

# Public Health Committee

## JOINT FAVORABLE REPORT

**Bill No.:** SB-1507

AN ACT PROHIBITING PRIVATE EQUITY OWNERSHIP AND CONTROL OF CERTAIN HEALTH CARE INSTITUTIONS AND THE CONTROLLING OF OR INTERFERENCE WITH THE PROFESSIONAL JUDGMENT AND CLINICAL DECISIONS OF CERTAIN HEALTH CARE PROVIDERS AND REQUIRING AN EVALUATION OF THE APPOINTMENT OF A RECEIVER TO MANAGER

**Title:** HOSPITALS IN FINANCIAL DISTRESS.

**Vote Date:** 3/21/2025

**Vote Action:** Joint Favorable Substitute

**PH Date:** 3/17/2025

**File No.:**

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### SPONSORS OF BILL:

The Public Health Committee.

### REASONS FOR BILL:

This bill addresses the need to further streamline the Certificate of Need (CON) process and define where it's use is appropriate, and to address the role of private equity in the delivery of healthcare in Connecticut.

The bill prohibits the following:

- Any private equity company or real estate investment fund from acquiring any direct or indirect ownership interest in, or any operational or financial control over, a group practice, hospital, or health system.
- Increasing any direct or indirect ownership, or any operational or financial control, that a private equity company or real estate investment trust (REIT) has over a group practice, hospital, or health care system.
- Prohibits the Department of Mental Health and Addiction Services (DMHAS), the Department of Public Health (DPH,) licensed health care facility or entities, and management services organizations (MSO) from directly or indirectly interfering with, controlling, or otherwise directing the judgment or clinical decisions of a health care practice, or a clinician with an independent practice who provides health care services.
- Delineates what prohibited conduct listed above may include.

- Any non-disparagement agreement (NDA) pertaining to the above conduct is void and unenforceable if entered into, renewed, or amended on or after 7/1/2025.
- Requires DPH to evaluate whether the Attorney General (AG) should be authorized to petition superior court for the appointment of a receiver to manage hospitals in financial distress or operational crisis and requires such report to the Public Health Committee by 10/1/26.

Substitute language removes references in section 1 to group practices and makes conforming changes throughout.

## **RESPONSE FROM ADMINISTRATION/AGENCY:**

### **Manisha Juthani, MD, Commissioner, DPH:**

As currently drafted, section 1 of the bill will not limit the ability of private equity or a Real Estate Investment Trust (REIT) to gain control of the real estate on which the hospital operates as had occurred with facilities owned by Prospect Medical Holdings. Private equity control over real property can impact the financial stability of a facility through mortgaging the real estate and providing unfavorable leasing terms. For the bill to achieve its aims, it should also apply when a private equity firm or REIT acquires or expands control over the real estate in which a facility operates.

While the department respects the intent of section 2 as drafted, the bill raises concerns for patient care as it appears to prohibit any action that may be taken by the facility when a practitioner deviates from the standard of care. This section also raises operational concerns for the department as it would place the department in charge of adjudicating facility and staff disputes, which would be a new role for the department and likely would require additional staff.

### **Deidre S. Gifford, MD, MPH, Commissioner, Office of Health Strategy (OHS):**

The proposed legislation defines "private equity company" as a publicly traded or non-publicly traded entity that collects capital investments from individuals or entities. This definition is broad and may include a wide variety of investors in healthcare beyond those that are most concerning. When paired with an outright ban on ownership, the broad definition raises some potential concerns. This bill would also require OHS to evaluate whether the Attorney General should be authorized to petition the Superior Court for an appointment of a receiver to manage hospitals in financial or operational crisis and report the findings to the Public Health Committee. OHS appreciates the concerns that have given rise to this proposal and appreciates the thoughtful approach of the committee to study and evaluate whether such an authority would be of benefit to the state. OHS believes that transparency in, and review of, health care transactions, are important tools for addressing the consolidation and financialization of healthcare.

**Nancy Navarretta, Commissioner, Department of Mental Health & Addiction Services (DMHAS):**

DMHAS fully understands and supports the intent of this bill to ensure that clinical decision-making remains in the hands of those with the appropriate training and experience. However, the department has several areas of concern:

- It is important to update the language regarding DMHAS and its role as health care facility operator, rather than a regulator, as well as clarify the definition of “health care practice” as it relates to state operated facilities.
- If healthcare facilities run by DMHAS are indeed subject to the provisions of this bill, it is unclear who would be the subject of the proposed prohibition.
- In addition, much of the conduct pointed out in subsection (c) may be determined by facility policies and we are unsure if such policies would be disallowed under the current language.

We welcome the opportunity to further discuss this issue with the proponents of the bill and clarify any concerns. DMHAS is committed to ensuring that our current leadership structure supports clinical independence while maintaining accountability for high standards of care.

**Martin Looney, State Senator, Connecticut General Assembly (CGA), President Pro Tempore, State Senate:**

SB 1507 is one of several bills that increases the ability of our state to regulate private equity ownership of healthcare in Connecticut. Increasing the ability of our state to exert greater control over these entities and protect patients and providers has been made clear by recent events. Sen. Looney would like to include these provisions in one of the larger bills that seek to increase oversight over equity-backed physician practices and hospitals.

**NATURE AND SOURCES OF SUPPORT:**

**Michael D'Amico, Connecticut Trial Lawyers Association:**

Mr. D'Amico shared that he has seen firsthand the negative effects of private equity in healthcare, nursing homes, and dental care in Connecticut. Professional medical judgement should never be influenced by the profit motives of private equity. Private equity places profit over good and safe healthcare. Revenue generation and continuous pressure on healthcare providers to increase patient volume becomes the central focus. It is in the interest of private equity to increase the cost of healthcare and to close facilities in areas which are underperforming. This leads to higher healthcare costs and reduced access to healthcare. Studies suggest that private equity investment in healthcare facilities leads to a decline in patient care and an increase in preventable adverse events as well as a higher rate of mortality.

**Liz Dupont-Diehl, Connecticut Citizen Action Group (CCAG):**

SB 1507 would improve patient care and protect workers. We applaud the bill limiting private equity ownership of healthcare practices, as well as section 2b which bars interference with clinical decisions, time spent with patients, and other critical elements of health care practice.

We also support section 3 which limits the impact of management on clinical decisions and time spent with patients. We urge this committee and the legislature to conduct a comprehensive assessment of private equity ownership of health care facilities and nursing homes to better understand its extent and to allow us to develop and implement an appropriate response.

**John Brady, Executive Vice President, AFT Connecticut:**

This bill will provide our healthcare system with increased protection from predatory private equity and real estate investment trusts. This need has been highlighted by the bankruptcy of Prospect Medical Holdings and its harmful effects on the residents of Connecticut. Mr. Brady supports giving the Attorney General the authority to petition the state Supreme Court to appoint a receiver to manage hospitals in financial distress or operational crisis and would also support OHS's evaluation of the application. Perhaps bankruptcy of hospitals can be avoided with earlier state intervention.

**Others in support of this bill:**

- Alan Kaye, MD, Chairman of the Department of Radiology at Bridgeport Hospital.
- Ed Hawthorne, President Connecticut AFL-CIO.
- Shirley McCarthy MD, PhD, Professor, Yale Medicine.

**NATURE AND SOURCES OF OPPOSITION:**

**Dante Brittis, MD., President, Connecticut Orthopaedic Society:**

While the Society appreciates the intent of this bill, to enhance oversight and review of transactions involving private equity entities, it is essential to strike a balance between transparency and the practical realities of independent health care providers. Independent medical practices and ambulatory surgery centers must not be unduly burdened by additional regulatory and administrative hurdles that could compromise their ability to provide efficient, high-quality care. Independent medical practices and surgery centers operate under financial and regulatory conditions distinct from large hospital systems. Policies that impose excessive regulations on these facilities without a clear, evidence-based rationale risk limiting patient access to essential services and driving up healthcare costs. Any oversight measures implemented must be carefully structured to avoid placing undue financial and administrative strain on independent health care providers.

**Cameron Arterton, Deputy Executive Vice President, Public Policy Affairs, Nareit:**

The focus of this legislation which is to restrict real estate investment trust (REIT) ownership of healthcare systems is misguided. As Securities and Exchange Commission (SEC)-registered public companies, public healthcare REITs operate with substantial oversight and transparency. A REIT is simply a tax classification that applies to a range of ownership structures, not a characteristic related to the conduct of the tenant operator of the healthcare

facility. Accordingly, we respectfully suggest that this legislation may do more harm than good with respect to the healthcare sector in Connecticut.

**Joe Cappa, MD, Chairman, Connecticut Gastroenterology Institute:**

This bill poses an existential threat to the continued existence of independent practices. The overly expansive definition of “private equity” in section 1 would prohibit most forms of outside capital in health care. Many independent physician practices face insurmountable financial challenges due to high overhead costs and declining reimbursement. External investments can help stabilize these practices and prevent closures, especially in rural or lower-income areas where access to care is limited. While I agree that we need to prevent disasters like Prospect from happening again, we need to take a more measured approach in letting health care providers access the capital needed to grow and maintain their practices.

**Mag Morelli, President, LeadingAge Connecticut:**

With respect to section 1 of this bill, we understand the strong interest in regulating the role and influence of private equity firms in the health care field, but we are concerned about how we accomplish this and what the unintended consequences of our actions might be. The construction of definitions and prohibitions in statute must be well thought out and vetted with legal experts. Section 2 is very broad and potentially harmful to patient care and safety, as well as regulatory and billing compliance. The intent seems to be aimed at preventing corporate interference with medical judgment. These prohibitions are very broad and could interfere with clinical judgment and the use of good management techniques, as well as quality and compliance oversight. In the highly regulated nursing home and aging services field, there must be a level of management of care provided to older adult patients and residents, as well as strict oversight of regulatory and billing compliance.

**Others in opposition to this bill:**

- Amanda Gunthel, President, Connecticut Association of Ambulatory Surgery Centers.
- Connecticut Hospital Association (CHA).
- Dr. Dinesh Kapur, Eastern Connecticut Hematology & Oncology Associates.

**Reported by: Dave Rackliffe, Asst Clerk**

**Date: March 26, 2025**