DRAFT Transcript of Public Meeting Video April 23, 2104 Palm Drive Hospital District Board
Tom Harlan, Palm Drive Hospital CEO

Um, I think that the key issue is that some of the funding requirements of this plan, in fact to continue to operate the hospital, are dependent upon accounts receivable income, which is continuing to come in, but is also under jurisdiction of the bankruptcy court.

Palm Drive Hospital Bankruptcy Attorney Michael Sweet

I'll speak very briefly to this, but essentially, faced with mounting demands by creditors and the inability to pay the debts as they were coming due, the district board voted, either at the… earlier in April I guess, to determine that there was no choice but to file bankruptcy, the second time unfortunately that the board has had to do that in the last 7 or 8 years, and seek protection from the creditors, protection by bankruptcy court. This began the process of putting into place a chapter 9 bankruptcy proceeding. The chapter 9 proceeding goes in 2 stages: the first stage is eligibility in which the court confirms that the district is in fact eligible for bankruptcy protection, and in the next stage is what we call the plan, where in a chapter 9 case the government entity files, such as Palm Drive, the plan that's called the Plan of Debt Adjustment, and that is a plan that will have to be ratified by the court, and will be voted on by any of the various creditors in the case, and as we move forward through the bankruptcy process, **it's incumbent on the board in its capacity as fiduciaries and as us moving forward, to look at the cash and the receivables that are coming in, and make sure that those are available to be dedicated to the plan, whatever it may be.**

What we need to ensure is that we can't raid the cash that's coming in for services that have been provided in the past to leave us down the road without the ability to put forward a plan that will, uh, that we can get approved by the court. And the, so, the necessity here is to ensure that we don't raid the kitties, so to speak, and spend more money going forward without knowing that that money will support what the plan will be and what we'll be putting in front of the court. So that's what the core bankruptcy issue is in terms of where we're going and this process, and it leads to the notion that if we are going to move forward on something that's going to cost more money, at least in the startup phase, although you know I recognize that there are projections I'm not the expert on what may or may not work in the proposal and whether these services can be provided and generate revenue, but at least in the startup phase, there needs to be new money offered to get this off the ground. What the proposal did, was look back to the existing funds the district – they are the district, which actually needs to be addressed through the bankruptcy, and say well 'we're going to use those funds to get started' and those funds**, bottom line is those funds just aren't available to startup this new process.** Therefore, we're recommending that to the extent that the board were to be envision moving forward with the foundation, either in the very near term keeping the doors open, or in the longer term in working towards a plan after the hospital goes dark after awhile, it needs to be based on an infusion of cash that's independent of the funds that need to be dedicated towards the bankruptcy plan that the district will be embarking on.

9 Minutes later

Palm Drive Board Member Jim Maresca

And I'd like to make my comment and ask Michael Sweet to correct me if I'm wrong. My understanding is that it's not that those funds are unavailable it's that we are accountable to the court in how we use them. And if we use certain funds that are short term to do the restart, and use some funds that might be available a few months from now to take care of the creditors, as long as we are acting reasonably, that the court may well go along with that. Michael, am I incorrect in that?

Attorney Michael Sweet
Jim, conceptually, that's correct. If you look at places like Stockton or Detroit, who are continuing operations that have filed bankruptcy, have specific revenue available to them, ongoing revenue they know they will receive, and are able to articulate that, and make projections for those receivables, and in both cases it would be the kind of money that comes into the city through the taxes that fund other operations as opposed to here where a significant part of your funding comes from the operations of the hospital that you get paid for service, then it's easier to articulate a way to use the funds going forward, you know, through the operations. The complexity here, and Jim, you know, **what falls on the shoulders of yourself as well as the other members of the board, is your role as a fiduciary, and the knowledge that right now that money is available is the concern that the money could end up being squandered or spent on something that the return isn't clear and could leave us in a very complicated situation down the road if money was available today to pay the creditors and fund the plan and exit the bankruptcy, and that money is spent in a way that the court might conclude was done imprudently.** So the situation here is one where the operations aren't – **what it would need to be shown support the replacement of that revenue, and ultimately the concern that the financial analysis, is that while there is the possibility there, because there isn't certainty on the projections, I think that the board puts itself at risk of fiduciary for doing that it; could create complications for us in the bankruptcy case going forward.**

Palm Drive Board Member Jim Maresca
Hey, could you stay there for a second Michael. It is my understanding, we have the ability to collect a basket of money from a number of sources. We have our accounts receivable, we have the medicaid 2011/2012 catch up payments, we have the next couple rounds of parcel tax, which the county – is been to advance to us, and those are relatively sure pieces of revenue. We also have as potential the freeing up of the withheld money from previous funds. That's less certain. And my understanding is that it is our responsibility as fiduciaries in the bankruptcy to demonstrate to the judge that of this pot of money, X percent is going to go toward the new startup, and Y percent – or continuing operations of some sort, and Y percent is going to go toward doing what we can to - for the creditors. Is that not essential correct?

Attorney Michael Sweet
That's essentially that – that in a nutshell is the plan process and the bankruptcy. The problem is, that the ratification of the plan in the bankruptcy and the vetting of the plan by the creditors and

the court is not something you do in 3 days. Which is the complexity here. So the board puts itself ahead if that freight train, and makes a decision that would, you know, spend the funds now, you know, in anticipation of proposing a plan, with the hope that it all works out, is where I think the problem arises. What I think is the prudent step for the district to do is put together a plan with cashflows that are supportable through analysis with expert testimony to present to the court – because recall the district has – is one and a half, or six, that the total creditors outstanding –

Voice from Audience
About 6 million.

Attinrey Michael Sweet
– Almost 7 million dollars in debt to creditors. And they've got a say in the plan. And they get to go to the court and one of the things they'll probably say in the court is 'this district doesn't even deserve the right to spend *one dollar* on operations unless we get paid in full. Now, I'm not saying that the court won't give you some leeway, but that's going to be the starting point of the discussion with the creditors in the bankruptcy plan. And so your starting point is coming up with 7 million bucks and then articulating the basis to carve some of that out for continuing operations, and not to spend a lot of money now on operations that, by the analysis I've seen, that, albeit cursory and quickly prepared, and speculative, and then leaving yourself in a situation where the money that might have been available for creditors is no longer there and then you've got 7 million dollars worth of creditors who are looking at less. So that's the complexity. But Jim, essentially what you articulated is the plan process and bankruptcy, and our goal would be to move the plan process forward. And when we started this, Chris talked about how are we going to re-imagine ourselves, what are we going to be as we exit this. And I think that's what everyone wants to figure out is, what is this district going to do, to offer services that are consistent with the mission of the district that also recognizes the reality of providing healthcare in West County in the 21st century with the other facilities that are near by, and with the cost of reimbursement being what they are. And the facility being in the shape that it's in. So, I think everyone agrees that at the end of the day, **where this goes is a plan for the bankruptcy court where we articulate a basis where we continue to move forward with the provision of healthcare in west county, on a budget that we can support with projections that can be proven**, and at the same time providing something to the creditors. So that's where we're gonna go, that'll be my hope, that's where generally you would go on a chapter 9 case like this, but it's going to take the analysis that will have to bear itself out.