Palm Drive finances improve in FY 2010 under new administration

District gears up for another push out of Chapter 9
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The Palm Drive Healthcare District ended the calendar year on a positive note, as its interim finance officer reported a turnaround in the financial fortunes of the hospital as it attempts once more to sell bonds and exit Chapter 9 bankruptcy.

According to interim Chief Financial Dick Alesch, the hospital has shown $1.9 million in profit in FY 2010 — June to November — although $1 million can be attributed to a loan forgiven by Board President Dan Smith.

Although the district still operated at a loss of $529,399, as compared to a $1.3 million loss during the same period last year, the gains represent a dramatic change in fortune and point to the possibility of sustainability through operations should the trend continue.

The changes can be largely attributed to improved collections and recent staff reductions that have taken place since hospital management has been in the hands of Brim healthcare Inc., a Brentwood TN healthcare management company that's been in place since the beginning of August.

"I want to emphasize that all but $16,000 if that loss came in July and August," Alesch said.

Under Brim's leadership, the hospital has streamlined its collection process despite outdated financial software, and the recent downsizing of middle management is expected to save about $1.2 million a year.

The board hopes to sell $10- $12 million in bonds and with the current bond rating —"BB stable," according to Standard & poor — interest would be 8- 9 percent, but that can change by the day. It would cost about $1.1 million per year to service the debt, but if operations can become sustainable, the district can refinance in a few years for lower interest.

At the board's final meeting of 2009, Ashford D. Wood of Sutter Securities Inc. presented an overview of where the district stands in relation to selling the bonds, and stressed that stability in the board and upper management is key to a successful deal.

"We are looking toward a closing date of March 10," Wood said. "We believe we can still sell these bonds, and have included the past six months of financial statements with the audit. We think that will help market-wise."

Smith had concerns about the S&P rating, and although there was smaller loss than expected, he was concerned that the district was about $600,000 off the budget reported to S&P. He was also concerned about adding to the current debt load.

Wood said that he thinks S&P would be comfortable with the past six months' financial performance and the stability Brim has brought to management. He added that the district is off the "credit watch" it received during a tumultuous summer.

"Stability is important," Wood said. "Changes in senior management or the board would blow the deal. I would urge you not to change horses at this point."

The board will conduct its yearly board elections in its Jan. 18 meeting, with the possibility of a new board president.

Board member Frank Mayhew took exception to Wood's suggestion, citing the boards by-laws and standard procedures.

"We're much more than figureheads and our elections don't change the board. It's not a change in leadership," he said. "We're all still here. I don't see a crisis if we do change officers."

Mayhew added that he believed the district was put on watch by S&P "due to newspaper reports," and that "it might be time to change that leadership and have a fresh voice."

"I'm just telling you what I'm being told by my underwriters," Wood said. "I'm not telling you how to run your board."

Board member Linda Johnson stressed the importance of the bond issue, and that Smith has done "a tremendous amount of work" and would remain.

Smith reported that the board has asked interim CEO Neil Todhunter and Alesch to stay on until the bond issue is complete.

"I don't want us to be completely dependent on this bond sale, and don't want S&P to say six months isn't enough," he said. "We need solvency, and given our history of getting up to sell bonds, we need to get operations to stabilize this hospital."

The district went into bankruptcy in April 2007 and in June its plan of adjustment was approved. The hospital owed $3.6 million to vendors when it sought Chapter 9 protection, and last year borrowed $3 million from the county. A $155 parcel tax contributes about $3.2 million a year to its coffers.

The money from the sale of bonds will go toward paying of creditors and upgrading the facility, including its 1206D clinic, which the district hopes will help attract and retain physicians.