© 2026 Thomson Reuters. Originally appeared in the Fall 2026 issue of Real Estate Finance Journal.
For more information on that publication, please visit legal.thomsonreuters.com. Reprinted with permission.

California's OHCA Publishes Draft Regulations to Capture Health Care Transactions With Private Equity, Hedge Funds and MSOs

*Paul A. Gomez, Ashley N. Osak and Matthew T. Lin**

In this article, the authors discuss proposed regulations that, among other things, demonstrate the interest of California's Office of Health Care Affordability in details of the arrangements between private equity groups and California health care entities and the impact of transactions on real estate where health care is delivered.

California's Office of Health Care Affordability (OHCA) has published draft regulations that would implement the expansion of its jurisdiction to address private equity, hedge funds and certain management services organizations (MSOs). The regulations are meant to hone the filing requirements expanded by statute in AB 1415, which went into effect at the beginning of the year, but OHCA has also taken the opportunity to revise certain requirements and procedures that are not captured by AB 1415. The expanded scope of OHCA's regulations will capture a greater number of transactions in California, and will require that investors consider potential transaction timeline impacts and the scope of diligence related to anticipated investments, among other strategic considerations. The initial draft of the proposed regulations demonstrates a maximalist expansion of OHCA's jurisdiction and will likely be further revised in the coming months to refine the language and resolve conflicts in the current draft.

OHCA's proposed changes are described below.

PROPOSED CHANGES TO DEFINITIONS, THRESHOLDS AND REPORTED MATERIAL CHANGE TRANSACTIONS

- "Management Services Organization" would be defined to include entities providing services described in AB 1415 (i.e., entities providing management and administrative support services for a provider, as that term is defined by OHCA) and require one of the following factors: (1) it is owned by a hospital and has two or more physician organizations as clients or affiliates; (2) it employs the

*The authors, attorneys with Polsinelli, may be contacted at pgomez@polsinelli.com, aosak@polsinelli.com and mlin@polsinelli.com, respectively.

physician-owner of one or more physician organizations, or otherwise has an agreement with the physician-owner or one or more physician organizations that defines the services to be provided and compensation for such services; (3) it shares directors, officers, investors or other natural persons with the ability to exercise control with respect to a health care entity; or (4) it is affiliated with at least two of the following: (A) a health plan, (B) two or more physician organizations, or (C) a hospital. It is worth noting here that references to physician organizations do not appear to pertain only to those with 25 or more physicians—assuming that is correct, an entity might qualify as a "management services organization" for OHCA purposes even if it manages one or two small physician practices, depending on the circumstances.

- "Submitter" would include both health care entities and noticing entities. Further, it would also include entities that are referred by another California state agency to provide notice. This implies that OHCA may seek to obtain notices from parties that are otherwise excluded by OHCA's governing law if it obtains a referral for notices from other agencies.

- Asset and revenue thresholds for health care entities would be largely preserved (generally requiring the health care entity to have $25 million or $10 million in California assets or revenues), but the language was expanded to address transactions involving private equity groups, hedge funds and MSOs. However, although not entirely clear, the regulations appear to exempt MSOs for the thresholds in transactions where a private equity group or hedge fund is acquiring 5% or more of the assets, equity, debt or liabilities of an MSO. The proposed regulations would benefit from more clarity on this point.

- A new type of material change transaction would be added for private equity or hedge fund acquisitions of health care entities or MSOs. The change specifically captures transactions resulting in a private equity group or hedge fund holding 5% or more of the assets, equity, debt or liabilities of a health care entity or an MSO. The change also captures transactions resulting in the acquisition of assets, equity, debts or liabilities where the private equity group or hedge fund has the authority to do any of the following: (1) appoint, or replace leadership or governing body members of the health care entity or MSO; (2) vote on decisions made by a health care entity or MSO; (3) alter operations by expanding or reducing health care services offered by the health care entity or changing arrangements with MSO or payers; (4) purchase the real property of a health care entity where services are provided and lease the property back to the health care entity; (5) cause, require, approve or veto the incurrence of indebtedness by the health care entity or MSO; (6) manage or operate a health care entity or MSO, such as through management agreements, consulting agreements, administrative services agreements or affiliated MSOs; (7) charge fees to the health care entity or MSO; or (8) spend the capital and net

© Thomson Reuters

income of a health care entity or MSO, such as by approving, directing, restricting or controlling budgets, capital expenditures, distributions or the use of net income or tax reserves.

- A new type of material change transaction would be added for transactions involving MSOs, including transactions that result in (1) an MSO providing management and administrative support services for a health care entity with at least $25 million in California assets or revenue; (2) an MSO providing management and administrative support services for two or more providers that collectively generate $10 million annually from California patients; or (3) involve the transfer of control, responsibility or governance, in whole or in part, of the MSO, or the change in 25% or more of the MSO's ownership. At present there appears to be some potential overlap and duplication with the prior MSO-related type of material change transaction noted immediately above.

- A new type of material change transaction would be added for real estate transactions where a health care entity provides health care services, including transactions involving the sale or transfer of such real estate to an entity other than the entity acquiring health care entity or its direct parent and that require the surviving health care entity to lease or pay rent for the real estate.

PROPOSED CHANGES TO DISCLOSURE REQUIREMENTS

- Required information in notices to OHCA would be updated to address private equity, hedge funds and MSOs. Among others, the additional disclosed information includes: the owners of any real property involving the transaction where services are provided; the types of services provided by an MSO and its geographic service area; the names of health care entities or MSOs owned or financed by the participating asset managers and funds managed by private equity groups or hedge funds; names of all affiliates, parents and subsidiaries of the submitter; names of all members of the submitter's governing body; each party to a transaction's affiliation with an MSO and other parties to the transaction; anticipated cost savings, quality investments, price reductions or services expansions as a result of the transaction; descriptions of post-transaction changes to the identification of all entities or persons with 5% or more ownership in each entity, including intermediate entities, entities controlled by the acquiring entity and any such entities or persons with 5% or more ownership that will exist post-transaction; changes to voting rights, decision-making authority and management and compliance structures of the submitter and parties to the transaction; and changes to real estate where health care services are provided, including sales, transfers to affiliates, encumbrances or updates to landlord-tenant agreements.

- OHCA added new documents to be submitted with notices to address private equity, hedge funds and MSOs. These new documents include copies of lease-back agreements; organizational charts

© Thomson Reuters

for any party to or subject of a transaction up through the ultimate parent entity and including any subsidiaries, organizational charts for any health care entity or noticing entities that show all entities or persons with 5% or more ownership in the entity, and proposed post-transaction organizational charts. Private equity groups and hedge funds are also required to provide documentation showing names of all health care entities and MSO in the portfolios of participating asset managers, as well as documentation showing the ratio of debt to enterprise value or ratio of debt to equity, the source of any debt and the post-recapitalization debt ratio for any acquired health care entity or MSO.

PROPOSED CHANGES TO COST AND MARKET IMPACT REVIEWS

- The procedure for requesting expedited review of notices of material change transactions was mostly unchanged. However, OHCA added that it would consider urgent situations not of the submitter's own making, such as a public health emergency, natural disaster or legal mandate, in which the public interest would be best served by an expedited review.
- In deciding whether to conduct a CMIR, OHCA added that it would consider as a factor the involvement of a real estate investment trust (REIT) in a transaction that could weaken the financial status of the health care entity or risk access to care.
- If a party requests review of the determination to conduct a CMIR, OHCA's director would be allowed to remand the determination upon receipt of new information submitted in the party's request for review, upon which OHCA would have 30 days to conduct an additional review as directed in the remand order. The 30-day review period could be tolled if needed to review voluminous information or if additional information or documents are needed.
- During a CMIR, OHCA may request the production of additional documents and information as part of its review. The party subject to the review would be permitted to request confidentiality of the documents in accordance with OHCA's current procedures for requesting confidentiality.

IN SUMMARY

- OHCA has published draft regulations that expand its pre-transaction notice requirements to transactions involving private equity groups, hedge funds, certain management services organizations and newly created entities entering into transactions with health care entities.
- OHCA also proposed revised standards and procedures in its existing regulations, including adding information and documents to be disclosed and refining the procedures for conducting Cost and Market Impact Reviews.
- Among other focuses, the proposed regulations demonstrate OHCA's interest in details of the arrangements between private equity groups and California health care entities and the impact of

© Thomson Reuters

transactions on real estate where health care is delivered. Some of the new standards and requirements bear a notable resemblance to language used in some terms of the recent proposed settlement between the California Attorney General and a private equity owned dental services organization, suggesting that the Office of the California Attorney General and OHCA may be in communication on this front to help ensure more broad review of certain key elements of some health care transactions.

- The proposed new submission requirements would impose significant additional burdens on private equity and hedge fund investors as well as California health care entities that would like to receive investments of capital and enter into transactions with them, potentially deterring further investment in some cases. Greater scope of review by OHCA and significant additional submission burdens placed on private equity and hedge funds in the health care sector may result in longer review times, further delayed investments and higher transaction costs for health care investors and providers in California.

CONCLUSION

Many of OHCA's proposals may dissuade or delay investment by private equity groups and hedge funds in California's health care market. The proposal sets low thresholds for new potential filing requirements and would require an increased amount of information to be provided in transaction notices. While OHCA still does not have the authority to approve or disapprove a transaction, the long delays and expansive disclosure requirements will likely impact considerations by health care investors and providers as they evaluate entering into or expanding their presence in the California market. The thresholds and disclosure requirements for MSOs should also be further refined to add clarity as to the types of transactions involving MSOs that are subject to notice.

Investors and providers in the California health care industry should continue to monitor the development of these regulations to evaluate whether future transactions may be subject to pre-closing notice and if so, balance the potential additional time and cost-related burdens against the expected benefits and value of pending or anticipated transactions on the horizon for later this year and beyond.

© Thomson Reuters