

OREGON TARGETS PRIVATE EQUITY-BACKED MANAGEMENT SERVICES ORGANIZATIONS THROUGH EXPANSIVE CORPORATE PRACTICE OF MEDICINE BILL

On June 9, 2025, Oregon Governor Tina Kotek signed Senate Bill 951 ("SB 951") into law. This first-of-its-kind legislation targets private equity-backed management services organizations ("MSOs") and their professional medical entity ("PME") counterparts by strengthening the State's existing prohibition on the Corporate Practice of Medicine ("CPOM"). SB 951 goes into effect on January 1, 2026, with existing MSO-PMEs afforded a three-year grace period (ending January 1, 2029) to transition to compliant structures.

SCOPE OF THE LAW

SB 951 applies broadly to PMEs organized to enable physicians, physician associates, nurse practitioners and naturopathic doctors to jointly render professional health care services. The law is noticeably silent on its application to dental practices, veterinary practices, optometrists and behavioral health providers.

RESTRICTIONS IMPOSED BY SB 951

Ownership/Control Limitations. SB 951 imposes stringent limitations on MSO-PME ownership and control structures, prohibiting MSOs and their "shareholders, directors, members, officers, or employees" from owning a majority of shares in a PME or collectively owning or controlling a PME with a physician who is also a shareholder, director, member, manager, officer or employee of the MSO. This limitation on overlapping control between MSOs and PMEs has two notable exceptions:

- A physician who owns no more than 10% of a PME can also be an independent contractor of a related MSO so long as they do not have any other tie to the MSO and are compensated at fair market value for the medical services they provide.
- A physician can be a shareholder in an MSO if their shares are "incidental and without relation to" the physician's compensation as a shareholder, director, member, manager, officer, employee or independent contractor of the MSO.

Operational Restrictions. The Oregon legislature remained firm in its stance that MSOs do not have a seat at the clinical decision-making table. SB 951 expressly prohibits MSOs from "exercising ultimate decision-making authority" over certain administrative matters related to a PME's business operations, including:

- Hiring physicians;
- Setting work schedules and compensation;
- Setting billing and collection policies; and
- Negotiating contracts with private payors.

It remains permissible, however, for the MSO to provide "support, advice, and consultation" on the above matters, as well as "accounting, budgeting, personnel management, real estate and facilities management, and compliance with applicable laws." The MSO may also sell, lease or assign the right to possess corporate assets and advise the PME on its participation in value-based contracts, payor arrangements and vendor contracting.

Contractual Restrictions. SB 951 bars MSOs from holding contractual rights, commonly implemented through Stock Transfer Restriction Agreements ("STRAs"), that allow the replacement or removal of physician shareholders, except in limited circumstances, such as suspension or revocation of a shareholder's medical license or a shareholder's exclusion from a federal health care program.

LOOKING AHEAD

The Oregon legislature is currently considering House Bill 3410 ("HB 3410"), which would amend certain portions of SB 951 that restrict MSOs from owning a majority interest in PMEs. Specifically, as currently drafted, HB 3410 removes SB 951's prohibition on MSOs and their affiliates from serving as a director, officer, employee or independent contractor or receiving compensation from the MSO to manage or

direct the management of the PME.

PRACTICAL TAKEAWAYS

Hall Render recommends that any party to an existing Oregon MSO-PME structure, or any party contemplating entering into an MSO-PME, consider the following:

- **Review Physician Practice Arrangements.** Parties should conduct enhanced diligence on the ownership structures of both the MSO and PME to ensure minimal overlap in control and/or to ensure compliance with the exceptions included in SB 951.
- **Update Language in Management Services Agreements.** Parties should ensure existing and template management services agreements are compliant with the restrictions included in SB 951 regarding the PME's final decision-making authority over certain business functions.
- **Evaluate the Use of STRAs.** Parties should refer to the narrowly defined exceptions for ownership and conveyance documents related to PMEs and update STRAs accordingly.
- **Know Your Compliance Deadline:**
 - New Entities (formed after June 9, 2025) must be compliant by January 1, 2026.
 - Existing Entities (formed before June 9, 2025) must transition by January 1, 2029.

Hall Render will continue to monitor these developments and will provide further guidance as HB 3410 progresses through the Oregon legislature. In the meantime, if you have any questions on how these new requirements may affect your existing or upcoming MSO-PME arrangement, please contact:

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