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Oregon Governor Signs S.B. 951, Representing the Nation's Most Onerous Restriction on the Friendly PC Model

Health Care Law Brief on **June 11, 2025**

Over the past 3 years, as chronicled in several Proskauer alerts, an increasing number of states have sought to regulate physician practice management ("PPM") and private equity transactions in the health care sector, including California, New York, Washington, and Illinois.

The regulation of health care transactions remains an evolving area of the law, drawing continued interest from state lawmakers and interest groups in a number of states.

Most recently, on June 9, 2025, Oregon Governor Tina Kotek signed S.B. 951 into law ("Oregon Law"), which imposes significant restrictions on the traditional PPM structure, pursuant to which a management services organization ("MSO") enters into an exclusive and long-term management services arrangement ("MSA") with a friendly physician-owned professional entity ("Friendly PC"). The Oregon Law is substantially similar to H.B. 4130, which was introduced and analyzed on this blog last year.

While other states have sought to regulate health care transactions primarily through transaction review mechanisms, Oregon's Law takes a more aggressive approach by codifying direct restrictions on the corporate practice of medicine. The enactment of this law may prompt lawmakers in other states to adopt similar strategies—shifting from oversight of transactions to imposing substantive limitations on Friendly PC-MSO relationships.

The Oregon Law Contains a Number of Provisions That Target the PPM/Friendly PC Model

Subject to a few limited exceptions, the Oregon Law would materially impact the traditional PPM/Friendly PC model by strengthening and codifying new restrictions related to the corporate practice of medicine, largely contained in §1(2)(a) of the Oregon Law.

S.B. 951 §1(2)(a) Provision	Impact and Considerations

An MSO, and any shareholder, director, member, manager, officer or employee of an MSO, may not: (A) "own or control… a majority of shares" in a Friendly PC; (B) serve as a director, officer, employee or contractor of a Friendly PC; or (G) acquire or finance the acquisition of the majority of shares of a professional medical entity. *See* S.B. 951 § 1(2)(a)(A), (B), and (G).	*The Oregon Law appears designed to restrict the use of nominee owners. The Oregon Law largely requires Friendly PC owners and practicing physicians to have an arms-length relationship with an MSO.* *However, certain exceptions exist, including for physicians whose ownership in the MSO "is incidental and without relation to the individual's compensation" with the MSO. See* S.B. 951 § 1(3)(b).
An MSO, and any shareholder, director, member, manager, officer or employee of an MSO, may not enter into an agreement to control or restrict the sale or transfer of a Friendly PC's interest or assets. *See* S.B. 951 § 1(2)(a)(D).	*The Oregon Law will generally invalidate certain succession planning arrangements, such as Succession Agreements or Stock Transfer Restriction Agreements, which are currently disfavored in some states but some version of which are utilized in most Friendly PC structures. Section 1(2)(b) of the Oregon Law, however, sets forth limited conditions under which a Friendly PC may enter into a succession planning agreement.* ***The conditions are for-cause conditions;*** *for example, revocation of a Friendly PC owner's medical license or upon the owner's death.* ***Importantly, the Oregon Law permits a succession planning agreement to be triggered upon "the professional medical entity's breach of a contract for management services" with an MSO.*** *Although the Oregon Law does not permit succession planning conditions that are purely at the MSO's discretion, the foregoing provision may provide MSOs, and their investors, some comfort.*

An MSO, and any shareholder, director, member, manager, officer or employee of an MSO, may not exercise "de facto control" of over the administrative, business or clinical operations of a Friendly PC "*in a manner that affects the professional medical entity's clinical decision making or the nature or quality of medical care*." *See* S.B. 951 § 1(2)(a)(H). The Oregon Law explicitly defines several methods by which such loss of "control" might be actualized. These include, but are not limited to: determining staffing levels; advertising the PC under a name of an entity that is not the PC; controlling diagnostic coding decisions, determination of clinical standards, protocols; establishing policies for patient care and/or billing and collection; setting pricing for clinical services; and entering third-party contracts or payor arrangements.

These restrictions represent a significant departure from the latitude typically granted in dividing roles and responsibilities between the Friendly PC and MSO. For example, PPM/Friendly PC arrangements typically bifurcate non-clinical roles assumed by an MSO and the clinical roles assumed by the Friendly PC. The Oregon Law appears to make physician compensation and scheduling, terms that may typically be set with the consent or input of the MSO, the exclusive purview of the Friendly PC.

Certain MSOs Are Exempt from the Oregon Law's Requirements

Notably, certain MSOs are exempt from the above requirements. For example, the restrictions do not apply to MSOs that are majority-controlled by the Friendly PC (*See* S.B. 951 § 1(3)(c)), MSOs that contract with telemedicine practices with no physical location in the state (*See* S.B. 951 § 1(4)(a)), hospital affiliates, behavioral health service providers or Program of All-Inclusive Care for the Elderly ("PACE") organizations. *See* S.B. 951 § 1(3)(e).

The Oregon Law Includes a Blue Pencil Provision That Invalidates Non-Compliant MSA Terms

Last year's proposed bill would have granted the Oregon Secretary of State the power to "administratively dissolve" a PC or limited liability company that violated the provisions of the bill. Such remedies, however, did not make their way into S.B. 951.

Instead, the Oregon Law, as enacted, contains a "blue pencil" provision that sets forth "a provision that authorizes or implements, or purports to authorize or implement, an act or practice that violates a prohibition set forth in subsection (2)(a) of this section is void and unenforceable." *See* S.B. 951 § 1(5)(a).

The Oregon Law Imposes Restrictions on Non-Compete Agreements in the Health Care Sector

Section 7 of the Oregon Law voids non-compete agreements that "restrict the practice of medicine" or the "practice of nursing." *See* S.B. 951 § 7(2)(a). Although the Oregon Law contains certain exceptions, the exceptions appear designed to exclude non-competes utilized between an MSO and Friendly PC. For example, a non-compete may be entered into between a professional entity and a shareholder of the professional entity, *provided that* the professional entity "does not have a contract for management services with a management services organization." *See, e.g.,* S.B. 951 § 7(2)(b)(C)(i).

Effective Date and Applicability

The Oregon Law will take effect immediately, with the following effective dates for certain sections:

- **January 1, 2026**: MSOs and Friendly PCs formed *on or after* the Oregon Law's effective date will become subject to Section 1 of the Oregon Law, which contains the Friendly PC / MSO restrictions.
- **January 1, 2029**: MSOs and Friendly PCs formed *before* the Oregon Law's effective date will become subject to Section 1 of the Oregon Law, which contains the Friendly PC / MSO restrictions.

In addition, Sections 5, 7 and 8 of the Oregon Law (concerning restrictive covenants) will apply to "contracts that a person enters into *or renews* on and after the effective date [of the Oregon Law]." *See* S.B. 951 § 9. As such, although existing arrangements are grandfathered, contracts with evergreen or auto-renewal provisions may become subject to the new restrictions upon renewal.

Proskauer's health care group will continue to monitor the Oregon Law for developments, and stands ready to advise clients on the impact of this Oregon Law and similar bills and regulatory regimes that target transactions in the health care sector.

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