PRIVATE EQUITY STAKEHOLDER PROJECT

April 22, 2025

Committee on Health
California State Assembly
Capitol Office, 1021 O Street,
Sacramento, CA 95814

Testimony in Support of Assembly Bill 1415 – Private Equity Stakeholder Project

Dear Chair Bonta, Vice-Chair Chen, and Members of the Committee,

The Private Equity Stakeholder Project (PESP) is a non-profit 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 1415, as we believe it would create greater oversight and transparency of private equity acquisitions of healthcare companies that contribute to rising healthcare costs and declining access to quality care. Strong oversight of such transactions is crucial to safeguarding patients, healthcare workers, and the financial stability of California's health system.

Although AB 1415 is an important step in the right direction, we encourage the legislature to consider granting approval authority to the Office of Health Care Affordability (OHCA) over applicable healthcare transactions as well. Without such authority, for-profit healthcare transactions will be able to proceed without sufficient regulatory safeguards, potentially impacting prices, care quality, and access to care.

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.

A combination of factors has historically made healthcare an attractive space for private equity investment: a permanent demand for healthcare services, an aging population defined by a high disease burden, and the fact that many subsectors within healthcare are fragmented and therefore ripe for consolidation.

Private equity's role in consolidation of healthcare providers

Consolidation, or gaining greater market share by acquiring multiple companies and rolling them up into one big company, can generate profits for private equity investors hoping to sell the company down the road. This does not translate to cheaper or better care for patients; the available evidence shows that consolidation among healthcare providers drives up the cost of care with little or no improvement in the quality of care. Some studies even show declines in care quality.

Private equity firms acquire companies via two main strategies: leveraged buyouts and add-on acquisitions. A leveraged buyout (LBO) is when a private equity acquires a company, financing a substantial portion of the acquisition by taking out debt secured by the company it is buying. This means that the debt doesn't belong to the private equity firm and its investors—it's instead saddled onto the company being acquired, such as a health system or hospital. In a leveraged buyout, 60 to 90 percent of the transaction will typically be funded by debt.

An add-on acquisition is when a private equity firm uses a platform company to acquire another company. The platform company is one that the PE firm has already acquired or created to then be used to acquire multiple companies in a particular sector. Using this strategy can help investors' deals fall under the radar of the Federal Trade Commission (FTC) which is tasked with reviewing mergers and acquisitions that fall above the Hart-Scott Rodino threshold (which is about $126.4 million in 2025) for potential anticompetitive impacts. Deals that fall under this threshold do not have to be reported to the FTC, allowing private equity firms and other types of investors to use serial acquisitions of smaller companies.

In May 2024, the Federal Trade Commission (FTC) and Department of Justice (DOJ) Antitrust Division jointly launched a public inquiry on serial acquisitions and roll-up strategies used by corporate actors, including private equity firms, across a wide array of markets and industries.[1]

Former FTC Chair Lina M. Khan referred to the serial acquisition strategy as a "stealth consolidation scheme," explaining in the press release announcing the public inquiry that, "Firms can use serial acquisitions to roll up markets, consolidate power, and undermine fair competition, all while jacking up prices and degrading quality."[2]

The FTC and DOJ, alongside the US Department of Health and Human Services (HHS) launched a separate, but related, public inquiry in March 2024 into private equity firms' and other corporate owners' involvement in healthcare system transactions.[3]

On January 15, 2025, HHS released its report in response to the public inquiry. The release of the report was one of its last actions under the Biden administration.[4] The report highlights the impacts of increasing consolidation in our nation's healthcare markets and the recent influx of private equity and other private investors active in the sector.

The report calls for enhancing ownership transparency, increasing disclosures of mergers & acquisitions in healthcare by lowering reporting thresholds requiring review and approval, and empowering relevant authorities with data and resources needed to conduct review of healthcare transactions. It also calls for the federal government to pursue further enforcement actions to halt hospital mergers and industry rollups. And importantly, it calls for improvements in data sharing and other collaboration across agencies, Congress, and state and local authorities in an all-government approach to promote competition.[5]

AB 1415 is an answer to the call made by the HHS report. If passed, it could help bring greater transparency to private equity's role in "stealth consolidation."

In healthcare, private equity acquisitions are contributing to and have contributed to consolidation, which is often accompanied by higher prices in various subsectors,[6] including primary care,[7] emergency medicine,[8] eye care,[9] gastroenterology,[10] durable medical equipment,[11] anesthesiology,[12] dental care,[13] fertility clinics,[14] methadone treatment centers,[15] and air ambulances.[16]

Additionally, multiple studies have demonstrated how private equity ownership of healthcare companies can negatively impact quality of care, access to care, and staffing levels:

- A 2023 peer-reviewed study demonstrated that private equity acquisition of hospitals was associated with a 25.4 percent increase in hospital-acquired conditions, including falls and bloodstream infections.[17]
- A 2023 systematic review of the research on private equity ownership and its impacts on health outcomes, costs, and quality found that private equity ownership was associated with reduced nurse staffing levels.[18]
- A 2021 study showed that private equity acquisition of nursing homes was associated with higher costs and increases in emergency department visits and hospitalizations for certain conditions.[19]

Private equity's hospital investments

Private equity ownership of hospitals has drawn scrutiny in recent years as some private equity hospital acquisitions have produced troubling impacts for patients and workers across the country. We have seen private equity firms aggressively loot safety net hospitals, strip out valuable real estate, cut critical but less profitable services, and exploit government funding programs designed to support and stabilize healthcare access.

California has 25 hospitals with private equity ownership, 15 of which are owned by Apollo Global Management under the brands ScionHealth and Lifepoint Health.[20]

ScionHealth

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ScionHealth accounts for 13 of California's 25 private equity-owned hospitals. In February, ScionHealth announced that it was permanently closing three hospitals in Illinois and Florida and laying off hundreds of hospitals workers. The closures come as Scion struggles to shoulder substantial debt. ScionHealth is highly indebted and facing acute financial distress.[21] According to credit ratings agency Moody's Investors Service, Scion recently executed a distressed exchange in order to avoid a default and is highly likely to default through another distressed exchange.[22] In its analysis of Scion, Moody's noted the "preponderance of debt" and an "unsustainable capital structure" as contributors to its low credit rating.[23] Scion's credit ratings have steadily and consistently declined since the company's formation in 2021.[24]

Pipeline Health

Pipeline Health operates four hospitals in southern California. It is backed by private equity and investment firms Stanton Road Capital, Davidson Kempner Capital Management, and Deerfield Management. One of Pipeline's business strategies has involved the monetization of real estate. Soon after it acquired City Hospital at White Rock in Texas in March 2018, Pipeline sold the hospital's real estate, land, and parking garage to Global Medical REIT in a $23 million sale-leaseback transaction. A sale-leaseback transaction is when the owner of real property (e.g., a hospital) sells the asset and leases it back from the new owner. This essentially replaces mortgage payments (or no payments) with lease payments and strips companies of a valuable asset.[25]

In July 2021, Pipeline sold the hospital real estate of **four Los Angeles hospitals** to Medical Properties Trust in a $215 million sale-leaseback transaction. In 2022 in Chicago, Pipeline sold Weiss Memorial Hospital's parking lot to a real estate developer for $12 million despite immense community protest. The developer planned to build luxury apartments.[26][27]

Pipeline closed a safety net hospital in Chicago in 2019 despite assurances it had made to regulators that the hospital would remain open for at least two years following its acquisition.[28][29]

Some of Pipeline's investors were alleged to have received illegal kickbacks involving an Avanti Hospital in California. In December 2018, they reached a settlement with the Office of the Inspector General and Department of Justice and entered into a Corporate Integrity Agreement to facilitate continued monitoring. The following month, Pipeline acquired the Avanti Hospitals and rebranded them under the Pipeline banner.[30]

In 2024, CalMatters reported that Memorial Hospital of Gardena, one of Pipeline's hospitals in **southern California**, "closed [its] maternity ward in 2020. The hospital posted an average annual profit margin of 16% over the five years preceding its closing of labor and delivery services, state records show."

Joint ventures

It is important to note that private equity may show up in hospitals even if the hospital is not owned by private equity. Hospitals may outsource various functions or service lines, such as emergency staffing, radiology, and anesthesiology. And increasingly, private equity firms are using joint ventures with nonprofit health systems as a growth strategy that can provide them with trusted brands and access to geographic markets they might otherwise not readily access. Joint venture partnerships may also help both parties evade antitrust scrutiny versus if they were engaging in traditional merger and acquisition growth strategies.[31] Nonprofit health system joint ventures with for-profit entities remains a relatively under-scrutinized and under-regulated area in the health policy landscape.

PESP has identified multiple private equity owned-healthcare companies that have entered into joint ventures with large, nonprofit systems.

Lifepoint Health's Joint Ventures

Lifepoint Health, a hospital system owned by Apollo Global Management, uses joint ventures (JVs) and other forms of partnerships to grow its business.[32] As of November 2024, at least 78 of Lifepoint hospitals[33] involving at least 26 health systems were covered by joint venture arrangements. Its largest JV is with Duke Health ("Duke Lifepoint") and consists of 14 hospitals across North Carolina, Virginia, and Pennsylvania.[34] Many of Lifepoint's most recent JVs involve the construction of new rehabilitation and behavioral health hospitals in partnership with local healthcare providers.[35] **Lifepoint's joint ventures in California** include Palomar Rehabilitation Institute[36] and UC Davis Rehabilitation Hospital.[37] Palomar Health and Lifepoint have also entered into a joint venture to open a behavioral health hospital.[38]

Compassus Health's Joint Ventures

In October 2024, nonprofit Providence Health entered a partnership with Compassus to provide home-based services. Compassus is jointly owned by Towerbrook Capital Partners and Ascension Health, which purchased it in a $1 billion deal from Formation Capital and Audax Private Equity in 2019.[39]

According to Moody's Investors Service, Compassus and Ascension have an agreement in which Compassus is Ascension's exclusive preferred provider of hospice services.[40] As a tax-exempt health system, Ascension's partnerships with for-profit private equity-backed companies, some of which it has also partially owned, merits further scrutiny.

Per the press release, "Under the agreement, Compassus will manage operations for the joint venture, which will include 24 home health locations in Alaska, California, Oregon and Washington, and 17 hospice and palliative care locations in Alaska, **California**, Oregon, Texas and Washington. The joint venture will also include private duty services in **Southern California**."[41]

As more private equity-owned healthcare companies cut deals with nonprofit and public health systems as part of an expansion strategy, it is important to track them to better understand how this trend is contributing to private equity's expansion into healthcare and its impacts on access to and cost of quality care.

As written, AB 1415 may cover some joint venture relationships. However, it could be strengthened to more explicitly ensure that all such transactions involving private equity must be reported.

The private equity business model

Private equity firms often seek to double or triple their investment over 4-7 years. The pursuit of outsized returns over relatively short time horizons can lead to cost-cutting that hurts care. In addition, use of high levels of debt can divert cash from operations to interest payments and dividends paid out to private equity owners.

Below are some financial tactics characteristic of private equity investment:

- High leverage: Private equity firms often utilize significant amounts of debt when buying companies. Firms typically buy companies through leveraged buyouts, whereby a private equity firm finances a substantial portion of an acquisition by taking out a loan secured by the company it is buying. High leverage can divert cash away from operations to paying interest on debt and leave companies more at risk for restructuring or bankruptcy.

- Sale-leaseback of real estate: Private equity firms that own hospitals sometimes conduct sale-leaseback transactions, where the firm will sell the hospital's real estate to a third party and lease it back. While these transactions provide a quick way to monetize real estate and generate cash, they can leave hospitals with fewer assets and higher monthly lease payments.[42]

- Debt-Funded Dividends: Some private equity firms siphon money out of companies they own through dividend recapitalizations, where a private equity firm directs its portfolio company to take on new debt and use the proceeds to pay the private equity owner a cash payout. These transactions can unnecessarily load healthcare providers with debt. While the private equity firm in these situations makes money, the healthcare provider often does not receive proceeds from the loan and still must pay it back, leaving it more vulnerable to market conditions and with fewer resources to support operations as it pays its monthly debt service obligations.[43]

- Roll-ups: Private equity companies often conduct "roll-ups" by buying up multiple companies in the same industry segment and merging them under the same corporate umbrella. These transactions can allow firms to take advantage of economies of scale. However, a wide body of research has shown that provider consolidation leads to higher healthcare prices for private insurance and public healthcare programs like Medicare.[44]

- Fees: Private equity firms often charge management or advisory fees to the companies they own, which can cost companies millions of dollars each year. Fees are typically stipulated in a management services agreement between the private equity firm and a company that it controls. In some cases, companies must pay fees to the private equity firm even for services never rendered ("accelerated monitoring fees"). These fees can further drain a company's cash away from hospital operations into the pockets of investors.[45]

Putting profits before patients is not unique to private equity–owned healthcare companies. However, due to lack of 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's debt-based investment strategies all 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.[46]

2024 saw the historic bankruptcy of Steward Health Care, a multistate hospital system previously owned by Cerberus Capital Management. Steward's bankruptcy was one of the largest hospital bankruptcies in decades.[47] Less than a year later, Prospect Medical Holdings, another multistate hospital system, filed for bankruptcy.[48] Prospect Medical owns seven hospitals in California.[1]

Given the risks that private equity and other investment funds pose to health systems across the country, and given private equity's increasing presence in the healthcare sector, strong merger review regulations at the state and federal level are timely and necessary. This bill provides an opportunity for California to demonstrate leadership in addressing the growing role of private equity in healthcare.

Regulatory solutions

The financialization of healthcare in the US is a multi-faceted issue that cannot be pinned on private equity alone. However, it is important to point out that private equity does depart from other types of for-profit healthcare ownership in three key ways, and these have implications for how regulations need to be designed to ensure that private equity investment strategies are captured alongside other profit-seeking strategies that can harm patients and workers.

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1. **Lack of transparency**: Private equity-owned companies are less regulated than publicly traded companies. They do not need to make the same disclosures to the Securities and Exchange Commission (SEC) or to their investors. As such, critical financial information about private equity investments often remains in the shadows.

2. **Use of debt**: Private equity investment strategies involve using much more debt than is typical in other types of investments. Firms use debt to buy companies in leveraged buyouts, and the company – not the PE firm and its investors – will be on the hook for the debt. Portfolio companies can also be directed by their PE owners to take on more debt during the ownership period in order to finance add-on acquisitions or pay dividends to investors.

3. **The moral hazard of limited liability**: A private equity firm can generate returns on an investment even if the company ends up in financial distress or bankruptcy. This is because private equity firms are not liable for the debt secured by their portfolio companies, and so they cannot lose more money than the amount they invested, which is often not much. In other words, private equity firms take on little risk but get to make outsized returns.[49]

For the reasons above, effective healthcare merger regulations must take these factors into account.

AB 1415 would address lack of transparency by bringing greater oversight to private equity transactions involving California's healthcare providers. However, we encourage the legislature to grant approval authority to the OHCA over applicable healthcare transactions as well. Without such authority, for-profit healthcare transactions will be able to proceed without sufficient regulatory safeguards, with potential impacts on prices, care quality, and access.

In addition to passing AB 1415, California should consider creating regulations that could better address private equity's use of debt and limited liability. Specifically, regulations that address the use of and amount of debt to finance acquisitions and dividends, and requirements for private equity firms and other investors to share liability with their healthcare investments are additional ways to put guardrails in place to better protect patients and workers. Finally, lawmakers should ensure that agencies tasked with review and enforcement have ample resources to do so.

Private Equity Stakeholder Project reiterates its support for AB 1415. However, we strongly encourage the legislature to grant approval authority to the OHCA as an additional enforcement mechanism. In recent months, multiple states have moved to address private equity's negative impacts in healthcare, including consolidation, demonstrating how widespread of an issue it has become.[50] 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.

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Sincerely,

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Private Equity Stakeholder Project

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ENDNOTES

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