
UNFINISHED BUSINESS

Bill No: SB 351
Author: Cabaldon (D), et al.
Amended: 8/25/25 in Assembly
Vote: 21

SENATE BUS., PROF. & ECON. DEV. COMMITTEE: 9-1, 4/21/25
AYES: Ashby, Archuleta, Arreguín, Grayson, Richardson, Smallwood-Cuevas,
Strickland, Umberg, Weber Pierson
NOES: Niello
NO VOTE RECORDED: Choi

SENATE JUDICIARY COMMITTEE: 11-2, 4/29/25
AYES: Umberg, Allen, Arreguín, Ashby, Caballero, Durazo, Laird, Stern, Wahab,
Weber Pierson, Wiener
NOES: Niello, Valladares

SENATE APPROPRIATIONS COMMITTEE: 5-1, 5/23/25
AYES: Caballero, Cabaldon, Grayson, Richardson, Wahab
NOES: Seyarto
NO VOTE RECORDED: Dahle

SENATE FLOOR: 30-6, 5/28/25
AYES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon,
Caballero, Cervantes, Cortese, Dahle, Durazo, Gonzalez, Grayson, Hurtado,
Laird, McGuire, McNerney, Menjivar, Padilla, Pérez, Richardson, Rubio,
Smallwood-Cuevas, Stern, Strickland, Umberg, Wahab, Weber Pierson, Wiener
NOES: Grove, Jones, Niello, Ochoa Bogh, Seyarto, Valladares
NO VOTE RECORDED: Alvarado-Gil, Choi, Limón, Reyes

ASSEMBLY FLOOR: 72-0, 8/29/25 - See last page for vote

SUBJECT: Health facilities

SOURCE: California Medical Association

DIGEST: This bill prohibits a private equity group or hedge fund involved in any manner with a physician or dental practice, including as an investor, from interfering with the professional judgment of physicians or dentists in making health care decisions and entitles the Attorney General (AG) to injunctive relief for violating these provisions.

Assembly Amendments of 8/25/25 clarify that a hospital or hospital system or entity managed or controlled by a hospital or hospital system and a public agency are not a hedge fund or private equity group; clarify that an unlicensed person or entity can assist or consult with a physician or dental practice doing business in the state if the physician or dentist retains the ultimate responsibility for approval of decisions and activities and; make various conforming changes and updates.

ANALYSIS:

Existing law:

- 1) Authorizes specified clinics to employ dentists and dental assistants and charge for the professional services they render, and specifies that these clinics shall not be deemed to be practicing dentistry. Prohibits specified clinics from interfering with, controlling, or otherwise directing the professional judgment of a dentist or dental assistant lawfully acting within the their scope of practice but does not require dentists to constitute all or a percentage of the governing body of the clinic. (Business & Professions Code (BPC) § 1625.1)
- 2) Provides that any person who practices or attempts to practice, or who advertises or holds themselves out as practicing, any system or mode of treating the sick or afflicted in this state, or who diagnoses, treats, operates for, or prescribes for any ailment, blemish, deformity, disease, disfigurement, disorder, injury, or other physical or mental condition of any person, without having at the time of so doing a valid, unrevoked, or unsuspended license is guilty of a public offense, punishable by a fine not exceeding \$10,000, by imprisonment, by imprisonment in a county jail not exceeding one year, or by both the fine and either imprisonment. Specifies that any person who conspires with or aids or abets another to commit any of the above acts is guilty of a public offense, subject to the punishment described above. (BPC § 2052)
- 3) States that corporations and other artificial legal entities shall have no professional rights, privileges, or powers. Provides that the Medical Board of California (MBC) may in its discretion, and under regulations adopted by it, grant approval for physicians to be employed on a salary basis by licensed charitable institutions, foundations, or clinics, if no charge for professional

services rendered is made to patients by any such institution, foundation, or clinic. (BPC § 2400)

- 4) 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).
- 5) Under the Knox-Keene Health Care Service Plan Act of 1975, authorizes 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) Prohibits a private equity group or hedge fund involved in any manner with a physician or dental practice doing business in this state, including as an investor in or as an investor or owner of the assets of that practice, from interfering with the professional judgment of physicians or dentists in making health care decisions, including a number of specified activities. Further prohibits a private equity group or hedge fund from exercising control over, or being delegated the power to engage in specified activities related to a physician or dental practice, including but not limited to selecting, hiring, or firing physicians, dentists, allied health staff, and medical assistants based, in whole or in part, on clinical competency or proficiency and approving the selection of medical equipment and medical supplies for the physician or dental practice.
- 2) Prohibits any contract involving the management of a physician or dental practice doing business in this state from explicitly or implicitly including any clause barring any provider in that practice from competing with that practice in the event of a termination or resignation of that provider from that practice, or from disparaging, opining, or commenting on that practice in any manner as to any issues involving quality of care, utilization of care, ethical or professional challenges in the practice of medicine or dentistry, or revenue-increasing strategies employed by the private equity group or hedge fund.
- 3) Entitles the AG to injunctive relief and other equitable remedies a court deems appropriate for enforcement of the provisions above and specifies the AG is

entitled to recover attorney's fees and costs incurred in remedying any violation of the provisions above.

- 4) States that the provisions above are intended to ensure that clinical decision making and treatment decisions are exclusively in the hands of licensed health care providers and to safeguard against non-licensed individuals or entities, such as private equity groups and hedge funds, exerting influence or control over care delivery.
- 5) Specifies that the provisions above do not narrow, abrogate, or otherwise lower the bar on the corporate practice of medicine or dentistry or any other applicable state or federal law.

Background

Moscone-Knox Act. In 1968, the California Legislature enacted the Moscone-Knox Professional Corporation Act (Moscone-Knox Act), which established the requirements for the practice of professional services in corporate form. Current law specifies which healing arts licensees may be shareholders, officers, directors or professional employees of professional corporations controlled, including by a differing profession so long as the sum of all shares owned by those licensed persons does not exceed 49% of the total number of shares of the professional corporation. Provisions of the Moscone-Knox Act requiring corporations to be owned by licensees are reflected in the various practice acts within the BPC that govern the licensure and regulation of a number of professions.

Ban on the Corporate Practice of Medicine (CPM). 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 the years, various state and federal statutes have weakened the CPM prohibition. According to a 2007 CRB report, "California's CPM doctrine has been defined largely through lawsuits and Attorney General opinions over decades, and then riddled by HMO and other legislation; its power and meaning are now inconsistent.... Although some non-profit clinics may employ physicians, California applies the CPM doctrine to most other entities.... Teaching hospitals may employ physicians, but other hospitals, including most public and non-profit

hospitals, may not employ physicians. Professional medical corporations are expressly permitted to engage in the practice of medicine, and may employ physicians.” California is one of only a small handful of states that adhere to some form of the ban. The American Medical Association, historically the driving force behind the CPM prohibition, no longer views physician employment as a violation of medical ethics and has removed the doctrine from its ethical code.

MBC’s website provides examples of some of the types of behaviors and subtle controls that the corporate practice doctrine is intended to prevent. MBC advises that various specified health care decisions should be made by a physician and would constitute the unlicensed practice of medicine if performed by an unlicensed person, including some of the activities a hedge fund or private equity group would be prohibited from engaging in under this bill.

Private equity in health care. According to a May 2024 California Health Care Foundation report, private equity investment into health care totaled about \$83 billion nationally and \$20 billion in California in 2021. While the majority of overall private equity dollars has been directed at biotechnology and pharmaceuticals in recent years, private equity acquisitions of health care service providers (such as clinics, hospitals, and nursing homes) make up a significant portion of all private equity health care deals. In California, acquisitions of providers totaled \$4.31 billion dollars between 2019 and 2023, and represented roughly a third of all deals. Available data, while limited, show that private equity has gained a small but meaningful ownership foothold among certain kinds of providers. Private equity firms now own approximately 8% of all private hospitals in the U.S. and approximately 6% of private hospitals in California. Higher charges, which are often passed along to patients, have been documented in clinics, hospitals, and nursing homes. Twenty-seven studies reviewed found 12 with a harmful impact on quality of care, nine found a mixed impact, and three found a neutral impact. One rigorous study found that private equity acquisitions led to an 11% higher mortality rate during short-term nursing home stays.

Last year, AB 3129 (Wood of 2024) sought to require a private equity group or hedge fund to provide written notice to, and obtain the written consent of, the AG prior to a transaction with a health care facility except hospitals, provider group except dermatology, or, a provider if the private equity group or hedge fund has been involved in a transaction within the last seven years with a health care facility, provider group or provider. The bill also contained language that is almost identical to this bill related to prohibition on a private equity group or hedge fund from interfering with the professional judgment of practitioners in making health

care decisions or exercising control over specified activities. AB 3129 was vetoed by the Governor.

Comments

The California Optometric Association requests that the Author amend this bill to include optometrists and optometric practices.

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

According to the Assembly Committee on Appropriations, 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, Osteopathic Medical Board of California and The Department of Justice do not anticipate significant costs.

SUPPORT: (Verified 8/29/25)

California Medical Association (source)
 American Academy of Emergency Medicine
 American College of Obstetricians & Gynecologists - District IX
 Association of California State Supervisors
 Attorney General Rob Bonta
 California Association of Orthodontists
 California Chapter of the American College of Emergency Physicians
 California Dental Association
 California Dental Hygienists' Association
 California Independent Physician Practice Association
 California Orthopedic Association
 California Physicians Alliance
 California Podiatric Medical Association
 California Public Employees' Retirement System
 California Retired Teachers Association
 California State Council of Service Employees International Union
 California State Retirees
 CFT- a Union of Educators & Classified Professionals, AFT, AFL-CIO
 Coalition for Patient-Centered Care
 Private Equity Stakeholder Project
 Retired Public Employees Association
 San Francisco Marin Medical Society

OPPOSITION: (Verified 8/29/25)

None received

ARGUMENTS IN SUPPORT: According to the California Medical Association (CMA), “This bill strengthens California’s Ban on the Corporate Practice of Medicine (Corporate Bar) by empowering the Attorney General to investigate and take action against private equity firms that unlawfully interfere in the patient-physician relationship. This bill will help ensure that medical decisions are made in the best interest of patients, not financial shareholders.” CMA states that “Given the increasing number of private equity acquisitions of medical practices, additional enforcement tools—such as those proposed in SB 351—are crucial for upholding the integrity of the Corporate Bar, deterring violations and protecting patients. Without adequate enforcement, private equity investments in healthcare could drive up costs for patients and erode consumer protections, as investors prioritize profits over patient well-being and quality care.” SEIU California makes similar comments in support.

Attorney General Rob Bonta writes that “This bill is an important safeguard against the growing involvement of private equity in our health care system.”

The California Chapter of the American College of Emergency Physicians says that SB 351 safeguards the long-standing principle that clinical decision-making and treatment decisions remain exclusively in the hands of licensed healthcare providers by allowing the Attorney General to take action against private equity groups that infringe on these choices.

According to the Coalition for Patient-Centered Care, “Our membership has observed that after a private equity firm takes over an independent physician group, the quality of care for patients goes down, the cost of care to public and private payors goes up, and employee working conditions worsen. We support SB 351 because we believe the bill appropriately ensures that doctors are able to deliver patient-centered, cost efficient care.”

The California Retired Teachers Association believes that “Private equity groups must not inhibit the ability of patients to receive medical services. This important measure would prohibit a private equity group or hedge fund that owns a physician or dental practice from interfering with the professional judgment of physicians or dentists in making health care decisions or patient care.”

According to the American College of Obstetricians and Gynecologists District IX (ACOG), “ACOG deeply values the ability of OB/GYN’s to practice medicine free

from interference that prioritizes profit over patient care. Unfortunately, the recent trend of private equity (PE) investment in health care threatens this autonomy. These investments often prioritize financial performance metrics, creating pressure to reduce costs or increase revenue in ways that may undermine the quality of patient care.”

ASSEMBLY FLOOR: 72-0, 8/29/25

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lowenthal, Macedo, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Berman, Elhawary, Ellis, Flora, Lee, McKinnor, Valencia

Prepared by: Sarah Mason / B., P. & E.D. /
9/2/25 10:18:22

**** END ****