

Policy At A Glance:

Health Facilities (SB 351)

Private equity firms have increasingly ventured into the healthcare sector in recent years, raising concerns about their effect on patient care. This brief explores concerns with private equity investment in healthcare and the provisions of SB 351 that address some of these concerns.

Introduction

Private equity (PE) investment in the healthcare sector has grown significantly in the past two decades, posing several concerns about cost, quality and access along the way.¹ According to the 2024 report by the California Health Care Foundation, PE investment into healthcare peaked most recently in 2021 and totaled about \$83 billion in the United States and \$20 billion in California.² PE firms now own about 8% of all private hospitals in the United States and about 6% of private hospitals in California.²

As a form of for-profit ownership reflecting investment in health care facilities by private parties, private equity is not new to healthcare. However, who is doing the investing and how they are investing have shifted in recent years.¹ Instead of physicians or small groups of investors using their own funds, PE investors now include firms that manage funds for institutions or large groups of affluent individuals with little knowledge of healthcare. Also, these PE firms are aggressively taking out loans, using their newly acquired healthcare facilities as collateral and flipping assets to make quick money.¹ These business-oriented practices have resulted in negative outcomes for patients and healthcare workers, posing concerns.^{1,2}

As such, California lawmakers passed SB 351 Health Facilities last fall to better protect patients and providers from private equities.³ This brief explores concerns with private equity investment in healthcare and the provisions of SB 351 that address some of these concerns.

Relevant Dates for SB 351³

02/12/2025	Introduced in the California State Senate
05/28/2025	Passed in the Senate
08/29/2025	Passed in the California State Assembly with amendments and sent back to the Senate
09/02/2025	Sent back to the Assembly by the Senate
09/12/2025	Passed in the Assembly once again
09/13/2025	Amended version concurred in the Senate
10/06/2025	Signed into law by Governor Newsom and chaptered as law

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Concerns with Private Equity in Healthcare

As private equity firms increasingly acquire healthcare service providers such as outpatient clinics, hospitals, and nursing homes, studies have shown that such acquisitions have been associated with negative outcomes such as higher costs for patients and insurers, lower patient satisfaction, worse quality of care, and mixed changes to operating costs.² For example, a systematic review of 55 studies that looked at changes in financial and clinical outcomes associated with PE acquisitions of healthcare provider entities showed that PE acquisitions were most consistently associated with increases in costs to patients or payers.⁵ Part of the reason for this increase in cost is because PE firms often serially acquire multiple healthcare entities, resulting in a “rollup” that increases market power in a geographic area and making it easier for them to charge higher prices.¹

More concerning than the increased cost for patients and payors is the increased risk of morbidity and mortality seen in some studies. For example, one study by Gupta et al. found that PE acquisition of nursing homes led to up to 11% higher short-term mortality rate (as defined as mortality during a nursing home stay or 90 days after discharge).⁵ Some of the potential contributing factors include decrease in staff after the acquisition and decreased compliance with care standards. Other studies have shown that PE ownership raises in-hospital complications by 25%.⁶

In addition, PE acquisitions can result in poor financial outcomes for the healthcare entity being acquired, resulting in debt, bankruptcy or closures that affect access to care. For example, one study found that PE ownership raises the risk of bankruptcy by ten times, sometimes leaving entire communities without adequate medical access.⁶

Financial Strategies Used by PE Firms

PE firms use several strategies to increase their financial advantage and profit. First, they focus on short-term returns by cutting costs and selling assets of the acquired entity (e.g., real estate). PE firms typically sell their acquisitions in 3-7 years. PE firms also typically finance the bulk of the purchase with debt (i.e. “leveraged buyout”), and the purchased entity assumes this debt with its assets as collateral, limiting financial risk for the PE firms themselves and raising potential returns. In addition, PE firms often use a “buy and build” strategy where they purchase a “platform” practice in a geographic area and then subsequently acquire neighboring clinical entities to increase their market power.



SB 351 Provisions Addressing Concerns

Background Information

SB 351 was authored by Senator Christopher Cabaldon (D) from California's 3rd Senate District, which covers the Solano, Yolo, Napa, Sonoma, Contra Costa, and Sacramento counties.^{3,7} Senator Catherine Blakespear (D) from the 38th Senate District and Assemblywoman Darshana Patel (D) also co-sponsored the bill.³

Main Provisions

SB 351 adds new guidelines to California's Health and Safety Code regarding private equity groups and hedge funds involved in healthcare. First, SB 351 defines a private equity group as "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."⁸ It also defines a hedge fund as "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."⁸

SB 351 specifically exempts the following entities from the definition of "private equity group" and "hedge funds":⁸

- Natural persons or other entities that contribute or promise to contribute funds but otherwise do not participate in

the management of the fund, private equity group or its assets

- A hospital or a hospital system that owns one or more licensed general acute care hospitals, an affiliate of a hospital or hospital system, or any entity managed or controlled by a hospital or hospital system
- A public agency

SB 351 prohibits private equity groups and hedge funds involved with a physician or dental practice doing business in California from interfering with the professional judgment of physicians or dentists in making healthcare decisions, including choice of diagnostic tests, referral decisions, and treatment options.⁸⁻¹⁰ It also prohibits them from exercising control or power over specified activities, such as selection of medical/dental staff, medical equipment, and medical supplies, in violation of the existing ban on the corporate practice of medicine or dentistry. SB 351 also prohibits contracts between private equity or hedge funds and physician or dental practices from containing specified noncompete clauses or nondisparagement clauses. Finally, SB 351 empowers the Attorney General to enforce adherence to these provisions and to hold private equity groups and hedge funds accountable for violations of those specific prohibitions.⁸⁻¹⁰ These provisions aim to protect and preserve the sacred relationship between patients and their healthcare providers.

Conclusion

As private equity firms driven by profit motives purchase and invest in healthcare entities, concerns over their impact on patient care and provider autonomy exist. So far, evidence has pointed to potential negative impacts, such as increased cost, increased morbidity and mortality of patients, decreased patient satisfaction, decreased staffing, and increased bankruptcies that, in turn, affect care access. With recently passed laws such as SB 351, lawmakers are hoping to address some of these concerns by protecting healthcare providers from private equity groups exerting undue pressure and influence on patient care. As a state that has a ban on corporate practice of medicine, known as the Corporate Bar, California is standing up against lay entities exerting control over professional medical judgment, ensuring that medical decisions are made in the best interest of patients, not financial shareholders.

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Did you know?

According to federal disclosures compiled by the Private Equity Stakeholder Project, 25 PE-backed healthcare firms paid \$570 million in fraud settlements from 2013 to 2020 for allegedly overbilling programs such as Medicare and Medicaid.⁶



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