Office of Senate Floor Analyses
(916) 651-4171

THIRD READING

Bill No: AB 2311
Author: Schiavo (D), et al.
Amended: 8/13/26 in Senate
Vote: 21

SENATE BUS., PROF. & ECON. DEV. COMMITTEE: 10-0, 6/15/26
AYES: Wahab, Choi, Archuleta, Arreguín, Caballero, Grayson, Niello, Smallwood-Cuevas, Strickland, Umberg
NO VOTE RECORDED: Menjivar

SENATE HEALTH COMMITTEE: 10-0, 7/1/26
AYES: Weber Pierson, Valladares, Caballero, Durazo, Gonzalez, Grove, Menjivar, Padilla, Pérez, Smallwood-Cuevas
NO VOTE RECORDED: Rubio

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26
AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 75-1, 5/26/26 - See last page for vote

**SUBJECT:** Health care districts: employment

**SOURCE:** Association of California Healthcare Districts

**DIGEST:** This bill authorizes specified health care districts or nonprofit corporations with a health care district as sole corporate member to employ physicians and charge for professional services, with protections against interfering with physician judgment.

**ANALYSIS:**

Existing law:

1) States that corporations and other artificial legal entities shall have no professional rights, privileges, or powers except as expressly authorized

by law. Authorizes the Medical Board of California (MBC), under specified circumstances, to approve the employment of physicians and surgeons by certain charitable institutions, foundations, or clinics. (Business and Profession Code (BPC) § 2400)

2) Establishes exceptions to the ban on the corporate practice of medicine (CPM), thereby allowing certain types of facilities to employ physicians (BPC § 2401)

3) Establishes protections against retaliation for health care practitioners who advocate for appropriate health care for their patients pursuant to *Wickline v. State of California* (192 Cal. App. 3d 1630). (BPC § 510)

4) Authorizes, under the Knox-Keene Health Care Service Plan Act of 1975, licensed health care service plans to employ or contract with health care professionals, including physicians, to deliver professional services, and requires health plans to demonstrate that medical decisions are rendered by qualified medical providers unhindered by fiscal and administrative management. Provides in regulation that the organization of a health plan must include separation of medical services from fiscal and administrative management. (Health and Safety Code §§ 1340 *et seq.*)

This bill:

1) Authorizes, until January 1, 2037, 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:

   a) The hospital is a licensed acute care hospital, and was either awarded a loan under the Distressed Hospital Loan Program before January 1, 2025 or the hospital 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 annual financial disclosure report, and as recorded and calculated as of January 1, 2025, pursuant to the Department of Health Care Access and Information guidance.

   b) The health care district or nonprofit corporation must not interfere with, control, or otherwise direct the professional judgment of a physician.

c) 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.

d) 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.

2) 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.

**Background**

California continues to maintain significant restrictions on the corporate practice of medicine (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.

*Health Care District and Rural Hospital Physician Employment Efforts.* In 2003, the Legislature enacted SB 376 (Chesbro, Chapter 411, Statutes of 2003), establishing a pilot project that authorized certain qualifying hospital districts to directly employ physicians. The measure was intended to assist rural and medically underserved communities in recruiting and retaining physicians while evaluating whether direct physician employment raised concerns regarding physician autonomy or patient protection.

Between 2008 and 2011, the Legislature considered several measures that would have extended or expanded the district hospital physician-employment pilot or authorized additional categories of hospitals to employ physicians directly. These proposals generally sought to address physician recruitment and retention challenges in rural and medically underserved communities but were not enacted. In 2016, the Legislature enacted AB 2024 (Wood, Chapter 496, Statutes of 2016), authorizing federally certified critical access hospitals (CAHs) to employ physicians and surgeons directly and bill for professional services rendered by those physicians. Subsequently, AB 242 (Wood, Chapter 551, Statutes of 2023) permanently extended that authority, reflecting the Legislature's continued recognition that targeted physician-employment models may assist hospitals serving rural and underserved communities while preserving safeguards for physician professional judgment.

More recently, California has continued to evaluate the relationship between physician autonomy and organizational structures in health care delivery. Recent legislation addressing physician practice management and private-equity involvement in health care reflects an ongoing interest in ensuring that business arrangements do not interfere with independent clinical decision-making while supporting access to care and health system sustainability.

This bill proposes a targeted physician-employment authorization for specified health care districts and affiliated nonprofit entities operating hospitals while retaining statutory protections intended to preserve independent medical judgment and patient care.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: No

According to the Sente Committee on Appropriations, 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 and the Osteopathic Medical Board of California does not anticipate a fiscal impact.

**SUPPORT:** (Verified 8/19/26)

Association of California Healthcare Districts (source)
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

**OPPOSITION:** (Verified 8/19/26)

California Chapter of the American College of Emergency Physicians
California Orthopedic Association
California Radiological Society
California Society of Pathologists
El Camino Health
Santa Clara Family Health Plan

**ARGUMENTS IN SUPPORT:** Supporters write that AB 2311 is a modest approach to allow public district hospitals to effectively recruit and retain providers to their facilities, giving a small number of public hospitals a tool that has proven to be effective. Supporters note that California is one of only five states that still interprets the Ban on the Corporate Practice of Medicine Doctrine to include a prohibition on direct employment of physicians. According to supporters, the ability to employ physicians would allow public hospitals to attract specialty providers that otherwise may not reach our communities through physician groups. Employment or similar models are extremely attractive to graduates coming out of residency or doctors that practice in other states. Allowing district hospitals the opportunity to offer set salaries, generous benefits, set schedules, and align with the model of 45 states will make serving in public settings more attractive.

**ARGUMENTS IN OPPOSITION:**

El Camino Health notes that "As introduced, the bill will allow 16 public hospital districts to employ physicians directly, a tool public University of California hospitals, county hospitals, and Critical Access district hospitals already use effectively. A July 1 amendment in Senate Health removed three of those 16, including El Camino Health." El Camino Health states that eligibility to a hospital's public payer mix on one date is arbitrary, since this moves every year, noting that one excluded hospital "sits at 74 percent, a single point under the threshold, with no path to ever requalify. A qualifying hospital was as low as 70 percent a few years earlier. A one-point, one-day miss should not permanently decide who gets this tool." According to El Camino Health, the precedent is bad for every future workforce bill and notes that "59 of California's 62 public hospitals get the choice of direct physician employment; three do not, based on a payer-mix snapshot, not mission, governance, or community need."

Santa Clara Family Health Plan notes that for Medi-Cal managed care plans such as itself, "a strong safety-net provider network is critical. Many of our members depend on public hospitals and community-based providers for primary care, specialty care, and hospital services. Workforce shortages in these settings can lead to delays in care, reduced service availability, and increased strain on the broader health system. As amended, AB 2311 excludes our network hospital, El Camino Health, from a change that would help address these workforce issues in our service area."

The California Chapter of the American College of Emergency Physicians writes that "Creating exemptions for CPM is often suggested as a policy solution for increasing the ability hospitals in rural areas to recruit physicians. However, when a pilot program created a limited exemption from the ban on the CPM for some health care district hospitals, only six physicians were hired by five eligible hospitals during the three years the pilot was operational. In the increasing corporatization of healthcare, it is critical that California continues to protect the ability of providers to practice medicine without undue non-clinical influence. AB 2311 will not increase physician access in rural areas, it will only reduce to physician autonomy and threaten patient safety."

The California Orthopedic Association and California Radiological Society notes that although they "[appreciate] the amendments intended to narrow the bill, AB 2311 would still represent a significant expansion of hospital and district affiliated employment of physicians and would further erode the independent practice of medicine in California."

The California Society of Pathologists states "California's CPOM doctrine is a foundational safeguard that ensures medical decisions remain grounded in independent physician judgment, free from institutional or financial influence. AB 2311 would weaken these protections by allowing health care districts to directly employ physicians and bill for professional services, increasing the risk that clinical decision-making is shaped by administrative and operational priorities."

ASSEMBLY FLOOR: 75-1, 5/26/26
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lee, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NOES: Bains
NO VOTE RECORDED: Arambula, Lackey, Muratsuchi, Celeste Rodriguez
Prepared by: Sarah Mason / B., P. & E.D. /
8/19/26 13:54:30

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