# When private equity comes to town, hospitals can see cutbacks, closures

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Peggy Malone walks the quiet halls of Crozer-Chester Medical Center, the Pennsylvania hospital where she's worked as a registered nurse for the past 35 years, with the feeling she's drifting through a ghost town.

The sprawling hospital serves the diverse and densely packed Philadelphia suburb of Upland, and a large proportion of its patients earn low incomes. Malone remembers a time when the hospital, once the largest in the county with nearly 500 licensed beds, was such a hub that neighbors would come to the cafeteria just to have dinner.

Now many of the units sit empty. Gone are the pediatric unit, the transplant program, the surgical residency and the detox program where Malone used to work. Staff has been reduced and supplies are scarce.

Patients' rooms in the main building haven't had television since the cable was disconnected last month, she said.

Malone has grown accustomed to telling this story over and over to reporters, to researchers, even to Congress in recent years. Her community—her hospital—is a cautionary tale for what can happen when private equity comes to town.

"We want to give good patient care," she told Stateline. "We want to not be using broken equipment and piecing supplies together. But we don't have the power to stop what's happening."

Private equity firms use pooled investments from pension funds, endowments, sovereign wealth funds and wealthy individuals to buy controlling stakes in companies. In the past couple of years, private equity's foray into hospital ownership has drawn public outrage and, increasingly, legislative scrutiny.

"It's now a familiar story," U.S. Sen. Sheldon Whitehouse, a Rhode Island Democrat, said last month in a statement announcing a bipartisan investigation with Iowa Republican Sen. Chuck Grassley into the impacts of private equity ownership of hospitals. "[P]rivate equity buys out a hospital, saddles it with debt, and then reduces operating costs by

cutting services and staff—all while investors pocket millions. Before the dust settles, the private equity firm sells and leaves town, leaving communities to pick up the pieces."

That "familiar story" played out in Malone's backyard.

Prospect Medical Holdings, the for-profit hospital chain that owns Crozer-Chester hospital, was majority-owned by private equity firm Leonard Green & Partners from 2010 until 2021. Under Leonard Green's ownership, Prospect loaded its hospitals with massive debt and then used the proceeds to pay shareholders more than half a billion dollars in dividends, according to an investigation by the Rhode Island attorney general's office.

Leonard Green & Partners sold its controlling interest in the chain in 2021. Neither company responded to Stateline's requests for comment as of press time.

Meanwhile, Prospect's hospitals—most of them serving economically vulnerable communities such as Upland—slashed services, laid off hundreds of workers and, in some cases, closed permanently.

But state laws, and how aggressively they're enforced, can change the trajectory of the story. Prospect treated its hospitals similarly across Connecticut, Pennsylvania and Rhode Island. Yet a robust state law and aggressive state regulators improved the forecast for Prospect's hospitals in Rhode Island, at least temporarily.

As Prospect continues to founder, state and local leaders in Connecticut and Pennsylvania are considering legislative solutions to better protect communities from exploitative financial transactions. Roughly half the states enacted related laws last year, and more are pursuing bills this year.

"We can't do anything about what's already happened with Prospect," said Pennsylvania state Sen. Tim Kearney. The Democrat represents parts of Delaware County, home to Crozer-Chester and other Prospect-owned hospitals, two of which have now closed. "But we can certainly prevent it from happening in the future."

## Behind the curtain

Nearly 400 U.S. hospitals are owned by private equity investors, representing one out of every three for-profit hospitals, according to the Private Equity Stakeholder Project, a research and advocacy group.

Typically, private equity firms focus on boosting the value of an asset before selling it within a few years, ideally at a profit. Over the past decade, private equity investors have spent $1 trillion acquiring health care companies.

But private equity's financial transactions and business structures can be so complex that state lawmakers, judges and others charged with protecting the public interest can have a hard time deciphering exactly what they're doing.

"It's a shell game," said Connecticut state Rep. Kevin Brown. The Democrat's district includes the working-class borough of Rockville, where the Prospect-owned Rockville General Hospital has closed most of its inpatient units in recent years and offers few services beyond emergency care and one-day surgery. Brown said he'd had no idea how much money private equity could extract from hospitals until it happened in his community.

"These giant amounts of money are being moved around from one corporate entity to another. It's bad in any industry, but we're talking health care and people's lives," he said. "To me, that should never

coexist, this idea of turning a profit on people's lives and health, [or] to see these mergers and payoffs happen to satisfy the needs of shareholders as opposed to putting the money back into the hospital."

Supporters of private equity say its investments fill critical gaps in the U.S. health care system, providing much-needed capital to help hospitals and physicians upgrade technology and streamline their processes.

Jamal Hagler, vice president of research for the American Investment Council, an advocacy and lobbying organization for the private equity industry, said most private equity deals in health care are successful and create positive benefits for both the investors and the businesses.

"Health care is very complicated. It's hard to point to private equity and lay the blame when there are lots of other factors that can cause hospitals to have financial issues." Hagler said.

"What we've seen in the academic literature is that the changes and the helpful expertise private equity provides to their portfolio companies continue long after they've exited the investment."

One study from Indiana University suggests private equity improves efficiency at hospitals without compromising health care quality.

Research into private equity's impact on health care—from quality to access to costs—is still in the early stages, said Joseph Bruch, an assistant professor of public health sciences at the University of Chicago whose research has focused on private equity in health care.

Last month, Bruch and a team of researchers from Harvard Medical School published a study that found patients were more likely to fall or contract infections in a hospital after its acquisition by a private equity firm. A 2022 Moody's Investors Service report found that almost 90% of

financially stressed health care companies are owned by private equity.

So far, one of the most consistent findings in recently published studies has been that private equity tends to be associated with increased costs for both patients and insurance providers, Bruch said. Quality of care tends to be more of a mixed bag. A 2020 study, also co-authored by Bruch, found hospitals acquired by private equity saw improvement in some quality measures.

The jury's still out on "the long-term implications of a small number of financial actors owning large swaths of our health care system," Bruch said.

And while private equity's enthusiasm for hospitals appears to be cooling under mounting pressure from states, federal regulators and the public, Americans will continue to see private equity seeping into nearly every aspect of their health care.

"Private equity firms are buying physician practices, dialysis clinics, hospitals, nursing homes," Bruch said. "From cradle to grave, fertility clinics to hospice, they're involved."

## Rhode Island roadblock

In 2019, Prospect sold the real estate out from under its hospitals in California, Connecticut and Pennsylvania to a real estate investment trust for $1.55 billion. The deal allowed Prospect to pay off loan debts. Then the trust leased the property back to Prospect, meaning the hospitals now had to pay rent on property they once owned. The deal saddled one Pennsylvania hospital with $35 million in yearly rent.

By 2020, Prospect and its hospitals were showing signs of financial distress and Leonard Green tried to offload the company by selling its

majority stake.

But the deal hit a snag in Rhode Island. Prospect's change of ownership would require the approval of the state attorney general and health department, thanks to a 1997 law called the Hospital Conversions Act. The law gives the state the power to review such transactions to ensure they serve the public interest.

"Rhode Island has the most robust legislation of this kind that I'm aware of," said Mary Bugbee, senior research and campaign coordinator for health care at the Private Equity Stakeholder Project. "Leonard Green had to jump through a lot of hoops so it could exit its investment, and Rhode Island did a great job in holding them accountable for some of their extractive and exploitative practices."

Rhode Island Attorney General Peter Neronha, a Democrat, launched an investigation into Leonard Green and Prospect. He didn't like what he found, including the recapitalization transactions that loaded hospitals with debt while paying shareholders hundreds of millions in dividends.

"As the team and I dug into it, it became apparent to me that this was a very different Prospect Medical Holdings than it had been even three or four years ago," he said. "They weren't capable of supporting our hospitals here in Rhode Island and if we didn't do something, there was a strong possibility they would close them."

He watched Prospect's hospitals struggling in Pennsylvania and Connecticut, where state laws are less robust. He believes private equity is the main culprit.

"If we simply let Leonard Green walk away from their ownership interest in our two local hospitals, we were going to be in a much more difficult negotiating position later," Neronha said.

His office ultimately approved the sale, but with conditions that included requiring Prospect and Leonard Green to set aside $80 million in escrow to ensure the hospitals' expenses would be covered for the next five years. The sale was finalized and Leonard Green left Prospect and its hospitals—but only after contributing $34 million.

"It's all well and good to have the tools, but you've got to be willing to use them," Neronha said of Rhode Island's law. "I used this phrase with Leonard Green's counsel: If the boat was going to hit the shoreline or sink, we were all going to be on it together. Nobody was getting off, particularly not the ones who caused it."

## 'It was insidious'

In Pennsylvania, things weren't going as well. By early 2022, Prospect-owned Crozer Health system, which included Crozer-Chester and four other hospitals, was hemorrhaging money and Prospect was looking for a buyer.

It announced it would temporarily close Springfield Hospital and its emergency department. Then it closed the obstetrics unit at Delaware County Memorial Hospital.

"It was insidious, the way it started," said Kearney. "They literally put a sign on the door [at Delaware County Memorial] telling expectant mothers which two buses to take" to get to the next closest Prospect-owned hospital.

Prospect continued cutting services and closing wards at Delaware County Memorial, including the intensive care and surgery units. It laid off more than 200 workers. By September, a month after one potential buyer walked away from a deal to purchase the troubled system, Prospect announced it was closing Delaware County Memorial to

transition it to a behavioral health facility, leaving the community without an emergency room.

That prompted legal action from the county and a local nonprofit foundation, which took Prospect to court, seeking an emergency injunction to halt the closure. They said the plan endangered public health. A judge granted their request, but in November the state health department shuttered the hospital anyway, citing a lack of staffing.

Meanwhile in Connecticut, state Rep. Jason Doucette, a Democrat whose district lies east of Hartford, was fielding calls from constituents concerned about the declining quality of care at Manchester Memorial, one of three Connecticut hospitals owned by Prospect.

The nonprofit Yale New Haven Health, Connecticut's largest health system, had tentatively agreed to buy the hospitals. But a state regulatory review process that Doucette described as "more cumbersome than it needs to be" was moving sluggishly. Prospect was unable to pay some of its bills, he learned, and conditions at the safety net hospital have been deteriorating.

## A raft of new legislation

This year, Kearney is working with Democratic and Republican colleagues in Pennsylvania to introduce legislation inspired by Rhode Island's law as well as antitrust laws in states such as California and Washington.

The bill would require health systems to file details of major transactions such as mergers and acquisitions with the state attorney general's office. The attorney general would be able to legally challenge deals deemed to be against the public interest. Lawmakers in Connecticut are also looking at options for improving their state's review and approval process.

Illinois passed a similar bill last summer, granting the attorney general more oversight of health care transactions; it was signed into law and went into effect on Jan. 1. Colorado, Minnesota and New York also added requirements for hospitals, health systems and private investment firms to notify states of proposed mergers or other transactions.

In 2023 alone, 24 states enacted laws related to health system consolidation and competition, according to the National Conference of State Legislatures, an advisory think tank for lawmakers. At the federal level, the Biden administration recently announced new efforts to subject mergers and acquisitions to more scrutiny by agencies such as the U.S. Department of Justice and the Federal Trade Commission. Whitehouse and Grassley, in their Senate investigation, sent letters to a handful of current and former hospital owners, including Leonard Green and Prospect, demanding answers to a list of detailed questions about their financial transactions.

"We're excited to see there's bipartisan appetite to look at some of these actors," said Bugbee, of the Private Equity Stakeholder Project. "The increased scrutiny is great, but it's such a beast to deal with that while they may have an impact in one sector of the health care system, there's still going to be so much more work to be done, for a long time."

Wall Street and private equity firms are popular villains in America's complex and troubled health care system. But private equity can extract wealth from vulnerable communities because the system is broken, said Connecticut state Sen. Saud Anwar, a Democrat. He also is a physician specializing in pulmonology and is chair of the department of internal medicine at two Prospect-owned hospitals, Manchester Memorial and Rockville General.

He points to systemic problems such as ineffective regulations and low physician reimbursement rates from public and private health insurance

that make American health care an unsustainable business model.

"As a result, private equity has an opportunity to come in and find ways to slice and dice the system, make their money and then run," he said. "While we need to make sure we restrict how these financial groups come into the health care world, we also have to make sure the alternative is functioning."

## New mergers and acquisitions (maybe)

Physicians, nurses and legislators rallied at the Connecticut Capitol in November to urge the state to speed up its review of Prospect's sale of three Connecticut hospitals to Yale New Haven Health.

Meanwhile, in Rhode Island, the attorney general and health department announced in December that they would begin reviewing Prospect's application to sell its two hospitals to a Georgia-based nonprofit, The Centurion Foundation.

In Pennsylvania, Prospect reached a deal with the Pennsylvania attorney general's office to pause the active lawsuit against it, to open a nine-month window in which the firm could sell its hospitals to a successor. Local leaders are hoping a nonprofit system will step forward.

So does Malone, the Crozer-Chester nurse.

"We leave work every day feeling like we couldn't do enough," she said. "But we're going to keep believing that if we keep fighting, we can make this place become what's best for our community again."