Healthcare Update: Bad Times for Hospital in the Bayou State

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On January 30, 2017, Louisiana Medical Center and Heart Hospital, LLC, a 132-bed acute-care hospital located in the heart of St. Tammany Parish in Lacombe, Louisiana, filed for bankruptcy. As reported in papers filed with the bankruptcy court, Louisiana Medical failed in its effort to sell its hospital as a going concern prior to commencing its bankruptcy case and is now swiftly winding down its operations due to continuing losses. Louisiana Medical has outstanding secured and other demand note debt of over $110 million and its 20 largest non-insider unsecured creditors alone are owed in excess of $4.3 million. The value of Louisiana Medical's assets, while pegged at between $1 million - $10 million in the hospital's bankruptcy petition, is uncertain at this time. Louisiana Medical attributes its current financial challenges to falling admissions and net outpatient revenues paired with increasing salaries, wages and benefits.

On Sunday, February 5, matters took a turn for the worse for Louisiana Medical, as it was hit with a class action lawsuit alleging that the hospital failed to give employees 60 days' notice of mass layoffs required by the Worker Adjustment and Retraining Notification Act. The hospital's state of affairs now requires its creditors to act quickly and to be creative - in their efforts to extract any value that may be left in what is often referred to as a "melting ice cube" situation. As a strategy for better returns, creditors of this hospital and others should keep a close eye on the hospital's relationship with, and support from, government and the surrounding community. Indeed, it was this support (specifically, an increase in Medicaid reimbursement rates for the hospital as a result of coordinated private and legislative efforts) that allowed another Louisiana hospital, St. Francis Medical Center, to recently reach greater financial stability after years of unprofitability.[1]

The earlier that a hospital and its creditors, employees and community identify a collective path for securing financial well-being aided by government support, the more likely that the parties will experience positive results and financial stability. Even in chapter 11, it is not too late to employ this approach to maximize returns and increase the likelihood of a beneficial outcome for all parties-in-interest. Louisiana Medical is a co-debtor with LMCHH PCP LLC in jointly administered bankruptcy cases pending in the United States Bankruptcy Court for the District of Delaware, Case Nos. 17-10201 and 17-10202.

[1] Hilburn, Greg. "State deal saves St. Francis for now." The News Star, Feb. 1, 2017.