



Congress of the United States

Washington, DC 20515

June 4, 2020

Jonathan Sokoloff, Managing Partner
Leonard Green & Partners
11111 Santa Monica Boulevard
Suite 2000
Los Angeles, CA 90025

Dear Mr. Sokoloff,

We are writing out of concern regarding actions Leonard Green & Partners has taken that undermine the stability of Prospect Medical Holdings, a chain of safety net hospitals. We all represent communities with hospitals who are members of Prospect Medical, and we know how desperately their services are needed by patients and to protect our public health.

The Leonard Green-led investor group that owns Prospect Medical has drawn \$658 million dollars in fees and dividends from Prospect Medical— even as its hospitals have suffered operating challenges and underfunded pensions and have faced regulatory scrutiny both before and during the coronavirus pandemic. The need for essential health services is clearer than ever, making it even more egregious that Leonard Green & Partners is using these safety net hospitals to enrich wealthy investors at the expense of health care workers and the quality of patient care. In using Prospect Medical to pay itself and its investors massive dividends, Leonard Green is putting some of our communities' most vulnerable patients at risk and weakening public health protections.

Safety net hospitals provide a resource for affordable care for those in towns, cities, and counties where it may not otherwise exist.¹ Even after the Affordable Care Act expanded coverage for many Americans, about 27 million patients are still uninsured and millions more are underinsured.² In the wake of the coronavirus pandemic, 36 million Americans have already filed for unemployment. Many of these individuals had employment-based insurance and now find themselves navigating COBRA payments or trying to apply for Medicaid.³ Safety-net hospitals often operate on razor thin margins,⁴ and now is not the time to wring our safety-net hospitals dry to enrich investors.

¹ Safety-Net Health Systems At Risk: Who Bears The Burden Of Uncompensated Care?, HealthAffairs, Retrieved at: <https://www.healthaffairs.org/doi/10.1377/hblog20180503.138516/full/>

² HealthAffairs, as cited.

³ 'Rolling Shock' as Job Losses Mount Even With Reopenings New York Times, Retrieved at: <https://www.nytimes.com/2020/05/14/business/economy/coronavirus-unemployment-claims.html>

⁴ Safety-net providers operated with an average margin of 1.6% in 2017, Healthcare Finance, Retrieved at: <https://www.healthcarefinancenews.com/news/safety-net-providers-operated-average-margin-16-2017>

Leonard Green acquired Prospect Medical in December 2010 in a \$363 million leveraged buyout.⁵ As you know, leveraged buyouts are an acquisition finance structure that loads the target being purchased with debt and lets investors get upside benefits without putting their own money at stake.

At the time that you purchased it, Prospect Medical was a five-hospital community health system in Southern California.⁶ But today the company includes a number of hospitals and affiliated medical groups across California, Pennsylvania, New Jersey, Connecticut, and Rhode Island, an expansion that occurred even as Prospect faced challenges meeting its own expenses. Even before the coronavirus pandemic, Prospect Medical saw its operating income decline dramatically in recent years, from \$142 million in 2015 to \$17 million in 2018. Prospect's operating margin dropped from 10.8% in 2015 to just 0.6% in 2018.⁷ This dramatic reduction left Prospect without any cushion to fund its ongoing business, but extracted money for investors. In addition, Prospect faced \$260 million in unfunded pension liabilities as of September 2018.⁸ Yet since Leonard Green acquired Prospect in 2010, the firm and its other owners have collected approximately \$658 million in fees and debt-funded dividends from the hospital company. This has significantly increased its overall leverage,⁹ and placed the existence of these hospitals at risk. These decisions have not been impeded by the group's continuing financial and quality concerns.

After ten years of Leonard Green & Partners ownership, Prospect Medical Holdings' hospitals have some of the lowest quality ratings from the Centers for Medicare and Medicaid Services.¹⁰ In Connecticut, state regulators placed Prospect's three hospitals under review last year for deteriorating conditions that they said place the lives of patients in "immediate jeopardy."¹¹ In Rhode Island, Prospect-owned hospitals' pensioners are suing Prospect for allegedly hiding the pension plan's poor health to shield its own liability from regulators.¹² Late last year, Prospect shuttered all of its health care facilities in Texas, laying off nearly 1,000 workers, and leaving communities without points of care.¹³ The company then sold the downtown hospital real estate to a hotel developer.¹⁴

These decisions have put hospitals in violation of state regulatory requirements and have forced the hospitals to pay millions, further eroding operating resources to invest in patient care. A Leonard Green-

⁵ SEC Contribution and Subscription filing, Retrieved at:

<https://www.sec.gov/Archives/edgar/data/1063561/000095012310079639/v57129exv99w3.htm> and Leonard Green Buying Prospect Medical, PE Hub, Retrieved at: <https://www.pehub.com/leonard-green-buying-prospect-medical/>

⁶ "Prospect Medical Holdings, Inc. to Be Acquired by Leonard Green & Partners, L.P. and Management for \$8.50 Per Share," Prospect Medical Holdings press release, August 16, 2010. <https://www.businesswire.com/news/home/20100816005890/en/Prospect-Medical-Holdings-Acquired-Leonard-Green-Partners>

⁷ 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 02015. <https://pestakeholder.org/wp-content/uploads/2020/05/UPDATE-Leonard-Green-Prospect-Medical-Dividends-PESP-051420.pdf>

⁸ Prospect Medical Holdings Consolidated Financial Statements as of and for the Years Ended September 30, 2016 and 02015. <https://pestakeholder.org/wp-content/uploads/2020/05/UPDATE-Leonard-Green-Prospect-Medical-Dividends-PESP-051420.pdf>

⁹ Rating Action: Moody's downgrades Prospect Medical Holdings, Inc.'s CFR to B3; outlook changed to negative, Moody's Investor Service, Retrieved at: https://www.moody.com/research/Moodys-downgrades-Prospect-Medical-Holdings-Incs-CFR-to-B3-outlook--PR_397518

¹⁰ CMS Hospital Compare, Retrieved at: <https://www.medicare.gov/hospitalcompare/search.html>

¹¹ After 2 deaths and a series of medical errors, the for-profit owner of Waterbury and Manchester hospitals faces protests, major sanctions, Hartford Courant, Retrieved at: <https://www.courant.com/news/connecticut/hc-news-waterbury-hospital-prospect-medical-protests-20190602-hqc3yulngngwnd6qftmeiogdsq-story.html>

¹² Lawsuits allege fraud, conspiracy in insolvency of St. Joseph Health Services of Rhode Island plan, Modern Healthcare, Retrieved at: <https://www.modernhealthcare.com/article/20180622/NEWS/180629970/lawsuits-allege-fraud-conspiracy-in-insolvency-of-st-joseph-health-services-of-rhode-island-plan>

¹³ Last Nix Healthcare Facility in San Antonino Set to Close, KSAT, Retrieved at: <https://www.ksat.com/news/2019/11/06/last-nix-health-care-facility-in-san-antonio-set-to-close/>

¹⁴ Hotel Company Purchases Downtown San Antonio's Historic Nix Hospital Building, San Antonio Current, Retrieved at: <https://www.sacurrent.com/the-daily/archives/2020/01/03/hotel-company-purchases-downtown-san-antonios-historic-nix-hospital-building>

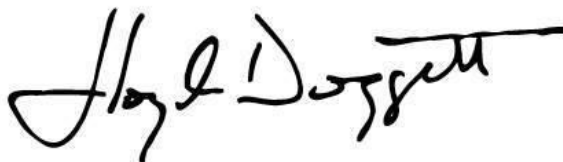
led investment group collected a \$457 million dividend from Prospect's hospitals. This decision placed the facilities in violation of an agreement made with state regulators. In their consideration of an application from Prospect to convert the company's CharterCARE hospitals in Rhode Island from non-profit to for-profit in 2014, the Rhode Island Office of the Attorney General and the State Department of Health made note of previous dividends, stating that Prospect assured the regulators that it did not intend to make additional dividend distributions to its ownership group.¹⁵ Prospect paid the \$457 million dividend just four years later.

Leonard Green's blatant disregard for its commitments to these safety net hospitals cannot continue. Private equity firms cannot continue to raid essential health services at the expense of workers and communities. As owners of medical facilities, you take on the responsibility to ensure the hospitals have sufficient resources to care appropriately for patients. We ask that Leonard Green return the fees and dividends you have collected from Prospect Medical, and that you take 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. We respectfully request a reply by June 12, 2020, with regard to our request for a refund of dividends and fees and adequate resources for Prospect Medical.

Best,



KATIE PORTER
Member of Congress



LLOYD DOGGETT
Member of Congress



MARY GAY SCANLON
Member of Congress



ROSA DeLAURO
Member of Congress

¹⁵ State of Rhode Island Department of the Attorney General, CharterCARE/Prospect Final Decision, Retrieved at: <http://www.riag.ri.gov/documents/5-16-14AGFinalDecision.pdf>; and Department of Health, Committee of the Health Services Council, Submitted May 2014, Retrieved at: <https://drive.google.com/file/d/0B9lx-sHDAL9qRmJPWmdIMXNpbEk/view>