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Healthcare Alert

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California seeks to limit private equity involvement in healthcare

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Senate Bill 351 aims to formalize limitations governing private equity groups and hedge funds that contract with physician and dental practices.



What's the impact?

- The bill prohibits investment operations from interfering with the professional judgment and decision-making of licensed healthcare and dental care practitioners and also prohibits non-compete and non-disparagement clauses.
- While consistent with other California regulations prohibiting lay entities from involvement in certain professional healthcare services, it adds additional oversight for violations of corporate practice.

On February 12, 2025, California Senator Christopher Cabaldon introduced Senate Bill 351 (SB 351), which is the latest iteration of the state's legislative efforts to address growing concerns regarding private equity investment in healthcare.

SB 351 seeks to codify a set of limitations governing the operations and practices of private equity groupsⁱⁱ and hedge fundsⁱⁱⁱ that contract with physician and dental practices. These limitations are consistent with existing parameters on lay entities involved in the management of certain professional healthcare services in California imposed by California's longstanding prohibition on the corporate practice of medicine and dentistry. Similar restrictions were introduced under AB 3129 in 2024, which was ultimately vetoed by California Governor Newsom.

Importantly, unlike AB 3129, SB 351 does not attempt to impose state regulatory approval requirements for medical and dental transactions involving private equity and hedge funds. Consistent with [Governor Newsom's veto of AB 3129](#), this signals that the California Office of Health Care Affordability will be the main forum for the state's review of healthcare transactions.

Prohibits interfering with clinical decision-making

In line with existing restrictions arising from California's ban on the corporate practice of medicine and dentistry, SB 351 restricts private equity groups and hedge funds from interfering with the clinical decisions of physicians and dentists. The bill aims to ensure that clinical decision-making is reserved for physicians and dentists and prevent non-licensed entities from exerting control over patient care delivery. Notably, in its current form, SB 351 only implicates physician and dental practices and does not extend to other clinicians or licensees.

Specifically, SB 351 prohibits private equity groups and hedge funds from entering into arrangements with medical or dental practices that interfere with the professional judgment and healthcare decision-making of these licensees or exercising control over the clinical practices, as follows:

- / Making determinations about diagnostic tests for particular conditions;
- / Determining the need for referrals to, or consultation with, another physician, dentist, or licensed health professional;
- / Being responsible for the ultimate overall care of the patient, including treatment options available to the patient;
- / 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;
- / Owning or determining the content of medical records;
- / Selecting, hiring, or firing clinical personnel based on clinical competency or proficiency;
- / Making decisions regarding a physician's or dentist's contractual relationships with third-party payors or other providers;
- / Making decisions regarding billing and coding; and
- / Approving the selection of medical equipment and supplies.

Limits non-competition and non-disparagement provisions

SB 351 also bars private equity groups and hedge funds from including non-compete terms in management contracts and asset sale agreements with medical and dental practices that restrict a terminated provider from competing with the practice. This is consistent with California's general disapproval of non-compete clauses and would not materially change the existing law in California with respect to the enforceability of non-compete covenants.

Further, the bill limits a private equity group and hedge fund from imposing non-disparagement provisions on providers. In particular, contracts cannot restrict a provider from commenting on quality of care, ethical and professional challenges in practicing medicine or dentistry, or revenue-increasing strategies employed by the private equity group or hedge fund.

Additional regulatory oversight

The bill will also arm the attorney general with the authority to enforce the provisions in SB 351 by seeking injunctive relief and recovering attorney's fees for violations. Historically, compliance with these restrictions was overseen by the applicable state licensing authorities (e.g., the California Medical Board and California Dental Board). Meaning, SB 351 ultimately adds another layer of regulatory oversight for violations of corporate practice.

Navigating healthcare investments in California

Although the introduction of SB 351 signals that state lawmakers and regulators remain concerned with private equity and hedge fund involvement in medical and dental practices, these parameters are already well-established in California's healthcare market.

Nixon Peabody will continue to monitor updates regarding changes affecting private equity investments and hedge funds in healthcare in California. Nixon Peabody's attorneys' extensive healthcare and transactional experience can be leveraged to advise and guide clients through this new regulatory landscape.

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ⁱⁱ Under the proposed legislation, a “private equity group” is defined as investor(s) primarily engaged in raising or returning capital, investing, developing, or disposing of specified assets. The definition of private equity group excludes those entities that contribute funds to a private equity group but do not participate in the management of the group or its assets.

ⁱⁱⁱ As used in SB 351, a “hedge fund” is a pool of funds managed by investors to earn returns. The definition of hedge fund excludes those entities that contribute funds but do not participate in the management of such funds, as well as entities that provide debt financing.