Oregon Imposes Significant Restrictions on Private Equity Investment in Healthcare

June 12, 2025

On June 9, 2025, Governor Tina Kotek signed Oregon Senate Bill 951 ("SB 951" or the "bill")[1] into law, significantly curtailing private equity ("PE") investment in healthcare.

With the passage of SB 951, Oregon now imposes the most stringent state legislative barrier in the country to PE investment in healthcare. Rather than targeting PE directly, however, this new law takes aim at PE by focusing on management service organizations ("MSOs"),[2] a common PE investment vehicle.

In addition to Oregon's anti-PE focus, the state has also increased its oversight over healthcare transactions, generally. In 2022, Oregon created the Health Care Market Oversight (the "HCMO") program, which, among other things, endows the Oregon Health Authority (the "OHA") with the authority to block healthcare-related transactions outright or impose conditions to mitigate the potential for adverse effects to address the rise in consolidation and the downstream impacts on cost, access, equity and quality.

SB 951, which garnered a bipartisan supermajority in the Oregon House of Representatives, seeks to strengthen the state's existing corporate practice of medicine ("CPOM") restrictions by regulating MSOs. Proponents of the bill argued that, despite Oregon's long-standing CPOM prohibition, MSOs have emerged as a mechanism for PE firms to exert control over physician groups and clinical decision-making; thus, additional restrictions are necessary to ensure that "every Oregonian [knows] that decisions in exam rooms are being made by doctors, not corporate executives."[3] SB 951, among other things, expands Oregon's existing HCMO program restrictions on PE investment by specifically targeting MSOs, which are frequently used to structure PE investments. Opponents, however, argued that the bill would chill investment in the

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1 The bill can be found here.

2 MSOs provide non-clinical administrative and managerial services to medical practices.

3 Offices of Representative Ben Bowman, Representative Cyrus Javadi, Representative Lisa Fragala, *Oregon Passes First-in-Nation Bill to Block Corporate Takeovers of Medical Practices*.

state and negatively impact access to care, particularly in rural and underserved communities.

The bill, which contains an emergency clause, went into immediate effect; however, certain of the bill's prohibitions will be phased in, as discussed in greater detail below.

KEY PROVISIONS

Restrictions on MSO and Medical Practice Alignment

SB 951's novel and aggressive approach enhancing Oregon's CPOM doctrine includes limitations on the ownership and control by MSOs of the medical practices they manage by prohibiting MSOs and their affiliates from owning or controlling a majority of shares in, or serving on the board of directors of, the medical practices they serve. Further, the bill prevents an MSO from compelling or blocking the sale by the owner of the practice of the medical practice, except under very limited circumstances, such as the revocation of professional licensure. These restrictions, which will seriously hamper PE's medical practice investment model, will take effect on January 1, 2026, impacting (i) MSOs and medical entities incorporated or organized in Oregon on or after the effective date of the legislation and (ii) sales and/or transfers of ownership interests in such MSOs or medical entities occurring on or after the effective date of the legislation. Existing MSOs and medical entities will not be impacted by these restrictions until January 1, 2029, providing current investors with an opportunity to exit the Oregon market.

Limits on MSO Operations

SB 951 follows legislation in other states seeking to curtail the so-called "friendly physician" model by imposing more stringent restrictions on MSOs. The bill makes clear that MSOs and other non-licensed individuals are barred from exercising *de facto* control over clinical operations of a professional medical entity. Thus, while MSOs may provide administrative support to medical practices, SB 951 prohibits participation in clinical operations, defined broadly to include:

- hiring and firing, setting work schedules and compensation;
- setting clinical staffing levels and time with patients;
- making diagnostic coding decisions;
- setting clinical standards or policies;

- setting policies for billing and collection;
- setting prices and
- negotiating, executing, performing, enforcing or terminating contracts with third-party payors.

Covenants

For contracts entered into or renewed on or after the effective date of the legislation, SB 951 makes void and unenforceable (i) noncompetition agreements between MSOs and licensees that restrict the practice of medicine or nursing[4] and (ii) nondisclosure or nondisparagement agreements between licensees and MSOs, hospitals and/or hospital-affiliated clinics, with limited exceptions.[5]

Enforcement

In line with the OHA's existing power to review and approve transactions under the HCMO program, SB 951 authorizes the OHA to stop pending or future transactions that violate the bill. Further, violations of the new law's provisions prohibiting certain noncompete and nondisclosure agreements will constitute unlawful trade practices under Oregon's Unlawful Trade Practices Act (the "UTPA"): private parties may bring a private right of action under the UTPA for actual and punitive damages, along with attorney fees.

LOOKING AHEAD

SB 951 signals a growing movement by states to limit the role of non-clinical entities, especially PE, in healthcare. While Oregon's approach as outlined in the bill is the most stringent in the country, other states may follow.

SB 951 will have disruptive effects for PE firms and MSOs, making it more challenging for investors to do business in the state. Multi-state transactions, too, will be subject to SB 951 with respect to Oregon-based entities and licensees. As a result, legal counsel should evaluate current MSO agreements and investment structures involving Oregon-based medical entities for compliance with the bill. Stakeholders should be prepared to

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[4] SB 951 significantly expands existing Oregon law, imposing restrictions on noncompete agreements, by outright prohibiting noncompete agreements between MSOs and licensed medical providers.

[5] Notably, SB 951 permits enforcement of noncompetition agreements that are executed as part of the sale or disposition of an MSO, in recognition of the legitimate business interest in protecting value during a transfer of ownership. Beyond this specific context, however, noncompetition agreements are broadly prohibited.

adjust typical service agreements, ownership structures and internal policies to align with SB 951's requirements.

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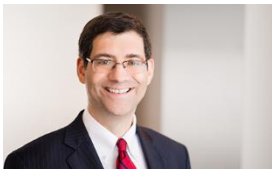
Please do not hesitate to contact us with any questions.



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

Hannah R. Levine
Associate, New York
+1 212 909 6095
hrlevine@debevoise.com

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