

Testimonies from Eileen O’Grady and Kim McLaughlin

Good afternoon,

My name is Eileen O’Grady, I work with the Private Equity Stakeholder Project.

I am here to update the Board regarding the Florida State Board of Administration’s investments with private equity firm Leonard Green & Partners.

Leonard Green owns safety net hospital chain Prospect Medical Holdings through Green Equity Investors V, which the SBA is invested in. Prospect has 17 hospitals in California, Pennsylvania, New Jersey, Connecticut, and Rhode Island.

Since it took over Prospect, the Leonard Green-led investor group has paid itself at least \$570 million in fees and dividends from the hospital company. It has meanwhile left the hospitals struggling.

While Leonard Green has owned Prospect since 2010, the system’s hospitals currently have some of the lowest quality ratings from the Centers for Medicare and Medicaid Services—all but one have received one or two stars, the lowest ratings from CMS.

In Connecticut, state regulators placed Prospect’s three hospitals under review last year for deteriorating conditions that place patients in “immediate jeopardy.”

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.

Prospect recently shut down all of its facilities in San Antonio, Texas—laying off nearly 1,000 workers—and sold its hospital building to a hotel developer in just a month before the first cases of coronavirus emerged in Wuhan. As San Antonio prepares for Coronavirus, the absence of the former Prospect facilities will surely be felt.

A new Harvard analysis of hospital bed availability in the U.S. shows that in a “moderate” Coronavirus outbreak scenario, in which 40% of adults get infected within the next 12 months, each of the markets where Prospect has hospitals will likely experience a bed shortage.

Now, Leonard Green is trying to quietly walk away from Prospect and reportedly selling its 61% stake to the minority owners for a fraction of what it acquired Prospect and many of its hospitals for, and what its investor group has paid itself in fees and dividends.

We have reached out to Leonard Green multiple times about its investment in Prospect, but the firm has refused to discuss its investment in the hospital company or the fees and dividends it collected from it.

We believe Leonard Green should return the fees and dividends it collected from Prospect Medical Holdings to ensure the hospitals and health care workers have as many resources as possible to respond to the COVID-19 pandemic.

Thank you.

Good afternoon. My name is Kim McLaughlin. I am Director of the Naugatuck Valley Project, a community organization in the greater Waterbury area in CT.

In 2016, when Leonard Green & Partners majority-owned company, Prospect Medical Holdings bought Waterbury Hospital, we hoped it would be the dawn of a new day for health and hospital care in our region. Compassion, professionalism, efficacy, and transparency were promised. These were our values; we wanted to believe that they were the values of the new administration of the Leonard Green & Partners majority-owned Prospect Medical Holdings at Waterbury Hospital.

Unfortunately, we have been very disappointed. We have experienced a dramatic decline in health and hospital services at Waterbury Hospital since 2016. Let me give you a few examples from 2019:

- 1) Questionable reporting action of a suicide by Prospect Medical Holdings at Waterbury Hospital;
- 2) Issuance of a denial of accreditation to Prospect Medical Holdings at Waterbury Hospital by the Joint Commission on Hospital Accreditation;
- 3) Lowest possible rating given to Prospect Medical Holdings at Waterbury Hospital by the Center for Medicare and Medicaid following a visit;
- 4) CT Dept of Public Health citing of conditions that placed patients in "immediate jeopardy" at Prospect Medical Holdings at Waterbury Hospital after DPH inspectors visited the hospital;
- 5) A downgrade in Prospect's credit rating by Moody's Investor Service, citing Prospect's "...very high financial leverage, shareholder-friendly financial policies, and a history of failing to meet projections."

As one of the largest investors in Leonard Green & Partners' Green Equity Investors Fund V, the Florida State Board of Administration's investment has enabled Leonard Green & Partners to use our community's hospital as a cash cow while ignoring the decline in health and hospital services to its patients in our community.

Unreasonably high "consulting and management" fees, debt-producing dividends, circumvented pension obligations, and the complete closing of San Antonio's Nix Hospital and sale to a luxury hotel company are just some of the most egregious actions by Leonard Green & Partners since owning Prospect Medical Holdings. We even witnessed Leonard Green & Partners majority-owned Prospect Medical Holdings sell Waterbury Hospital and its ancillary buildings for parts in July 2019.

NVP and its community allies are in discussions with CT Attorney General William Tong about financial transactions between Leonard Green & Partners and Prospect Medical Holdings. We are concerned that Waterbury Hospital is so leveraged with debt after 3 years under Leonard Green & Partners majority-owned Prospect Medical Holdings ownership that its future as an important hospital resource for our community may be in jeopardy.

NVP and its allies want a negotiated community benefit agreement with Leonard Green & Partners majority-owned Prospect Medical Holdings to assure our community that Waterbury Hospital is here to stay.

Thank you.