



UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
RIVERSIDE DIVISION



4	In re:)	Case No. 6:07-bk-18293-PC
5	VALLEY HEALTH SYSTEM, a)	Chapter 9
6	California Local Health Care District,)	Date: January 8, 2008
7)	Time: 9:30 a.m.
8	Debtor.)	Place: United States Bankruptcy Court
9)	Courtroom # 303
10)	3420 Twelfth Street
11)	Riverside, CA 92501

MEMORANDUM DECISION

Valley Health System, a California Local Health Care District (“District”) seeks an order finding that appointment of a patient care ombudsman is unnecessary for the protection of patients under the specific facts and circumstances of this case. The United States trustee (“UST”) opposes the request on the grounds that the appointment of a patient care ombudsman is mandated by Congress under § 333(a)(1) of the Code¹ whenever a health care business declares bankruptcy. At the hearing, Gary E. Klausner and H. Alexander Fisch appeared for the District; Christian L. Raisner appeared for SEIU-United Healthcare Workers West, and Timothy J. Farris appeared for the UST. The court, having considered the District’s motion and the UST’s opposition thereto, the evidentiary record, and arguments of counsel, makes the following findings of fact and conclusions of law² pursuant to Fed. R. Civ. P. 52, as incorporated into Fed.

¹ Unless otherwise indicated, all “Code,” “chapter” and “section” references are to the Bankruptcy Code, 11 U.S.C. §§ 101-1330 after its amendment by the Bankruptcy Abuse and Consumer Prevention Act of 2005, Pub. L. 109-8, 119 Stat. 23 (2005). “Rule” references are to the Federal Rules of Bankruptcy Procedure (“Fed. R. Bankr. P.”), which make applicable certain Federal Rules of Civil Procedure (“Fed. R. Civ. P.”).

² To the extent that any finding of fact is construed to be a conclusion of law, it is hereby adopted as such. To the extent that any conclusion of law is construed to be a finding of fact, it is hereby adopted as such. The court reserves the right to make additional findings and conclusions as necessary or as may be requested by any party.

1 R. Bankr. P. 7052 and made applicable to contested matters by Fed. R. Bankr. P. 9014(c).

2 I. STATEMENT OF FACTS

3 The District is a public agency formed in 1946 under the State of California Local
4 Healthcare District Law.³ The District encompasses 882 square miles in the San Jacinto Valley
5 in Riverside County, California, and serves a population within the District of nearly 360,000.
6 At its inception, the District operated only an 18-bed hospital purchased from the city of Hemet,
7 California. It now owns and operates the Hemet Valley HealthCare Center (the “Nursing
8 Facility”), a 113-bed skilled nursing facility in Hemet, California, together with three acute
9 hospitals - Hemet Valley Medical Center (“Hemet Hospital”), a 340-bed facility in Hemet,
10 California; Menifee Valley Medical Center (“Menifee Hospital”), an 84-bed facility in Sun City,
11 California; and Moreno Valley Community Hospital (“Moreno Valley Hospital”), a 95-bed
12 facility in Moreno Valley, California. The Moreno Valley Hospital and its primary service area
13 are situated outside the District’s boundaries. Each of the hospitals provides comprehensive
14 health services and 24-hour emergency medical services.⁴

15 The cost of the District’s comprehensive health care system was financed, in large part,
16 by two series of bonds issued by the District (collectively, the “Bonds”): (1) the 1996 series A
17 hospital revenue bond, and (2) the series 1993 certificates of participation. There was

18
19 ³ Cal. Health & Safety Code § 32000, et. seq.

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21 ⁴ Services offered at the Hemet Hospital include the Emory J. Cripe Radiation Therapy
22 Treatment Center for cancer treatment; cardiac care services; inpatient and outpatient surgical
23 services; behavioral health services; speech, physical, and occupational therapy services; and CT
24 imaging and magnetic resonance imaging. The Menifee Hospital provides inpatient and
25 outpatient X-ray services, including mammography, CT scan, and MRI; a critical care unit;
26 inpatient and outpatient surgery; inpatient and outpatient laboratory services; respiratory
27 services; physical therapy services; a joint replacement center; and cataract and retina specialty
surgeries. The Moreno Valley Hospital offers inpatient medical, surgical and pediatric services;
critical care, post-critical care, and telemetry units; maternity and women’s services; obstetrics;
inpatient and outpatient surgery; the Spine Center of Excellence program; cardiopulmonary
services; and physical rehabilitation services.

1 approximately \$84 million in principal and interest outstanding on the bonds as of the date of the
2 petition.

3 On December 13, 2007, the District filed a voluntary petition under chapter 9 in this case
4 disclosing not more than 5,000 creditors holding claims in excess of \$100 million. On December
5 28, 2007, the District filed a motion seeking an order that the appointment of a patient care
6 ombudsman under § 330(a)(1) was not necessary for the protection of patients under the specific
7 facts of this case. On January 7, 2008, the UST filed a response opposing the District's motion
8 and urging the immediate appointment of a patient care ombudsman under § 330(a)(1). On
9 January 8, 2008, the court conducted a hearing on the District's motion.⁵ At the conclusion of
10 the hearing, the matter was taken under submission.

11 II. DISCUSSION

12 This court has jurisdiction over this contested matter pursuant to 28 U.S.C. §§ 157(a) and
13 1334(b). This matter is a core proceeding under 28 U.S.C. § 157(b)(2)(A) and (O). Venue is
14 appropriate in this court. 28 U.S.C. § 1409(a).

15 If the debtor in a case under chapter 7, 9, or 11 is a health care business,⁶ the appointment
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17 ⁵ No creditor or other party in interest, including SEIU-United Healthcare Workers West, filed a
18 written response to the District's motion or appeared at the hearing in opposition to the motion.

19 ⁶ The term "health care business" –

20 (A) means any public or private entity (without regard to whether that entity is organized
21 for profit or not for profit) that is primarily engaged in offering to the general public
22 facilities and services for –

- 23 (i) the diagnosis or treatment of injury, deformity, or disease; and
24 (ii) surgical, drug treatment, psychiatric, or obstetric care; and

25 (B) includes –

26 (i) any –

27 (I) general or specialized hospital;

1 of a patient care ombudsman is mandated by § 333(a)(1), not later than 30 days after
2 commencement of the case, to monitor the quality of patient care and to represent the interests of
3 the debtor’s patients “unless the court finds that appointment of such ombudsman is not
4 necessary for the protection of patients under the specific facts of the case.”⁷ An ombudsman

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- 6 (II) ancillary ambulatory, emergency, or surgical treatment facility;
 - 7 (III) hospice;
 - 8 (IV) home health agency; and
 - 9 (V) other health care institution that is similar to an entity referred to in
subclause (I), (II), (III), or (IV); and

10 (ii) any long-term care facility, including any –

- 11 (I) skilled nursing facility;
- 12 (II) intermediate care facility;
- 13 (III) assisted living facility;
- 14 (IV) home for the aged;
- 15 (V) domiciliary care facility; and
- 16 (VI) health care institution that is related to a facility referred to in
subclause (I), (II), (III), (IV), or (V), if that institution is primarily
engaged in offering room, board, laundry, or personal assistance with
activities of daily living and incidentals to activities of daily living.

17 11 U.S.C. § 101(27A).

18 ⁷ Section 333(a)(1) states:

19 If the debtor in a case under chapter 7, 9, or 11 is a health care business, the court shall
20 order, not later than 30 days after the commencement of the case, the appointment of an
21 ombudsman to monitor the quality of patient care and to represent the interests of the
22 patients of the health care business unless the court finds that the appointment of such
ombudsman is not necessary for the protection of patients under the specific facts of the
case.

23 11 U.S.C. § 333(a)(1). Section 333 was added by the Bankruptcy Abuse Prevention and
24 Consumer Protection Act of 2005, Pub. L. 109-8, § 1104(a)(1), 119 Stat. 23, 191 (2005),
effective for all cases filed on or after October 17, 2005. Rule 2007.2(a) further provides, in
25 pertinent part, that “the court shall order the appointment of a patient care ombudsman under §
26 333 of the Code, unless the court, on motion of the United States trustee or a party in interest
filed not later than 20 days after the commencement of the case or within another time fixed by
the court, finds that the appointment of a patient care ombudsman is not necessary for the

1 appointed under § 333(a)(1) must be a disinterested person,⁸ and must:

2 (1) monitor the quality of patient care provided to patients of the debtor, to the extent
3 necessary under the circumstances, including interviewing patients and physicians;

4 (2) not later than 60 days after the date of appointment, and not less frequently than at 60-
5 day intervals thereafter, report to the court after notice to the parties in interest, at a
6 hearing or in writing, regarding the quality of patient care provided to patients of the
7 debtor; and

8 (3) if such ombudsman determines that the quality of patient care provided to patients of
9 the debtor is declining significantly or is otherwise being materially compromised, file
10 with the court a motion or a written report, with notice to the parties in interest
11 immediately upon making such determination.

12 11 U.S.C. § 333(b).

13 A. The District is a Health Care Business

14 Neither party disputes the fact that the District meets the definition of a “health care
15 business” under § 101(27A). The District is a public entity. It is engaged primarily in offering
16 to the general public facilities and services, which include services at three hospitals and a
17 skilled nursing facility. The District’s facilities and services are offered to the public for the
18 diagnosis or treatment of injury, deformity, or disease, and the District’s facilities and services
19 are offered to the public for surgical care, drug treatment, psychiatric care, or obstetric care. See,
20 e.g., In re William L. Saber, M.D., P.C., 369 B.R. 631, 637 (Bankr. D. Colo. 2007) (holding that
21 a chapter 11 debtor, who was in the business of providing plastic and reconstructive surgery to

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23 protection of patients under the specific circumstances of the case.” Fed. R. Bankr. P. 2007.2(a).

24 ⁸ 11 U.S.C. § 333(a)(2)(A). The term “disinterested person” means a person that –

25 (A) is not a creditor, an equity security holder, or an insider;

26 (B) is not and was not, within 2 years before the date of the filing of the petition, a
27 director, officer, or employee of the debtor; and

(C) does not have an interest materially adverse to the interest of the estate or of any class
of creditors or equity security holders, by reason of any direct or indirect relationship to,
connection with, or interest in, the debtor, or for any other reason.

11 U.S.C. § 101(14).

1 the general public, met the definition of a “health care business” under § 101(27A)); In re
2 Medical Assocs. of Pinellas, 360 B.R. 356, 359 (Bankr. M.D. Fla. 2007) (holding that a chapter
3 11 debtor, which provided services to the public only ancillary to its primary function of
4 administrative support to a physicians group, was not a health care business within the scope of §
5 101(27A)); In re 7-Hills Radiology, LLC, 350 B.R. 902, 904 (Bankr. D. Nev. 2006) (finding that
6 § 101(27A)’s definition of a “health care business” did not include a chapter 11 debtor that
7 rendered radiology and X-ray services to patients only at the request of referring physicians, not
8 to the general public). The UST disagrees with the District’s argument that, notwithstanding the
9 District’s status as a “health care business,” the appointment of an ombudsman that would
10 otherwise be required under § 333(a)(1) is not necessary due to the particular facts and
11 circumstances of this case.

12 B. The Necessity of a Patient Care Ombudsman.

13 To determine whether the appointment of a patient care ombudsman is necessary under
14 the specific facts of this case, the court must examine the operations of the debtor in light of the
15 following nine non-exclusive factors:

- 16 1. The cause of the bankruptcy;
- 17 2. The presence and role of licensing or supervising entities;
- 18 3. Debtor’s past history of patient care;
- 19 4. The ability of the patients to protect their rights;
- 20 5. The level of dependency of the patients on the facility;
- 21 6. The likelihood of tension between the interests of the patients and the debtor;
- 22 7. The potential injury to the patients if the debtor drastically reduced its level of
23 patient care;
- 24 8. The presence and sufficiency of internal safeguards to ensure appropriate level of
25 care; and
- 26 9. The impact of the cost of an ombudsman on the likelihood of a successful
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1 reorganization.

2 In re Alternate Family Care, 377 B.R. 754, 758 (Bankr. S.D. Fla. 2007). The weight to be
3 accorded to each of the Alternative Family Care factors in making a determination whether to
4 appoint a patient care ombudsman is left to the sound discretion of the court. Other factors to be
5 considered by the court include: (1) the high quality of the debtor’s existing patient care; (2) the
6 debtor’s financial ability to maintain high quality patient care; (3) the existence of an internal
7 ombudsman program to protect the rights of patients, and/or (4) the level of monitoring and
8 oversight by federal, state, local, or professional association programs which renders the services
9 of an ombudsman redundant. See 3 Collier on Bankruptcy ¶ 333.02, at 333-4 (Alan N. Resnick
10 & Henry J. Sommer eds., 15th ed. 2007).

11 Factor 1: Cause of the Bankruptcy. The District sought relief under chapter 9 primarily
12 due to the burden of servicing the Bonds and problems stemming from “certain limitations
13 inherent in the District’s contractual capitation relationships.” There is no evidence that the
14 bankruptcy was precipitated by allegations of deficient patient care or privacy concerns.

15 Factor 2: Presence and Role of Licensing or Supervising Entities. The District is subject
16 to substantial monitoring by a variety of federal and state regulatory agencies and independent
17 accreditation associations. The District must undergo a triennial certification by the Joint
18 Committee on Accreditation for Hospital Organizations (“JCAHO”), a national accreditation
19 organization, to confirm that its hospitals are in compliance with JCAHO’s standards and
20 elements of performance.⁹ The District’s next JCAHO inspection will occur during the next 12

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22 ⁹ Every aspect of a hospital’s operations are evaluated under the JCAHO ‘s standards, which
23 include: (1) Ethics, Rights, and Responsibilities; (2) Provision of Care, Treatment, and Services;
24 (3) Medication Management; (4) Surveillance, Prevention, and Control of Infection; (5)
25 Improving Organization Performance; (6) Leadership; (7) Management of the Environment of
26 Care; (8) Management of Human Resources; (9) Management of Information; (10) Medical
27 Staff; and (11) Nursing. Hospitals accredited by the JCAHO as having met their standards and
elements of performance are deemed to be in compliance with Medicare Conditions of
Participation under title 42 of the Code of Federal Regulations. If a hospital is not in compliance
with Medicare Conditions of Participation, it loses Medicare and Medicaid funding.

1 months. The District is also subject to monitoring and inspection by several state and county
2 regulatory agencies, including frequent and unannounced inspections by the California
3 Department of Public Health (“CDPH”) (formerly the Department of Health Services) to verify
4 compliance with title 22 of the California Code of Regulations. The CDPH also conducts a
5 formal triennial inspection of the hospitals, often coinciding with the JCAHO evaluation and
6 certification. The California Department of Mental Health (“DMH”) reviews annually each
7 hospital’s policies and procedures for treating psychiatric patients. Each hospital is required to
8 self-report to the DMH any unusual occurrence involving a psychiatric patient. Finally, the
9 District’s hospitals are fully accredited by the JCAHO and in substantial compliance with all
10 applicable federal and state regulations.

11 Factor 3: Debtor’s Past History of Patient Care. The District has served the residents of
12 San Jacinto Valley for the past 60 years. There is no evidence of action taken by any federal,
13 state, or local regulatory authority against the District due to deficiencies in patient care, either
14 prior to or after the petition date. More importantly, the District has adopted extensive and
15 redundant internal procedures to ensure the highest level of patient care and to resolve
16 expeditiously complaints that may arise concerning patient care.

17 Factors 4, 6 & 8: Ability of the Patients to Protect Their Rights; The Likelihood of
18 Tension Between the Interests of the Patients and the Debtor; and the Presence and Sufficiency
19 of Internal Safeguards to Ensure Appropriate Level of Care. The District has implemented
20 extensive internal quality controls and procedures for monitoring patient care at its facilities.
21 Each of the hospitals has internal procedures for processing and resolving complaints concerning
22 patient care. Patients may report concerns directly to the CDPH, the Centers for Medicare and
23 Medicaid Services (the “CMS,” formerly known as HCFA), and the JCAHO. Complaints
24 directed to the nursing staff that cannot be resolved immediately to the satisfaction of the patient
25 are referred to the nurse manager for the department involved, or ultimately to the House
26 Supervisor or Hospital Administrator. Complaints by patients after discharge are processed by
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1 Hospital Administration, which must review each complaint and respond in writing. When a
2 patient tenders a complaint directly to the CDPH, the CDPH investigates the matter, visits the
3 hospital in question, and evaluates the merits of the complaint. In the rare instance a deficiency
4 is found, the CDPH issues a non-compliance letter and the hospital submits a formal plan to
5 correct the deficiency followed by implementation.

6 As part of a proactive regulatory compliance program, the District has implemented
7 periodic Tracers (mini mock-surveys) to identify and correct areas of potential regulatory non-
8 compliance. Compliance issues are identified before a problem arises and reported to the
9 responsible department head, who must formulate and implement a corrective action plan under
10 the supervision of the Hospital Administrator.

11 Each hospital also monitors the quality of patient care through a structure of committees
12 that evaluate performance. Each medical staff department in a hospital that provides clinical
13 services is required meet regularly to discuss issues related to quality of care, and to make
14 improvement recommendations to promote best practices. Quality controls implemented by the
15 department are monitored by the department head to ensure that services are provided in
16 accordance with the hospital's procedures.

17 Reports concerning the quality of patient care and recommendations are made by each
18 department to the hospital's Performance Improvement Committee, an interdisciplinary
19 committee of physicians, administration, nursing, and other department leaders, which focuses
20 on improving the quality and safety of patient care by identifying areas to reduce risk related to
21 patient care. Each hospital's Performance Improvement Committee is responsible for
22 implementing the National Patient Safety Goals formulated by the JCAHO. The Performance
23 Improvement Committee also (a) compares each hospital's performance with the performance of
24 the District's other hospitals in the same categories and takes action to correct any disparity; (b)
25 analyzes patient satisfaction rates, as well as patient complaints, and the resolution thereof, to
26 improve customer service; and (c) adjusts the hospital's safety and quality goals annually to

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1 coincide with patient expectations, internal policies, best practices, and recommendations by
2 professional organizations on quality such as the Institute of Healthcare Improvement and the
3 National Quality Forum.

4 The Performance Improvement Committee's actions are then reviewed by the hospital's
5 Medical Executive Committee, which has approval authority for patient care-related policies and
6 is composed of the chairs of each medical staff department in the hospital, hospital
7 administrators, and nursing leaders. The Medical Executive Committee's recommendations for
8 policy approval and the credentialing and privileging of licensed independent practitioners are
9 made to the District's Board of Directors for final approval. The District's Board of Directors,
10 through its own Performance Improvement Subcommittee, oversees all quality of care issues,
11 manages the various safety and quality programs, and receives reports from each hospital. The
12 Board's Performance Improvement Subcommittee also receives direct reports from the Director
13 of Risk Management and Performance Improvement, who is charged with the responsibility of
14 monitoring all quality of care issues, reporting major incidents directly to the Board's
15 subcommittee, and working as a liaison between the District and the various external regulatory
16 agencies charged with reviewing patient care issues. The District's existing procedures and
17 safeguards are comprehensive and redundant, and weigh heavily against the appointment of an
18 ombudsman.

19 Factor 5: Level of Dependency of Patients on the Facility. The District's facilities
20 include the Nursing Facility (113-bed skilled nursing facility), Hemet Hospital (a 340-bed
21 facility), Menifee Hospital (an 84-bed facility), and Moreno Valley Hospital (a 95-bed facility).
22 Given the range of services offered by the hospitals and skilled nursing facility, the patients
23 under the District's care and supervision are highly dependent on the District for their health,
24 safety and welfare.

25 Factor 7: Potential Injury to Patients if the Debtor Drastically Reduced its Level of
26 Patient Care. The Hemet Hospital offers cancer treatment; cardiac care services; and inpatient
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1 and outpatient surgical services. The Menifee Hospital provides, among other things, inpatient
2 and outpatient surgery; critical care; and cataract and retina specialty surgeries. The Moreno
3 Valley Hospital offers inpatient medical, surgical and pediatric services; critical care; post-
4 critical care; obstetrics; and inpatient and outpatient surgery. Due to the nature of these services,
5 a drastic reduction in the quality of care creates a significant risk for patients. Moreover, a
6 cessation of operations at any one of the District's hospitals would require a transfer of patients
7 to another facility. Because the potential risk to patients if the District reduced its level of care is
8 high, this factor weighs heavily in favor of the appointment of an ombudsman.

9 Factor 9: Impact of the Cost of an Ombudsman on the Likelihood of a Successful
10 Reorganization. The appointment of a patient care ombudsman may result in substantial
11 administrative expense to the estate.¹⁰ The UST reasons that “if patients within the [District’s]
12 operations are truly safe, the ombudsman’s duties will be facilitated and costs against the estate
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14 ¹⁰ Section 330(a)(1) authorizes the court, after notice and a hearing and subject to §§ 326, 328
15 and 329, to award an ombudsman appointed under § 333 reasonable compensation for actual,
16 necessary services rendered by the ombudsman and reimbursement for actual, necessary
17 expenses. 11 U.S.C. § 330(a)(1). Compensation and reimbursement awarded under § 330(a) is
18 an administrative expense under § 503(b)(2) entitled to second priority under § 507(a)(2). 11
19 U.S.C. §§ 503(b)(2) & 507(a)(2). Sections 503 and 507(a)(2) are incorporated into chapter 9 by
20 virtue of § 901(a), but § 901(a) does not incorporate either § 330 or § 333. 11 U.S.C. § 901; see,
21 e.g., In re E. Shoshone Hosp. Dist., 226 B.R. 430, 431 (Bankr. D. Idaho 1998) (holding that a
22 chapter 9 debtor was not required to obtain court approval for the employment of counsel
23 because §§ 327, 328, 330, and 331 are not incorporated into § 901); In re County of Orange, 179
24 B.R. 195, 200 (Bankr. C.D. Cal. 1995) (holding that the court had no authority to order the
25 payment of interim compensation to professionals without the chapter 9 debtor’s consent
26 because § 331, which governs interim payments to professionals, is not incorporated into chapter
27 9). But see In re Castle Pines N. Metro. Dist., 129 B.R. 233, 234 (Bankr. D. Colo. 1991)
28 (“Congress, by specifically referring to § 507(a)(1) in § 943(a)(5), has necessarily included §
29 503(b), which, in turn, includes § 330(a). The symmetry is complete by the specific inclusion of
30 §§ 1102, 1103 and 503 in § 901(a). Thus, by reason of § 901(b), the District’s argument [that §
31 330 is inapplicable to chapter 9] fails”). Chapter 9 contemplates payment of professional fees
32 and expenses at the end of the case. 11 U.S.C. § 943(b)(3) & (5); see County of Orange, 179
33 B.R. at 199. Arguably, an ombudsman’s fees and expenses could accrue through confirmation of
34 a chapter 9 plan, but ultimately not be subject to the standards governing the allowance of fees
35 and expenses set forth in § 330(a).

1 will be minimal.” However, § 333 would require that a court-appointed ombudsman, at a
2 minimum, interview patients and physicians at the District’s four facilities, and report to the
3 court at intervals not less frequently than every 60-days regarding the continuing quality of
4 patient care. Given the level of internal controls and oversight by federal, state, local, and
5 professional organizations, the services of a patient care ombudsman would be redundant.
6 Appointment of an ombudsman at this time would largely duplicate the efforts of the District’s
7 hospitals, the CDPH, JCAHO and others, at the expense of the District and its creditors, and
8 “would merely add another layer of bureaucracy to an already heavily regulated and supervised”
9 entity. See *Alternate Family Care*, 377 B.R. at 761.

10 While two factors tip in favor of an ombudsman, the balance of the *Alternate Family*
11 *Care* factors weigh against the immediate appointment of a patient care ombudsman pursuant to
12 § 333(a)(1) under the specific facts and circumstances of this case.

13 In its response in opposition to the motion, the UST argues that “an independent
14 ombudsman is required not only to monitor the quality of patient care and to report to the Court,
15 but to warn the Court if patient care is declining or being compromised” and that “[t]here is no
16 other party in this case that can fill this role.” (emphasis in original). The UST reasons that
17 internal controls and external oversight common to all sophisticated health care businesses are
18 insufficient to protect patients’ rights upon bankruptcy, and that the District, having filed a
19 chapter 9 petition, must be subject to additional scrutiny under § 333(a)(1) “precisely because
20 its financial situation is one which required a bankruptcy filing and therefore puts patients at
21 greater risk.” According to the UST, an inherent tension exists between a health care business
22 and its patients rising to the level of a conflict of interest when the health care business slips into
23 bankruptcy; and if left to its own devices, a health care business in bankruptcy may not provide
24 comprehensive, safe, and effective care to its patients absent the oversight of an ombudsman
25 appointed pursuant to § 333(a)(1). “However well-qualified the Debtor’s in-house monitors may
26 be” argues the UST, “[e]mployees of the Debtor do not have an undivided loyalty to patient
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1 interests and are plainly not ‘disinterested’ under the Bankruptcy Code’s definition.”

2 The UST has not offered any evidence to suggest that the quality of patient care or
3 preservation of patient privacy is an issue at any of the District’s facilities, or that the District
4 will be unable to maintain the highest quality of patient care given its extensive and redundant
5 internal policies and procedures and the current level of oversight by federal, state, local, and
6 private entities. Nor has the UST submitted evidence of any existing tension between the
7 interests of the patients and the District or actual conflicting interests of the Districts’ employees
8 resulting in a reduced level of patient care. Finally, there is nothing in the language of §
9 333(a)(1) that requires the court to make a preliminary finding that the debtor’s existing internal
10 controls are administered by one or more individuals who meet the definition of a “disinterested
11 person” under § 101(14) before it can find that appointment of an ombudsman is not necessary
12 for the protection of patients under the specific facts and circumstances of a case.

13 III. CONCLUSION

14 Although the District is a “health care business” as that term is defined in § 101(27A),
15 the appointment of a patient care ombudsman pursuant to § 333(a)(1) is not necessary at this time
16 under the specific facts of this case. Notwithstanding the foregoing, the court, on motion of the
17 UST or any party in interest, may order the appointment of a patient care ombudsman at any
18 time during the pendency of this case if the court finds a change in circumstances or newly
19 discovered evidence that demonstrates the necessity of an ombudsman to monitor the quality of
20 patient care and protect the interests of patients.¹¹

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23
24 ¹¹ Rule 2007.2(b) provides, in pertinent part, that “[i]f the court has ordered that the appointment
25 of an ombudsman is not necessary . . . the court, on motion of the United States trustee or a party
26 in interest, may order the appointment at any time during the case if the court finds that the
27 appointment of an ombudsman has become necessary to protect patients.” Fed. R. Bankr. P.
2007.2(b).

NOTE TO USERS OF THIS FORM:

*Physically attach this form as the last page of the proposed Order or Judgment.
Do not file this form as a separate document.*

In re VALLEY HEALTH SYSTEM,	CHAPTER <u>9</u>
Debtor.	CASE NUMBER RS 07-18293 PC

**NOTICE OF ENTRY OF JUDGMENT OR ORDER
AND CERTIFICATE OF MAILING**

TO ALL PARTIES IN INTEREST ON THE ATTACHED SERVICE LIST:

1. You are hereby notified, pursuant to Local Bankruptcy Rule 9021-1(a)(1)(E), that a judgment or order entitled (*specify*): MEMORANDUM DECISION

was entered on (*specify date*): **JAN 15 2008**

2. I hereby certify that I mailed a copy of this notice and a true copy of the order or judgment to the persons and entities on the attached service list on (*specify date*):

JAN 15 2008

Dated: **JAN 15 2008**

JON D. CERETTO
Clerk of the Bankruptcy Court

By:


Deputy Clerk

Service List

Valley Health System
1117 East Devonshire Avenue
Hemet, CA 92543

H. Alexander Fisch
Stutman Treister & Glatt PC
1901 Avenue of the Stars, 12th Fl.
Los Angeles, CA 90067

United States Trustee
3685 Main Street, Ste. 300
Riverside, CA 92501