Proposed Expansion of California Healthcare Transaction Oversight Takes Aim at Private Equity

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California lawmakers continue their push for increased regulation of healthcare transactions—specifically, private equity ("PE") investments. On February 21, 2025, Assemblymember Mia Bonta, chair of the Assembly Committee on Health, introduced Assembly Bill 1415 ("AB 1415" or the "proposed bill"), which aims to expand the scope of transactions subject to review by the California Office of Health Care Affordability ("OHCA" or the "office"). Quick on the heels of Senate Bill 351,[1] the proposed bill takes aim at PE healthcare investments by, among other things, (i) including management service organizations ("MSOs") in the definition of a "health care entity" and (ii) requiring a PE group, hedge fund or "any newly created business entity created for the purpose of entering into agreements or transactions with a health care entity" (i.e., a "NewCo") to file pre-transaction notice with OHCA regarding certain material change transactions between such entity and (A) a "health care entity" or (B) an entity that owns or controls a "health care entity." If passed by the California legislature, the proposed bill would go into effect on January 1, 2026, providing very limited opportunity for existing investors to exit the market.

Background: How AB 1415 Compares to AB 3129. Last year, the California legislature passed Assembly Bill 3129 ("AB 3129"), which would have required PE groups and hedge funds to provide notice to, and obtain approval from, the California Attorney General ("AG") prior to entering into a healthcare transaction.[2] While Governor Newsom was supportive of AB 3129's efforts to expand regulatory oversight, he ultimately vetoed the bill, citing redundancy with OHCA's extant healthcare transaction review process. In drafting AB 1415, California lawmakers appear to have addressed the Governor's concerns: rather than create a parallel AG review process, the proposed bill seeks to *expand* the scope of entities subject to regulation by OHCA. Further, AB 3129 would have empowered the California AG to reject, approve or conditionally approve a

[1] For more information on the proposed bill, please see our *Debevoise Update—California Legislature Again Seeks to Restrict Private Equity Investments in Healthcare*.

[2] For more information on AB 3129, please see our *Debevoise Debrief—California Lawmakers Target Private Equity and Hedge Fund Investment in Healthcare Entities*.

subject healthcare transaction: AB 1415, as currently drafted, would not grant OHCA such authority.

Although AB 1451 does not seek to grant OHCA express approval authority, the proposed expansion of OHCA's scope of review would significantly impact investors.

Expansion of Existing Notification Requirements. As detailed in our previous article,[3] California law currently requires a subject "health care entity"[4] to provide OHCA with 90 days' advance notice of any potential agreement or transaction that involves (i) the sale, transfer or other disposal of a material amount of assets or (ii) the transfer of control or governance of a material amount of assets or operations. AB 1415 would, among other things, substantially broaden the scope of OHCA's authority by amending the definition of "health care entity" to expressly include MSOs.[5] Moreover, the proposed bill defines MSOs broadly as any entity that provides "administrative services or support" for a provider, including "utilization management services, billing and collections, customer service, provider rate negotiation, or network development." While the enumerated functions align with typical MSO activities, as currently drafted, the open-ended term would inadvertently capture a vast array of entities that would not typically be considered MSOs, such as revenue cycle management companies and third-party administrators.

Further, AB 1415 would impose a notification requirement on PE groups, hedge funds and "NewCos."[6] Under existing law, transactions involving a PE group or hedge fund

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[3] For more information on OHCA's current regulatory authority, please see our *Debevoise Update—California's Office of Health Care Affordability Finalizes Health Care Transaction Notice Regulations*.

[4] The term "health care entity" is currently defined to include: (i) a payor, provider or fully integrated health care delivery system; (ii) pharmacy benefit managers; and (iii) any parents, affiliates or subsidiaries that act in California on behalf of a payor and (A) control, govern or are financially responsible for the health care entity or are subject to the control, governance or financial control of the health care entity or (B), in the case of a subsidiary, are a subsidiary acting on behalf of another subsidiary. Cal. Code Regs. Tit. 22, § 97431.

[5] In 2023, OHCA released draft regulations to implement and clarify the scope of regulated health care entities; the draft regulations defined "health care entity" to include MSOs. Following objections from several commentators, OHCA removed MSOs from the final definition. In the December 19, 2023 Health Care Affordability Board Meeting, Assistant Deputy Director Sheila Tatayon confirmed that while MSOs are not considered "health care entities," information from such entities may be captured to the extent they are parties to transactions with health care entities that would otherwise trigger notice obligations.

[6] AB 1415 retains the broad definitions of "Private Equity Group" and "Hedge Fund" used in prior proposed bills targeting PE investments in healthcare. "Private Equity Group" is defined 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" and does not include "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," and "Hedge Fund" is defined as "a pool of funds by investors, including a pool of funds managed or controlled by private limited partnerships, if those investors or the management of that pool or private limited partnership employ investment strategies of any kind to earn a return on that pool of funds."

and a "health care entity" are already reportable to OHCA: however, as the subject party, the health care entity, rather than the investor entity, is required to submit the notice. If enacted, AB 1415 would require investors, as submitting parties, to provide a significant amount of information to OHCA including, among other things, financial statements, organizational charts and details regarding past healthcare transactions. Additionally, while OHCA does not have the power to reject or condition the transaction, review processes may be lengthy as well as costly.

Looking Ahead. Extant OHCA review processes have added layers of regulatory complexity for stakeholders: AB 1415 represents a potentially significant expansion of oversight in an already complex regulatory environment. If passed, the proposed bill could have a material impact on access to much-needed capital for California healthcare systems and providers by chilling private equity and hedge fund investments. In the coming months, the proposed bill is likely to receive significant pushback from investors and other affected stakeholders, including entities "inadvertently" captured by the bill's overbroad definition of "MSO."

We will continue to monitor the status of this proposed legislation and similar legislative developments.

Andrew L. Bab
Partner, New York
+1 212 909 6323
albab@debevoise.com

Spencer K. Gilbert
Partner, New York
+1 212 909 6265
skgilbert@debevoise.com

Kevin Rinker
Partner, New York
+1 212 909 6569
karinker@debevoise.com

Kim T. Le
Counsel, San Francisco
+1 415 738 5706
kle@debevoise.com

Mackenzie Mendolla
Associate, New York
+1 212 909 6620
mkmendolla@debevoise.com