

# Wrong Prescription

**K**AMALA Harris is nothing if not a politician. And she demonstrated that with her politicized handling of the sale of the Daughters of Charity Health System. What should have been a clean transfer of ownership has become an embarrassment for the attorney general. Not to mention it could result in a loss of service to poor patients.



**COMMENT**

**CHARLES CRUMPLEY**

The situation is a little involved, so here's a summary: The non-profit Daughters of Charity runs six hospitals – four in northern California plus St. Francis Medical Center in Lynwood and L.A.'s oldest hospital, St. Vincent Medical Center near downtown. They serve many lower-income folks.

The chain has fallen on hard times – the non-profit late last year claimed it was then losing \$10 million a month – but it found a buyer in Prime Healthcare Services. Prime, a for-profit chain based in Ontario, promised to keep the hospitals open at least five years and pledged to “substantially protect 7,600 jobs,” maintain collective-bargaining agreements and assume about \$300 million in pension liabilities for current and retired workers.

Prime was an able buyer willing to risk \$843 million on the deal, Daughters was a grateful seller and the California Nurses Association agreed that the transaction was the best option. It could have been a simple sale. But alas, the Service Employees International Union's United Healthcare Workers was opposed to the deal, and vehemently so. It has

a long blood feud with Prime. This is where Harris came in. In California, the attorney general gets to approve the sale of non-profits, and this attorney general is heavily backed by the SEIU.

You can guess how this unfolded: The politician made a political calculation. She couldn't simply kill the deal; that would be transparently partisan. So she “approved” the sale – on the condition that Prime keep the hospitals open and operating more or less the same way for 10 years, not 5. Prime considered it but walked away from the deal last month.

Now you'd expect that Harris to say, “No, no, no. This wasn't a political decision. Exactly the same conditions will apply to any future buyer.” Except that when a reporter for the San Jose Mercury News last month asked that question – are the terms she demanded from Prime a “template” for what any other would-be buyers have to meet? – she said, ummm, well, no. They were not.

“The offer we made to Prime was unique and tailored to Prime,” she was quoted as saying to the newspaper.

In other words, she can change the rules however she wants. Depends on whether she and the SEIU like the buyer.

First, think of the practical problems that will result from her position. If Daughters of Charity goes into bankruptcy, how would a judge know whether Buyer A or Buyer B will meet Harris' conditions, since she can “tailor” them for any

particular suitor? (She still gets to approve any sale, even in bankruptcy.)

And if she does approve a sale in which a new buyer gets more lenient terms than Prime, think of the lawsuits. In fact, Prime's general counsel has already sent a letter to Harris warning her of that. This fight could go on for years. Remember, this should have been a clean transaction.

Second, think of the patent injustice of her statement. In her role as a regulator, Harris should be a dispassionate referee setting out rules that are fair, transparent and the same for all. Instead, she's shown herself to be a political hack who's willing to move the goalposts depending on whether she likes the team.

If nothing else, this shows that one politician should not be the sole decision maker for approving the sales of non-profits. A bi-partisan panel of some kind would obviously be a better process.

Daughters of Charity, without Prime propping it up financially, is now making cuts. Some managers have already lost their jobs, and the chain is chopping some departments. It was reported last week that its hospital in Gilroy would close its labor and delivery unit – that town's only maternity ward – within the next 90 days and the associated nurses and other personnel will lose their jobs, too.

The newly unemployed and the very-soon-to-be mothers who soon will have to drive an excruciating 30 minutes extra can thank Kamala Harris. And her embarrassingly politicized decision.

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▶ LABJ FORUM

## Pulling It Together

▶ DAVE WEINER

Chief Executive  
Priority Bicycles

We should allow innovative new businesses to be funded with these new funding models. Who is better for bringing innovative new concepts to market than real people using these products and services every day?

▶ TAYLOR McPARTLAND

President  
FilmBreak

When it comes to allowing nonaccredited investors to invest in startups, not all of the risk is on the investors' side of the table. Startup founders need to remember that not all money is created equal; investors are also part-

The Securities and Exchange Commission has finalized new crowdfunding rules to allow small businesses to sell shares to the general public without becoming fully registered public companies. So the Business Journal asks:

**Do you think it is wise for nonaccredited investors to participate in crowdfunding startups?**

ners and both parties need to enter into the equity crowdfunding space with their eyes wide open.

▶ BRYAN SULLIVAN

Partner  
Early Sullivan Wright Gizer & McRae

It is very dangerous to allow nonaccredited investors to invest in companies via crowdfunding. The principal purpose of the accredited investor concept is to ensure that the only people investing in such companies are people who have demonstrated sufficient financial sophistication to understand the risks associated with the investment and who can bear the economic risk of investing in these types of high-risk investments.

▶ CHRIS CHEN

Senior Counsel  
Sklar Kirsh

No, safeguards are needed for those who don't understand the risks or can't afford the loss of their investment.

▶ WILLIAM C. CAPPS

Chair, Corporate Department  
Jeffer Mangels Butler & Mitchell

Most people don't save enough money. After you have saved enough money, then worry about crowdfunding startups and Apple watches.

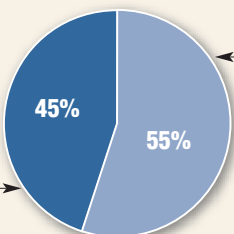


Capps

**Los Angeles Business Journal Poll**

Do you think it is wise for nonaccredited investors to participate in crowdfunding startups?

Yes, open the opportunity to everyone.



Online results for week ended April 15.



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