Date of Hearing: July 16, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 351 (Cabaldon) – As Amended June 16, 2025

Policy Committee:	Business and Professions	Vote:	16 - 0
	Judiciary		12 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill prohibits a private equity (PE) group or hedge fund (collectively, PE investor), as defined, from interfering with the professional judgment of physicians or dentists in making health care decisions and exercising power over specified actions, including coding and billing for patient care services. This bill also bans a contract between a physician or dental practice and a PE investor that includes noncompete clauses or nondisparagement clauses, as specified. The bill entitles the Attorney General (AG) to injunctive relief and enforcement costs.

Specifically, this bill:

1) Defines "hedge fund" as a pool of funds managed by investors for the purpose of earning a return on those funds, regardless of the strategies used to manage the funds, including, but not limited to, a pool of funds managed or controlled by private limited partnerships.

2) Defines "private equity group" as an investor or group of investors who primarily engages in the raising or returning of capital and invests, develops, or disposes of specified assets.

3) Exempts from the definitions of "hedge fund" and "private equity group" the following:

    a) Natural persons or other entities that contribute, or promise to contribute, funds to the hedge fund or private equity group, but otherwise do not participate in the management or in any change in control of the hedge fund or private equity group or its assets.

    b) A hospital or a hospital system that owns one or more licensed general acute care hospitals; an affiliate of a hospital or hospital system; or any entity managed or controlled by a hospital or hospital system.

4) Additionally exempts from the definition of "hedge fund" entities, including banks and credit unions, commercial real estate lenders, bond underwriters, and trustees, that solely provide or manage debt financing secured by the assets of a health care facility.

5) Prohibits a PE investor involved with a physician or dental practice, including as an investor or owner of the assets of that practice, from the following:

    a) Interfering with the professional judgment of physicians or dentists in making health care decisions, including determining how many patients a physician or dentist sees in a given period or how many hours a physician or dentist will work.

b) Exercising control over, or being delegated power over the following: patient medical records; employment decisions concerning physicians, dentists, allied health staff, and medical assistants; parameters for specified contractual relationships between a physician, dentist, or physician or dental practice and third-party payers; clinical competency or proficiency parameters for contractual relationships between physicians or dentists for the delivery of care; coding and billing of procedures for patient care services; and the selection of medical equipment and medical supplies, as specified.

6) Provides that the corporate form of a physician or dental practice as a sole proprietorship, a partnership, a foundation, or a corporate entity of any kind does not affect the applicability of the prohibitions in this bill.

7) Prohibits a PE investor, or an entity controlled directly, in whole or in part, by a PE investor, from entering into an agreement or arrangement with a physician or dental practice if the agreement or arrangement would enable the person or entity to interfere with the professional judgment of physicians or dentists as described in item 5, above.

8) Prohibits contracts between PE investors and physician or dental practices from containing specified noncompete clauses or nondisparagement clauses.

9) Empowers the AG to enforce the provisions of the bill by seeking and obtaining injunctive relief and other equitable remedies a court deems appropriate and entitles the AG to recover attorney's fees and costs incurred in remedying any violation of the bill.

10) Declares the intent of the bill is to ensure that clinical decisionmaking and treatment decisions are exclusively in the hands of licensed health care providers and to safeguard against nonlicensed individuals or entities, such as PE investors, exerting influence or control over care delivery.

11) Clarifies that the bill does not prohibit an unlicensed person or entity from assisting, or consulting with, a physician or dental practice with respect to the decisions and activities described in the bill, provided that the physician or dentist retains the ultimate responsibility for, or approval of, those decisions and activities.

12) Provides that the provisions of the bill are severable.

FISCAL EFFECT:

The Dental Board of California estimates this bill will result in 20 additional hours for investigations, at an absorbable cost of $17,000 per year.

The Medical Board of California (MBC) and the Osteopathic Medical Board of California anticipate no costs.

The Department of Justice anticipates no significant costs.

COMMENTS:

1) **Purpose.** This bill is sponsored by the California Medical Association and the California Dental Association. According to the author:

> Private equity firms are gaining influence in our health care system, leading to rising costs and undermining the quality of care. As these firms acquire more medical practices, there is a growing need for stronger enforcement to protect patient care and ensure that decisions are made based on medical needs and patient care, not profit. If left unchecked, these acquisitions could erode existing protections, violate the [ban on the Corporate Practice of Medicine], and put financial interests above the well-being of Californians. [This bill] empowers the [AG] to hold private equity groups accountable for interfering with the practice of medicine. The bill strengthens California's ban on the corporate practice of medicine by allowing the AG to investigate and take action against private equity firms that unlawfully interfere in the patient-physician relationship. The goal is to restore trust in the health care system, ensuring that medical decisions are made in the best interest of patients, not financial shareholders.

2) **Background**. ***Corporate Practice of Medicine (CPM) Doctrine.*** The CPM doctrine prohibits corporations from influencing medical decision making or acting 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 their independent professional judgment. The CPM doctrine is largely established through case law and legal opinions by AGs interpreting the application of laws prohibiting the unlicensed practice of medicine and other healing arts and restricting licensure to natural persons. In addition, California's Medical Practice Act states "Corporations and other artificial legal entities shall have no professional rights, privileges, or powers."

Exceptions to the CPM Doctrine. The Medical Practice Act, other statutes, and case law provide numerous exceptions to the CPM doctrine to allow corporations to render professional services, including through direct employment of licensed practitioners. 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.

PE in Health Care. According to a 2021 report by the Petris Center on Health Care Markets and Consumer Welfare, when a short-term profit-driven business model is applied to health care, there is an incentive to raise prices, cut costs, and pay out any revenue to private equity investors, which often leads to staffing shortages, failures to pay vendors, and increased costs for patients and employers. Instead of practicing medicine in the best interest of patients, physicians are directed by PE investors to meet patient quotas and push more profitable procedures.

Enforcement of the CPM Doctrine. The MBC provides guidance defining the types of business or management decisions and activities that only a licensed physician may make, and would therefore constitute the unlicensed practice of medicine if performed by an unlicensed person or a corporation. This bill adopts and codifies such MBC guidance. According to the Assembly Business and Professions Committee analysis, this bill arguably prohibits acts that are already proscribed under the CPM doctrine. Violations of the CPM doctrine are typically enforced by the MBC and other professional licensing boards. However, this bill provides for additional enforcement against those acts when the

perpetrator is a PE investor. This bill allows the AG to bring an action for injunctive relief and other remedies deemed appropriate to enforce the bill, and to recover attorney's fees and costs incurred in that action.

3) **Prior Legislation.** AB 3129 (Wood), of the 2023-24 Legislative Session, would have authorized the AG to grant, deny, or impose conditions to a change of control or an acquisition between a PE investor and a healthcare facility or provider group, and would have reinforced the bar on CPM, including the interference of PE investors in the treatment of patients. AB 3129 was vetoed by Governor Newsom, who stated:

> The Office of Health Care Affordability (OHCA) was established in 2022 to review and evaluate health care consolidation transactions through cost and market impact reviews (CMIR) of mergers, acquisitions, or corporate affiliations involving health plans, hospitals, physician organizations, pharmacy benefit managers, and other health care entities. OHCA analyzes transactions that may significantly impact market competition, meeting state spending targets, or affordability and will compile data about market consolidation. While OHCA itself cannot block a proposed transaction, it can coordinate with other state entities, including referring transactions for further review to the AG. This bill would exempt transactions involving [PE investors] that would be subject to review by the AG from OHCA's existing review.
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> I appreciate the author's continued efforts and partnership to increase oversight of California's health care system in an effort to ensure consumers receive affordable and quality health care. However, OHCA 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.

Analysis Prepared by: Allegra Kim / APPR. / (916) 319-2081