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# HEALTH CARE

# Westerly Hospital shows bankruptcy not only option

GUEST COLUMN

**W. Mark Russo**

In December 2011, The Westerly Hospital had depleted its endowment and was less than two weeks away from completely running out of money. Founded in 1925 and employing some 800 people, the hospital was and remains an economic cornerstone. Accordingly, Rhode Island Superior Court Justice Brian P. Stern placed the hospital under the protection of a court-supervised special mastership, appointing me to that role. My team and I were charged with finding a way for the hospital to remain viable, retain jobs, and continue to actively serve the health care needs of the community. Over the course of two-and-a-half years, it has been rewarding to see the end-result: an economically viable hospital.

## CRISIS MANAGEMENT

The first step in crisis management of any business is to assess the interests of critical stakeholders and determine if there is enough cash to operate. Justice Stern quickly established three different stakeholder "committees" comprised of creditors, residents, and health care regulators.

In addition, there was a health care ombudsman, who independently safeguarded patient care during the mastership process. In turn, we sought to open and maintain the vital lines of communications via "town meetings" with all employees and we established a special physician-liaison committee that met every week. While most businesses and receiverships may not need this level of stakeholder involvement, we knew it was imperative to ensure that all relevant voices were heard, given the massive undertaking to bring the hospital to financial stability.

Within two weeks of our initial involvement, we were able to restructure existing debt and create a $4 million reserve fund that gave the hospital and its related entities a solid chance for survival. The long-range solution for the hospital quickly solidified into two options: selling the hospital or structuring a strategic partnership with another hospital network. However, neither solution could happen until the marketplace saw a stable entity and viable "bridge" to an economic future. Our plan was to create that bridge-to-the-future of economic viability and sell the hospital in 18 months.

## THE BRIDGE

With an operating reserve and a court-supervised structure in place, we engaged top-notch "turnaround" consultants and restructured management around a chief restructuring officer. This type of restructuring represents a strategic tool available to businesses in receivership. In parallel, we began to formulate a comprehensive sales and marketing process.

The design and implementation of the bridge process involved a complete business and market analysis. There were difficult decisions to eliminate segments of the business which were no longer viable and to emphasize those segments that could be profitable. We also analyzed ways to generate new revenue. Along the way, the administrative functions of the hospital were fully restructured, leading to significant changes and improvements to the hospital's revenue cycle, i.e., billing for services, collecting those bills, and shortening the time between those two events.

## CASH FLOW MILESTONE

Another substantive improvement stemmed from our widespread analysis and restructuring of the supply chain; we implemented a complete change to the way the hospital did business with its vendors. Cognizant that managing vendor relationships in times of crises is an art, we successfully developed the hospital's own new approach to vendor interactions and payment terms, especially with critical vendors who were owed millions and millions of dollars.

The result was a milestone: About six months into the receivership process, the hospital was able to operate on its own cash flow. That meant the money created initially to fund our operating reserve would be used, eventually, to pay creditors.

## THE STALKING HORSE

Like any business in trouble, the time to look toward the future often comes only after the immediate crisis is averted. Working with our strategic business partners, who were well-versed in the sale of health care institutions, we designed the various components of the sale, identifying potential buyers, educating the marketplace and striving for a totally transparent and open marketing process.

**Managing vendor relationships in times of crises is an art.**

Ultimately, we decided to use a form of "stalking horse" bid, in which we secured a comprehensive bid from a potential buyer that satisfied all the goals of the mastership process. Then, we opened that initial bid to competition from other potential buyers. As a result of the success in the Westerly Hospital matter, a stalking-horse model has become a much more popular tool in receiverships.

## THE RESULT

Our outcomes included a successful sale – in less than 18 months – to Lawrence & Memorial Hospital, who committed to maintain the hospital as an acute-care, community hospital and to preserve jobs.

At closing, all secured creditors were paid in full and, within six months of the closing, over $10 million in unsecured creditor claims were satisfied. To date, all unsecured claims recommended for payment by the mastership have been satisfied.

Part of our unswerving focus was always the people, both the health care workers who provided the critical patient care during turbulent times and the community who supported us. Via the mastership process, we secured insurance coverage for the employees' pension plan and, recently, injected another quarter of a million dollars towards retirement benefits, separate and apart from the insurance. Currently, the mastership holds the $1 million reserve fund with the hopes that this will be used to advance the charitable mission of nonprofit health care in southern Rhode Island.

In the end, The Westerly Hospital receivership process clearly demonstrates that there are viable options for financially troubled businesses in Rhode Island to operate under court supervision and actually achieve a business result that preserves jobs and economic investment in our state. ■

*W. Mark Russo is founding partner of Providence-based law firm Ferrucci Russo PC. He served as court-appointed special master for The Westerly Hospital when it was in receivership.*