



Congress of the United States
House of Representatives
Washington, DC 20515

July 6, 2020

Jonathan Sokoloff, Managing Partner
Leonard Green & Partners
Suite 2000
Los Angeles, CA 90025

Dear Mr. Sokoloff,

We first wrote to you on June 4, 2020 to express serious concerns regarding actions Leonard Green & Partners has taken that undermine the stability of Prospect Medical Holdings, a chain of safety net hospitals. While we appreciate your detailed reply to our inquiry, your response is filled with inaccuracies about the hospitals and health care workers we represent, and it fails to address the key concern we raised: that the Leonard Green-led investor group that owns Prospect Medical has drawn \$658 million dollars in fees and dividends.

In your response, Leonard Green claims that Prospect Medical has seen enormous growth under the firm's leadership. In reality, Leonard Green's acquisition and expansion of Prospect appears to have been mostly aimed at creating a platform to raise debt so it could siphon off hundreds of millions of dollars in dividends and fees. Prospect's 'growth' was primarily through acquisitions, funded mostly with debt.¹ We noted in our letter that Leonard Green invested in Prospect in December 2010 through a going-private transaction. Leonard Green contested the related assessment we made that Leonard Green "loaded" Prospect with debt; however, regardless of if zero additional debt was incurred as a result of the transaction, based on Prospect's own financial statements, the company's long-term debt grew steadily reaching \$420 million by September 2013.² In 2018, Prospect took on \$1.1 billion in new debt in part to finance a \$457 million dividend.³ Leonard Green may not have used debt to finance the transaction, but it later loaded Prospect with debt to finance shareholder dividends. It appears that this has continued throughout Leonard Green's ownership: In its rationale for downgrading Prospect's credit rating in March 2019, Moody's noted that, "since completing a debt-funded sponsor dividend in early-2018, Prospect's leverage has increased significantly."⁴ Further, Moody's noted that Prospect's B3 Corporate

¹ Prospect Medical Holdings Financial Statement, 2018-19, Retrieved at: <https://pestakeholder.org/wp-content/uploads/2020/06/PMH-Financial-Statement-2018-2019.pdf>

² Prospect Medical Holdings Financial Statement, 2013, Retrieved at: <https://pestakeholder.org/wp-content/uploads/2020/06/PMH-Financial-Statement-2012-2013.pdf>

³ <https://pestakeholder.org/wp-content/uploads/2020/06/PMH-Financial-Statement-2018-2019.pdf>

⁴ Moody's Downgrades Prospect Medical Holdings, Moody's, Retrieved at: https://www.moody.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518

Family Rating “reflects the company's very high financial leverage, shareholder-friendly financial policies, and a history of failing to meet projections.”⁵

Prospect was able to pay off much of its long-term debt through its sale-leaseback with Medical Properties Trust. However, the sale-leaseback still increased Prospect’s overall liabilities, replacing debt with lease liabilities. Moody’s thus chose not to upgrade Prospect’s credit rating after the sale-leaseback, stating “the sale-leaseback transaction does not address the company's continuing operating challenges and lease-adjusted leverage will likely remain high.”⁶

In Leonard Green’s response, the firm wrote that “it is important to note that the dividends referenced in your letter were paid in May 2012, November 2012 and February 2018, long before the current COVID-19 crisis. The February 2018 dividend was not in violation of an agreement made with state regulators as stated in your letter.”⁷ We are concerned with all of the dividends taken since Leonard Green’s acquisition of Prospect. The financial difficulties these hospitals face during the COVID-19 crisis, and access to care and treatment for patients as a result, is due in part to financial decisions made prior to the pandemic. Many hospitals, especially those that make up the health care safety net, operate on razor thin margins.⁸ Because of essential safety measures that hospitals and workers must take to prevent virus spread, as well as necessary investments in infrastructure for COVID-19 treatment, hospital finances have reached a breaking point.⁹ Prospect’s Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) margin declined from 10.8% in 2015 to 0.6% in 2018.¹⁰ While Prospect’s assets exceeded its liabilities by \$36.4 million in September 2015, by September 2019 the company’s liabilities exceeded its assets by \$970 million.¹¹ Had Prospect Medical hospitals not faced financial difficulties prior to the pandemic, its hospitals and health care workers may be facing a less uncertain future. We are also concerned and disappointed that Leonard Green neglects to mention a fourth dividend of \$44.4 million that was made in 2019, according to Prospect’s 2018-2019 financial statements.¹²

Additionally, we’d like to discuss the claims made about our states, and the Prospect hospitals we represent. The letter asserted that Leonard Green has helped preserve points of access to care at hospitals in Connecticut. In reality, the firm has repeatedly refused requests to engage with community groups raising concerns about ongoing issues at the hospitals. Despite claims to have “secured” the system’s pension funds, Prospect’s pension funds dropped from being almost 69% funded as of September 2016 to

⁵ Moody’s Downgrades Prospect Medical Holding Incs CFR to B3 Outlook, Moody’s, Retrieved at: https://www.moodys.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518

⁶ Prospect Medicals Sale Leaseback Improves Liquidity, However Operating Challenges Continue, Moody’s, Retrieved at: https://www.moodys.com/research/Moodys-Prospect-Medicals-sale-leaseback-improves-liquidity-however-operating-challenges--PR_40511

⁷ Letter from Leonard Green & Partners to Reps. Porter, Doggett, Scanlon, and DeLauro.

⁸ Nonprofit, public hospital margins hit 10-year record low, Moody's report says, Healthcare Finance, Retrieved at: <https://www.healthcarefinancenews.com/news/nonprofit-public-hospital-margins-hit-10-year-record-low-moodys-report-says>

⁹ Operating margins plummet at US hospitals, Kaufman Hall says, Healthcare Dive, Retrieved at: <https://www.healthcaredive.com/news/Kaufman-hospitals-operating-margin-decline/576491/#:~:text=Dive%20Brief%3A&text=Based%20on%20March%20data%20from,dire%20picture%20for%20U.S.%20hospitals.>

¹⁰ Leonard Green Prospect Medical Dividends, Private Equity Stakeholder Project, Retrieved at: <https://pestakeholder.org/wp-content/uploads/2020/05/UPDATE-Leonard-Green-Prospect-Medical-Dividends-PESP-051420.pdf>

¹¹ Prospect Medical Holdings Financial Statement 2018-2019, Private Equity Stakeholder Project, Retrieved at: <https://pestakeholder.org/wp-content/uploads/2020/06/PMH-Financial-Statement-2018-2019.pdf> and Prospect Medical Holdings Financial Statment 2015-2016, Private Equity Stakeholder Project, Retrieved at: <https://pestakeholder.org/wp-content/uploads/2020/05/PMH-and-Chartercare-Financial-Statements-2015-2016.pdf>

¹² Prospect Medical Holdings Financial Statement 2018-2019, Private Equity Stakeholder Project =, Retrieved at: <https://pestakeholder.org/wp-content/uploads/2020/06/PMH-Financial-Statement-2018-2019.pdf>

being 60% funded as of September 2019, with a \$308 million unfunded pension liability.¹³ In conversations with Prospect workers at Eastern Connecticut Health Network (ECHN) we were told that Prospect committed in writing to reinstate retirement contributions but has since not followed through on its promise. Additionally, in the midst of the COVID-19 pandemic, Prospect ECHN workers have also reported that they were being asked to reuse N95 masks for as long as seven days, creating transmission risks for patients and unsafe working conditions for nurses.¹⁴ Other nearby hospitals, at the same time, were no longer crisis rationing masks and gave workers new masks every day.

In Pennsylvania, you claim to have not only saved the Crozer-Keystone Health System, but to also have secured the system's existing pension fund. However, Prospect is terminating the pension in Pennsylvania by July 2021. The company's 2018-2019 financial statement explains that the "company will liquidate, fully fund and satisfy, and pay all benefits owed to participants and beneficiaries of the plan by providing lump sum distributions to participants, purchasing annuities for participants who do not elect a lump sum distribution."¹⁵ Moreover, according to the Pennsylvania Association of Staff Nurses and Allied Professionals, nurses, techs, professionals, and medics at Prospect hospitals in Pennsylvania have reported routine short staffing and supply shortages that negatively impact Prospect's ability to provide safe patient care.

In converting the CharterCARE hospitals in Rhode Island from non-profit to for-profit in 2014, Prospect committed to make a capital commitment of at least \$50 million to the hospitals.¹⁶ The City of Providence and the Town of North Providence provided Prospect with tax exemptions and tax stabilizations based on the understanding that Prospect would invest at least \$50 million in capital improvements to the Rhode Island hospitals. In real estate taxes alone, Prospect and its subsidiaries are expected to have saved more than \$41.8 million in taxes that would otherwise be due to the City of Providence and Town of North Providence.¹⁷ It is unknown how much of that commitment Prospect has satisfied. Leonard Green only mentions \$15.1 million for a new emergency department.¹⁸ Prospect has not provided adequate documentation of fulfilling the \$50 million capital commitment it made as part of the transaction to acquire its Rhode Island hospitals.¹⁹ It is not clear whether Prospect followed through on its commitment.

Further, the United Nurses and Allied Professionals, which represents workers at the Prospect's Rhode Island CharterCARE hospitals, contests Leonard Green's assertions about the pension. They allege that Prospect represented that the \$14 million it contributed in connection with acquiring the hospitals would be followed with additional contributions that would secure the pension, indicating that the pension would be 70% funded in 2032.²⁰

¹³ Prospect's Change in Effective Control Application submitted to the Rhode Island Department of Health https://drive.google.com/file/d/1vYdWVfRgKHQ3u_thgz0qZA7UuPffWBS/view

¹⁴ Prospect ECHN unions seek protections for workers, Retrieved at: https://www.journalinquirer.com/connecticut_and_region/prospect-echn-unions-seek-protections-for-workers/article_9bb792c6-8fb4-11ea-904d-af480d5a4fb1.html

¹⁵ Prospect Medical Holdings Consolidated Financial Statements as of and for the Years Ended September 30, 2018 and 2017. Prospect Medical Holdings Consolidated Financial Statements as of and for the Years Ended September 30, 2016 and 2015. (pg. 1049) https://drive.google.com/file/d/1vYdWVfRgKHQ3u_thgz0qZA7UuPffWBS/view

¹⁶ CCCB v. Lee et al., CA NO. PC-2019-3654

¹⁷ CCCB v. Lee et al., CA NO. PC-2019-3654

¹⁸ From Leonard Green's response: Furthermore, the once failing CharterCARE hospitals in Rhode Island have been transformed, including a \$15.1 million new comprehensive emergency department that handles 32,000 emergency and urgent care visits each year.

¹⁹ CCCB v. Lee et al., CA NO. PC-2019-3654

²⁰ Affidavit of Chris Callacci submitted in re CharterCARE Health Partners Foundation, Roger Williams Hospital and St. Joseph Health Services of Rhode Island. CA No.: KM-2015-0035. <https://pestakeholder.org/wp-content/uploads/2020/06/UNAPAffidavit.pdf>

Finally, let us be clear: It is not appropriate for private equity firms to generate returns for their investors by extracting hundreds of millions of dollars from safety net hospitals, regardless of who their investors are. Having pension funds as investors does not justify Leonard Green taking critical funds from safety net hospitals and the pension funds of health care workers. Using the pension funds of public employees and other first responders as a cover for the harmful actions Leonard Green has taken against these hospitals and health care workers is unacceptable and dishonest. While some of Leonard Green's investors are pension funds, 22% of the investors in Green Equity Investors V are funds of funds, based on Leonard Green's most recent SEC Form ADV filing.²¹

Today, Leonard Green is attempting to walk away from its 60% stake in Prospect for a virtually nothing - \$10 million. If Leonard Green truly believed Prospect were well-capitalized it would not value the overall equity in the company for just \$16.7 million.²² So we ask that this time, Leonard Green & Partners actually respond to our initial inquiry. We ask that Leonard Green return the fees and dividends the firm has collected from Prospect Medical, and that the firm takes all other steps necessary to guarantee continuity of care for patients. Investors have a duty to be stewards of the businesses they own, including protecting healthcare workers, delivering on promises to patients, and respecting applicable law.

Thank you for your attention to this issue, and we look forward to your reply.

Best,



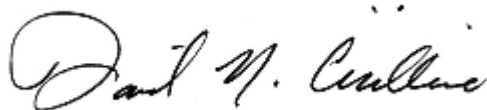
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DAVID CICILLINE
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²¹ Leonard Green ADV, SEC, Retrieved at: <https://reports.adviserinfo.sec.gov/reports/ADV/158164/PDF/158164.pdf>

²² Change in Effective Control Application submitted by Prospect CharterCARE to State of Rhode Island Department of Health, Center for Health Systems Policy and Regulation. Submitted February 19, 2020. Accessed May 5, 2020.