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SB-351 Health facilities. (2025-2026)

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Senate Bill No. 351

CHAPTER 409

An act to add Division 1.7 (commencing with Section 1190) to the Health and Safety Code, relating to health practices.

[Approved by Governor October 06, 2025. Filed with Secretary of State October 06, 2025.]

LEGISLATIVE COUNSEL'S DIGEST

SB 351, Cabaldon. Health facilities.

Existing law generally regulates the licensing and operation of health facilities and other facilities providing health care in this state. Existing law, the Medical Practice Act, creates the Medical Board of California to license and regulate physicians and surgeons. Under existing law, the Dental Practice Act, the Dental Board of California licenses and regulates dentists.

Existing law, the Nonprofit Public Benefit Corporation Law, generally requires a nonprofit public benefit corporation to give written notice to the Attorney General before it sells, leases, conveys, exchanges, transfers, or disposes of its assets, except as specified. Existing law provides specific procedures for health facilities and additionally requires these facilities to obtain the consent of the Attorney General prior to entering into a specified agreement or transaction.

This bill would prohibit 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, making decisions regarding coding and billing procedures for patient care services. The bill would prohibit a private equity group or hedge fund from entering into a contract or other agreement or arrangement with a physician or dental practice if the contract or other agreement or arrangement would enable the person or entity to engage in the prohibited actions described above and would make provisions of those contracts or other agreements that violate that prohibition void and unenforceable. The bill would prohibit and render void and unenforceable specified types of contracts between a physician or dental practice and a private equity group or hedge fund that include any clause barring any provider in that practice from competing with that practice in the event of a termination or resignation, 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, as specified. This bill would entitle the Attorney General to injunctive relief and attorney's fees and costs incurred in remedying violations of these provisions, as specified. The bill would make its provisions severable.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Division 1.7 (commencing with Section 1190) is added to the Health and Safety Code, to read:

DIVISION 1.7. Private Equity or Hedge Fund Ownership of Health Care Practices

1190. For purposes of this division, the following definitions shall apply:

(a) (1) "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.

(2) "Hedge fund" does not include:

(A) 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.

(B) 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.

(C) A hospital or a hospital system that owns one or more licensed hospitals, as defined in subdivision (a) or (b) of Section 1250; an affiliate, as defined in Section 150 of the Corporations Code, of a hospital or hospital system; or any entity managed or controlled by a hospital or hospital system.

(D) A public agency, as defined in Section 6500 of the Government Code, including, but not limited to, any of the following settings directly or indirectly owned, operated, managed, controlled by, or otherwise affiliated with, the public agency:

(i) A clinic, as defined in Section 1200.

(ii) An outpatient setting, as defined in Section 1248.

(iii) A health facility, as defined in Section 1250.

(iv) An ambulatory surgical center.

(b) (1) "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.

(2) "Private equity group" does not include any of the following:

(A) 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.

(B) A hospital or a hospital system that owns one or more licensed hospitals, as defined in subdivision (a) or (b) of Section 1250; an affiliate, as defined in Section 150 of the Corporations Code, of a hospital or hospital system; or any entity managed or controlled by a hospital or hospital system.

(C) A public agency, as defined in Section 6500 of the Government Code, including, but not limited to, any of the following settings directly or indirectly owned, operated, managed, controlled by, or otherwise affiliated with, the public agency:

(i) A clinic, as defined in Section 1200.

(ii) An outpatient setting, as defined in Section 1248.

(iii) A health facility, as defined in Section 1250.

(iv) An ambulatory surgical center.

1191. (a) 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 that physician or dental practice or as an investor or owner of the assets of that practice, shall not do either of the following with respect to that practice:

(1) Interfere 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.

(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) Exercise 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 shall enter into contractual relationships with third-party payers.

(D) Setting the clinical competency or proficiency parameters under which a physician or dentist shall enter into contractual relationships with other physicians or dentists for the delivery of care.

(E) Making decisions regarding the coding and billing of procedures for patient care services.

(F) Approving the selection of medical equipment and medical supplies for the physician or dental practice.

(b) The corporate form of that physician or dental practice as a sole proprietorship, a partnership, a foundation, or a corporate entity of any kind shall not affect the applicability of this section.

(c) (1) 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, shall not enter into a contract or other agreement or arrangement with a physician or dental practice doing business in this state if the contract or other 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 set forth in paragraph (1) of subdivision (a), or exercise control over or be delegated the powers set forth in paragraph (2) of subdivision (a).

(2) Any provision within a contract or other agreement that violates subdivision (a) is void, unenforceable, and against public policy.

(d) (1) 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, shall not include any clause barring any provider in that practice from doing either of the following:

(A) Competing with that practice in the event of a termination or resignation of that provider from that practice.

(B) 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.

(2) Any provision of a contract that violates paragraph (1) is void, unenforceable, and against public policy.

(3) This subdivision shall not affect the validity of either of the following:

(A) An otherwise enforceable sale of business noncompete agreement. However, a contract described in this subdivision shall not operate as an employee noncompete agreement.

(B) An otherwise valid provision within a contract that prohibits the disclosure of material nonpublic information about the private equity group or hedge fund that is not generally available to the public, except to the extent that the provision seeks to either prohibit a disclosure of confidential information that is required by law, or to prohibit a disclosure described in subparagraph (B) of paragraph (1).

(e) The Attorney General shall be entitled to injunctive relief and other equitable remedies a court deems appropriate for enforcement of this section and shall be entitled to recover attorney's fees and costs incurred in remedying any violation of this section.

(f) This section 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.

(g) This section 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.

(h) This section does not prohibit an unlicensed person or entity from assisting, or consulting with, a physician or dental practice doing business in this state with respect to the decisions and activities described in paragraph (2) of subdivision (a), provided that the physician or dentist retains the ultimate responsibility for, or approval of, those decisions and activities.

1192. The provisions of this division are severable. If any provision of this division or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.