SENATE COMMITTEE ON APPROPRIATIONS
Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

AB 2311 (Schiavo) - Health care districts: employment

Version: July 2, 2026
Policy Vote: B., P. & E.D. 10 - 0, HEALTH 10 - 0
Urgency: No
Mandate: No
Hearing Date: August 3, 2026
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Bill Summary: AB 2311 provides, until January 1, 2037, an exemption from the ban on the corporate practice of medicine (CPM) for specified healthcare districts and affiliated nonprofit corporations that operate general acute care hospitals, subject to certain conditions.

Fiscal Impact:
- The Medical Board of California (MBC) estimates costs of $178,000 in Fiscal Year (FY) 2026-27, $179,000 in FY 2027-28, and $205,000 annually ongoing, which is anticipated to be absorbable (MBC Contingent Fund). This estimate covers the workload to update outreach materials, web content, and staff training, alongside supervisory, legal, and IT review. While the exact magnitude of any additional enforcement workload is unknown, it is expected to be absorbable assuming 100 complaints and five Health Quality Investigation Unit and Attorney General cases annually.

- The Osteopathic Medical Board of California (OMBC) does not anticipate a fiscal impact (OMBC Contingent Fund).

Background: California continues to maintain significant restrictions on the CPM, a doctrine intended to preserve physician independence and prevent non-physicians from exercising undue influence over medical decision-making. CPM is usually referred to in the context of a prohibition, banning hospitals from employing physicians. The ban on CPM evolved in the early 20th century when mining companies had to hire physicians directly to provide care for their employees in remote areas. However, problems arose when physicians' loyalty to the mining companies conflicted with patients' needs. Eventually, physicians, courts, and legislatures prohibited CPM, in an effort to preserve physicians' autonomy and improve patient care.

Over time, the Legislature and courts have recognized a number of exceptions to the CPM doctrine. As noted by the California Research Bureau (CRB) in a 2007 report, California's CPM doctrine has evolved through a combination of court decisions, Attorney General opinions, and statutory exceptions, resulting in a framework that permits physician employment in certain settings while maintaining restrictions in others. The report observed that professional medical corporations may employ physicians and operate on a for-profit basis, despite concerns about commercial influence having been one of the original rationales for the CPM doctrine.

A subsequent 2016 CRB report noted that California's health care delivery system had changed substantially since the doctrine was first developed. The report highlighted the significant expansion of health insurance coverage following implementation of the federal Affordable Care Act and observed that increased demand for health care services had not been accompanied by a comparable increase in the supply of health care practitioners. The report suggested that policymakers evaluate whether existing safeguards adequately protect physician autonomy, assess the costs and benefits of current physician-hospital alignment models, and consider whether additional data would assist in evaluating the continued application of CPM restrictions.

Proposed Law:

- Until January 1, 2037, 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 physicians and charge for professional services rendered by those physicians if the following conditions are met:
    - The hospital is a licensed acute care hospital and satisfies either of the following conditions:
        - Was awarded a loan under the Distressed Hospital Loan Program before January 1, 2025.
        - Has a combined Medicare and Medi-Cal payor mix greater than 75 percent, as determined using the adjusted patient days from the Department of Health Care Access and Information (HCAI) annual financial disclosure report, and as recorded and calculated as of January 1, 2025, pursuant to HCAI guidance. For purposes of qualifying based on payor mix, both the hospital and its affiliated healthcare system are required to have a payor mix greater than 75 percent.
    - The medical staff concur that the physician’s employment is in the best interest of the communities served by the hospital.
    - The health care district or nonprofit corporation must not interfere with, control, or otherwise direct the professional judgment of a physician.
    - The physicians employed by the health care district or nonprofit corporation must be in addition to, and must not supplant, any physicians providing professional services as a member of the medical staff at any hospitals owned or controlled by the health care district or nonprofit corporation, as of January 1, 2026.
    - The health care district or nonprofit corporation must affirmatively offer a physician who is a prospective employee the option to contract with the facility in lieu of employment.
- Specifies that, beginning January 1, 2028, a health care district or nonprofit corporation, that is employing physicians and charging for professional services rendered by those physicians must publish a report on or before July 1 of each year

that includes data about the ability of general acute care hospitals under the health care district's or nonprofit corporation's ownership and control to recruit and retain physicians during the prior year, as well as the total number of physicians and surgeons recruited and retained to date since January 1, 2027, reported separately by employment and contracted positions.

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