

March 3, 2025

Public Health Committee
Connecticut General Assembly
Legislative Office Building Room 3000
Hartford, CT 06106

HB 6873 Testimony – Private Equity Stakeholder Project

Dear Co-Chairs Anwar and McCarthy Vahey; Vice-Chairs Belton, Marx, and McCrory; Ranking Members Somers and Klarides-Ditria; 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 HB 6873, as we believe it would create stronger oversight of private equity acquisitions of healthcare companies, an important step to safeguard the financial stability of Connecticut's health system.

Private equity has invested over \$1 trillion in the US healthcare sector over the last decade, and touches virtually every corner of the industry, including hospitals, physician specialties such as gastroenterology and anesthesiology, emergency medicine, dentistry, travel nursing, durable medical equipment, behavioral health, disability services, and healthcare services for people in prisons and jails.

Private equity's consolidation of healthcare has included troubling tactics such as aggressively looting safety net hospitals,¹ stripping out valuable real estate,² cutting critical but less

¹ 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.

² 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.

profitable services,³ and exploiting government funding programs⁴ designed to support and stabilize healthcare access.⁵

Putting profits before patients is not unique to private equity–owned healthcare companies. But because there’s less transparency around private equity deals and the companies they own, and because private equity firms tend to use more debt than other types of investors to fund their business strategies, the private equity business model can amplify the profit-seeking behaviors that put patients and healthcare workers at risk.

Private equity buyouts of healthcare companies too frequently end in bankruptcy, threatening the stability of the healthcare system. In 2024, one-fifth (21%) of healthcare bankruptcies involved private equity-owned companies. Seven out of eight (88%) of the largest (liabilities over \$500 million) bankruptcies in the healthcare industry in 2024 were at companies with a history of private equity ownership.⁶ And in 2025, we have already witnessed the bankruptcy of Prospect Medical Holdings, a multistate hospital system that owns three Connecticut hospitals: Waterbury Hospital, Manchester Memorial Hospital, and Rockville General Hospital.⁷

Prospect Medical Holdings

Between 2010 and 2021, private equity firm Leonard Green & Partners owned Prospect Medical Holdings.⁸ After Leonard Green acquired Prospect in 2010, it used the hospital chain as a platform to raise debt so it could siphon off hundreds of millions of dollars in dividends and fees. According to Prospect’s own financial statements, the owners collected at least \$658 million from the hospitals—despite dramatic operating challenges, substantially underfunded pensions, and increasing regulatory scrutiny.⁹

³ 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.

⁴ 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/.

⁵ 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.

⁶ PESP Private Equity Bankruptcy Tracker, 12 Feb, 2025. <https://pestakeholder.org/private-equity-bankruptcy/>

⁷ Vogel, Susanna. “Prospect Medical Holdings Files for Bankruptcy.” *Healthcare Dive*, January 13, 2025. <https://www.healthcaredive.com/news/prospect-medical-holdings-files-bankruptcy/737138/>.

⁸ “Prospect Medical Holdings Incorporated: News & Locations.” Accessed February 28, 2025. <https://www.pmh.com/>.

⁹ Elkind, Peter. “Rich Investors Stripped Millions from a Hospital Chain and Want to Leave It Behind. A Tiny State Stands in Their Way.” *ProPublica*, February 4, 2021. <https://www.propublica.org/article/rich-investors-stripped-millions-from-a-hospital-chain-and-want-to-leave-it-behind-a-tiny-state-stands-in-their-way>.

The largest dividend that Prospect's owners collected in 2018 directly contradicted a commitment Prospect had made to state regulators. When it bought several hospitals in Rhode Island in 2014, it told regulators it would not pay out any more dividends. Just four years later, it paid the ownership an almost \$460 million dividend. That same year, Prospect generated a \$244 million net loss.¹⁰

As a result of that dividend, Prospect ran out of cash by early 2019, forcing the owners to provide emergency cash infusion.

Prospect was eventually able to pay off the existing \$1.1 billion in debt it had accrued in part to fund dividends, but only by selling off the bulk of Prospect's real estate to Medical Properties Trust, a real estate investment trust (REIT). The transaction replaced debt with lease liabilities and left Prospect with fewer assets.¹¹ These lease liabilities would come to play a central role in Prospect's 2025 bankruptcy. As reported by *Bloomberg*, Prospect's second largest creditor in the bankruptcy is MPT, to which Prospect reportedly owed \$1.7 billion in unpaid rent and loans as of January 2025.¹²

Leonard Green's Representations to Members of Congress, Regulators

Leonard Green and Prospect misrepresented the financial condition of some of the hospitals when lawmakers and other stakeholders raised concerns.

Members of Congress with Prospect hospitals in their districts have written to Leonard Green twice, raising concern about the firm's treatment of the safety net hospital company and asking it to return the fees and dividends it collected.¹³ Leonard Green dismissed the lawmakers' concerns, writing: "We can assure you with firm, empirical confidence that Prospect remains well-capitalized with adequate liquidity and resources for its staff to address the current COVID-19 epidemic."¹⁴

¹⁰ O'Grady, Eileen. "UPDATE: Leonard Green-Led Ownership Collected \$658 Million in Dividends and Fees from Prospect Medical Holdings despite Challenges, Commitment to Regulators to Forgo Dividends." *Private Equity Stakeholder Project*, May 2020. <https://pestakeholder.org/wp-content/uploads/2020/05/UPDATE-Leonard-Green-Prospect-Medical-Dividends-PESP-051420.pdf>.

¹¹ O'Grady, Eileen. "Broken Promises: Regulators Question Leonard Green's Investment in Prospect Medical Holdings." *Private Equity Stakeholder Project* (blog), July 31, 2020. <https://pestakeholder.org/news/broken-promises-rhode-island-regulators-question-leonard-greens-investment-in-prospect-medical-holdings-2/>.

¹² Ma, and Jonathan Randles. "Prospect Medical Faces Landlord Brawl, Cash Burn in Bankruptcy." *Bloomberg*, January 15, 2025. <https://www.bloomberg.com/news/articles/2025-01-15/prospect-medical-faces-landlord-brawl-cash-burn-in-bankruptcy>.

¹³ Laura Cooper and Chris Cumming, "Lawmakers and Leonard Green Spar Over Hospital Operator," *Wall Street Journal*, July 6, 2020, sec. WSJ Pro, <https://www.wsj.com/articles/lawmakers-and-leonard-green-spar-over-hospital-operator-11594076954>.

¹⁴ Goldberg, "Leonard Green & Partners Response Letter to Members of Congress," June 12, 2020.

In response to a letter my organization wrote to Rhode Island regulators, Prospect wrote: “Contrary to PESP’s assertions, Prospect today remains extraordinarily well capitalized, faces no material financial challenges, and is at no risk of financial failure.”

Hospitals Suffered While the Owners Lined Their Pockets

Here is what was happening at the hospitals while Leonard Green was siphoning money from the company:

- Prospect’s hospitals had some of the lowest quality ratings from the Centers for Medicare and Medicaid Services—all but one had received one or two stars, the lowest quality ratings from CMS.¹⁵
- In Connecticut, state regulators placed Prospect’s three hospitals under review in 2019 for deteriorating conditions that placed patients in “immediate jeopardy.”¹⁶
- Prospect completely shut down all of its facilities in San Antonio in 2019—laying off nearly 1,000 workers¹⁷-- and sold its hospital building to a hotel developer.¹⁸
- The California Attorney General formally charged Prospect executives with “gross negligence” related to persistent mold contamination of a hospital pharmacy, including in equipment used to mix patient medications. In March 2021, the California Attorney General and State Pharmacy Board entered into a settlement with Prospect’s Southern California subsidiary, placing its hospital pharmacy permit and sterile compounding on probation for two years.¹⁹

¹⁵ CMS Hospital Compare, accessed March 2020. <https://www.medicare.gov/hospitalcompare/search.html>.

¹⁶ Kovner, Josh. “After 2 Deaths and a Series of Medical Errors, the for-Profit Owner of Waterbury and Manchester Hospitals Faces Protests, Major Sanctions.” *Hartford Courant*, June 2, 2019. <https://www.courant.com/2019/06/02/after-2-deaths-and-a-series-of-medical-errors-the-for-profit-owner-of-waterbury-and-manchester-hospitals-faces-protests-major-sanctions/>.

¹⁷ Ayla Ellison, “Texas Health System Closes Hospital, Lays off 972,” *Becker’s Hospital Review*, November 26, 2019, <https://www.beckershospitalreview.com/finance/texas-health-system-closes-hospital-lays-off-972.html>.

¹⁸ Sanford Nowlin, “Hotel Company Purchases Downtown San Antonio’s Historic Nix Hospital Building,” *San Antonio Current*, January 3, 2020, <https://www.sacurrent.com/news/hotel-company-purchases-downtown-san-antonios-historic-nix-hospital-building-22709799>

¹⁹ Peter Elkind, “Investors Extracted \$400 Million From a Hospital Chain That Sometimes Couldn’t Pay for Medical Supplies or Gas for Ambulances,” *ProPublica*, September 30, 2020, <https://www.propublica.org/article/investors-extracted-400-million-from-a-hospital-chain-that-sometimes-couldnt-pay-for-medical-supplies-or-gas-for-ambulances>.

- In Rhode Island, poor infection control led to COVID-19 infection of 19 of the 21 geriatric psychiatric ward residents: six of them died. Six housekeeping staff also got COVID due to limited access to PPE. The head of the department died.²⁰
- Workers have complained of inadequate staffing. When Leonard Green first tried to sell Prospect in 2015, the company's prospectus touted its "cost-effective care" model, daily "flex" management of hospital staffing, and use of low-cost sources for medical supplies. In Pennsylvania, workers reported in September 2020 that staffing shortages forced scheduling delays for medical procedures.²¹

Despite what happened to Prospect and its hospitals, Leonard Green is off the hook – in June 2021 Leonard Green sold its majority stake in Prospect to the minority shareholders after a contentious year-long investigation by Rhode Island state regulators into the company's finances.²²

In the following years, Prospect's hospitals in Connecticut and Pennsylvania faced increasing financial distress, bringing risks to communities of losing access to local healthcare services.²³ The challenges faced by Prospect are directly related to the legacy of Leonard Green's past ownership of the health system in which it extracted hundreds of millions to leave patients, workers, and communities holding the bag.

In January 2025, Prospect filed for bankruptcy.²⁴ The bankruptcy comes on the heels of a damning report released by the Senate Budget Committee on January 7, in which the results of a year-long bipartisan senate investigation into Prospect were made public. The report highlights how Leonard Green's and Prospect's "primary focus was on financial goals rather than quality of care at their hospitals, leading to multiple health and safety violations as well as understaffing and the closure of several hospitals."²⁵ The report also notes how Leonard Green's and Prospect's

²⁰ Elkind.

²¹ Elkind.

²² Laura Cooper, "Rhode Island Regulator Approves Hospital Sale," *Wall Street Journal*, June 1, 2021, <https://www.wsj.com/articles/rhode-island-regulator-approves-hospital-sale-11622591539>

²³ Bugbee, Mary. "Prospect Safety Net Hospitals Continue to Struggle under the Legacy of Leonard Green's Past Ownership." *Private Equity Stakeholder Project* (blog), November 8, 2023. <https://pestakeholder.org/news/prospect-safety-net-hospitals-continue-to-struggle-under-the-legacy-of-leonard-greens-past-ownership/>.

²⁴ Vogel, Susanna. "Prospect Medical Holdings Files for Bankruptcy." *Healthcare Dive*, January 13, 2025. <https://www.healthcaredive.com/news/prospect-medical-holdings-files-bankruptcy/737138/>.

²⁵ "Profits Over Patients: The Harmful Effects of Private Equity on the U.S. Health Care System." Senate Budget Committee Bipartisan Staff Report, January 2025, 118th Congress. Pg. iii.

financial and operational mismanagement of the health system left it in “severe financial distress.”²⁶

For more on Prospect Medical Holdings, see our report: “How Private Equity Raided Safety Net Hospitals and Left Communities Holding the Bag” (November 2022) and here for a November 2023 update.

In recent months, multiple states have moved to address private equity’s negative impacts in healthcare, demonstrating how widespread of an issue it has become.²⁷ HB 6873 is an important step forward for Connecticut to address the growing role of private equity in its own health system.

HB 6973 would strengthen the existing “notice of material change” statute to ensure the Attorney General’s office and the Office of Health Strategy have oversight over transactions that could pose a risk to Connecticut’s healthcare systems’ quality, access, and affordability. Importantly, the bill language captures certain sale-leaseback transactions and joint ventures - both transaction types that are strategies used by private equity investors.

Private equity firms have increasingly used joint ventures with non-profit health systems as a growth strategy, giving the firms access to trusted brands and geographic markets they may otherwise not readily access. Joint venture partnerships may help both parties to evade antitrust scrutiny compared to traditional merger and acquisition growth strategies.²⁸ HB 6973 could help

²⁶ “Profits Over Patients: The Harmful Effects of Private Equity on the U.S. Health Care System.” Senate Budget Committee Bipartisan Staff Report, January 2025, 118th Congress. Pg. iv.

²⁷ Bugbee, Mary, Michael Fenne, and Chris Noble. “Recent Policy and Regulatory Initiatives to Address Private Equity’s Negative Impacts in Healthcare.” Private Equity Stakeholder Project, December 10, 2024. https://pestakeholder.org/wp-content/uploads/2025/01/PESP_Report_Healthcare-Policy_2024-compressed.pdf; Fenne, Michael, and Mary Bugbee. “New Mexico’s Proposed Measures for Hospital Merger Review.” *Private Equity Stakeholder Project PESP* (blog), February 21, 2025. <https://pestakeholder.org/news/new-mexicos-proposed-measures-for-hospital-merger-review/>; Bugbee, Mary. “Massachusetts Passes Healthcare Oversight Legislation in Response to Steward Health Care Crisis.” *Private Equity Stakeholder Project* (blog), January 21, 2025. <https://pestakeholder.org/news/massachusetts-passes-healthcare-oversight-legislation-in-response-to-steward-health-care-crisis/>; 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;

²⁸ Browder, Brian, Bill Katz, and Alexander Dudley. “Avoiding Antitrust Enforcement in Health Care Joint Ventures.” *Holland & Knight*, June 13, 2023. <https://www.hklaw.com/-/media/files/insights/publications/2023/06/avoiding-antitrust-enforcement-in-health-care-joint-ventures.pdf?la=en&rev=dbf428c005b24ac3b16322d2084e2f47>; “Recent Trends & Developments in Health Care Joint Ventures: Nonprofit/For-Profit Joint Ventures | Insights | Ropes & Gray LLP.” Accessed February 6, 2025. <https://www.ropesgray.com/en/insights/podcasts/2023/10/recent-trends-and-developments-in-health-care-joint-ventures-nonprofit-for-profit-joint-ventures>.

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to bring greater scrutiny to certain joint venture transactions and their potential impacts on competition and healthcare costs, quality, and access.

The bill includes “a real estate sale or lease agreement involving not less than twenty per cent of the assets of a health care entity” in the categories of material transactions that would be required to be reported to the Attorney General under the proposed law. This an important inclusion, as it would capture sale-leaseback arrangements like the one that occurred between Medical Properties Trust and Prospect Medical Holdings in 2019 and left Connecticut hospitals struggling under the weight of long term lease liabilities.²⁹

Private Equity Stakeholder Project supports HB 6873. By strengthening its oversight authority over healthcare transactions, Connecticut can join the growing chorus of lawmakers that are choosing to prioritize the long-term health of its citizens over short-term profits.

Best,



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Private Equity Stakeholder Project

²⁹ “Prospect to Receive \$1.55 Billion Investment from Medical Properties Trust, Inc.,” July 15, 2019. <https://www.businesswire.com/news/home/20190715005786/en/Prospect-to-Receive-1.55-Billion-Investment-from-Medical-Properties-Trust-Inc>; Pg. 6 of O’Grady, Eileen. “How Private Equity Raided Safety Net Hospitals and Left Communities Holding the Bag: A Case Study on Leonard Green & Partners’ Ownership of Prospect Medical Holdings.” Private Equity Stakeholder Project, November 2022. https://pestakeholder.org/wp-content/uploads/2022/11/Prospect_Primer_Nov-2022.pdf.