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9 *Proposed Attorneys for the Chapter 11  
Debtors and Debtors In Possession*

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11 **UNITED STATES BANKRUPTCY COURT**  
12 **EASTERN DISTRICT OF WASHINGTON**

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13 IN RE:

Lead Case No. 19-01189-11

14 ASTRIA HEALTH, *et al.*

Jointly Administered

15 Debtors and Debtors  
16 in Possession,<sup>1</sup>

**DECLARATION OF JOHN M.  
GALLAGHER IN SUPPORT OF  
EMERGENCY FIRST-DAY  
MOTIONS**

18 \_\_\_\_\_  
19 <sup>1</sup> The Debtors, along with their case numbers, are as follows: Astria Health (19-01189-11),  
20 Glacier Canyon, LLC (19-01193-11), Kitchen and Bath Furnishings, LLC (19-01194-11), Oxbow  
21 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).



1 I, John M. Gallagher, hereby state and declare as follows:

2 1. I am the President and Chief Executive Officer (“CEO”) of Astria  
3 Health (“Astria”). I am employed by AHM, Inc. (“AHM”), a nondebtor entity that  
4 provides management services to Astria and its affiliated debtors and debtors in  
5 possession (collectively, the “Debtors”) under chapter 11 of title 11 of the United  
6 States Code, 11 U.S.C. §§ 101, *et seq.* (the “Bankruptcy Code”),<sup>2</sup> in these chapter 11  
7 cases (the “Chapter 11 Cases”).

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

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<sup>2</sup> All reference to § herein are to sections of the Bankruptcy Code.

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

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

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

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

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

1 registered nurses and anesthetist groups, replacing a Radiology Group, and  
2 implementing nine newly employed physician clinics.

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

17 8. From 2002 to 2005, I served both as a CEO and COO at IASIS  
18 Healthcare in Franklin, Tennessee—a 14-hospital for-profit health system.  
19 Specifically, from 2003 to 2005, I was the CEO of MidJeff Hospital & Park Place  
20 Medical Center in Port Arthur, Texas. There, I was responsible for the two-hospital,  
21 385-bed, \$130 million per year, system where part of my responsibilities included

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

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

17       10. I am confident, based upon my experience and knowledge, that given  
18 the opportunity to restructure in chapter 11, Astria will emerge as a profitable  
19 healthcare system able to provide life-saving care and gainful employment to the  
20 people of the Yakima Valley.

1       **I. OVERVIEW**

2           11.     The Astria Health system, headquartered in the heart of Yakima Valley,  
3 Washington, is the largest non-profit healthcare system based in Eastern Washington,  
4 with annual revenues of approximately \$240 million. Astria is the parent non-profit  
5 organization of Yakima, Sunnyside, and Toppenish, along with outpatient Astria  
6 Health Centers (14 medical clinics and 24 specialty clinics), Ambulatory Surgical  
7 Center, Astria Hearing and Speech, and Astria Home Health and Hospice with  
8 healthcare sites and providers conveniently located in towns and cities throughout  
9 the region.

10           12.     Joining Astria, Sunnyside, Yakima, and Toppenish in these Chapter 11  
11 Cases in the United States Bankruptcy Court for the Eastern District of Washington  
12 (this “Court”) are:

- 13           • SHC Holdco, LLC (“SHC Holdco”);
- 14           • Sunnyside Community Hospital Home Medical Supply, LLC  
15 (“Sunnyside Home Medical Supply”);
- 16           • Sunnyside Home Health d/b/a Astria Home Health (“Astria Home  
17 Health”);
- 18           • Sunnyside Professional Services, LLC (“SPS”);
- 19           • Yakima Home Care Holdings, LLC (“Yakima Home Care”);
- 20           • Kitchen and Bath Furnishings, LLC (“K&B”);
- 21           • Glacier Canyon, LLC (“Glacier”);
- Oxbow Summit, LLC (“Oxbow Summit”); and

- Yakima HMA Home Health, LLC d/b/a Astria Home Health (“Yakima HMA Home Health”).<sup>3</sup>

**A. DEBTORS’ BUSINESS AND STRUCTURE**

*i. The Health System*

13. The Debtors operate as a nonprofit health care system providing medical services to patients who generally reside in Yakima County and Benton County, Washington through the operation of Sunnyside, Yakima, and Toppenish (collectively, the “Hospitals”), as well as several health clinics, home health services, and other healthcare services. Collectively, they have 315 licensed beds, three active emergency rooms, and a host of medical specialties.

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

- *only* open-heart surgery program in Yakima County;

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<sup>3</sup> Both Yakima HMA Home Health and Sunnyside Home Health are (together) doing business as Astria Home Health. For purposes of this Declaration, all references to Astria Home Health are to Sunnyside Home Health, whose sole member is Sunnyside.



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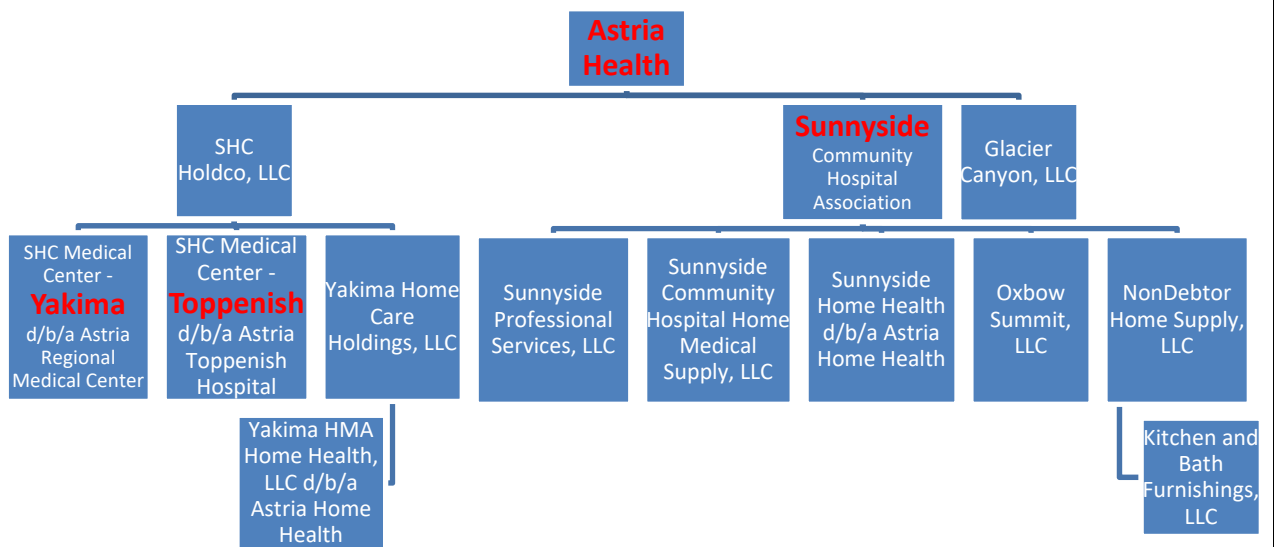
- *only* neurosurgery program in Yakima County;
- *only* elective cardiac catheterization program in Yakima County;
- *only* hospital in Sunnyside, Washington;
- *only* hospital in Toppenish, Washington; and
- *only* obstetric services in the Lower Valley of Yakima County (both at Sunnyside and Toppenish).

15. The system employs approximately 1,547 regular employees (making it one of the largest employers in the Yakima Valley), and approximately 600 doctors have privileges at the Hospitals.

16. Collectively, the Debtors provide the following services: allergy testing and treatment program, ambulatory surgery, audiology, behavioral health/psychiatry, breast health center, cancer care, cardiac electrophysiology, cardiac rehabilitation, cardiothoracic surgery, catheterization lab, colorectal surgery, critical care medicine, diabetes education, diagnostic imaging and radiology, ear, nose and throat, emergency services, endocrinology, family medicine, gastroenterology, gynecological surgery, heart care, hand surgery, heart failure, home health, hospice, hospitalists, inpatient behavioral health, internal medicine, interventional cardiology, laboratory, life transitions intensive out-patient program, maternity services, medical withdrawal management, nephrology, neurosurgery, spine care, nutritional services, obstetrics and gynecology, occupational medicine, orthopedics, orthopedic surgery, outpatient palliative care, speech therapy, physical therapy, pediatrics, pharmacy,

1 plastic and reconstructive surgery, podiatry, rehabilitation, inpatient rehabilitation,  
 2 rheumatology, senior services, sleep medicine, sports medicine, stroke care, surgical  
 3 services, robotic surgery, general surgery, telehealth, urology, urological surgery,  
 4 walk-in care, women's health, vascular medicine, and wound care center.

5 17. The following graphic depicts the prepetition organizational structure of  
 6 the Debtor entities:



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

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*ii. Astria*

19. As depicted in the graphic above, Astria sits atop the health system’s corporate structure. Astria is the holding company for the entire health system, and is the sole member of SHC Holdco, Sunnyside, and Glacier. SHC Holdco and Sunnyside are, in turn the direct or indirect sole members of other Debtors, as described below.

20. Astria and each of the Hospitals have a separate Board of Trustees to ensure local representation.

21. Astria’s Board of Trustees comprises:

- Mary Ann Bliesner, Chair;
- John Gallagher, President and CEO, Trustee;
- Derek Kieta, MD, Trustee;
- Ryan Maxwell, Trustee; and
- Tom Strohm, Trustee.

22. Astria’s leadership includes:

- John Gallagher, President and CEO;
- Cary Rowan, Chief Financial Officer (“CFO”);
- Daniel Burtnett, Interim Senior Director of Revenue Cycle;
- Dawn R. O’Polka, Chief Marketing and Communication Executive;
- Joe Ketterer, Senior Director Physician Practices; and
- Les Abercrombie III, Chief Human Resources Officer.

*iii. Sunnyside entities*

23. Sunnyside, located in Sunnyside, Washington, is a 38-bed critical access hospital. Services offered at Sunnyside include medical, surgical, labor/delivery and nursery care, 24-hour emergency, laboratory, imaging services, physical therapy,

1 rehabilitation, urgent care, oncology, cardiology, and clinics. Members of the  
2 Sunnyside medical staff include specialists in emergency medicine, family practice,  
3 internal medicine, general surgery, neurosurgery, cardiology, pediatrics,  
4 obstetrics/gynecology, orthopedics, otolaryngology, radiology, and inpatient  
5 hospitalization. Sunnyside was originally established as Valley Memorial Hospital  
6 in 1946 and Sunnyside General Hospital in 1962, merging in 1986 as Sunnyside  
7 Community Hospital. In October 2017, the hospital began doing business as Astria  
8 Sunnyside Hospital.

9       24. Sunnyside is in the planning stages of constructing a new hospital  
10 facility that will house the majority of the current operations of Sunnyside.

11       25. Sunnyside is the sole owner of the following Debtors: 1) SPS, 2) Astria  
12 Home Health, 3) Sunnyside Home Medical Supply, and 4) Oxbow Summit.  
13 Sunnyside is also the sole owner of nondebtor Home Health, LLC, which, in turn, is  
14 the sole owner of Debtor K&B.

15       26. SPS is a wholly owned subsidiary of Sunnyside, a for-profit limited  
16 liability corporation, SPS owns two medical office buildings and manages those  
17 buildings for Sunnyside.

18       27. Astria Home Health is a wholly-owned subsidiary of Sunnyside. It is a  
19 nonprofit organization providing home health services in Sunnyside. Astria Home  
20 Health is exempt under Section 501(c)(3) of the Internal Revenue Code from federal  
21 income taxes except for unrelated business income.

1           28. Sunnyside Home Medical Supply is a wholly-owned subsidiary of  
2 Sunnyside. It buys and sells inventory and leases medical equipment, such as oxygen  
3 tanks, concentrators, transcutaneous electrical nerve stimulation (“TENS”) units and  
4 similar equipment. It is a nonprofit organization exempt under Section 501(c)(3) of  
5 the Internal Revenue Code from federal income taxes except for unrelated business  
6 income.

7           29. Oxbow Summit is a wholly owned subsidiary of Sunnyside. Oxbow  
8 Summit owns land in Sunnyside. Oxbow Summit is a wholly owned subsidiary of  
9 Sunnyside. Oxbow Summit owns 50 acres of land in Sunnyside to be developed for  
10 the future Sunnyside replacement hospital.

11           30. K&B is a wholly owned subsidiary of Home Supply, LLC, which is a  
12 wholly owned nondebtor subsidiary of Sunnyside. K&B owns approximately 2.5  
13 acres of land on I-84 in Zillah being held for future medical development.

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15                           *iv. Yakima entities*

16           31. Yakima is a 214-bed hospital which provides a full complement of  
17 medical services including the Yakima Valley’s only open-heart surgery, advanced  
18 imaging, comprehensive robotics, neurosurgery, and a Commission on Accreditation  
19 of Rehabilitation Facilities (CARF) accredited inpatient rehabilitation. The Astria  
20 Heart Institute (part of Yakima) is a Level I Cardiac and Level II Stroke center, with  
21 a Level III Trauma designation, and a commitment to continuous reinvestment in

1 state-of-the-art technology. Yakima owns 14 clinics with various specialties.  
2 Yakima was originally established by the Sisters of Province as St. Elizabeth's  
3 Hospital in 1891. On September 1, 2017, the hospital became a part of Astria and  
4 began doing business as ARMC on October 17, 2018.

5 32. Yakima Home Care is a for-profit limited liability corporation. Another  
6 wholly-owned subsidiary of SHC Holdco, Yakima Home Care owns and operates  
7 Yakima HMA Home Health, which, in turn, provides home health and hospice  
8 services throughout Yakima County, Washington.

9 *v. Toppenish*

10 33. Toppenish, located in Toppenish, Washington, is a 63-bed hospital, with  
11 medical and surgical capabilities, pediatrics, behavioral health, medical detox, and a  
12 Family Maternity Center. Toppenish was originally established by a group of  
13 residents as Toppenish Community Hospital in 1944. On September 1, 2017, this  
14 hospital became a part of Astria and began doing business as Toppenish on October  
15 17, 2018.

16 *vi. Glacier Canyon*

17 34. Glacier is a wholly owned subsidiary of Astria. Glacier owns the  
18 copyright for the Astria name.

19 *vii. Nondebtor entities*

20 35. The following is a list of the Debtors' nondebtor affiliates:

- 21
  - Sunnyside Medical Center, LLC

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- Sunnyside Hospital Foundation<sup>4</sup>
- Caravan Health ACO. 19, LLC d/b/a Astria Health Clinically Integrated Network, LLC
- Bridal Dreams, LLC
- Depot Plus, LLC
- Home Supply, LLC
- Kitchen Appliances, LLC
- Northwest Health, LLC
- Pacific Northwest ASC Management, LLC
- Sunnyside Hospital Service Corp.
- Wedded Bliss, LLC
- Yakima HMA Physician Management, LLC
- AH NPP
- AH NP1
- AH NP2
- AN NP3
- AH NP4
- AH NP5
- AH NP6
- AH NP7
- AN NP8

**B. DEBTORS’ ASSETS**

36. The Debtors’ assets include their operating Hospitals and clinical facilities, the real estate on which the Hospitals operate, various parcels of undeveloped land, accounts receivable, equipment, supplies, and cash on hand. The

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<sup>4</sup> Sunnyside Hospital Foundation (the “Foundation”) is a nonprofit organization that provides contributions to Sunnyside. The Foundation is exempt under Section 501(c)(3) of the Internal Revenue Code from federal income taxes except for unrelated business income.

1 Debtors have approximately \$77 million in net accounts receivable (“A/R”) based on  
2 historic collection rates and, based upon the testimony of Michael Lane contained in  
3 his supporting Declaration, a going concern value of approximately \$120-150 million  
4 for the system. The Debtors aver they also have causes of action based upon  
5 significant failures caused by an accounts receivable vendor.

### 6 C. LAWS, REGULATIONS, AND PROGRAMS

7 37. The Debtors are subject to numerous laws and regulations of federal,  
8 state, and local governments related to licensure, accreditations, and government  
9 healthcare program participation requirements, and reimbursement for patient  
10 services. For instance, the Hospitals are licensed by the Washington State  
11 Department of Social and Health Services and are certified to participate in the  
12 Medicaid and Medicare programs.

13 38. As part of the Debtors’ mission to serve the community, the Debtors  
14 provide care to patients even though they may lack adequate insurance or participate  
15 in programs that do not pay full charges. Indeed, a significant portion of the Debtors’  
16 uninsured patients will be unable or unwilling to pay for the services provided. The  
17 Debtors provide approximately \$2.5 million per year of free charity care to those  
18 patients who are financially unable to pay for the healthcare services they receive.  
19 The Debtors use the Foundation for their fundraising efforts, but it raises little money  
20 or charitable donations. The Debtors receive a small rural indigent disproportionate  
21 share hospital payment from the State of Washington to subsidize charity services of



1 approximately \$300,000 per year and approximately \$1,092,000 per year from the  
2 Hospital Safety Net Assessment Program, but otherwise generally did not receive  
3 any gifts or grants to further subsidize charity services.

#### 4 **D. DEBTORS' EXECUTIVE MANAGEMENT AGREEMENT**

5 39. Effective January 1, 2018, the Debtors entered into an executive services  
6 agreement with AHM (the "AHM Agreement"). The AHM Agreement provides for  
7 a president and CEO for Astria, other administrative positions for the Debtors, and a  
8 CEO, CFO, COO, and chief nursing officer for each of the Hospitals. The Debtors  
9 are responsible for reimbursing AHM for the compensation and benefits of these  
10 employees. The agreement has an initial term of five years.

#### 11 **E. DEBTORS' EMPLOYEES, CONTRACTORS, AND BENEFITS**

##### 12 *i. Physicians*

13 40. The Debtors are dependent on approximately 600 local physicians  
14 practicing in their service area to provide admissions and utilize hospital services on  
15 an outpatient basis.

##### 16 *ii. Employees*

17 41. The Debtors have 1,547 regular employees, including 1,230 full-time,  
18 70 part-time, and 247 per diem. Approximately 559 —or 36%— of the Debtors'  
19 employees are represented by unions. Of the total employees, approximately 731 are  
20 at Yakima, 540 are at Sunnyside, 239 are at Toppenish, 31 are at Yakima HMA Home  
21 Health, 3 are at Astria Home Health, and 3 are at Sunnyside Home Medical Supply.

1 Astria also contracts with several (currently fourteen) third party staffing agencies  
2 for 152 temporary contract staff members.

3 *iii. Collective Bargaining Agreements*

4 42. The Debtors have five Collective Bargaining Agreements (“CBAs”):  
5 between (a) Washington State Nurses Association (“WSNA”) and each of (i)  
6 Sunnyside, (ii) Yakima, and (iii) Toppenish; and (b) SEIU Healthcare 1199NW  
7 (“SEIU”) and each of (i) Yakima and (ii) Toppenish. Approximately 559—or 36%—  
8 of the Debtors’ employees are represented under a CBA with either WSNA or SEIU.

9 *iv. Benefits*

10 43. Although the Debtors have no pension obligations, they sponsor the  
11 Regional Health 401(k) Plan (the “401(k) Plan”), a defined contribution plan that  
12 covers all employees with a minimum of three months’ service. Employees are 100  
13 percent vested upon entering the 401(k) Plan. The Debtors make 100% matching  
14 contributions to the 401(k) Plan up to 3% of employee compensation plus additional  
15 matching of 50% of employee contributions between 3-5% of compensation. Total  
16 expenses are approximately \$1,063,000 per year. Additional benefits include:  
17 medical, dental, vision, basic life insurance, dependent life insurance, accidental  
18 death and dismemberment (“AD&D”), long-term disability (“LTD”), vacation and  
19 sick pay, and tuition assistance.

1 **F. DEBTORS' INSURANCE POLICIES**

2 44. The Debtors maintain various insurance policies issued by several  
3 insurance carriers (collectively, the “Insurance Carriers”). Collectively, these  
4 policies provide for coverage for, among other things: physician’s practices, business  
5 interruption, equipment breakdown, property, automobile, general liability,  
6 professional liability fiduciary liability, director’s and officer’s liability, worker’s  
7 compensation liability, employment practices liability (collectively, the “Insurance  
8 Policies”).]

9 45. The total annual premium due for Insurance Policies is approximately  
10 \$1,680,251. Of that amount, the Debtors paid \$752,510 at the time of inception, and  
11 the remaining \$927,741 is paid in monthly installments. As of May 6, 2019 (the  
12 “Petition Date”), there are \$77,312 in outstanding unpaid premiums due. The total  
13 amount of annual insurance premiums which will come due postpetition is \$231,935.

14 46. The Debtors also provide workers’ compensation insurance through  
15 state-sponsored programs (the “Workers’ Compensation Insurance”). For Yakima,  
16 Toppenish, and Yakima Home Care, the amount of the annual premium paid to the  
17 Washington State L&I fund is approximately \$1,042,000, which is paid quarterly in  
18 the amount of approximately \$260,500. Sunnyside uses Washington Hospital  
19 Workers Compensation Trust and pays an estimated annual fee of \$732,000, which  
20 the Debtors pay in monthly installments, in advance of each month, of  
21 approximately \$61,000.

1 *i. Self-Insurance Retentions*

2 47. The Debtors maintain self-insured retentions of \$50,000 per claim under  
3 their D&O liability coverage, \$100,000 per claim under their employment practices  
4 coverage, \$0 per claim under their fiduciary liability coverage, and \$10 million  
5 retention under their crime coverage, (the “Self-Insured Retentions” or “SIRs”). A  
6 SIR is a loss amount that the insured is obligated to pay before the insurer’s coverage  
7 obligation is triggered.

8 48. The Debtors’ Self-Insured Retentions are administered so that the  
9 Debtors pay directly for the losses under each policy as they are incurred up to the  
10 amounts of the Self-Insured Retentions. Such SIRs due prepetition have been  
11 paid. For the last year, no SIR amounts have been due for (a) the D&O liability  
12 coverage, (b) the employment practices coverage, (c) the fiduciary liability coverage,  
13 and (d) the crime coverage. There have also been no SIR amounts incurred under the  
14 sexual misconduct and molestation liability policy last year.

15 49. 33. The Debtors also provide workers’ compensation insurance through  
16 state-sponsored programs (the “Workers’ Compensation Insurance”).  
17 For Yakima, Toppenish, and Yakima Home Care, the amount of the  
18 annual premium paid to the Washington State L&I fund is  
19 approximately \$1,042,000, which is paid quarterly in the amount of  
20 approximately \$260,500. Sunnyside uses Washington Hospital Workers  
21 Compensation Trust and pays an estimated annual fee of \$732,000,  
which the Debtors pay in monthly installments, in advance of each  
month, of approximately \$61,000.

50.

*ii. Deductibles*

1           51. The deductibles in the Debtors' other Insurance Policies include are  
2 limited and include a Storage Tank Liability - ACE American Insurance Company  
3 (Chubb) - \$5,000 per Storage Tank Incident. The Debtors expect their prepetition  
4 deductible obligations to be minimal.

### 5                           **G. DEBTORS' FINANCES**

6           52. As more fully set forth in the declaration of Michael Lane in support of  
7 the *Emergency Motion Of Debtors For Interim And Final Orders (I) Authorizing The*  
8 *Debtors To Obtain Post Petition Financing; (II) Granting Security Interests and*  
9 *Superpriority Administrative Expense Status; (III) Granting Adequate Protection to*  
10 *Certain Prepetition Secured Credit Parties; (IV) Modifying the Automatic Stay; (V)*  
11 *Authorizing the Debtors to Enter into Agreements with JMB Capital Partners*  
12 *Lending, LLC; (IV) Authorizing Use of Cash Collateral; (VII) Scheduling a Final*  
13 *Hearing and (VIII) Granting Related Relief*, the Debtors collectively have a total of  
14 approximately \$72 million of outstanding secured debt consisting of:

- 15           (a) Approximately \$10.6 million of outstanding principal debt owed to  
16 Banner Bank based on various Business Loan Agreements, dated  
17 December 30, 2010, May 19, 2015, March 21, 2016, August 2, 2016,  
18 October 6, 2016, March 21, 2017, and May 4, 2018, each between  
19 Banner Bank and Sunnyside (as each such agreement has been  
20 amended, modified, or supplemented to date, the "Banner Bank Loan  
21 Documents"). The advances made pursuant to the Banner Bank Loan

1 Documents are secured by a first priority lien (the “Banner Senior  
2 Sunnyside Liens”) on all personal property and certain real property of  
3 Sunnyside as set forth in the Banner Bank Loan Documents and  
4 associated documents (such assets the “Banner Bank Collateral”);

5 (b) Approximately \$10.7 million of outstanding principal debt owed to  
6 MidCap Financial Trust (“MidCap”) based on that certain Credit and  
7 Security Agreement dated September 18, 2017 (as amended, modified,  
8 or supplemented to date, the “MidCap Credit Agreement”), between  
9 SHC Holdco, Yakima, Toppenish, Yakima Home Care, together with  
10 certain of their non-filing affiliates, as co-borrowers (collectively, the  
11 “MidCap Borrowers”), the lenders party thereto (the “MidCap  
12 Lenders”) and MidCap as agent for the MidCap Lenders (the “MidCap  
13 Agent”), providing the MidCap Borrowers with a revolving loan facility  
14 in the maximum principal amount of \$15 million. The advances made  
15 pursuant to the MidCap Credit Agreement are secured by a first priority  
16 lien (the “MidCap Senior A/R Liens”) on the assets of the MidCap  
17 Borrowers set forth in Schedule 9.1 to the MidCap Credit Agreement  
18 (such assets, the “MidCap A/R Collateral”);

19 (c) Approximately \$35.4 million outstanding principal debt owed to UMB  
20 Bank, N.A. as the trustee for bondholders, entities affiliated with Lapis  
21 Advisers, LP, based on that certain Loan and Security Agreement (the

1 “Lapis 2017 Loan Agreement”) between Yakima, Toppenish, SHC  
2 Holdco, and Astria (formerly named Regional Health), as co-borrowers  
3 (the “Lapis 2017 Loan Borrowers”), and the Washington Health Care  
4 Facilities Authority (the “Authority”), wherein the Authority loaned the  
5 proceeds of the sale of the Washington Health Care Facilities Authority  
6 Revenue Bonds, Series 2017A and 2017B (totaling \$35.4 million) (the  
7 “2017 Lapis Loan”) to the Lapis 2017 Loan Borrowers. Sunnyside and  
8 K&B, as well as certain other non-filing affiliates, as guarantors (the  
9 “Lapis 2017 Loan Guarantors”), guaranteed the obligations of the Lapis  
10 2017 Loan Borrowers under the Lapis 2017 Loan. The advances made  
11 pursuant to the Lapis 2017 Loan are secured by (i) a first priority lien  
12 (the “Lapis 2017 SHC Holdco Liens”) on the assets of the Lapis 2017  
13 Loan Borrowers not subject to the MidCap Senior A/R Liens, (ii) a  
14 junior lien (the “Lapis 2017 A/R Liens”) on the assets of the Lapis 2017  
15 Loan Borrowers subordinate and subject to the MidCap Senior A/R  
16 Liens, and (iii) a junior lien (the “Lapis 2017 Sunnyside Liens”) on the  
17 assets of the Lapis 2017 Loan Guarantors subordinate and subject to the  
18 senior Banner Bank Senior Sunnyside Liens;  
19 (d) Approximately \$10 million outstanding principal debt owed to Lapis  
20 Advisers LP, based on that certain Credit Agreement dated January 18,  
21 2019 (the “Lapis 2019 Loan Agreement”), between Astria and

1 Sunnyside, as co-borrowers (the “Lapis 2019 Borrowers”), and Lapis  
2 Advisers LP (“Lapis Agent”), as agent for lenders party thereto (the  
3 “Lapis 2019 Loan Lenders”), whereby the Lapis 2019 Loan Lenders  
4 agreed to make advances to the Lapis 2019 Loan Borrowers in the  
5 principal amount of up to \$10 million (the “Lapis 2019 Loan”). SHC  
6 Holdco, Yakima and Toppenish, Glacier, Yakima Home Care, as well  
7 as certain other non-filing affiliates, (the “Lapis 2019 Loan Guarantors”)  
8 provided guarantees of the Lapis 2019 Loan Borrowers’ obligations  
9 under the Lapis 2019 Loan. The advances made pursuant to the Lapis  
10 2019 Loan are secured by (i) a junior lien (the “Lapis 2019 Sunnyside  
11 Liens” and together with the Lapis 2017 Sunnyside Liens, the “Lapis  
12 Subordinated Sunnyside Liens”) on the assets of the Lapis 2019  
13 Borrowers subordinate and subject to the senior Banner Senior  
14 Sunnyside Liens, (ii) a junior lien (the “Lapis 2019 SHC Holdco Liens”  
15 and together with the Lapis 2017 SHC Holdco Liens, the “Lapis Senior  
16 Holdco Liens”) on the assets of the Lapis 2019 Loan Guarantors not  
17 subject to the MidCap Senior A/R Liens as set forth in the Lapis 2019  
18 Loan Documents, and (iii) a junior lien (the “Lapis 2019 A/R Liens” and  
19 together with the Lapis 2017 A/R Liens, the “Lapis Subordinated A/R  
20 Liens”) on the MidCap A/R Collateral (such assets, the “Lapis 2019  
21



1           Collateral” and together with the Lapis SHC Holdco Collateral, the  
2           “Lapis Prepetition Collateral”); and

3           (e) Approximately \$5 million in principal outstanding under secured note  
4           (the “GE Note”) owed to GE HFS, LLC (“GE Healthcare Finance”)  
5           based on that certain Master Security Agreement dated as of June 12,  
6           2018 (the “GEHFS Agreement”), whereby GE Healthcare Finance  
7           agreed to finance the Debtors’ acquisition of certain equipment. The  
8           GE Note is secured by approximately \$4.6 million in capital assets at  
9           Yakima and Toppenish, with the \$400,000 balance held in escrow.

10          53. As of the Petition Date, the Debtors also collectively have a total of  
11 approximately \$95 million in unsecured debt, not including amounts owed among  
12 the Debtors, affiliates, and subsidiaries, which includes approximately \$21 million to  
13 CHS based upon a) a working capital note of August 31, 2017, to finance, in part, the  
14 Debtors’ purchase of Yakima and Toppenish (the “CHS Note”), which was reduced  
15 after settlement to \$13.6 million; and b) a \$8 million line of credit which was utilized  
16 by the Debtors between August and October 2018.

17       **II. THE NEED FOR CHAPTER 11 RELIEF AND THE EVENTS**  
18       **LEADING TO THE COMMENCEMENT OF THESE CHAPTER 11**  
19       **CASES**

20          54. Astria did well financially when it only owned Sunnyside. However  
21 certain issues arose in connection with Astria’s acquisitions of SHC Yakima and  
SHC Toppenish resulting in significant financial setback for Astria. During the

1 acquisition process, the Washington State Department of Health CON Program  
2 unexpectedly, and in Astria's view arbitrarily and improperly, moved the approval  
3 of the CON of a sale from an expedited approval process, as required in regulations  
4 and precedent, to a public hearing process. This, in turn, created extended  
5 uncertainty, and resulted in a degradation of EBITDA of approximately \$12 million  
6 annually. The full impact of this harm did not become apparent until September  
7 2017.

8 55. Of greater significance, in preparation for its acquisitions of SHC  
9 Yakima and SHC Toppenish, Astria contracted for a new system-wide Electronic  
10 Health Record ("EHR") platform for ambulatory and inpatient services for all three  
11 Hospitals and their clinics. Shortly thereafter, Astria also contracted for the  
12 outsourcing of its revenue cycle, billing and collection functions and extended  
13 business office services. In connection with the system conversion and the  
14 outsourcing of its revenue cycle functions, Astria has experienced certain unexpected  
15 challenges including, among other things, a significant decline in cash flow from  
16 collections on accounts receivable.

17 56. Astria's lack of cash flow has caused Astria to default or otherwise fall  
18 behind on its obligations to lenders and creditors, which in turn has significantly  
19 limited its liquidity and, in turn, caused the need for chapter 11 protections.

20 57. For example, on April 23, 2019, Lapis sent Astria a notice of default.  
21

1           58. In addition, the Debtors defaulted or otherwise missed financial  
2 covenants under their facility with MidCap. MidCap has not agreed to waive certain  
3 defaults but, instead, has increased the borrowing base reserves under the MidCap  
4 Credit Agreement resulting in the reduction of the borrowing base as well as the  
5 reduction of cash available to the Debtors. The borrowing base under the MidCap  
6 Credit Agreement is calculated based upon aged A/R that are further reduced for  
7 certain aging categories and payor classes. As a result, the availability to the Debtors  
8 under the MidCap Credit Agreement is significantly less than the net A/R for Yakima  
9 and Toppenish, which serve as collateral for the MidCap Credit Agreement. This in  
10 turn, has created significant liquidity restrictions and has placed Astria in further  
11 financial distress.

12           59. As will be demonstrated in more detail in separate pleadings and papers  
13 filed herewith, the current MidCap interest rate is higher than the proposed 12%  
14 interest rate of the proposed debtor in possession facility (the “DIP Facility”).  
15 MidCap’s cost of capital includes numerous related charges that increase the overall  
16 cost of capital to over 12%, including (i) base rate equal to 30 day LIBOR plus 3.75%,  
17 approximately 6.35%; (ii) default interest rate of 3.0%; (iii) collateral management  
18 fee of 1.2%; (iv) Business Day Clearance Period charge, often called “float”  
19 approximating 2.0%; and (v) unused line fee equal to 0.5% annually on the  
20 unborrowed portion of the line of credit and approximating 0.2% annually. In  
21 addition to interest-related charges, MidCap invoices the Debtors for annual audit

1 fees, monthly wire fees, outside legal counsel and internal legal counsel. Thus, the  
2 Debtors are burdened by the highly restricted, high cost of capital with regard to the  
3 MidCap Credit Agreement. These problems can and should can be alleviated as  
4 quickly as possible by interim approval of the DIP Facility.

5 **A. THE ENVISIONED RESTRUCTURING: REFINANCING**  
6 **OBLIGATIONS, AND FIXING COLLECTIONS**

7 60. The Debtors believe that a successful restructuring can occur under the  
8 protection of bankruptcy, which will give them the opportunity to immediately  
9 refinance highly restrictive and costly capital under immediate approval of DIP  
10 Financing and to address the systems, cash flow and collections issues experienced  
11 in connection with its system conversion and revenue cycle outsourcing. Towards  
12 that end, the Debtors are seeking critical DIP financing and are finalizing a contract  
13 for engagement with HealthTech Management Solutions (“HTMS”) to collect  
14 outstanding old A/R in tranches. The Debtors believe that within 90-120 days, they  
15 will have stabilized collections. Through this process, the Debtors will be able to  
16 bring their collection rate going forward back to the collection rate of 97% of Net  
17 Revenue that existed pre-conversion.

18 61. To achieve this goal, Debtors also propose to use the DIP Facility to  
19 immediately pay off the Outstanding Prepetition Banner Bank Obligations and  
20 Outstanding Prepetition MidCap Obligations (each as defined in the Cash  
21 Collateral/DIP Motion). It is necessary to immediately pay all Outstanding

1 Prepetition Banner Bank Obligations and Outstanding Prepetition MidCap  
2 Obligations, which are undisputedly perfected and secured by first priority liens,  
3 because eliminating these lenders will greatly simplify the Debtors' prepetition  
4 borrowing structure and, in the case of MidCap, reduce heavy restrictions on the  
5 Debtors' borrowing capabilities and access to liquidity. Paying off the Outstanding  
6 Prepetition Banner Bank Obligations and Outstanding Prepetition MidCap  
7 Obligations also eliminates the need to determine and, if required, provide, adequate  
8 protection and interest payments to prepetition secured lenders Banner Bank and  
9 MidCap, thereby saving the estate necessary resources.

10 62. With liquidity restored and collections fixed, the Debtors believe they  
11 will be in a position to file a plan of reorganization within 150 days from the Petition  
12 Date.

### 13 **III. FIRST DAY PLEADINGS**

14 63. The Debtors request that the relief described below in the following  
15 motions be granted, as each request constitutes a critical element in achieving the  
16 successful restructuring of the Debtors for the benefit of its patients (the "Patients"),  
17 creditors, and the communities they serve.

18 64. Contemporaneously with this Declaration, the Debtors have filed the  
19 following motions (collectively, the "First Day Motions") for emergency relief:

- 20 i. *Debtors' Joint Motion for an Order (a) Directing the Joint*  
21 *Administration of These Cases, Including the Use of Consolidated*

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- Lists, and (b) Limiting the Scope of Notice (the “Joint Administration and Limited Notice Motion”) [Docket No. 3];*
- ii. *Debtors’ Emergency Motion for an Order Limiting Scope of Notice (the “Limited Notice Motion”) [Docket No. \_\_];*
- iii. *Debtors’ Ex Parte Motion For An Order Extending Time To File Schedules And Statements Of Financial Affairs (the “Schedules and SOFA Motion”) [Docket No. \_\_];*
- iv. *Emergency Motion of Debtors For Entry Of An Order Authorizing The Filing Under Seal Of Confidential Patient Information (the “Confidential Patient Information Motion”) [Docket No. \_\_];*
- v. *Emergency Motion For First Day Relief (the “Emergency Motion”) [Docket No. \_\_];*
- vi. *Emergency Motion Of Debtors For Interim And Final Orders (I) Authorizing The Debtors To Obtain Post Petition Financing; (II) Granting Security Interests and Superpriority Administrative Expense Status; (III) Granting Adequate Protection to Certain Prepetition Secured Credit Parties; (IV) Modifying the Automatic Stay; (V) Authorizing the Debtors to Enter into Agreements with JMB Capital Partners Lending, LLC; (IV) Authorizing Use of Cash Collateral; (VII) Scheduling a Final Hearing and (VIII) Granting Related Relief (the “Cash Collateral/DIP Motion”) [Docket No. \_\_];*
- vii. *Emergency Motion Of Debtors For Entry Of Order: (I) Authorizing The Debtors To (A) Pay Prepetition Employee Wages And Salaries, And (B) Pay And Honor Employee Benefits And Other Workforce Obligations; And (II) Authorizing And Directing The Applicable Banks To Pay All Checks And Electronic Payment Requests Made By The Debtors Relating To The Foregoing (the “Employee Wage Motion”) [Docket No. \_\_];*
- viii. *Emergency Motion Of Debtors For Authority To: (1) Continue Using Existing Cash Management System, Bank Accounts, And Business Forms; (2) Implement Changes To The Cash Management System In The Ordinary Course Of Business; (3) Continue Intercompany Transactions; (4) Provide Administrative Expense Priority For Postpetition Intercompany Claims; And (5) Obtain*

1                    *Related Relief* (the “Cash Management Motion”) [Docket No. \_\_\_];  
2                    and

3                    ix. *Emergency Motion Of Debtors For Order (A) Prohibiting Utilities*  
4                    *From Altering, Refusing, Or Discontinuing Service And*  
5                    *(B) Determining Adequate Assurance Of Payment For Future*  
6                    *Utility Services; Memorandum Of Points And Authorities In*  
7                    *Support Thereof* (the “Utilities Motion”) [Docket No. \_\_\_].

8 Each of the above First Day Motions is described more fully below.

9                    **A. ADMINISTRATIVE MOTIONS**

10                    65. In the Joint Administration and Limited Notice Motion, the Debtors  
11                    request entry of an order directing joint administration of these Chapter 11 Cases for  
12                    procedural purposes and that the Court maintain one file, one docket, and a  
13                    consolidated mailing matrix for all of the Chapter 11 Cases under the lead case, *In re*  
14                    *Astria Health*.

15                    66. Joint administration of the Chapter 11 Cases will provide significant  
16                    administrative efficiencies without harming the substantive rights of any party in  
17                    interest. Many of the motions, hearings and orders that will be filed in the Chapter  
18                    11 Cases almost certainly will affect each of the Debtors. The entry of an order  
19                    directing joint administration of the Chapter 11 Cases will reduce fees and costs by  
20                    avoiding duplicative filings, objections, notices, and hearings, and will allow all  
21                    parties in interest to monitor the Chapter 11 Cases with greater ease and efficiency.

22                    67. Furthermore, authorizing the Debtors to utilize a consolidated list of the  
23                    fifty largest general unsecured creditors, a consolidated Master Mailing List, and a  
24                    consolidated Limited Mailing List for all thirteen Debtors; and permitting the

1 Debtors' claims and Noticing Agent (proposed as Kurtzman Carson Consultants) to  
2 maintain and update these lists, will greatly increase the efficiencies of—and reduce  
3 the costs—to these estates. There are thirteen entities that are Debtors in these  
4 Chapter 11 Cases. As of the Petition Date, the Debtors estimate that they have  
5 approximately \$160 million in secured and unsecured liabilities and they have  
6 approximately 1,000 potential creditors and parties in interest (on a consolidated  
7 basis) in these Chapter 11 Cases. Many of the Debtors' creditors overlap. As such,  
8 requiring the Debtors to prepare individual Top 20 Lists of Creditors and individual  
9 mailing matrixes for each Debtor would be an exceptionally burdensome task and  
10 would greatly increase the risk and recurrence of error of information already on  
11 computer systems maintained by the Debtors or their agents.

12 68. In that motion, the Debtors also request that the Court approve a Limited  
13 Mailing List and a limited notice procedure. There are approximately 1,000 potential  
14 creditors and parties in interest related to these Chapter 11 Cases. Providing notice  
15 of all documents filed in the Chapter 11 Cases to each creditor and party in interest  
16 would be extremely burdensome and costly to the estates. I believe that limiting  
17 service of notice except for certain documents and pleadings will provide sufficient  
18 notice to enable parties in interest to monitor and participate in the Chapter 11 Cases,  
19 save the Court and the estates considerable expense, time, and resources, and,  
20 therefore, be in the best interests of the estates and their creditors.

21



1           69. In the Schedules and SOFA Motion, as set forth in the declaration of  
2 Michael Lane filed in support thereof, the Debtors request entry of an order granting  
3 additional time to file their schedules of assets and liabilities, schedules of executory  
4 contracts and unexpired leases, statements of financial affairs, and any other  
5 documents the Court determines the Debtors are required to file in connection with  
6 the commencement of these Chapter 11 Cases. As a consequence of the size and  
7 complexity of the Debtors' business operations, the number of creditors likely to be  
8 involved in these Chapter 11 Cases, the numerous critical operational matters that the  
9 Debtors' management and employees must address, a 30-day extension (without  
10 prejudice to further extensions) is necessary and appropriate.

11           70. In the Confidential Patient Information Motion, the Debtors propose to  
12 file under seal the names and addresses of patients who have claims for  
13 reimbursement against a Debtor, and those patients who have informed a Debtor that  
14 they may or do have a claim against a Debtor. The Debtors are preparing to file  
15 provisionally the list of patient names proposed to remain under seal.

16                   **B. OPERATIONAL MOTIONS REQUESTING IMMEDIATE**  
17                   **RELIEF**

18           71. While the administrative motions are intended to ease certain burdens  
19 of case management for the Court and the estates and their creditors, the Debtors  
20 intend to file the Emergency Motion requesting emergency relief related to the  
21 following motions, which are critical to ensuring smooth operational transition of the

1 Debtors' business upon commencement of the Chapter 11 Cases. Accordingly, the  
2 Debtors intend to ask for immediate relief with respect to the following First Day  
3 Motions and will present them at the hearing thereon (the "First Day Hearing").

4 *i. The Cash Collateral/DIP Motion.*

5 72. By way of the Cash Collateral/DIP Motion, and as set forth in the  
6 Declaration of Michael Lane in support thereof (the "Lane Declaration"), the Debtors  
7 move, on an emergency basis, for entry of an interim order (substantially in the form  
8 attached as Exhibit "A" to the Cash Collateral/DIP Motion, the "Interim Order") and  
9 a final order (the "Final Order" and together with the Interim Order, the "DIP  
10 Orders") (i) authorizing the Debtors to enter into a senior secured, superpriority  
11 debtor in possession financing facility with JMB Capital Partners Lending, LLC (the  
12 "DIP Lender"), in an (a) interim amount not to exceed \$28 million, which the Debtors  
13 intend to use to fund the post-petition working capital needs of the Debtors during  
14 the pendency of the Chapter 11 Cases, pay fees, costs and expenses of the DIP  
15 Facility on the terms and conditions described in the DIP Loan Documents, pay all  
16 Outstanding Prepetition Banner Bank Obligations and Outstanding Prepetition  
17 MidCap Obligations and pay the allowed administrative costs and expenses of the  
18 Chapter 11 Cases, and (b) after a final hearing, an amount up to total lending of not  
19 more than \$36 million (as amended, modified or otherwise in effect from time to  
20 time, the "DIP Facility"), substantially on the terms set forth in the Lane Declaration  
21 and the Senior Secured, Super-Priority Debtor-In-Possession Loan and Security

1 Agreement, attached as Exhibit “1” to the Lane Declaration (as amended,  
2 supplemented, or otherwise modified and in effect from time to time, the “DIP Credit  
3 Agreement,” and together with all other agreements, documents, notes, certificates,  
4 and instruments executed and/or delivered with, to or in favor of the DIP Lender, the  
5 “DIP Loan Documents”), and (c) granting the DIP Liens and the DIP Superpriority  
6 Claims (in each case, as defined in the Cash Collateral/DIP Motion); (ii) authorizing  
7 the interim use of cash collateral on the terms set forth in the Interim Order; (iii)  
8 granting “adequate protection” to the Lapis Secured Parties (as defined in the Cash  
9 Collateral/DIP Motion) in the form of replacement liens, superpriority claims and  
10 reporting information; (iv) modifying the automatic stay as imposed by § 362 to the  
11 extent necessary to implement and effectuate the terms of the DIP Facility and the  
12 DIP Orders; and (v) scheduling an interim hearing to approve the proposed Interim  
13 Order and a final hearing with respect to the relief requested in the Cash  
14 Collateral/DIP Motion.

15 73. The terms of the DIP Facility are provided in more details in the Cash  
16 Collateral DIP Motion, which is separately supported by the Lane Declaration.  
17 However, I believe it is critical to reiterate here that absent granting emergency access  
18 to the Debtors’ cash collateral, the Debtors will not be able to make payroll or meet  
19 other obligations critical to the maintenance of safe facilities and the delivery of  
20 effective acute care services for their patients and staff during the week ending May  
21 10, 2019. Absent emergency access to postpetition financing, the Debtors will lose

1 vendor support for critical postpetition deliveries of goods and services further  
2 burdening the Debtors' use of cash. Absent entry of an interim order granting the  
3 requested relief, the very existence of the Hospitals will be threatened and the ability  
4 of the Hospitals to survive as long-term going concerns will be irreparably harmed.

5 *ii. The Employee Wage Motion.*

6 74. By the Employee Wage Motion, the Debtors move the Court for entry  
7 of an order (i) authorizing the Debtors, in their discretion, to (a) pay prepetition  
8 employee wages, salaries, and agency fees for leased employees, and (b) pay and  
9 honor employee benefits and other workforce obligations (including remitting  
10 withholding obligations, maintaining workers' compensation and benefits programs,  
11 paying related administration obligations, making contributions to retirement plans,  
12 and paying reimbursable employee expenses) (collectively, the "Employee  
13 Obligations"); and (ii) authorizing and directing the applicable banks to pay all  
14 checks and electronic payment requests made by the Debtors relating to the  
15 foregoing.

16 75. *Wages.* The Employees are paid their wages and salaries (the "Wages")  
17 bi-weekly, in arrears, either five or six days after the end of every 14-day pay period,  
18 through direct deposit or by check. In addition to their normal hourly rates, certain  
19 regular hourly-paid employees are eligible for overtime premiums. The Debtors'  
20 average bi-weekly gross payroll is approximately \$4 million, which includes  
21 approximately \$1.2 million for withholding obligations (relating to various taxes,

1 claims and other obligations) and \$130,000 for retirement plan contribution  
2 matching. Under a bifurcated, constant pay cycle, Employees were last paid on April  
3 26 and May 3, 2019. The next routine payroll dates covering all Employees' accrued  
4 and unpaid prepetition Wages are scheduled for May 10, 17, and 24, 2019, and  
5 expected to include approximately \$2,516,000 that is attributable to prepetition  
6 Wages (the "Requested Prepetition Payroll"), which the Debtors seek authority to  
7 pay by the Employee Wage Motion. The Debtors do not believe payments of Wages  
8 to any individual Employee will exceed the \$12,850 cap under § 507(a).

9 76. Because the Debtors contract all executives from AHM, the payroll  
10 amount itself does not include any executive compensation, nor does the Employee  
11 Wage Motion include any request to pay individual "insiders" (as defined in §  
12 101(31)) any prepetition compensation. However, the Debtors do seek to continue  
13 contracting their executives through AHM under the AHM Agreement—as well as  
14 other personnel leased from third party staffing agencies—in the ordinary course of  
15 business. For avoidance of doubt, pursuant to LBR 3016-1, the Debtors intend to  
16 serve a separate Notice of Intent to Compensate Insiders with respect to any insiders  
17 upon any determination that they qualify as such.

18 77. *Withholding Obligations.* In the ordinary course of their business, the  
19 Debtors routinely withhold from the Wages certain amounts that the Debtors are  
20 required to transmit to the government and certain third parties for purposes such as  
21 Social Security and Medicare withholdings, federal and state or local income taxes,

1 contributions to the Debtors’ benefit plans, retirement plan contributions, union dues,  
2 garnishment, child support or other similar obligations pursuant to court order or law  
3 (collectively, the “Withholding Obligations”). The Debtors owe approximately  
4 \$915,700 for Withholding Obligations—including payments for tax obligations such  
5 as FICA and Social Security—in connection with the Requested Prepetition Payroll,  
6 which the Debtors seek authority to pay by the Wage Motion.

7       78. *Reimbursement Obligations.* The Debtors customarily reimburse  
8 Employees who incur business expenses in the ordinary course of performing their  
9 duties on behalf of the Debtors. Such expenses typically include, but are not limited  
10 to, business-related travel expenses (including mileage), business meals, relocation  
11 allowances, tuition reimbursement, and other items specified in the CBAs. It is  
12 difficult for the Debtors to determine the exact amount of Reimbursement  
13 Obligations that is due and owing for any particular time period since the expenses  
14 incurred by Employees on behalf of the Debtors throughout the year vary on a  
15 monthly basis and because there may be some delay between when an Employee  
16 incurs an expense and submits the corresponding expense report for processing.  
17 Based on historical experience, the Debtors anticipate that, as of the Petition Date,  
18 the Debtors owe an estimated \$10,000 in Reimbursement Obligations to their  
19 Employees, which they seek authority to pay by the Wage Motion. The Debtors  
20 further seek to continue to pay Reimbursement Obligations incurred postpetition in  
21 the ordinary course of the Debtors’ business.



1 after one year, and in the amount of 85% of accrued hours; and (b) VAC, for the full  
2 100% for registered nurses, and 50% for everyone else. As of the Petition Date, the  
3 Debtors are carrying approximately 68,345 hours on their books of accrued and  
4 unused PSL, and approximately 179,472 hours of accrued and unused EIT.  
5 Employees may not cash out their unused PSL or EIT. By the Wage Motion, the  
6 Debtors seek authority to honor their existing Paid Leave policies to the extent it  
7 would permit continuing Employees to use their prepetition accrued leave in the  
8 ordinary course of business, and going forward. The Debtors are not, by this Motion,  
9 seeking permission to cash out any accrued and unused PTO or VAC (or other Paid  
10 Leave) of continuing Employees but do seek the authority, in the Debtors' discretion,  
11 to pay the Employees for unused PTO and VAC, as permitted per Hospital policy  
12 and relevant CBA terms, that accrued within the 180 days prior to the Petition Date  
13 so long as the total of the payments already then made for prepetition Employee  
14 Obligations and the PTO and/or VAC does not exceed the statutory limit for priority  
15 claims of \$12,850.

16 80. *Health Benefits.* The Debtors also offer Employees the opportunity to  
17 participate in a number of insurance and benefit programs, including, among other  
18 things, medical, dental and vision plans, life insurance, long-term disability  
19 insurance, workers' compensation, retirement plans and other insurance plans and  
20 benefits as described below (collectively, the "Employee Benefits"). Full-time and  
21 part-time Employees become eligible to receive Employment Benefits following 30



1 days of employment (when they become “Benefits-Eligible Employees”). *Per diem*  
2 Employees are not Benefits-Eligible Employees. As of the Petition Date, the Debtors  
3 do not believe there are any accrued and unpaid prepetition claims against the self-  
4 insured medical plans; however, to the extent there are, by the Wage Motion, the  
5 Debtors seek authority to pay these prepetition claims. The Debtors believe that they  
6 are current on the administration fees related to the health plan that accrued and  
7 remain unpaid as of the Petition Date. By the Wage Motion, the Debtors also seek  
8 authority to continue to pay, in their discretion and in the ordinary course of their  
9 business, the administration fees, premiums for and claims under the health plan  
10 incurred postpetition. The Debtors further seek, by the Wage Motion, to continue to  
11 perform any obligations under Continuation Health Coverage (COBRA) in respect  
12 to former employees.

13 81. *Life Insurance, Disability, and Workers’ Compensation.* The Debtors  
14 offer all Employees premium-based group life insurance through Sunlife; and  
15 Employees who are managers, mid-level practitioners, or physicians premium-based  
16 long term disability and accidental death and dismemberment coverage through  
17 Sunlife. The Debtors also provide workers’ compensation insurance through a state  
18 program and a state trust. The Debtors believe that they are current on all the above  
19 mentioned insurance policies and claims obligations. To the extent they are not,  
20 however, the Debtors seek authority, by the Wage Motion, in their discretion, to pay  
21 any accrued and unpaid prepetition premiums and related charges and to continue

1 these benefits postpetition and to deliver the Employees' portion of any accrued and  
2 unpaid prepetition premiums to the corresponding administrators.

3 82. *Retirement Plan.* As described in further detail above, the Debtors offer  
4 eligible Employees the opportunity to participate in a 401(k) retirement plan. By the  
5 Wage Motion, the Debtors seek authority to pay their matching contributions that  
6 accrued and remain unpaid as of the Petition Date for the retirement plan and to  
7 deliver the Employee contributions in connection with the payment of Wages and  
8 Withholding Obligations described above. The Debtors also seek authority, by the  
9 Wage Motion, to continue to pay, in their discretion and in the ordinary course of  
10 their business, matching contributions for the retirement plan incurred postpetition.

11 83. The Debtors believe that substantially all of their Employees rely  
12 exclusively on their compensation to pay their daily living expenses. Also, the  
13 Employee Benefit Programs are a critical component of the Employees' total  
14 compensation package. It is imperative to the accomplishment of the Debtors' goals  
15 in this case that the Debtors minimize any adverse impact of the chapter 11 filing on  
16 the Debtors' workforce, patients, operations, and orderly administration of these  
17 Chapter 11 Cases. Any disruption to payment of the payroll in the ordinary course,  
18 or to the continued implementation of employee programs in the Debtors' discretion,  
19 would adversely affect the Debtors' goals in this case because such events are likely  
20 to cause some employees to terminate their employment with the Debtors, will cause  
21 employees to be distracted from their duties to care for the patients, and will hurt

1 employee morale at a particularly sensitive time for all employees. Failure to honor  
2 the Employee Obligations could have severe repercussions on the Debtors' ability to  
3 preserve its assets and administer its estate, to the detriment of all constituencies.  
4 Accordingly, as set forth in the Employee Wage Motion, the Debtors request  
5 authority to continue paying the Employees and administering the Employee Benefit  
6 Programs and any obligations related to the foregoing (subject to the Budget and any  
7 applicable payment caps) in the ordinary course of business.

8 *iii. Cash Management Motion.*

9 84. By the Cash Management Motion, the Debtors move the Court for the  
10 entry of an order authorizing them, subject to the terms of the DIP Orders and DIP  
11 Loan Documents to: (1) continue to use their cash management system, including the  
12 continued maintenance of their existing bank accounts, credit cards, and business  
13 forms; (2) implement changes to their cash management system in the ordinary  
14 course of business, including opening new or closing existing bank accounts; (3)  
15 continue to perform under and honor intercompany transactions in the ordinary  
16 course of business, in their business judgment and at their sole discretion; (4) provide  
17 administrative expense priority for postpetition intercompany claims, all as set forth  
18 in more detail below; and (5) obtain related relief.

19 85. The Debtors further request, by the Cash Management Motion, that the  
20 Court authorize *and direct* the financial institutions at which the Debtors maintain  
21 various bank accounts (including the credit card account) to (a) continue to maintain,

1 service and administer the Debtors' bank accounts, and (b) debit the bank accounts  
2 in the ordinary course of business on account of (i) wire transfers or checks drawn  
3 on the bank accounts, or (ii) undisputed service charges owed to the banks for  
4 maintenance of the Debtors' cash management system, if any.

5 86. The Debtors currently have 37 accounts (the "Accounts") with six banks  
6 (the "Banks"). The Debtors request authority to continue utilizing the Accounts  
7 (including five credit card accounts), subject to the terms of the DIP Orders and DIP  
8 Loan Documents. Requiring the Debtors to close certain of the Accounts and open  
9 new ones will disrupt the Debtors' cash flow—and, ultimately, impact patient care—  
10 because (i) the depositors (some of which are governmental agencies) will not  
11 respond quickly to the change and will likely continue to send deposits to the original  
12 deposit account, and (ii) the Debtors have certain obligations (including for debt,  
13 pension and defined contribution) that they pay exclusively by electronic funds  
14 transfer and changes to the payment accounts have the potential of slowing down  
15 these crucial payments. Closing the Accounts will also increase the work of the  
16 Debtors' accounting personnel, who are already dealing with the many and varied  
17 issues related to these Chapter 11 Cases. Closing the Accounts and opening new  
18 ones under the circumstances described in the Memorandum of Points and  
19 Authorities filed in support of the Cash Management Motion would needlessly cost  
20 the Debtors time and money at a time when they are trying to conserve both, and  
21 would result in no discernible benefit to the Debtors' bankruptcy estates.

1           87. The Debtors also request in the Cash Management Motion authority to  
2 continue using their business forms without the designation “Debtors in Possession”  
3 on them *for a limited time*. The Debtors’ forms are either electronically printed or  
4 can be electronically altered. The Debtors seek the authority of this Court to utilize  
5 their electronically generated forms without the “Debtors in Possession” designation  
6 until the adjustments to the software can be initiated and existing stock is exhausted.

7                   iv.           *The Utilities Motion.*

8           88. By the Utilities Motion, the Debtors move the Court for the entry of an  
9 order authorizing them to (i) prohibit utilities (collectively, the “Utility Companies”  
10 and individually, a “Utility Company”) from altering, refusing, or discontinuing  
11 service without further order of the Court; and (ii) determining adequate assurance  
12 of payment for future utility services. The Debtors receive essential utility services  
13 from several Utility Companies. Furthermore, the Debtors seek a determination that:  
14 (i) a deposit made by the Debtors to each Utility Company in an amount equal to the  
15 average monthly invoice for prepetition services provided to the Debtors by such  
16 Utility Company (the “Deposit”); (ii) the ability of any Utility Company to obtain an  
17 initial hearing on the adequacy of the Deposit; and (iii) the ability of any Utility  
18 Company to obtain an expedited hearing regarding further adequate assurance if the  
19 Debtors fail to cure a post-petition payment default within twenty (20) days after  
20 written notice of such default, constitute adequate assurance of payment for future  
21 utility services.

1           89. As life-saving medical service providers, the Debtors are situated in a  
2 vulnerable position—without the continual flow of vital services of Utility  
3 Companies, the mission of the Debtors’ business would unravel, irreparably harming  
4 the Debtors and their patients who seek medical care in the hospitals, medical centers,  
5 and clinics operated by the Debtors. Thus, I believe that in order to ensure the timely  
6 and proper care of the patients and maintain ongoing business operations, it is  
7 imperative the Debtors are able to rely on a consistent supply of these services.

8           90. Specifically, uninterrupted electricity, gas, telephone, and similar  
9 services are essential to the Debtors’ provision of medical services to the Debtors’  
10 Patients. Any interruption, however brief, to utility services to the Debtors’ business  
11 will result in a serious disruption of the Debtors’ business operations and  
12 dramatically affect Patient care. Therefore, I believe that it is critical that the Court  
13 prohibit the Utility Companies from altering, refusing or discontinuing service to the  
14 Debtors without further order of this Court. The Deposit for each of the Utility  
15 Companies, coupled with the streamlined mechanism for requesting further adequate  
16 assurance will provide adequate assurance of payment to the Utility Companies as  
17 well as safeguard the Debtors’ continuing operations.

18           91. Although the Debtors are not current on payment to the Utility  
19 Companies, the Debtors have sufficient cash to pay their postpetition utility bills as  
20 they come due and have specifically budgeted for such payments in the Debtors’  
21 operating budget submitted in connection with the Debtors’ Cash Collateral Motion.

1           92. Specifically, uninterrupted electricity, gas, telephone, and similar  
2 services are essential to the Debtors' provision of medical services to the Debtors'  
3 Patients. Any interruption, however brief, to utility services to the Debtors' business  
4 will result in a serious disruption of the Debtors' business operations and  
5 dramatically affect Patient care. Therefore, I believe that it is critical that the Court  
6 prohibit the Utility Companies from altering, refusing or discontinuing service to the  
7 Debtors without further order of this Court. The Deposit for each of the Utility  
8 Companies, coupled with the streamlined mechanism for requesting further adequate  
9 assurance will provide adequate assurance of payment to the Utility Companies as  
10 well as safeguard the Debtors' continuing operations.

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

Executed this 6<sup>th</sup> day of May 2019, at Yakima, Washington.

/s/John M. Gallagher  
John M. Gallagher