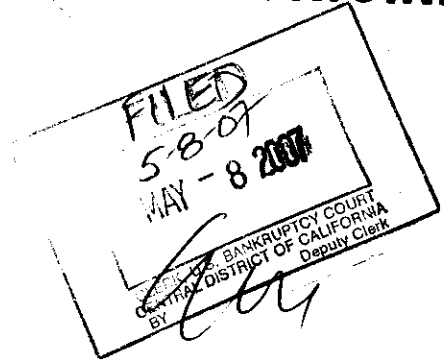


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7 a Municipal Joint Powers Authority

8
9 **UNITED STATES BANKRUPTCY COURT**
10 **CENTRAL DISTRICT OF CALIFORNIA, LOS ANGELES DIVISION**

11 In re
12 TRI-CITY MENTAL HEALTH CENTER, a
13 Municipal Joint Powers Authority,
14 Debtor.
15 Tax Id # 95-3775190.

CASE NO. LA 04-13167 BR

Chapter 9

**AMENDED DISCLOSURE STATEMENT
WITH RESPECT TO THE AMENDED PLAN
FOR THE ADJUSTMENT OF DEBTS FOR
TRI-CITY MENTAL HEALTH CENTER
DATED DECEMBER 12, 2006**

Confirmation Hearing

Date: June 12, 2007
Time: 10:00 a.m.
Place: Hon. Barry Russell
Bankruptcy Courtroom 1668
255 East Temple Street
Los Angeles, CA 90012

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SUMMARY

The following pages summarize certain important information set forth elsewhere in this Disclosure Statement. Capitalized terms are defined in the text of this Disclosure Statement and in the Plan.

The Disclosure Statement contains important information that is not summarized in this Summary and that may influence your decision regarding whether to accept or reject the Plan or otherwise affect your rights. Please do not rely on this Summary standing alone, and please read all of this document and the accompanying materials thoroughly.

		<u>Reference.</u>
<u>Debtor</u>	Tri-City Mental Health Center, a Municipal Joint Powers Authority.	Page 1
<u>Bankruptcy Court</u>	United States Bankruptcy Court for the Central District of California, The Honorable Barry Russell, presiding.	Page 1
<u>Plan</u>	Amended Plan For The Adjustment Of Debts Tri-City Mental Health Authority Dated December 12, 2006.	Ex. A
<u>Purpose of the Disclosure Statement</u>	To provide information of a kind, and in sufficient detail, that would enable a typical holder of claims in a class impaired under the Plan to make an informed judgment with respect to voting on the Plan.	Sec. II.A.
<u>Balloting Information</u>	Ballots have been provided with this Disclosure Statement to creditors known to have claims that are impaired under the Plan. Ballots must be returned to and received by the Ballot Tabulator by no later than May 22, 2007 .	Sec. II.B.2.
<u>Ballot Tabulator</u>	Dean G. Rallis Jr., Weston Benshoof Rochefort Rubalcava & MacCuish, LLP, 333 South Hope Street, 16 th Floor, Los Angeles, California 90071; Facsimile (213) 576-1100; Direct Facsimile (213) 947-1107; Email drallis@wbcounsel.com.	Sec. II.B.2.

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**Confirmation
Hearing and
Confirmation
Objections**

The Bankruptcy Court will hold a hearing regarding confirmation of the Plan on **June 12, 2007**, commencing at **10:00 a.m.** Pacific Time. Objections to confirmation must be filed and served by no later than **May 22, 2007**.

Reference.
Sec. II.B.3.

Treatment of Claims

If the Bankruptcy Court confirms the Plan and the Plan becomes Effective, claims will be treated as follows:

Art. VI

**Administrative
Claims**

Paid in accordance with Section IV of the Plan. Generally, except for administrative claims of CAL DMH and LAC DMH, such claims will receive payment in full on the later of the Effective Date, when the Administrative Claim is allowed, or in the ordinary course of Tri-City's business, unless the holder of such claim agrees otherwise. Administrative Claims of CAL DMH and LAC DMH are treated in accordance with Sections 4.2 and 4.3, respectively, of the Plan.

Sec.
VI.A.1.

Class 1

**Allowed Secured
Claim of Foothill
Independent Bank**

Foothill's Allowed Secured Claim will remain unaffected by the Plan. Accordingly, this Class 1 is not impaired.

Sec.
VI.A.2.a.

Class 2

**Allowed General
Unsecured Claims
Other than Allowed
Unsecured Claims of
CAL DMH, LAC
DMH, Zions Bank
and City of Pomona)
(trade, litigation and
provider claims)**

The holders of Class 2 Allowed Claims shall receive on account of such Allowed General Unsecured Claims and in full satisfaction, release and discharge thereof, and with Allowed Claims in Classes 3 and 4, a Pro Rata Cash payment from the Net Funds until such holders shall have been paid the lesser of the Net Funds (as are available at the end of the Repayment Period) or paid in full. Subject to the availability of Net Funds, Distributions to holders of Allowed General Unsecured Claims in Class 2 shall commence on the first Business Day after the first full Calendar Quarter following the Effective Date. If there are insufficient Net Funds to pay such Claimants the amount of their respective Allowed General Unsecured Claims on such date, subsequent Distributions shall be made on the first Business Day following each Calendar Quarter thereafter, until either such Claimants shall have been paid the amount of their respective Allowed General Unsecured Claims, or the Net Funds have been exhausted (as of the end of the Repayment Period), whichever first occurs. Subject to certain conditions, holders of Class 2 Allowed Unsecured Claims may receive Distributions sooner.

Sec.
VI.A.2.b.i.

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Class 3
Allowed Unsecured
Claim of CAL DMH

Unless otherwise agreed to by CAL DMH, the Allowed Unsecured Claim of CAL DMH will receive on account of such its Allowed General Unsecured Claim and in full satisfaction, release and discharge thereof, and with Allowed Claims in Classes 2 and 4, a Pro Rata Cash payment from the Net Funds until CAL DMH shall have been paid the lesser of the Net Funds (as are available as of the end of the Repayment Period) or paid in full. Subject to the availability of Net Funds, Distributions to CAL DMH shall commence on the first Business Day after the first full Calendar Quarter following the Effective Date. If there are insufficient Net Funds to pay CAL DMH the amount of its Allowed General Unsecured Claim on such date, subsequent Distributions shall be made on the first Business Day following each Calendar Quarter thereafter, until either CAL DMH shall have been paid the amount of its Allowed General Unsecured Claim, or the Net Funds have been exhausted (as of the end of the Repayment Period), whichever first occurs.

Reference.
Sec.
VI.A.2.b.ii.

Class 4
Allowed Unsecured
Claim of LAC DMH

This class consists of the County's allowed pre-petition claims. Tri-City understands that the County asserts an aggregate claim of approximately \$5.6 million. The County has asserted setoff and/or recoupment rights and accordingly has withheld approximately \$1.7 million in cash payments due to Tri-City, plus a \$1.1 million receivable under the AB 3632 project. Accordingly, this class consists of two (2) separate subclasses, one including the County's allowed claim subject to its asserted recoupment/setoff rights, and the other consisting of the County's remaining allowed unsecured claim after application of its allowed recoupment/setoff rights.

Sec.
VI.A.2.b.iii.

Subject to the County's acceptance of this Plan, the Plan provides that the County is authorized to exercise its Deduction Rights (including, recoupment/setoff rights) under the following terms: the County will pay Tri-City the amount of \$100,000 by the Effective Date and retain the balance of the funds held (approximately \$1.6 million) to be applied against its allowed pre-petition claim. Further, the County will tender to Tri-City the amount of the AB 3632 receivable (\$1.1 million) when such funds are received from the State. Presently, the Plan does not account for the receipt of this receivable during the next three years; however, if Tri-City receives such funds, the same will be available, on a pro rata

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basis, to creditors in Class 2, the County, and the State on account of their respective allowed pre-petition unsecured claims. After applying the allowed recoupment amount to its pre-petition unsecured claim, the County will payments as described below in regard to its allowed unsecured claim.

Should the County not accept this Plan, then the Allowed Unsecured Claim of LAC DMH shall be fully satisfied as follows: First, the Allowed Claim of LAC DMH will be reduced by Deduction Rights asserted by LAC DMH in an amount to be determined in accordance with Sections 7.3 and 9.3 of the Plan.

LAC DMH will receive on account of the portion of LAC DMH's Allowed Unsecured Claim that remains unpaid and in full satisfaction, release and discharge thereof, and with Allowed Claims in Classes 2 and 3, a Pro Rata Cash payment from the Net Funds until LAC DMH shall have been paid the lesser of the Net Funds (as are available as of the end of the Repayment Period) or paid in full. Subject to the availability of Net Funds, Distributions to LAC DMH shall commence on the first Business Day after the first full Calendar Quarter following the Effective Date. If there are insufficient Net Funds to pay LAC DMH the amount of its remaining Allowed General Unsecured Claim on such date, subsequent Distributions shall be made on the first Business Day following each Calendar Quarter thereafter, until either LAC DMH shall have been paid the remaining amount of its Allowed General Unsecured Claim, or the Net Funds have been exhausted (as of the end of the Repayment Period), whichever first occurs.

Class 5
Creditors Holding
Other Allowed
Secured Claims

This class consists of creditors (other than LAC DMH and CAL DMH) who assert Other Secured Claims (which includes, among others, creditors asserting Deduction Rights, i.e., amounts that such creditor owes to Tri-City being applied against the amount owed by Tri-City to such creditor). This Class 5 is deemed to consist of separate subclasses, each subclass separately consisting of each creditor who asserts an Allowed Other Secured Claim. The Plan provides that at the sole option of Tri-City, creditors holding such claims will be either (1) reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code, (2) fully and

Sec.
VI.A.2.b.iv.

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Reference.

completely satisfied by delivery of the Collateral securing the Allowed Other Secured Claim, together with any interest required to be paid pursuant to section 506(b) of the Bankruptcy Code, or (3) fully and completely satisfied by such other treatment in respect of such Claim as will cause such Claim not to be impaired. In regard to creditors in this Class who assert Deduction Rights, such rights will be determined either by agreement with Tri-City or, if no such agreement is made, by final ruling of the Bankruptcy Court. To the extent a creditor asserting an Allowed Other Secured Claim has a deficiency unsecured claim, any such remaining balance of such creditor's Claim will be treated as a Class 2 Claim and will receive distributions as described in Class 2.

Class 6
Zions Bank and the
City of Pomona

This class consists of the claims held by Zions Bank and the City of Pomona, each of whom have asserted claims against Tri-City and M.R. Grant and, accordingly, proceeds from Grant's insurer. Under a settlement with Zions Bank and the City of Pomona, which was approved by this Court pursuant to its order entered on August 31, 2005, Zions Bank and Pomona have retained their respective claims, however, each have agreed to relinquish their rights to any distributions under the Plan and only receive and retain the proceeds from M.R. Grant's insurer. Distributions that would otherwise be made to Zions Bank and the City of Pomona will, instead, be redistributed among the other Classes of allowed claims.

Sec.
VI.A.2.b.v.

Background
Information

Pre-Petition Business Operations (Art. III), Post-Petition Operations (Art. IV), Assets and Liabilities (Art. V)

Arts. III - V

Questions

Please contact Tri-City's counsel, Dean G. Rallis Jr., Weston Benshoof Rochefort Rubalcava & MacCuish, LLP, 333 South Hope Street, 16th Floor, Los Angeles, California 90071; Telephone (213) 576-1000; Facsimile (213) 576-1100; Direct Facsimile (213) 947-1107; Email drallis@wbcounsel.com.

Tri-City Mental Health Center, a California Municipal Joint Powers Authority (the "Debtor," "Tri-City" or "Agency"), chapter 9 Debtor, provides the following Disclosure Statement in the above-captioned Chapter 9 Case:

I.

INTRODUCTION

Tri-City filed a petition under chapter 9 of title 11 of the United States Code (the "Bankruptcy Code") on February 13, 2004, thereby commencing Case Number LA 04-13167 BR (the "Chapter 9 Case") currently pending before the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"). Tri-City, is the proponent of the "Amended Plan For The Adjustment Of Debts Of Tri-City Mental Health Center, a Municipal Joint Powers Authority, Dated December 12, 2006" (the "Plan"), a copy of which is attached to this Disclosure Statement as **Exhibit A**. Tri-City is providing this Disclosure Statement to all of its known Impaired Creditors in connection with the accompanying Plan, which has been developed based on a review and analysis of Tri-City's financial condition, business plan and rehabilitation alternatives.¹ *[The Bankruptcy Court has determined that this Disclosure Statement contains "adequate information" within the meaning of section 1125 of the Bankruptcy Code and has authorized Tri-City to transmit it to holders of Impaired Claims in connection with the solicitation of votes with respect to the Plan.]*

There are four (4) Impaired Classes under the Plan, Classes 2, 3, 4 and 6. Class 2 consists of Allowed General Unsecured Claims other than the Allowed Unsecured Claims of CAL DMH, LAC DMH, Zions Bank and the City of Pomona. Class 3 consists of the Allowed General Unsecured Claim of CAL DMH. Class 4 consists of the Allowed Claims of LAC DMH, consisting of two (2) subclasses, one consisting of LAC DMH's Allowed Secured Claim, and the other subclass consisting of LAC DMH's Allowed General Unsecured Claim. Class 6 consists of the Allowed General Unsecured Claims of Zions Bank and the City of Pomona. Generally, under the Plan, subject to the satisfaction of certain conditions that may afford earlier Distributions to Class 2 Creditors,

¹ Any capitalized term not otherwise defined in this Disclosure Statement has the meaning ascribed to it in the Plan. Unless otherwise indicated, references in this Disclosure Statement to "Sections" are references to the various enumerated Sections of this Disclosure Statement.

1 holders of Allowed General Unsecured Claims in Classes 2, 3 and 4 will be paid a Pro
2 Rata share of an amount equal to the lesser of the Net Funds (as are available as of the
3 end of the Repayment Period) or the full amount of their respective Allowed Claims.
4 Distributions will commence on the first Business Day after the first full Calendar Quarter
5 following the Effective Date. If there are insufficient Net Funds to pay such Claimants the
6 amount of their respective Allowed General Unsecured Claims on such date, subsequent
7 Distributions shall be made on the first Business Day following each Calendar Quarter
8 thereafter, until either such Claimants shall have been paid the amount of their respective
9 Allowed General Unsecured Claims, or the Net Funds (as of the end of the Repayment
10 Period) have been exhausted, whichever first occurs. Distributions provided under the
11 Plan shall constitute payment in full satisfaction, release and discharge of their Allowed
12 Secured Claims and Allowed General Unsecured Claims. Net Funds are those funds
13 that include (i) the lesser of the Net Realignment Funds and the Net Cash Available From
14 Operations, and (ii) the Net Recovery Funds. The Net Recovery Funds include amounts,
15 if any, recovered and collected by Tri-City from (i) the prosecution and enforcement of the
16 Avoidance Actions, the Rights of Action, and Causes of Action, less the reasonable fees
17 and expenses (including, without limitation, attorneys' fees) in connection with and arising
18 from such actions, and (ii) the Carve Out Amount, less such amounts as Tri-City may be
19 required to use for reasonable and necessary operating expenses incurred during the
20 first two full Calendar Quarters after the Effective Date.

21 Subject to the timely execution of the LAC DMH Contract, Tri-City estimates that it
22 will make Distributions under the Plan to holders of Allowed General Unsecured Claims in
23 Classes 2, 3 and 4 through approximately fiscal year ending June 30, 2010. Further,
24 subject to the further extension or renewal of the LAC DMH Contract, Tri-City will
25 continue to make Distributions to such Creditors from Net Funds until such time as the
26 LAC DMH Contract terminates. If the LAC DMH Contract is not timely executed, then
27 Distributions to creditors in Classes 2, 3 and 4 will be based on the Net Funds available
28 as of the Effective Date, and no further Distributions will be made thereafter. The Plan

1 provides for the establishment and funding of the Disputed Claims Reserve, from which
2 Distributions will be made to holders of Disputed Claims, if and when such Claims
3 become Allowed Claims.

4 As stated earlier, Class 4 consists, by separate subclasses, of the Allowed
5 Secured Claim and the Allowed General Unsecured Claim of LAC DMH. Prior to
6 receiving a Pro Rata share of the Net Funds (described above), the Allowed Secured
7 Claim of LAC DMH shall be satisfied first by the allowance of LAC DMH's Deduction
8 Rights in the approximate agreed-upon amount of \$1.6 million (which is subject to LAC
9 DMH's acceptance of the Plan) or to be determined in accordance with Section 7.3 and
10 9.3 of the Plan. The remaining amount of LAC DMH's Allowed Claim shall be treated as
11 an Allowed General Unsecured Claim and will be satisfied by payment of its Pro Rata
12 share of the Net Funds as described above, unless otherwise agreed to by LAC DMH.

13 **Tri-City requests that you cast your ballot in favor of the Plan.** As described
14 more fully elsewhere in this document, Tri-City believes that the Plan is in the best
15 interests of all parties, and that any alternative restructuring or reorganization would
16 result in delay, uncertainty, the incurrence of additional expenses associated with this
17 Chapter 9 Case, and litigation. Creditors are directed to carefully review the Plan itself
18 before casting their ballots.

19 * * *
20 PLEASE READ **ARTICLE VI** OF THIS DISCLOSURE STATEMENT FOR A
21 DESCRIPTION OF THE PLAN, A SUMMARY OF THE DISTRIBUTIONS THAT
22 CREDITORS WILL RECEIVE UNDER THE PLAN, AND AN EXPLANATION OF
23 CERTAIN ASSUMPTIONS AND PREMISES UPON WHICH THE PLAN IS BASED.

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1 II.

2 **PURPOSE OF DISCLOSURE STATEMENT AND PROCEDURE**

3 **FOR PLAN CONFIRMATION**

4 **A. The Purpose Of This Disclosure Statement.**

5 Pursuant to Sections 901(a) and 1125 of the Bankruptcy Code, Tri-City submits
6 this Disclosure Statement to provide Creditors with adequate information to allow them to
7 make an informed judgment about the acceptability of the Plan. Section 1125 of the
8 Bankruptcy Code generally requires that the proponent of a plan of adjustment prepare
9 and file with the Bankruptcy Court a "disclosure statement" that provides information of a
10 kind, and in sufficient detail, that would enable a typical holder of claims in a class
11 impaired under that plan to make an informed judgment with respect to the plan. This
12 Disclosure Statement provides such information, as well as information regarding the
13 deadlines for casting ballots with respect to the Plan, the deadlines for objecting to
14 confirmation of the Plan, the requirements that must be satisfied in order for the
15 Bankruptcy Court to confirm the Plan, and other relevant information.

16 A copy of the Plan accompanies this Disclosure Statement. Terms defined in the
17 Plan shall have the same meaning as in this Disclosure Statement. Please refer to the
18 Plan for the treatment of Claims. Upon Confirmation by the Bankruptcy Court, the
19 provisions of the Plan are binding on all Creditors. Therefore, please read the Plan
20 carefully.

21 ***Parties in interest should read this Disclosure Statement, the accompanying***
22 ***Plan, and all of the exhibits accompanying such documents in their entirety in***
23 ***order to ascertain:***

- 24 1. How the Plan will affect their Claims against Tri-City;
25 2. Their rights with respect to voting for or against the Plan;
26 3. Their rights with respect to objecting to confirmation of the Plan; and
27 4. How and when to cast a ballot with respect to the Plan.
28

1 NO REPRESENTATIONS ABOUT TRI-CITY, PARTICULARLY ABOUT TRI-
2 CITY'S PROJECTED FUTURE INCOME AND OPERATIONS OR THE VALUE OF ITS
3 PROPERTY, ARE AUTHORIZED BY TRI-CITY OTHER THAN AS SET FORTH IN THIS
4 DISCLOSURE STATEMENT OR ANY BANKRUPTCY COURT APPROVED ABRIDGED
5 VERSION OF THIS DISCLOSURE STATEMENT.

6 THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS
7 NOT BEEN SUBJECT TO A CERTIFIED AUDIT. FOR THE FOREGOING REASON, AS
8 WELL AS BECAUSE OF THE IMPOSSIBILITY OF MAKING ASSUMPTIONS,
9 ESTIMATES AND PROJECTIONS INTO THE FUTURE WITH ABSOLUTE ACCURACY,
10 TRI-CITY IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION
11 CONTAINED IN THIS DISCLOSURE STATEMENT IS COMPLETE AND ACCURATE.
12 ALTHOUGH A REASONABLE AND APPROPRIATE EFFORT HAS BEEN MADE TO
13 PRESENT COMPLETE AND ACCURATE INFORMATION. THE RECORDS KEPT BY
14 TRI-CITY RELY FOR THEIR ACCURACY ON INTERNAL BOOKKEEPING. THE
15 RECORDS KEPT BY TRI-CITY ARE NOT WARRANTED OR REPRESENTED TO BE
16 FREE OF ANY INACCURACY. HOWEVER, EVERY REASONABLE EFFORT HAS
17 BEEN MADE TO PRESENT ACCURATE INFORMATION. MOREOVER, ALTHOUGH
18 REASONABLE EFFORTS HAVE BEEN MADE TO PROVIDE ACCURATE
19 INFORMATION, TRI-CITY CANNOT WARRANT OR REPRESENT THAT THE
20 INFORMATION IN THIS DISCLOSURE STATEMENT, INCLUDING ANY AND ALL
21 FINANCIAL INFORMATION AND PROJECTIONS, IS WITHOUT INACCURACY OR
22 OMISSIONS, OR THAT ACTUAL VALUES OR DISTRIBUTIONS WILL COMPORT
23 WITH THE ESTIMATES SET FORTH HEREIN.

24 THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN GOOD FAITH
25 AND IN COMPLIANCE WITH APPLICABLE PROVISIONS OF THE BANKRUPTCY
26 CODE. BASED UPON INFORMATION CURRENTLY AVAILABLE, TRI-CITY BELIEVES
27 THAT THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS
28 CORRECT AS OF THE DATE OF ITS FILING. THE DISCLOSURE STATEMENT DOES

1 NOT, HOWEVER, AND WILL NOT REFLECT EVENTS THAT OCCUR AFTER
2 NOVEMBER 30, 2006 (AND, WHERE INDICATED, SPECIFIED EARLIER DATES), AND
3 TRI-CITY ASSUMES NO DUTY AND PRESENTLY DOES NOT INTEND TO PREPARE
4 OR DISTRIBUTE ANY AMENDMENTS OR SUPPLEMENTS TO REFLECT SUCH
5 EVENTS.

6 THIS DISCLOSURE STATEMENT IS INTENDED FOR THE SOLE USE OF
7 CREDITORS OF TRI-CITY TO ENABLE THEM TO MAKE AN INFORMED DECISION
8 ABOUT THE PLAN. NO ENTITY MAY RELY UPON THE PLAN OR THIS
9 DISCLOSURE STATEMENT OR ANY OF THE ACCOMPANYING EXHIBITS FOR ANY
10 PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE IN FAVOR OF OR
11 AGAINST THE PLAN. NOTHING CONTAINED IN SUCH DOCUMENTS
12 CONSTITUTES AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, NOR
13 WILL THIS DISCLOSURE STATEMENT BE DEEMED EVIDENCE OF THE TAX OR
14 OTHER LEGAL EFFECTS OF THE PLAN ON HOLDERS OF CLAIMS IN THE
15 CHAPTER 9 CASE.

16 ALL PARTIES ENTITLED TO VOTE ON THE PLAN ARE URGED TO REVIEW IN
17 FULL THE PLAN AND THIS DISCLOSURE STATEMENT TOGETHER WITH ALL
18 EXHIBITS ATTACHED THERETO, PRIOR TO VOTING ON THE PLAN. THIS
19 DISCLOSURE STATEMENT, HOWEVER, CANNOT AND DOES NOT PROVIDE
20 CREDITORS WITH LEGAL OR OTHER ADVICE OR INFORM SUCH PARTIES OF ALL
21 ASPECTS OF THEIR RIGHTS. CLAIMANTS ARE ADVISED TO CONSULT WITH
22 THEIR ATTORNEYS, AND/OR FINANCIAL ADVISORS PRIOR TO VOTING ON THE
23 PLAN TO ENSURE COMPLETE UNDERSTANDING OF THEIR TREATMENT UNDER
24 THE PLAN AND TO OBTAIN MORE SPECIFIC ADVICE REGARDING HOW THE PLAN
25 WILL AFFECT THEM AND REGARDING THEIR BEST COURSE OF ACTION WITH
26 RESPECT TO THE PLAN. EACH CREDITOR IS URGED TO CONSULT ITS OWN TAX
27 ADVISOR AS TO THE CONSEQUENCES OF THE PLAN TO IT UNDER FEDERAL
28 AND APPLICABLE STATE, LOCAL AND FOREIGN TAX LAWS. TRI-CITY MAKES NO

1 WARRANTIES OR REPRESENTATIONS REGARDING THE TAX IMPACT OF THE
2 PLAN ON ANY CREDITOR.

3 TRI-CITY BELIEVES THAT THE PLAN IS FEASIBLE, FAIR AND EQUITABLE
4 AND THAT CONFIRMATION OF THE PLAN IS IN THE BEST INTERESTS OF
5 CREDITORS.

6 **B. Summary Of Entities Entitled To Vote On The Plan And Of Certain**
7 **Requirements Necessary For Confirmation Of The Plan.**

8 **1. Classes Entitled to Vote.**

9 The Plan divides the Claims of Creditors into six (6) classes. Only classes of
10 creditors with Claims Impaired under the Plan are entitled to vote on the Plan. Generally,
11 and subject to specific provisions of the Bankruptcy Code, this includes creditors whose
12 Claims or interests, under a plan, will be modified in terms of principal, interest, length of
13 time for payment, or a combination of the above. Each holder of a Claim in a Class that
14 is not Impaired under the Plan is conclusively presumed to have accepted the Plan, and
15 solicitation of acceptances from the holders of such Claims is not required and will not be
16 undertaken.

17 Holders of Allowed Claims in Class 2 (Allowed General Unsecured Claims other
18 than the Allowed Unsecured Claims of CAL DMH, LAC DMH, Zions Bank and City of
19 Pomona), Class 3 (Allowed Unsecured Claim of CAL DMH), Class 4 (two subclasses,
20 one subclass consisting of the Allowed Secured Claim of LAC DMH, and the other
21 subclass consisting of LAC DMH's Allowed Unsecured Claim), and Class 6 (Allowed
22 General Unsecured Claims of Zions Bank and the City of Pomona) (collectively, the
23 "Voting Classes"), are entitled to vote on the Plan, because such Classes may be
24 "impaired" under the Plan within the meaning of section 1124 of the Bankruptcy Code.
25 Each holder of an Allowed Secured Claim in Class 1 (Allowed Secured Claim of Foothill)
26 and Allowed Other Secured Claim in Class 5 is deemed to have accepted the Plan
27 because its Claim is not Impaired by the Plan.

28

1 The Bankruptcy Court may confirm the Plan only if at least one Class of Impaired
2 Claims has voted to accept the Plan (without counting the votes of any insiders whose
3 Claims are classified within that Class) and if certain statutory requirements are met as to
4 both nonconsenting members within a consenting Class and as to dissenting Classes (if
5 any). A Class of Claims has accepted the Plan only when at least one-half in number
6 and at least two-thirds in amount of the Allowed Claims actually voting in that Class vote
7 in favor of the Plan. **In regard to Class 3 and Class 4 only, and without affecting CAL**
8 **DMH's and LAC DMH's right to vote, failure to submit a ballot as provided herein**
9 **shall constitute and be deemed such party's consent to the Plan for voting**
10 **purposes.**

11 **2. Procedure for Voting.**

12 Tri-City has provided copies of this Disclosure Statement and ballots to all known
13 holders of Impaired Claims in the Voting Classes. Those creditors in a Voting Class
14 entitled to vote may cast their vote by completing, dating, and signing the Ballot included
15 with this Disclosure Statement and mailing it to:

16 Dean G. Rallis Jr.
17 Weston Benshoof
18 Rochefort Rubalcava & MacCuish, LLP
19 333 South Hope Street
20 16th Floor
21 Los Angeles, CA 90071
22 Telephone: (213) 576-1000
23 Facsimile: (213) 576-1100
24 Direct Facsimile: (213) 947-1107
25 Email: drallis@wbcounsel.com

26 **IN ORDER TO BE COUNTED, THE COMPLETED BALLOT MUST BE**
27 **COMPLETED, SIGNED, RETURNED TO AND ACTUALLY RECEIVED NO LATER**
28 **THAN MAY 22, 2007 (THE "BALLOTING DEADLINE"). BALLOTS RECEIVED AFTER**
29 **THE BALLOTING DEADLINE AND BALLOTS RETURNED DIRECTLY TO THE**
30 **BANKRUPTCY COURT MAY NOT BE COUNTED IN CONNECTION WITH**
31 **CONFIRMATION OF THE PLAN.**

1 **A BALLOT DOES NOT CONSTITUTE A VALID PROOF OF CLAIM IN TRI-**
2 **CITY'S CHAPTER 9 CASE.**

3 **3. Confirmation of the Plan.**

4 **a. Solicitation of Acceptance of the Plan.**

5 This Disclosure Statement has been approved by the Bankruptcy Court in
6 accordance with sections 901(a) and 1125 of the Bankruptcy Code and has been
7 provided to all Creditors and parties in interest in this Case. This Disclosure Statement is
8 intended to assist Creditors with their evaluation of the Plan and their decision to accept
9 or reject the Plan. Your acceptance of the Plan may not be solicited unless you receive a
10 copy of this Disclosure Statement at the time of, or before, such solicitation.

11 **b. Votes Considered in Determining Acceptance of the Plan.**

12 When acceptance of the Plan is determined by the Bankruptcy Court, in
13 accordance with Bankruptcy Code sections 901(a) and 1126 (11 U.S.C. §§ 901(a) and
14 1126) and Rule 3018 of the Federal Rules of Bankruptcy Procedure, votes of Creditors
15 will only be counted if submitted by Creditors with Allowed Claims who are members of
16 Classes 2, 3, 4 or 6. If you are in any way uncertain if or how your Claim has been listed,
17 you should review Tri-City's List of Creditors and any amendments thereto which are on
18 file with the Clerk's Office of the United States Bankruptcy Court, located at 255 East
19 Temple Street, Los Angeles California 90012.

20 **c. Hearing on Confirmation of the Plan.**

21 The Bankruptcy Court has set a hearing to determine if the Plan has been
22 accepted by the required number of holders of Allowed Claims and if other requirements
23 for Confirmation of the Plan outlined in the Bankruptcy Code have been satisfied. The
24 hearing on Confirmation of the Plan shall commence on **June 12, 2007 at 10:00 a.m.**
25 (Pacific Time) in the Bankruptcy Courtroom of the Honorable Barry Russell, United States
26 Bankruptcy Judge, Bankruptcy Courtroom 1668, United States Bankruptcy Court, located
27 at 255 East Temple Street, Los Angeles California 90012. Any objections to confirmation
28 of the Plan must be in writing and must be filed with the Clerk of the Bankruptcy Court or

1 before **May 22, 2007**, and must be served on Tri-City's counsel so as to be actually
2 received by no later than **May 22, 2007**:

3 **Filing With Bankruptcy Court:**

4 Clerk of the United States Bankruptcy Court
5 300 North Los Angeles Street
6 Los Angeles, California 90012

6 **Service on Counsel for Tri-City:**

7 Dean G. Rallis Jr.
8 Weston Benshoof
9 Rochefort Rubalcava & MacCuish, LLP
10 333 South Hope Street, 16th Floor
11 Los Angeles, CA 90071
12 Telephone: (213) 576-1000
13 Facsimile: (213) 576-1100
14 Direct Facsimile: (213) 947-1107
15 Email: drallis@wbcounsel.com

12 ***Please refer to the accompanying notice of the Confirmation Hearing for specific***
13 ***requirements regarding the form and nature of objections to confirmation of the***
14 ***Plan.***

15 ***Additional information concerning Confirmation of the Plan is set forth in***
16 ***Article X of this Disclosure Statement.***

17
18 **III.**

19 **THE DEBTOR**

20 Since 1960, Tri-City has been providing high quality mental health services for the
21 residents of Pomona, Claremont, and La Verne. Tri-City offers services to children,
22 adolescents, adults, older adults and the homeless. Priority is given to consumers with
23 the most serious degree of functional impairment.

24 Consumers and family members play a significant role in Tri-City. The Mental
25 Health Commission, Tri-City's formal advisory group, includes 17% direct consumers of
26 service and 33% family members. The mission and core values of Tri-City evidence its
27 commitment to family-centered, strengths-based philosophy.
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Tri-City's Mission

By understanding the needs of consumers and families, Tri-City provides high quality, culturally competent behavioral health care treatment, prevention and education in the diverse cities of Pomona, Claremont and La Verne.

Tri-City's Core Values

- 1) *Ensure consumer-focused, strength-based services.*
- 2) *Engage and support family participation.*
- 3) *Value a quality outcome-driven system of care.*
- 4) *Embrace teamwork.*
- 5) *Value participatory leadership and management.*
- 6) *Promote community relationships.*
- 7) *Value cultural competence.*

In the mid-1990's Tri-City began an aggressive expansion in an effort to serve an even greater number of individuals who could benefit from services. Services were provided to consumers who resided outside the three cities and Tri-City grew significantly. Unfortunately, Realignments Funds did not grow at the same rate and Tri-City did not have adequate matching funds to support its expansion. Tri-City has had to retrench and return to a model that worked for 35 years providing core services to consumers who reside in the three cities.

Over the past several years, Tri-City's leadership has created a significant shift in the overall service delivery patterns of the agency. This shift is away from traditional professional-centered therapy to family partnerships, self-help and community-based treatment. Throughout its child and adult programs, the family is included as a valued part of the treatment team. Support for the family is embraced as part of the process. Tri-City's mission and values are congruent with these models.

Over the course of its 45+ years of existence, Tri-City is well known to the public and private organizations. Tri-City has a long history of positive collaboration with local hospitals, law enforcement agencies, and a variety of public and private agencies.

Tri-City maintains an extensive network within the community, with relationships including memoranda of understanding, interagency referral systems, collaborative

1 efforts at the executive management levels, and positive interagency relationships
2 between various line-staff. Tri-City maintains cooperative relationships with a number of
3 other public and private agencies and organizations in the Pomona, Claremont, and La
4 Verne area. The following is a list of coalitions, advocacy groups, and community
5 meetings that Tri-City participates: Pomona Homeless Continuum of Care Coalition;
6 Youth and Family Action Committee; Service Area Advisory Committee; East San Gabriel
7 Valley Homeless Coalition; Blue Ribbon Ten Year Plan to End Homelessness; Los
8 Angeles County Homeless and Housing Liaison Meeting; AB2034 Regional Meetings;
9 Pomona Youth and Family Master Plan; Pomona Unified Safe School Health Students
10 (SSHS) Steering committee; Pomona Unified SSHS Mental Health Sub Committee;
11 Bonita/La Verne Unified School District Program; Pomona NAMI meetings; Supervisor
12 Antonovich Annual Summit Committee; Pomona Mayors Tax Force; local law
13 enforcement agencies, including Pomona, Claremont, and La Verne Police Departments;
14 Charter Oak Hospital; Pomona Valley Hospital Medical Center; school districts; local
15 universities; community colleges; and local community agencies with which there are no
16 formalized relationships established.

17 During Tri-City's recent restructure, consumers who lived outside of the three cities
18 were provided with assistance and support to transition services to appropriate service
19 providers. LAC DMH, working in partnership with Tri-City, facilitated the transition of
20 consumers to the following providers: Prototypes; Pacific Clinics; ENKI; Heritage; Didi
21 Hirsch; Arcadia Mental Health Center; ALMA; Foothill; McKinley Children's; Almansor;
22 Bienvenidos; Sycamores; among others.

23 The following table highlights some of Tri-City's post-petition projects and services
24 in program areas that includes:

- 25 ■ Culturally Competent Services
- 26 ■ Co-Occurring Substance Abuse and Mental Illness Services
- 27 ■ Child Services
- 28 ■ Adult Services
- Wildfire Recovery Project Services (program completed in December 2004)

1 **Services Currently Provided by Tri-City Mental Health Center**

2 **Program Area: Culturally Competent Services**

- 3 • The MAIP (Multicultural Assessment and Intervention Process) Model
4 developed by Dr. Richard Dana will be implemented.
5 • The CBMCS (California Brief Multicultural Competence Scale), a measure of
6 cultural competence and training needs, was developed collaboratively with
7 University of La Verne, California Department of Mental Health and California
8 Institute for Mental Health.
9 • A 32-hour training program for cultural competence is in the final stages of
10 development in collaboration with Univ. of La Verne, CDMH and CIMH.
11 • Services for Asian consumers are currently available in Vietnamese,
12 Cantonese, Mandarin, Taiwanese, and Tagalog.
13 • A group series was developed to meet the needs of Latino consumers.
14 • Resource materials are available for consumers in several languages.

15 **Program Area: Co-Occurring Substance Abuse and Mental Illness Services**

- 16 • Substance abuse services are integrated into all programs.

17 **Program Area: Child Services**

- 18 • Child outpatient services are provided for severely emotionally disturbed
19 children and their families at school, in-home and in the clinic. These services
20 include individual and group therapy, educational groups, case management,
21 medication support and crisis intervention.
22 • School-based services are provided within the three cities.
23 • An array of groups are currently meeting. New groups are in process of being
24 formed.
25 • A parent education group is provided for parents.

26 **Program Area: Adult Services**

- 27 • Adult outpatient services are provided for consumers who are in recovery from
28 a serious mental illness. Services include case management, individual and
group therapy, self-help groups, vocational services, crisis intervention,
medication monitoring.
• BIACO (Boredom is a cop out) provides a very active consumer run clubhouse
program for consumers in recovery. BIACO is peer led.
• Tri-City's vocational program is CARF accredited.
• A computer lab is available for consumer self-help, psycho-educational and
vocational groups.
• Services are provided to the homeless, forensic consumers through the
AB2034 program.
• The AB2034's Fresh Start Housing Program provides transitional housing for
qualified individuals.
• Approximately 25 groups are currently offered through adult services.

29 **Program Area: Wildfire Recovery Project Services²**

30 _____
31 ² As of December 2004, these services have been completed.

- 1 • FEMA-funded program providing outreach, case management and crisis counseling services.
- 2 • Target population includes individuals/families (including the elderly) who were emotionally affected by the 2003 fires by loss (or damage) to property or
- 3 homes, pets, or indirect contact with the disaster.

4
 5 **Consumer Information**

6 Total Number of Consumers Prior to 02/13/2004 2,079

7
 8 **Referred Out**

9 Number of Referred Out to Neighboring Los Angeles County Providers 426
 (majority of which lived outside the tri-city area)

10 Number of Referred Out to Other Counties (San Bernardino, Mendocino, 142
 Shasta, and Lake)

11 **Community Network Providers (Now Contracting Directly With LAC 120**
 12 **DMH)**

13 **Active Consumers Continuing At Tri-City**

14 Total Active Consumers As of November 30, 2006 1,295

15 Child 332
 16 – Outpatient 332

17 Adult 963 (22% are currently indigent)
 18 – Outpatient 872
 – AB2034 91

19
 20 **A. Background Information.**

21 **1. Description of Tri-City and General Nature of Operations.**

22 Tri-City is a Municipal Joint Powers Authority joint powers authority was formed on
 23 June 21, 1960, through the execution of a joint powers agreement among the cities of
 24 Pomona, La Verne and Claremont. Tri-City provides Short-Doyle and Short-Doyle/Medi-
 25 Cal outpatient mental and behavioral health care treatments, prevention and education to
 26 consumers and families. Subsequent to its creation, its existence was recognized
 27 legislatively by Welfare and Institutions Code § 5615 that permits "If they so elect, cities
 28 that were operating independent public mental health programs on January 1, 1990, shall

1 continue to receive direct payments.” Tri-City’s unique legislative posture makes it only
2 one of two cities (the other being the city of Berkeley) in the State of California (in
3 addition to all counties in California) that receives directly Realignment Funds from the
4 State of California. This direct funding of Realignment Funds is also recognized in the
5 allocation tables in the Welfare and Institutions Code §17600 et seq.

6 At the time of filing the Petition, Tri-City was offering the described services in the
7 cities of Pomona, Claremont, La Verne as well as surrounding communities. In addition,
8 Tri-City had approximately 213 employees at three full service clinical sites in Pomona.

9 **2. Governance.**

10 Tri-City’s Governing Board is made up of five (5) members representing the Cities
11 of Pomona (3), La Verne (1) and Claremont (1). Currently, Paula Lantz is serving as the
12 Board’s Chairperson and Jon Blickenstaff, Marco Robles, Sandy Baldonado and Steven
13 Banales are the remaining board members. G. Michael Milhiser is the Interim Executive
14 Director. The remaining Officers are: Margaret Harris, Chief Financial Officer; Mary
15 Baron, Program Chief, and Nancy Gill, Director of Operations.

16 **3. Executive Management Team**

17 The Tri-City Executive Management Team is comprised of four positions including
18 the Interim Executive Director, Chief Financial Officer, Program Chief and Director of
19 Operations. Two of the four individuals currently on the team will be leaving the
20 organization in the future. The Interim Executive Director currently plans to leave Tri-City
21 at some time in the future, but no sooner than the time of plan confirmation. At the
22 appropriate time, the Tri-City Governing Board will conduct a search for a new Executive
23 Director. In the event the Executive Director has not been selected prior to Mr. Milhiser’s
24 departure, the board will appoint a new Interim Executive Director. Mr. Milhiser will be
25 available to consult on a part-time basis to provide for a smooth transition. In addition,
26 the Tri-City Governing Board will formalize the placement of the Program Chief.

27 A search will also be conducted for a new Chief Financial Officer. The current
28 Chief Financial Officer will assist with hiring a new Chief Financial Officer. It is

1 anticipated that this position will be filled in early 2007. No change is currently
2 anticipated in the Director of Operations position.

3 **4. Factors Precipitating Chapter 9 Filing.**

4 Beginning in the mid-1990's, Tri-City Mental Health Center significantly expanded
5 its mental health program offerings and its facilities in an effort to serve a local population
6 sorely in need of services. In June 2003, it was determined that the service expansion
7 that had occurred was not in line with funding streams and Tri-City could not continue to
8 be financially supported without a fundamental restructuring of the public mental
9 healthcare payment system. Between 2003 and 2004, Tri-City implemented a cost
10 reduction business plan that involved progressive cutbacks in administrative overhead as
11 Tri-City attempted to align the scope of governmental program services it provided with
12 the program funding.

13 In the first phase of its cost reduction program, Tri-City reduced administrative
14 overhead by closing office sites and releasing staff. At the start of the 2003-2004 fiscal
15 year, Tri-City was operating out of five facilities. During the course of that year, the
16 Agency consolidated all staffing and programs to operate at one facility located at 2008
17 North Garey Avenue, Pomona, California 91767, thereby reducing overhead expenses
18 considerably. In addition, from January 2003 through December 2003, Tri-City released
19 58 staff. During this period, Tri-City had additional staff reductions of 31 due to voluntary
20 departures and an implemented hiring freeze. The criteria and selection for which
21 positions would be cut were based upon the alignment of positions and staffing with the
22 appropriate annual budgeting and funding for the remaining programs.

23 In addition, from June 2003 up to the Petition Date, Tri-City engaged in extensive
24 negotiations with LAC DMH in an effort to contract and bill services directly though LAC
25 DMH. Due to the urgency in which Tri-City needed to address its financial concerns,
26 these negotiations were unsuccessful. Thus, despite vigorous and ongoing efforts over
27 the months precipitating the filing of the Petition, the existing funding issues that led to
28 Tri-City's financial problems could not be resolved. These cash flow problems led Tri-

1 City to seek Chapter 9 bankruptcy protection. Thus, on February 13, 2004, Tri-City filed
2 its Petition in the Bankruptcy Court in an effort to continue operations while these funding
3 issues continue to be addressed.

4 **5. Present and Post Petition Operations.**

5 **a. Introduction and Overview.**

6 As stated above, Tri-City's Chapter 9 petition was filed on February 13, 2003.
7 Discussed more fully below are the changes that have taken place since the petition was
8 filed including additional reductions in staffing and benefits, changes in operations
9 including the rejection of various contracts and leases, and patient consolidation. Finally
10 discussed below is a summary of Tri-City's goals with respect to the transitions taking
11 place and its efforts to achieve an effective adjustment through this Chapter 9 Case.

12 **b. Staffing and Benefit Reductions.**

13 In conjunction with the filing of the Chapter 9 Petition, approximately two-thirds of
14 the remaining 213 staff were laid off. The layoffs were performed to specifically align with
15 the anticipated budget and revenue for the adjustment under Chapter 9. In addition,
16 subsequent to the layoffs, Tri-City's staff decreased further as a result of natural attrition
17 and the termination of its Wraparound contract with the Los Angeles County Department
18 of Children and Family Services. As such, no further reductions have been made since
19 the Petition Date, nor are any anticipated in the future. Indeed, subject to funding
20 sources, Tri-City contemplates being in a position to gradually bring on additional staff
21 during the next fiscal year to replace vacated budgeted positions.

22 With respect to benefit reductions, Tri-City made the following changes. Prior to
23 filing the Petition, Tri-City allowed its employees to receive a payout upon termination of
24 accrued sick and vacation time of up to 240 hours for each. However, those employees
25 who were laid off due to the filing of the Petition received no pay out for accrued sick or
26 vacation time, but did receive a payout for hours worked. With respect to Tri-City's
27 CalPERS retirement plan, payments were only received by the terminated employees up
28

1 to the amount of that employee's own contributions. No additional contributions were
2 made by Tri-City.

3 With respect to the employees who remained with Tri-City, no accruals of sick or
4 vacation are permitted to be paid out in cash for time that accrued prior to the Petition
5 Date. However, since the Petition Date, remaining employees are permitted to use
6 accrued pre-petition vacation and sick time during the post-petition period, and are
7 eligible to accrue post-petition sick and vacation time and are eligible to be paid in cash
8 for the same upon termination. With respect to Tri-City's retirement plan pursuant to IRS
9 Code section 457, Tri-City suspended matching the funds contributed by the employees
10 in November 2003 and has no current plans to reinstate such matching.

11 c. **Change in Service Types and Operations and Effect of**
12 **Change.**

13 Tri-City's main focus has been on the scope of services that it provides as well as
14 on exiting from certain governmental programs. After carefully examining the
15 governmental programs in which it participated, Tri-City determined that a need existed to
16 provide a core group of services within a certain geographic area, and cease providing
17 services outside this defined core. Accordingly, Tri-City filed a motion to reject a number
18 of executory contracts including, among others, service contracts. Pursuant to an order
19 of the Bankruptcy Court entered on March 2, 2004, Tri-City rejected such contracts and
20 leases, eliminating (among other obligations, e.g., reporting) the obligation to continue to
21 provide various services. Specifically, Tri-City rejected approximately 60 executory
22 contacts and unexpired leases. See **Exhibit B** for a listing of the contracts rejected.

23 i. **Rejected Contracts and Grants**

24 The contracts that Tri-City rejected were for the provision of mental health and/or
25 substance abuse services to clients including various municipalities, but primarily Los
26 Angeles County. These contracts were rejected because maintenance of the same was
27 not cost effective. Specifically, in most of those contracts, the services were provided by
28 Tri-City and Tri-City was in turn reimbursed from the State of California as well as the

1 particular county involved. However, the cost to provide such services exceeded the
2 revenue generated from reimbursements tied to those projects.

3 In addition, Tri-City received numerous grants in order to provide services in
4 connection with specific projects. Tri-City no longer provides any of the services subject
5 to the grants. Thus, the grants were all rejected as an economic burden to Tri-City.

6 **ii. Rejected Leases**

7 As stated above, Tri-City rejected several unexpired leases upon the filing of the
8 Petition. The subjects of these leases included administrative office and warehouse
9 space, equipment, and other items. The leases were a burden to Tri-City due to its
10 downsizing operations. Since the rejection of these contracts and leases, Tri-City is now
11 providing services with funding that correspond with its current administrative overhead,
12 staffing, and other business expenses.

13 **d. Patient and Operational Consolidation**

14 Since the Petition Date, Tri-City commenced additional consolidation. Specifically,
15 staff from Tri-City, LAC DMH and other community providers began the out-processing of
16 any consumers who could no longer be served due to program suspensions or to those
17 that reside outside of Pomona, La Verne and Claremont. At the same time, clinical staff
18 was being moved from sites that were being closed to one main site. All services are
19 now provided from the 2008 North Garey facility, and the transfer of all cases has been
20 completed.

21 From an operations standpoint, since the Petition Date (and after rejection of the
22 various executory contracts identified above), Tri-City served children and adults in the
23 Wraparound³ and Project Wildfire Recovery⁴ programs. Tri-City currently serves about
24

25 ³ As of July 30, 2004, the Wraparound contract with the Los Angeles County
26 Department of Children and Family Services ("LAC DCFS") expired by its own terms.
27 Though requested by Tri-City, the LAC DCFS rejected a brief extension of this contract
28 then pending negotiations with the County.

⁴ As of December 2004, the services under the Project Wildfire Recovery
were completed.

1 1,300 children and adults in one of three active programs including Child Outpatient,
2 Adult Outpatient, and AB2034. The staff that was retained possesses exceptional
3 professional skills, including specialized training and language skills (e.g., one-half of the
4 staff has bilingual skills applicable to the delivery of services).

5 **6. Goals of Transition**

6 Since the filing of the Petition, Tri-City has reviewed the existing agency systems
7 most of which are now in the process of being updated. Both internal and external
8 resources are being utilized in this process. The Chief Financial Officer, Margaret Harris,
9 joined the team in 2004 and assisted with the implementation of a new accounting
10 software system and the implementation of updated accounting policies and procedures.
11 In addition, Tri-City contracted with an outside information systems specialist group to
12 update its data processing and information collection and reporting systems. These
13 systems have now been updated to meet all new government reporting requirements.
14 The Agency also retained, prior to filing the petition, the outside accounting firm of
15 Vavrinek, Trine, Day & Co. ("VTD") to assist Tri-City in the preparation of unaudited
16 financial reports for June 30, 2003, and February 13, 2004, including a balance sheet as
17 of June 30, 2003, and February 13, 2004, and related income statements for the fiscal
18 year ended June 30, 2003, and the seven month thirteen day period ended February 13,
19 2004. Subsequent to the preparation of such unaudited financial reports, VTD completed
20 the audits of Tri-City's financial statements for the periods ended June 30, 2005 and
21 2006, and issued an unqualified audit opinion for both fiscal years. In addition, this firm
22 was asked to review the Agency's accounting practices and make any appropriate
23 recommendations in regard to the Agency's financial accounting. All resulting
24 recommendations were implemented before completion of Tri-City's 2005-2006 fiscal
25 year end. There were no internal control or accounting procedure recommendations
26 issued for the fiscal year ended June 30, 2006.

27 The highest priorities for Tri-City and the County of Los Angeles are to maintain
28 effective services to the community. It is clear that without adequate funding for all the

1 services previously provided by Tri-City, the best course of action was to limit Tri-City's
2 operations to provide only those services for which there remains adequate funding.
3 Likewise, the County will provide services for the other needed programs. Officials from
4 Tri-City and LAC DMH developed a plan to facilitate the transition of client services to the
5 County where appropriate. This mutual effort ensured a smooth transition of various
6 services from Tri-City to the County and to minimize the impact upon existing Tri-City
7 clients.

8 **7. Tri-City's Revenues and Expenditures.**

9 **a. Sources of Revenues**

10 With the exception of de minimis revenue from private payors (less than .05
11 percent), Tri-City derives all of its revenue from two primary sources, i.e., the government
12 programs in which it participates and Realignment Funds. The programs in which Tri-
13 City participates have been funded by a combination of federal and state funds and, in
14 certain circumstances, from local matching funds. Payment to Tri-City for services
15 rendered are subject to federal and state law and regulations governing the government
16 programs in which Tri-City participates and the requirements for reimbursement under
17 the programs. In early 2006, Tri-City was informed by CAL DMH that certain funding Tri-
18 City had received in prior years was being suspended. Further information is set forth in
19 Section III.A.7.c.i. below. ***Tri-City has no other sources of revenue and depends***
20 ***almost entirely on federal, state and local government funds for its revenue.***

21 **b. Medi-Cal Program Overview**

22 Title XIX of the Social Security Act established a Federal-state matching
23 entitlement program called Medicaid that provides assistance for certain low income
24 individuals. California participates in the Federal Medicaid program, which is known in
25 California as the Medi-Cal program and is governed by federal and state law, including
26 Title XIX of the Social Security Act and Cal. Welf. & Inst. Code §1400 et seq. Within
27 federally mandated guidelines the Medi-Cal program is administered by California to
28 assist in the provision of medical care to pregnant women and children and to those

1 individuals who are aged, blind or disabled. Funding for the Medi-Cal program is shared
2 by the Federal government and the State of California. The Medi-Cal program is funded
3 with a combination of Federal funds designated as Federal Financial Participation funds
4 ("FFP") and state matching funds. FFP funds are earmarked for administrative
5 expenditures in providing Medi-Cal services.

6 c. **Short-Doyle /Bronzan-McCorquodale Medi-Cal Mental**
7 **Health Services**

8 i. **Sources of Funds**

9 Short-Doyle /Bronzan-McCorquodale Medi-Cal mental health services rendered or
10 the provision of which is arranged by Tri-City to eligible Medi-Cal beneficiaries have been
11 funded from FFP and state funds consisting of Realignment Funds. Realignment Funds
12 consist of Tri-City's allocable share of California state sales taxes and vehicle taxes
13 pursuant to Cal. Welf. & Inst. Code §§5615, 5701.5, 17600,17601 and 17606.05 and paid
14 by the California state controllers office. These funds are earmarked for the funding of
15 mental health service programs.

16 In February, 2006, Tri-City received a letter from the CAL DMH indicating that it
17 was suspending payment to Tri-City for the Federal Financial Portion ("FFP") of Tri-City's
18 Medi-Cal charges based on its concern that Tri-City did not qualify as a governmental
19 unit able to make Certified Public Expenditures ("CPE's") to match the FFP payments on
20 Medi-Cal services. As of June 30, 2006, \$1,464,369 remained outstanding and owed by
21 CAL DMH. Management, its legal counsel and outside consultants are of the opinion that
22 Tri-City is a governmental unit that qualifies to make CPEs and therefore, should
23 continue to receive FFP payments directly form the State. Management has been in
24 discussions with the CAL DMH and the California Department of Health Services ("DHS")
25 and are hopeful that this issue will be positively concluded. Tri-City has only received
26 approximately \$125,000 of its fiscal 2005-2006 Medi-Cal revenues.

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ii. Retroactive Payment Adjustments

Tri-City's services rendered to eligible Medi-Cal beneficiaries is funded in part by FFP on an interim basis for mental health services based on actual charges Tri-City submits (in the form of statements) for the services that are rendered. Tri-City's interim payments are subject to retroactive adjustment (increase or reduction) based on governmental agencies', including CAL DMH's, retrospective review and approval of cost reports submitted by Tri-City in support of the funds Tri-City has received. The actual payment due to Tri-City for mental health services is the lowest of published charges, allowable costs, or the state maximum allowable rate. Based on the review of Tri-City's cost reports for services rendered in a prior Fiscal Year, the reviewing agency can retroactively determine that (a) certain costs should be disallowed and that Tri-City was over paid in a prior Fiscal Year, (b) additional payment is due to Tri-City for a prior Fiscal Year, or (c) no retroactive adjustment is due.

The review of cost reports occurs in two phases. The reviewing agency first issues an interim report based on its review of the cost report and Tri-City has an opportunity to respond to and challenge the interim report. Thereafter, a final report is issued and a final determination rendered on Tri-City's cost report, subject to Tri-City's rights to administratively appeal the final determination. Governmental review and the final determination of a cost report submitted for a given Fiscal Year is frequently delayed for several years. For example, a cost report, submitted for Fiscal Year 1997 may not be reviewed until 2000 or even later. In recent years, the retroactive review of Tri-City's costs reports has resulted in the disallowance of certain costs and methods of calculating costs and a determination that Tri-City's interim payments exceeded the compensation payable to Tri-City. As noted above, the interim FFP funding to Tri-City for services rendered subsequent to June 30, 2005, were suspended commencing in July 2005.

1 d. **Early and Periodic Screening, Diagnostic and Treatment**
2 **Services Program ("EPSDT")**

3 The EPSDT program is Medicaid's comprehensive and preventive child health
4 program for services for individuals under the age of 21. EPSDT services provided by
5 Tri-City include clinical assessment, diagnosis and behavioral health care. EPSDT
6 services are provided as part of the Medi-Cal program. Generally, Tri-City is
7 compensated for such services with FFP, State General Funds (funds not earmarked for
8 a specific purpose)⁵, Tri-City's allocable share of Realignment Funds, and local matching
9 funds.

10 e. **AB2034 Program**

11 Tri-City receives revenues from the California State Funded AB2034 program that
12 was originally established as a pilot program under the State Assembly Bill 2034 in 1999
13 and became a permanent program run by the Department of Mental Health by State
14 Assembly Bill AB34 in 2004. This program is designed to serve adults who have a
15 mental illness and are homeless, potentially homeless and/or have a history of
16 incarceration. The goal is to help these individuals stabilize their mental illness and begin
17 to reintegrate into society as a whole.

18 f. **California Special Education Pupils Program**

19 Under the Federal Individuals With Disabilities Education Act, 20 U.S.C. § 1400 et
20 seq., California is required to provide a child with learning disabilities with mental
21 health/assessment services, when such services are required as part of the child's
22 individualized education plan in order for the child to benefit from his or her education
23 ("Special Education Mental Services"). Tri-City is paid for Special Education Mental
24 Services on a retrospective basis from state funds appropriated in each year's state
25 budget. If the state budget does not appropriate funds to pay for Special Education
26 Mental Services, Tri-City will not be compensated for such services until the appropriation

27 _____
28 ⁵ Presently, Tri-City is not receiving FFP or State General Funds.

1 is made or unless such services overlap with and are eligible for reimbursement through
2 another program such as EPSDT services. Tri City has not been paid for \$1,335,998 of
3 previously rendered Special Education Mental Services.

4 **g. Mental Health Services to Indigent Individuals**

5 Tri-City provides substantial mental health services to indigent persons, who do
6 not otherwise qualify for coverage under the Medi-Cal program. Such services are
7 funded entirely from Tri-City's Realignment Funds.

8 **h. Wraparound Services**

9 Through July 30, 2004, Tri-City participated in the state wide "Wraparound"
10 program, which is designed to reduce foster care and juvenile institutional placements for
11 children and adolescents with complex needs and achieve stable and permanent
12 placements in the least restrictive environment. Tri-City provided "Wraparound Services"
13 consisting of flexible intensive family and community centered support services involving
14 individualized assessments and treatment plans for the affected adolescent and family
15 with an emphasis on keeping children with their birth families and relative caretakers, or if
16 necessary placing them with foster families. Tri-City was compensated for "Wraparound
17 Services" from Federal funds administered by the County of Los Angeles Department of
18 Health Services.

19 Tri-City was a "Wraparound" provider from December 2002, when its proposal was
20 selected in an open process, until July 30, 2004. Subsequent to the Petition Date, Tri-
21 City had an active caseload of 22 families. Under this program, Tri-City provided
22 services for children and adolescents who are seriously mentally disturbed and in need of
23 intensive multimodal support in order to maintain their placements in Pomona, La Verne,
24 Claremont and surrounding communities. LAC DCFS reviews of Tri-City's performance
25 with these challenging families have consistently been positive. Funding of this program
26 was provided under the contract with LAC DCFS.

27 As of July 30, 2004, the Wraparound contract with LAC DCFS expired by its terms.
28 Prior to such expiration, Tri-City requested LAC DCFS extend the term of this contract for

1 a brief period (through January 2005), pending ongoing negotiations with LAC DMH. Tri-
2 City is informed and believes that LAC DCFS extended all other contracts for the
3 wraparound program (all which were set to expire on July 30, 2004) with other providers
4 through January 2005. However, LAC DCFS declined Tri-City's request. Tri-City
5 cooperated with LAC DCFS in the transition of Tri-City's wraparound clients to other
6 service providers. These other service providers are located in West Los Angeles and
7 Pasadena, some distance from the population requiring such services.

8 **i. MHSA Program**

9 In November 2004, California voters approved Ballot Proposition 63 and the
10 Mental Health Services Act ("MHSA") became State law effective January 1, 2005. The
11 MHSA addresses a broad continuum of prevention, early intervention and service needs
12 and the necessary infrastructure, technology and training elements that will effectively
13 support this system, with the purpose of promoting recovery for individuals with serious
14 mental illness. The MHSA will be funded through the imposition of a 1% State income
15 tax on personal income in excess of \$1 million.

16 On June 16, 2006, Tri-City Mental Health Center received written confirmation
17 from California Department of Mental Health that the agency may apply for Mental Health
18 Services Act (MHSA) Community Program Planning (CPP) funds in the amount of
19 \$250,000. In a subsequent letter from CDMH, dated September 20, 2006, Tri-City was
20 informed that the planning estimate for the Community Services and Supports
21 component of the Mental Health Services Act (MHSA) for Tri-City is \$2,015,083 for fiscal
22 year 2007-2008. Based on these notifications, Tri-City is currently following the MHSA
23 planning protocol to apply for funding from the State of California under the MHSA
24 program."

25 **8. Use of Government Program Funds**

26 With the exception of Realignment Funds, the remaining government programs
27 funds discussed above must be used for the specific program for which the funds are
28 earmarked. For example, FFP funds may only be used for payment for covered costs

1 incurred in mental health services rendered to eligible Medi-Cal beneficiaries and may
2 not be used for payment for the provision of mental health services to indigents who are
3 not qualified Medi-Cal beneficiaries.

4 **9. California Performance Review**

5 The California Performance Review, Governor Schwarzenegger's
6 recommendations to reshape California state government, includes recommendations
7 that will impact Tri-City if fully implemented. This report claims that city-level mental
8 health programs are outdated and inconsistent with laws. The proposed solution is to
9 eliminate the remaining two city programs and reallocate the mental health funds to the
10 respective counties. The end result of this recommendation, or associated timeline for
11 the proposed changes, is unknown at this time.

12 **B. Summary Of Tri-City Pre-Petition Revenues And Expenditures**

13 For the Fiscal Year ending June 30, 2003, Tri-City had revenues of approximately
14 \$24.4 million with a net loss of approximately \$18.1 million. Of the \$18.1 million loss,
15 approximately \$8.4 million is attributed to the operations for fiscal year ended 2003. The
16 balance of the \$18.1 losses relate to prior years' operations. Tri-City's revenues and
17 expenditures for Fiscal Years ending in 2001, 2002 and 2003 are summarized below and
18 set forth in full in **Exhibit C** to this Disclosure Statement:
19

	Fiscal Year <u>2001</u>	Fiscal Year <u>2002</u>	Fiscal Year <u>2003</u>
20 Operating Revenues	\$27,133,909	\$32,699,607	\$24,440,438
21 Less:			
22 Operating Expenses	\$25,389,658	\$31,562,834	\$32,877,530
23 Expense Adjustments Relating to 24 Prior Periods	\$0.00	\$0.00	\$9,693,878
25 Total Expenses	<u>\$25,389,658</u>	<u>\$29,586,637</u>	<u>\$42,571,408</u>
26 Net Income (Loss):	<u>\$1,744,251</u>	<u>\$136,773</u>	<u>(\$18,130,970)</u>

28

1 IV.

2 **TRI-CITY'S CHAPTER 9 CASE**

3 **A. Commencement and Administration of the Chapter 9 Case.**

4 Tri-City initiated the Chapter 9 Case by filing a voluntary petition under chapter 9
5 of the Bankruptcy Code on February 13, 2004. The Petition was filed in accordance with
6 sections 109, 301, 901(a), and 921 of the Bankruptcy Code. Concurrent with the filing of
7 its Petition, Tri-City also filed a statement of qualifications attesting to its eligibility as a
8 debtor under Chapter 9. By order entered on February 13, 2004, the Ninth Circuit
9 Bankruptcy Court of Appeals granted Tri-City's petition pursuant to Section 921(b) of the
10 Bankruptcy Code to designate a bankruptcy judge to conduct the Chapter 9 Case and
11 appointed the Honorable Barry Russell to preside over the Chapter 9 Case.

12 On February 13, 2004, Tri-City filed a List of Creditors in accordance with section
13 924 of the Bankruptcy Code. Pursuant to section 925 of the Bankruptcy Code, a proof of
14 claim is deemed filed under section 501 of the Bankruptcy Code for any Claim that
15 appears in Tri-City's List of Creditors filed pursuant to section 924 of the Bankruptcy
16 Code, except for Claims that are listed as disputed, contingent, or unliquidated.

17 Pursuant to an order entered on February 17, 2004, the Bankruptcy Court
18 confirmed that the order for relief was automatically entered in the Chapter 9 Case
19 pursuant to Section 301 of the Bankruptcy Code upon the filing Tri-City's voluntary
20 Petition. The Bankruptcy Court also approved the form of notice of the commencement
21 of the Chapter 9 Case, of the order for relief and of the Bankruptcy Court's order that any
22 objections to Tri-City's eligibility for relief under Chapter 9 be filed within thirty days of
23 service of such notice ("Case Commencement and Objection Notice). The Case
24 Commencement and Objection Notice was filed with the Bankruptcy Court and served on
25 creditors and parties in interest on February 24, 2004. No objections were filed to Tri-
26 City's eligibility for relief under Chapter 9.

27 On February 20, 2004, the Bankruptcy Court entered an order granting Tri-City's
28 motion to authorize the payment of pre-petition payroll with respect to current employees,

1 directing Tri-City's bank to honor pre-petition checks and authorizing Tri-City to continue
2 to provide employee benefits. Pursuant to orders entered on March 01, 2004 and March
3 29, 2004, the Bankruptcy Court granted Tri-City's motion, in part, to reject to certain
4 executory contracts of Tri-City that had not expired as of the commencement of the
5 Chapter 9 case. The contracts whose rejection was authorized by the Bankruptcy Court
6 consisted of executory service contracts for Tri-City's provision of mental health services
7 and other related services to governmental agencies and governmental units and
8 miscellaneous contracts between Tri-City and vendors.

9 The Bankruptcy Court initially set June 14, 2004, as the date for Tri-City to file its
10 plan of adjustment and set July 9, 2004, as the hearing date on Tri-City's disclosure
11 statement. By order entered on June 14, 2004, the Bankruptcy Court granted Tri-City's
12 motion to extend the time to file its plan of adjustment and disclosure statement and
13 continued the date set for the hearing on approval of the disclosure statement. Pursuant
14 to that order the Bankruptcy Court set August 25, 2004, as the date by which Tri-City was
15 to have filed its Plan and Disclosure Statement and set October 26, 2004, as the
16 continued hearing date on approval of the Disclosure Statement. Tri-City did, in fact, file
17 its Plan of Adjustment dated August 25, 2004. Since then, the Court continued the
18 hearing on the Disclosure Statement to January 10, 2005.

19

20 **B. Motions For Relief From the Automatic Stay.**

21 On or about April 2, 2004, creditor General Motors Acceptance Corporation
22 ("GMAC") filed Motions for Relief from stay with respect to the following vehicles it
23 financed for the benefit of Tri-City:

24

- 25 ● 2000 Chevrolet Astro Van 1GNDM19W5YB136067
- 26 ● 2000 Chevrolet Astro Van 1GNDM19W3YB140716
- 27 ● 2000 Chevrolet Fleetside 1GCCS1453YK266874
- 28 ● 2000 Chevrolet Fleetside 1GCCS1453Y8206817
- 2000 Chevrolet Silverado 2GCEC19W9Y1358353
- 2000 Chevrolet Astro Van 1GNDM19W46B189875
- 2000 Chevrolet Astro Van 1GNDM19W0YB153570
- 2000 Chevrolet Silverado 2GCEC19V9Y1401189

1 Through the Motions, GMAC sought to enforce its remedies by repossessing and
2 selling the vehicles pursuant to applicable non-bankruptcy law. Prior to hearing on the
3 above motions, Tri-City agreed to pay GMAC in full for each vehicle and thereby
4 delivered a check to GMAC in the amount of \$30,144.96 representing full and final
5 payment of the remaining balances on all the vehicles. Based upon the satisfaction of
6 these accounts, GMAC thereafter delivered title documents to Tri-City for all of the above
7 vehicles.

8 Thereafter on or about April 29, 2004, creditor Ford Motor Credit Company
9 ("FMCC") also filed Motions for Relief from stay with respect to the following vehicles it
10 financed for the benefit of Tri-City:

- 11
- 12 • 2002 Ford E-350 VIN 1FBNE31L82HA61817
 - 13 • 2001 Ford E-350 VIN 1FBSS31S81HB58887
 - 14 • 2000 Ford E-150 VIN 1FTRE142XYHB47286
 - 15 • 2001 Kia Rio VIN KNADC123816069469
 - 16 • 2001 Kia Rio VIN KNADC123816063610

17 Through the Motions, FMCC sought to enforce its remedies by
18 repossessing and selling the vehicles pursuant to applicable non-bankruptcy law. Prior
19 to hearing on the above motions, Tri-City and FMCC entered into a Stipulation for Relief
20 from Stay and the Order was entered with respect to the same on May 27, 2004.
21 Thereafter in or about May 2004, FMCC retrieved its vehicles from Tri-City.

22 **C. The Bar Date for Pre-Petition Claims.**

23 By order of the Bankruptcy Court entered on April 29, 2004, the Court set June 24,
24 2004, as the last day for filing proofs of claim against Tri-City other than for: (i) claims
25 arising from rejection of executory contracts or unexpired leases; (ii) claims of
26 Governmental Units; and (iii) claims arising as the result of transfer avoidance pursuant
27 to Chapter 5 of the Bankruptcy Code. Except for claims arising from the rejection of
28 executory contracts and leases under Section 10.3 of the Plan, for which the bar date is
fixed by Section 10.5 of the Plan, for claims otherwise arising from rejection of executory

1 contracts or unexpired leases pursuant to 11 U.S.C. §365, the Bankruptcy Court set the
2 last day to file a proof of claim as: (i) 30 days after the date of entry of the order
3 authorizing the rejection; or (b) June 24, 2004, whichever is later. For claims of
4 Governmental Units, pursuant to order of the Bankruptcy Court, the last day for filing
5 proofs of claim is: (i) before 180 days after the date of the Order for Relief; or (ii) by
6 June 24, 2004, whichever is later. By order of the Bankruptcy Court, the last day to file
7 proofs of claim for claims arising from the avoidance of a transfer under chapter 5 of the
8 Bankruptcy Code is: (i) 30 days after the entry of judgment avoiding the transfer; or
9 (ii) June 24, 2004, whichever is later.

10

11 **D. Objections to Claims.**

12 Tri-City is reviewing the proofs of claim filed by various creditors in this case.
13 Presently, Tri-City has not filed any objections to such claims. Objections, if any, will be
14 filed in accordance with Section 9.12 of the Plan.

15

16 **E. Zions Bank Litigation.**

17 On October 18, 2004, Zions First National Bank, a National Banking Association
18 ("Zions Bank") initiated an adversary action in this Chapter 9 Case against among others,
19 Tri-City, several of its current and former officers and employees, and the cities of
20 Pomona, La Verne and Claremont alleging negligent misrepresentation. On
21 November 19, 2004, Zions Bank filed its first amended complaint, also alleging negligent
22 misrepresentation against Tri-City and other defendants.⁶ As discussed below, Zions
23 Bank complaint arises from Tri-City's breach of the 2003 Note and its failure to repay
24 \$3.8 million owing to Zions Bank. Zions Bank alleges, among other things, that Tri-City,

25

26 ⁶ Zions Bank's complaint also asserts claims of negligent misrepresentation
27 against Tri-City's former auditing firm, M.R. Grant. Such claims are based on Zions
28 Bank's allegations that the audited financial statements prepared by M.R. Grant were
negligently prepared, which financial statements Zions Bank allegedly relied upon in
lending money to Tri-City. M.R. Grant disputes these allegations.

1 its current and former officers and directors, and the three cities negligently
2 misrepresented the financial condition of Tri-City in order to induce Zions Bank to "lend"
3 funds to Tri-City for operation of its facilities. Despite Zions Bank's earlier
4 representations that its damages were solely economic and arising out of breach of
5 contract, both prior and subsequent to the Chapter 9 filing, Zions Bank claims that its
6 recovery has transmogrified into a tort claim for damages.

7 The 2001 Revenue Anticipation Note. On or about April 11, 2001, Tri-City, on the
8 one hand, and Zions Bank, on the other hand, entered into a loan transaction entitled,
9 "Tri-City Mental Health Authority 2001 Revenue Anticipation Agreement" (the "2001
10 Note"). The purpose of the 2001 Note was to, among other things, provide Tri-City with
11 immediate revenue in order to operate its facility prior to receiving anticipated future
12 revenue from contracts with the Agencies. The 2001 Note represented a loan from Zions
13 Bank in favor of Tri-City in the amount of \$4.6 million, in which Tri-City was to make
14 monthly interest payments, with the principal balance due on April 1, 2003. Tri-City paid
15 the interest on the 2001 Note; however, Tri-City informed Zions Bank that Tri-City would
16 not be able to pay the principal balance due on the maturity date of April 1, 2003. On
17 March 27, 2003, Zions Bank restructured the 2001 Note, discussed immediately below.

18 The Restructuring of the 2001 Note: The 2003 Revenue Anticipation Note and
19 Leaseback Agreement. In early 2003, Tri-City made Zions Bank aware that it would be
20 unable to pay the principal balance of \$4.6 million due on April 1, 2003, as the 2001 Note
21 required. Once this became known, Zions Bank entered into a restructuring arrangement
22 with Tri-City whereby the principal balance of the 2001 Note was essentially refinanced
23 through a second note and a lease and leaseback agreement (the "Leaseback
24 Agreement").

25 On March 27, 2003, to restructure the 2001 Note, Zions Bank and Tri-City entered
26 into the following transactions:

27 1. A transaction entitled, "Tri-City Mental Health Authority 2003 Revenue
28 Anticipation Agreement" (the "2003 Note"). The 2003 Note represented an obligation of

1 Tri-City in favor of Zions Bank in the amount of \$3.8 million, in which Tri-City was to make
2 monthly principal payments of \$63,333.33 plus interest payments beginning on May 1,
3 2003, with the principal balance of \$3,103,333.37 due on April 1, 2004.⁷ The 2003 Note
4 constituted a partial restructuring of the 2001 Note, and was part of the consideration
5 exchanged for cancellation of the 2001 Note.

6 Under the 2003 restructuring, Tri-City did not receive any additional monies –
7 essentially, the restructuring extended the term of payment of the \$4.6 million owed to
8 Zions Bank under the 2001 Note and, in part, provided Zions Bank with collateral
9 securing \$800,000 of the \$4.6 million outstanding balance.

10 2. Zions Bank received the Leaseback Agreement, which was executed by
11 and between Tri-City, as lessor and lessee, and Zions Bank, and lessee and sublessor,
12 dated March 1, 2003. The Leaseback Agreement constituted a transaction whereby Tri-
13 City used its property located at 2008 North Garey, Pomona, CA and 790 East Bonita,
14 Pomona, CA to secure payment of \$800,000 to Zions Bank to retire and discharge Tri-
15 City's obligations under the 2001 Note. The Leaseback Agreement constituted a partial
16 restructuring of the 2001 Note, and was the remaining consideration exchanged for
17 cancellation of the 2001 Note.

18 The District Court Complaint. Tri-City made the first scheduled principal and
19 interest payments on the 2003 Note on May 1, 2003. Beginning June 1, 2003, Tri-City
20 made no further monthly principal payments. Additionally, Tri-City failed to pay all
21 accrued interest on the past due indebtedness. Accordingly, Tri-City breached the
22 contract with Zions Bank by failing to make the required payments on the 2003 Note.

23

24

25 ⁷ Zions Bank did not "lend, the amount of \$4.6 million" pursuant to the 2003
26 Note, as stated in its complaint. Instead, as stated clearly on the 2003 Note, Zions Bank
27 refinanced \$3.8 million of the original \$4.6 million owed under the 2001 Note. It should
28 also be noted that the Leaseback Agreement refinanced \$800,000 of the outstanding
principal owed under the 2001 Note. Prior to the commencement of this Chapter 9 Case,
Zions Bank was paid the \$800,000 from the sale proceeds of certain real property of Tri-
City.

1 Based on Tri-City's breach, Zions Bank accelerated the amounts due under the 2003
2 Note.

3 On December 16, 2003, Zions Bank filed a lawsuit in the United States District
4 Court for the Central District of California against Tri-City for breach of contract,
5 anticipatory breach of contract, and money lent (the "District Court Complaint"). The
6 allegations contained in the District Court Complaint are entirely contract based. Tri-City
7 filed an answer in the District Court Complaint on January 6, 2004.

8 Proof of Claim Based on Breach of Contract. Upon the commencement of the
9 Chapter 9 Case, the District Court litigation was stayed pursuant to the automatic stay
10 provisions of the Bankruptcy Code. On June 18, 2004, Zions Bank filed its proof of claim
11 based on "money loaned" totaling in excess of \$3.1 million, plus interest to the Petition
12 Date. The proof of claim seeks the same amount of damages as did the District Court
13 Complaint, exclusive of adjustments for interests and costs based on the filing dates of
14 the District Court Complaint and proof of claim. The proof of claim does not request, nor
15 mention, any liability based on negligent misrepresentation, and specifically states
16 "breach of contract."⁸

17 Despite alleging a tort cause of action, Zions Bank's complaint sought relief for
18 damages based solely in contract for Tri-City's failure to make payments under a revenue
19 anticipation note. Pre-petition, Zions Bank filed a complaint for breach of contract in the
20 United States District Court based on breach of contract, anticipatory breach of contract,
21 and money lent. Post-petition, Zions Bank filed its proof of claim claiming "money
22 loaned" and breach of contract. Tri-City does not dispute its obligations to Zions Bank
23

24 ⁸ On or about April 1, 2004, Zions Bank presented a claim to the City of
25 Pomona, the City of La Verne, and the City of Claremont (collectively, the "Members") for,
26 among other things, "negligent and wrongful acts and omissions of Tri-City." Zions Bank
27 does not attach this correspondence to its complaint. Although named in the caption of
28 the claim, Tri-City never received the claim, nor proof of claim for that matter, based on
any alleged negligent and wrongful acts and omissions. Nevertheless, the Proof of Claim
for contract damages was filed subsequent to the assertion of the alleged claim against
the cities, and Tri-City relied on the Proof of Claim to believe that any alleged claim for
alleged wrongful acts and omissions was abandoned.

1 under the revenue anticipation note. However, dissatisfied with its treatment as a general
2 unsecured creditor under Tri-City's Plan, Zions Bank resorted to initiating this litigation to
3 seek recovery from alternative sources (i.e., Tri-City's insurance policy) and, ultimately,
4 attempt to broker more favorable treatment under the Plan through delay, protracted
5 litigation, and the inflation of the administrative costs in this bankruptcy case. Tri-City
6 disputed the claims asserted by Zions Bank in the pending adversary proceeding. Tri-
7 City filed a motion to dismiss the first amended complaint in the adversary proceeding
8 based upon claims of immunity and other similar claims. The Cities of Pomona, La Verne
9 and Claremont joined in the Motion. The Motion was granted against Zions as to Tri-City
10 and a dismissal entered with prejudice was entered as to Tri-City. While the motion was
11 also granted as to the cities of Pomona, La Verne and Claremont, Zions was given leave
12 to amend its adversary complaint against these defendants. Zions filed its second
13 amended complaint in the adversary proceeding on February 9, 2005. In addition, Zions
14 filed an amended proof of claim against Tri-City. Tri-City did not dispute that Zions held
15 an allowed claim against it for breach of contract. Tri-City disagreed that Zions held a
16 claims against it in tort, and believed the ruling on the motion to dismiss conclusively
17 established such as a matter of law.

18 Claims by Others.

19 The City of Pomona filed a proof of claim in the amount of \$800,000.00 alleging a
20 breach of contract by the Debtor (the "Pomona Claim").

21 Tri-City also alleged claims against M.R. Grant ("MRG") for professional
22 negligence in producing the financial statements which claims were at issue in the
23 adversary proceeding.

24 MRG has errors and omissions insurance with Continental Casualty Company
25 ("CCC"). Tri-City maintained non-profit organization insurance with U.S. Specialty
26 Insurance Company ("USSIC"). Certain officers and directors of Tri-City were also sued
27 by Zions, and USSIC afforded a defense of the adversary proceeding for these
28 defendants and Tri-City under the USSIC policy while reserving all of USSIC's rights,

1 privileges and defenses in that regard, and with regard to USSIC's obligation, if any, to
2 indemnify.

3 Settlement Agreement.

4 After participating in mediation, the parties entered into a settlement agreement
5 resolving the adversary proceeding as well as other claims among them. The
6 compromise reached by the parties was reduced to a written settlement agreement (the
7 "Settlement Agreement"), a true and correct copy of which is attached to the Plan as
8 Exhibit 3. In sum, the Settlement Agreement resolved the pending dispute concerning
9 the Zions' seconded amended complaint by which USSIC deposited \$196,000 into an
10 escrow account and CCC deposited \$850,000 into that same account (the "Settlement
11 Proceeds"). From the Settlement Proceeds, Zions received at least \$897,000, the City
12 of Pomona received \$185,000 and Tri-City received \$4,000. Further, as detailed in the
13 Settlement Agreement, the parties executed mutual releases of claims related to the
14 bankruptcy and other allegations; however, the releases between Tri-City, on the one
15 hand, and each Zions Bank and, separately, the City of Pomona, are effective upon the
16 Confirmation of the Plan. The performance of the settlement was subject to certain
17 contingencies, including approval by this Court of the classification of claims under
18 Bankruptcy Rule 3013 as described in the motion to approve the settlement.

19 On August 5, 2005, Tri-City filed its motion requesting, among other things,
20 approval of the Settlement Agreement and the classification of claims. Pursuant to the
21 Bankruptcy Court's order entered on August 31, 2005, the Court approved the Settlement
22 Agreement, authorized Tri-City to enter into the Settlement Agreement and effectuate the
23 terms of same, and approved the separate classification of claims as set forth in the
24 order.⁹ A copy of the Bankruptcy Court's order approving the Settlement Agreement and
25

26 ⁹ The order approves the classification of the Allowed Unsecured Claims of
27 Zions Bank and the City of Pomona in Class 5, and the "Allowed Claims of creditors, if
28 any, that may potentially be subject to such creditors' recoupment and/or setoff rights' in
Class 6. Tri-City's Amended Plan has provided such classification accordingly, however,
Class 5 and Class 6 are merely reversed.

1 the Settlement Agreement are collectively attached to the Plan as Exhibit 3. On October
2 3, 2005, the Court entered a stipulated order dismissing Zions Bank's adversary
3 proceeding with prejudice.

4 As set forth in the Settlement Agreement and in respect to claims which have
5 arisen or may arise from the services of M.R. Grant provided to Tri-City, the Plan
6 provides the following:

7 Any claims that have arisen or may arise which are based on the services
8 that M.R. Grant provided to the Debtor, or which are related in any way to
9 the services the M.R. Grant provided to the Debtor, belong to the Debtor
10 exclusively as the property of the Debtor's bankruptcy estate pursuant to
11 11 U.S.C. 902(1). The Debtor therefore has the sole and exclusive right to
12 pursue any such claims. Furthermore, to the extent that any such claims
13 exist which are based on services that M.R. Grant provided to the Debtor,
14 all such claims have been completely and irrevocably settled pursuant to
15 the Bankruptcy Court approved Agreement which the Debtor entered into
16 with M.R. Grant and others on or about August 31, 2005.

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V.

TRI-CITY'S LIABILITIES AND ASSETS

A. **Liabilities.**

As stated previously, Tri-City filed a List of Creditors pursuant to section 924 of the
Bankruptcy Code. With the passing of the Bar Date (June 24, 2004), creditors have filed
claims in this Chapter 9 Case aggregating in excess of \$24.0 Million. Attached hereto as
Exhibit D is a consolidated schedule of the Claims as reflected in the List of Creditors
and filed with the Bankruptcy Court.

As described in Section 9.12, the Plan enables Tri-City to file objections to claims
at any time within one hundred and eighty (180) days after the Effective Date. The Plan
also provides for Tri-City to retain any and all Rights of Action, defenses, offset and
recoupment rights, and counterclaims that may exist with respect to any disputed claim,
whether under sections 502, 553, or 558 of the Bankruptcy Code or otherwise. Tri-City
reserves all rights with respect to the allowance and disallowance of any and all claims.

**In voting on the Plan, a creditor may not rely on the absence of a reference in this
Disclosure Statement or the Plan or the absence of an objection to its proof of**

1 claim as any indication that Tri-City ultimately will not object to the amount,
2 priority, security, or allowability of its claim. Any holder of a claim that is asserted
3 in an amount greater than the amount identified by Tri-City in the List of Creditors
4 as liquidated, undisputed, and not contingent should expect and be on notice that
5 Tri-City will, as appropriate, object to that claim.

6

7 **B. Assets.**

8 Tri-City's assets consist of its ongoing stream of government program revenues,
9 its accounts receivable for funds due for unpaid services, certain causes of action, and
10 minimal fixed assets.

11 **1. Government Program Revenue Funds.**

12 Tri-City's "assets" primarily consist of its stream of revenue described in Article III,
13 Section A.6. of this Disclosure Statement, the payment of which is subject to the terms
14 and conditions of the particular program from which the revenue is derived. Information
15 concerning the factors that may affect the amount of revenue payable to Tri-City in
16 connection with the government programs in which it participates is set forth in Article III,
17 Section A.6. above and Article VIII below entitled "Certain Risk Factors To Be
18 Considered."

19 **2. Government Program Accounts Receivable.**

20 Tri-City has not been paid for services rendered in connection with certain
21 government programs in which Tri-City participates. In certain cases, the governmental
22 agencies have asserted Deduction Rights and withheld payment to Tri-City on account of
23 such Deduction Rights. Set forth in **Exhibit E** is a summary of the amount Tri-City's
24 records reflect is due for services rendered and the basis for non-payment, including
25 whether a Deduction Right has been asserted and the amount asserted.

26 In cases where a Deduction Right has been asserted to payment of an account
27 receivable, in the absence of an agreement between Tri-City and the party asserting such
28 right, until a judicial determination has been made on whether the assertion of the

1 Deduction Right is appropriate and legally correct, the amount of the Deduction Right and
2 the net amount payable to Tri-City, the actual amount due Tri-City is subject to resolution
3 of the Deduction Right. There can be no assurances that Tri-City will prevail in litigation
4 concerning the Deduction Right and the present value of the account receivable remains
5 unascertainable.

6 In cases where the account receivable has not been paid because funds have not
7 been appropriated, Tri-City does not expect that payment will be made until funds have
8 been appropriated by the state legislature. Until an actual appropriation is made and
9 funding occurs Tri-City cannot state when payment is expected or will occur.

10 There may be additional basis for the governmental agencies' failure to pay Tri-
11 City that is presently unknown to Tri-City.

12 **3. Cash on Hand and Cash Equivalents.**

13 As of November 30, 2006, Tri-City had approximately \$5.3 million of cash on hand.
14 Not all of these funds are available for purposes of repayment of Allowed Claims.

15 **4. Fixed Assets.**

16 Tri-City has minimal fixed assets that primarily consist of its equity interest in a
17 parcel of real property commonly known as 2008 Garey Avenue, Pomona, California
18 91767 ("Garey Property") and that is subject to Foothill Independent Bank's deed of trust
19 to secure indebtedness in the original principal amount of \$1,012,500.00, office furniture
20 and equipment and vehicles subject to security or leasehold interests. Set forth in the
21 attached **Exhibit F** is a summary by category of fixed assets of the historical book value
22 (cost less accumulated depreciation), Tri-City's estimated fair market value and Tri-City's
23 estimate of its residual equity if any in the assets.

24 **5. Claims and Causes of Action.**

25 After Confirmation it is likely that Tri-City will commence actions on account of the
26 claims discussed below.

27

28

1 **a. Claims Against Third Parties**

2 Tri-City is investigating whether there exists claims against certain third parties
3 (collectively, "Third Party Claims") in connection with its business operations and financial
4 reporting. Such claims include, and are not limited to, those associated with financial
5 reports and/or audits prepared by Tri-City's prior accountant, M.R. Grant, CPA (which
6 claims against M.R. Grant are subject to the Settlement Agreement) and Tri-City's former
7 Chief Financial Officer, Gary Barnes, and claims arising under certain transaction
8 documents between Tri-City and Zions First National Bank (including, without limitation,
9 possible avoidance claims)(which claims against Zions Bank are subject to the
10 Settlement Agreement). Even assuming that a claim may exist, there can be no
11 assurance that Tri-City would prevail, and therefore the present value of Tri-City's claims
12 is speculative. In the event that Tri-City is able to recover any amount in any such
13 litigation, the Plan provides that such recovery (less the reasonable fees and expenses
14 incurred in connection with recovery) will be available for Distributions to Allowed Claims
15 in Classes 2, 3 and 4.

16 **b. Avoidance Claims.**

17 Tri-City also currently is investigating whether any meritorious claims and causes
18 of action exist for the recovery of preferential transfers, fraudulent transfers, or other
19 actions commenced pursuant to the avoiding powers of the Bankruptcy Code, including
20 sections 544 through 551 of the Bankruptcy Code. Among other things, Tri-City believes
21 that claims for the recovery of preferential transfers under section 547 of the Bankruptcy
22 Code possibly may exist against the entities identified on the schedule attached as
23 **Exhibit G**, which identifies the recipients of payments made by Tri-City during the ninety
24 (90) days prior to the Petition Date, including payments made from restricted funds. The
25 fact that a complaint or demand has not yet been made with respect to any particular
26 transfer or transaction is not and must not be deemed to be any admission, concession,
27 or other evidence that a meritorious cause of action does not exist. In considering the
28 **Plan, all recipients of payments or other transfers from Tri-City during the ninety**

1 (90) days prior to the Petition Date may expect to receive a demand or complaint
2 for the return of such payments or transfers.

3 **6. Reservation and Retention of All Claims.**

4 As described in Sections 9.9 and 9.10, the Plan vests in Tri-City, for pursuit
5 following the Effective Date, any and all Rights of Action including, without limitation, any
6 claims and causes of action that currently exist in favor of Tri-City. Tri-City's
7 investigations regarding its potential claims and causes of action are ongoing and not yet
8 completed. **Parties in interest may not rely on the absence of a reference in this**
9 **Disclosure Statement or Plan as any indication that Tri-City ultimately will not**
10 **pursue any and all available claims and causes of action against them. All parties**
11 **who previously dealt with Tri-City hereby are on notice that the Plan preserves all**
12 **of Tri-City's Rights of Action, rights, actions, claims, and causes of action,**
13 **including without limitation the Avoidance Claims. Tri-City expects that any and all**
14 **meritorious claims will be pursued and litigated after the Effective Date.**

15

16 **C. Financial Statements.**

17 A copy of Tri-City's audited financial statements for the Fiscal Year ending
18 June 30, 2002, and the unaudited financial reports for Fiscal Year ending June 30, 2003,
19 and for the portion of the Fiscal Year from July 1, 2003, through February 13, 2004, are
20 collectively attached hereto as **Exhibit C**. A copy of Tri-City's audited financial
21 statements for the fiscal years ending June 30, 2005, and June 30, 2006, are also
22 collectively attached hereto as **Exhibit C**.

23

24

VI.

25

SUMMARY OF THE PLAN OF ADJUSTMENT

26

27

28

**This Disclosure Statement contains a summary of the Plan. The discussion
of the Plan set forth below is qualified in its entirety by reference to the more
detailed provisions set forth in the Plan and its exhibits, the terms of which are**

1 **controlling. All terms defined in the Plan have the same meaning in this**
2 **Disclosure Statement. The definitions do not appear in the summary set forth**
3 **below; please refer to Article I of the attached Plan (Exhibit A) for the definitions.**

4 The Plan, if confirmed, will bind Tri-City, any entity acquiring property under the
5 Plan or otherwise transferring property pursuant to the Plan, and all Creditors in the
6 Chapter 9 Case. The Plan is intended to deal with all Claims against Tri-City of whatever
7 character, whether or not contingent or liquidated and whether or not allowed by the
8 Bankruptcy Court pursuant to Bankruptcy Code Section 502 (11 U.S.C. §502). **Holder**
9 **of Claims and other interested parties are urged to read the Plan and its exhibits,**
10 **copies of which are attached to this Disclosure Statement as Exhibit A, in their**
11 **entirety so that they may make an informed judgment regarding the Plan.**

12 The estimated Claim amounts included in the description of Classes below
13 includes Tri-City's estimates of the amount of Claims upon resolution of all Disputed
14 Claims. As noted, certain of the Disputed Claims are highly material. The actual,
15 ultimate, aggregate amount of Allowed Claims in certain Classes may differ significantly
16 from the estimates below.

17

18 **A. Classification And Treatment Of Claims And Description Of Claims**
19 **Filed In The Chapter 9 Case**

20 **1. Unclassified Claims**

21 In accordance with Sections 901 and 1123(a)(1) of the Bankruptcy Code
22 Administrative Claims and Professional Claims have not been classified. Article IV of the
23 Plan governs the treatment of Administrative Claims and Professional Claims that are not
24 classified into Classes under the Plan.

25 **a. Unpaid Administrative Claims.**

26 Administrative Claims are claims for an administrative expense of the kind
27 described in sections 503(b) and 507(a)(1) of the Bankruptcy Code. Section 4.1 of the
28 Plan provides that, except as provided in Sections 4.2, 4.3 and 4.4 of the Plan with

1 respect to CAL DMH Administrative Claims, LAC DMH Administrative Claims and
2 Professional Claims or to the extent that the holder of an Allowed Administrative Claim
3 agrees to a different treatment, Tri-City or its agent will pay to each holder of an Allowed
4 Administrative Claim, in full satisfaction, release and discharge of such claim, cash in an
5 amount equal to such Allowed Administrative Claim on the later of the Effective Date and
6 the date on which such claim becomes an Allowed Administrative Claim, or as soon
7 thereafter as is practicable; *provided* that Administrative Claims (excluding Professional
8 Claims) that represent obligations incurred in the ordinary business of Tri-City (defined as
9 "Ordinary Course Administrative Claims") with the exception of Ordinary Course
10 Administrative Claims belonging to or asserted by CAL DMH or LAC DMH, will be paid in
11 full and performed by Tri-City in the ordinary course of business in accordance with the
12 terms and conditions of the particular transactions and any agreements relating thereto.

13 Throughout the course of the Chapter 9 Case, Tri-City has endeavored to satisfy
14 the so-called administrative expenses as they became due. Accordingly, Tri-City
15 believes that most claims that otherwise would constitute Allowed Administrative Claims
16 previously have been or will be satisfied in the ordinary course of business prior to the
17 Effective Date. Nevertheless, because of normal delays in invoicing, including delays by
18 health care providers in submitting healthcare claims for payment, not all of such claims
19 will have been paid by the Effective Date. Thus, Tri-City anticipates that it will have to
20 pay some Administrative Claims on or after the Effective Date.

21 **b. CAL DMH Administrative Claims.**

22 CAL DMH Administrative Claims consist of the Allowed Administrative Claims of
23 CAL DMH. Section 4.2.1 of the Plan provides that subject to Sections 4.2.2 and 4.2.3,
24 CAL DMH will be paid Cash in an amount equal to such Allowed CAL DMH
25 Administrative Claims on the later of the Effective Date and the date on which such
26 Claims become Allowed Administrative Claims, unless CAL DMH agrees to a different
27 treatment.

28

1 Notwithstanding Section 4.2.1, and subject to Section 4.2.3, under Section 4.2.2 to
2 the extent that the Allowed CAL DMH Administrative Claim is based on or arises from
3 Direct Cost Disallowances or Indirect Cost Disallowances, then payment of that portion of
4 the Allowed CAL DMH Administrative Claim attributed to Direct Cost Disallowances and
5 Indirect Cost Disallowances shall be made by offset of the CAL DMH Receivable (unless
6 expressly agreed otherwise by Tri-City and CAL DMH) or in accordance and consistent
7 with CAL DMH's review and audit practices and schedules with other providers similar to
8 Tri-City. Should Tri-City have insufficient funds to pay CAL DMH an amount equal to the
9 remaining amount, if any, of its Allowed CAL DMH Administrative Claims (net of Direct
10 Cost Disallowances and Indirect Cost Disallowances) on the later of the Effective Date or
11 the date on which such Claim becomes an Allowed Administrative Claim, then payment
12 shall be made to CAL DMH on account of such remaining balance of its Allowed CAL
13 DMH Administrative Claims on the third Business Day following each Calendar Quarter
14 thereafter until CAL DMH shall have been paid Cash in an amount equal to such
15 remaining portion of its Allowed CAL DMH Administrative Claims.

16 Section 4.2.3, provides that notwithstanding anything to the contrary in Section
17 4.2.1 and 4.2.2, no payment will be made to CAL DMH on account of Allowed CAL DMH
18 Administrative claims until it has been determined whether CAL DMH has asserted
19 Administrative Claims and such Administrative Claims have been Allowed. Under
20 Section 4.2.3, this determination will be made on the later of the following to occur: (i)
21 CAL DMH shall have timely filed with the Bankruptcy Court a request for payment of an
22 Administrative Claim in accordance with Section 4.5 of the Plan, and either (ii) the entry
23 of a Final Order by the Bankruptcy Court determining the amount, if any, in which CAL
24 DMH's Administrative Claims shall be Allowed with respect to such request for payment
25 of an Administrative Claim; or (iii) entry of a Final Order by the Bankruptcy Court
26 approving a stipulation by and between Tri-City and CAL DMH fixing the Allowed amount
27 of CAL DMH's Administrative Claim.

28

1 Though Tri-City believes that the CAL DMH Receivable represents a valid claim,
2 CAL DMH may contend otherwise. Moreover, CAL DMH disputes whether such
3 receivable may be setoff against any administrative claim or unsecured claim of CAL
4 DMH. Tri-City and CAL DMH continue to address these matters, resolution of which may
5 or may not be achieved in advance of Confirmation. To the extent the parties are unable
6 to resolve these issues, Tri-City will request appropriate relief from the Bankruptcy Court
7 to address and resolve such matters.

8 On January 16, 2007, Tri-City was informed by CAL DMH that based on recent
9 audits by the federal Health and Human Services Agency, Centers for Medicare and
10 Medicaid Services, CAL DMH may assert additional claims against Tri-City for
11 disallowances for the fiscal years 2003-2004 and 2004-2005, in the amounts of \$6.0
12 million and \$1.5 million, respectively. Tri-City has not received any further information in
13 regard to such audits, however, Tri-City understands that CAL DMH may object or
14 otherwise challenge such audit results. CAL DMH may also assert that some portion of
15 these claims, which at this time remain undetermined, may include claims entitled to
16 administrative priority. Accordingly, though Tri-City has estimated CAL DMH's
17 administrative claim to be \$0.00, CAL DMH may contend otherwise.

18

19 c. **LAC DMH Administrative Claims.**

20 LAC DMH Administrative Claims consist of the Allowed Administrative Claims of
21 LAC DMH. Section 4.3.1 of the Plan provides that subject to Sections 4.3.2 and 4.3.3,
22 LAC DMH will be paid Cash in an amount equal to such Allowed LAC DMH
23 Administrative Claims on the later of the Effective Date or the date on which such
24 Administrative Claims become Allowed Administrative Claims, unless LAC DMH agrees
25 to a different treatment.

26 Notwithstanding Section 4.3.1, and subject to section 4.3.3, under Section 4.3.2 to
27 the extent that the Allowed LAC DMH Administrative Claim is based on or arises from
28 Direct Cost Disallowances, then payment of that portion of the Allowed LAC DMH

1 Administrative Claim attributed to Direct Cost Disallowances shall be made in accordance
2 and consistent with LAC DMH's review and audit practices and schedules with other
3 providers similar to Tri-City. Should Tri-City have insufficient funds to pay LAC DMH an
4 amount equal to the remaining amount, if any, of its Allowed LAC DMH Administrative
5 Claims (net of Direct Cost Disallowances) on the later of the Effective Date or the date on
6 which such Claim becomes an Allowed Administrative Claim, then payment shall be
7 made to LAC DMH on account of such remaining balance of its Allowed LAC DMH
8 Administrative Claims on the third Business Day following each Calendar Quarter
9 thereafter until LAC DMH shall have been paid Cash in an amount equal to such
10 remaining portion of its Allowed LAC DMH Administrative Claims.

11 Section 4.3.3, provides that notwithstanding anything to the contrary in Section
12 4.3.1 and 4.3.2, no payment will be made to LAC DMH on account of Allowed LAC DMH
13 Administrative Claims until it has been determined whether LAC DMH has asserted
14 Administrative Claims and such Administrative Claims have been Allowed. Under
15 Section 4.3.3, this determination will be made on the later of the following to occur: (i)
16 LAC DMH shall have timely filed with the Bankruptcy Court a request for payment of an
17 Administrative Claim in accordance with Section 4.5 of the Plan, and either (ii) the entry
18 of a Final Order by the Bankruptcy Court determining the amount, if any, in which LAC
19 DMH's Administrative Claims shall be Allowed with respect to such request for payment
20 of an Administrative Claim; or (iii) entry of a Final Order by the Bankruptcy Court
21 approving a stipulation by and between Tri-City and LAC DMH fixing the Allowed amount
22 of LAC DMH's Administrative Claim.

23 **d. Professional Claims.**

24 Professional Claims are claims for approval of amounts paid or to be paid for
25 services or expenses in the Chapter 9 Case or incident to the Plan. Section 4.4 of the
26 Plan provides that, pursuant to section 943(a)(3) of the Bankruptcy Code, all Professional
27 Claims must be approved by the Bankruptcy Court as reasonable and that, upon
28 approval, Tri-City or its agent will pay to each holder of a Professional Claim, in full

1 satisfaction, release and discharge of such claim, Cash in an amount equal to that portion
2 of such claim that the Bankruptcy Court approves as reasonable (except to the extent
3 such claim previously has been paid or satisfied) on or as soon as reasonably practicable
4 following the date on which the Bankruptcy Court order determining such reasonableness
5 becomes a Final Order.

6 Tri-City has paid the fees of its professionals and other consultants including,
7 without limitation, its bankruptcy counsel (SulmeyerKupetz and Weston Benshoof
8 Rochefort Rubalcava & MacCuish), its general counsel (Richards Watson & Gershon and
9 Darold Pieper), special insurance coverage counsel (Weston Benshoof Rochefort
10 Rubalcava MacCusih), its outside accountants (Vavrinek, Trine, Day & Co., LLP), and its
11 outside consultant (The Brulte Group). A summary of the services rendered and
12 payments made to such professionals and consultants is attached hereto as **Exhibit H**.

13 e. **Bar Date For Assertion Of Requests For Payment Of**
14 **Administrative Claims (Other Than Ordinary Course**
15 **Administrative Claims, And Professional Claims).**

16 Section 4.5 of the Plan provides that all requests for payment or any other means
17 of preserving and obtaining payment of Administrative Claims (other than Ordinary
18 Course Administrative Claims and Professional Claims) that have not been paid,
19 released, or otherwise settled must be filed with the Bankruptcy Court and served upon
20 Tri-City and the United States Trustee no later than thirty (30) days after the date on
21 which the Notice of Effective Date is mailed pursuant to Section 16.7 of the Plan.

22 ***Any request for payment of an Administrative Claim (other than an Ordinary***
23 ***Course Administrative Claim and a request for approval of a Professional Claim),***
24 ***that is not timely filed by that deadline will be forever barred, and holders of such***
25 ***claims will be barred from asserting such claims in any manner against Tri-City.***

26 2. **Classified Claims.**

27 Section 1122 of the Bankruptcy Code, made applicable to the Chapter 9 Case by
28 Section 901 of the Bankruptcy Code, requires that a plan classify the claims of a debtor's

1 creditors. The Bankruptcy Code also provides that, except for certain claims classified
2 for administrative convenience, a plan of adjustment may place a creditor in a particular
3 class only if such claim is substantially similar to the other claims of such class. The
4 Plan, consistent with the Bankruptcy Court's order approving the Settlement Agreement,
5 classifies the following in separate Classes:

6 Class 1 – the Allowed Secured Claim of Foothill;

7 Class 2 – the Allowed General Unsecured Claims of Creditors other than the
8 Allowed Claims of CAL DMH, LAC DMH, Zions Bank, and the City of Pomona;

9 Class 3 – the Allowed Unsecured Claim of CAL DMH;

10 Class 4 – the Allowed Claims (Secured and Unsecured) of LAC DMH;

11 Class 5 – the Allowed Other Secured Claims of Creditors; and

12 Class 6 – the Allowed Unsecured Claims of Zions Bank and the City of Pomona.

13 a. **Unimpaired Classes of Claims**

14 i. **Class 1 (Secured Claim of Foothill Independent**
15 **Bank).**

16 The Secured Claim of Foothill Independent Bank is a claim for payment of
17 principle and interest under a promissory note of Tri-City to Foothill dated August 4, 1994,
18 and amended pursuant to a written amendment dated January 13, 2003, in the original
19 principal amount of \$1,012,500.00, issued by Tri-City in connection with its
20 purchase/refinance of the Garey Property. The promissory note matures on January 1,
21 2013. The payment of Tri-City's obligation to Foothill is secured by a deed of trust dated
22 August 4, 1994, as modified pursuant to a Modification of Deed of Trust and Deed of
23 Trust, each dated January 13, 2003, on the Garey Property where Tri-City's business
24 operation is located. Foothill has not filed a proof of claim in this Chapter 9 Case.

25 Section 6.1 of the Plan leaves unaltered all legal, equitable and contractual rights
26 of Foothill under the promissory note and the deed of trust, and all liens and security
27 interests provided in connection therewith will remain in place. Tri-City is current in its
28 obligations to Foothill and will continue to make monthly payments to Foothill in the

1 amount of \$7,864.33 in accordance with the terms of the promissory note and the deed of
2 trust.

3 ii. **Class 5 (Allowed Other Secured Claims of**
4 **Creditors)**

5
6 Other Secured Claims are Secured Claims against Tri-City, other than the Allowed
7 Secured Claim of LAC DMH. Secured Claims are Claims against Tri-City (1) to the
8 extent reflected in the List of Creditors filed pursuant to section 924 of the Bankruptcy
9 Code or upon a proof of claim as Secured Claims, which are secured by a Lien on
10 Collateral to the extent of the value of such Collateral, as determined in accordance with
11 section 506(a) of the Bankruptcy Code, or (2) to the extent that the holder thereof has a
12 valid right of setoff pursuant to section 553 of the Bankruptcy Code.

13 Tri-City estimates that the amount of Allowed Other Secured Claims, other than
14 Claims as to which holders assert Deduction Rights, that have not previously been paid
15 pursuant to an order of the Bankruptcy Court will aggregate approximately \$0.00. Tri-City
16 estimates that Allowed Other Secured Claims including holders who assert a Deduction
17 Right will aggregate approximately \$300,000.

18 Except to the extent that a holder of an Allowed Other Secured Claim agrees to a
19 different treatment, at the sole option of Tri-City: (1) each Allowed Other Secured Claim
20 will be Reinstated and rendered unimpaired in accordance with section 1124(2) of the
21 Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy
22 law that entitles the holder of an Allowed Other Secured Claim to demand or receive
23 payment of such Allowed Other Secured Claim prior to the stated maturity of such
24 Allowed Other Secured Claim from and after the occurrence of a default; (2) each holder
25 of an Allowed Other Secured Claim will receive the Collateral securing its Allowed Other
26 Secured Claim and any interest on such Allowed Other Secured Claim required to be
27 paid pursuant to section 506(b) of the Bankruptcy Code, in full and complete satisfaction
28 of such Allowed Other Secured Claim or (3) Tri-City will provide such other treatment in

1 respect of such Claim as will cause such Claim not to be impaired by the Plan. Tri-City's
2 failure to object to any such Claim during the pendency of the Chapter 9 Case will not
3 prejudice, diminish, affect or impair Tri-City's right to contest or defend against such
4 Claim in any lawful manner or forum when and if such Claim is sought to be enforced by
5 the holder thereof. Each Other Secured Claim and all Liens lawfully granted or existing
6 on any property of Tri-City on the Petition Date as security for an Other Secured Claim
7 will (1) survive the confirmation and consummation of the Plan and Tri-City's discharge
8 under section 944 of the Bankruptcy Code and Section 12.1 of the Plan, (2) remain
9 enforceable against Tri-City in accordance with the contractual terms of any lawful
10 agreements enforceable by the holder of such Claim on the Petition Date until the
11 Allowed amount of such Claim is paid in full, and (3) remain subject to avoidance by Tri-
12 City under the Bankruptcy Code.

13 Notwithstanding the foregoing, on or as soon as reasonably practicable after the
14 later of the Effective Date and the date that is thirty (30) calendar days after an Other
15 Secured Claim becomes Allowed, Tri-City may elect to provide the holder of an Other
16 Secured Claim with (1) Cash in an amount equal to 100% of the unpaid amount of such
17 Claim, (2) the proceeds of the sale or disposition of the Collateral securing such Claim to
18 the extent of the value of the holder's secured interest in such Claim, (3) the Collateral
19 securing such Claim, (4) a note with periodic Cash payments having a value, as of the
20 Effective Date, equal to the Allowed amount of such Claim, or (5) such other distribution
21 as necessary to satisfy the requirements of the Bankruptcy Code. In the event Tri-City
22 treats a Claim under clauses (1) or (2) of this paragraph, the Liens securing such Claim
23 will be deemed, and will be, released, on the later of the Effective Date and the date such
24 Allowed Other Secured Claim becomes an Allowed Other Secured Claim, or as soon
25 thereafter as is practicable.

26 Unless otherwise ordered by the Bankruptcy Court, each Allowed Other Secured
27 Claim in Class 5 will be considered to be a separate subclass within Class 5, and each
28 such subclass will be deemed to be a separate Class for purposes of the Plan.

1 Class 5 is unimpaired by the Plan. Each holder of an Allowed Other Secured
2 Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to
3 accept or reject the Plan.

4

5 **b. Impaired Classes of Claims.**

6 **i. Class 2 (General Unsecured Claims Other than the**
7 **Unsecured Claims of CAL DMH and LAC DMH).**

8 General Unsecured Claims in Class 2 are Unsecured Claims other than the
9 Unsecured Claims of CAL DMH, LAC DMH, Zions Bank and the City of Pomona. Such
10 claims generally include lease and contract rejection claims, pre-petition breach of
11 contract claims, trade claims and healthcare provider claims. The asserted amount of
12 filed proofs of claim classified as Class 2 Claims under the Plan is approximately \$8.0
13 million. Tri-City is reviewing the proofs of claim filed by various creditors and may dispute
14 some portion of the Class 2 Claims as discussed in Article IV, Section D above and
15 anticipates, if necessary, filing objections to Class 2 Claims. Attached hereto as **Exhibit**
16 **D** is a compilation of all claims either listed in Tri-City's List of Creditors or filed with the
17 Bankruptcy Court.

18 Section 7.1 of the Plan provides that holders of Allowed General Unsecured
19 Claims in Class 2 will receive on account of their Allowed General Unsecured Claims and
20 in full satisfaction, release and discharge thereof, a Pro Rata share of any Cash
21 Distribution from Net Funds (after payment of Administrative Claims, CAL DMH
22 Administrative Claims, LAC DMH Administrative Claims, and Professional Claims as
23 provided in Article IV) to holders of Allowed Claims in Classes 2, 3 and 4 and, thereafter,
24 a Pro Rata share of all subsequent Cash Distributions, if any, to holders of Class 2, 3 and
25 4 Claims until such time as there are no further available Net Funds as of the end of the
26 Repayment Period or such Claims have been paid in full. Subject to the availability of
27 Net Funds, Distributions to holders of Allowed General Unsecured Claims in Class 2 shall
28 commence on the first Business Day after the first full Calendar Quarter following the

1 Effective Date. If there are insufficient Net Funds to pay such Claimants the amount of
2 their respective Allowed General Unsecured Claims on such date and subject to the term
3 of the Repayment Period, subsequent Distributions shall be made on the first Business
4 Day following each Calendar Quarter thereafter, until either such Claimants shall have
5 been paid the amount of their respective Allowed General Unsecured Claims, or the Net
6 Funds have been exhausted, whichever first occurs. The Debtor believes that there will
7 be Net Funds available for Class 2 Claimants and estimates that Class 2 Claimants will
8 receive approximately twenty percent (20%) on their Allowed Claims, or if the provisions
9 of Section 7.1.2 above become effective, then Class 2 Claimants will receive
10 approximately between 45% and 100% of their Allowed Claims.

11 On or before the first Distribution to be made to Claimants in Class 2, Tri-City will
12 establish the Disputed Claims Reserve for holders of Disputed Claims. Subject to Tri-
13 City's right to have the amount of contingent and unliquidated Disputed Claims estimated
14 and to use the estimated amount for purposes of setting the Disputed Claims Reserve,
15 Tri-City will deposit into such reserve on each date a Distribution is made to holders of
16 Disputed Claims an amount equal to the Pro Rata Share of Net Funds that would have
17 been distributed to holders of Disputed Claims had such Claims been Allowed on the
18 date of each such Distribution in the Face Amount. All Distributions required to made to
19 holders of Allowed General Unsecured Claims in Class 2 from Net Funds and the
20 Disputed Claims Reserve will be established and fully funded by Tri-City with Net Funds
21 as such funds are available.

22 Based on Tri-City's estimate of the amount of General Unsecured Claims that will
23 likely be Allowed in Classes 2, 3 and 4, and its estimate of the Net Funds that will be
24 available, Tri-City believes than holders of such Claims will receive approximately twenty
25 percent (20%) on their respective Allowed General Unsecured Claims. However, if the
26 provisions of Section 7.1.2 above become effective, then Class 2 Claimants will receive
27 approximately between 45% and 100% of their Allowed Claims.

28

1 Neither the consent of CAL DMH nor LAC DMH as described in Sections 7.1.2,
2 7.2.2 and 7.3.3 of the Plan is a condition to the Confirmation of the Plan or the Effective
3 Date.

4 ii. **Class 3 (Unsecured Claim of CAL DMH).**

5 Class 3 consists of the Unsecured Claim of CAL DMH. The CAL DMH has filed a
6 proof of claim in the amount of \$9,135,670.

7 Unless otherwise agreed to by CAL DMH, Section 7.2 provides that CAL DMH
8 shall receive on account of its Allowed General Unsecured Claim and in full satisfaction,
9 release and discharge thereof, a setoff of any remaining balance of the CAL DMH
10 Receivable (after application of such receivable against CAL DMH's Allowed
11 Administrative Claim) and thereafter a Pro Rata share of any Cash Distribution from Net
12 Funds (after payment of Administrative Claims, CAL DMH Administrative Claims, LAC
13 DMH Administrative Claims, and Professional Claims as provided in Article IV) to holders
14 of Allowed Claims in Classes 2, 3 and 4 and, thereafter, a Pro Rata share of all
15 subsequent Cash Distributions, if any, to holders of Class 2, 3 and 4 Claims until such
16 time as there are no further available Net Funds as of the end of the Repayment Period
17 or such Claims have been paid in full. Subject to the availability of Net Funds,
18 Distributions to CAL DMH shall commence on the first Business Day after the first full
19 Calendar Quarter following the Effective Date. If there are insufficient Net Funds to pay
20 CAL DMH the amount of its Allowed General Unsecured Claim on such date and subject
21 to the Repayment Period, subsequent Distributions shall be made on the first Business
22 Day following each Calendar Quarter thereafter, until either CAL DMH shall have been
23 paid the amount of its Allowed General Unsecured Claim, or the Net Funds have been
24 exhausted (at the end of the Repayment Period), whichever first occurs. The Debtor
25 believes that there will be Net Funds available for CAL DMH and estimates that CAL
26 DMH will receive approximately twenty percent (20%) on its Allowed Claim or, if the LAC
27 DMH Contract is timely executed, then CAL DMH shall receive approximately between
28 45% and 100%.

1 the County receives such funds from the State of California. Tri-City and LAC DMH each
2 reserved their respective rights including, without limitation, Tri-City's right to object to all
3 or part of LAC DMH's Claims and LAC DMH's Deduction Rights, except as such
4 Deduction Rights are treated under this Section 7.3.1. Should LAC DMH reject the Plan,
5 then LAC DMH's Deduction Rights will be resolved and fixed in accordance with Sections
6 7.3.5 and 9.3 of the Plan after which, to the extent LAC DMH asserts valid and
7 enforceable Deduction Rights, the same shall be applied to and reduce the amount of
8 LAC DMH's Allowed Claims.

9 Unless otherwise agreed to by LAC DMH, the balance of LAC DMH's Allowed
10 Claim will be treated as an Allowed Unsecured Claim. LAC DMH shall receive, on
11 account of the balance of the Allowed Unsecured Claim that remains unsatisfied after
12 reduction by the allowed LAC DMH Deduction Rights, and in full satisfaction, release and
13 discharge thereof, a Pro Rata share of any Cash Distribution from Net Funds (after
14 payment of Administrative Claims, CAL DMH Administrative Claims, LAC DMH
15 Administrative Claims, and Professional Claims as provided in Article IV) to holders of
16 Allowed Claims in Classes 2, 3 and 4 and, thereafter, a Pro Rata share of all subsequent
17 Cash Distributions, if any, to holders of Class 2, 3 and 4 Claims until such time as there
18 are no further available Net Funds as of the end of the Repayment Period or the Allowed
19 Unsecured Claim has been paid in full. Subject to the availability of Net Funds,
20 Distributions to LAC DMH shall commence on the first Business Day after the first full
21 Calendar Quarter following the Effective Date. If there are insufficient Net Funds to pay
22 LAC DMH the amount of its Net Allowed Unsecured LAC DMH Claim Amount on such
23 date and subject to the Repayment Period, subsequent Distributions shall be made on
24 the first Business Day following each Calendar Quarter thereafter, until either LAC DMH
25 shall have been paid the amount of its Net Allowed Unsecured LAC DMH Claim Amount,
26 or the Net Funds have been exhausted (as of the end of the Repayment Period),
27 whichever first occurs. The Debtor believes that there will be Net Funds available for
28 LAC DMH and estimates that LAC DMH will receive approximately twenty percent (20%)

1 on its Allowed Unsecured Claim or, if the LAC DMH Contract is timely executed, then
2 LAC DMH shall receive approximately between 45% and 100%.

3 iv. **Class 6 (Allowed Unsecured Claims of Zions Bank**
4 **and the City of Pomona)**

5 The Allowed Unsecured Claims of each of Zions Bank and the City of Pomona will
6 be treated in accordance with the Settlement Agreement approved by the Bankruptcy
7 Court pursuant to its order entered on August 31, 2005. A copy of the Settlement
8 Agreement and the order approving same are collectively attached to the Plan as Exhibit
9 3 and incorporated therein as though fully set forth. In sum, pursuant to the Settlement
10 Agreement, Zions Bank and the City of Pomona have agreed to receive the proceeds of
11 the settlement as described in the Settlement Agreement and a waiver and release from
12 Tri-City for any claims Tri-City may have against each in consideration for a waiver and
13 release of any further claims against Tri-City and a waiver of any further rights to receive
14 Distributions under this Plan. Accordingly, no Distributions will be made to Zions Bank or
15 the City of Pomona.

16 **B. Implementation and Means For Consummation of This Plan.**

17 **1. Funding of Plan**

18 **a. Cash On Hand: Payment of Administrative Claims and**
19 **Professional Claims.**

20 Tri-City's payment obligations under Section 4.1 (with respect to Professional
21 Claims and Allowed Administrative Claims other than CAL DMH Administrative Claims
22 and LAC DMH Administrative Claims) and Section 10.2 (cure payment obligations) will be
23 satisfied from unrestricted funds available to Tri-City on and after the Effective Date. Tri-
24 City projects that there will be sufficient funds to make such payments.

25 **b. Funding Payment of CAL DMH and LAC DMH Allowed**
26 **Administrative Claims.**

27 The Allowed CAL DMH Administrative Claims and the Allowed LAC DMH
28 Administrative Claims will be paid in accordance with Section 4.2 and 4.3, respectively, of

1 the Plan. Tri-City believes that the amount of the Allowed CAL DMH Administrative
2 Claims and the Allowed LAC DMH Administrative Claims is nominal at best. Tri-City
3 projects that there will be sufficient funds to make payments on such Claims.

4 c. **Funding of Distributions to Holders of Allowed General**
5 **Unsecured Claims in Class 2.**

6 No later than the first Business Day following the first full Calendar Quarter after
7 the Effective Date, Tri-City will deposit into the Disbursement Reserve all Net Funds on
8 hand except for Net Funds required to fund the Disputed Claims Reserve. If the Net
9 Funds deposited into the Disbursement Reserve as specified above are insufficient to
10 provide holders of Allowed General Unsecured Claims in Classes 2, 3 and 4 the full
11 treatment required under Article VII of the Plan, then on or before the first Business Day
12 following the end of each successive Calendar Quarter, Tri-City will deposit into the
13 Disbursement Reserve all Net Funds on hand except for Net Funds required to fund the
14 Disputed Claims Reserve, until holders of Allowed General Unsecured Claims in Classes
15 2, 3 and 4 have received the full treatment provided in Article VII of the Plan. All
16 Distributions required to be made to holders of such Allowed General Unsecured Claims
17 in Classes 2, 3 and 4 from Net Funds pursuant to Article VII of the Plan will be made and
18 the Disputed Claims Reserve will be established and funded by Tri-City with Net Funds in
19 accordance with Sections 9.1, 9.2 and 11.11 of the Plan.

20 No later than the first Business Day following the first full Calendar Quarter after
21 the Effective Date, Tri-City shall establish the Disputed Claims Reserve for holders of
22 Disputed General Unsecured Claims in Classes 2, 3 and 4 ("Disputed Claims"). Subject
23 to Section 11.11 of the Plan, Tri-City will deposit into such reserve on each date a
24 Distribution is made to holders of Allowed General Unsecured Claims in Classes 2, 3 and
25 4 an amount equal to the Pro Rata Share of Net Funds that would have been distributed
26 to holders of Disputed Claims, had such Claims been Allowed on the date of each such
27 Distribution in the Face Amount. At such time as all Disputed Claims have been finally
28 determined and paid all Distributions to which the holders thereof are entitled to receive

1 hereunder upon Allowance of their General Unsecured Claims in Classes 2, 3 and 4, the
2 balance of Cash held in the Disputed Claims Reserve shall be distributed to the holders
3 of Allowed General Unsecured Claims in Classes 2, 3 and 4 on a Pro Rata basis.

4 The Debtor has disputed the amount and legality of the LAC DMH Deduction
5 Right, which LAC DMH has asserted entitles it to withhold certain pre and post petition
6 payments due to Tri-City in the asserted amount of approximately \$2.6 Million and to
7 reduce such withheld payments by amounts LAC DMH asserts are due to it from Tri-City.
8 The precise amount of the LAC DMH Deduction Rights will be determined either by
9 subsequent agreement between LAC DMH and Tri-City or pursuant to an order entered
10 by the Bankruptcy Court in connection with a contested matter or adversary proceeding
11 initiated by Tri-City. To the extent that LAC DMH Deduction Right is determined and
12 fixed in an amount less than the approximate \$2.6 million asserted by LAC DMH, LAC
13 DMH shall immediately pay such difference to Tri-City, which amounts may be used by
14 Tri-City, if necessary, in its operations for the first two full Calendar Quarters following the
15 Effective Date and for purposes set forth in Exhibit 1 attached to the Plan. To the extent
16 such difference, or portion thereof, is not utilized by Tri-City as required in its business
17 operations and consistent with its budget, such remaining amount shall be included in the
18 Net Funds available for Class 2, 3 and 4 Claimants in respect to their Allowed General
19 Unsecured Claims.

20 **d. Funding of Distributions to CAL DMH Allowed Unsecured**
21 **(Class 3) and LAC DMH Allowed Unsecured Claim**
22 **Class 4).**

23 As stated previously, other than the Deduction Rights asserted by LAC DMH,
24 Distributions to CAL DMH or LAC DMH on account of their respective Allowed Unsecured
25 Claims will be made on a Pro Rata basis with Allowed General Unsecured Claims in
26 Class 2 from Net Funds until the earlier of either payment in full or the Net Funds are
27 exhausted. The Deduction Rights asserted by LAC DMH, which Tri-City has disputed,
28 will be resolved in accordance with Section 9.3 of the Plan. The amount fixed for LAC

1 DMH's Deduction Rights will be applied against LAC DMH Allowed Unsecured Claim. If
2 the amount fixed for LAC DMH's Deduction Rights is less than the amount asserted by
3 LAC DMH, the difference will be immediately paid to Tri-City and available to Tri-City, as
4 necessary, to fund its business operations during the first two full Calendar Quarters after
5 the Effective Date, with any remaining unused portion to be included in the Net Funds for
6 Distribution in accordance with Article VII of the Plan.

7 **2. Bar Date.**

8 **a. Pre-Petition Claims.**

9 The Bankruptcy Court set June 24, 2004 as the Bar Date (deadline) for filing
10 proofs of claim against Tri-City except for: (i) claims arising from rejection of executory
11 contracts or unexpired leases; (ii) claims of governmental units; and (iii) claims arising as
12 the result of transfer avoidance pursuant to Chapter 5 of the Bankruptcy Code. Except
13 for claims arising from rejection of executory contracts and leases under Section 10.3 of
14 the Plan, for Claims otherwise arising from rejection of executory contracts or unexpired
15 leases pursuant to 11 U.S.C. §365, the last day to file a proof of claim is: (i) 30 days after
16 the date of entry of the order authorizing the rejection; or (b) June 24, 2004, whichever is
17 later. The deadline for filing proofs of claim arising from rejection of executory contracts
18 and leases under Section 10.3 of the Plan, is thirty (30) days after the Effective Date.

19 For claims of Governmental Units, the last day for filing proofs of claim is:
20 (i) before 180 days after the date of the Order for Relief; or (ii) by June 24, 2004,
21 whichever is later. By order of the Bankruptcy Court the last day to file proofs of claim for
22 claims arising from the avoidance of a transfer under chapter 5 of the Bankruptcy Code
23 is: (i) 30 days after the entry of judgment avoiding the transfer; or (ii) June 24, 2004,
24 whichever is later.

25 ***Any Claim for which a proof of claim is not filed with the Bankruptcy Court***
26 ***within such time will be forever barred and will not be enforceable against Tri-City***
27 ***or its assets, properties, or interests in property.***

28

1 **b. Administrative Claims.**

2 Requests for payment of Administrative Claims other than an Ordinary Course
3 Administrative Claim must be filed with the Bankruptcy Court no later than thirty (30) days
4 after Notice of the Effective Date is mailed. Claims for payment of monetary amounts
5 necessary to be paid to cure any existing defaults or arrearages in connection with
6 executory leases or contracts assumed pursuant to Section 10.1 of the Plan must be filed
7 with the Bankruptcy Court and served on Tri-City by **May 22, 2007**, and in the manner
8 established for filing objections to confirmation of the Plan (see, Article II, Section B.3.,
9 *supra*).

10 ***Except as otherwise provided above, any Administrative Claim for which a***
11 ***request for payment is not filed with the Bankruptcy Court and served within such***
12 ***time will be forever barred and will not be enforceable against Tri-City or its assets,***
13 ***properties, or interests in property.***

14 **3. Filing of Objections to Claims.**

15 Claims Objection Deadline.

16 Tri-City has the right to object to the allowance of Claims filed with the Bankruptcy
17 Court with respect to which liability or allowance is disputed in whole or in part. The Plan
18 provides that unless otherwise ordered by the Bankruptcy Court, any objections to Claims
19 must be filed and served by Tri-City no later than one hundred and eighty (180) days
20 after the Effective Date (or, in the case of Claims lawfully filed after the Effective Date, by
21 not later than one hundred and eighty (180) days after the date of filing of such Claims).
22 If the holder of the Claim is a debtor under any chapter of the Bankruptcy Code, then the
23 deadline shall be one hundred eighty (180) days after Tri-City obtains relief from stay or
24 other relief which will permit the Filing of an objection to such Claim. This time period can
25 be extended by the Bankruptcy Court upon Tri-City's request.

26 No Distributions Pending Allowance.

27
28

1 Notwithstanding any other provision of the Plan, no Cash or other property shall be
2 distributed under the Plan on account of any Claim unless and until such Claim becomes
3 Allowed.

4 Authority to Prosecute Claim Objections.

5 Unless otherwise ordered by the Bankruptcy Court after notice and a hearing and
6 except as expressly provided herein, from and after the Effective Date Tri-City shall have
7 the exclusive right to file objections to Claims. As to objections Filed prior to the Effective
8 Date but not resolved or determined before the Effective Date, Tri-City, as provided
9 herein, shall be vested on the Effective Date with all rights, interests, and authority with
10 respect to the objections.

11 Authority to Settle Disputed Claims.

12 From and after the Effective Date, Tri-City shall be authorized with respect to
13 those Claims that are not Allowed hereunder or by Final Order of the Bankruptcy Court,
14 pursuant to Bankruptcy Rule 9019 and section 105(a) of the Bankruptcy Code, to
15 compromise and settle Disputed Claims, in accordance with the following procedures,
16 which shall constitute sufficient notice in accordance with the Bankruptcy Code and the
17 Bankruptcy Rules for compromise and settlement of claims:

18 a. If the proposed amount at which the Disputed Claim to be allowed is less than
19 or equal to \$100,000, Tri-City shall be authorized and empowered to settle the Disputed
20 Claim and execute necessary documents, including a stipulation of settlement or release
21 without the need to obtain Court approval of such settlement; and

22 b. If the proposed amount at which the Disputed Claim is to be allowed is greater
23 than \$100,000, Tri-City shall be authorized and empowered to settle such Disputed Claim
24 and execute necessary documents, including a stipulation of settlement or release, only
25 upon receipt of Bankruptcy Court approval of such settlement after notice to those
26 Persons on the Post-Effective Date Limited Notice List and a hearing.

27
28

1 **4. Deduction Rights.**

2 From the commencement of the Chapter 9 case, LAC DMH has asserted
3 Deduction Rights in the approximate amount of \$2.6 Million on account of Tri-City's pre-
4 petition indebtedness to LAC DMH. Other Creditors (e.g., Prototypes) have also
5 asserted Deduction Rights. Tri-City has disputed the amount and legality of the LAC
6 DMH's and other Creditor's Deduction Rights, which LAC DMH and other Creditors have
7 asserted entitles each to withhold certain pre and post petition payments due to Tri-City
8 (e.g., the amount of \$2.6 Million from LAC DMH) and to reduce such withheld payments
9 by amounts LAC DMH and other Creditors each asserts are due to it from Tri-City.

10 The Debtor has disputed the amount and legality of the LAC DMH's and other
11 Creditor's Deduction Rights. Subject to Section 7.3.1, the precise amount of the LAC
12 DMH Deduction Rights (and the Deduction Rights asserted by other Creditors) will be
13 determined either by subsequent agreement between such Creditor and Tri-City or
14 pursuant to an order entered by the Bankruptcy Court in connection with a contested
15 matter or adversary proceeding initiated by Tri-City. To the extent that a Deduction Right
16 is determined and fixed in an amount less than the amount asserted by such Creditor,
17 such Creditor shall immediately pay such difference to Tri-City, which amounts may be
18 used by Tri-City, if necessary, in its operations for the first two full Calendar Quarters
19 following the Effective Date and for purposes set forth in Exhibit 1 attached to the Plan.
20 Upon payment of any such amount to Tri-City and the application of any Allowed
21 Deduction Right to the Allowed Claim of such Creditor, to the extent there is any
22 remaining balance of the Allowed Claim, the holder of such remaining Allowed Claim
23 shall receive a Pro Rata share of Cash Distributions in accordance with the Plan.

24 **5. Preservation Of Rights Of Action.**

25 Except as otherwise provided in the Plan, all Rights of Action shall remain property
26 of Tri-City and may be prosecuted, settled, or abandoned by Tri-City, subject to the terms
27 and conditions of the Plan and the Confirmation Order. As explained in the Plan, Rights
28 of Action means all claims, causes of action, and defenses of Tri-City, including, but not

1 limited to: counterclaims; rights of offset or recoupment; objections to Claims; objections
2 to the validity, priority, amount, allowance, or classification of any Claim; rights to seek
3 equitable or contractual subordination of Claims; and avoidance and recovery of
4 prepetition or postpetition transfers (including but not limited to the Avoidance Actions),
5 which claims, causes of action, and defenses are against, arise out of, or are related to
6 any of the following (except for such claims, causes of action, and defenses that have
7 been settled and released pursuant to the Plan or an order of the Bankruptcy Court):

8 a. All claims, causes of action and defenses against the current and/or
9 past officers and/or directors of Tri-City, control persons of Tri-City, Tri-City's
10 predecessors in interest, and the agents, attorneys, accountants, investment bankers,
11 underwriters, and other professionals employed by any of the current and/or past officers
12 and/or directors of Tri-City, or Tri-City's predecessors in interest, including, but not limited
13 to, claims, causes of action and defenses arising out of or related to breach of duty,
14 negligence, mismanagement and/or excessive compensation;

15 b. All claims, causes of action and defenses against any Person who is
16 or was a past or present officer, director, executive, control person, or predecessors in
17 interest of Tri-City, and the agents, attorneys, accountants, investment bankers,
18 underwriters, and other professionals employed by any Person who is or was a past or
19 present officer, director, executive, control person, or predecessors in interest of Tri-City;

20 c. All claims, causes of action and defenses against any Person,
21 including, without limitation, preference causes of action under 11 U.S.C. § 547, who
22 received a payment from Tri-City in the 90 days before the Petition Date or, in the case of
23 an Insider (as defined in the Bankruptcy Code), in the one (1) year before the Petition
24 Date;

25 d. All claims, causes of action, and defenses arising out of or related to
26 lawsuits and proceedings pending as of the Petition Date, and any lawsuit or proceeding
27 commenced by or against Tri-City after the Petition Date;

28

1 e. All claims, causes of action, and defenses arising under or related to
2 that certain "Tri-City Mental Health Authority 2003 Revenue Anticipation Agreement"
3 dated on or about March 1, 2003, and the "\$800,000 Real Property Lease/Leaseback
4 Agreement" dated on or about March 1, 2003, between Tri-City and Zions First National
5 Bank, a national banking association;

6 f. All rights, claims, causes of action and defenses arising under or
7 related to Claims that have been purchased during this Chapter 11 Case and/or are
8 asserted by a Person other than the original claimant, including, but not limited to,
9 defenses to the amount of such claims based on failure to provide adequate information
10 to the transferors;

11 g. All claims, causes of action and defenses arising out of or related to
12 any theft claims, fire loss claims and damage claims at any time arising against any
13 Person;

14 h. All claims, causes of action and defenses arising out of or related to
15 amounts due Tri-City, by any Person, for deposit refund claims, chargebacks, rebates,
16 premium adjustments, refunds and accounts receivable claims;

17 i. All defenses, counterclaims, third party claims, offset claims, rights of
18 recoupment, causes of action for equitable or contractual subordination, indemnity claims
19 and coverage claims arising out of or related to any Claim against Tri-City, whether
20 based on the Bankruptcy Code or any applicable law;

21 j. All claims related to taxes, and rights to file tax returns and amended
22 returns and to seek tax determinations, including, without limitation, tax loss carryback
23 claims, net operating loss claims, determinations of basis or depreciation, overpayment
24 claims, offset and counterclaims;

25 k. All claims, causes of action and defenses against or with respect to
26 financial institutions and any other Person for the turnover of funds of, or due to, Tri-City;

27 l. All rights, causes of action, defenses, claims, powers, privileges and
28 licenses of Tri-City;

1 m. All causes of action, claims and defenses arising under the Plan and
2 the Bankruptcy Code;

3 n. All rights, claims, causes of action and defenses for coverage in or
4 under any and all insurance policies of Tri-City; and

5 o. All rights, claims, or Causes of Action owned by, accruing to, or
6 assigned to Tri-City pursuant to the Bankruptcy Code or pursuant to any contract, statute,
7 or legal theory, including without limitation Avoidance Claims.

8 Also expressly retained are all of the claims, causes of action, defenses,
9 counterclaims, causes of action for equitable or contractual subordination, offset and
10 recoupment rights of Tri-City against any Person whether or not particularly disclosed in
11 the Disclosure Statement, it being the intent expressly provided in the Plan, and Tri-City
12 will request that the Confirmation Order include findings of fact and a judicial
13 determination that the requirements of *In re Heritage Hotel*, 160 B.R. 374, 377 (B.A.P. 9th
14 Cir. 1993), *aff'd*, 59 F.3d 175 (9th Cir. 1995), and *The Alary Corp. v. Sims (In re*
15 *Associated Vintage Group, Inc.)*, 283 B.R. 549, 564 (B.A.P. 9th Cir. 2002), have been
16 satisfied, and that all claims and causes of action held by Tri-City are retained and shall
17 not be barred under the principles of res judicata, and will not be waived by reason of
18 estoppel, judicial estoppel or res judicata.

19 Authority to Prosecute Rights of Action.

20 Section 9.9 of the Plan provides that, following the Effective Date, Tri-City will be
21 the appointed representative to, and may, pursue, litigate, and compromise and settle
22 any and all Rights of Action, as appropriate, without further notice, the opportunity for a
23 hearing, or Bankruptcy Court approval. The deadline for commencing an action based on
24 a Right of Action shall be one hundred eighty (180) days after the Effective Date or as
25 may be further extended by order of the Bankruptcy Court; provided, however, that if the
26 entity against whom the Debtor asserts a Right of Action is a debtor under any Chapter of
27 the Bankruptcy Code, then the deadline shall be one hundred eighty (180) days after the
28

1 Debtor obtains relief from stay or other relief which will permit the Filing of an action
2 against such entity based on a Right of Action.

3 No Waiver Or Limitation Of Rights Of Action.

4 The failure to list any potential or existing Rights of Action generally or specifically
5 in the Disclosure Statement is not intended to and shall not limit the rights of Tri-City to
6 pursue any such action. Unless a Right of Action is expressly waived, relinquished,
7 released, compromised or settled in the Plan, Tri-City expressly reserves all Rights of
8 Action for later adjudication and, as a result, no preclusion doctrine, including without
9 limitation the doctrines of res judicata, collateral estoppel, issue preclusion, claim
10 preclusion, estoppel (judicial, equitable or otherwise) or laches, shall apply to such Rights
11 of Action upon or after the confirmation or consummation of the Plan or the Effective
12 Date. In addition, Tri-City expressly reserves the right to pursue or adopt against any
13 other entity any claims alleged in any lawsuit in which Tri-City is a defendant or an
14 interested party.

15 Authority to Settle Rights of Action.

16 From and after the Effective Date, Tri-City shall be authorized with respect to any
17 Rights of Action, pursuant to Bankruptcy Rule 9019 and section 105(a) of the Bankruptcy
18 Code, to compromise and settle such Rights of Action, in accordance with the following
19 procedures, which shall constitute sufficient notice in accordance with the Bankruptcy
20 Code and the Bankruptcy Rules for compromise and settlement of such Rights of Action:

21 (i) If (a) the total amount in controversy in connection with a Rights of Action to
22 be settled is less than \$100,000 (i.e. the total amount Tri-City seeks to recover, exclusive
23 of costs, attorney's fees, expenses and punitive damages, is less than \$100,000), (b) a
24 proceeding has not been commenced with respect to such Rights of Action in any Court
25 and (c) the proposed settlement of the Rights of Action involves solely the payment in
26 Cash to Tri-City of an amount not less than fifty percent (50%) of the total amount in
27 controversy in connection with such Rights of Action, then Tri-City shall be authorized
28 and empowered to settle the Rights of Action and execute necessary documents,

1 including a stipulation of settlement or release, without the need for prior Court approval
2 of such settlement; and

3 (ii) If the settlement of a Rights of Action at issue is not one that complies with
4 the requirements of the foregoing subsection (i), then Tri-City may settle such Rights of
5 Action with the approval of the Bankruptcy Court pursuant to Bankruptcy Rule 9019 after
6 notice to those Persons on the Post-Effective Date Limited Notice List and a hearing.

7 Other than the recipients of potential preferences as described **Exhibit G** and
8 other claims set forth in the attached **Exhibit I** (including, e.g., claims against M.R. Grant
9 CPA, Tri-City's former Chief Financial Officer Gary Barnes, and Zions First National Bank
10 discussed in Article V Section B.5., above), Tri-City currently is not aware of any viable
11 actions against third parties. With respect to preferences, Tri-City currently does not
12 believe that recoveries will be material.

13 **6. Continued Vesting of Property.**

14 On and after the Effective Date, Tri-City shall remain vested with all its property.

15 **7. Cancellation of Liens.**

16 Section 9.11 of the Plan provides that, except as otherwise provided in the Plan,
17 on the Effective Date any lien or security interest securing any Secured Claim shall be
18 deemed released, and the entity holding such Secured Claim shall be authorized and
19 directed to release any collateral or other property of Tri-City held by such entity and to
20 take such actions as may be requested by Tri-City to evidence the release of such lien,
21 including without limitation the execution, delivery and filing or recording of such releases.

22 **8. Authorization.**

23 Section 9.13 of the Plan provides that each of the officials and employees of Tri-
24 City's, subject to the extent authorized by Tri-City's Governing Board, are authorized to
25 execute, deliver, file, or record such contracts, instruments, releases, indentures, and
26 other agreements or documents and take such actions as may be necessary or
27 appropriate to effectuate and further evidence the terms and provisions of the Plan.

28

1 **9. Implementation Reports.**

2 On the earlier of 90 days following the Confirmation Date or 30 days after
3 Distributions are first made to the holders of Allowed Claims in Classes 2, 3 and 4, Tri-
4 City will file an implementation report with the clerk of the Bankruptcy Court setting forth
5 the status of implementation of the Plan. Supplemental implementation reports are to be
6 filed every 120 days thereafter until the time that Tri-City files a motion with the clerk of
7 the Bankruptcy Court requesting the entry of a final decree closing the Chapter 9 Case.
8 A final implementation report will be included in Tri-City's motion for a final decree.

9
10 **C. Treatment of Executory Contracts and Unexpired Leases.**

11 **1. Generally.**

12 The Bankruptcy Code empowers a debtor, subject to the approval of the
13 Bankruptcy Court, to assume or reject the debtor's executory contracts and unexpired
14 leases. An "executory contract" generally means a contract under which material
15 performance other than the payment of money is due by the parties.

16 If an executory contract or unexpired lease is rejected by a debtor, the rejection
17 operates as a pre-petition breach of such agreement. If an executory contract or
18 unexpired lease is assumed by a debtor, the assumption obligates the debtor to perform
19 under the agreement, and damages arising for any subsequent breach of the agreement
20 are treated as administrative expenses.

21 As noted above, during the course of the Chapter 9 Case Tri-City rejected certain
22 executory contracts and leases. With respect to the remaining executory contracts and
23 leases, as of the date of this Disclosure Statement, Tri-City has determined that except
24 for a limited number of executory contracts that are beneficial to it and that will be
25 assumed, all other executory contracts and leases will be rejected. Tri-City has reviewed
26 its contracts to determine which remaining executory contracts should be assumed and
27 which should be rejected pursuant to the Plan, each in the manner described below
28

1 **2. Assumption.**

2 Under Section 10.1 of the Plan Tri-City assumes the executory contracts and
3 unexpired leases set forth in Exhibit 2 to the Plan and the Plan constitutes a motion to
4 assume such executory contracts and unexpired leases. Subject to the occurrence of the
5 Effective Date, entry of the Confirmation Order by the Bankruptcy Court will constitute
6 approval of and authorization for the assumption of such executory contracts and
7 unexpired leases pursuant to section 365(a) of the Bankruptcy Code and a finding by the
8 Bankruptcy Court that each assumption is in Tri-City's best interest and all parties in
9 interest in the Chapter 9 Case.

10 **3. Cure Payments.**

11 Section 10.2 of the Plan provides that, as soon as practicable after and in no event
12 later than thirty (30) days after the Effective Date, Tri-City will pay to each party to an
13 executory contract or unexpired lease assumed pursuant to Section 10.1 of the Plan any
14 monetary amounts required to be paid under section 365(b) of the Bankruptcy Code as a
15 condition to assumption, unless Tri-City and such party agree to different arrangements
16 for the satisfaction of obligations under section 365(b). The Bankruptcy Court will retain
17 jurisdiction to and, after the provision of notice and the opportunity for a hearing in
18 accordance with the Bankruptcy Rules, will resolve all disputes regarding (i) the amount
19 of any cure payment to be made pursuant to the Plan; (ii) the ability of Tri-City to provide
20 "adequate assurance of future performance" within the meaning of section 365 of the
21 Bankruptcy Code under the contract or lease to be assumed; and (iii) any other matter
22 pertaining to such assumption.

23 **4. Deadline for the Assertion of Claims for Cure Payments.**

24 Tri-City does not believe that any amounts are necessary to be paid in order to
25 cure any existing defaults or arrearages under the executory contracts and unexpired
26 leases to be assumed pursuant to Section 10.1 of the Plan. Any party to such an
27 executory contract or unexpired lease that asserts that any payment or other
28 performance is due in connection with the proposed assumption of such agreement in

1 accordance with the Plan must file with the Bankruptcy Court and serve upon Tri-City a
2 written statement and accompanying declaration in support thereof specifying the basis
3 for its claim within the same deadline and in the manner established for filing objections
4 to confirmation of the Plan (see, Section 10.4 of the Plan). **The failure to timely file and**
5 **serve such a statement will waive any and all objections to the proposed**
6 **assumption and any claim for cure amounts of the agreement at issue.**

7 **5. Rejection of Executory Contracts**

8 Under Section 10.3 of the Plan any executory contracts or unexpired leases that (i)
9 are not identified on Exhibit 2 to the Plan; (ii) have not expired by their own terms on or
10 prior to the Effective Date; (iii) have not been assumed, assumed and assigned, or
11 rejected with the approval of the Bankruptcy Court as of the Effective Date; and (iv) are
12 not the subject of a motion for rejection pending as of the Effective Date, shall be deemed
13 to have been rejected by Tri-City effective as of the Effective Date, and the Plan
14 constitutes a motion to reject such executory contracts and unexpired leases. Section
15 10.3 further provides that subject to the occurrence of the Effective Date, entry of the
16 Confirmation Order by the Bankruptcy Court will constitute approval of and authorization
17 for the rejection of such executory contracts and unexpired leases pursuant to section
18 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each rejection
19 is in the best interest of Tri-City and all parties in interest in the Chapter 9 Case.

20 **6. Deadline For The Assertion Of Rejection Damage Claims;**
21 **Treatment Of Rejection Damage Claims.**

22 **All proofs of claim arising from the rejection of executory contracts or**
23 **unexpired leases pursuant to Section 10.3 of the Plan must be filed with the**
24 **Bankruptcy Court and served on Tri-City no later than thirty (30) days after the date**
25 **on which the Notice of Effective Date is mailed. *Any claim for which a proof of***
26 ***claim is not filed and served within such time will be forever barred and will not be***
27 ***enforceable against Tri-City or its assets, properties, or interests in property.***
28

1 Unless otherwise ordered by the Bankruptcy Court, all such claims that are timely
2 filed as provided herein will be treated as General Unsecured Claims and classified into
3 Class 2 or, in the case of an executory contract or lease between Tri-City and CAL DMH
4 or Tri-City and LAC DMH, be classified into Classes 3 or 4, respectively, under the Plan,
5 as is appropriate.

6

7 **D. Distributions.**

8 **1. Disbursing Agent.**

9 On or after the Effective Date, Tri-City may retain one or more agents to perform
10 or assist it in performing the Distributions to be made pursuant to the Plan, which agents
11 may serve without bond. Tri-City may provide reasonable compensation to any such
12 agent(s) without further notice or Bankruptcy Court approval.

13 **2. Delivery of Distributions.**

14 All Distributions will be made at the address of the holder of an Allowed Claim as
15 set forth in the (i) List of Creditors, unless Tri-City has been notified by such holder in a
16 writing that contains an address for such holder different from the address reflected in
17 such List of Creditors for such holder; or (ii) at the address set forth in the holder's proof
18 of claim, unless Tri-City has been notified by such holder in a writing that contains an
19 address for such holder different from the address set forth in the proof of claim. If any
20 holder's Distribution is returned as undeliverable, no further Distributions to such holder
21 shall be made unless and until Tri-City is notified of such holder's then-current address,
22 at which time all missed Distributions shall be made to such holder, without interest.

23 **3. Timeliness Of Payments.**

24 Any payments or Distributions to be made pursuant to the Plan will be deemed to
25 be timely made if made within fourteen (14) days after the dates specified in the Plan.
26 Whenever any Distribution to be made under the Plan will be due on a day other than a
27 Business Day, such Distribution instead will be made, without interest, on the
28

1 immediately succeeding Business Day, but will be deemed to have been made on the
2 date due.

3 **4. No Post Petition Accruals.**

4 Unless otherwise specifically provided in the Plan or allowed by order of the
5 Bankruptcy Court, Tri-City shall not be required to pay to any holder of a Claim any
6 interest, penalty, or late charge accruing with respect to such Claim on or after the
7 Petition Date. Interest shall not accrue or be paid upon any Disputed Claim in respect of
8 the period from the Petition Date to the date a final Distribution is made thereon if and
9 after such Disputed Claim becomes an Allowed Claim. With respect to oversecured
10 Claims (see 11 U.S.C. § 506(b)), post-petition interest shall accrue on such Claims at the
11 applicable statutory or contractual nondefault rate, as the case may be.

12 **5. Undeliverable Distributions.**

13 **a. Holding of Undeliverable Distributions.**

14 If any Distribution is returned to Tri-City or its agent as undeliverable, no further
15 Distributions will be made with respect to the Claim for which such Distribution is made
16 unless and until Tri-City is notified in writing of the Claim holder's then-current address.
17 Unless and until Tri-City is so notified, such Distribution shall be deemed to be
18 "Unclaimed Property."

19 **b. Unclaimed Property.**

20 Tri-City shall deposit any Unclaimed Distributions in the Disputed Claims Reserve
21 to be maintained by Tri-City and held in trust for the benefit of the holders of Allowed
22 Claims entitled thereto under the terms of the Plan. Prior to the expiration of two years
23 following the payment or Distribution date, Unclaimed Distributions due to the holders of
24 an Allowed Claim shall be released from the Disputed Claims Reserve and delivered to
25 the holder upon presentation of proper proof by such holder of its entitlement thereto. At
26 the end of two years following the payment or Distribution date, the holder of Allowed
27 Claims theretofore entitled to Unclaimed Distributions shall cease to be entitled thereto,
28 and the Unclaimed Distributions shall then become property of Tri-City.

1 **6. Time Bar To Cash Payments.**

2 Checks issued by Tri-City on account of Allowed Claims shall be null and void if
3 not negotiated within ninety (90) days from and after the date of issuance thereof.
4 Requests for reissuance of any check shall be made directly to Tri-City by the holder of
5 the Allowed Claim with respect to which such check originally was issued. Any Claim in
6 respect of such a voided check shall be made on or before the second anniversary of the
7 date on which the voided check was mailed. After such date, all Claims in respect of
8 voided checks shall be discharged and forever barred and Tri-City shall retain all moneys
9 related thereto.

10 **7. Compliance With Tax Requirements.**

11 Tri-City will comply with all tax withholding and reporting requirements imposed on
12 it by any governmental unit, and all Distributions pursuant to the Plan will be subject to
13 such withholding and reporting requirements. In connection with each Distribution with
14 respect to which the filing of an information return (such as Internal Revenue Service
15 Form 1099 or 1042) or withholding is required, Tri-City will file such information return
16 with the Internal Revenue Service and provide any required statements in connection
17 therewith to the recipients of such Distribution, or effect any such withholding and deposit
18 all moneys so withheld to the extent required by law. With respect to any entity from
19 whom a tax identification number, certified tax identification number, or other tax
20 information required by law to avoid withholding has not been received by Tri-City, Tri-
21 City, at its sole option, may withhold the amount required and distribute the balance to
22 such entity or decline to make such Distribution until the information is received. If the
23 holder of an Allowed Claim fails to provide the information necessary to comply with any
24 withholding requirements of any Governmental Unit within six (6) months from the date of
25 first notification to the holder of the need for such information or for the Cash necessary
26 to comply with any applicable withholding requirements, then the holder's Distribution
27 shall be treated as an undeliverable Distribution in accordance with this Plan.

28

1 **8. No Distributions On Account Of Disputed Claims.**

2 No Distributions will be made on account of any Disputed Claim until such Claim
3 becomes Allowed (and then only to the extent so Allowed). Distributions made after the
4 Effective Date in respect of Claims that were not Allowed as of the Effective Date (but
5 which later became Allowed) will be deemed to have been made as of the Effective Date.

6 **9. Disputed Claims Reserve.**

7 Tri-City will withhold Disputed Claims Reserve from the Cash to be distributed to
8 holders of Allowed General Unsecured Claims in Classes 2, 3 and 4 under the Plan. Tri-
9 City may request estimation for any Disputed Claim that is contingent or unliquidated and
10 Tri-City will withhold the Disputed Claims Reserve based upon the estimated amount of
11 such Claim as estimated by the Bankruptcy Court. If the Court so orders, any Claimant
12 whose Claim is so estimated shall have recourse only to the reserve established by the
13 Bankruptcy Court for such Claimant's Disputed Claim, and not to Tri-City or any Person
14 receiving property or Distributions under the Plan, even if the Allowed Claim of such
15 Claimant exceeds the maximum estimation of such Claim. **THUS, THE BANKRUPTCY**
16 **COURT'S ESTIMATION OF A DISPUTED CLAIM WILL LIMIT THE DISTRIBUTION TO**
17 **BE MADE THEREON, REGARDLESS OF THE AMOUNT FINALLY ALLOWED ON**
18 **ACCOUNT OF SUCH CLAIM.** If Tri-City elects not to request such an estimation from
19 the Bankruptcy Court with respect to a Disputed Claim that is contingent or unliquidated,
20 Tri-City will withhold the Disputed Claims Reserve based on the Face Amount of such
21 Claim. If practicable, Tri-City will invest any Cash that is withheld in the Disputed Claims
22 Reserve Account in a manner that will yield a reasonable net return, taking into account
23 the safety of the investment. Nothing in the Plan or Disclosure Statement will be deemed
24 to entitle the holder of a Disputed Claim to interest, post-petition or otherwise, on such
25 Claim.

26
27
28

1 **10. Distribution After Allowance.**

2 At such time as a Disputed Claim becomes an Allowed Claim, in whole or in part,
3 Tri-City or its agent shall distribute to the holder thereof the Distributions, if any, to which
4 such holder is then entitled under this Plan. Such Distributions, if any, shall be made as
5 soon as practicable after the date that the order or judgment of the Bankruptcy Court
6 allowing such Disputed Claim becomes a Final Order (or such other date as the Claim
7 becomes an Allowed Claim), but in no event more than thirty (30) days thereafter.
8 Unless otherwise specifically provided in this Plan or allowed by order of the Bankruptcy
9 Court, no interest shall be paid on Disputed Claims that later become Allowed Claims.

10 **11. No De Minimis Distributions.**

11 No payment of less than ten dollars (\$10.00) will be made by Tri-City on account
12 of any Allowed Claim.

13 **12. Claims Covered by Insurance.**

14 Any Allowed Claim which has available as a source of payment either an
15 insurance policy issued to Tri-City or in which Tri-City has any rights as named insured or
16 beneficiary, including but not limited to general liability, workers compensation, and
17 automobile insurance, shall receive Distributions pursuant to this Section. Nothing in the
18 Plan modifies, limits, impairs, or otherwise affects the terms or provisions of any
19 particular insurance policy, program, or agreement, or the nature and extent of coverage
20 thereunder.

21 Authorized Insurance Payments.

22 If an insurer stipulates that payment of an Allowed Claim will not affect coverage
23 for other Claims that may be made under the same insurance policy (i.e., aggregate limits
24 are sufficient to cover all such Claims), the Claimant may receive payment from said
25 insurer without further order of the Bankruptcy Court. If there is no such stipulation by the
26 insurer (i.e., an aggregate limit may exist), Tri-City shall use its best efforts to obtain an
27 order from the Bankruptcy Court authorizing the insurer to exercise either of the following
28 two (2) payment options:

1 a. Option A: The insurer shall pay the amount of the Allowed Claim (up to
2 the amount of policy limits) to the Claimant if the Bankruptcy Court estimates that total
3 Claims will not exceed the limits of the policy at issue and authorizes payment; or

4 b. Option B: The insurer shall pay the amount of the Allowed Claim (up to
5 the amount of the policy or bond limits) to Tri-City for Pro Rata Distribution to all holders
6 of Allowed Claims whose Claims are insured by the particular insurance policy at issue.
7 Upon said payment, all suits against the insurer based upon, arising out of, or related to
8 the Claim for which payment was made shall be enjoined. The funds paid to Tri-City
9 under this section shall be deposited in a separate account, which shall be interest-
10 bearing if possible, and held for payment of only those Allowed Claims which are covered
11 by the insurance policy at issue; and Distribution of funds in this account shall be made
12 only when and on such terms as the Bankruptcy Court authorizes.

13 c. The Debtor or any holder of an Allowed Claim that is covered by an
14 insurance policy may File a motion in the Bankruptcy Court for an order authorizing
15 payment or Distribution under this Section, on notice to those Persons on the Post-
16 Effective Date Limited Notice List, the Claimant, and the applicable insurance company.

17 Exhaustion of Insurance.

18 Distributions on account of Allowed Claims shall be made first from the applicable
19 insurance policies before any Distribution is made on account of such Allowed Claims
20 from the Distribution Reserve held by Tri-City, including from the Disputed Claims
21 Reserve Account. The Bankruptcy Court may provisionally determine or estimate that a
22 Claim would be covered by an insurance policy, if and to the extent it were an Allowed
23 Claim, in which event the Claim shall be provisionally disallowed and shall not receive
24 any Distributions from Tri-City or the Disputed Claims Reserve Account pending a
25 determination by an arbitrator, judge, or court of competent jurisdiction as to whether and
26 to what extent such Claim is covered by the insurance policy. Each Allowed Claim shall
27 be reduced by all payments that the holders of said Allowed Claim receives pursuant to
28 any insurance policy.

1 Coverage Denied.

2 a. If an insurer denies coverage of an Allowed Claim, that Claim shall be
3 treated the same as an Allowed Claim in accordance with the Plan.

4 b. If Tri-City, or the holder of an Allowed Claim obtains a recovery from an
5 insurer for an Allowed Claim for which coverage was earlier denied, then the recovery
6 shall be treated the same as a payment under this Plan. If the Claimant has previously
7 received a Distribution of Cash from Tri-City on account of its Allowed Claim, such
8 Distribution shall be credited against the amount of the Allowed Claim in its Class and, to
9 the extent that the insurance recovery plus the prior Distribution exceeds the Allowed
10 Claim, said surplus shall be retained by Tri-City or, if held by the Claimant, turned over to
11 Tri-City.

12 Calculation of Claim for Distributions.

13 In the event an Allowed Claim receives payment from an insurance policy and the
14 holder thereof also seeks Distributions of Cash from the Distribution Reserve under this
15 Plan, then the aggregate of (a) all payments received on account of said Allowed Claim
16 from any insurance, plus (b) Distributions of Cash from the Distribution Reserve under
17 this Plan on account of said Allowed Claim, shall not exceed (c) an amount equal to the
18 Cash Distribution said Allowed Claim would have been entitled to under this Plan.

19 **13. Setoffs.**

20 The Debtor may, in accordance with section 553 of the Bankruptcy Code and
21 applicable non-bankruptcy law, set off against any Allowed Claim and the Distributions to
22 be made pursuant to the Plan on account of such Claim (before any Distribution is made
23 on account of such Claim), the claims, rights and causes of action of any nature that Tri-
24 City may hold against the holder of such Allowed Claim; provided, however, that neither
25 the failure to effect such a setoff nor the allowance of any Claim hereunder shall
26 constitute a waiver or release by Tri-City of any such claims, rights and causes of action
27 that Tri-City may possess against such holder.

28

1 **14. Estimation of Claims.**

2 The Debtor may, at any time, request that the Bankruptcy Court estimate,
3 pursuant to section 502(c) of the Bankruptcy Code, any Claim that is contingent or
4 unliquidated, regardless of whether any party in interest has previously objected to such
5 Claim or whether the Bankruptcy Court has ruled on any such objection, and the
6 Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation
7 concerning any objection to any Claim, including during the pendency of any appeal
8 relating to any such objection. In the event that the Bankruptcy Court estimates any
9 contingent or unliquidated Claim, the amount of such estimation will constitute either the
10 Allowed amount of such Claim or a maximum limitation on such Claim, as determined by
11 the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such
12 Claim, Tri-City may elect to pursue any supplemental proceedings to object to any
13 ultimate payment on such Claim. All of the aforementioned Claims objection, estimation
14 and resolution procedures are cumulative and are not necessarily exclusive of one
15 another. Claims may be estimated and thereafter resolved by any mechanism permitted
16 under the Bankruptcy Code or the Plan.

17 **15. Amendment to Claims.**

18 A Claim may be amended prior to the Confirmation Date only as agreed upon by
19 Tri-City and the holder of such Claim, or as otherwise permitted by the Bankruptcy Court,
20 the Bankruptcy Rules or applicable law. After the Confirmation Date, a Claim may not be
21 Filed or amended without the authorization of the Bankruptcy Court. Unless otherwise
22 provided herein, any new or amended Claim Filed after the Confirmation Date shall be
23 deemed disallowed in full without any action by Tri-City, unless the holder of such Claim
24 has obtained prior Bankruptcy Court authorization for the Filing.

25 **16. Allocation of Distributions.**

26 Distributions to any holder of an Allowed Claim shall be allocated first to the
27 original principal portion of any such Allowed Claim, and then, to the extent the
28 consideration exceeds such amount, to the remainder of such Claim.

1 in this Disclosure Statement include acceptance of the Plan by the requisite number of
2 creditors, and whether the Plan is in the "best interests" of creditors. These
3 requirements, however, are not the only requirements for confirmation, and the
4 Bankruptcy Court will not confirm the Plan unless and until it determines that the Plan
5 satisfies all applicable requirements, including requirements not referenced in this
6 Disclosure Statement. These are complex statutory provisions and this summary is not
7 intended to be a complete statement of the law. You are encouraged to consult with your
8 own attorney and financial advisor with respect to issues relating to confirmation of the
9 Plan.

10 **A. Voting and Right to be Heard at Confirmation.**

11 **1. Who May Support Or Object To Confirmation Of The Plan?**

12 Any party in interest may support or object to the confirmation of the Plan. Even
13 entities who may not have a right to vote (e.g., entities whose claims are classified into an
14 unimpaired Class) may still have a right to support or object to confirmation of the Plan.
15 (See Article II, Section B.3., above, for information regarding the applicable deadlines for
16 objecting to confirmation of the Plan).

17 **2. Who May Vote To Accept Or Reject The Plan.**

18 A creditor generally has a right to vote for or against the Plan if its Claim is both
19 "allowed" for purposes of voting and classified into an Impaired Class.

20 **a. Allowed Claims For Voting Purposes.**

21 As noted above, a creditor's claim must be "allowed" for purposes of voting in
22 order for such claim or interest to have the right to vote on the Plan. Generally, for voting
23 purposes, a claim is deemed "allowed" for voting purposes if (a) a proof of claim was
24 timely filed, or (ii) if no proof of claim was filed, the holder of the claim is identified in the
25 List of Creditors as other than "disputed," "contingent," or "unliquidated." In either case,
26 when an objection to a Claim has been filed, the claimant cannot vote unless the
27 Bankruptcy Court, after notice and hearing, either overrules the objection or Allows the
28 Claim for voting purposes. Thus, the definition of "Allowed Claim" used in the Plan for

1 purposes of determining whether creditors are entitled to receive Distributions is different
2 from that used by the Bankruptcy Court to determine whether a particular Claim is
3 "allowed" for purposes of voting. Holders of claims are advised to review the definitions
4 of "Allowed," "Claim," and "Disputed" set forth in Article I of the Plan to determine whether
5 they may be entitled to receive Distributions under the Plan.

6 **b. Impaired Claims.**

7 As noted above, the holder of a Claim has the right to vote on the Plan if that
8 Claim is Allowed and classified into a Class that is Impaired under the Plan. A Class is
9 Impaired if the Plan alters the legal, equitable, or contractual rights of the members of
10 that Class with respect to their Claims. Tri-City believes that Classes 2 through 4 are
11 Impaired under the Plan. Any party that disputes such characterization, however, may
12 request that the Bankruptcy Court find that its Claim is Impaired in order to obtain the
13 right to vote on the Plan.

14 **3. Who Is Not Entitled To Vote.**

15 The holders of the following types of Claims are not entitled to vote on the Plan:
16 (a) Claims that have been Disallowed; (b) Claims that are subject to a pending objection
17 and which have not been Allowed for voting purposes; and (c) Claims entitled to priority
18 pursuant to sections 507(a)(1) of the Bankruptcy Code (defined as "Administrative
19 Claims" in the Plan). Holders of Administrative Claims are not entitled to vote because
20 such Claims are not placed in Classes and are required to receive certain treatment
21 specified by the Bankruptcy Code.

22 **4. Votes Necessary To Confirm The Plan.**

23 The Bankruptcy Court cannot confirm the Plan unless, among other things: (a) at
24 least one Impaired Class has accepted the Plan without counting the votes of any
25 insiders within that Class; and (b) either all Impaired Classes have voted to accept the
26 Plan, or the Plan is eligible to be confirmed by "cramdown" with respect to any dissenting
27 Impaired Class, as discussed below.

28

1 At the scheduled hearing on Confirmation of the Plan, the Bankruptcy Court must
2 determine, among other things, if the Plan has been accepted by each Impaired Class.
3 Under section 1126(c) of the Bankruptcy Code (11 U.S.C. § 1126(c)), an Impaired Class
4 of Claims is deemed to have accepted the Plan if Class members holding at least two-
5 thirds (2/3) in amount and more than one-half (1/2) in number of all Allowed Claims of
6 Class members actually voting have voted in favor of the Plan. **In regard to Class 3 and
7 Class 4 only, and without affecting CAL DMH's and LAC DMH's right to vote, failure
8 to submit a ballot as provided herein shall constitute and be deemed such party's
9 consent to the Plan for voting purposes.**

10

11 **B. The "Best Interests" Test.**

12 In order to confirm the Plan, the Bankruptcy Court also must determine that the
13 Plan is in the "best interests of creditors" pursuant to section 943(b)(7) of the Bankruptcy
14 Code. Commentators note that in the context of a chapter 9 case, the best interest of
15 creditors test compares treatment under the Plan with other "realistic" alternatives to the
16 proposed plan. See e.g. D. Kupetz, Municipal Debt Adjustment Under the Bankruptcy
17 Code, 27 The Urban Lawyer 550, 559 (1995). The proposed Plan must be better than
18 the alternative available to creditors of dismissal of a Chapter 9 debtor's case, in which
19 every creditor fends for itself in the race to obtain the mandamus remedy and to collect
20 the proceeds. See, 6 Collier on Bankruptcy ¶ 943.03 [a] (15th ed. rev. 2002).

21

22 **C. Feasibility.**

23 Section 943(b)(7) of the Bankruptcy Code also requires that the Plan be feasible.
24 There is limited authority as to what feasibility means in the context of a chapter 9 case.
25 Collier, a leading treatise on bankruptcy law, notes that in the context of a chapter 9
26 bankruptcy case of a municipality, the "feasibility" standard means that "the debtor must
27 demonstrate its ability to make the payments required under the plan and still maintain its
28 operations at the level that it selects as necessary to continued viability of the

1 municipality." 4 Collier on Bankruptcy ¶ 943.03[b] (15th ed. rev. 2002). Tri-City believes
2 that the same standard is applicable to it.

3 **1. Funding of Distributions Under the Plan and Continued**
4 **Operations.**

5 **a. Payment of Administrative Claims Other than CAL DMH**
6 **and LAC DMH Administrative Claims.**

7 As discussed above in Section VI.A., Tri-City believes that it has satisfied most
8 Administrative Claims in the ordinary course of business. With respect to Professional
9 Claims, professionals have been paid on a current basis and as of November 30, 2006,
10 unpaid Professional Claims collectively amount not to exceed approximately \$120,000.
11 Tri-City has sufficient funds on hand to pay outstanding Professional Claims. Tri-City
12 has sufficient funds on hand to satisfy Administrative Claims that may not have been paid
13 in the ordinary course of business, other than those that may be asserted by CAL DMH
14 and LAC DMH. Tri-City believes that as of the Effective Date, it will have sufficient funds
15 to pay the Allowed amount of any Administrative Claims (other than the Allowed CAL
16 DMH Administrative Claims and the Allowed LAC DMH Administrative Claims) that may
17 be asserted.

18 **b. Payment of Allowed CAL DMH and LAC DMH**
19 **Administrative Claims, Class 2 General Unsecured**
20 **Claims, Class 3 Allowed Unsecured Claims of CAL DMH,**
21 **and Class 4 LAC DMH.**

22 To support its belief in the feasibility of the Plan, Tri-City has prepared pro-forma
23 projections for Fiscal Years 2007-2010, as set forth in **Exhibit J** to this Disclosure
24 Statement ("Projections"). The Projections indicate that Tri-City should have sufficient
25 cash flow to satisfy the Allowed Administrative Claims of CAL DMH and LAC DMH.
26 Further, the projections indicate that Tri-City should have sufficient cash flow to make the
27 Distributions required to holders of Allowed Claims in Classes 2, 3 and 4 based on the
28 estimated Allowed amount of such General Unsecured Claims in Classes 2, 3 and 4 as

1 discussed in this Disclosure Statement (see Article VI, Section A.2. of this Disclosure
2 Statement).

3 **2. Sustenance of Ongoing Operations.**

4 The Projections to this Disclosure Statement also indicate that Tri-City should
5 have sufficient cash flow to sustain its operations at their current level while making
6 Distributions required under the Plan. The Projections assume the ability to sustain
7 current operational levels. Further, subject to Tri-City entering into a contract with LAC
8 DMH and CAL DMH in regard to Tri-City's Medi-Cal services including, without limitation,
9 EPSDT services, Tri-City will have access to additional funding from FFP and the State
10 General Fund, which will provide an opportunity for measured and planned growth in
11 operations with respect to the provision of Medi-Cal services including EPSDT services.

12 **3. Assumptions Underlying Projections – The Absence of an LAC**
13 **DMH Contract.**

14 In the event the LAC DMH Contract is not timely executed, based on the
15 Projections, Tri-City believes that the Plan complies with the feasibility standard of
16 section 943(b)(7) of the Bankruptcy Code. The Projections are, among other things,
17 based on the following major assumptions:

18 a) Tri-City will continue to be eligible for participation in the
19 mental health and other governmental programs under AB2034, in which it is currently a
20 participant, and receive Realignment Funds;

21 b) The government programs in which Tri-City previously
22 participated in that provided funding from FFP and State General Funds, other than
23 AB2034 and receipt of Realignment Funds, will not be continued in their current mode,
24 and the provision of services to persons eligible for Medi-Cal will be phased out and
25 replaced with services provided to indigent and individuals included in other government-
26 funded programs;

27 c) The funding of the government programs in which Tri-City
28 participates will continue at the current and projected levels;

1 d) The cost of providing services to the indigent will approximate
2 fifty-seven (57%) of annual Realignment Funds that Tri-City receives;

3 e) Tri-City's post Confirmation administrative costs will remain at
4 projected levels freeing up Realignment Funds for use in paying Allowed Claims in
5 Classes 2, 3 and 4; and

6 f) Except with respect to CAL DMH's and LAC DMH's respective
7 Allowed Unsecured Claims, Realignment Funds is the only available source of funds for
8 payment of creditors' Allowed Unsecured Claims.

9 Additional assumptions are set forth in the Projections attached as **Exhibit J**.

10 **4. Assumptions Underlying Alternative Projections – With an LAC**
11 **DMH Contract in Place.**

12 Based on these Alternative Projections, Tri-City believes that the Plan complies
13 with the feasibility standard of section 943(b)(7) of the Bankruptcy Code. The Alternative
14 Projections are, among other things, based on the following major assumptions:

15 a) Tri-City will successfully contract with CAL DMH and LAC DMH to continue
16 to be eligible for participation in the mental health and other governmental programs in
17 which it is currently a participant;

18 b) The government programs in which Tri-City participates will continue in their
19 current mode, without material changes in the nature, type, composition or scope of
20 benefits required to be provided in each such program or in the composition of individuals
21 eligible for services in each such program;

22 c) The funding of all the government programs in which Tri-City participates
23 will either continue or resume at the projected levels;

24 d) Medi-Cal Cost disallowance will not exceed 10% of the actual charges
25 submitted by Tri-City in support of FFP funds it has received;

26 e) The cost of providing services to the indigent will not exceed eleven percent
27 (11%) of annual Realignment Funds that Tri-City receives;

28

1 f) Tri-City's post Confirmation administrative costs will remain at projected
2 levels freeing up Realignment Funds for use in paying Allowed Claims in Classes 2, 3
3 and 4; and

4 g) Except with respect to CAL DMH's and LAC DMH's respective Allowed
5 Unsecured Claims, Realignment Funds is the only available source of funds for payment
6 of creditors' Allowed Unsecured Claims.

7 Additional assumptions are set forth in the Projections attached as Exhibit J.

8 **5. Cautionary Statement Regarding Projections**

9 Tri-City cautions that no representations can be made as to the accuracy of the
10 Projections or its ability to achieve the projected result. Many of the assumptions on
11 which the Projections are based are subject to uncertainties outside of Tri-City's control.
12 Some assumptions may not materialize and events occurring after the date on which the
13 Projections were prepared may be different from those assumed or may be unanticipated
14 and may adversely affect Tri-City's financial results. Therefore, the actual results may
15 vary from the projected results and the variations may be material and adverse. In
16 addition to the factors discussed above, other factors such as state budgetary constraints
17 and efforts by the federal and state legislatures to limit available funding and the extent to
18 which costs may be reimbursed as well as other funding limitations and constraints
19 imposed, may impact programs funding levels, when funds are made available and
20 consequently the accuracy of the Projections. Your attention is drawn to Article VIII,
21 below, entitled "Certain Factors to Be Considered" for an expanded discussion of certain
22 risk factors that may affect the Projections and the financial feasibility of the Plan.

23 THE PROJECTIONS HAVE NOT BEEN AUDITED BY TRI-CITY'S
24 INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS. ALTHOUGH PRESENTED
25 WITH NUMERICAL SPECIFICITY, THE PROJECTIONS ARE BASED UPON A
26 VARIETY OF ASSUMPTIONS, SOME OF WHICH IN THE PAST HAVE NOT BEEN
27 ACHIEVED AND WHICH MAY NOT BE REALIZED IN THE FUTURE AND ARE
28 SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES ATTENDANT

1 WITH PARTICIPATION IN AND FUNDING FROM GOVERNMENTAL PROGRAMS,
2 WHICH ARE BEYOND TRI-CITY'S CONTROL. CONSEQUENTLY, THE
3 PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION OR
4 WARRANTY BY TRI-CITY OR ANY OTHER PERSON THAT THE PROJECTIONS WILL
5 BE REALIZED. ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE
6 PRESENTED IN THE PROJECTIONS.

7

8 **D. Confirmation Without Acceptance of all Impaired Classes: the**
9 **"Cramdown" Alternative.**

10 The Plan may be confirmed even if not accepted by all Impaired Classes, if at
11 least one Impaired Class of Claims accepts the Plan and the Bankruptcy Court finds that
12 the other applicable requirements of Confirmation under sections 1129 and 943(b) of the
13 Bankruptcy Code (11 U.S.C. §§ 1129 and 943(b)) are satisfied. The requirements
14 include the so-called "cramdown" provisions set forth in sections 1129(b)(1), (b)(2)(A) and
15 (b)(2)(B) of the Bankruptcy Code, (11 U.S.C. § 1129(b)) as made applicable by
16 Bankruptcy Code section 901(a) (11 U.S.C. § 901(a)). If the Plan is accepted by at least
17 one, but not all, Impaired Class or Classes, Tri-City will rely on the applicable "cramdown"
18 provisions of section 1129(b) of the Bankruptcy Code and seek Confirmation of the Plan.

19 The Plan may be confirmed under the cramdown provisions, if the Plan is
20 accepted by at least one Impaired Class and in addition to satisfying the other
21 requirements of section 943(b) of the Bankruptcy Code, the Plan (a) is "fair and
22 equitable" and (b) does not discriminate unfairly with respect to each Class of Claims that
23 is Impaired under and has not accepted the Plan. The "fair and equitable" standard, also
24 known as the "absolute priority rule," requires, among other things, that unless a
25 dissenting unsecured Class of Claims receives payment in full for its allowed claim, no
26 holder of Allowed Claims in any Class junior to that Class may receive or retain any
27 property on account of such Claims. The "fair and equitable" standard also has been
28 interpreted to prohibit any Class senior to a dissenting Class from receiving under a Plan

1 more than 100% of its Allowed Claims. Tri-City believes that the Plan satisfies the “fair
2 and equitable” standard because, among other things, no Classes junior to the Classes
3 of Unsecured Claims are receiving or retaining any property under the Plan.

4 The requirement that the Plan not “discriminate unfairly” means, among other
5 things, that a dissenting Class must be treated substantially equally with respect to other
6 Classes of equal rank. Tri-City does not believe that the Plan unfairly discriminates
7 against any Class that may not accept or otherwise consent to the Plan.

8 **As noted above, given the possible rejection by any of the Classes, Tri-City**
9 **has requested the Bankruptcy Court to confirm the Plan by “cramdown” in**
10 **accordance with sections 1129(b)(1), (b)(2)(a) and (b)(2)(b). Tri-City also has**
11 **reserved the right to modify the Plan to the extent, if any, that Confirmation of the**
12 **Plan under sections 943 and 1129(b) of the Bankruptcy Code requires such**
13 **modification.**

14

15 **E. Conditions to Confirmation and Effectiveness of Plan.**

16 **1. Conditions To Confirmation.**

17 Entry of the Confirmation Order in a form and substance satisfactory to Tri-City in
18 its sole discretion is a condition precedent to Confirmation of this Plan.

19 **2. Conditions to Effective Date.**

20 The Plan will not become effective and operative unless and until the Effective
21 Date occurs. The Effective Date will not occur unless and until (a) the Confirmation
22 Order becomes a Final Order and be in full force and effect; and (b) Plan Documents are
23 in a form and substance acceptable to Tri-City in its sole discretion and have been duly
24 and validly executed and delivered, or deemed executed by the parties thereto, and all
25 conditions to their effectiveness have been satisfied or waived. These conditions to the
26 effectiveness of the Plan may be waived by Tri-City, in whole or in part, in the exercise of
27 its sole discretion (which waiver shall not require any notice or authorization from the
28

1 Bankruptcy Court, other than the filing of a notice of such waiver with the Bankruptcy
2 Court).

3 The Effective Date will occur on the first Business Day after which the conditions
4 set forth in Section 15.2 of the Plan are satisfied or waived.

5 **3. Non-Occurrence Of Effective Date.**

6 The Plan provides that, if the conditions to effectiveness of the Plan are not
7 satisfied or waived, then, unless otherwise ordered by the Bankruptcy Court: (a) the
8 Confirmation Order will be deemed vacated; (b) all bar dates and deadlines established
9 by the Plan or the Confirmation Order will be deemed vacated; (c) the Chapter 9 Case
10 will continue as if Confirmation had not occurred; and (d) the Plan will be of no further
11 force and effect, with the result that Tri-City and other parties in interest will be returned
12 to the same position as if confirmation had not occurred. The failure of the Effective Date
13 to occur, however, will not affect the validity of any order entered in the Chapter 9 Case
14 other than the Confirmation Order.

15

16 **F. Effect of Confirmation.**

17 Sections 12.1 through 12.5 of the Plan provide that confirmation of the Plan and
18 the occurrence of the Effective Date will have a number of important and binding effects,
19 some of which are summarized below. Readers are encouraged to review these
20 Sections of the Plan carefully and in their entirety to assess the various consequences of
21 confirmation of the Plan.

22 **1. Discharge Of Tri-City.**

23 Pursuant to section 944 of the Bankruptcy Code, on the Confirmation Date Tri-City
24 will be discharged from all of its Debts and all Claims against it that arose prior to the
25 Confirmation Date, whether or not: (a) a proof of Claim based on such Debt is filed or
26 deemed filed under section 501 of the Bankruptcy Code; (b) such Claim is Allowed under
27 section 502 of the Bankruptcy Code; or (c) the holder of such Claim accepts the Plan,
28 except for: (i) any Debt specifically and expressly excepted from discharge by the Plan or

1 the Confirmation Order; or (ii) any Debt owed to an entity that, before the Confirmation of
2 this Plan, had neither notice nor actual knowledge of the Chapter 9 Case.

3 The rights afforded in the Plan and the treatment of Claims will be in exchange for
4 and in complete satisfaction, discharge and release of all Claims of any nature
5 whatsoever arising on or before the Effective Date, known or unknown, including any
6 interest accrued or expenses incurred thereon from and after the Petition Date, whether
7 against Tri-City or any of its properties, assets, or interests in property. Except as
8 otherwise provided in the Plan, on the Effective Date, all Claims against Tri-City will be
9 deemed to be satisfied, discharged and released in full.

10 **2. Judgments Void.**

11 Pursuant to sections 901(a) and 524(a)(1) of the Bankruptcy Code, Tri-City's
12 discharge upon Confirmation of the Plan under section 944(b) of the Bankruptcy Code,
13 voids any judgments at any time obtained, to the extent that such judgment is a
14 determination of liability of Tri-City with respect to any Debt discharged, whether or not
15 discharge of such Debt is waived.

16 **3. Injunction**

17 Section 12.3 of the Plan provides that, except as otherwise provided in the Plan,
18 all entities who have held, hold or may hold pre-Confirmation Date Claims will be
19 permanently enjoined, from and after the Confirmation Date, from (a) commencing or
20 continuing in any manner any action or other proceeding of any kind with respect to any
21 such pre-Confirmation Date Claim against Tri-City or its property; (b) enforcing, attaching,
22 collecting, or recovering by any manner or means any judgment, award, decree or order
23 against Tri-City or its property with respect to such pre-Confirmation Date Claims; (c)
24 creating, perfecting, or enforcing any lien or encumbrance of any kind against Tri-City or
25 its property; and (d) further excepting setoff rights under Section 553 of the Bankruptcy
26 Code, but not including any Deduction Right of CAL DMH and/or LAC DMH, asserting
27 any right of setoff, subrogation or recoupment of any kind against any obligation due to
28 Tri-City with respect to any such pre-Confirmation Date Claim.

1 **4. Term Of Existing Injunctions And Stays.**

2 Section 12.4 of the Plan provides that all injunctions or stays provided for in the
3 Chapter 9 Case pursuant to sections 105, 362, or 922 of the Bankruptcy Code, or
4 otherwise, and in existence on the Confirmation Date, will remain in full force and effect
5 until the Effective Date.

6 **5. Release by Claimants.**

7 On the Effective Date, all Claimants and each entity (collectively, "Releasing
8 Parties") that has held, holds or may hold a Claim, in consideration for the obligations of
9 Tri-City under the Plan, shall have conclusively, absolutely, unconditionally, irrevocably
10 and forever, releases Tri-City and the cities of Pomona, La Verne, and Claremont, and
11 each of them, from any Claim or Cause of Action existing as of the Effective Date arising
12 from, based on or relating to, in whole or in part, the subject matter of, or the transaction
13 or event giving rise to, the Claim of such Releasing Party, and any act, omission,
14 occurrence or event in any manner related to such subject matter, transaction or
15 obligation. The releases provided in Section 12.5 of the Plan shall also act as a
16 permanent injunction against any Person commencing or continuing any action,
17 employment of process, or act to collect, offset or recover any Claim or Cause of Action
18 satisfied or release under this Plan to the fullest extent authorized or provided by the
19 Bankruptcy Code.

20

21

VIII.

22

CERTAIN RISK FACTORS TO BE CONSIDERED

23

24

25

26

27

28

 Holders of Claims against Tri-City should read and consider carefully the following
risk factors, as well as the other information set forth in this Disclosure Statement and the
documents delivered with this Disclosure Statement and/or incorporated by reference,
before deciding whether to vote to accept or reject the Plan. These risk factors should
not, however, be regarded as constituting the only risks involved in connection with the
Plan and its implementation.

1 **A. Fixed Revenue Source and Inability to Raise Revenue.**

2 As discussed above, aside from de minimis revenue derived from private sources,
3 historically all of Tri-City's funding for the Mental Health Services it provides has come
4 from three sources, Federal Financial Participation funds (FFP), state funds and local
5 matching funds. The state funding comes from State General Funds and Realignment
6 Funds, which in turn come from a portion of vehicle license fees and state sales taxes.
7 As stated earlier, Tri-City is presently not receiving funds from FFP for Medi-Cal services
8 or the State General Funds for EPSDT services.¹⁰ The local matching funds come from
9 the Cities of Claremont, La Verne and Pomona. As a consequence, Tri-City does not
10 have the ability to raise additional revenue to cover any short falls in revenue. In the
11 event that governmental funding is insufficient to cover actual costs (beyond the Reserve
12 Fund) and to make the Distributions required under the Plan, Tri-City might be forced to
13 seek further protection under the Bankruptcy Code or otherwise attempt to further adjust
14 its obligations.

15

16 **B. Reallocation of Revenue Away From Tri-City.**

17 Tri-City is a unique provider of mental health services. Aside from Tri-City, with
18 the exception of one other similarly structured provider in California, Bronzan-
19 McCorquodale/Short-Doyle Medi-Cal outpatient mental and behavioral health care
20 services are funded at the County level and various counties in the state directly
21 administer and provide or arrange for the provision of such services. There can be no
22 assurance that the federal and state legislatures will not enact legislation resulting in the
23 reallocation of program funding away from Tri-City and transferring the funding and
24 responsibility for provision of these services to another governmental entity. As stated

25

26 ¹⁰ Any funding from FFP or the State General Funds in the future will depend
27 on whether Tri-City, CAL DMH and LAC DMH enter into a contract that will allow such
28 funding to flow through LAC DMH to Tri-City. Until such contract is finalized, if at all, Tri-
City will not receive funds from FFP for its Medi-Cal services or from the State General
Fund for its EPSDT services.

1 earlier, under the California Performance Review, there is a proposal to eliminate Tri-
2 City's programs and reallocate the mental health funds to, in this instance, to the County
3 of Los Angeles. Any such revenue reallocations may jeopardize Tri-City's ability to
4 continue to operate at all or at current levels. In such event Tri-City might be forced to
5 seek further protection under the Bankruptcy Code or otherwise attempt to further adjust
6 its obligations.

7

8 **C. Withdrawal of Participant Cities.**

9 The Joint Powers Agreement by and among the Cities of La Verne, Claremont and
10 Pomona pursuant to which Tri-City was created ("JPA"), provides that the participating
11 cities may withdraw from the JPA upon proper notice of withdrawal prior to the annual
12 renewal of the JPA. In the event one or more of the participating cities withdraw from the
13 JPA, Tri-City's funding may be reduced or otherwise adversely impacted and its ability to
14 continue operations at all or at current levels may be jeopardized. In such event Tri-City
15 might be forced to seek further protection under the Bankruptcy Code or otherwise
16 attempt to further adjust its obligations.

17

18 **D. General Government Program Risk Factors.**

19 Tri-City participates in federal and state sponsored governmental programs and is
20 paid with federal and state funds and local matching funds. Tri-City is subject to a myriad
21 of federal and state regulatory requirements, including program compliance requirements
22 and its funding and ability to participate in the governmental programs depends on
23 program compliance. The text below discusses a few of the risk factors attendant with
24 participation in such programs that may force Tri-City to seek further protection under the
25 Bankruptcy Code or otherwise attempt to further adjust its obligations.

26

27 **1. Fundamental Change or Elimination of Certain Programs.**

28 Tri-City's Projections are based on certain assumptions concerning the continued
existence of the state government programs (AB2034 and Realignment Funds), or in the

1 case of the alternative projections, Federal and state government programs in which it
2 participates without a substantial change in the structure of the program. In the event
3 that there is a fundamental change in or elimination in one or more of these programs,
4 Tri-City may not have the anticipated revenue stream or may not be able to cover its
5 operating costs, possibly resulting in an inability to make the Distributions under the Plan.

6 **2. Reductions or Changes in Funding Levels.**

7 Federal and state governmental entities determine the rates payable to Tri-City,
8 program funding levels, the method and basis for reimbursement, including the costs and
9 expenditures for which Tri-City will be reimbursed and the timing for payment. California
10 is currently experiencing a budget deficit. In order to address the budget shortfall, the
11 state legislature has proposed to reduce payments to Medi-Cal providers. A prospective
12 or retrospective reduction in reimbursement rates or funding, a change in the method or
13 basis for reimbursement, or a change in the timing of payments to Tri-City could reduce
14 Tri-City's profitability if it cannot make a corresponding reduction in expenses and
15 possibly render Tri-City unable to make the Distributions under the Plan.

16 **3. Failure to Timely Fund or to Fund.**

17 Some of the services that Tri-City provides are reimbursed on a retrospective
18 basis - after the services have been rendered. Due to the California budget deficit,
19 among other reasons, the state has failed to appropriate the funds to reimburse Tri-City
20 for certain services that have been rendered. There can be no assurance that in the
21 future the state will appropriate necessary funds or make payment when due to Tri-City.
22 In the past, Tri-City has been forced to reallocate other program funds to cover the costs
23 of the unfunded program services in order to continue its operations. The failure to
24 appropriate funds for retrospective services or to timely fund Tri-City, may create a deficit
25 in operating revenues and necessitate that Tri-City utilize funds otherwise available for
26 making Distributions under the Plan, resulting in either a delay or inability to make
27 Distributions under the Plan.

28 **4. Failure to Renew Contracts or Termination of Contracts.**

1 Any of Tri-City's contracts with the state and with various governmental units
2 within the County of Los Angeles are terminable for cause if Tri-City breaches a material
3 provision of the contracts or violates relevant laws and regulations. Contracts may also
4 be cancelled by the state of California or the County of Los Angeles in the event state or
5 federal funding is unavailable. Tri-City's contracts or proposed contracts with these
6 governmental agencies are either for specified period of time or automatically renew on
7 an annual basis unless notice to terminate is given within a specified time of the annual
8 renewal date. A loss of these contracts would result in the termination of Tri-City's
9 participation in governmental programs and a corresponding loss of funding. Should this
10 occur Tri-City may be unable to continue operations or may have to continue operations
11 on a reduced funding level impeding its ability to make the Distributions required under
12 the Plan.

13 **5. Change in Applicable Program Laws and Regulations;**
14 **Regulatory Enforcement; Disallowance of Costs**

15 Tri-City is extensively regulated by the federal and state government agencies
16 administering the laws and governing the programs in which Tri-City participates. These
17 laws and regulations along with Tri-City's contracts with governmental agencies regulate
18 how Tri-City conducts its operations and the nature, extent, scope and composition of
19 services that it provides. These laws and regulations and their interpretations are
20 subject to frequent change. Changes may occur in existing laws and regulations, or
21 changes or modifications in their interpretations may be made by regulatory agencies or
22 the courts, or new laws or regulations may be enacted, any of which could fundamentally
23 alter the assumptions underlying Tri-City's Projections concerning the level, nature,
24 extent or composition of the services that Tri-City will be required to provide and
25 corresponding administrative overhead. Changes in regulatory agency policies
26 concerning enforcement of regulations and in general regulatory enforcement, can impact
27 Tri-City's operations and its ability to participate in governmental programs. All
28 payments to Tri-City are subject to governmental review and audit, which may

1 subsequently result in the disallowance of certain costs submitted by Tri-City and a
2 determination that Tri-City has been overpaid or its request for compensation overstated.
3 In such event there could be a reduction in future payments to Tri-City on account of such
4 determination.

5 **6. Change in Service Levels.**

6 Any material change in the level, nature, extent or composition of services could
7 adversely impact Tri-City's profitability and ability to make the Distributions required
8 under the Plan. Such changes could include an increase in the scope or composition of
9 services or a change in the composition of beneficiaries eligible to receive governmental
10 program services due to a legislative or regulatory change in program requirements or a
11 change in the interpretation of existing program mandates, whether the result of
12 regulatory agency action or court decree.

13 **7. Increased Regulatory Requirements and Reporting.**

14 Tri-City is required to adhere to regulatory requirements governing the
15 governmental programs in which it participates. Changes in regulatory requirements and
16 reporting to regulatory agencies could increase administrative costs through additional
17 staffing and support systems necessary for compliance with regulatory requirements.
18 This could result in the limitation or elimination of funds otherwise available for use in
19 making required Distributions under the Plan.

20 **8. Regulatory Enforcement and Program Administration.**

21 Tri-City is subject to various governmental review, audits and investigations.
22 Violation of the laws governing the programs in which Tri-City operates or changes in the
23 interpretation of applicable laws and regulations, could result in the imposition of civil or
24 criminal penalties, cancellation of contracts to provide services and exclusion from
25 participation in government sponsored programs. If Tri-City becomes subject to material
26 fines or other sanctions or other corrective action is imposed on it, it may suffer a
27 reduction or elimination of its projected profitability or one or more of its program
28

1 contracts may be cancelled, resulting in a significant loss of revenue thereby undermining
2 Tri-City's ability to make required Distributions under the Plan.

3 **9. Excessive and Unanticipated Cost Disallowances.**

4 Tri-City is reimbursed on an interim basis subject to the applicable governmental
5 agencies' review of program costs submitted in support of the interim payments. Tri-City
6 is also reimbursed on a retrospective basis for prior services rendered. All payments to
7 Tri-City are subject to governmental review and audit. As a result of an audit and review
8 a governmental agency may determine that certain overhead and administrative costs
9 incurred as well as services previously rendered are not allowable and compensable.
10 Such disallowance may result in a determination that Tri-City was over compensated in
11 the case of interim payments or that its compensation request is overstated with respect
12 to a retrospective payment request. Any such determination, if for a material amount,
13 may result in Tri-City having been overpaid and a reduction in future payments to Tri-City
14 to recover the overpayment in the case of prospective payments. If such a determination
15 is made in the case of retrospective payments, payments to Tri-City may be reduced. In
16 either event if the reduction in compensation is material and in excess of the amounts
17 contemplated by Tri-City's projections, Tri-City's operations may be impaired and it may
18 be unable to make the Distributions required under the Plan.

19
20 **E. Inherent Uncertainty of Financial Projections**

21 The Projections (both alternatives) set forth in the attached **Exhibit J** cover Tri-
22 City's operations through Fiscal year 2009-2010. These projections are based on
23 numerous assumptions, in addition to those set forth in the Projections, that include,
24 among other things Tri-City's continued eligibility for participation in the mental health and
25 other governmental programs in which it is a participant, continuance of such
26 governmental programs in their current mode, continued or resumed federal and state
27 funding of such governmental programs at the current and projected levels, timely
28 funding by governmental agencies, no excessive or unanticipated cost disallowances,

1 and no unanticipated increases in administrative costs as well as other matters, many of
2 which are beyond Tri-City's control and some or all of which may not materialize. In
3 addition, unanticipated events and circumstances occurring subsequent to the date that
4 this Disclosure Statement was approved by the Bankruptcy Court may affect the actual
5 financial results of Tri-City's operations. These variations may be material and may
6 adversely affect Tri-City's ability to make payments with respect to post-Effective Date
7 indebtedness and to make Distributions pursuant to the Plan. Because the actual results
8 achieved throughout the periods covered by the Projections may vary from the projected
9 results, the Projections should not be relied on as a guaranty, representation or other
10 assurance of the actual results that will occur.

11 Except with respect to the Projections and except as otherwise specifically and
12 expressly stated herein, this Disclosure Statement does not reflect any events that may
13 occur subsequent to the date hereof and that may have a material impact on information
14 contained in this Disclosure Statement. Tri-City does not intend to update the Projections
15 for the purposes hereof; thus, the Projections (both alternatives) will not reflect the impact
16 of any subsequent events not already accounted for in the assumptions underlying the
17 Projections.

18

19 **F. Claims Estimates.**

20 There can be no assurance that the estimated Claim amounts set forth herein are
21 correct and the actual amount of Allowed Claims may differ from the estimates. The
22 estimated amounts are subject to certain risks, uncertainties and assumptions. Should
23 one or more of these risks or uncertainties materialize or should the underlying
24 assumptions prove incorrect, the actual Allowed amount of Claims may vary from those
25 estimated herein.

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IX.

CERTAIN TAX CONSEQUENCES

The implementation of the Plan may have federal, state, local or foreign income and franchise tax consequences to the holders of Claims in the Chapter 9 Case. No rulings with respect to the federal, state, local or foreign tax consequences of the Plan will be sought or obtained. No tax opinion has been sought or will be obtained with respect to any tax consequences of the Plan. No tax opinion is intended to be given by this Disclosure Statement, and the description of tax consequences contained herein is provided for informational purposes only and should not be considered by any Creditor to be tax advice.

The Plan provides for the payment of certain Claims. The effect of the payment likely will depend on the recipient's method of tax accounting. For example, if an accrual-basis taxpayer already has included the amount of the Claim in income, the receipt of the payment will have no tax effect. By contrast, a cash-basis taxpayer will include the amount of the payment in income if the payment is compensation for the provision of goods or services.

HOLDERS OF CLAIMS ARE ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING STATE, LOCAL AND FOREIGN TAX CONSEQUENCES.

X.

ALTERNATIVES TO CONFIRMATION OF THE PLAN

In considering whether the Plan should be confirmed, the alternatives to confirmation of the Plan must be considered. The best interests of creditors test in the context of a chapter 9 case does not compare treatment under a plan to a liquidation under chapter 7 of the Bankruptcy code, but rather to other realistic alternatives to the Plan.

1 After careful consideration Tri-City is of the opinion that confirmation of the Plan is
2 far more advantageous to its Creditors and the constituents it serves, than are
3 alternatives to the Plan. There are two immediate alternatives to the Bankruptcy Court
4 confirming the Plan. The Bankruptcy Court could either dismiss the Chapter 9 case or
5 decline to confirm the Plan and provide Tri-City with additional time to develop a different
6 plan.

7 If the Bankruptcy Court were to dismiss the Chapter 9 Case, Tri-City's creditors
8 could sue Tri-City. Tri-City would be unable to pay the judgments that may be obtained.
9 Tri-City would also likely be ordered to sell the few tangible assets that it owns (the Garey
10 Property, furniture and office equipment) making it difficult for Tri-City to operate and
11 render services.

12 In the context of the Chapter 9 Case and the present Plan, both CAL DMH and
13 LAC DMH have agreed to limit their exercise of Deduction Rights and in the case of CAL
14 DMH to limit the amount of its Claim. If dismissal of the Chapter 9 Case were to occur,
15 CAL DMH and LAC DMH would likely exercise their full Deduction Rights withholding
16 payments due to Tri-City to partially satisfy Tri-City's debts to them, resulting in little or no
17 available cash. The extent to which and the timing when CAL DMH and the County of
18 Los Angeles would exercise their Deduction Rights would likely depend on their ability to
19 make alternative arrangements for the rendering of the services that Tri-City currently
20 provides. Once alternative arrangements could be made by CAL DMH and Tri-City, little
21 or no funds would flow to Tri-City by reason of the exercise of Deduction Rights, Tri-City's
22 contracts would be terminated and its operations would cease.

23 Should the Bankruptcy Court decline to confirm the Plan and afford Tri-City
24 additional time to develop an alternative, Tri-City could pursue transferring its operations
25 and responsibility for its liabilities to the member Cities or to the County of Los Angeles.
26 To date none of these governmental entities has indicated any interest for assuming
27 responsibility for Tri-City's operations and are unlikely to do so. Tri-City has considered
28 other possible alternatives to the present Plan. None of the other alternatives were

1 supported by both CAL DMH, LAC DMH and the County of Los Angeles generally, all of
2 whose support is essential to Tri-City's ability to continue to operate and thereby present
3 a feasible basis for providing other Creditors with any recovery under another plan, let
4 alone a recovery equal to that provided for under this Plan.

5 In contrast to this Plan, Tri-City is of the opinion that except for those few Creditors
6 who have withheld payments to Tri-City on account of Deduction Rights, other Creditors
7 would receive nothing on account of their Claims if Tri-City ceases to operate. Tri-City's
8 Plan appears to be a far more reasonable approach than the chaos and the prospect of
9 no recovery that existing Creditors would likely encounter following dismissal of the
10 Chapter 9 Case.

11
12 **XI.**

13 **MISCELLANEOUS PROVISIONS**

14 **A. Severability.**

15 If, prior to the Confirmation Date, any term or provision of the Plan is held by the
16 Bankruptcy Court to be invalid, void or unenforceable, the Bankruptcy Court, with the
17 consent of Tri-City shall have the power to alter and interpret such term or provision to
18 make it valid or enforceable to the maximum extent practicable, consistent with the
19 original purpose of the term or provision held to be invalid, void or unenforceable, and
20 such term or provision shall then be applicable as altered or interpreted. Notwithstanding
21 any such holding, alteration or interpretation, the remainder of the terms and provisions of
22 the Plan shall remain in full force and effect and shall in no way be affected, impaired or
23 invalidated by such holding, alteration or interpretation. The Confirmation Order shall
24 constitute a judicial determination and shall provide that each term and provision of this
25 Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid
26 and enforceable pursuant to its terms.

27
28 **B. Interpretation.**

1 To the extent that the terms of the Plan are inconsistent with the terms of any
2 agreement or instrument concerning any Claim, or any other matter, the terms of the Plan
3 shall control.

4

5 **C. Successors and Assigns.**

6 The rights, benefits and obligations of any Person named or referred to in the Plan
7 shall be binding upon and inure to the benefit of any heir, executor, administrator,
8 successor, or assignee of such Person.

9

10 **D. Governing Law.**

11 Except to the extent that the Bankruptcy Code or other federal law is applicable, or
12 to the extent that an Exhibit attached to the Plan or Plan Document provides otherwise,
13 the rights, duties and obligations arising under the Plan shall be governed by, and
14 construed and enforced in accordance with the laws of the State of California, without
15 giving effect to principles of conflicts of laws.

16

17 **E. Headings.**

18 Headings are used in the Plan for convenience and reference only, and shall not
19 constitute a part of the Plan for any other purpose.

20

21 **F. Saturday, Sunday or Legal Holiday.**

22 If any payment or act under the Plan is required to be made or performed on a
23 date that is not a Business Day, then the making of such payment or the performance of
24 such act may be completed on the next succeeding Business Day, but shall be deemed
25 to have been completed as of the required date.

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1 **G. Notice Of Effective Date.**

2 On or before ten (10) Business Days after occurrence of the Effective Date, Tri-
3 City or its agent shall mail or cause to be mailed to all holders of Claims a Notice that
4 informs such holders of (a) entry of the Confirmation Order; (b) the occurrence of the
5 Effective Date; (c) the rejection of Tri-City's executory contracts and unexpired leases
6 pursuant to the Plan, as well as the deadline for the filing of Claims arising from such
7 rejection; (d) the deadline established under the Plan for the filing of Administrative
8 Claims; (e) the procedures for changing an address of record pursuant to Section 11.2 of
9 the Plan; and (f) such other matters as Tri-City deems to be appropriate.

10

11 **H. Post Effective Date Limited Notice List.**

12 Because the Limited Notice List in this Chapter 9 Case may include Persons who
13 may not desire to continue to receive notices after the Effective Date, this Plan provides
14 for the establishment of a Post-Effective Date Limited Notice List. Persons on such Post-
15 Effective Date Limited Notice List will be given certain notices and in some cases an
16 opportunity to object to certain matters under the Plan (as described herein). Any Person
17 desiring to be included in the Post-Effective Date Limited Notice List must (1) File a
18 request to be included on the Post-Effective Date Limited Notice List and include thereon
19 its name, contact person, address, telephone number, facsimile number and email
20 address, within thirty (30) days after the Effective Date, and (2) concurrently serve a copy
21 of its request to be included on the Post-Effective Date Limited Notice List on Tri-City and
22 its counsel. On or before sixty (60) days after the Effective Date, Tri-City shall compile a
23 list of all Persons on the Post-Effective Date Limited Notice List and File such list with the
24 Bankruptcy Court. The U.S. Trustee and Tri-City's counsel shall be automatically
25 included on the Post-Effective Date Limited List and need not File a request to be
26 included thereon.

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XII.

RECOMMENDATION AND CONCLUSION

Tri-City believes that confirmation and implementation of the Plan is preferable to all other available and feasible alternatives. Accordingly, **Tri-City urges holders of Impaired Claims to vote to accept the Plan by so indicating on their ballots and returning them as specified in this Disclosure Statement and on their ballots.**

DATED: May 4, 2007

**TRI-CITY MENTAL HEALTH CENTER
A MUNICIPAL JOINT POWERS AUTHORITY**

By: 
G. Michael Milhiser
Its: Interim Executive Director

RESPECTFULLY PRESENTED BY:

**WESTON BENSHOOF
ROCHEFORT RUBALCAVA & MACCUISH, LLP**

By: _____
Dean G. Rallis Jr.
Attorneys for Tri-City Mental Health Center,
A Municipal Joint Powers Authority

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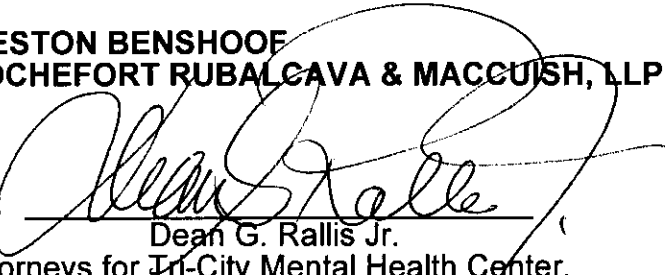
DATED: May ____, 2007

**TRI-CITY MENTAL HEALTH CENTER
A MUNICIPAL JOINT POWERS AUTHORITY**

By: _____
G. Michael Milhiser
Its: Interim Executive Director

RESPECTFULLY PRESENTED BY:

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EXHIBITS

- Exhibit A** Amended Plan of Adjustment of Debts (dated December 12, 2006)
- Exhibit B** Schedule of Rejected Executory Contracts
- Exhibit C**
Audited Financial Statements for Fiscal Years Ending June 30, 2001 and 2002;
Financial Reports for the Fiscal Years Ending June 30, 2003 and February 13,
2004;
Unaudited Financial Statements for the Fiscal Year Ended June 30, 2004;
Audited Financial Statements for Fiscal Years Ending June 30, 2005 and 2006
- Exhibit D** Summary Schedule of Claims in Tri-City's List of Creditors and filed Proofs
of Claim
- Exhibit E** Government Program Accounts Receivable Summary
- Exhibit F** Summary of Fixed Assets
- Exhibit G** Schedule of Payments made within Ninety Days of the Petition Date
- Exhibit H** Summary of Services Rendered and Payments Made to Professionals
- Exhibit I** Other Potential Claims included in Rights of Action
- Exhibit J** Projections (including both alternatives) for Fiscal Years 2007 through 2010

DISCLOSURE STATEMENT
EXHIBIT A
(Amended Plan for the Adjustment of
Debts)