medical Board of California, or the Dental

Board of California. Enforcement can result in an administrative citation or fine or referral to the AG's Office for disciplinary action.

This bill strengthens enforcement by making CPOM guidelines explicit in law and granting the AG authority to directly seek injunctive relief when a PE group or hedge fund interferes with the health care decisions of a physician or dentist. This enhanced enforcement should give physicians and dentists more autonomy over their medical decisions leading to better health care outcomes and ultimately long-term cost savings.

Limited Impact on PE and Hedge Fund Investments

This bill does not prohibit PE groups and hedge funds from investing in physician and dental practices, but merely codifies the Medical Board's long-standing guidance on CPOM. PE groups and hedge funds are familiar with these limitations and should already have mechanisms in place to ensure compliance with the rules. While codifying this guidance with AG enforcement could increase a PE group and hedge fund's compliance and litigation risk, in most cases there should be little or no material impact to their current or future investments.

Registered Support and Opposition

Support:

California Medical Association (Co-sponsor), California Dental Association (Co-sponsor), American Academy of Emergency Medicine, American College of Obstetricians & Gynecologists - District IX, Attorney General Rob Bonta, California Association of Orthodontists, California Chapter of the American College of Emergency Physicians, California Independent Physician Practice Association, California Orthopedic Association, California Physicians Alliance, California Retired Teachers Association, California State Council of Service Employees International Union (SEIU California), California State Retirees, Coalition for Patient-centered Care, Private Equity Stakeholder Project, Retired Public Employees Association, San Francisco Marin Medical Society

Opposition:

American Investment Council (Oppose, Unless Amended)

Budget and Fiscal Impacts

Benefit Costs:

- To the extent this bill improves provider autonomy resulting in better medical decisions and health care outcomes, there could be long-term cost savings.

Administrative Costs:

- No additional costs or savings to CalPERS.

Benefits and Risks

Benefits:

- Preserves physician and dentist control over their practices and their health care decisions by limiting interference from private equity and hedge funds.

- Enhances patient care and health outcomes by prioritizing medical expertise over financial interests.

Risks:

- PE group and hedge fund investors may view these provisions as additional barriers to investing in health care in California.

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