

Date of Hearing: April 21, 2026

ASSEMBLY COMMITTEE ON BUSINESS AND PROFESSIONS

Marc Berman, Chair

AB 2311 (Schiavo) – As Introduced February 19, 2026

NOTE: This bill is double referred and previously passed the Assembly Committee on Health on a 14-0-2 vote.

SUBJECT: Health care districts: employment.

SUMMARY: Allows general acute care hospitals owned or controlled by a health care district to directly employ physicians and surgeons and charge for their professional services as an exemption from the corporate practice of medicine (CPOM) doctrine.

EXISTING LAW:

- 1) Establishes the Medical Board of California (MBC) within the Department of Consumer Affairs (DCA) to license and regulate physicians and surgeons under the Medical Practice Act. (Business and Professions Code (BPC) §§ 2000 *et seq.*)
- 2) Establishes the Osteopathic Medical Board of California (OMBC) within the DCA to license and regulate physicians and surgeons under the Osteopathic Act. (BPC §§ 2450 *et seq.*)
- 3) Provides that provisions of the Medical Practice Act apply to the OMBC to the extent they are consistent with the Osteopathic Act, unless otherwise provided. (BPC § 2452)
- 4) Provides that it is a criminal offense for any person to practice medicine or advertise themselves as practicing medicine within the scope of the Medical Practice Act without a valid license as a physician and surgeon. (BPC § 2052)
- 5) Provides that corporations and other artificial legal entities shall have no professional rights, privileges, or powers, which forms the statutory basis of the CPOM doctrine. (BPC § 2400)
- 6) Establishes exceptions to the CPOM doctrine allowing for the following facilities to employ licensees and charge for professional services, while prohibiting those entities from interfering with, controlling, or otherwise directing professional judgment:
 - a) Public or nonprofit medical school clinics operated primarily for medical education;
 - b) Nonprofit clinics that have been conducting medical research since prior to 1982;
 - c) Narcotic treatment programs regulated by the Department of Health Care Services;
 - d) Charitable hospitals that provide only pediatric subspecialty care;
 - e) Federally certified critical access hospitals.

(BPC § 2401)

- 7) Authorizes dental corporations to render professional services in compliance with the Moscone-Knox Professional Corporation Act. (BPC § 1800 *et seq.*)
- 8) Enacts the Moscone-Knox Professional Corporation Act, which authorizes the creation of professional corporations engaged in rendering professional services requiring a license. (Corporations Code §§ 13400 *et seq.*)
- 9) Enacts the Knox-Keene Health Care Service Plan Act, which authorizes licensed health care service plans to employ or contract with physicians and surgeons and other licensed health care professionals to provide professional services, provided that the fiscal and administrative management of the health plan demonstrates that it does not hinder medical decisions rendered by licensed health care professionals. (Health and Safety Code §§ 1340 *et seq.*)

THIS BILL:

- 1) Authorizes a health care district, or a nonprofit corporation with a health care district as its sole corporate member, that owns or controls a general acute care hospital to employ licensed physicians and surgeons and charge for professional services rendered by those licensees.
- 2) Provides that the health care district shall not interfere with, control, or otherwise direct the professional judgment of a physician and surgeon.

FISCAL EFFECT: Unknown; this bill is keyed fiscal by the Legislative Counsel.

COMMENTS:

Purpose. This bill is sponsored by the *Association of California Healthcare Districts*. According to the author:

The passage of H.R. 1 will result in deep cuts to Medi-Cal patients across California. As a result, physicians contracting with high Medi-Cal volume employers face substantial revenue losses, rendering district hospitals even less competitive as employment options. Despite being the sole or closest source of health and medical services for many families and seniors, district hospitals are the only public hospitals not allowed to directly employ physicians. AB 2311 will allow wholly owned and operated public hospitals to directly hire physicians, a tool currently available to every other public hospital, FQHCs and academic medical center.

Background.

Corporate Practice of Medicine Doctrine. The CPOM doctrine broadly prohibits corporations from being licensed as health care professionals, directly employing health care professionals, or exercising control over the decision-making of licensed health care professionals in a manner that interferes with or directs their independent professional judgment. The fundamental concept of the CPOM doctrine has long been recognized by policymakers and courts in California. In 1932, for example, the California Supreme Court ruled in *Painless Parker v. Board of Dental Examiners* that a dental office corporation was in violation of license requirements under the Dental Practice Act, with the following reasoning as to why only natural persons may be licensed to practice health care:

Dentistry is referred to in the Dental Act as a profession. The letter of the statute authorizes persons only to engage in the practice of dentistry. The underlying theory upon which the whole system of dental laws is framed is that the state's licensee shall possess consciousness, learning, skill and good moral character, all of which are individual characteristics, and none of which is an attribute of an artificial entity. Surely the state, for the better regulation of the practice of dentistry, and as a means of preventing evasions of the law, and with the object of more readily fixing statutory responsibility, has the power to limit such practice to natural persons.

The California Supreme Court's 1932 opinion additionally declared: "That a corporation may not engage in the practice of the law, medicine or dentistry is a settled question in this state."¹ Subsequent court decisions, such as in *People v. Pacific Health Corp.*, reaffirmed this holding. However, there has historically been minimal statutory law expressly governing the application of the CPOM ban. Instead, the doctrine has largely been established through further caselaw and legal opinions by attorneys general interpreting the application of laws prohibiting the unlicensed practice of medicine and other healing arts and restricting licensure to natural persons.

The Medical Practice Act has long stated the following: "Corporations and other artificial legal entities shall have no professional rights, privileges, or powers." Frequently cited in combination with provisions of practice acts reserving professional services for persons in possession of a license, this language represents the most express statutory recognition of the CPOM doctrine. However, statute further provides for various exceptions to the doctrine to allow for corporations to render professional services, including through direct employment of licensed practitioners.

For example, the Medical Practice Act authorizes the MBC to grant approval of the employment of licensees on a salary basis by licensed charitable institutions, foundations, or clinics that do not charge patients for services. Over time, legislation has been enacted to further allow for the following specified facilities to employ health care professionals under certain conditions:

- Public or nonprofit medical school clinics operated primarily for medical education;
- Nonprofit clinics that have been conducting medical research since prior to 1982;
- Narcotic treatment programs regulated by the Department of Health Care Services;
- Charitable hospitals that provide only pediatric subspecialty care;
- Federally certified critical access hospitals.

Additionally, the courts have ruled that the CPOM doctrine does not apply to agencies within the State of California or to counties, reasoning that the government is not a corporation.² As a result, while not expressly authorized by statute, county hospitals may directly employ health care professionals, as can state agencies such as the Department of State Hospitals. The courts have similarly recognized that the University of California is exempt from the CPOM doctrine.³

¹ *Painless Parker v. Board of Dental Examiners*, 216 Cal. 285 (1932).

² *Estate of Miller*, 5 Cal. 2d 588 (1936).

³ *California Medical Association v. Regents of the University of California*, 79 Cal. App. 4th 542 (2000).

Even in instances where the law allows for the direct employment of health care professionals, corporations are still generally prohibited from unduly influencing the judgment of licensees. Similar language is contained in the various CPOM exemptions within the Medical Practice Act to require that facilities “not interfere with, control, or otherwise direct a physician and surgeon’s professional judgment.” Statute enacted following the judicial decision in *Wickline v. State of California* further protects health care practitioners against retaliation for advocating for appropriate health care for their patients, including in an employment context.

Professional Corporations. While the CPOM doctrine generally prohibits corporations from owning or controlling health care practices, the Legislature has established a commonly utilized framework to allow for the formation of professional corporations. Under the Moscone-Knox Professional Corporations Act, physicians, dentists, and other health care professionals may join together to form a corporation authorized to render professional services requiring a license. A majority of the professional corporation’s shareholders must be licensed to provide the services rendered by the corporation. The Moscone-Knox Professional Corporations Act specifies which professionals may also be shareholders in a professional corporation, provided they remain a minority of the ownership. Current law authorizes professional corporations to be established to provide the respective services of physicians and surgeons, dentists, podiatrists, psychologists, speech-language pathologists, audiologists, nurses, marriage and family therapists, licensed clinical social workers, physician assistants, optometrists, chiropractors, acupuncturists, naturopathic doctors, professional clinical counselors, physical therapists, registered dental hygienists in alternative practice, licensed midwives, and occupational therapists.

Management Services Organizations. A common architecture for health care practices involves a partnership between a professional corporations and management services organization (MSO). An MSO is a corporate entity that provides administrative and business support services to medical practices that are non-clinical in compliance with the CPOM doctrine. Services provided by an MSO may include billing, human resources, and office management. An MSO may enter into a management services agreement with a professional corporation to provide what is sometimes referred to as “back office” functions for the medical practice.

Because an MSO is not engaged in the rendering of licensed professional services, it is not subject to the restrictions of the Moscone-Knox Professional Corporations Act and its shareholders and officers are not required to be licensees. As a result, MSOs may represent investment opportunities for private equity groups and hedge funds. Research anticipates that the value of the national MSO market will exceed \$100 billion by 2030.⁴

Enforcement of the CPOM Doctrine. Under current law, violations of the CPOM doctrine are generally enforceable as unlicensed practice by the appropriate licensing board for the respective profession. The MBC is the primary entity responsible for taking action when a corporation is unlawfully involved in the practice of medicine by physicians and surgeons. The MBC has published guidance on its website to educate licensees on “the types of behaviors and subtle controls that the corporate practice doctrine is intended to prevent.”⁵

⁴ *Management Service Organization Market Size, Share & Trends Analysis Report*. Grand View Research, 2023.

⁵ <https://www.mbc.ca.gov/Licensing/Physicians-and-Surgeons/Practice-Information>

As stated in the MBC's guidance, the CPOM doctrine requires the following health care decisions to be made by a licensed physician and surgeon, and would therefore constitute the unlicensed practice of medicine if performed by an unlicensed person, including a corporation:

- 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.

The MBC's guidance additionally describes the types of "business" or "management" decisions and activities that must be made by a licensed physician, not by an unlicensed person or entity:

- 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.

The MBC's website further explains that the types of decisions and activities described in its guidance cannot be delegated to any unlicensed person, including to an MSO. Per the MBC, a physician may consult with unlicensed persons or entities, such as MSOs, in making "business" or "management" decisions, but the physician must retain the ultimate responsibility for, or approval of, those decisions. Finally, the MBC's guidelines outlines several types of medical practice ownership and operating structures that are prohibited under the CPOM doctrine, including MSOs "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)." As explained by the MBC, in cases where non-physicians act in violation of the CPOM doctrine, the physician may themselves be aiding and abetting the unlicensed practice of medicine.

Health Care District Hospitals. The Legislature enacted the Local Hospital District Law in 1945, which authorized residents to form special districts with taxing authority to build and operate hospitals where private investment was considered insufficient. As a distinct form of local government, each health care district is governed by a locally elected board of directors responsible for fiscal and operational oversight. Currently, 77 health care districts have been established, of which 33 own and operate hospitals.

According to a report by the Legislative Analyst's Office (LAO), many health care districts have experienced significant fiscal issues, with a number of health care districts filing for bankruptcy between 2000 and when the report was published in 2012.⁶ In 2017, the Assembly Committee on Local Government held an informational hearing on the topic, by which time the number of health care districts that had filed for bankruptcy had risen to 14. However, some health care districts have historically been more well-funded. The Assembly Committee on Accountability and Administrative Review previously conducted several hearings on the topic in which some health care districts were criticized for not operating hospitals yet maintaining significant reserve balances.

Representatives of the state's health care districts have frequently cited challenges with competing with private hospitals and other nonpublic health facilities as a significant concern. While financial pressures like growing workforce costs and infrastructure maintenance impact all providers of health care, health care districts typically lack the benefit of scale that often enables larger systems to remain competitive in an increasingly consolidated health care market. Health care district hospitals have reported difficulties specifically attracting and recruiting specialists like OBGYNs and cardiologists. Meanwhile, recent federal actions will likely result in substantial cuts to Medi-Cal, which health care district hospitals have grown increasingly dependent on for revenue.

This bill would establish an exemption from the CPOM doctrine for health care district hospitals by allowing district hospitals to directly employ and charge for professional services rendered by licensed physicians and surgeons. District hospitals are currently the only public hospitals not allowed to directly employ physicians. Existing law already exempts critical access hospitals, which includes an estimated 17 hospitals owned and operated by health care districts. This bill would allow for the remaining 16 district hospitals to take advantage of the same exemption to the CPOM doctrine as other public hospitals, which the author contends will allow them to more successfully compete with large and for-profit systems by enabling them to offer attractive salaries, benefits, and schedules for physician employees.

Prior Related Legislation. SB 784 (Becker) of 2023 would have exempted health care district hospitals from the CPOM doctrine, enabling these hospitals to directly employ physicians. *This bill was held in the Senate Committee on Appropriations.*

AB 242 (Wood), Chapter 641, Statutes of 2023 permanently authorized a federally certified critical access hospital to employ physicians as an exception to the CPOM doctrine.

AB 2024 (Wood), Chapter 496, Statutes of 2016 established the exception to the CPOM doctrine to allow federally certified critical access hospitals to employ physicians until January 1, 2024.

SB 1274 (Wolk), Chapter 793, Statutes of 2012 authorized a hospital that is owned and operated by a charitable organization and offers only pediatric subspecialty care to begin billing health carriers for physician services rendered, notwithstanding the CPOM doctrine.

AB 824 (Chesbro) of 2012 would have established a pilot project to permit certain rural hospitals to directly employ physicians and surgeons. *This bill did not receive a hearing in the Assembly Committee on Health.*

⁶ *Overview of Health Care Districts in California.* California Legislative Analyst's Office, 2012.

AB 648 (Chesbro) of 2009 would have established a demonstration project to permit rural hospitals whose service area includes a medically underserved or federally designated shortage area to directly employ physicians and surgeons. *This bill failed passage in the Senate Committee on Business, Professions and Economic Development.*

AB 646 (Swanson) of 2009 would have permitted health care districts and certain public hospitals, independent community nonprofit hospitals, and clinics to directly employ physicians and surgeons. *This bill failed passage in the Senate Committee on Business, Professions and Economic Development.*

SB 726 (Ashburn) of 2009 would have revised and extended the MBC pilot project that allows qualified district hospitals to employ a physician, if the hospital does not interfere with, control, or otherwise direct the professional judgment of the physician. *This bill failed passage in the Senate Committee on Business, Professions and Economic Development.*

AB 1944 (Swanson) of 2008 would have allowed health care districts to employ a physician. *This bill failed passage in the Senate Committee on Health.*

SB 1294 (Ducheny) of 2008 would have expanded the pilot project enabling health care districts to directly employ physicians. *This bill failed passage in the Assembly Committee on Appropriations.*

SB 376 (Chesbro), Chapter 411, Statutes of 2003 authorized, until January 1, 2011, a hospital owned and operated by a health care district meeting specified criteria to employ a physician, and to charge for professional services rendered by the physician.

ARGUMENTS IN SUPPORT:

The *Association of California Healthcare Districts (ACHD)* is the sponsor of this bill. The ACHD writes: “Currently, district hospitals are the only public hospitals in the State that cannot directly employ physicians. Of the 33 wholly owned and operated districts hospitals, 17 already have access to this tool through their critical access designation. The remaining district hospitals, however, must rely on contracting with physician groups, or individual doctors to provide care. As a result, district hospitals are forced to compete in competitive labor markets without the tools necessary to do so. Specifically, AB 2311 would allow district hospitals to employ physicians directly with clear guardrails preventing any interference with clinical judgement.”

ARGUMENTS IN OPPOSITION:

The *California Medical Association* opposes this bill, writing: “California established the CPOM ban to protect patients against corporate or institutional influence over clinical decision-making. These longstanding protections ensure that decisions about a patient’s care remain between the patient and their treating physician—not hospital administrators, governing boards, or financial officers whose responsibilities may include balancing budgets or responding to political pressures. AB 2311 would create a new and permanent exemption to these vital protections by allowing health care districts and nonprofit corporations controlled by a health care district to directly employ physicians and charge for professional services. California law has long limited such arrangements to preserve physician independence and prevent institutional interests from influencing medical decisions and clinical judgment.”

POLICY ISSUE(S) FOR CONSIDERATION:

Potential Addition of a Sunset Date. Legislation enacted in 2003 previously authorized certain hospitals owned and operated by health care districts to directly employ physicians and surgeons. However, that bill contained a sunset date that was not subsequently extended, resulting in repeal of the law on January 1, 2011. More recent legislation enacted in 2016 authorized federally certified critical access hospitals, including some district hospitals, to directly employ physicians and surgeons. That bill also included a sunset date, which the Legislature subsequently struck to permanently extend the exemption.

Despite proposing to enact similar language to prior legislation, this bill does not currently include a sunset date. Given that the Legislature appears to have acted deliberatively in determining whether exemptions from the CPOM doctrine should be retained, the author may wish to add a sunset date to this bill consistent with prior legislation. The author may further wish to consider including some form of reporting requirement to inform the Legislature when considering whether to extend the exemption.

REGISTERED SUPPORT:

Association of California Healthcare Districts (*Sponsor*)
Alzheimer's Association
Antelope Valley Healthcare District
California Hospital Association
California Special Districts Association
Community Services Agency
Del Puerto Health Care District
Desert Healthcare District and Foundation
District Hospital Leadership Forum
El Camino Health
Fallbrook Healthcare District
Health Petaluma District & Foundation
Imperial Valley Healthcare District
Kaweah Health
Lompoc Healthcare District
Northern Inyo Healthcare District
Palomar Health
Plumas District Hospital
Ravenswood Family Health Network
Salinas Valley Health
Santa Clara Family Health Plan
Sierra View Medical Center
Soledad Community Health Care District
Sonoma Valley Health Care District
Washington Healthcare District
One individual

REGISTERED OPPOSITION:

California Chapter of the American College of Emergency Physicians
California Medical Association

California Orthopedic Association
California Radiological Society
California Society of Pathologists

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