LEGAL UPDATES

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California-Based Healthcare Transaction Subjected to OHCA's First Cost and Market Review

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On June 23, 2025, California's Office of Health Care Affordability (OHCA) issued a determination that a transaction submitted by Covenant Care California, LLC and its subsidiaries under the Material Change Transaction Notice requirements of the California Healthcare Quality Act will be subject to a Cost and Market Review (CMIR), marking the first time that a CMIR has been required. To date, 26 proposed transactions have been submitted to OHCA since April 12, 2024, and in 20 of those cases it has waived a CMIR. Five submitted transactions are still under preliminary review.

The Covenant Care transaction involves the transfer of the assets and operations of 22 skilled nursing facilities (SNFs) to subsidiaries of International Equity Partners, Spyglass Healthcare, Links Healthcare Group, and The Ensign Group, Inc. The aggregate consideration to be paid to Covenant Care (per the filed transaction documents that are publicly available) will be $25,000,000, which meets a threshold for submission of a Material Change Transaction Notice. The stated purposes for the deal are to ensure that the Covenant Care facilities will continue to be owned and operated by a licensee with access to the expertise to provide quality services and benefit from the incoming operators' and leaseholders' strong relationships with regulators, payors, and local communities.

Under the CMIR regulatory regime, OHCA will examine various aspects of the transaction that could affect availability of healthcare services, quality of services to be provided in the local affected communities, competition in the marketplace (as well as in the labor market), and the ability of the entities involved to meet OHCA healthcare cost targets. It will also consider consumer concerns, complaints against any of the entities involved, and public comments on the impact of the transaction. OHCA anticipates completing the CMIR by September 22, 2025. While OHCA does not have authority to block or impose conditions on the transaction, the results of the CMIR study will be available to the attorney general, who can undertake enforcement actions.

In this case the CMIR will be limited to an examination of the impacts of the transfer of only three of the 22 SNFs involved in the transaction; for the others it has waived CMIR. The reasoning for this distinction is not explained in the determination, but it likely relates to particular market overlap between the Covenant Care SNFs being sold in Los Angeles, Ventura, and Santa Barbara Counties and those currently operated by the purchasers. California law does impose restrictions on the number of SNFs that a licensee may operate within the state, although based on the submission to OHCA, it does not appear that this transaction will be affected by those limitations, hence the focus on more granular impacts in three counties.

What this means to you

The Covenant Care determination marks a major milestone in the evolution of OHCA oversight of healthcare transactions in California. In vetoing legislation last year that would have subjected private equity deals to review by the attorney general, Governor Newsom cited the existing OHCA review regime and stated that it should be given a chance to operate. There has been some skepticism about this position, given that OHCA has not, until now, ordered a CMIR. The results of the Covenant Care CMIR will give industry participants a better perspective on how the CMIR process will work in the future.

Contact us

If you have questions regarding California's Office of Health Care Affordability use of Cost and Market Reviews, please contact Andrew J. Demetriou or your Husch Blackwell attorney.