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Debtors In Possession

**UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA - LOS ANGELES DIVISION**

In re

VERITY HEALTH SYSTEM OF
CALIFORNIA, INC., *et al.*,

Debtors and Debtors In
Possession.

☒ Affects All Debtors

- ☐ Affects Verity Health System of
California, Inc.
☐ Affects O'Connor Hospital
☐ Affects Saint Louise Regional
Hospital
☐ Affects St. Francis Medical Center
☐ Affects St. Vincent Medical Center
☐ Affects Seton Medical Center
☐ Affects O'Connor Hospital
Foundation
☐ Affects Saint Louise Regional
Hospital Foundation
☐ Affects St. Francis Medical Center of
Lynwood Foundation
☐ Affects St. Vincent Foundation
☐ Affects St. Vincent Dialysis Center,
Inc.
☐ Affects Seton Medical Center
Foundation
☐ Affects Verity Business Services
☐ Affects Verity Medical Foundation
☐ Affects Verity Holdings, LLC
☐ Affects De Paul Ventures, LLC
☐ Affects De Paul Ventures - San Jose
Dialysis, LLC

Debtors and Debtors In
Possession.

Lead Case No. 2: 18-bk-20151-ER

Jointly Administered With:

Case No. 2:18-bk-20162-ER
Case No. 2:18-bk-20163-ER
Case No. 2:18-bk-20164-ER
Case No. 2:18-bk-20165-ER
Case No. 2:18-bk-20167-ER
Case No. 2:18-bk-20168-ER
Case No. 2:18-bk-20169-ER
Case No. 2:18-bk-20171-ER
Case No. 2:18-bk-20172-ER
Case No. 2:18-bk-20173-ER
Case No. 2:18-bk-20175-ER
Case No. 2:18-bk-20176-ER
Case No. 2:18-bk-20178-ER
Case No. 2:18-bk-20179-ER
Case No. 2:18-bk-20180-ER
Case No. 2:18-bk-20181-ER

Hon. Ernest M. Robles

**DECLARATION OF RICHARD G. ADCOCK IN SUPPORT OF
DEBTORS' § 1113 MOTIONS**

[Relates to Docket No. 1181,1182, 1191, 1192]

Hearing:

Date: January 30, 2019

Time: 10:00 am

Location: Courtroom 1568

255 E. Temple St., Los Angeles, CA



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DECLARATION OF RICHARD G. ADCOCK

I, Richard G. Adcock, hereby declare as follows:

1. I am the Chief Executive Officer (“CEO”) of Verity Health System of California, Inc. (“VHS”). I became VHS’ CEO effective January 2018. Prior thereto, I served as VHS’ Chief Operating Officer (“COO”) beginning in August 2017. In my roles as COO and CEO at VHS, I have become intimately familiar with all aspects of VHS and its above-captioned affiliates that filed for chapter 11 bankruptcy protection (collectively the “Debtors,” and each a “Debtor”), as well as those affiliated entities that are not in bankruptcy.

2. Except as otherwise stated, all facts contained within this declaration (“Declaration”) are based upon my personal knowledge, from information gathered from other employees within the Debtors’ organization, my review of relevant documents, or my opinion based upon my experience concerning the operations of the Debtors.

3. I submit this Declaration in support of the *Debtors’ Motions under § 1113 of the Bankruptcy Code* (the “Motions”).¹ All capitalized terms not defined herein have the meaning ascribed to them in the Motions.

4. Certain Debtors are parties to multiple prepetition collective bargaining agreements (the “CBAs”) that relate to their assets in Santa Clara County (of which true and correct copies are attached to the Motions):

a. CNA CBAs:

¹ The full title of the Motions are: (1) *Debtors’ Motion under § 1113 of the Bankruptcy Code to Reject and Terminate the Terms of Engineers and Scientists of California, IFPTE Local 20’s Collective Bargaining Agreements with O’Connor Hospital and Saint Louise Regional Hospital upon the Closing of the Sale of Hospitals to Santa Clara County*; (2) *Debtors’ Motion under § 1113 of the Bankruptcy Code to Modify, Reject and Terminate the Terms of California Licensed Vocational Nurses Association’ Collective Bargaining Agreement with O’Connor Hospital upon the Closing of the Sale of Hospitals to Santa Clara County*; (3) *Debtors’ Motion under § 1113 of the Bankruptcy Code to Modify, Reject and Terminate the Terms of Service Employee International Union-United Healthcare Workers-West’s Collective Bargaining Agreements with Certain Debtors upon the Closing of the Sale of Hospitals to Santa Clara County*; and (4) *Debtors’ Motion under § 1113 of the Bankruptcy Code to (A) Reject and Terminate the Terms of California Nurses Association’s Collective Bargaining Agreements with Saint Louise Regional Hospital and O’Connor Hospital and (b) to Modify Related Provisions in a Certain Master Agreement upon the Closing of the Sale of Hospitals to Santa Clara County*.

1 The Collective Bargaining Agreement between Debtor Saint Louise Regional Hospital
2 (“SLRH”), a California nonprofit public benefit corporation and the California Nurses Association
3 (“CNA”), effective 2016-2020 (the “CNA SLRH CBA”); the Collective Bargaining Agreement
4 between O’Connor Hospital (“OCH”), a California nonprofit public benefit corporation and CNA,
5 effective 2016-2020 (the “CNA OCH CBA”); and the Master Agreement between certain hospitals
6 within VHS (including OCH and SLRH) and CNA, effective December 22, 2016 – December 21,
7 2020 (the “CNA Master CBA”) (together, these three agreements are referred to as the “CNA
8 CBAs”). Approximately 205 employees are covered under the CNA SLRH CBA, and
9 approximately 525 employees are covered under the CNA OCH CBA.

10 **b. SEIU CBA:**

11 The Collective Bargaining Agreement between Service Employees International Union-
12 United Healthcare Workers–West (“SEIU”), on the one side, and OCH, SLRH, St. Francis Medical
13 Center and St. Vincent Medical Center, on the other side, which expires on October 31, 2021 (the
14 “SEIU CBA”). Approximately 190 employees working for the benefit of SLRH are covered under
15 the SEIU CBA, and approximately 512 employees working for the benefit of OCH are covered
16 under the SEIU CBA. With respect to SLRH and OCH, the SEIU-represented employees generally
17 work in environmental and food services, technician positions, such as radiology technicians,
18 respiratory care practitioner, and pharmacy technicians, clinical units as certified nursing assistants
19 and admitting, medical records and various clerical positions.

20 **c. Local 20 CBAs:**

21 The Collective Bargaining Agreement between SLRH and the Engineers and Scientists of
22 California, IFPTE Local 20 (“Local 20”), which is effective May 1, 2017 through April 30, 2020
23 (the “Local 20 SLRH CBA”); and the Collective Bargaining Agreement between OCH and Local
24 20, which is effective May 1, 2017 through April 30, 2020 (the “Local 20 OCH CBA”) (together,
25 these two agreements are the “Local 20 CBAs”). Approximately 49 employees are covered under
26 the Local 20 OCH CBA and approximately 14 employees are covered under the Local 20 SLRH
27 CBA. These employees work in the laboratory and are “Clinical Laboratory Scientists” and
28 “Medical Laboratory Technicians.”

d. **CLVNA CBA**

The Collective Bargaining Agreement between OCH and California Licensed Vocational Nurses Association (the “CLVNA”), effective November 2016 – October 21, 2019 (the “CLVNA CBA”). Approximately fifteen (15) employees are covered under the CLVNA CBA. These employees are Licensed Vocational Nurses and work primarily on the clinical units of OCH.

5. I have been closely involved in the Debtors’ pre- and post-petition efforts to sell their assets, including by working with the Debtors’ investment banker Cain Brothers (“Cain”), which is a division of KeyBanc Capital Markets Inc., a wholly-owned broker/dealer subsidiary of KeyCorp and an affiliate of KeyBank National Association, and the Debtors’ other professionals for the marketing and sale of the Debtors’ assets in Santa Clara County.

6. The Debtors’ Santa Clara County assets consist primarily of OCH and SLRH, the DePaul Campus, which is an ambulatory care center operated in a building adjacent to a closed hospital in Morgan Hill, California, and a joint-venture interest in a medical office building located near the OCH campus. Some of the potential buyers that evaluated acquiring the Santa Clara County assets were interested in acquiring the entire Verity Health System and some potential buyers were interested in acquiring just the assets located in Santa Clara County.

7. I instructed the Debtors’ professionals and team members to express to potential buyers and partners that the Debtors desired for their CBAs to be assumed, in whole or in part, and the Debtors did express this preference to potential buyers.

8. While negotiating with the County of Santa Clara (“SCC”), the Debtors were unable to obtain SCC’s consent to the assumption of any of the CBAs, in whole or in part. Based upon information and belief, this is because Santa Clara County classifications are already represented by incumbent unions under Local Ordinance A-25 of SCC, and an employee will be offered membership in the incumbent unions which are allocated to their applicable job classification consistent with the Meyers-Milias-Brown Act and subject to its terms.

9. However, out of concern for its employees, the Debtors negotiated for SCC to offer employment to substantially all of the Debtors’ employees in good standing at OCH and SLRH subject to the County’s hiring practices, as described in Section 5.3.1 of the APA. The Debtors

1 also selected SCC in part because SCC had an established union, and the Debtors' represented
2 employees who are hired by SCC will be covered by a memorandum of understanding according
3 to their classification.

4 10. After entry of the Bidding Procedures Order, the Debtors sought to obtain a higher
5 bid, and one that assumed the CBAs, but the Debtors did not receive another partial or aggregate
6 bid, let alone one that sought to assume the CBAs in whole or in part.

7 11. I attended meetings on December 6, 2018, with the CNA representatives and certain
8 employees; on December 6, 2018, with the Local 20 representatives and certain employees; on
9 December 7, 2018, with the CLVNA representatives (telephonically); on December 12, 2018, with
10 the SEIU representatives and certain employees (together, the "Meetings").

11 12. At the Meetings, we discussed the Bankruptcy Cases and Sale process, generally,
12 and then presented the Debtors' proposals to reject and terminate bilateral CBAs (*e.g.*, between the
13 union and either SLRH or OCH) and to modify the multi-Hospital "Master" CBAs (the
14 "Proposals," as explained in more detail below) and represented that: (a) the Debtors would seek
15 approval of the sale of the Hospitals to SCC because no other qualified bidder had emerged (and,
16 among other things, that no other potential bidder had indicated interest in assuming the CBAs);
17 (b) SCC will not assume the CBAs (notwithstanding non-acceptance of the CBAs, the allocation
18 of job descriptions and classifications have already been made (under Local Ordinance A-25 of
19 Santa Clara County), and represented employees will be offered membership in the incumbent
20 unions, which are allocated to their applicable job classification); and (c) the Debtors would be
21 filing motions to obtain authority to reject, terminate and/or modify the CBAs, accordingly, because
22 the Debtors would no longer be operating the Hospitals after the Closing.

23 13. Specifically, as applicable to the respective CBAs, the Proposals included the
24 following terms: (a) that the Debtors seek to reject and terminate all terms of the CNA SLRH CBA
25 and the CNA OCH CBA and to modify the CNA Master CBA to remove, reject and terminate
26 references to SLRH and OCH to effectuate the rejection of the CNA SLRH CBA and CNA OCH
27 CBA; (b) that the Debtors seek to modify the SEIU CBA to remove, reject and terminate terms
28 concerning SLRH and OCH; (c) that the Debtors seek to reject and terminate the Local 20 CBAs;

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(d) that the Debtors seek to reject and terminate the CLVNA CBA; (e) the Debtors intended to honor and maintain the CBAs until Closing; (f) that SCC would provisionally hire CBA employees subject to the APA, and would interview employees interested in working for SCC after the Closing, and that these hired employees represented by the applicable labor union recognized in accordance with the Local Ordinance; and (g) the Debtors and their counsel were available to discuss questions about the respective Proposal or other relevant issues.

14. The Debtors followed up the respective Meetings with written memorialization of the respective Proposals, and, as necessary, redlines of the CBAs showing proposed modifications. True and correct copies of these documents are attached to the Motions.

15. I believe the Sale to SCC is the best option available to the Debtors under the circumstances, and fulfills the Debtors' objectives of transferring these facilities to entities which can continue to operate them to provide patient care to the communities they serve.

16. If the Sale closes, the Debtors will have no use for or potential benefit from the CBAs and CBA terms that relate to OCH and SLRH because the Debtors will no longer operate the OCH and SLRH Hospitals, will not receive consideration from OCH and SLRH employees, and will only incur obligations and claims that will burden their estates without a corresponding benefit.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 2nd day of January, 2019, in Los Angeles, California.



RICHARD G. ADCOCK