

WCMH—Is bankruptcy the next step?

Written by

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A special joint meeting of the Washington County Memorial Hospital (WCMH) Board of Trustees, the Washington County Board of Commissioners and the Washington County Board of Health was held on Friday afternoon, May 22. All members of the three groups were present except for Council President, Mark Manship. Earlier in the month, Manship recused himself from voting on any action involving WCMH, citing possible conflict of interest issues. Only one item was on the agenda. That one item was a resolution approving the transfer of all assets and liabilities of WCMH to a newly formed non-profit corporation, Critical Access Health Services (CAHS).

As stated by bankruptcy attorney Michael Hile, the move will allow the hospital more options in dealing with its current debt load estimated to be around \$15 million. When asked by representatives of three local financial institutions (Regions Bank, Mid-Southern Savings Bank, 1st Harrison Bank) if the plan calls for the hospital to reorganize under the provisions of Chapter 11 bankruptcy, Hile would only say that bankruptcy is one of the possible strategies. Citing the lack of forewarning about this maneuver, the representatives for financial institutions clearly were caught off guard by Hile's comments.

In a May 27 telephone interview, Mike Smith of Mid-Southern said, "No doubt about it, we feel like we were blindsided at last Friday's meeting. All three banks have been more patient with the hospital than we probably would have been with any other debtors. No one at the hospital has been willing to talk seriously with us for a long time about how to resolve this problem. We were simply told that arrangements were being made to work things out. We didn't want to do anything to hurt the hospital or the community so we held off. Unfortunately, that may not have been the best move on our part." Smith continued by saying, "We are currently exploring our options."

According to Drew Wright, attorney for the WCMH board, the transfer of assets and liabilities will free the county from any financial obligations to pay the debt incurred by the hospital. When pressed about the legality of transferring secured debt from one entity to another without first getting agreement for such a move from the creditors, no satisfactory answer was offered. Both Wright and Hile said that this type of a transfer has never taken place in Indiana and there is no precedent for the procedures to be followed.

Wright did strongly imply that the Commissioners and the County Council could take action obligating taxpayers to some of the hospital's debt if they decided to do so. When asked for an example of what circumstances would cause elected officials to take such action, it was suggested that if that was the only way to keep the hospital open, then it would have to be considered. WCMH Interim CEO Joe Roche suggested in a May 28 interview (See "Hospital plans to downsize" page 3) that the county may be asked to reimburse Medicare for overpayment to the hospital. According to Roche that amount might be as much as \$1 million, but said it was too soon to know a definite amount.

The hospital will continue to operate under the name of Washington County Memorial Hospital. However, CAHS will not run the facility; a management agreement will be struck with some other organization—in all likelihood, Saint Vincent Health (SVH).

The plan currently on the table calls for SVH to loan over \$2 million to CAHS for operating capital during the transition period. Repayment of that \$2 million dollar loan will be addressed after the restructuring. Once the debt problems are resolved, the hospital will be leased to another organization—again, in all likelihood, SVH.

This action appears to be the beginning of a long and difficult process to remedy the problems that have plagued WCMH for several years. Even though rumors of financial

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problems and mismanagement have been swirling around the hospital for well over a year, only recently have those issues been brought to light for public scrutiny. According to Roche, WCMH has been losing an average of \$5.5 million annually for years.

Minutes of hospital board meetings over the last several years indicates little, if anything, was done to address the problems effectively. Information received through an Open Records Request shows that as of March 31, 2009, WCMH had just \$20,607.66 cash on hand along with current liabilities of \$9,737,795.27 and long term debt of \$5,049,743.91.

The Board of Directors for CAHS will include Aaron Lee, Carroll Tash, Dr. Steven Kemker (previous members of the WCMH Board of Trustees), Commissioner John Mishler, and Councilman John Fultz. It will be their responsibility to guide CAHS through the restructuring process.

The board meetings of CAHS will not be open to the public. According to Wright, the law does not require that the meetings be open. In an interview late last week, WCMH Public Relations Director Melissa Richardson said that all information on actions of the CAHS board will come through press conferences with Roche. However, all indications suggest that approval to begin the bankruptcy procedures will take place at the Thursday, June 4 meeting of the CAHS board.