

June 28, 2024

Senate Judiciary Committee,
1021 O Street, Room 3240,
Sacramento, CA 95814
sjud.fax@sen.ca.gov

CA AB 3129 Testimony - Private Equity Stakeholder Project

Dear Chair Umberg, Vice-Chair Wilk and Members of the Committee,

The Private Equity Stakeholder Project (PESP) is a financial watchdog organization that seeks to bring transparency and accountability to the private equity industry for the benefit of impacted communities and investors.

We appreciate this opportunity to testify in support of AB 3129, as we believe it would create stronger oversight of private equity and hedge fund acquisitions of healthcare companies, as well as strengthen the bar on the corporate practice of medicine. Both of those goals are crucial to safeguarding the financial stability of California health systems.

California has had its share of problems with private equity healthcare investments.

Prospect Medical Holdings, the [private equity-owned safety net hospital chain](#)¹ that has been the subject of Congressional scrutiny,² investigations,³ and national media attention⁴ for its owners' profiteering, owns seven acute care and behavioral health hospitals in southern California.

¹ O'Grady, Eileen. *How Private Equity Raided Safety Net Hospitals and Left Communities Holding the Bag*, Private Equity Stakeholder Project, 29 Nov. 2022, pestakeholder.org/reports/how-private-equity-raided-safety-net-hospitals-and-left-communities-holding-the-bag/.

² Cooper, Laura, and Chris Cumming. "Leonard Green Comes Under Fire in Congress Over Hospital Management." *Wsj.Com*, Wall Street Journal, 9 June 2020, www.wsj.com/articles/leonard-green-comes-under-fire-in-congress-over-hospital-management-11591746452.

³ Kaplan, Michael. "Senators Probe Private Equity Hospital Deals Following CBS News Investigation." *Cbsnews.Com*, CBS News, 6 Dec. 2023, www.cbsnews.com/news/senators-probe-private-equity-hospital-deals-following-cbs-news-investigation/.

⁴ Elkind, Peter, and Doris Burke. "Investors Extracted \$400 Million from a Hospital Chain That Sometimes Couldn't Pay for Medical Supplies or Gas for Ambulances." *Propublica.Org*, ProPublica, 30 Sept. 2020, www.propublica.org/article/investors-extracted-400-million-from-a-hospital-chain-that-sometimes-couldnt-pay-for-medical-supplies-or-gas-for-ambulances.

[Pipeline Health](#), another private equity-backed safety net hospital chain⁵ known for its bankruptcy and closure of a Chicago-area hospital, also owns hospitals in southern California.

And the problems extend beyond hospitals – private equity-owned healthcare companies across the state have drawn scrutiny in recent years for business practices that hurt patient care, ranging from private equity-owned [group homes for people with disabilities](#)⁶ to the company that [provides healthcare](#) in many of California’s jails.⁷

This bill provides an opportunity for California to demonstrate leadership in addressing the growing role of private equity in healthcare. Private equity increasingly makes up a substantial portion of acquisitions of U.S. healthcare companies as a whole, reaching an all-time high in 2021 of 515 healthcare buyouts valued at \$151 billion.⁸ Private equity’s consolidation of healthcare has included troubling tactics such as aggressively looting safety net hospitals,⁹ stripping out valuable real estate,¹⁰ cutting critical but less profitable services,¹¹ and exploiting government funding programs¹² designed to support and stabilize healthcare access.¹³ There has been an

⁵ Bugbee, Mary. *How Private Equity Raided Safety Net Hospitals: Pipeline Health*, Private Equity Stakeholder Project, 18 July 2023, pestakeholder.org/reports/how-private-equity-raided-safety-net-hospitals-pipeline-health/.

⁶ Egusa, Chris. *Whistleblowers Call Out California Group Home for Abuse Against Disabled Residents*, KQED, 12 Dec. 2023, www.kqed.org/news/11969597/whistleblowers-call-out-california-group-home-for-abuse-against-disabled-residents.

⁷ Neilson, Susie. *California Health Care Giant Wellpath Fails Patients, Critics Say*, San Francisco Chronicle, 25 July 2023, www.sfchronicle.com/california/article/wellpath-health-care-jails-17917489.php.

⁸ “Healthcare Private Equity Market 2021: The Year in Review” (Bain & Company, March 16, 2022), bain.com/insights/year-in-review-global-healthcare-private-equity-and-ma-report-2022/.

⁹ O’Grady, Eileen. *How Private Equity Raided Safety Net Hospitals and Left Communities Holding the Bag*, Private Equity Stakeholder Project, Nov. 2022, pestakeholder.org/wp-content/uploads/2022/11/Prospect_Primer_Nov-2022.pdf.

¹⁰ DePillis, Lydia. *Rich Investors May Have Let a Hospital Go Bankrupt. Now, They Could Profit from the Land*, CNN, 29 July 2019, www.cnn.com/2019/07/29/economy/hahnemann-hospital-closing-philadelphia/index.html.

¹¹ Spegele, Brian. “A City’s Only Hospital Cut Services. How Locals Fought Back.” *Wsj.Com*, Wall Street Journal, 11 Apr. 2021, www.wsj.com/articles/a-citys-only-hospital-cut-services-how-locals-fought-back-11618133400.

¹² Batt, Rosemary, and Eileen Appelbaum. *Hospital Bailouts Begin — for Those Owned by Private Equity Firms*, The American Prospect, 2 Apr. 2020, prospect.org/economy/hospital-bailouts-begin-for-those-owned-by-private-equity-firms/.

¹³ Willmer, Sabrina. “A Wall Street Giant Tapped \$1.5 Billion in Federal Aid for Its Hospitals.” *Bloomberg.Com*, Bloomberg, 14 Sept. 2020, www.bloomberg.com/news/articles/2020-09-14/a-wall-street-giant-tapped-1-5-billion-in-federal-aid-for-its-hospitals.

PRIVATE EQUITY
STAKEHOLDER
PROJECT

increase in state and federal efforts to address the negative effects of consolidation, including this bill's introduction.¹⁴

PESP supports AB 3129. By strengthening its oversight authority over healthcare mergers, California can join the growing chorus of lawmakers that are choosing to prioritize the long-term health of its citizens over short-term profits.

Best,

A handwritten signature in black ink, appearing to read 'C. Noble', with a period after the first initial.

Chris Noble, Esq.
Policy Director
Private Equity Stakeholder Project

¹⁴ Kaye, Danielle. "States Fill Gaps in FTC Health-Care Consolidation Crackdown (1)." *Bloomberglaw.Com*, Bloomberg Law, 15 Mar. 2024, news.bloomberglaw.com/antitrust/states-fill-gaps-in-ftc-crackdown-on-health-care-consolidation.