Health Care Law Update

November 2025

California and Oregon Take Action to Limit Private Equity Investment in Health Care Entities

Key Notes:

- California passes law codifying existing medical board guidance on corporate practice of medicine and banning provider non-competition agreements and non-disparagement clauses.
- Oregon passes law restricting key features of friendly PC models by restricting physician ownership in both the MSO and the PC and use of equity transfer restriction agreements.

California and Oregon recently took action to limit the involvement of private equity investors in health care practices, continuing a growing trend among states concerned about how such ownership structures affect quality, cost and other aspects of health care practices by unlicensed individuals or entities.

Corporate practice of medicine laws restrict ownership of medical, dental or other types of health care practices by unlicensed individuals or entities, as well as the employment of licensed practitioners by such entities. The purpose of these laws is to ensure that private equity interests do not adversely impact patient care and treatment.

In states with corporate practice of medicine restrictions, management services models are commonly used to provide non-clinical administrative and operational services, such as billing, contracting, human resources and facilities management, through private equity-owned entities (management services organizations, or "MSOs"). The managed practices pay an arms-length, fair market value fee to the MSO. This structure is designed to ensure that ownership and clinical decision-making, and treatment remain solely with licensed practitioners or their professional entities, free from lay influence.

These models are often referred to as "friendly" arrangements because licensed practitioners typically hold ownership interests in both the professional entity and the MSO, and restrictions are placed on their ability to transfer ownership in the professional entity without the MSO's consent (the "Friendly PC Model").

California

On October 6, 2025, Governor Gavin Newsom signed Senate Bill No. 351 into law, prohibiting private equity groups and hedge funds involved in any manner with physician or dental practices operating in California from interfering with the professional judgment of physicians or dentists in making health care decisions or exercising authority over certain actions that fall within the domain of licensed physicians or dentists. This new law effectively codifies existing California Medical Board guidance on the state's corporate practice of medicine doctrine.

Under the new law, contracts involving the management of a physician or dental practice may not bar any health care provider in that practice from competing with the practice after termination or resignation of that provider from the practice, or disparaging, opining or commenting on issues involving quality of care, utilization of services, ethical or professional challenges or revenue-enhancing strategies

employed by the private equity group or hedge fund. Notably, S.B. 351 does not prohibit otherwise enforceable sale-of-business noncompete agreements. The California Attorney General is empowered to enforce the new law through injunctive relief and other equitable remedies.

Oregon

Oregon's new law, S.B. 951, represents one of the most comprehensive state-level efforts to curb private equity and corporate influence in health care delivery. It applies to physicians, nurse practitioners, physician associates, and naturopathic doctors[1], and significantly restricts the use of the Friendly PC Model in Oregon, citing concerns about conflicts between the profit motives of corporations and the need for patient-centered medical care. The law also targets perceived attempts to circumvent the state's ban on the corporate practice of medicine through complex ownership and contracting structures.

S.B. 951 prohibits several common features of the Friendly PC Model, including physician ownership in both the professional medical entity ("PME") and the MSO, as well as restrictions on a physician's ability to transfer ownership interests. Under the new law, neither an MSO nor any MSO affiliate (defined as a shareholder, director, member, manager, officer, or employee of the MSO) may:[2]

1. Own or control, individually, or in combination with the MSO or any MSO Affiliate, a majority of shares in a PME with which the MSO has a management contract. This would prohibit a physician shareholder of the PME who holds a majority of the interests in the PME from also owning or providing services to the MSO, disrupting a common feature of the Friendly PC Model that involves ownership by the friendly physician in the practice and in the MSO entity.[3]
2. Serve as a director or officer of, be employed by, or work as an independent contractor with, or receive compensation from the MSO to manage or direct the management of a PME.
3. Exercise proxy voting or control voting of PME shares.
4. Control or restrict the sale or transfer of a PME's shares, interests or assets.
5. Issue or cause the issuance of stock shares in a PME.
6. Pay dividends derived from PME ownership interests.
7. Acquire or finance the acquisition of a majority of PME shares.
8. Exercise de facto control over a PME's administrative, business, or clinical operations in a manner that affects clinical decision-making or quality of medical care that the PME delivers. "De facto control" includes exercising ultimate decision-making over ("Operational Restrictions"):

    a. Hiring, terminating or setting compensation or work schedules for licensed medical professionals;
    b. Determining clinical staffing levels or specifying the period of time a medical licensee may see a patient;
    c. Making diagnostic coding decisions;
    d. Establishing clinical standards or policies;
    e. Setting policies for patient, client or customer billing and collections;
    f. Advertising under an entity name other than the PME's;
    g. Determining the prices, rates or amounts the PME charges for a medical licensee's services; or
    h. Negotiating, executing, performing, enforcing or terminating contracts with third-party payors or persons that are not employees of the PME.

The Operational Restrictions do not prohibit an MSO from providing services to *assist* in carrying out the activities that are subject to the Operational Restrictions as long as the services provided by the MSO do not exert de facto control over the administrative, business or clinical operations of a PME in a manner that affects the PME's clinical decision-making or the nature or quality of medical care that a PME delivers. An MSO may also provide support, advice and consultation on matters related to a PME's business operations, such as accounting, budgeting, personnel management, real estate and facilities management and compliance with applicable laws or advising and providing direction concerning a PME's participation in value-based

[1] S.B. 951 does not apply to dental, veterinary, or optometry practices.
[2] Items 1, 2, and 3 do not apply to telemedicine companies.
[3] Under existing law, physicians who are licensed in Oregon to practice medicine must hold a majority of each class of shares that are entitled to vote. ORS 58.375(1)(b). All officers except the secretary and treasurer, if any, must be physicians who are licensed in Oregon to practice medicine.

contracts, payor arrangements or contracts with suppliers and vendors and may collect quality metrics or set criteria for reimbursement under a contract between the PME and an insurer.

S.B. 951 permits PMEs to enter into an agreement with an MSO to control or restrict a transfer or sale of the PME's stock, interest, or assets (a "Transfer Agreement") with respect to a medical licensee who is a shareholder or member of the PME: (i) in the event of the suspension or revocation of a professional license, or disqualification from holding an interest in the PME, (ii) exclusion from a federal health care program (or an investigation that could result in an exclusion, indictment for a felony or another crime that involves fraud or moral turpitude), or (iii) death, disability or permanent incapacity. A Transfer Agreement may apply in the event of the PME's breach of the management services agreement with an MSO.

New MSO/PC structures formed in Oregon on or after June 9, 2025, must comply with the new law by January 1, 2026. Existing MSOs (those formed before enactment of the law on June 9, 2025) must achieve compliance by January 1, 2029. Violations of S.B. 951 may be treated as unlawful trade practices which will allow the Oregon Attorney General to seek civil penalties and injunctive relief and allow private plaintiffs to pursue damages.

Governor Tina Kotek has promoted S.B. 951 as a potential model for other states. Whether similar legislation will follow elsewhere remains to be seen. However, MSOs operating or planning to operate in Oregon should carefully review their organizational structures and terms of management services agreements and employment agreements. S.B. 951's broad definitions and strong enforcement mechanisms signal heightened regulatory scrutiny and a clear policy preference for professional, not corporate, control of medical practice in Oregon.

FOR MORE INFORMATION

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