

Public Health Committee JOINT FAVORABLE REPORT

Bill No.: HB-6873

AN ACT STRENGTHENING THE REVIEW OF HEALTH CARE ENTITY

Title: TRANSACTIONS.

Vote Date: 3/21/2025

Vote Action: Joint Favorable

PH Date: 3/3/2025

File No.:

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SPONSORS OF BILL:

The Public Health Committee.

REASONS FOR BILL:

This bill modifies and extends current law by adding to the types of entities and transactions subject to review by the Attorney General (AG). These changes also apply to a notice for material change (NOMC) transactions or a series of such transactions over a five- year period. It also requires notice of health care entity transactions that include private equity groups. However, the bill does not apply to venture capital firms exclusively funding start-ups or other early-stage businesses.

In the bill, any reference to "health care entities" includes providers, health care facilities, provider organizations, group practices, and pharmacy benefit managers.

Actions under Notice of Material change transactions" include:

- A corporate merger.
- The acquisitions of 20% or more of an entity's assets or operations.
- An arrangement that results in the change of control over an entity.
- The formation of certain types of entities, such as a management services organization (MSOs) for the purpose of administering contracts with providers, carriers, or certain other administrative arrangements.
- The sale or transfer of control of an entity's board or governing body.
- A real estate or lease agreement involving 20% or more of the entity's assets.

For any type of covered transaction that would not require a certificate of need (CON), the bill requires the AG to consult with the Office of Health Strategy (OHS) on how the transaction would affect health care access, quality, and affordability. In addition, even if a CON is not

required, the AG may require parties to obtain a CON if he and OHS identify concerns with how the transaction would impact health care access, quality, and affordability.

In addition, the bill increases the advanced written notice of material change from 30 days to 60 days and subjects any person or entity who fails to comply with the bill, or related requirements under existing law, to a daily fine of up to \$1,000.

RESPONSE FROM ADMINISTRATION/AGENCY:

Ned Lamont, Governor, State of Connecticut:

In his testimony, the Governor explained that Connecticut's healthcare industry has seen increases in consolidation and acquisitions by out-of-state, for-profit, private equity firms and healthcare companies. Some of these transactions have resulted in detrimental economic impact felt by the citizens of our state. The state's current authority and process to review transactions that can lead to these negative outcomes is inadequate. Connecticut needs the proper tools to protect patients, healthcare workers and the healthcare system from these destabilizing practices. This bill takes a broad approach to address the actions of bad actors but does not outright ban certain financial practices. Most transactions that occur are not harmful and this bill will not place a burden on good actors.

Martin Looney, Senator 11th District, CT General Assembly CGA:

HB 6873 would update and strengthen the existing Notice of Material Change (NOMC) statute created in 2014 to ensure that the AG's office has the necessary tools to address healthcare transactions which include parties that had not been present when this statute was created. Among other things, this legislation would allow oversight of private equity transactions, joint venture transactions, sale and leaseback transactions, and transactions in which a hospital contracts with an outside entity to staff a department. This bill also creates a collaboration between the NOMC process and the CON process. The state needs these tools to prevent the type of abuse we witnessed by Prospect Medical Holdings.

William Tong, Attorney General, State of Connecticut:

In HB 6873, the Governor has proposed a set of tailored updates to our current statute. These revisions are necessary for our state to continue to adequately address the increasing concentration of entities pursuing mergers that result in their increased market share and power in our state's healthcare market. Without these updates, continued consolidation will result in highly concentrated markets with less competition. This will lead to less community access and innovation, while generating higher prices for insurers. These increases would then be passed onto consumers in the form of higher premiums and out-of-pocket costs.

Deidre Gifford, Commissioner, OHS:

Our state is witnessing an increase of a practice known as "financialization" of healthcare. This is a process by which the financial sector and financial actors become more involved in the healthcare system and use strategies to generate revenue often at the expense of quality,

access, and affordability. Every year there are transactions that avoid state oversight through creative and strategic corporate structuring or other techniques. The state needs to expand the scope of transactions that get some level of scrutiny. Since most transactions and the parties involved aim to serve Connecticut patients well and not sacrifice healthcare for the sake of profits, the key to this bill is to recognize the need for balance in our approach when reviewing these transactions. For this reason, this bill builds on the AG's NOMC process that most healthcare transactions already must complete. Only when potential issues are identified, and the parties refuse protective conditions on the transaction would a more intensive review be initiated.

Kathleen Holt, Office of the Healthcare Advocate (OHA):

OHA believes this bill is necessary to create better transparency, authority, oversight, and enforcement to protect patients devastated by healthcare consolidations. While OHA recognizes the existing CON application process provides an opportunity for a public hearing, one way to help rebuild patient-consumer trust in our health care delivery system is to further encourage public comment as part of this stronger and more transparent evaluation process. By inviting the voices of community and citizens who would potentially be impacted by the proposed changes, the OHS would receive consumer insight in the course of their review of these transactions.

NATURE AND SOURCES OF SUPPORT:

Ed Hawthorne, President, CT AFL-CIO:

If HB 6873 had already been in place, it may have averted some of the challenges Waterbury, Rockville and Manchester hospitals faced as entities of Prospect Medical Holdings. Prospect ignored the CON process when ceasing to provide services, failed to maintain necessary equipment, delayed payments to physicians, and stopped paying into the employee pension plan. Prospect has hollowed out three community hospitals and put critical healthcare services in jeopardy so it could deliver profits to its investors.

John Brady, Executive Vice President, AFT CT:

For years our organization has advocated against the corporate take-over of healthcare, which far too often places profits before patients. HB 6873 will give the AG's office and the OHS the tools they need to prevent a recurrence. If greedy healthcare corporations find and exploit new loopholes, we will close them as well.

Liz Dupont-Diehl, CT Citizens Action Group (CCAG):

CCAG urges the committee to pass this bill and echoes the testimony of our partners calling for increased funding for enforcement and better early warning systems. We further urge you to require transparency around private equity transactions and existing ownership, so we can understand and address the scope of the problem.

The following submitted similar testimony in support of this bill:

- Dave Hannon, President, District 1199 AFSCME AFL-CIO
- Rei Marshall, Yale School of Public Health & School of Management
- Brian Donahue, Founder, Not just Us
- Brenda Buchbinder, Licensed Clinical Social Worker
- Aashka Shah, Yale Resident Physicians
- Sarah Smith, Connecticut Resident

NATURE AND SOURCES OF OPPOSITION:

CT Hospital Association (CHA):

CHA opposes this bill. What is described in the Governor's fact sheet as a narrow focus on private equity backed, and for -profit transactions isn't what the bill does. Instead, the bill extends significant regulatory oversight to the AG empowering his office to run a quasi-CON process as well as providing OHS new regulatory oversight through the auspices of the AG's new authority. The authority extends far beyond private equity and for-profit transactions. This bill will create a regulatory morass likely delaying or impeding legitimate health care transactions. The bill significantly expands the jurisdiction of OHS without legislative oversight. CHA cannot support the broad additional authority created in HB 6873.

Mag Morelli, President of LeadingAge CT:

As currently written, HB 6873 would dramatically expand the types of health care transactions subject to the AG's review. The language, as proposed, would have such a broad application that our non-profit members could be subjected to an additional review and approval process before the AG, which is not currently required. This would then require the involvement of OHS which would cause further delay. We fear this will result in significant delays, costly fees, and require vetting approval from their DPH equivalents. For these reasons we must oppose this bill.

CT State Medical Society (CSMS):

History has shown, both in Connecticut and surrounding states, that far too many cases involving private equity investment in healthcare are driven by short-term profits, not long-term care. However, CSMS also understands that not all private equity investment follows this path. Some private equity-backed arrangements assisting our state's physician practices have worked well providing needed capital to modernize systems, recruit staff, and expand access to care while allowing physicians to retain clinical control and focus on patient care. This bill as written does not answer critical questions about how oversight will work in practice and seems to avoid the question of what exactly the state will be doing and looking for in private equity transactions. If the AG identifies concerns about access, quality, or affordability, he is authorized to impose conditions on the transaction. The bill does not specify what those conditions could be. This lack of clarity will create uncertainty leaving medical practices guessing about what conditions might be imposed after they have entered negotiations. This bill also gives the AG the authority to require a CON for private equity transactions even if the transaction would not otherwise trigger a CON. This creates a backdoor into an already cumbersome and inefficient CON process. If the goal is to better regulate private equity in healthcare, we strongly encourage the committee to provide far

more specificity about the process, the criteria for reviews, and the scope of conditions that could be imposed.

Dante Brittis, President, CT Orthopedic Society (COS):

COS appreciates the intent of this bill. While transparency and accountability in healthcare transactions are essential to maintaining the integrity of the healthcare system, it is imperative to ensure that independent medical practices and ambulatory surgery centers are not unduly burdened as a result. This bill lacks clarity regarding the specific objectives and the precise issues it aims to address. If the primary intent of the bill is to enhance patient protection and improve transparency, such measures should be structured to avoid placing undue financial and administrative strain on independent healthcare providers. It is crucial that the proposed regulations are balanced, explicitly defined, and developed with consideration for the unique role of non-hospital providers in the healthcare system. Overly broad or ambiguous provisions could create unintended consequences that may disrupt the delivery of care and hinder the ability of independent providers to continue offering high-quality, cost-effective services to their communities.

Connecticut GI:

The findings are clear that hospital driven consolidation is driving up healthcare costs for patients and payers. However, this is not happening with independent practices that partner with management services organizations (MSO), backed by private equity or other private capital, to help manage the administrative aspects of our businesses. We urge the committee to tailor policy responses to what happened with Prospect Holdings and protect independent practices like mine that partner with MSO's to remain independent so we can continue expanding access to high -quality care delivered in communities across Connecticut. Please oppose HB 6873.

The following submitted testimony echoing the comments expressed above in opposition to HB 6873:

- CT Association of Ambulatory Surgery Center and CT Orthopedic Society.
- David Hergan, Orthopedic & Neurosurgery Specialists.
- Dinesh Kapur, Eastern CT Hematology & Oncology Associates.
- Margaret McGovern, MD, Deputy Dean for clinical Affairs, Yale School of Medicine.

Reported by: Kathleen Panazza

Date: March 24, 2025