

SONOMA WEST TIMES & NEWS > NEWS

Palm Drive Hospital exits bankruptcy

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Published: Wednesday, May 19, 2010 3:55 PM PDT

SEBASTOPOL — Three years and five CEOs later, Palm Drive Hospital exited bankruptcy on Wednesday after selling \$11 million in bonds.

The bond issue will allow the hospital to pay off its pre-bankruptcy creditors, repay a bridge loan from Sonoma County and a loan from the Sonoma County Community Foundation.

After creditors are paid, the District expects to have about \$3 million left in reserve for capital improvements.

"Selling the \$11 million in bonds and exiting bankruptcy are two tremendous milestones. They put Palm Drive Hospital on the path for a strong and stable future," said Nancy Dobbs, president of the Palm Drive Health Care District Board. "Now we can put those issues behind us and undertake comprehensive strategic planning with our partners, Brim Healthcare and the Palm Drive Health Care Foundation."

The Board's Treasurer, Dan Smith, was no less elated by the turn of events.

"I'd like to take this opportunity to thank everyone – staff, physicians and the community – for persevering, not only to maintain, but to build an excellent medical facility for our community," he said.

Throughout the 3-year bankruptcy, the hospital was hobbled in its ability to do business such as acquiring and replacing necessary equipment, applying for grants, or dealing with vendors on a non-cash basis.

"This should give everybody confidence that Palm Drive is making positive progress," said exiting interim CEO Neil Todhunter. "We can now move forward on a solid footing, looking to the future instead of living under the cloud of bankruptcy."

Todhunter, who has been at the helm of the hospital since August, will be leaving next Thursday (May 27) to make room for another interim CEO.

Earlier this month, Brim appointed Michael Lieb, a Dallas TX hospital administrator to take over the hospital's leadership as the search for a permanent CEO continues.

Lieb will begin his duties next Monday (May 24)

The district thought it had a permanent CEO in March, when Brim announced the hiring of Louisiana hospital administrator Richard Robinson at a salary of \$275,000. Brim, however, abruptly withdrew Robinson's candidacy on April 21 after he apparently failed to fully disclose potentially negative information about his background.

Palm Drive entered bankruptcy under Chapter 9 reorganization on April 5, 2007. Under the court-approved bankruptcy settlement, Palm Drive will pay 55 cents on the dollar to creditors owed more than \$10,000 and 75 cents on the dollar to creditors owed less than \$10,000.

The bond sale is through Sutter Securities Inc. and includes \$4.3 million in 15-year bonds at 7 percent interest and \$6.7 million in 25-year bonds at 7.5 percent interest. Should interest rates improve, the hospital has the option refinancing after three years. The funds will allow the hospital to pay the approximately \$2.2 million it owes pre-bankruptcy creditors, about \$2.9 million to repay the county, and \$500,000 to the Sonoma County Community Foundation. The remainder of the money will be used to pay legal costs associated with the bond sale and move forward with capital improvements.

Debt service on the bonds will cost the hospital about \$1 million a year. However, the hospital's financial picture is improving, and projected figures for fiscal year 2011 show revenues of \$30.3 million and expenditures of \$30.2 million from operations.

Palm Drive Hospital is an independent health care district with 37 licensed beds and annual revenues of about \$30 million. The district is supported by a perpetual \$155 parcel tax that provides about \$3.4 million in revenues for the hospital each year.