

Bond Case Briefs

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BANKRUPTCY - CALIFORNIA

In re Gardens Regional Hospital and Medical Center, Inc.

United States Bankruptcy Court, C.D. California, Los Angeles Division - September 25, 2017 - B.R. - 2017 WL 4232986 - 64 Bankr.Ct.Dec. 183

State department of healthcare services moved for allowance of administrative priority claim in connection with Chapter 11 debtor-hospital's obligation to state for quarterly Hospital Quality Assurance (HQA) fees which it was required to pay, and which state then used, along with federal matching funds, to make supplemental HQA payments to debtor and other hospitals.

The Bankruptcy Court held that:

- Debtor-hospital's obligation to state for HQA fees was a fee, and not a tax entitled to payment as an administrative priority claim, and
- Even if debtor-hospital's HQA liability was a tax, the claim arose prepetition and therefore was not entitled to administrative priority.

Chapter 11-debtor hospital's obligation to state for quarterly Hospital Quality Assurance (HQA) fees which it was required to pay, and which state then used, along with federal matching funds, to make supplemental HQA payments to debtor and other hospitals, was a fee, and not a tax entitled to payment as an administrative priority claim. The HQA exactions were not imposed for a public purpose, as hospital industry rather than the public principally benefited from the fees, because purpose of fees was to increase the total amount of funding available to hospitals.

State department of healthcare services's claim for quarterly Hospital Quality Assurance (HQA) fees that Chapter 11 debtor-hospital was required to pay, and which state then used, along with federal matching funds, to make supplemental HQA payments to debtor and other hospitals, arose prepetition, and thus, even if the obligation was a tax, the state's claim was not entitled to administrative priority claim. Department of healthcare services could fairly contemplate its claim against debtor prepetition even though it did not know the exact amount of the claim.