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8 **UNITED STATES BANKRUPTCY COURT**
9 **EASTERN DISTRICT OF WASHINGTON**

10 IN RE:
11 ASTRIA HEALTH, et al.
12 Debtors.¹

Lead Case No. 19-01189-11
(Joint Administration Requested)
DECLARATION OF JOHN GALLAGHER IN SUPPORT OF DEBTORS' JOINT MOTION FOR AN ORDER (A) DIRECTING THE JOINT ADMINISTRATION OF THESE CASES, INCLUDING THE USE OF CONSOLIDATED LISTS, AND (B) LIMITING SCOPE OF NOTICE
Re: Docket No. 2

16
17 ¹ The Debtors, along with their case numbers, are as follows: Astria Health (19-01189-11), Glacier Canyon, LLC (19-01193-11), Kitchen and Bath Furnishings, LLC (19-01194-11), Oxbow Summit, LLC (19-01195-11), SHS Holdco, LLC (19-01196-11), SHC Medical Center - Toppenish (19-01190-11), SHC Medical Center - Yakima (19-01192-11), Sunnyside Community Hospital Association (19-01191-11), Sunnyside Community Hospital Home Medical Supply, LLC (19-01197-11), Sunnyside Home Health (19-01198-11), Sunnyside Professional Services, LLC (19-01199-11), Yakima Home Care Holdings, LLC (19-01201-11), and Yakima HMA Home Health, LLC (19-01200-11).

Gallagher Declaration In Support of Motion for Joint Administration and Limited Notice Procedures



1 **DECLARATION OF JOHN GALLAGHER**

2 I, John Gallagher, hereby state and declare as follows:

3 1. I am the President and Chief Executive Officer (“CEO”) of Astria
4 Health (“Astria”). I am employed by AHM, Inc. (“AHM”), a nondebtor entity that
5 provides management services to Astria and its affiliated debtors and debtors in
6 possession (collectively, the “Debtors”) in these chapter 11 cases (the “Chapter 11
7 Cases”).

8 2. I make this declaration in support of the *Debtors’ Joint Motion For An*
9 *Order (A) Directing The Joint Administration Of These Cases, Including The Use*
10 *Of Consolidated Lists, And (B) Limiting Scope Of Notice* (the “Motion”),⁵ in which
11 the Debtors request entry of an order (a) authorizing the joint administration of
12 these Chapter 11 Cases for procedural purposes only, including the use of
13 consolidated lists, and that the Court maintain one file and one docket for all of the
14 Chapter 11 Cases under the lead case: *In re Astria Health*; and (b) approving a
15 Limited Mailing List and a limited notice procedure.

16 3. Joint administration of the Chapter 11 Cases will provide significant
17 administrative efficiencies without harming the substantive rights of any party in
18 interest. Many of the motions, hearings and orders that will be filed in the Chapter

19 _____
20 ⁵ All capitalized terms not otherwise defined herein have the meaning ascribed to
21 them in the Motion.

1 11 Cases almost certainly will affect each of the Debtors. The entry of an order
2 directing joint administration of the Chapter 11 Cases will reduce fees and costs by
3 avoiding duplicative filings, objections, notices, and hearings, and will allow all
4 parties in interest to monitor the chapter 11 cases with greater ease and efficiency.
5 The relief requested in the Motion is in the best interests of the Debtors' estates,
6 their creditors, and all other parties in interest and will enable the Debtors to
7 continue to operate their businesses in chapter 11 with the least disruption.

8 **I. PERSONAL EXPERIENCE**

9 1. On April 17, 2017, I was CEO of Sunnyside Community Hospital
10 Association ("Sunnyside") d/b/a Sunnyside Community Hospital & Clinics
11 ("SCHC"), based in Sunnyside, Washington, when it initiated a Department of
12 Health Certification of Need ("CON") process to acquire from Community Health
13 System ("CHS") two historic, then for-profit hospitals—Yakima Regional Medical
14 & Cardiac Center, now referred to as Astria Regional Medical Center ("Yakima"),
15 based in Yakima, Washington, and Toppenish Community Hospital, now referred
16 to as Astria Toppenish Hospital ("Toppenish"), based in Toppenish, Washington.
17 The transaction closed on September 1, 2017, creating Astria, a \$230 million-plus
18 per year, non-profit, healthcare system based in, supporting, and supported by
19 communities throughout the Yakima Valley.

20 2. I am a senior healthcare industry executive. My experience includes
21 leading both non-profit and for-profit hospitals and systems. I have been a

1 healthcare executive for more than twenty (20) years. My experience includes
2 healthcare consulting, strategic planning (both short-term and long-term), setting
3 organizational missions, vision and values, mergers and acquisitions, hospital
4 turnarounds, board relations, hospital and system governance, and community
5 relations. I have experience in building and sustaining healthcare growth strategies,
6 healthcare delivery, and operations management through financial management,
7 negotiations, integrated marketing, communications and business development,
8 physician practice acquisition and expansion, healthcare service line leadership,
9 quality care and population health oversight, disease management, recruiting, and
10 employee relations.

11 3. I am a Board-Certified Fellow in the American College of Healthcare
12 Executives. I received a Master of Business Administration (1997) and a Master of
13 Healthcare Administration (1997) from the University of Houston, and I have a
14 Bachelor of Science in Zoology from Texas A&M University (1995).

15 4. My previous leadership experience, in reverse chronological order
16 (from most recent in time), was serving as CEO of SCHC from May 2012 to April
17 2017. In that role, my responsibilities included the turnaround and leadership of
18 that 501(c)(3) independent 38-bed, \$100 million per year, critical access hospital.
19 With the recruitment of more than fifty (50) new primary care providers and
20 specialists, the introduction of thirty-seven (37) new service lines including

1 Neurosurgery, Interventional Cardiology, Nephrology, Vascular Medicine,
2 Urology, the addition of dozens of new primary and multi-specialty outpatient
3 centers, and the acquisition of a competitive ambulatory surgery center, physician
4 practice and hospital programs and improved operations, I led a \$39 million
5 turnaround of the facility in forty-eight (48) months. This returned that hospital to
6 profitable growth that has been sustained over time.

7 5. Prior thereto, I served as an executive with Health Management
8 Associates, Inc., in Naples, Florida from 2008 to 2011. My responsibilities
9 included serving as CEO of 125-bed, \$70 million per year, Stringfellow Memorial
10 Hospital in Anniston, Alabama from 2009 through 2011 and as Chief Operating
11 Officer (“COO”) of 281-bed, \$120 million per year, Riverview Medical Center in
12 Gadsden, Alabama from 2008 to 2009. In both hospitals, I was able to realize
13 significant profitable growth. At Stringfellow Memorial Hospital there was a 35%
14 growth in profits, yielding a 19.8% margin and \$13.8 million in Earnings Before
15 Income, Taxes, Depreciation & Amortization (“EBITDA”). My responsibilities
16 included managing joint ventures, recruiting new physicians, acquiring physician
17 practices, establishing new outpatient health centers, and realizing a 120%
18 improvement in inpatient Hospital Consumer Assessment of Healthcare Providers
19 and Systems (“HCAHPS”) patient satisfaction scores. At Riverview Regional
20 Medical Center, I realized an 11% growth in profits, yielding a 15.7% margin and

1 \$18 million in EBITDA through merging independent anesthesiologists and
2 employed certified registered nurses and anesthesiologist groups, replacing a Radiology
3 Group, and implementing nine newly employed physician clinics.

4 6. From 2005 to 2008, I served as an Executive with Community Health
5 Systems (“CHS”) headquartered in Franklin, Tennessee. While at CHS, from 2007
6 to 2008, I was the CEO of 115-bed, \$54 million per year, Mimbres Memorial
7 Hospital, in Deming, New Mexico, and from 2005 to 2006, I served as Associate
8 CEO of 326-bed, \$200 million per year, Laredo Medical Center in Laredo, Texas.
9 While at Mimbres Memorial Hospital, it realized a 25% margin, yielding \$13
10 million in EBITDA and a 33% increase in patient volume, managing through a 10-
11 year National Labor Relations Board (“NLRB”) appeal, and improving to 95% on
12 Core Measure scores. While at Laredo Medical Center, it achieved an EBITDA
13 growth of 90% (by \$32 million) and an average daily census increase (ADC) from
14 197 to 256. There, I realized a 66% reduction in patients who left against medical
15 advice (AMAs) and patients who left without treatment (LWOTs) to 4%, yielding
16 better emergency room patient flow ratios. While there, I was also responsible for
17 reorganizing the hospital-based ambulatory surgery center.

18 7. From 2002 to 2005, I served both as a CEO and COO at IASIS
19 Healthcare in Franklin, Tennessee—a 14-hospital for-profit health system.
20 Specifically, from 2003 to 2005, I was the CEO of MidJeff Hospital & Park Place

1 Medical Center in Port Arthur, Texas. There, I was responsible for the two-
2 hospital, 385-bed, \$130 million per year, system where part of my responsibilities
3 included overseeing the construction of a \$90 million replacement facility, the
4 Medical Center of Southeast Texas. In that role, I increased margin to 22.1%,
5 yielding \$28.6 million in EBITDA from 18.7%, and saved \$1.1 million in salaries
6 through consolidating leadership. In 2003, I also served as interim CEO of 130-
7 bed, \$50 million per year, Mid Jefferson Hospital, in Nederland, Texas. In that
8 role, the hospital's net revenue grew from \$43 to \$50 million, yielding a 30%
9 improvement in EBITDA, and outpatient volume increased by 10% with a
10 reduction in staffing of 3%, yielding employees per occupied bed (EPOB) to 3:4.

11 8. From 2002 to 2003, I also served as CEO of 142-bed, \$58 million per
12 year, Mesa General Hospital, in Phoenix, Arizona, and as CEO of 225-bed, \$55
13 million per year, Park Place Medical Center, in Port Arthur, Texas. At Mesa
14 General Hospital, my responsibilities included overseeing a \$6 million turnaround
15 of the facility from a negative \$600,000 to a positive \$5.5 million EBITDA,
16 recruiting the largest cardiology group in Arizona to join the facility (thirty-two
17 (32) physicians and three (3) clinics), and initiating a da Vinci Robotics program
18 yielding the first successful closed-chest bypass surgery in the Southwest United
19 States.

20 9. On the date hereof (the "Petition Date"), the Debtors filed voluntary
21

1 petitions for relief under chapter 11 of the Bankruptcy Code in this Court. I am
2 knowledgeable and familiar with the Debtors' day-to-day operations, business and
3 financial affairs, and the circumstances leading to the commencement of these
4 Chapter 11 Cases.

5 10. Except as otherwise indicated herein, this Declaration is based upon
6 my personal knowledge, my review of relevant documents, information provided to
7 me by employees of the Debtors or the Debtors' legal and financial advisors, or my
8 opinion based upon my experience, knowledge, and information concerning the
9 Debtors' operations and the healthcare industry. If called upon to testify, I would
10 testify competently to the facts set forth in this Declaration.

11 **II. GENERAL OVERVIEW**

12 **A. Astria Operates a Statewide Healthcare System Through Its Affiliates**

13 13. The Astria Health system, headquartered in the heart of Yakima
14 Valley, Washington, and providing medical services to patients who generally
15 reside in Yakima County and Benton County, Washington, is the largest non-profit
16 healthcare system based in Eastern Washington, with annual revenues of
17 approximately \$240 million. Astria is the parent non-profit organization of
18 Yakima, Sunnyside, and Toppenish (collectively, the "Hospitals"), along with
19 outpatient Astria Health Centers (14 medical clinics and 24 specialty clinics),
20 Ambulatory Surgical Center, Astria Hearing and Speech, and Astria Home Health
21 and Hospice with healthcare sites and providers conveniently located in towns and

1 cities throughout the region. Collectively, they have 315 licensed beds, three active
2 emergency rooms, and a host of medical specialties.

3 14. Overall, the Astria health care system provides medical treatments to
4 approximately 346,400 patients annually, including approximately 7,344 who
5 spend at least one night in its Hospitals during the year. Astria's necessity to the
6 health and welfare of the people of the Yakima Valley is evidenced by several facts,
7 including having the:

- 8 • *only* open-heart surgery program in Yakima County;
- 9 • *only* neurosurgery program in Yakima County;
- 10 • *only* elective cardiac catheterization program in Yakima County;
- 11 • *only* hospital in Sunnyside, Washington;
- 12 • *only* hospital in Toppenish, Washington; and
- 13 • *only* obstetric services in the Lower Valley of Yakima County (both at
14 Sunnyside and Toppenish).

15 15. Collectively, the Debtors provide the following services: allergy
16 testing and treatment program, ambulatory surgery, audiology, behavioral
17 health/psychiatry, breast health center, cancer care, cardiac electrophysiology,
18 cardiac rehabilitation, cardiothoracic surgery, catheterization lab, colorectal
19 surgery, critical care medicine, diabetes education, diagnostic imaging and
20 radiology, ear, nose and throat, emergency services, endocrinology, family
21 medicine, gastroenterology, gynecological surgery, heart care, hand surgery, heart

1 failure, home health, hospice, hospitalists, inpatient behavioral health, internal
2 medicine, interventional cardiology, laboratory, life transitions intensive out-patient
3 program, maternity services, medical withdrawal management, nephrology,
4 neurosurgery, spine care, nutritional services, obstetrics and gynecology,
5 occupational medicine, orthopedics, orthopedic surgery, outpatient palliative care,
6 speech therapy, physical therapy, pediatrics, pharmacy, plastic and reconstructive
7 surgery, podiatry, rehabilitation, inpatient rehabilitation, rheumatology, senior
8 services, sleep medicine, sports medicine, stroke care, surgical services, robotic
9 surgery, general surgery, telehealth, urology, urological surgery, walk-in care,
10 women's health, vascular medicine, and wound care center.

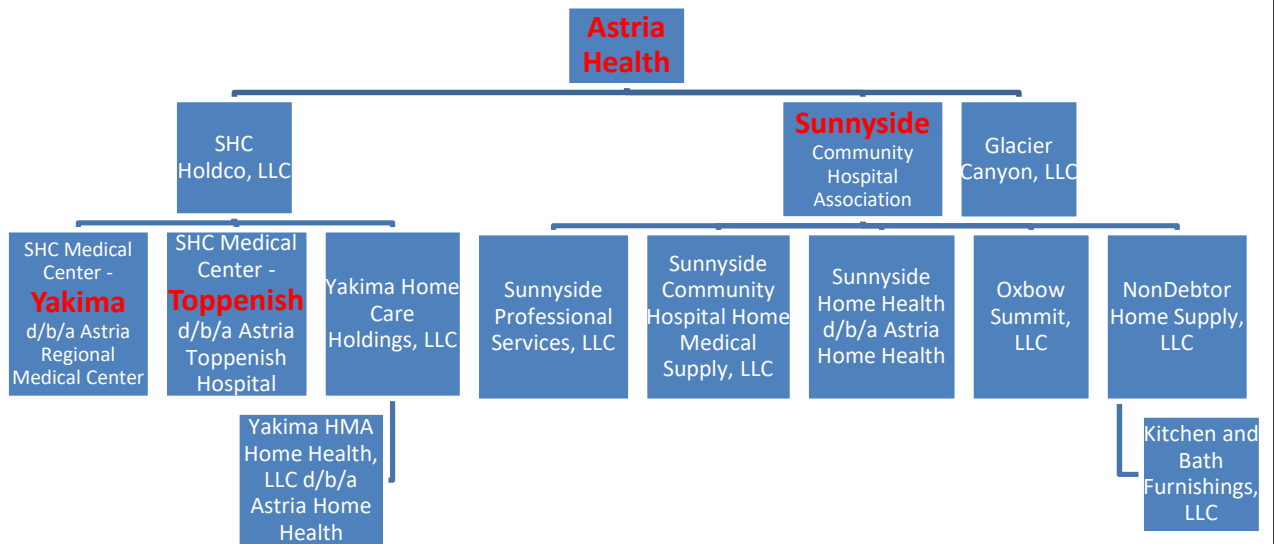
11 **B. Financial Overview**

12 16. The Debtors collectively have a total of approximately \$72 million of
13 outstanding secured debt. A significant portion of their outstanding principal debt
14 is pursuant to credit agreements to which SHC Holdco, Yakima, Toppenish, and
15 either Astria or Yakima Home Care are all borrowers, and certain of their non-filing
16 affiliates are either co-borrowers or guarantors, and whose assets all serve as
17 security therefor.

18 17. As of the Petition Date, the Debtors also collectively have a total of
19 approximately \$95 million in unsecured debt, not including amounts owed among
20 the Debtors, affiliates, and subsidiaries.

1 **C. Each Debtor Company Is A Direct Or Indirect Affiliate of Astria**

2 18. The following graphic depicts the perpetuation organizational structure
3 of the Debtor entities:



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11 19. As depicted above, Astria is the sole member of Debtors SHC Holdco,
12 Sunnyside, and Glacier. SHC Holdco is, in turn, the sole member of Debtors
13 Yakima, Toppenish, and Yakima Home Care. Yakima Home Care is, in turn, the
14 sole member of Debtor Yakima HMA Home Health. Sunnyside is the sole member
15 of Debtors SPS, Sunnyside Home Medical Supply, Astria Home Health, and
16 Oxbow Summit; and the sole member of nondebtor Home Supply, LLC, which, in
17 turn, is the sole member of Debtor K&B.

18 **D. Unions Represent Employees Across All Companies**

19 20. The system employs approximately 1,547 employees (making it one of
20 the largest employers in the Yakima Valley), of whom 1,230 are full-time, 70 are

1 part-time, and 247 are *per diem*. Approximately 36% of the Debtors' employees—
2 approximately 559 employees in total—are represented by collective bargaining
3 units, specifically through Washington State Nurses Association or SEIU
4 Healthcare 1199NW. Approximately 600 doctors have privileges at the Hospitals.

5 **III. SUPPORT FOR JOINT ADMINISTRATION**

6 21. I believe the affairs of the Debtors are sufficiently intertwined to make
7 joint administration of these Chapter 11 Cases more efficient and economical than
8 separate administration. For example, all the Debtors are “affiliates” of each other
9 inasmuch as the twelve Debtor entities related to Astria are all either its direct or
10 indirect subsidiaries.

11 22. Furthermore, the Debtors have systemized many of their operations,
12 with ongoing plans to continue systemizing the rest, so that functions once
13 performed by each Debtor are being transitioned and performed by Astria and have
14 already been or are in the process of being standardized, such as pharmacy
15 operations, credentialing, IT and case management. Employees across all three
16 Hospitals are represented by the same two Unions.

17 23. Moreover, the Debtors share common creditors, many of which are
18 identified in the consolidated list of the 30 largest unsecured creditors for all of the
19 Chapter 11 Cases filed in each case. Many of the Debtors' largest trade vendors
20 provide goods and/or services to all of the Hospitals. As part of the capital
21 structure, multiple Debtors are obligated on multiple obligations.

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I declare under penalty of perjury under the laws of the United States that, to the best of my knowledge and after reasonable inquiry, the foregoing is true and correct.

Executed this 6th day of May, 2019.



JOHN GALLAGHER