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11 Attorneys for SURPRISE VALLEY
 12 HEALTH CARE DISTRICT

13 UNITED STATES BANKRUPTCY COURT
 14 EASTERN DISTRICT OF CALIFORNIA
 15 SACRAMENTO DIVISION

16 In re:
 17 SURPRISE VALLEY HEALTH CARE
 18 DISTRICT

19 Debtor.

CASE NO. 18-20070
 Chapter 9

DCN: SVH-7

**DECLARATION OF JENNIFER R.
 HANOR IN SUPPORT OF DEBTOR'S EX
 PARTE APPLICATION FOR AN ORDER
 SETTING HEARING AND
 SHORTENING NOTICE ON DEBTOR'S
 MOTION FOR AN ORDER (I)
 GRANTING SENIOR SECURED STATUS
 TO THE DEBTOR'S POSTPETITION
 LENDER; (II) AUTHORIZING
 SUPERPRIORITY ADMINISTRATIVE
 EXPENSE STATUS FOR THE
 POSTPETITION LENDER; (III)
 FINDING THAT PREPETITION
 LIENHOLDERS ARE ADEQUATELY
 PROTECTED; (IV) MODIFYING THE
 AUTOMATIC STAY; (V) SCHEDULING
 A FINAL HEARING PURSUANT TO
 BANKRUPTCY RULE 4001; AND (VI)
 GRANTING RELATED RELIEF**

Judge: Hon. Christopher D. Jaime

1 I, JENNIFER R. HANOR, declare as follows:

2 1. I am the Chief Executive Officer of the Surprise Valley Health Care District (the
3 "District" or the "Debtor"), debtor in the above-captioned chapter 9 case (the "Chapter 9 Case").¹

4 2. I have been directly involved in the matters leading up to the commencement of the
5 Chapter 9 Case, including financial planning and forecasting, creditor negotiations, soliciting
6 proposals from prospective lenders, and interfacing with the public regarding the District's fiscal
7 emergency. I have also been involved with all aspects of obtaining funding, including efforts to
8 solicit proposals from prospective lenders, negotiating the terms of the *Superpriority Senior*
9 *Secured Postpetition Credit Agreement* (the "Credit Agreement") from Cadira Group Holdings,
10 LLC (the "Lender" or "Cadira"), and planning the restructuring process.

11 3. I have personal knowledge of the facts stated in this declaration, except as to those
12 stated on information and belief and, as to those, I am informed and believe them to be true. If
13 called as a witness, I could and would competently testify to the matters stated herein.

14 4. The District filed its *Motion For An Order (I) Granting Senior Secured Status To*
15 *The Debtor's Postpetition Lender, (II) Authorizing Superpriority Administrative Expense Status*
16 *For The Postpetition Lender; (III) Finding That Prepetition Lienholders Are Adequately*
17 *Protected; (IV) Modifying The Automatic Stay; (V) Scheduling A Final Hearing Pursuant To*
18 *Bankruptcy Rule 4001; And (VI) Granting Related Relief* (the "Motion for Lender Protections").

19 5. I make this Declaration in support of the District's *Ex Parte Application For An*
20 *Order Setting Hearing And Shortening Notice On Debtor's Motion For Lender Protections* (the
21 "Application").

22 6. Like many rural health care districts that have declared bankruptcy in recent years,
23 the District has struggled to maintain operations in light of significant economic difficulties. The
24 District has debts in excess of \$4,000,000 and runs a deficit of between \$70,000 and \$100,000 per
25 month just with respect to operational expenses.

26

27 ¹ Capitalized terms that are undefined in this Declaration shall have the meaning ascribed to them
28 in the Motion for Lender Protections.

1 7. Under the District's current operating model, and given the stringent requirements
2 of running a critical care unit, the District does not generate sufficient revenue to support
3 continued operations, let alone repay past due obligations.

4 8. On December 28, 2017, facing the prospect of closing the Hospital and Clinic, the
5 District's Board of Directors declared a State of Fiscal Emergency because the District's financial
6 state jeopardizes the health, safety, and well-being of the residents of the District's jurisdiction,
7 and because the District was unable to meet its financial obligations within sixty days of the
8 resolution's date.

9 9. On January 3, 2018, a trade creditor, Prime Time Healthcare, levied the District's
10 bank accounts, jeopardizing the District's ability to meet payroll and other financial obligations as
11 they come due. The following day, on January 4, 2018 (the "Petition Date"), the District
12 commenced its Chapter 9 Case. [Docket No. 1].

13 10. The District has entered into a series of transactions (the "Transactions") with
14 Cadira that will allow the District to: (i) continue operations during the pendency of the
15 bankruptcy; (ii) pay off all secured creditors in full upon voter approval of a sale of the District's
16 assets contemplated by the Transactions; and (iii) create a pot of funds from which to pay all
17 allowed secured claims as well as a portion of the Districts' allowed unsecured claims. In
18 addition, the Chapter 9 Case allows the District to stabilize operations, thus allowing the District
19 to meet its ongoing operational expenses pending a sale. The District believes that the proposed
20 Transactions and a chapter 9 plan of adjustment offer the best avenue forward in this challenging
21 environment.

22 11. The Motion for Lender Protections pertains to the first step in the Transactions,
23 with the ultimate goal being a sale of substantially all of the District's assets to Cadira. Pursuant
24 to the *Superpriority Senior Secured Credit Agreement* (the "Credit Agreement"), Cadira has
25 agreed to loan the District an aggregate principal amount not to exceed \$4,000,000 (the
26 "Facility"). Of that amount, \$1,500,000 may be used to fund the ongoing operations of the
27 Hospital and fund professional fees and expenses, and \$2,500,000 has been utilized to purchase a
28 lab facility that will expand the Debtor's ability to serve the community and increase revenue by

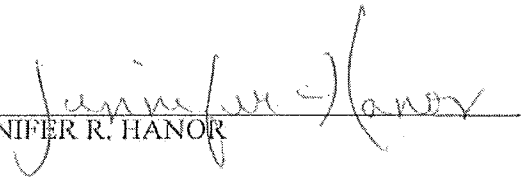
1 augmenting services currently offered by the District through alternate providers. The Lender has
2 made an initial advance of \$304,000, but the District is in immediate need of additional advances
3 if it is to continue operating.

4 12. Absent approval of the Motion for Lender Protections, the Lender will not make
5 any further payments to the District. The District does not generate sufficient liquidity to continue
6 independently operating. Therefore, absent immediate access to additional funding under the
7 Facility, the District will likely discontinue operations within a matter of weeks.

8 13. Immediate access to postpetition financing is necessary to provide the District
9 working capital during the pendency of the Chapter 9 Case, and to ensure its residents, employees,
10 vendors, suppliers, and other key constituencies that the District has sufficient resources available
11 to maintain its operations in the ordinary course while working toward a plan of readjustment.

12 I declare under penalty of perjury that the foregoing is true and correct.

13 Executed March 5, 2018, at Cedarville, California.

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17 JENNIFER R. HANOR
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