Newsom Tightens Rules on Private Equity Deals in Health Care

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Private equity firms and hedge funds will face tighter rules when investing in California health-care businesses under legislation signed by Gov. Gavin Newsom on Monday.

The bill (SB 351) bars such companies from interfering in the professional judgment of physicians or making particular decisions about how to run medical practices. Private equity firms wouldn't be allowed to exercise control over billing procedures, or decide what kinds of equipment and tests are appropriate in a doctor's office.

Lawmakers passed the bill with bipartisan support amid heightened scrutiny of consolidation in the health-care industry, which state lawmakers have argued is contributing to higher costs.

The measure, authored by state Sen. Christopher Cabaldon (D), also bars private equity firms and hedge funds from requiring doctors to sign noncompete or non-disparagement clauses as part of their acquisitions.

California's rules on corporations running medical practices are already more stringent compared to other states. But backers of the new law, such as the California Medical Association, argue it strengthens those policies at a time when investment firms are gaining greater control of the industry.

"SB 351 is about protecting the integrity of the physician-patient relationship and making sure that health care decisions are guided by what is best for patients, not what maximizes profits," Dr. Shannon Udovic-Constant, president of the California Medical Association, said in a Sept. 15 statement.

Private equity acquisitions of health-care providers in California totaled $4.31 billion dollars between 2019 and 2023, according to the California Health Care Foundation.

Newsom (D) vetoed a more far-reaching bill last year that would have given the state's attorney general the power to block private equity deals in California's health-care industry.

The governor instead has focused on the Office of Health Care Affordability to bring down costs. The agency was established in 2022 to oversee mergers and acquisitions in the industry. But it rarely opens in-depth investigations.

A separate measure (AB 1415) awaiting Newsom's approval would require private equity firms to notify the office of deals in California's health-care industry, expanding

OHCA's oversight of the sector. It would also direct the office to study management services organizations, which provide administrative services for medical offices and have become a popular vehicle for private equity firms to invest in practices.