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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-8

**DECLARATION OF JENNIFER R.
 HANOR IN SUPPORT OF 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**

DATE: TBD
 TIME: TBD
 CTRM: 32

Judge: Hon. Christopher D. Jaime

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

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

3 2. I have been directly involved in the matters leading up to this chapter 9 filing,
4 including financial planning and forecasting, negotiations with creditors, soliciting loan proposals
5 from prospective lenders, and interfacing with members of the public regarding the District’s
6 situation. I have also been involved with all aspects of obtaining funding, including efforts to
7 solicit proposals from prospective lenders, negotiating the terms of the *Superpriority Senior*
8 *Secured Credit Agreement* (the “Credit Agreement”) from Cadira Group Holdings, LLC (the
9 “Lender” or “Cadira”), and planning the restructuring process.

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

13 4. I make this Declaration in support of the *Debtor’s Motion For An Order (I)*
14 *Granting Senior Secured Status To The Debtor’s Postpetition Lender, (II) Authorizing*
15 *Superpriority Administrative Expense Status For The Postpetition Lender; (III) Finding That*
16 *Prepetition Lienholders Are Adequately Protected; (IV) Modifying The Automatic Stay; (V)*
17 *Scheduling A Final Hearing Pursuant To Bankruptcy Rule 4001; And (VI) Granting Related Relief*
18 (the “Motion”) filed concurrently herewith.

19 **A. Overview of the District’s Operations**

20 5. The District is a special health care district formed under the California Local
21 Healthcare District Law. The District operates medical facilities known as the Surprise Valley
22 Community Hospital (the “Hospital”) and the Surprise Valley Clinic (the “Clinic”).

23 6. The District is located in Northeast California, at a 5,000 foot elevation in
24 Cedarville, east Modoc County. Since April 16, 1986, the District has provided medical services
25 to approximately 1,500 people in the following communities: Fort Bidwell, Cedarville Rancheria,
26 Warner Mountains Indians, Lake City, Cedarville, and Eagleville (the “Communities”). In
27 addition, it provides services to patients from all over Modoc County who make the arduous trip
28 over Cedar Pass and into Surprise Valley.

1 7. The Hospital has twenty-six beds—twenty-two skilled nursing beds, one acute bed,
2 and three swing beds. It has an emergency room, with a physician on standby at all times. The
3 hospital also provides a full service laboratory, x-ray services, and operates a 24-hour ambulance
4 service with a full-time paramedic on staff. Many community members are EMT-certified and
5 serve as part-time and on-call staff during the week.

6 **B. Circumstances Leading to Bankruptcy Filing**

7 8. Like many rural health care districts that have declared bankruptcy in recent years,
8 the Debtor has struggled to maintain operations in light of significant economic difficulties. The
9 District has debts in excess of \$4,000,000 and runs a deficit of between \$70,000 and \$100,000 per
10 month, just to cover day-to-day operations. Under the District's current operating model, and
11 given the stringent requirements of running a critical care unit, the District does not generate
12 enough revenue to support continued operations, let alone repay past due obligations. The District
13 believes that the proposed Transactions and a chapter 9 plan of adjustment offer the best avenue
14 forward in this challenging environment.

15 9. On December 28, 2017, facing the prospect of closing the Hospital and Clinic, the
16 District's Board of Directors (the "Board") declared a State of Fiscal Emergency after finding that
17 the District's financial circumstances jeopardized the health, safety, and well-being of the
18 residents of the District's service area, and because the District was unable to meet its financial
19 obligations within sixty days of the resolution's date.

20 10. Though the possibility of commencing a chapter 9 case had been explored on
21 multiple occasions over the last four years, the District devoted significant time and effort to avoid
22 a filing. On January 3, 2018, a trade creditor, Prime Time Healthcare, levied the District's bank
23 accounts, jeopardizing the District's ability to meet payroll and other financial obligations. The
24 following day, on January 4, 2018 (the "Petition Date"), the District commenced the Chapter 9
25 Case. [Docket No. 1].

26 11. The Chapter 9 Case was commenced to obtain relief from creditor collection
27 actions and to allow the District to adjust its debt obligations through a Plan of Adjustment. The
28 District intends to propose a plan for the adjustment of its debts and will explore an infusion of

1 new financing and alternate means to generate revenue to support its operations, including a sale
2 of the Hospital and Clinic. The District believes that long-term, a sale of the Clinic and Hospital
3 will be in the best interest of all stakeholders, including the District's patients and the District's
4 residents.

5 **C. The District's Selection of Cadira as Lender**

6 12. Prior to the Chapter 9 Case, the District attempted to obtain funding to continue
7 operating. In August 2017, the District entered into a contract with EmpowerHMS, LLC
8 ("Empower"), a hospital management company. Under the terms of the contract, Empower would
9 take over the District's facilities and fund its operations. However, less than three months later,
10 Empower abandoned the project.

11 13. Thereafter, Cadira submitted a proposal to the Board to acquire the Hospital. In
12 connection with its proposal, Cadira offered financing to allow the District to continue operating
13 the Hospital and Clinic, while also funding the carrying costs of a Chapter 9 Case. Mere financing
14 would not achieve the District's long-term goal of retaining an operating Hospital and Clinic. The
15 District is in immediate need of funds, and has determined that it cannot obtain credit on more
16 favorable terms. After careful consideration and presentation at a public meeting Communities,
17 the Board agreed to explore Cadira's proposal on December 28, 2017 and authorized me to
18 negotiate agreements for presentation to the Board. The Board was presented with the form of
19 agreements on February 20, 2018. A true and correct copy of Resolutions passed by the Board on
20 December 28, 2017 and February 20, 2018 are attached hereto as **Exhibit "C."**

21 14. On February 20, 2018, the Board, in an exercise of its sound business judgment,
22 voted to approve the Facility and the sale of substantially all of the District's assets to Cadira (the
23 "Sale Transaction") in accordance with governing law and subject to relevant approvals.

24 **D. The Facility**

25 15. In accordance with the Credit Agreement, the Lender agreed to extend financing to
26 the District in an aggregate principal amount not to exceed \$4,000,000 (the "Facility"), on the
27 condition that it is granted a super-priority administrative expense and a priming lien with respect
28 to a budgeted amount of \$623,068.57 on an interim basis with final approval for the remainder of

1 the Facility requested to be scheduled for hearing on or before April [●], 2018. The District will
2 use \$2,500,000 of the Facility to finance the purchase of the Denver Lab.

3 16. In addition to the Credit Agreement, Cadira and the Debtor have negotiated a series
4 of other agreements (the "Transactions") that facilitate the sale of substantially all of the District's
5 assets by the Lender in exchange for cancellation of indebtedness (the "Sale Transaction"). Once
6 the Transactions (including the Sale Transaction) are consummated, Cadira will operate a hospital
7 and critical care unit for the benefit of Modoc County residents. The Sale Transaction is subject to
8 voter approval and the parties are working to put a measure on the June 5, 2018 ballot for the
9 County of Modoc.

10 17. The Agreements will allow the District to continue operating during the pendency
11 of the Chapter 9 Case, while generating sufficient funds to provide meaningful recoveries to
12 creditors. Absent the Credit Agreement and the Sale Transaction, general unsecured creditors are
13 unlikely to receive any recovery and creditors holding security interests are similarly not likely to
14 receive any substantial recovery. Moreover, upon closing of the Transactions, including the Sale
15 Transaction, the District will be able to fully repay the holders of the Prepetition Liens (the
16 "Prepetition Secured Creditors") and expects to have funds available to pay allowed unsecured
17 claims in accordance with a plan of adjustment.

18 **E. Prepetition Liens**

19 18. The District operates the Clinic out of a property located at 745 North Main Street,
20 Cedarville, California 96104 (the "Clinic Property"). The District leases this property from a non-
21 profit for a nominal price, and does not have an ownership interest in the Clinic Property. The
22 Hospital is operated out of facilities located at 661 and 741 North Main Street, Cedarville,
23 California 96104 (the "Hospital Premises"). The Hospital Premises are owned by the District,
24 subject to a reversionary interest in favor of Modoc County in the event that the District ceases to
25 operate a Hospital from the property. Finally, the District owns a modest house (the "House")
26 located at 691 North Main Street, Cedarville, California 96014. The District has an ownership
27 interest in the Hospital Premises and the House (collectively, the "District Property").

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1 19. Prior to filing this Motion, the District sought to identify liens, encumbrances, and
2 interests that were allegedly asserted against the District Property. This due diligence revealed
3 that certain alleged liens were recorded against the District prior to the commencement of the
4 Chapter 9 Case.

5 20. **Federal Tax Liens:** First, all of the District Property is allegedly subject to four
6 federal tax liens (the "Tax Liens") recorded in Modoc County in favor of the United States of
7 America, assessed by the Internal Revenue Service, totaling \$694,920.03. The Tax Liens
8 comprise the following: (i) a Notice of Federal Tax Lien in the amount of \$406,836.96, recorded
9 on February 22, 2016; (ii) a Notice of Federal Tax Lien in the amount of \$143,401.57, recorded on
10 September 20, 2016; (iii) a Notice of Federal Tax Lien in the amount of \$142,170.27, recorded on
11 May 3, 2016; and (4) a Notice of Federal Tax Lien in the amount of 2,511.32, recorded on
12 November 8, 2016. The District believes that the actual indebtedness is in an amount no more
13 than \$572,484.08.

14 21. **Judgment Lien:** Second, the District's real property is encumbered by an abstract
15 of judgment in favor of Medliant, a Nevada corporation, in the amount of \$128,702.14, entered on
16 August 8, 2017 and recorded on September 18, 2017 (the "Medliant Judgment"). The Medliant
17 Judgment resolves a complaint against the District filed in the Superior Court of California,
18 County of San Francisco, and bearing Case No. CPF-17-515708.

19 22. **Deed of Trust:** Finally, the House—but not the Hospital Premises—is subject to a
20 Purchase Money Deed of Trust and Assignment of Rents granted in favor of Gary L. Odgers and
21 Ann Wylie Odgers, as Trustees of the Odgers Family Trust (the "Deed of Trust," and together
22 with the Tax Liens and the Medliant Judgment, the "Prepetition Liens"). According to the
23 District's records, \$60,826.53 is owed on the note securing the Deed of Trust.

24 **F. Inability to Obtain Financing on More Favorable Terms**

25 23. Cadira's unique proposal to turn around the District's failing operations—and to
26 retain the critical care unit by pairing it with the laboratory—makes its proposal the best available
27 financing option to maximize value for the District and its residents. Any extension of credit is
28 unlikely to provide better terms or to provide the District with the means by which to create a

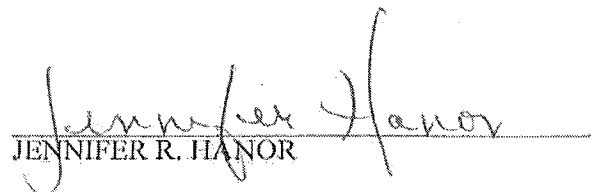
1 positive revenue stream. In fact, the District would not be in a position to repay alternate
2 financing, unless it was similarly coupled with a contracted purchase of the District's assets.

3 24. Given the District's current financial prospects, Cadira was unwilling to loan the
4 District the necessary funds to operate pending a sale, unless it is granted a priming lien and
5 superpriority claim status (the "Lender Protections"). A failure to obtain the Lender Protections
6 will constitute an event of default under the Credit Agreement and would imperil the Communities
7 opportunity to retain an operating hospital in the service area. Absent approval of the Motion, the
8 Lender will not make any further payments to the District. As the District cannot generate
9 sufficient liquidity to continue independently, it will likely cease operations if the Transactions are
10 not consummated. The Facility is critical for the Debtor to gain access to sufficient liquidity to
11 maintain ongoing operations, ensure proper servicing of patients postpetition, and fund working
12 capital needs.

13 25. Immediate access to the Funding is necessary to provide necessary working capital
14 to the District during the pendency of the Chapter 9 Case, and to provide its residents, employees,
15 vendors, suppliers, and other key constituencies with confidence that the District has sufficient
16 resources available to maintain its operations in the ordinary course while working toward a plan
17 of readjustment. If the Transactions are not consummated: (i) the District will likely be forced to
18 shut down; (ii) the District will be unable to adequately serve its residents; and (iii) the District's
19 ability to confirm a plan of readjustment may be irreparably harmed. In light of the District's
20 illiquidity, a shutdown benefits neither creditors nor residents. For the reasons stated herein, the
21 Facility is in the best interests of the District's residents, creditors, and other parties in interest.

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

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

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JENNIFER R. HANOR