

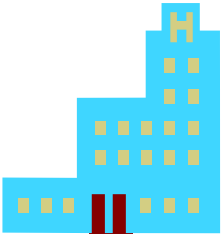


**Dormitory Authority State of New York**

**Commission on Health Care Facilities  
in the 21<sup>st</sup> Century**

**Healthcare Restructuring and Debt**

**August 24, 2006**



# Topics to be covered



- Typical healthcare provider debt and non-debt liabilities
- Restructuring and participants in capital debt financing process
- Examples of closures and restructurings involving DASNY clients
- Considerations for Commission deliberation



# Some Common Types of Obligations

Liabilities of a typical hospital or nursing home include some or all of the following:

➤ Vendor / Trade Debt

➤ Commercial Lease Financing

➤ Corporate Debt (including bank loans, letters of credit, receivable financings)

- Capital and working capital

➤ Tax Exempt Bonds/Leases

- Capital

- Dormitory Authority

- Industrial Development Agencies (IDA)

➤ Third Party Payers (Medicaid, Medicare, insurance plans)

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➤ Wages

➤ Pension / Benefits

➤ Malpractice and other insurance

➤ Taxes

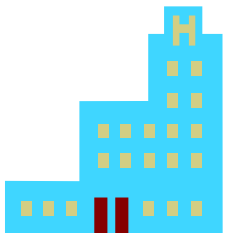
- Federal

- State

- Local (e.g. water / sewer)

➤ Inter-company / Affiliate

➤ Leases/other long term contractual commitments



# Security for Healthcare Obligations

*Debt obligations of the hospital or nursing home may be a general unsecured obligation of the institution or maybe secured by any of the following:*

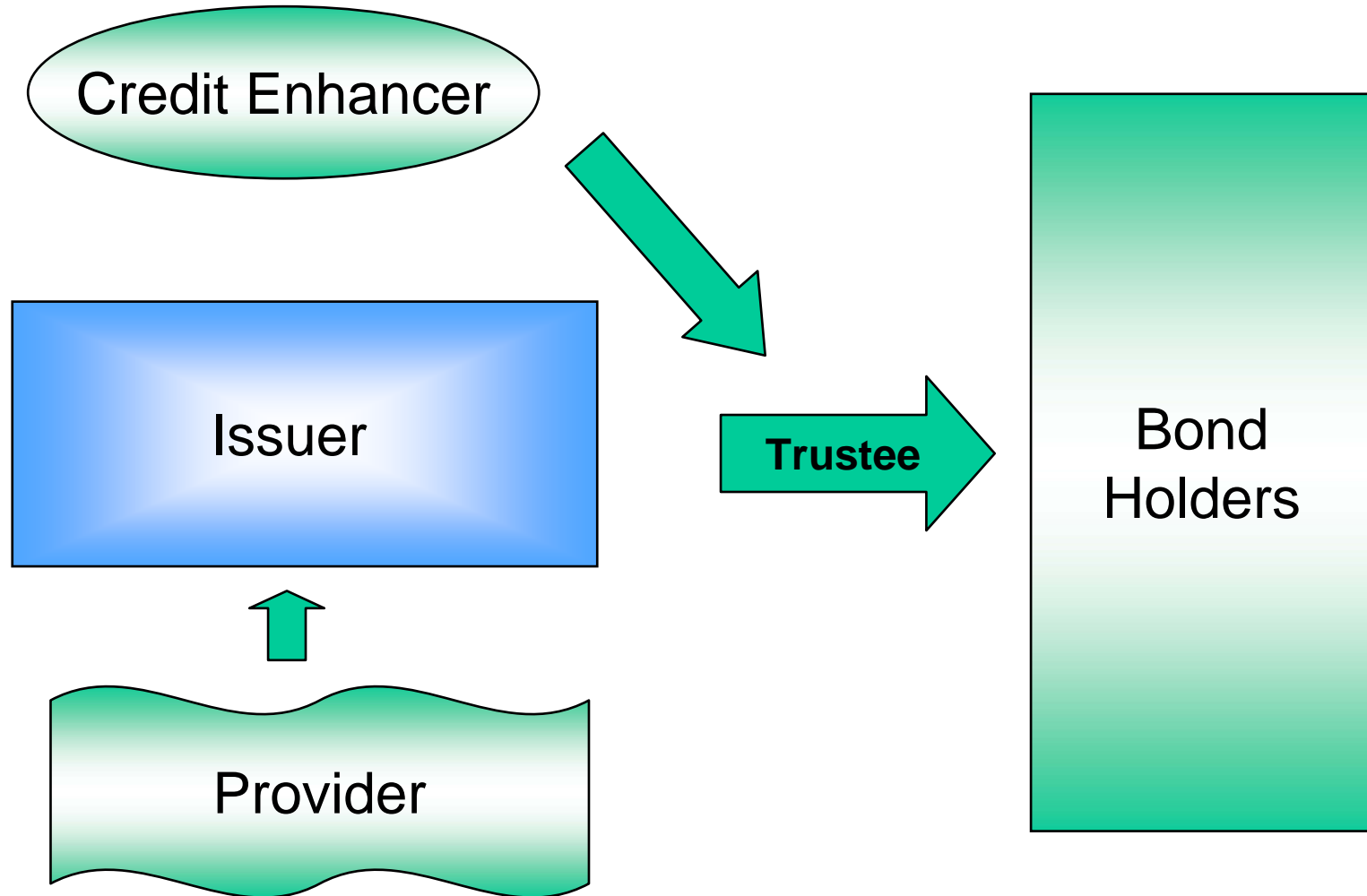
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- Mortgage on Institution's Real Estate
- Gross Receipts of the Institution
- Right to receive specific funds (e.g. DoH pools)
- Specified Collateral (e.g. bank accounts)
- Equipment Financed
- Guarantee of another (usually a stronger hospital or system will "guarantee" the debt of another)



# Capital Tax-Exempt Healthcare Financing

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# Categories of Healthcare Restructuring

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- Closure of Facility
- Reconfiguration of facility and/or business lines
- Sale of facility and/or business lines
- Financial Restructuring



**An Institution's Board may determine that bankruptcy protection may be advantageous or essential to achieve some of the above objectives**



# DASNY Restructuring Experiences

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## Hospital A

**Small, stand alone community hospital; downstate region; State secured debt; underperforming financially**

### Institutional Action Taken

- Board determined that it would no longer operate a hospital
- Hospital Closure ( DoH approval of plan)
- No filing under Bankruptcy Law or assignment for benefit of creditors

### DASNY Action Taken

- Settlement Agreement with Hospital
- Foreclosure/Receiver

### Results

- Hospital property sold in foreclosure sale
- Bondholders paid in full from sale proceeds and statutory fund established for Secured Hospital Program
- Limited resources available to pay unsecured creditors

### Timeframe

Approximately 2 years



# DASNY Restructuring Experiences

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## Hospital B

**Small, community hospital; downstate region; member of larger healthcare system; FHA mortgage insurance; under-performing financially**

### Institutional Action Taken

- Hospital Closure
- “Liquidating Chapter 11”

### DASNY/DoH Action Taken

- Secured loan to assist with costs of closure and liquidation
- Loan made to Debtor in Possession (DiP Financing)

### Results

- Third Party lender provided DiP Financing
  - Included prepayment of DASNY’s mortgage loan
- DASNY Bondholders paid in full (without recourse to FHA mortgage insurance benefits)
- Hospital property sold
- DASNY secured loan repaid from sale proceeds
- Claims of other secured/unsecured creditors to be addressed through Debtors Plan of Reorganization

### Timeframe

- Approximately 2 years and ongoing



# DASNY Restructuring Experiences

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## Hospital C

Large multi-hospital/nursing home system (recent merger ); serving 3 different healthcare markets in New York City; multiple DASNY bond issues secured by LOC or FHA and commercial loans; financially under-performing for years; significant cash losses

### Institutional Action Taken

- Restructuring Consultant
- Bankruptcy filing (Chapter 11: Reorganization)

### DASNY/DoH/HUD Action Taken

- DIP Loan to assist with restructuring
- DASNY/HUD subordination of mortgage interest on “non-core” property to facilitate third-party working capital borrowing

### Results

- Third Party lender provided DiP financing
  - Included prepayment of DASNY’s mortgage loans
- Bondholders paid in full (without recourse to FHA mortgage insurance benefits)
- Business Restructuring underway, includes closure and divestiture of some acute care facilities
- Debtor has not yet filed a Plan of Reorganization

### Timeframe

- Approximately 2 years and on going

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# DASNY Restructuring Experiences

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## Hospital D

**Small multi-hospital system with nursing homes; downstate region; multiple loans FHA mortgage insurance; underperforming financially**

### Institutional Action Taken

- Bankruptcy filing (Chapter 11-Reorganization)

### DASNY/DoH Action Taken

- DIP Loan to assist Debtor in developing viable plan of reorganization acceptable to other creditors

### Results

- Sale of one hospital by system
- DASNY bonds issued to refinance taxable debt incurred by acquirer of Debtor's hospital
- Bondholders being paid from ongoing mortgage payments
- Business Restructured / Emerged from Bankruptcy
- DASNY/DoH loan repaid (as provided in Plan of Reorganization)

### Timeframe

- Approximately 5 years



# DASNY Restructuring Experiences

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## Hospital E

**Large community hospital (two sites in New York City); FHA mortgage insurance, high need community, under performing financially**

### Institutional Action Taken

- Convert one hospital site to diagnostic and treatment center

### DASNY/DoH Action Taken

- Assess implications of conversion on both DASNY Bonds and Borrower's obligations under Loan Documents

### Results

- Bondholders being paid from ongoing mortgage payments
- Business Restructuring underway



# DASNY Restructuring Experiences

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**Same system, a few years later....**

## Institutional Action Taken

- Bankruptcy filing (Chapter 11: Reorganization)
- Non-debt obligations soon to become secured claims through statutory liens (e.g., judgments against the Institution)
- Restructured balance sheet

## DASNY/DoH/HUD Action Taken

- Secured DIP loan to provide working capital during the restructuring

## Results

- Third Party lender provided financing
  - DASNY's mortgage loan not prepaid
- Bondholders being paid from ongoing mortgage payments
- Business Restructuring underway

## Timeframe

- Approximately 2 year process, including 1 year in Chapter 11
- On going



# DASNY Restructuring Experiences

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## Hospital F

**Medium sized, multi-hospital system in urban, upstate New York, underperforming financially**

### Institutional Action Taken

- Parent determined to close a hospital in system (DoH approval of plan)
- System was passive parent of DASNY and IDA Borrowers (no joint liability)

### DASNY Action Taken

- Assessed financial and legal implications of closure on DASNY Borrower

### Results

- Hospital closed/dissolution
- Bondholders received negotiated payments that were funded by purchase of IDA mortgage by DASNY's Borrower
- Court receiver appointed
- Hospital property sold

### Timeframe

- Approximately 5 years



# DASNY Restructuring Experiences

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## Hospital G

**Small community hospital – upstate NY, 2 hospital town, FHA mortgage insurance; under performing financially**

### Institutional Action Taken

- Close emergency room
- Convert most acute-care beds to rehabilitation

### DASNY/DoH/HUD Action Taken

- Loan to assist with restructuring
- Reviewed plans and worked with FHA to determine compliance with financing documents

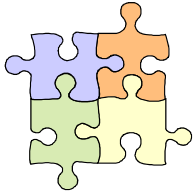
### Results

- Bondholders being paid from ongoing mortgage payments
- Business Restructuring complete – assessment underway

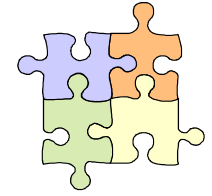
### Timeframe

- Approximately 1 year





# DASNY Observations Healthcare Restructuring and Debt



- **Healthcare restructuring is both time and resource intensive; although clearly defined goals can save both;**
- **Cannot underestimate the amount of capital necessary to effectuate;**
- **It is not a predictable process and is highly dependent on the unique set of circumstances;**
- **Restructuring necessarily has to address all types of debt, including capital debt;**
- **Boards of Directors may elect to pursue bankruptcy protection to implement restructuring;**
- **To date, DASNY has not had to call upon credit enhancers as restructurings have occurred, nor have bondholders been harmed;**
- **Responsible treatment of capital debt (i.e. avoid bond defaults and calls on credit enhancement) will allow for future access to capital markets to assist reinvestment**



# Suggested Items for Checklist

## (Non-Patient Access Considerations)

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- Governance / Board strength / changes
- Clarity of Goals: Mission vs. Business
- Management strength/changes
- Advisors/Consultant/Legal assistance
- Affiliations
  - Financial and management / personnel resources to assist
  - Financial effects
- Restructuring costs
  - Employee severance, closure expenses, working capital
- Unfunded tax and pension/benefit obligations
- Trade obligations
  - How much and to whom



# Suggested Items for Checklist (Non-Patient-Access Considerations)

## ➤ **Accumulated malpractice liability**

Fully insured

Adequacy of coverage

Self Insured (or large deductible / retention)

Adequacy of funding

## ➤ **Existing Short- and Long-Term debt**

- Amount(s)

- Lender

- Security – What is it and how much is it worth?

- Guarantees – What would be the effect of payment on the guarantor?

- Credit enhancement – How critical is the enhancer in the future?

## ➤ **Business Disruption - Community and Physician relations**

### ➤ **Timeframes**

## ➤ **Need for additional Capital (Liquid and Non-Liquid Assets)**

- Working capital

- Reinvestment capital)

- Must be sufficient to cover continued operations or closure costs

