CONCURRENCE IN SENATE AMENDMENTS
AB 2311 (Schiavo)
As Amended August 13, 2026
Majority vote

SUMMARY

Authorizes a health care district, as defined, or a nonprofit corporation with a health care district as its sole corporate member, that owns or controls a general acute care hospital, until January 1, 2037, to employ licensees and charge for professional services rendered by those licensees. Prohibits the health care district or nonprofit corporation, and any hospital under its ownership or control, from interfering with, controlling, or directing the professional judgement of a physician and surgeon. *Requires a health care district or nonprofit corporation that employs licensees and charges for professional services to publish an annual report on their internet website that includes data about the ability of hospitals under their control to recruit and retain physicians.*

Senate Amendments
Limit eligibility to district hospitals that either have a public payer mix greater than 75%, or have received a loan under the distressed hospital loan program.

COMMENTS

Overview of corporate practice of medicine (CPM) laws. CPM laws vary significantly across the United States. While some states, such as California, New York, North Carolina, and Texas strictly regulate corporate involvement in medical practice, others have more permissive or ambiguous rules. These laws aim to protect the independence of medical professionals and prioritize patient care over corporate interests. As of 2024, 33 states and the District of Columbia have implemented some form of CPM doctrine. These laws typically limit the ability of corporations or non-licensed entities to employ physicians or control medical practices. Seventeen states do not have formal CPM restrictions. However, even in these jurisdictions, other healthcare regulations and professional licensing laws may impose limitations on corporate involvement in medical practice. The states without CPM laws are: Alabama, Alaska, Delaware, Florida (requires Health Clinic License for non-physician owners), Hawaii, Idaho, Maine, Mississippi, Missouri, Nebraska, New Hampshire, New Mexico, Ohio, Oklahoma, Utah, Vermont, Virginia, and Wyoming.

California's CPM law. California enforces one of the most stringent CPM doctrines in the United States, primarily through statutory provisions and reinforced by case law. The Medical Practice Act, specifically California Business and Professions Code Section 2400, states that "[c]orporations and other artificial entities shall have no professional rights, privileges, or powers." This provision effectively prohibits unlicensed entities from practicing medicine or employing physicians. The California Supreme Court, in *People v. Pacific Health Corp. (1938)*, upheld this principle, emphasizing that corporations cannot possess the personal qualifications necessary for medical licensure.

Despite the general prohibition, California allows certain exceptions where specific entities can employ physicians without violating CPM laws. These exceptions include:

1) *Professional Medical Corporations*: Under the Moscone-Knox Professional Corporation Act, licensed physicians may form professional corporations to render medical services;

2) *Health Maintenance Organizations (HMOs)*: Entities licensed under the Knox-Keene Health Care Service Plan Act are permitted to employ physicians to provide care within their networks;

3) *Certain Nonprofit Organizations:* Charitable institutions and teaching hospitals may employ physicians under specific conditions, provided they do not interfere with clinical judgment.

2023 Survey of Medical Residents. A 2023 Survey of Final-Year Medical Residents: "*Many Job Choices, Many Reservations*" by AMN Healthcare's Physician Solutions division (formerly known as Merritt Hawkins), found that medical residents are inundated with job opportunities. The majority of medical residents surveyed (56%) received 100 or more job solicitations during their training, the highest number since the survey was first conducted in 1991. Despite the robust job market, 30% of residents indicated they would not choose medicine if they had their careers to do over, the highest number since the survey was first conducted. Residents prefer "hospital employmen" as a practice setting. 68% said "hospital employment" was their first or second preference in a practice setting, while only 6% selected "solo practice." Close to one half of residents (48%) said they are unprepared for the business side of medicine.

Pilot project for Critical Access Hospitals (CAHs). AB 2024 (Wood), Chapter 496, Statutes of 2016 created a new pilot project that allowed federally certified CAHs to employ physicians until January 1, 2024. CAHs are licensed general acute care hospitals that are certified to receive cost-based reimbursement from Medicare in order to reduce hospital closures in rural areas. To be certified as a CAH, a hospital can have no more than 25 beds, must be located in a rural area, and cannot be close to another hospital. There are 36 federally certified CAHs in California. Unlike the pilot program for district hospitals created by SB 376 (Chesbro), Chapter 411, Statutes of 2003, the CAH exemption did not limit the number of physicians that a CAH could employ, and there is no statewide cap. According to the California Department of Health Care Access and Information (HCAI), of the 36 CAHs, 18 have hired at least one physician, for a total of 123 physicians employed by CAHs at some point during the pilot program. One hospital (Tahoe Forest Hospital District in Truckee) employed the most at 54 physicians. Mark Twain Medical Center in San Andreas hired 16 physicians, Healdsburg Hospital hired 10 physicians, and Ridgecrest Regional Hospital hired 6 physicians, with most of the remaining hospitals hiring one to two physicians. AB 242 (Wood) Chapter 641, Statutes of 2023 deleted the sunset on the pilot project, permanently allowing CAHs to hire physicians. A number of CAHs are also district hospitals, therefore some district hospitals are already permitted to hire physicians under AB 242. According to the Association of California Healthcare Districts, 17 of the 33 district hospitals are CAHs, so this bill would only affect the remaining 16 district hospitals that are not certified as a CAH.

According to the Author
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. The author concludes that this bill will allow wholly owned and operated public hospitals to directly hire physicians, a tool currently available to every other public hospital, Federally Qualified Health Centers, and academic medical centers.

Arguments in Support
The Association of California Healthcare Districts (ACHD) is the sponsor of this bill and states that 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 CAH 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. ACHD notes that this bill would allow district hospitals to employ physicians directly with clear guardrails preventing any interference with clinical judgement. California currently allows for several exceptions to the ban on the CPM, including all designated public hospitals (UC and county facilities), CAHs, certain academic medical centers, and federally qualified health centers (FQHCs) to directly employ physicians. In fact, over half of the State's CAH's are district hospitals, who have successfully utilized the tool with success and no adverse patient care outcomes.

Data from 2023 shows that California has 159,012 active physicians (MDs) in the state. Kaiser Permanente alone shows data to suggest they employ 25,605 of those physicians. Sutter Health has 8 medical groups and self-reports employing 12,000 physicians. The UC Health System approximates 11,000 employed doctors, and 19,300 medical students, many of which are residents. In total across just those three, nearly a third of California's doctors are already accounted for in largely closed system models. Allowing district hospitals the opportunity to offer set salaries, offer generous benefits, and set schedules, will make serving in public settings more attractive.

Arguments in Opposition
The Medical Board (the Board) of California is opposed to this bill and states that the Board believes that physicians should maintain their independence so they can be free to treat their patients according to the standard of care. The Board is concerned that physicians who are directly hired could face pressures that interfere with the appropriate and necessary delivery of care, potentially increasing risk to consumers.

El Camino Health is opposed to this bill unless it is amended to remove language limiting the ability of some Public Hospitals to hire physicians. El Camino Health 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. Every district hospital is locally governed and publicly accountable, and all are recruiting in the tight physician labor market, where 45 other states already permit direct employment and nearly a third of California physicians now sit inside three large, largely closed systems. If a workforce tool can be granted to some publicly governed hospitals and denied to others on a technicality, future eligibility rules become easier to game and harder to defend, and it is the patients who lose out on access to care.

FISCAL COMMENTS

According to the Senate Appropriations Committee, 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).

VOTES:

ASM HEALTH: 14-0-2
YES: Bonta, Addis, Aguiar-Curry, Pacheco, Caloza, Carrillo, Mark González, Johnson, Patel, Rogers, Sanchez, Schiavo, Sharp-Collins, Stefani
ABS, ABST OR NV: Chen, Patterson

ASM BUSINESS AND PROFESSIONS: 15-2-2
YES: Berman, Johnson, Addis, Ahrens, Alanis, Bauer-Kahan, Elhawary, Hadwick, Haney, Hart, Jackson, Lowenthal, Macedo, Nguyen, Pellerin
NO: Bains, Irwin
ABS, ABST OR NV: Caloza, Chen

ASM APPROPRIATIONS: 15-0-0
YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

ASSEMBLY FLOOR: 75-1-4
YES: 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
NO: Bains
ABS, ABST OR NV: Arambula, Lackey, Muratsuchi, Celeste Rodriguez

UPDATED

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