

Hospital Failures Following Private-Equity Payouts Leave Patients, Taxpayers in Lurch

Communities where Steward Health Care and Prospect Medical had hospitals that closed are trying to fill gaps in healthcare and government budgets

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An ambulance was stationed at the emergency-room entrance of the Crozer-Chester Medical Center after it shut down in May, ready to take patients who walk up to the hospital to another location.

The recent collapses of Steward Health Care System and Prospect Medical Holdings, the two biggest hospital bankruptcies in decades, are forcing communities to pay up to fill gaps in patient care and budgets left by the failed chains.

State and local governments and community nonprofits have poured in tens of millions of dollars to bail out the bankrupt companies' hospitals, according to public officials and court records. Steward and Prospect are also delinquent on property taxes and other levies, forcing some communities to hike property taxes.

Beyond the financial hit to communities, the closure of the two companies' hospitals degraded critical health services in some communities. One Pennsylvania suburb lost its only trauma center when Prospect shut the Crozer-Chester Medical Center in May, endangering patients who are now forced to travel at least half an hour to the nearest hospital that can treat the most severe injuries, according to public officials, medics and hospital administrators.

Prospect and Steward were previously owned by Leonard Green & Partners and Cerberus Capital Management, respectively, which collected hefty dividends and payouts from the two companies between 2011 and 2018. The transactions weakened the two hospital chains' finances, according to an internal investigation by Steward and a congressional probe into Prospect.

Steward in 2016 paid out \$790 million in dividends to Cerberus and other equity holders, including its top executive at a time when the company was likely financially insolvent, according to the internal investigation. Cerberus has said Steward was in good financial shape while it owned the company, which it sold in 2020.

Leonard Green and other shareholders collected \$654 million in dividends and share sales from Prospect between 2012 and 2018 that eventually led to the company running out of cash, according to the report by a bipartisan congressional committee.

Steward, which owned 31 hospitals in eight states, [filed for bankruptcy last year](#), and Prospect, which still owns 16 in four states, [entered chapter 11 in January](#).

Steward sold much of the real estate housing its hospitals in 2016 to [Medical Properties Trust](#)—a deal that helped fund the dividend to Cerberus and company insiders. In 2019, Prospect also sold much of its real estate to MPT just before Leonard Green exited from the investment. Those sale-leaseback deals put the companies on the hook for hefty rent payments.

Representatives for Leonard Green and Cerberus said their buyouts of Prospect and Steward hospitals, respectively, helped save hospitals that otherwise would have closed.

Cerberus has said that while it owned Steward the company invested \$900 million into its facilities, technology and personnel.

Prospect was performing well until elective surgeries were halted during the Covid-19 pandemic, and the sale-leaseback transaction helped the company pay back all of its debt, Leonard Green managing partner John Danhakl said in an interview earlier this year.

Turning to 911 for nonemergencies

Residents in Chester, Pa., where Crozer-Chester Medical Center was closed, are now calling 911 for nonemergency medical care that they used to get at that hospital, according to Shane Wheeler, chief of staff for the Volunteer Medical Services Corps of Lansdale, a new emergency medical services provider in the area. For nonemergency ambulance dispatches, patients are often treated at home. When that happens, VMSC can't collect payment for those visits because insurance only reimburses ambulance providers for transport to hospitals, Wheeler said.

“A lot of people are calling emergency medical services for things for which you’d go to your family physicians. We’re seeing a high level of uncompensated care,” Wheeler said.

Patients often face a one-year wait for doctors’ appointments since Prospect shut down its two hospitals in Delaware County, including Crozer-Chester, along with much of the company’s physicians network in the area in May, Wheeler said. The nearest hospital, Riddle, has seen a 50% surge in emergency-room visits, leading to hourslong wait times, according to a Riddle representative and Wheeler.

The influx of patients has also strained finances at Riddle, a nonprofit unaffiliated with Prospect, according to its president, Shelly Buck.

So far, state and local governments in Massachusetts, California and Pennsylvania have plowed more than \$130 million into Steward and Prospect hospitals in the months before and after the bankruptcy filings to prevent many of them from closing. Officials in Massachusetts, where Steward had its largest footprint, estimate the state will have to spend \$300 million by 2027 to save five of the company’s hospitals that were sold out of bankruptcy to new buyers.

State officials in Pennsylvania and the local government in Delaware County together provided \$40 million to keep Crozer-Chester and another Prospect hospital open while the company tried to find a buyer—an effort that ultimately failed.



A woman walked past the emergency-room entrance at the former Nashoba Valley Medical Center, an Ayer, Mass., hospital that had been part of Steward Health Care before closing last summer.

Property owners in Delaware County and one of its school districts have been hit with real estate tax hikes in part due to \$20 million in county, school district and municipal taxes Crozer hasn't paid, according to a spokesperson for the county and state officials.

Massachusetts provided more than \$67 million in aid to Steward's six hospitals in the state while it negotiated deals with buyers. Last year, regional hospital systems took over six of eight Steward hospitals in Massachusetts, while the other two closed.

Like hundreds of other Steward creditors, Massachusetts may recoup at best a fraction of its contributions, according to its court filings.

In Los Angeles, a state-funded health agency contributed \$25 million in the months before Prospect's bankruptcy to help keep its seven hospitals in the state afloat. In addition, Prospect is fighting California over \$61 million in unpaid provider taxes, which states levy on healthcare providers to help fund Medicaid.

Nonprofits pressured

State and local officials also have leaned heavily on some community nonprofits and foundations—sometimes under the threat of legal action—to make donations to help save hospitals.

The Foundation for Delaware County, a healthcare-focused nonprofit serving the community around two Prospect hospitals, landed in legal hot water earlier this year after it contributed \$7 million to help keep them afloat. When Prospect came back for \$13 million more, one of its donors asked a court to impose an injunction prohibiting the foundation from donating more money. Prospect's lawyers accused the Delaware County Foundation in court filings of colluding with the donor to stop further contributions.

Pennsylvania officials initially sought \$40 million, the bulk of the foundation's endowment. A payment that size "would be the end of the foundation," its lawyer said in bankruptcy court earlier this year.

Prospect later dropped its legal threat after the foundation agreed to forgive nearly \$3 million in unpaid rent the company owed on medical offices that the nonprofit had guaranteed. In Western Pennsylvania, another local nonprofit came under pressure last year to contribute almost all of its \$47 million endowment to help save Sharon Regional Medical Center when Steward, its owner, started spiraling toward bankruptcy.

Local government officials had lobbied the Buhl Regional Health Foundation for funds to help a local hospital operator buy Sharon from Steward. BRHF executives said they were leery of funding a deal and had little information about details of the deal such as whether Sharon would continue to be tied into a lease with landlord MPT.

"There was such a noose around their necks with MPT. That was a concern for us," said Angela Palumbo, president of BRHF. The deal talks failed and Steward shut down Sharon last year. The Buhl Foundation contributed \$6 million to help a new operator reopen the hospital this year. MPT has maintained that the rent it charges hasn't caused financial hardships for its hospital tenants, and noted that it lent over \$10 million to Sharon so it could reopen.