

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

SB 351 (Cabaldon)

Version: February 12, 2025

Hearing Date: April 29, 2025

Fiscal: Yes

Urgency: No

AM

SUBJECT

Health facilities

DIGEST

This bill prohibits a private equity group or hedge fund, as defined, involved in any manner with a physician or dental practice doing business in this state from interfering with the professional judgment of physicians or dentists in making health care decisions and exercising power over specified actions, including, among other things, determining what diagnostic tests are appropriate for a particular condition. The bill authorizes the Attorney General (AG) to seek injunctive relief and other equitable remedies a court deems appropriate for enforcement of the bill, and provides that AG is entitled to recover attorney's fees and costs incurred in remedying any such violation.

EXECUTIVE SUMMARY

The author and sponsors of the bill state this bill is needed to address the growing number of private equity acquisitions of medical practices in the state, which they argue leads to increased prices and worsening medical care for patients. The bill accomplishes this by strengthening the existing ban on the corporate practice of medicine and dentistry as it applies to private equity groups or hedge funds, and authorizing enforcement by the AG. The bill is sponsored by the California Medical Association and the California Dental Association. The bill is supported by Attorney General, Rob Bonta, numerous associations representing health care providers and patients, and SEIU California. The bill is opposed by the American Investment Council, Association of Dental Support Organizations, and Children's Choice Dental. The bill passed the Senate Business and Professions Committee on a vote of 9 to 1.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Regulates the practice of dentistry under the Dental Practice Act and establishes the Dental Board of California (Dental Board) to license dentists. (Bus. & Prof. Code §§ 1600 et seq.)
- 2) Specifies that a person practices dentistry if the person does any one or more of the following:
 - a) advertises themselves or represents themselves to be a dentist;
 - b) performs, or offers to perform, an operation or diagnosis of any kind, or treats diseases or lesions of the human teeth, alveolar process, gums, jaws, or associated structures, or corrects malposed positions thereof;
 - c) in any way indicates that the person will perform by themselves or their agents or servants any operation upon the human teeth, alveolar process, gums, jaws, or associated structures, or in any way indicates that the person will construct, alter, repair, or sell any bridge, crown, denture, or other prosthetic appliance or orthodontic appliance;
 - d) makes, or offers to make, an examination of, with the intent to perform or cause to be performed any operation on the human teeth, alveolar process, gums, jaws, or associated structures; and
 - e) manages or conducts as manager, proprietor, conductor, lessor, or otherwise, a place where dental operations are performed, other than a facility owned or managed by a tax-exempt nonprofit corporation supported and maintained in whole or in substantial part by donations, bequests, gifts, grants, government funds, or contributions. (Bus. & Prof. Code §§ 1625 & 1625.2.)
- 3) Authorizes specified clinics to employ dentists and dental assistants and charge for the professional services they render, and specifies that these clinics are not deemed to be practicing dentistry within the meaning of 2), above.
 - a) 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. (Bus. & Prof. Code § 1625.1.)
- 4) Defines a dental corporation as a corporation that is authorized to render professional services, as defined in the Moscone-Knox Professional Corporation Act, if the corporation, its shareholders, officers, directors, and employees rendering professional services who are dentists are in compliance with the Moscone-Knox Act, the Dental Practice Act, and other laws applicable to a dental corporation and

the conduct of its affairs. Provides that a dental corporation is entitled to practice dentistry. (Bus. & Prof. Code § 1800.)

- 5) Regulates the practice of medicine under the Medical Practice Act and establishes the Medical Board of California (Medical Board) and Osteopathic Medical Board of California for the licensure, regulation, and discipline of physicians and surgeons. (Bus. & Prof. Code §§ 2000 et seq.)
- 6) Makes 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 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.
 - a) Makes any person who conspires with or aids or abets another to commit any of the above acts guilty of a public offense, subject to the punishment described above. (Bus. & Prof. Code § 2052.)
- 7) States that corporations and other artificial legal entities have no professional rights, privileges, or powers, which is generally referred to as the ban on the corporate practice of medicine.
 - a) Provides that the Medical Board 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. (Bus. & Prof. Code § 2400.)
- 8) Establishes certain exceptions to the ban on the corporate practice of medicine, thereby allowing certain types of facilities to employ physicians, including, among others, clinics operated primarily for the purpose of medical education by a public or private nonprofit university medical school, to charge for professional services rendered to teaching patients by licensed physicians who hold academic appointments on the faculty of the university, if the charges are approved by the physician in whose name the charges are made. (Bus. & Prof. Code § 2401.)
- 9) Establishes protections against retaliation for health care practitioners who advocate for appropriate health care for their patients pursuant to *Wickline v. State of California*.¹
 - a) It is the public policy of the State of California that a health care practitioner be encouraged to advocate for appropriate health care for their patients.

¹ *Wickline v. State of California* (1986) 192 Cal. App. 3d 1630.

Provides that “to advocate for appropriate health care” means to appeal a payer’s decision to deny payment for a service pursuant to the reasonable grievance or appeal procedure established by a medical group, independent practice association, preferred provider organization, foundation, hospital medical staff and governing body, or payer, or to protest a decision, policy, or practice that the health care practitioner, consistent with that degree of learning and skill ordinarily possessed by reputable health care practitioners with the same license or certification and practicing according to the applicable legal standard of care, reasonably believes impairs the health care practitioner’s ability to provide appropriate health care to their patients.

- b) The application or rendering by any individual, partnership, corporation, or other organization of a decision to terminate an employment or other contractual relationship with or otherwise penalize a health care practitioner principally for advocating for appropriate health care consistent with that degree of learning and skill ordinarily possessed by reputable health care practitioners with the same license or certification and practicing according to the applicable legal standard of care violates the public policy of this state.
- c) This law is not to be construed to prohibit a payer from making a determination not to pay for a particular medical treatment or service, or the services of a type of health care practitioner, or to prohibit a medical group, independent practice association, preferred provider organization, foundation, hospital medical staff, hospital governing body, or payer from enforcing reasonable peer review or utilization review protocols or determining whether a health care practitioner has complied with those protocols. (Bus. & Prof. Code § 510.)

10) Authorizes, under the Knox-Keene Health Care Service Plan Act of 1975 (Knox-Keene), 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 & Saf. 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 any of the following:
 - a) determining what diagnostic tests are appropriate for a particular condition;

- b) determining the need for referrals to, or consultation with, another physician, dentist, or licensed health professional;
 - c) being responsible for the ultimate overall care of the patient, including treatment options available to the patient; and
 - d) determining how many patients a physician or dentist shall see in a given period of time or how many hours a physician or dentist shall work.
- 2) Prohibits a private equity group or hedge fund from exercising control over, or be delegated the power to do, any of the following:
- a) owning or otherwise determining the content of patient medical records;
 - b) selecting, hiring, or firing physicians, dentists, allied health staff, and medical assistants based, in whole or in part, on clinical competency or proficiency;
 - c) setting the parameters under which a physician, dentist, or physician or dental practice must enter into contractual relationships with third-party payers;
 - d) setting the parameters under which a physician or dentist must enter into contractual relationships with other physicians or dentists for the delivery of care;
 - e) making decisions regarding coding and billing procedures for patient care services; and
 - f) approving the selection of medical equipment and medical supplies for the physician or dental practice.
- 3) Specifies that the corporate form of that 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 this bill.
- 4) Prohibits a private equity group or hedge fund, or an entity controlled directly, in whole or in part, by a private equity group or hedge fund from entering into an agreement or arrangement with a physician or dental practice doing business in this state if the agreement or arrangement would enable the person or entity to interfere with the professional judgment of physicians or dentists in making health care decisions as described in 1), above, or exercise control over or be delegated the powers set forth in 2), above.
- 5) Prohibits any contract involving the management of a physician or dental practice doing business in this state by, or the sale of real estate or other assets owned by a physician or dental practice doing business in this state to, a private equity group or hedge fund, or any entity controlled directly or indirectly, in whole or in part, by a private equity group or hedge fund, 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.

- a) Any such explicit or implicit contractual clauses are void, unenforceable, and against public policy.
 - b) This provision does not impact the validity of an otherwise enforceable sale of business noncompete agreement.
 - c) A contract described in this 5), above, does not operate as an employee noncompete agreement.
- 6) Authorizes the Attorney General (AG) to seek injunctive relief and other equitable remedies a court deems appropriate for enforcement of these provisions, and provides the AG is entitled to recover attorney's fees and costs incurred in remedying any violation of these provisions.
- 7) Provides that the bill is intended 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 private equity groups and hedge funds, exerting influence or control over care delivery.
- 8) This bill does not narrow, abrogate, or otherwise lower the bar on the corporate practice of medicine or dentistry as set forth in the Business and Professions Code or the Corporations Code, or any other applicable state or federal law.
- 9) Defines various terms, including:
 - a) "Hedge fund" means 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. Hedge funds include, but are not limited to, a pool of funds managed or controlled by private limited partnerships.
 - i. "Hedge fund" does not include:
 1. Natural persons or other entities that contribute, or promise to contribute, funds to the hedge fund, but otherwise do not participate in the management of the hedge fund or the fund's assets, or in any change in control of the hedge fund or the fund's assets.
 2. Entities that solely provide or manage debt financing secured in whole or in part by the assets of a health care facility, including, but not limited to, banks and credit unions, commercial real estate lenders, bond underwriters, and trustees.
 - b) "Private equity group" means an investor or group of investors who primarily engage in the raising or returning of capital and who invests, develops, or disposes of specified assets.
 - i. Private equity group" does not include natural persons or other entities that contribute, or promise to contribute, funds to the private equity group, but otherwise do not participate in the management of

the private equity group or the group's assets, or in any change in control of the private equity group or the group's assets.

COMMENTS

1. Stated need for the bill

The author writes:

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 Corporate Bar, and put financial interests above the well-being of Californians.

In response, SB 351 empowers the Attorney General (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

a. Ban on the corporate practice of medicine and dentistry

Historically, the corporate practice of medicine ban sought to prevent a corporation from practicing medicine, including employing physicians, with the goal of ensuring that any medical decisions made by a physician are made with the health of the patient in mind and not the financial needs of the corporation or physician's employer.² The Medical Board provides guidance on its website and gives specific examples of some types of behaviors and controls that the corporate practice of medicine is designed to prevent and that, in the opinion of the Medical Board, are to be made solely by licensed physicians in their professional judgment.³ These behaviors and controls are identical to the ones the bill prohibits a private equity group or hedge fund from doing, exercising control over, or being delegated the power to do because they would interfere with the professional judgment of a physician or dentist. The only prohibited act not specifically included on the Medical Board's guidance on its website is the prohibition on exercising

² Cal. Res. Bur., *The Corporate Practice of Medicine in a Changing Healthcare Environment* (Apr. 2016) p. 2, available at https://www.library.ca.gov/wp-content/uploads/crb-reports/CRB_CPM_Final.pdf.

³ Medical Bd. Of Cal., *Corporate Practice of Medicine* (2025), available at <https://www.mbc.ca.gov/Licensing/Physicians-and-Surgeons/Practice-Information/>.

control over setting, or being delegated the power to set, the parameters under which a physician or dentist shall enter into contractual relationships with other physicians or dentists for the delivery of care. (*see* 1) and 2) under the This bill section, above.) Section 1625.1 of the Business Code is the statutory ban on the corporate practice of dentistry and is substantially similar to the ban on the corporate practice of medicine.

b. AB 3129 (Wood, 2024)

AB 3129 attempted to address the issue of private equity and hedge fund investment in the health care system by requiring written notice to, and consent of, the AG prior to a transaction between a private equity group or hedge fund and certain health care facilities, provider groups, or providers. The bill also prohibited a private equity group or hedge fund involved in any manner with a physician, psychiatric, or dental practice doing business in this state, including as an investor, or as an investor or owner of the assets, from interfering with the professional judgment of physicians, psychiatrists, or dentists in making health care decisions. The bill specified certain actions that would interfere with the professional judgment of those medical professionals and prohibited them exercising control over, or being delegated the power to do, certain activities. This provision in AB 3129 is almost identical to the provisions in this bill. The main difference is this bill does not apply to psychiatrists. Additionally, the definitions in this bill for hedge fund and private equity group are identical to the definitions for those terms in AB 3129.

AB 3129 was vetoed by Governor Newsom writing: "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, [the Office of Health Care Affordability] 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."

3. The issues this bill seeks to address

A California Health Care Foundation report from 2024 noted that private equity investment into health care totaled about \$83 billion nationally and \$20 billion in California in 2021.⁴ The majority of this investment was in pharmaceutical companies, but also included investments in health care service providers, health care technology, and biotech industries.⁵ In California, "acquisitions of providers totaled \$4.31 billion dollars between 2019 and 2023."⁶ The report concluded after reviewing several peer-reviewed studies that private equity acquisition of health care service providers has

⁴ Christopher Cai, MD & Zirui Song, MD, PHD, Cal. Health Care Foundation, *Private Equity in Health Care: Prevalence, Impact, and Policy Options For California and the US*, (May 2024) p. 3, available at <https://www.chcf.org/wp-content/uploads/2024/05/PrivateEquityPrevalenceImpactPolicy.pdf>.

⁵ *Id.* at 3 & 9.

⁶ *Ibid.*

resulted in: higher prices, lower patient satisfaction, mixed changes in operating costs, mixed to worse clinical quality, and worse financial outcomes. A report by Private Equity Stakeholder Project titled *Private Equity Descends on Rural Healthcare* notes that private equity firms seek high returns on their investments, generally trying to double or triple the investment in a condensed time period, generally less than 10 years.⁷ Typical ways this return on investment is achieved is through cutting operating costs or taking on new debt for the health facility, paying itself with the borrowed money, and then saddling the health facility with the debt and repayment of the loan.⁸

The bill seeks to address the growing number of private equity acquisitions of medical practices in the state. The author points to an article in the L.A. Times as evidence for why this bill is need. A doctor of one of Orange County's largest pediatric practices partnered with a hedge fund during COVID-19, but ended up suing them for wrongful termination and defamation.⁹ The article states that Doctor "Abelowitz said Pediatric Associates [the hedge fund investor] began making decisions that should have been left to medical staff and was responsible for a drop in both the number of support employees and the quality of their training. He and his attorneys allege patients' vitals weren't being properly recorded, and there were multiple cases when children were given the wrong vaccines."¹⁰

The bill seeks to bolster the existing ban on the corporate practice of medicine by placing the Medical Board's guidelines regarding behaviors and controls the ban is designed to prevent into statute. The bill expands enforcement of the corporate practice of medicine ban by authorizing the AG to seek injunctive relief and other equitable remedies a court deems appropriate for enforcement of the statutory prohibitions this bill would enact. The AG is entitled to recover attorney's fees and costs incurred in remedying any violation under the bill. The bill also prohibits any contract involving the management of a physician or dental practice doing business in this state that explicit or implicitly includes a 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. It also prohibits in such a contract a clause barring any provide in that practice 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.

⁷ Eileen O'Grady, et. al., *Private Equity Descends on Rural Healthcare*, Private Equity Stakeholder Project, (Jan. 2023), available at https://pestakeholder.org/wp-content/uploads/2023/02/PE_Rural_Health_Jan2023.pdf at 4.

⁸ *Ibid.*

⁹ Eric Licas, L.A. Times, *Newport Beach pediatrician sues hedge fund he partnered with, alleges managers put profits before patients*, (Aug. 2, 2024), available at <https://www.latimes.com/socal/daily-pilot/news/story/2024-08-02/newport-beach-pediatrician-sues-hedge-fund-he-partnered-with-alleges-managers-put-profits-before-patients>.

¹⁰ *Id.*

4. Statements in support

The Attorney General, Rob Bonta, writes in support of the bill, stating:

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 and dental 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 Corporate Bar, and put financial interests above the well-being of Californians.

In response, SB 351 empowers the AG to hold private equity groups accountable for interfering with the Corporate Bar. 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.

The California Medical Association, one of the sponsors of the bill, writes:

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.

The Corporate Bar was established to protect patients from excessive healthcare costs and prevent the commercial exploitation that arises when clinical decisions are influenced by private equity investors seeking to maximize short-term profits. Under the Corporate Bar, non-physician entities, such as hospitals and other corporations, are prohibited from controlling healthcare decisions made by physicians when providing care to their patients. Existing law allows for enforcement of the Corporate Bar by the Medical Board of California, based on complaints related to unlawful interference in the patient-physician relationship.

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.

5. Statements in opposition

The American Investment Council writes in opposition, stating that the bill picks “winners and losers” by singling out private equity investment over any other type of investment and subjecting them to different enforcement than others who violate the ban on the corporate practice of medicine or dentistry. They note:

If passed, SB 351 will result in less capital being available to fund medical and dental services in California, and diminished access to care for patients throughout the state. More broadly, the enactment of SB 351 would send the wrong message to private equity investors. California has long been the top destination for private equity investment and innovation. The state ranks first in the country for attracting private equity investment dollars, averaging around \$100 billion per year over the past 5 years. In 2024 alone, private equity invested \$88.3 billion in California’s economy, many supporting medical technologies, life sciences and access to health care. Private equity is responsible for 1,621,000 direct jobs and another 4 million indirect jobs in the state. California is home to over 805 private equity firms that are responsible for some of the state’s most innovative and successful companies.

SB 351 implies that one of the state’s most important economic contributors is the “culprit” for many of the challenges faced by California’s physicians and dentists – an assertion that sends the wrong message to an industry that has played a critical role in expanding services and access. The likely result is a reduction in capital to fund innovation and access to health care, particularly for underserved communities.

Additionally they argue that the prohibitions in the bill, including those based on the guidelines from the Medical Board, are vague, imprecise, and unworkable. They also take issue with AG enforcement stating it creates a double standard, since only private equity would be subject to AG enforcement, and increases litigation risk and financial exposure potentially deterring beneficial investments.

SUPPORT

California Medical Association (sponsor)

California Dental Association (sponsor)

Attorney General Rob Bonta

American Academy of Emergency Medicine

American College of Obstetricians & Gynecologists - District IX

California Association of Orthodontists

California Chapter of the American College of Emergency Physicians

California Independent Physician Practice Association

California Orthopedic Association

California Podiatric Medical Association

California Retired Teachers Association

California State Council of Service Employees International Union (SEIU California)

California State Retirees

Coalition for Patient-Centered Care

Private Equity Stakeholder Project

1 Individual

OPPOSITION

American Investment Council

Association of Dental Support Organizations

Children's Choice Dental

RELATED LEGISLATION

Pending Legislation: None known.

Prior Legislation:

AB 3129 (Wood, 2024), *see* Comment 2)b), above.

PRIOR VOTES:

Senate Business, Professions and Economic Development Committee (Ayes 9, Noes 1)
