

Kennewick Public Hospital District Remains a Critical Part of our Community's Healthcare System

Since the Kennewick Public Hospital District's bankruptcy reorganization in 2018, its current role is generally unknown, and some question the need for its continued existence. The short answer is that due to that reorganization, its continued existence is not only necessary for maintaining the high level of healthcare services and access to healthcare provided at Trios, but also beneficial for the community.

As a brief background, the District has operated Kennewick General Hospital/Trios for over seventy years. Trios faced tough economic times at its most vulnerable state. These same factors were widespread, shuttering or bankrupting many similarly situated hospitals, including neighboring Walla Walla, Sunnyside, and Yakima. Under a structured Bankruptcy Plan, the operational portions, including the hospital services and the trade name "Trios," were sold to RCCH, now LifePoint, to keep the hospital's doors open and serving our community. The elements of this Court-ordered Plan incorporate the District's necessary continuing role.

This article aims to explain how this highly complex Plan works in brief, understandable terms. We will discuss five primary reasons for the District's continuance and role in the community.

1. If there is to be a hospital in Kennewick, there is a need for the District.

After several contested hearings and considering all the evidence, Judge Corbin found the necessity of the Hospital for our community. "The District provides essential medical and other health care services, including critical care services for which there is not adequate capacity at other nearby facilities, to residents and others in the Tri-Cities region."

evidence, Judge Corbin found the necessity of the Hospital for our community. "The District provides essential medical and other health care services, including critical care services for which there is not adequate capacity at other nearby facilities, to residents and others in the Tri-Cities region."

The next task was to create a Plan by which the Hospital could remain open. That Plan was a complicated but effective method to keep the Hospital open to serve our community while still

While some may question the actions or decisions made at that time, the underlying urgent need for the hospital remained. This has been remarkably demonstrated by these last two years of COVID. In the bankruptcy proceedings, the initial question was whether to close the hospital and liquidate its assets or to reorganize its operation and financial structure. After several contested hearings and considering all the

liquidating assets for the benefit of its creditors. A critical element of that Plan was to provide the financial means to ensure that its public hospital role, as defined by State Law, provides healthcare regardless of ability to pay. As stated in RCW 70.44.003, the purpose of the District is to "provide hospital services and other health care services for the residents of such districts and other persons." (RCW 70.44.003) RCW 70.44.005 requires that in addition to residents of the District, it "may further receive in said hospitals and other health care facilities and furnish proper and adequate services to all persons not residents of said district at such reasonable and fair compensation as may be considered proper."

Judge Corbin also found that this Plan was fair to Creditors. He concluded in the Order that: "The Plan has been proposed (a) in good faith; (b) with honesty, sincerity and good intentions; (c) with a basis for expecting that an adjustment of the District's debts and a sale of the District's Operations can be effected in accordance with the purpose of Chapter 9, and that the Plan is feasible; and (d) not by any means forbidden by law". The overall agreement reached by all parties participating in the bankruptcy, including Creditors, the District, and all parties to the sale, had to be and was approved by the Court.

The role of the District is a critical element of that Plan in that with its tax revenues. It now contracts for the statutory services of a public hospital to be performed by Trios/LifePoint. LifePoint, carrying the name Trios, stepped forward, purchasing the hospital and assuming its ongoing operation. The respective roles of both were defined within the Court-approved Community Care Agreement.

The Community Care Agreement requires LifePoint/Trios, in addition to generally continuing the operation of the Hospital, to do nine specific items, two of which are: (a) Adopt a charity care policy in compliance with applicable state law and provide charity care consistent with applicable state law: (g) maintain participation in the Medicare program. These are two of the primary financial requirements of LifePoint—absorbing the costs of the charity care previously provided by the District and continuing the Medicare program.

As compensation for the assumption of these financial obligations and the continued operation of the Hospital, the Community Care Agreement, section 4 of the agreement, provides: "As compensation for the Service, the District shall pay RCCH (LifePoint/Trios) the "Community Service Payment."

The Community Service Payment means the Current Year Property Tax Amount less the Permitted Expenses.

The role of the District is a critical element of [the bankruptcy] Plan in that with its tax revenues it now contracts for the statutory services of a public hospital to be performed by Trios/LifePoint:

Adopt[ing] a charity care policy in compliance with applicable state law and provide charity care consistent with applicable state law, and maintain[ing] participation in the Medicare program.

The Permitted Expenses are defined in section 1(e): "Permitted Expenses" means, and in the following order of priority, (i) reimbursement for payment of administrative claims in the Bankruptcy Case not paid by the District at the closing of the Proposed Transaction; (ii) payment of District's operating expenses pursuant to a reasonable budget not to exceed twenty percent (20%) of the District annual revenue from its "regular property taxes"; and (iii) indemnification claims made against the District pursuant to the terms and condition of the Purchase Agreement, including obligation to pay RCCH (LifePoint/Trios) for Losses arising as a result of the operation of the Business prior to the closing of the Proposed Transaction.

This obligation continues for the period that Trios/LifePoint leases the hospital building for twenty-six years. Therefore, the District needs to serve its role for at least twenty-six years.

2. The District is contractually obligated to LifePoint/Trios.

Under the Community Care Agreement terms, the District is contractually obligated to pay for LifePoint/Trios' performance - including maintaining Charity Care, Medicare, and an acute care hospital. **This represents an ongoing obligation that the District is required to pay for twenty-six years.** LifePoint has faithfully lived up to its obligations, and more, under the Agreement. The District may only terminate the Agreement upon default by LifePoint. That has not occurred, nor is it likely.

The District may not cease its capacity to pay without breaching the terms of the Agreement and exposing the District to damages which would ultimately be assessed as a levy against the taxpayers. Therefore, the continued operation of the hospital is inextricably connected with the continued existence of the District.

3. Our community has unmet healthcare needs that the District has statutory authority and responsibility to address.

There are fourteen other Public Hospital Districts in the state that do not run hospitals. Like them, the District focuses its resources on unmet needs and contracts for the hospital services. The District retains approximately twenty percent of its collected revenues for this purpose. The District participates with other local agencies in the Community Healthcare Needs Assessment to focus its resources on curing these deficiencies. **Adult Day Services** is a companion service under the District that addresses the needs of elderly and developmentally disabled members of our community.

Most recently, the mission and focus of the District is to establish a tragically needed Behavioral Health Recovery Center. Addiction and mental health crises have touched nearly every family in our community; however, we are still without local detoxification and rehabilitation services. The District

has demonstrated the feasibility of such a facility, identified the Trios Auburn Campus as the logical site, and supported our Counties' efforts to make this project a reality. A Public Hospital District is a valuable tool with unique authority for today's projects and the future needs of this community.

4. Dissolving the District is not a practical or possible alternative.

Even if [dissolving the District] were possible, the obligation for the Community Service Payment would remain as a debt of the District and therefore could not be dissolved before that debt is retired in twenty-six years.

The statutes that govern Public Hospital Districts (RCW 70.44) are silent about how a public hospital district may be dissolved. However, chapter RCW 53.48 sets out a uniform procedure for the dissolution of most special purpose districts, including a public hospital district. The procedure ensures that

a district is not dissolved before all its debts are paid off.

Dissolution must be approved by a superior court, which would have to make a finding directly in opposition to the Federal Bankruptcy Court's determination that the District and its part in providing for a hospital in Kennewick is necessary. There would have to be an "overturning" of the Plan, which due to the passage of time, is unassailable. Even if that were possible, the obligation for the Community Service Payment would remain as a debt of the District and therefore could not be dissolved before that debt is retired in twenty-six years.

Furthermore, RCW 53.48.080 authorizes the assessment of a special levy to pay the debt, which would most likely exceed the present minimal tax and last as long or longer.

5. Dissolving the District would not reduce taxes.

Public Hospital Districts are "junior taxing districts" as defined by RCW 84.52.043(2) (*Limitations upon Regular Property Tax Levies*), in pertinent part, it defines junior taxing districts as: "...The term 'junior taxing districts' includes all taxing districts other than the state, counties, road districts, cities, towns, port districts, and public utility districts."

The tax dollar limitation applicable to "local districts" is divided between "senior taxing districts" and "junior taxing districts." The senior taxing districts enjoy a higher priority with specific amounts attributable to each senior district. The junior taxing districts "share" what is left over. As explained in the Department of Revenue's **Property Tax Levies—Operations Manual (September 2021)**, "Proration"

is commonly used to describe the process of reduction of levies to comply with either the \$5.90 limit or the 1- percent limit. It is also used to describe the more specific situation that occurs when one or more junior taxing districts have the same statutory right to levy for taxes at a particular priority level.

When two or more levies have the same priority at the level that reductions must be made, they share in the reduction. So, in essence, as one junior taxing district portion goes down, another's goes up. Therefore, other junior taxing districts would absorb any reduction in the District's proportionate tax interest. The net result would be no change for the taxpayer.

In conclusion, regardless of whether or not we agree or disagree with the determination of the Court or the implementation of the Plan ordered by the Court, the Plan is the reality under which all of us will need to work.

The District's goal is to utilize the resources available to us to meet the healthcare needs of our community the best way that we can.

Leland B. Kerr, Superintendent

Kennewick Public Hospital District (2018-present)