

Effect of the Acquisition by Prime Healthcare Services Foundation, Inc.  
of Victor Valley Community Hospital on the  
Availability or Accessibility of Healthcare Services

**Prepared for the Office of the  
California Attorney General**

August 5, 2011

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## INTRODUCTION AND PURPOSE

Victor Valley Community Hospital (“VVCH”) is a California nonprofit public benefit corporation that owns and operates an acute care hospital (“Hospital”) licensed for 101 beds, located in Victorville, California. VVCH has requested the California Attorney General’s consent for the sale of substantially all of its assets, including the Hospital and related assets, to Prime Healthcare Services Foundation, Inc. (“Purchaser”), a Delaware non-stock corporation organized for charitable purposes under section 501(c)(3) of the Internal Revenue Code.

This report, prepared for the California Attorney General, describes the possible effects that the proposed transaction may have on the delivery, accessibility, and availability of healthcare services in the service area.

Medical Development Specialists, LLC (“MDS”), a healthcare planning and policy consulting firm, was retained to prepare this report. In its preparation, MDS has utilized the following:

- A review of the application submitted by VVCH to the California Attorney General on July 19, 2011;
- A review of various press releases and news articles related to VVCH and other hospital sales transactions;
- Interviews with community members and representatives, the Hospital’s medical staff, the Hospital’s management, VVCH Board of Directors, Purchaser’s representatives, and others;
- An analysis of financial, utilization, and service information provided by VVCH’s management and the California Office of Statewide Health Planning and Development (“OSHPPD”); and
- An analysis of publicly available data and reports regarding area healthcare services including:
  - Demographic characteristics and trends;
  - Payer mix;
  - Hospital utilization rates;
  - Health status indicators; and
  - Hospital market share.

## **BACKGROUND AND DESCRIPTION OF THE TRANSACTION**

### ***History of the Hospital***

Victor Valley Community Hospital, located at 15248 Eleventh Street, Victorville, California 92392, is a general acute care hospital licensed for 101 beds and offers services including emergency, obstetrics, neonatal intensive care, pediatrics, and cardiac catheterization, as well as other inpatient and outpatient services. It was opened in 1967 and operated with up to 115 beds before the behavioral health unit was closed in 2005. The property consists of a two-story acute care hospital and several out-buildings and structures located on approximately 12.2 acres of land. In addition to the facilities being used, there is a partially constructed section of the Hospital that was started in 2001 as a new maternal/obstetrics wing that has since been abandoned.

VVCH established the Victor Valley Community Hospital Foundation, which is not separately incorporated, to raise funds on behalf of the Hospital. As of July 30, 2010, VVCH has a separate bank account in the name of the Foundation that contains funds of approximately \$470,000.

### ***Reasons for the Hospital Sale***

Due to a history of poor financial performance, and an inability to invest in capital improvements, the VVCH Board of Directors (“VVCH Board”) indicated that a sale or merger was necessary to avoid closing the Hospital. In its application to the California Attorney General, VVCH states that this transaction is necessary because of the confluence of several factors that have affected financial performance including:

- The Hospital’s poor payer mix which includes higher amounts of uncompensated care to uninsured and low income members of the community;
- A 45-year-old plant that is in need of repairs and upgrades and is costly to maintain;
- Actual and potential reductions in Medi-Cal and Medicare reimbursement rates;
- Delays and uncertainty in government support programs, including Disproportionate Share Hospital (“DSH”) and Quality Assurance Fee (“QAF”) payments; and
- An inability to achieve economies and benefits by virtue of being a stand-alone hospital.

In September 2010, the VVCH Board concluded that the Hospital could not survive given its cash flow requirements and would have to close absent bankruptcy protection that included an auction strategy that sought to maximize the value of the Hospital. VVCH filed a petition under Chapter 11 for protection under bankruptcy laws on September 13, 2010.

VVCH's history before bankruptcy included many different actions and considerations to try and avoid insolvency and closure, including:

- A \$5,000,000 line of credit, insured by the State of California, for use between 1999 and 2005;
- A \$6,000,000 loan by its management company at the time, Physicians Hospital Management, LLC ("PHM"), whose members include area physicians. PHM served as the management company from 2005 until VVCH's bankruptcy filing in 2010; and
- An exploration of affiliations with other health care providers.

Despite these efforts, the VVCH Board concluded that the burden of debt, including an obligation to Medi-Cal of over \$5,500,000, an additional \$10,000,000 plus of secured indebtedness, and the growing difficulty in meeting payroll expenses, was creating a fiscal crisis that necessitated filing for protection under the bankruptcy laws.

### ***Transaction Process and Timing***

The VVCH Board initiated bankruptcy proceedings in September 2010, with an intention to sell the Hospital's assets as a means to keep the Hospital open. Because of its cash flow requirements and Purchaser expressed an interest in the facility, VVCH negotiated an Asset Sale Agreement with Purchaser in connection with the bankruptcy filing and Purchaser took on the role as the "stalking horse" bidder. Purchaser also provided up to \$4.5 million in Debtor in Possession financing as a means to continue the operation of the Hospital through this transition period. As a result of proceedings before the United States Bankruptcy Court, an auction was held on November 5, 2010. Victor Valley Hospital Acquisition, Inc. ("VVHA") and Victor Valley Hospital Real Estate, LLC ("VVHRE") were the highest bidders, and subsequently approved by the VVCH Board, and accepted by the Court on November 9, 2010. On November 19, 2010, VVCH submitted to the California Attorney General its application for approval of the transaction under Corporations Code section 5914 *et seq.*

On December 29, 2010, the California Attorney General conditionally consented to the sale of VVCH to VVHRE and VVHA. On May 12, 2011, the California Attorney General conditionally consented to the Fourth Amendment to the Asset Sale Agreement requiring the transaction to close by June 1, 2011. The transaction did not close by June 1, 2011.

After June 1, 2011, VVCH began again to market the Hospital for sale. On July 1, 2011 the VVCH Board authorized the termination of the Asset Sale Agreement with VVHRE and approved the sale of the Hospital to Purchaser for thirty-five million dollars.

On July 12, 2011, the Bankruptcy Court approved the sale of the Hospital to Purchaser.

On July 19, 2011, VVCH submitted to the California Attorney General its application for approval of this transaction.

## *Summary of the Asset Sale Agreement*

The major provisions of the Asset Sale Agreement, dated July 5, 2011, include the following:

- Purchaser will acquire substantially all of the assets of VVCH. The assets include the Hospital, real property and personal property associated with its buildings (including equipment), associated intangible assets and accounts receivable;
- Excluded assets include cash and investments held by VVCH, including those held in a separate account by the Foundation;
- Upon closing (anticipated to be August 31, 2011), the purchase price of thirty-five million dollars will consist of the following:
  - \$5 million that was placed into an escrow account on July 5, 2011;
  - \$30 million in cash less:
    - A Medi-Cal liability of \$5.6 million;
    - The accrued payroll and accrued paid time off due employees, currently estimated at \$1.1 million; and
    - A credit up to \$3 million, if and only if funds are received by VVCH before the closing date, representing potential DSH payments, and supplemental payments made pursuant to the Medi-Cal Hospital Stabilization Act of 2011 (SB 90).
- Purchaser agrees to employ substantially all current Hospital employees and shall offer benefit levels that are not less favorable than those provided to similarly situated employees of the Purchaser and their affiliates;
- Purchaser will maintain staff privileges for all current medical staff members in good standing;
- Purchaser will continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by VVCH;
- Purchaser will form a local governing Board at the Hospital composed of medical staff members, community leaders, and the Hospital's Chief Executive Officer. The local governing Board will be an advisory committee to the Purchaser's Board of Directors;
- Purchaser will invest no less than twenty-five million dollars for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital over five years. No less than fifteen million dollars of said amount will be spent on capital improvements, equipment, information technology, and infrastructure improvements; and
- Purchaser agrees to maintain the Hospital as a licensed acute-care hospital with essential services that include emergency and obstetrics.

### ***Use of Net Sale Proceeds***

VVCH does not expect that there will be net proceeds from the sale after payment to all creditors; however, any remaining funds would be utilized as directed by the California Attorney General.

# PROFILE OF VICTOR VALLEY COMMUNITY HOSPITAL

## General Information

The Hospital is a general acute care facility situated on approximately 12.2 acres of land and consists of about 105,000 square feet of hospital and modular office space. The Hospital reported a change in the mix of licensed beds from 2010 to 2011, but it still shows an overall total of 101 licensed beds as seen below.

VICTOR VALLEY COMMUNITY HOSPITAL BED DISTRIBUTION		
Bed Type	Licensed Beds	
	Reported 2010	Hospital License 2011
Medical/Surgical Acute	61	64
Intensive Care	10	10
Intensive Care Newborn Nursery	2	2
Pediatric Acute	16	16
Obstetrics Acute	12	9
<b>Total</b>	<b>101</b>	<b>101</b>

Source: OSHPD Disclosure Report 2010, VVCH

The Hospital's emergency department is classified as "basic level" with 13 licensed emergency treatment stations. VVCH also has five surgical operating rooms and one cardiac catheterization lab. The Hospital's license also states that there are four labor-delivery-recovery beds. Sixteen beds are in suspense from the former behavioral health unit that was closed in 2005.

## Key Statistics

VICTOR VALLEY COMMUNITY HOSPITAL KEY STATISTICS		
	2009	2010
Inpatient Discharges	6,674	6,760
Patient Days	21,233	21,158
Average Daily Census	58.2	58.0
Average Length of Stay	3.2	3.1
Emergency Services Visits	29,389	32,107
Cardiac Catheterization Procedures	2,269	1,994
Total Live Births	1,697	1,648
Active Physicians on Medical Staff	111	111
Number of Employees (FTEs)	Approximately 550	

Sources: OSHPD Disclosure Reports, 2009-2010



- For Fiscal Year (FY) 2010, the Hospital had a total of 6,760 discharges, 21,158 patient days, and an average daily census of 58.0 (57.4% occupancy of licensed beds).
- For FY 2010, the Hospital had 32,107 emergency department visits and 1,648 deliveries.
- On average, the Hospital performs approximately 2,000 diagnostic cardiac catheterization procedures per year but does not have an open heart surgery program.

### ***Programs and Services***

The Hospital offers a range of healthcare services common to a small community hospital. It also offers some specialized programs and services, including neonatal intensive care, pediatrics, a Women's Health Center, and cardiac catheterization. Services at the Hospital include the following:

- Acute medical/surgical services;
- Ambulatory surgery services;
- Cancer services;
- Cardiovascular services, including a catheterization lab;
- Diagnostic imaging: x-ray, bone density scans, mammography, CT (computed tomography), MRI (magnetic resonance imaging), and ultrasound;
- Emergency services: 24-hour basic emergency services including a separate Fast Track and heliport site;
- Intensive care unit (ICU);
- Obstetrics services;
- Neonatal intensive care unit (NICU);
- Laboratory and pathology services [License to be revoked 9/1/11. See below.];
- Pediatrics;
- Physical therapy services (inpatient);
- Respiratory therapy services; and
- Social services.

The Hospital does not offer specialized programs such as cardiac surgery, neurosurgery, acute rehabilitation, trauma care, and other tertiary and quaternary services.

## ***Accreditations and Certifications***

The Hospital is accredited by the Healthcare Facilities Accreditation Program (“HFAP”) of the American Osteopathic Association for 2009-2012.

On June 15, 2010, the Centers for Medicare and Medicaid Services revoked the Hospital’s Clinical Laboratory Improvement Amendment (“CLIA”) certificate to operate a clinical laboratory. Upon appeal, the Department of Health and Human Services Appeals Board reviewed the revocation decision. The Appeals Board upheld the decision to revoke the certificate. Subsequently, the Hospital obtained emergency orders from the U.S. Court of Appeals for a stay of the effective date. The U.S. Court of Appeals also referred the matter to the Circuit Mediator. The Hospital received an agreement in July 2011 that allows the Hospital to continue operation of the clinical under the existing CLIA certificate and bill Medicare and Medi-Cal for laboratory services while the Hospital’s buyer obtains its own new CLIA certificate for the Hospital’s laboratory. Absent an extension of the deadline, the CLIA certificate will be revoked effective September 1, 2011, the Hospital cannot continue to operate its clinical laboratory, and the Hospital will close.

## ***Seismic Issues***

The Hospital’s buildings are either conforming or have received an SPC-2 seismic performance rating under 2010 HAZUS from the Office of Statewide Health Planning and Development except one building that is currently being reviewed for an upgrade to an SPC-2 rating. The Hospital’s management estimates that necessary minor seismic improvements could be made in order to bring the Hospital into compliance with the seismic safety requirements until 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act (Health & Saf. Code, § 129675-130070

## Patient Volume

The following table shows patient volume trends at the Hospital for FY 2005 through 2010.

VICTOR VALLEY COMMUNITY HOSPITAL - SERVICE VOLUMES						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
<b>PATIENT DAYS</b>						
Intensive Care (ICU)	1,752	1,776	1,959	2,452	1,920	2,231
Neonatal Intensive Care (NICU)	545	459	473	357	446	491
Med/Surg	14,348	13,909	13,492	13,795	12,822	13,017
Obstetrics	3,348	3,705	4,002	3,756	3,854	3,644
Pediatric	2,201	2,271	2,084	2,048	2,191	1,775
Psychiatric Acute	1,314	0	0	0	0	0
<b>Total</b>	<b>23,508</b>	<b>22,120</b>	<b>22,010</b>	<b>22,408</b>	<b>21,233</b>	<b>21,158</b>
<b>DISCHARGES</b>						
ICU	305	251	303	361	337	460
NICU	126	135	124	97	134	145
Med/Surg	3,599	3,753	3,498	3,600	3,722	3,852
Obstetrics	1,509	1,591	1,791	1,734	1,778	1,718
Pediatric	759	774	699	716	703	585
Psychiatric Acute	344	0	0	0	0	0
<b>Total</b>	<b>6,642</b>	<b>6,504</b>	<b>6,415</b>	<b>6,508</b>	<b>6,674</b>	<b>6,760</b>
<b>AVERAGE LENGTH OF STAY</b>						
ICU	5.7	7.1	6.5	6.8	5.7	4.9
NICU	4.3	3.4	3.8	3.7	3.3	3.4
Med/Surg	4.0	3.7	3.9	3.8	3.4	3.4
Obstetrics	2.2	2.3	2.2	2.2	2.2	2.1
Pediatric	2.9	2.9	3.0	2.9	3.1	3.0
Psychiatric Acute	3.8	n/a	n/a	n/a	n/a	n/a
<b>Total</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.2</b>	<b>3.1</b>
<b>AVERAGE DAILY CENSUS</b>						
ICU	4.8	4.9	5.4	6.7	5.3	6.1
NICU	1.5	1.3	1.3	1.0	1.2	1.3
Med/Surg	39.3	38.1	37.0	37.8	35.1	35.7
Obstetrical	9.2	10.2	11.0	10.3	10.6	10.0
Pediatric	6.0	6.2	5.7	5.6	6.0	4.9
Psychiatric Acute	3.6	n/a	n/a	n/a	n/a	n/a
<b>Total</b>	<b>64.4</b>	<b>60.6</b>	<b>60.3</b>	<b>61.4</b>	<b>58.2</b>	<b>58.0</b>
<b>OTHER SERVICES</b>						
Inpatient Surgeries	3,087	1,684	1,626	2,177	1,803	2,575
Outpatient Surgeries	9,522	3,254	3,020	2,696	3,002	3,015
Emergency Visits	30,447	30,807	30,502	30,631	29,389	32,107
Cardiac Cath Procedures	3,106	2,047	2,392	2,301	2,269	1,994
Obstetric Deliveries	1,375	1,545	1,707	1,667	1,697	1,648

Sources: OSHPD Disclosure Reports, 2005-2010

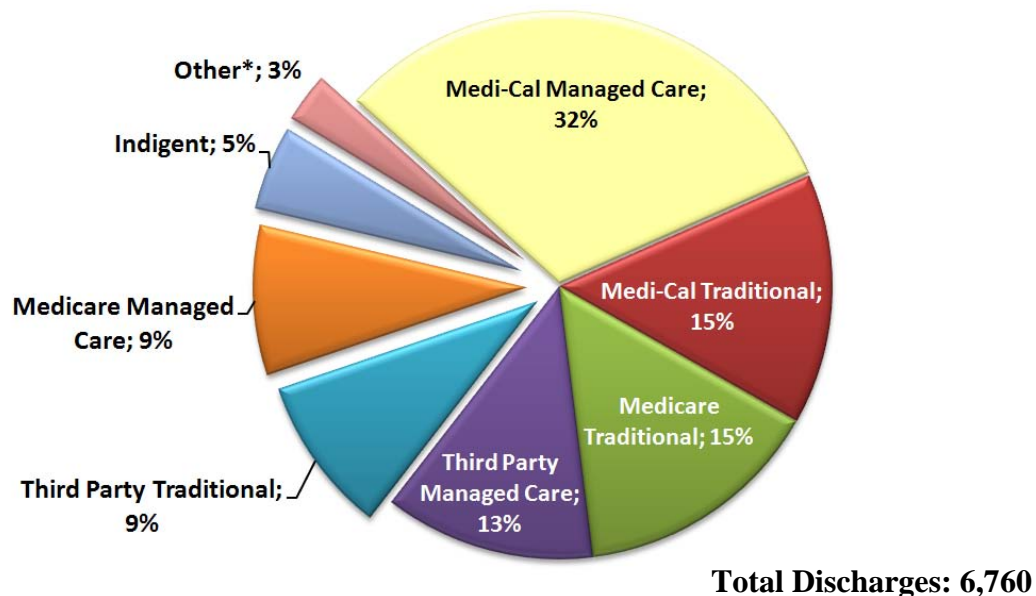
A review of historical utilization trends at the Hospital between FY 2005 and FY 2010 supports the following conclusions:

- Total patient days declined by 10% with discharges remaining approximately the same;
- The overall average length of stay has dropped from 3.5 to 3.1. Most of this decline is attributable to lower lengths of stay in the intensive care and medical/surgical units;
- Inpatient surgeries have rebounded from 2009 volumes but are still 17% lower than 2005 figures.
- Cardiac catheterization volume is down approximately 36% from 2005 volumes;
- Emergency visits have increased to their highest volumes, with on average approximately 88 visits per day (up from 81 visits per a day in 2009).
- The behavioral health unit was closed in 2005.
- Obstetric deliveries increased from 2005 to 2006 at which point the number of deliveries remained relatively constant to date (averaging above 1,600) with an average daily census of approximately 10 patients.
- Pediatrics has an average daily census of 5-6 patients, which is relatively high for a small community hospital.
- Overall, the average daily census at the Hospital has dropped from 64 patients to 58 patients.

## ***Payer Mix***

For FY 2010, the Hospital's inpatient discharge payer mix consists of predominantly Medi-Cal patients who account for approximately 47% of all inpatient hospital discharges, with Traditional Medi-Cal making up 15% and Medi-Cal Managed Care comprising 32%. Medicare patients account for 24% of all inpatient hospital discharges, with Traditional Medicare making up 15% and Medicare Managed Care comprising 9%. Additionally, 5% of all inpatient hospital discharges were indigent patients (uninsured/poor), which is a relatively high percentage compared to California hospitals overall (1.9%). Third-Party Managed Care, Third-Party Traditional, and Other\* make up the remaining 25% of payer discharges.

**Victor Valley Community Hospital Payer Mix  
FY 2010 (Inpatient Discharges)**

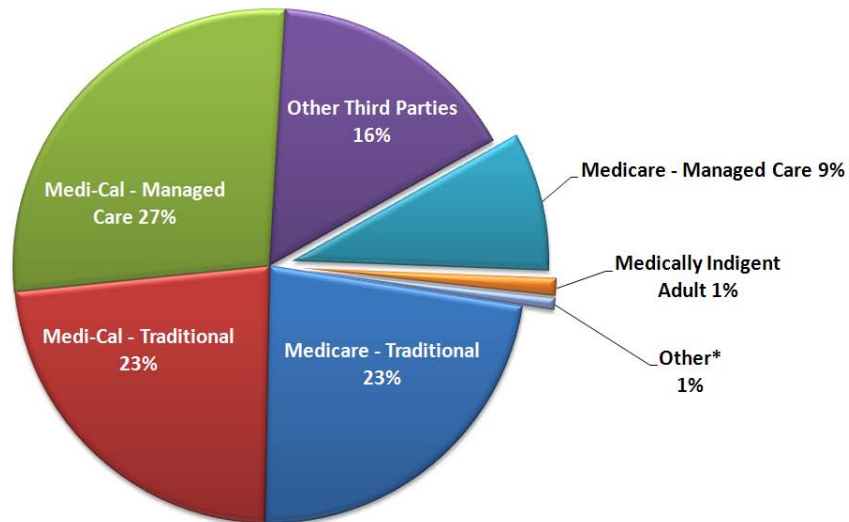


\*"Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2010 (based on inpatient discharges)

The table below shows net patient revenue by payer for fiscal year 2010. Approximately 50% of the Hospital's patient revenue is derived from Medi-Cal patients and 32% from Medicare patients. This revenue percentage breakdown differs from inpatient discharge percentage breakdown. For example, statistics show that Traditional Medicare made up 15% of the Hospital's discharges but accounted for approximately 23% of the Hospital's revenue.

### Victor Valley Community Hospital Net Patient Revenue by Payer FY 2010



**Net Patient Revenue: \$59,811,707**

\*"Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2010 (based on inpatient discharges)

The following table illustrates the Hospital's payer mix (discharges) compared to San Bernardino County and California for 2009<sup>1</sup>. The comparison shows that the Hospital has a much higher percentage of Medi-Cal Managed Care patients and lower percentages of Medicare Traditional and Third-Party Managed Care patients relative to other hospitals in San Bernardino County and statewide.

2009 PAYER MIX COMPARISON						
	VVCH		San Bernardino County		California	
	Discharges*	% of Total	Discharges*	% of Total	Discharges*	% of Total
Medi-Cal Managed Care	2,107	31.6%	15,693	9.1%	221,672	7.2%
Medi-Cal Traditional	1,026	15.4%	40,142	23.3%	601,557	19.5%
<b>Medi-Cal Subtotal</b>	<b>3,133</b>	<b>46.9%</b>	<b>55,835</b>	<b>32.4%</b>	<b>823,229</b>	<b>26.7%</b>
Medicare Traditional	940	14.1%	36,546	21.2%	890,450	28.8%
Medicare Managed Care	515	7.7%	16,868	9.8%	239,478	7.8%
<b>Medicare Subtotal</b>	<b>1,455</b>	<b>21.8%</b>	<b>53,414</b>	<b>31.0%</b>	<b>1,129,928</b>	<b>36.6%</b>
Third-Party Managed Care	945	14.2%	37,949	22.1%	770,863	25.0%
Third Party Traditional	690	10.3%	10,567	6.1%	137,373	4.4%
Other Payers	220	3.3%	4,342	2.5%	91,440	3.0%
Other Indigent	125	1.9%	6,413	3.7%	54,402	1.8%
County Indigent	106	1.6%	3,555	2.1%	81,339	2.6%
<b>Other Subtotal</b>	<b>2,086</b>	<b>31.3%</b>	<b>62,826</b>	<b>36.5%</b>	<b>1,135,417</b>	<b>36.8%</b>
<b>Total</b>	<b>6,674</b>	<b>100.0%</b>	<b>172,075</b>	<b>100.0%</b>	<b>3,088,574</b>	<b>100.0%</b>

\*Excludes normal newborns

Source: OSHPD Financial Disclosure Report, FY 2009

<sup>1</sup> 2010 State and County discharge data not yet available

## ***Importance to IEHP***

The Hospital is especially important to the Inland Empire Health Plan. IEHP is a public entity, not-for-profit health plan that is organized as a Joint Powers agency between the Counties of Riverside and San Bernardino. IEHP is one of only two health plans authorized by the California Department of Health Care Services to enroll and provide healthcare services to Medi-Cal beneficiaries in Riverside and San Bernardino Counties. IEHP has the majority of Medi-Cal enrollment in the Hospital's service area. IEHP also serves low income families and children in the area through IEHP Healthy Families, Healthy Kids, and Medicare Special Needs Program. It is expected that healthcare reform will significantly increase the current number of IEHP enrollees in the Hospital's service area.

IEHP HIGH DESERT MEMBERSHIP	
Members	Count
Medi-Cal	54,702
Healthy Families	4,864
Healthy Kids	98
Medicare Special Needs Plan	665
<b>Total IEHP Members</b>	<b>60,329</b>

Source: IEHP 07/2011

IEHP currently also contracts with St. Mary Medical Center ("St. Mary"). This contract is very important for the provision of healthcare services to IEHP patients. St. Mary's executives have stated to IEHP that their hospital is especially impacted by the high volume of obstetric patients. The other area hospital, Desert Valley Hospital ("Desert Valley"), operated by Prime Healthcare Services, Inc., does not contract with IEHP.

IEHP HIGH DESERT VOLUMES			
	VVCH	SMMC	Combined
ER Visits	13,470	13,041	26,511
Admits	1,717	1,879	3,596
Percentage Admitted	12.7%	14.4%	13.6%
Bed Days	4,685	5,202	9,887
Average Daily Census	13	14	27

Source: IEHP 4/2010 to 03/2011



## *Medical Staff*

The Hospital has approximately 178 physicians on the medical staff, with a large number of specialties represented. Of those 178 physicians, 126 physicians are considered “active” users of the Hospital (representing 71% of the medical staff).

VICTOR VALLEY COMMUNITY HOSPITAL MEDICAL STAFF PROFILE	
Specialty	2010
Anesthesiology	6
Cardiovascular Disease	9
Dermatology	3
Diagnostic Radiology	21
Gastroenterology	4
General/Family Practice	8
General Surgery	7
Internal Medical	41
Neurological Surgery	1
Neurology	1
Nuclear Medicine	2
Obstetrics and Gynecology	7
Oncology	1
Ophthalmology	2
Orthopaedic Surgery	5
Otolaryngology	2
Pathology	3
Pediatric - Cardiology	1
Pediatrics	17
Physical Medicine/Rehabilitation	1
Plastic Surgery	1
Podiatry	2
Psychiatry	2
Pulmonary Disease	3
Radiology	6
Thoracic Surgery	1
Urology	2
Vascular Surgery	1
Other	18
<b>Total</b>	<b>178</b>

Source: OSHPD Disclosure Reports 2010, VVCH

## Financial Profile

VVCH's net income improved over the past six years, from a net loss of nearly \$3.7 million in 2005 to a gain of \$0.5 million in 2010. Both net operating revenue and operating expenses increased over the six-year period, by 32% and 21% respectively. VVCH's current ratio has decreased slightly over the last two reported years and trails both the average for the State (1.47) and other nonprofit DSH<sup>2</sup> hospitals (1.16). VVCH's percentage of bad debt (3.1%) has improved slightly over prior years but is still well above the statewide average of 1.8%.

The slight operating margin of 1.1% in 2010 is lower than the California hospital average of 2.0%. As a result of long-term poor financial performance, VVCH has delayed making needed capital improvements to the Hospital.

The recent improvement in net income is attributable to DSH payments, distressed hospital funds and/or quality assurance fees which, in conjunction with loans and other credit lines, have enabled the Hospital to remain open. However, the uncertainty regarding future access to these funds, rate decreases in reimbursement under the Medi-Cal program, and expected poor performance of the Hospital under current circumstances makes it highly likely that the Hospital would be forced to close if not sold.

VICTOR VALLEY COMMUNITY HOSPITAL FINANCIAL AND RATIO ANALYSIS: FY 2005-2010							
	2005	2006	2007	2008	2009	2010	
Patient Days	23,508	22,120	22,010	22,408	21,233	21,158	
Discharges	6,642	6,504	6,415	6,508	6,674	6,760	
ALOS	3.5	3.4	3.4	3.4	3.2	3.1	
Net Operating Revenue	\$45,952,142	\$50,413,529	\$54,896,552	\$55,526,992	\$56,561,319	\$60,754,306	
Operating Expense	\$49,657,034	\$50,599,231	\$54,785,952	\$55,091,407	\$55,256,254	\$60,113,211	
Net from Operations	(\$3,704,892)	(\$185,702)	\$110,600	\$435,585	\$1,305,065	\$641,095	
Net Non-Operating Rev.	(\$68,708)	(\$46,490)	\$0	\$1,405	(\$247,209)	\$130,537	
Extraordinary Items	\$0	\$0	\$0	\$0	\$550,000	\$250,070	
Net Income	(\$3,773,600)	(\$232,192)	\$110,600	\$436,990	\$507,856	\$521,562	
	California Average	2005	2006	2007	2008	2009	2010
Current Ratio	1.5	0.57	0.46	0.47	0.67	0.74	0.60
Days in A/R	60.6	78.4	46.9	42.5	59.5	50.8	29.7
Bad Debt Rate	1.8%	2.3%	4.5%	5.4%	3.3%	3.2%	3.1%
Operating Margin	2.0%	-8.1%	-0.4%	0.2%	0.8%	2.3%	1.1%

Source: OSHPD Disclosure Reports

<sup>2</sup> A facility that reported the receipt of Disproportionate Share Payments for Medi-Cal Patient Days (SB 855).

## Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In 2010, approximately 44% of the Hospital's total costs were associated with Medi-Cal patients (up from 41% in 2009), 22% with third-party payers, and 26% with Medicare patients. The remaining 8% is attributed to indigent and other payers.

VICTOR VALLEY COMMUNITY HOSPITAL COST OF SERVICES						
BY PAYER CATEGORY 2005 - 2010						
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Operating Expenses	\$49,657,034	\$50,599,231	\$54,785,952	\$55,091,407	\$55,256,254	\$60,113,211
<b>Cost of Services By Payer:</b>						
Medicare	\$10,954,900	\$11,606,159	\$10,163,597	\$13,230,898	\$13,773,865	\$15,442,170
Medi-Cal	\$17,804,986	\$18,594,780	\$21,286,409	\$19,849,025	\$22,630,501	\$26,245,105
County Indigent	\$795,631	\$610,561	\$1,050,732	\$885,376	\$707,188	\$1,109,959
Third Party	\$16,632,080	\$16,042,343	\$18,183,614	\$16,418,884	\$14,608,453	\$13,475,072
Other Indigent	\$771,789	\$941,373	\$496,038	\$610,723	\$1,285,517	\$3,840,905

Source: OSHPD Disclosure Reports

## Charity Care

The Hospital provides charity care for uninsured and underinsured patients pursuant to policies that were last updated November 11, 2009. Reported charity care charges can vary depending on the source. MDS examined data from both OSHPD financial disclosure reports and VVCH's internal charity records, as shown below.

VICTOR VALLEY COMMUNITY HOSPITAL CHARITY CARE		
TOTAL CHARGES 2006-2010		
Year	OSHPD Disclosure Reports (FY)	VVCH AG Application
2010	\$6,936,235	\$7,454,279
2009	\$5,635,062	\$6,229,557
2008	\$8,221,971	\$4,117,729
2007	\$5,180,979	\$5,562,652
2006	\$6,130,358	\$1,061,353
<b>Average 2006 - 2010</b>	<b>\$6,420,921</b>	<b>\$4,885,114</b>

Source: OSHPD Disclosure Reports, VVCH

According to OSHPD reports, the Hospital's charity care charges have fluctuated from a low of approximately \$5.2 million in 2007 to a high of nearly \$8.2 million in 2008. Data reported separately by VVCH indicates different figures, with the average for 2006 through 2010 approximately totaling \$1.5 million less than reported OSHPD data.

The table below shows a comparison of charity care and bad debt for the Hospital and all general acute care hospitals in the State of California. The five-year (2005-2010) average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 6.4%. This is considerably higher than the four-year (2005-2009) statewide average of 3.4%. According to OSHPD, “the determination of what is classified as...charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.”

CHARITY CARE COMPARISON VICTOR VALLEY COMMUNITY HOSPITAL CHARITY CARE FY 2005 to FY 2010 (Millions)										
	2006		2007		2008		2009		2010	
	VVCH	CA	VVCH	CA	VVCH	CA	VVCH	CA	VVCH	CA
Gross Pt Revenue	\$220.2	\$195,559.1	\$224.8	\$207,991.2	\$223.4	\$230,007.7	\$242.2	\$252,204.3	\$254	n/a
Charity	\$6.1	\$3,050.1	\$5.2	\$3,162.2	\$8.2	\$4,116.5	\$5.6	\$4,603.4	\$6.9	n/a
Bad Debt	\$9.9	\$3,465.8	\$9.0	\$3,943.6	\$7.5	\$3,761.9	\$7.8	\$4,293.4	\$7.8	n/a
<b>Total</b>	<b>\$16.0</b>	<b>\$6,515.9</b>	<b>\$14.2</b>	<b>\$7,105.8</b>	<b>\$15.7</b>	<b>\$7,878.4</b>	<b>\$13.4</b>	<b>\$8,896.8</b>	<b>\$14.7</b>	<b>n/a</b>
Charity as a % of Gross Rev.	2.8%	1.6%	0.9%	1.5%	1.1%	1.8%	2.3%	1.8%	2.7%	n/a
Bad Debt as a % of Gross Rev.	4.5%	1.8%	5.4%	1.9%	3.3%	1.6%	3.2%	1.7%	3.1%	n/a
Total as a % of Gross Rev.	7.3%	3.3%	6.3%	3.4%	4.5%	3.4%	5.6%	3.5%	5.8%	n/a
<b>Uncompensated Care</b>										
Cost to Charge Ratio	22.4%	26.8%	23.8%	26.3%	24.1%	26.0%	22.5%	25.1%	23.3%	n/a
Charity	\$1.4	\$816.1	\$1.2	\$833.0	\$2.0	\$1,069.4	\$1.3	\$1,153.4	\$1.6	n/a
Bad Debt	\$2.2	\$927.3	\$2.1	\$1,038.9	\$1.8	\$977.2	\$1.7	\$1,075.8	\$1.8	n/a
<b>Total</b>	<b>\$3.6</b>	<b>\$1,743.4</b>	<b>\$3.4</b>	<b>\$1,871.9</b>	<b>\$3.8</b>	<b>\$2,046.6</b>	<b>\$3.0</b>	<b>\$2,229.2</b>	<b>\$3.4</b>	<b>n/a</b>

Source: OSHPD Disclosure Reports

The table below shows the Hospital’s historical costs for charity care as reported by OSHPD. The Hospital’s charity care costs have been highly variable, increasing from a low of \$1.2 million in FY 2007 to a high of nearly \$2.0 million in FY 2008. The average cost of charity care for the last five-year period was approximately \$1.5 million.

VICTOR VALLEY COMMUNITY HOSPITAL COST OF CHARITY CARE				
Year	VVCH Charity Care Charges <sup>1</sup>	Cost to Charge Ratio	Cost of Charity Care to VVCH	Percent of Total Costs Represented by Charity Care
FY 2010	\$6,936,235	23.3%	\$1,616,143	2.7%
FY 2009	\$5,635,062	22.5%	\$1,268,620	2.3%
FY 2008	\$8,221,971	24.1%	\$1,984,335	1.1%
FY 2007	\$5,180,979	23.8%	\$1,231,504	0.9%
FY 2006	\$6,130,358	22.4%	\$1,373,198	2.8%
<b>5 Year Average</b>	<b>\$6,420,921</b>		<b>\$1,494,760</b>	

Source: OSHPD Disclosure Reports

<sup>1</sup>Charity Care charges are based on final OSHPD figures.

## ***Community Benefit Services***

The Hospital has provided minimal community benefit services because of their difficult financial situation. Community benefit services have historically included a combination of health events, preventative health services, and educational programs. Due to the Hospital's financial condition, it discontinued Senior Health Fairs in 2009.

As shown in the table below, the average annual cost of community benefit services over five years was approximately \$27,700 per year. Excluding the most recent year (2010), when the hospital eliminated some of its community benefit services, the four year average was \$30,919.

VICTOR VALLEY COMMUNITY HOSPITAL COMMUNITY BENEFIT SERVICES								
Community Events	Health Events	2006	2007	2008	2009	2010	5 Year Average	Total
Kids Care Fair		\$11,968	\$10,184	\$15,077	\$14,724	\$12,883	\$12,967	\$64,836
Misc. Community Health Fairs		\$1,500	\$8,350	\$13,438	\$9,433	\$2,174	\$6,979	\$34,895
VVCH Senior Health Fairs		\$9,000	\$10,500	\$12,000	\$7,500	-	\$9,750	\$39,000
<b>Total</b>		<b>\$22,468</b>	<b>\$29,034</b>	<b>\$40,515</b>	<b>\$31,657</b>	<b>\$15,057</b>	<b>\$27,746</b>	<b>\$138,731</b>

Source: VVCH

## **PROFILE OF PURCHASER AND PRIME HEALTHCARE SERVICES, INC.**

Prime Healthcare Services, Inc., a Delaware for-profit corporation, was founded by Dr. Prem Reddy in 2001 for the purpose of acquiring Desert Valley Hospital and Desert Valley Medical Group from Phycor.

Prime Healthcare Services, Inc. then acquired Chino Valley Medical Center, a 126-bed acute care hospital in Chino, CA in 2004. Prime Healthcare Services, Inc. has acquired eleven other acute care facilities throughout California, including 369-bed Centinela Hospital Medical Center, 153-bed Sherman Oaks Hospital, 246-bed Shasta Regional Medical Center in Redding, 151-bed Encino Hospital Medical Center and 93-bed San Dimas Community Hospital in the Los Angeles region; 102-bed Montclair Hospital Medical Center in the Inland Empire region; 167-bed Garden Grove Hospital and Medical Center, 141-bed Huntington Beach Hospital, 131-bed La Palma Intercommunity Hospital and 219-bed West Anaheim Medical Center in the Orange County region; and 301-bed Paradise Valley Hospital and 306-bed Alvarado Hospital in the San Diego region.

In 2006, Dr. Prem Reddy founded the Purchaser, Prime Healthcare Services Foundation, Inc., a Delaware nonprofit corporation organized for the stated primary charitable purpose of providing healthcare through hospital services to communities in the greater Southern California area, and to support other charitable activities in the community such as medical education by providing scholarships for students in healthcare fields, classroom space for healthcare students, and medical libraries.

Prime Healthcare Services, Inc is one of two primary donors to Purchaser. The other is Dr. Prem Reddy. Prime Healthcare Services, Inc., donated Encino Hospital Medical Center in December 2009 and Montclair Hospital Medical Center in December 2010 to Purchaser. Purchaser's Board of Directors consists of Dr. Prem Reddy and four additional Board members; two more community board members are being recruited.

### ***Quality & Awards***

Thomas Reuters, a world-wide source of healthcare information, recently recognized Prime Healthcare Services, Inc. with two different awards. In 2009, it was named one of the top 10 health systems in the nation and the only for-profit system included on the list. In 2010, two of its hospitals, Desert Valley Hospital and Montclair Hospital Medical Center, were listed in the top 100 hospitals in the nation. In 2011, West Anaheim Medical Center was added to the list.

Chino Valley Medical Center, Centinela Hospital Medical Center, Desert Valley Hospital, and Garden Grove Hospital & Medical Center received HealthGrades 2010 Emergency Medicine Excellence Award, awarded to the top 5% of all hospitals that HealthGrades has determined provide outstanding emergency medicine services. All Prime Healthcare Services, Inc. hospitals have received accreditation as indicated below.

Hospital	Acute Hospital Accreditation	Effective Date
Alvarado Hospital Medical Center	The Joint Commission	11/7/2008
Centinela Hospital Medical Center	The Joint Commission	4/15/2010
Chino Valley Medical Center	Health Facilities Accreditation Program	current
Desert Valley Hospital	Health Facilities Accreditation Program	current
Encino Hospital Medical Center	The Joint Commission	12/1/2008
Garden Grove Hospital	The Joint Commission	8/7/2009
Huntington Beach Hospital	The Joint Commission	12/13/2008
LaPalma Hospital Medical Center	The Joint Commission	8/6/2008
Montclair Hospital Medical Center	The Joint Commission	2/21/2009
Paradise Valley Hospital	The Joint Commission	7/16/2010
Sherman Oaks Hospital	Health Facilities Accreditation Program	current
San Dimas Community Hospital	The Joint Commission	11/25/2009
Shasta Regional Medical Center	The Joint Commission	12/7/2008
West Anaheim Medical Center	The Joint Commission	12/11/2008

Source: Joint Commission and Health Facilities Accreditation Program websites

### ***Statements of Deficiencies and Licensing Investigations***

The California Department of Public Health conducted an investigation related to sepsis at four hospitals owned by Prime Healthcare Services, Inc. and issued each hospital a Statement of Deficiencies (State Forms 2567) relating to medical record-keeping. Prime Healthcare Services, Inc. has appealed such deficiencies. In addition, the California Department of Public Health is currently investigating the diagnosis and treatment of malnutrition in several Prime Healthcare Services, Inc. hospitals.

### ***Key Prime Healthcare Services, Inc. Statistics***

Key statistics include the following:

- In 2010, its twelve combined hospitals made approximately \$87 million in net income, up 36% from 2009;
- Shasta Regional Medical Center was its top performing hospital, making \$15 million in net income. Its latest acquisition, Alvarado Hospital Medical Center, was the only hospital that failed to make a positive net income in 2010;
- In 2010, it operated 2,335 licensed beds with an average occupancy rate of 42% and an average daily census of 968 patients;
- From 2009 to 2010, total inpatient discharges increased by 8% to 98,635;
- The combined Medicare and Medi-Cal percentage, based on inpatient discharges in 2010, was 48% and 24% respectively;
- Its local hospital, Desert Valley, had the following characteristics in 2010:
  - An occupancy rate of 83% on 83 beds;
  - Medi-Cal patients made up 26% of patients and Medicare made up 55% of patients.

### ***Key Purchaser Statistics***

The Purchaser owns and operates Encino Hospital Medical Center and Montclair Hospital Medical Center.

Key statistics include the following:

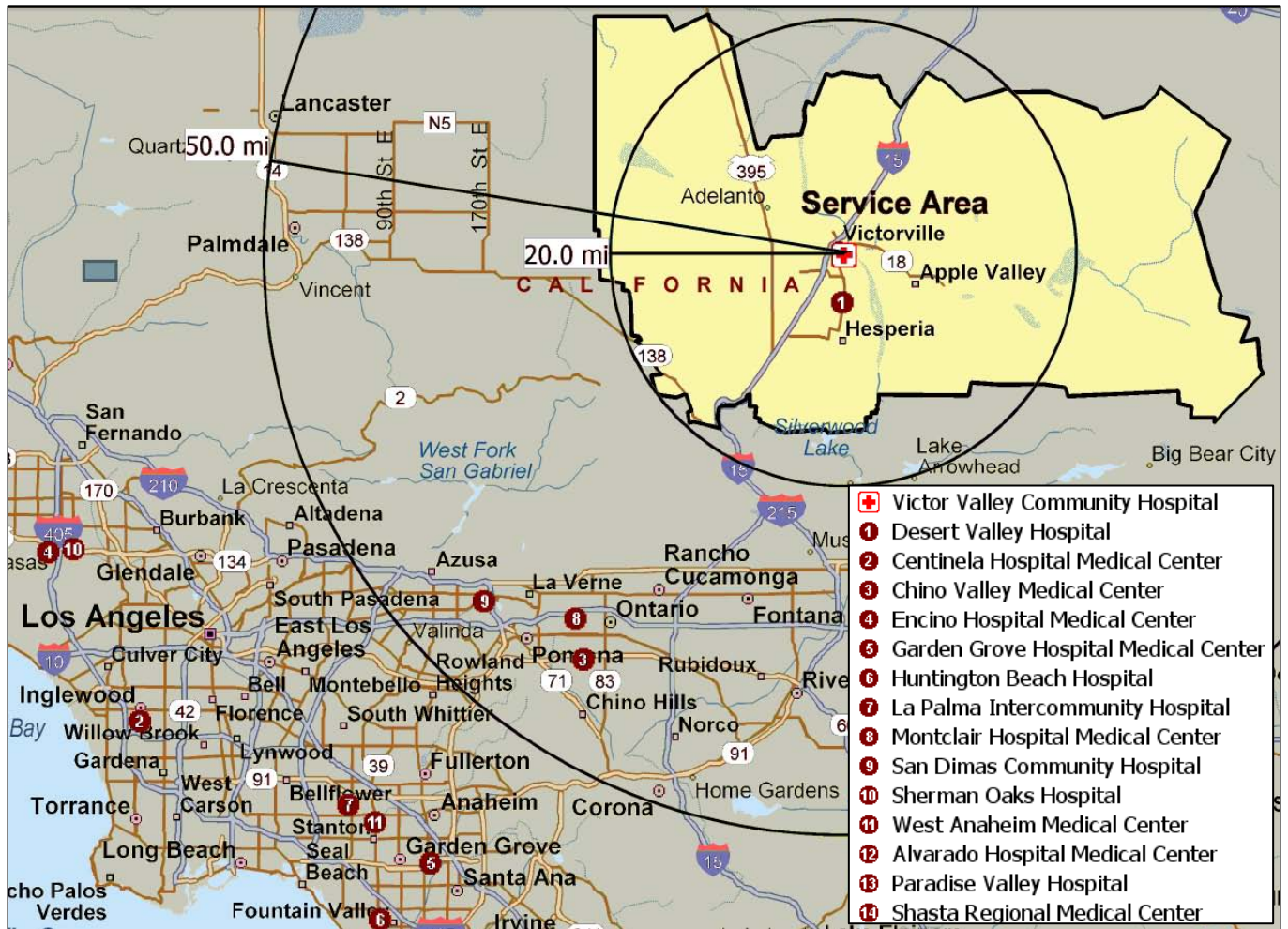
- In 2010, the two hospitals combined operated 252 licensed beds with an occupancy of 40%;
- The payer mix in 2010 was made up of predominantly Medicare and Medi-Cal patients each accounting for 39% of inpatient discharges; and
- The combined net income for 2010 was \$10.6 million, up 104% from 2009.

A map and more information about hospitals owned by Purchaser and Prime Healthcare Services, Inc. are provided on the following pages.



## ***Location of hospitals owned by Prime Healthcare Services, Inc., Purchaser, and Victor Valley Community Hospital***

The location of eleven<sup>3</sup> hospitals owned by Prime Healthcare Services, Inc. is shown on the map below. Desert Valley is the only hospital owned by Prime Healthcare Services, Inc. that falls within the Hospital's service area.



<sup>3</sup> Alvarado Hospital Medical Center (San Diego), Paradise Valley Hospital (San Diego), and Shasta Regional Medical Center (Redding) are not shown on the map due to their distance from the Hospital

## Hospitals Owned by Prime Healthcare Services, Inc.

HOSPITALS OWNED BY PRIME HEALTHCARE SERVICES, Inc.								
	Alvarado Hospital Medical Center General Acute		Centinela Hospital Medical Center General Acute		Chino Valley Medical Center General Acute		Desert Valley Hospital General Acute	
	2009	2010	2009	2010	2009	2010	2009	2010
City	San Diego		Inglewood		Chino		Victorville	
Licensed Beds	306	306	369	369	116	126	83	83
Patient Days	44,264	41,623	74,126	69,868	16,805	16,517	25,610	25,168
Discharges <sup>1</sup>	9,314	9,449	19,022	18,815	6,306	6,506	7,081	7,179
ALOS	4.8	4.4	3.9	3.7	2.7	2.5	3.6	3.5
Average Daily Census	121	114	203	191	46	45	70	69
Occupancy	39.6%	37.3%	55.0%	51.9%	39.7%	35.9%	84.5%	83.1%
ED Visits <sup>2</sup>	20,310	21,520	43,807	41,433	32,284	29,857	26,723	26,191
Inpatient Surgeries <sup>2</sup>	2,795	2,854	1,848	1,704	706	635	1,053	1,070
Outpatient Surgeries <sup>2</sup>	2,897	1,618	1,137	962	477	249	738	597
Births <sup>2</sup>	0	0	1,762	1,455	0	0	345	470
<b>Payer Mix (Based on Discharges):</b>								
Traditional Medicare	42.3%	40.0%	27.3%	40.4%	29.0%	28.8%	34.6%	34.6%
Managed Medicare	6.2%	7.3%	7.8%	8.9%	14.7%	16.0%	18.5%	20.0%
Traditional Medi-Cal	12.5%	13.0%	20.0%	24.6%	16.7%	16.8%	16.1%	17.3%
Managed Medi-Cal	2.2%	2.7%	8.1%	9.7%	7.6%	9.4%	7.3%	9.1%
County Indigent	0.9%	2.9%	1.0%	0.0%	0.4%	0.7%	0.6%	1.0%
Traditional Third Party	0.0%	0.0%	7.7%	8.2%	24.1%	24.3%	3.4%	9.1%
Managed Third Party	27.0%	27.4%	1.1%	0.0%	5.4%	2.6%	13.1%	5.2%
Other Indigent	0.3%	0.0%	1.7%	1.7%	0.0%	0.0%	5.3%	0.0%
Other	8.5%	6.7%	25.2%	6.6%	2.2%	1.5%	1.1%	3.7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Income Statement:</b>								
Net Pt. Revenue	\$159,219,413	\$157,908,839	\$228,327,937	\$291,103,828	\$87,464,814	\$83,136,883	\$83,802,761	\$97,918,592
Other Operating Rev.	\$2,717,839	\$3,539,163	\$1,695,402	\$1,761,261	\$94,251	\$132,342	\$671,979	\$624,949
Total Operating Rev.	\$161,937,252	\$161,448,002	\$230,023,339	\$292,865,089	\$87,559,065	\$83,269,225	\$84,474,740	\$98,543,541
Total Operating Exp.	\$162,505,892	\$161,672,630	\$213,275,164	\$281,108,634	\$73,414,140	\$75,856,371	\$81,291,009	\$91,507,480
Net From Operations	(\$568,640)	(\$224,628)	\$16,748,175	\$11,756,455	\$14,144,925	\$7,412,854	\$3,183,731	\$7,036,061
Non-operating Rev.	\$42,327	\$0	\$97,542	\$111,591	\$1,833	(\$399,836)	\$712,200	\$712,200
Non-operating Exp.	\$0	\$0	\$11,276,830	\$0	\$3,553,967	\$0	\$712,200	\$0
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Income<sup>3</sup></b>	<b>(\$526,313)</b>	<b>(\$224,628)</b>	<b>\$5,568,887</b>	<b>\$11,868,046</b>	<b>\$10,592,791</b>	<b>\$7,013,018</b>	<b>\$3,183,731</b>	<b>\$7,748,261</b>
<b>Other Financial:</b>								
Charity Care Charges	\$1,296,499	n/a	\$68,623,582	n/a	\$13,951,470	n/a	\$6,214,093	n/a
Bad Debt Charges	\$17,231,605	n/a	\$109,611,866	n/a	\$15,179,317	n/a	\$19,442,244	n/a
<b>Total Uncompensated Care</b>	<b>\$18,528,104</b>	<b>n/a</b>	<b>\$178,235,448</b>	<b>n/a</b>	<b>\$29,130,787</b>	<b>n/a</b>	<b>\$25,656,337</b>	<b>n/a</b>
Cost to Charge Ratio	20.9%	21.8%	14.5%	19.6%	26.1%	29.9%	23.6%	22.5%
Cost of Charity	\$271,540	n/a	\$9,963,356	n/a	\$3,639,851	n/a	\$1,465,836	n/a
Uncompensated Care as % of Chgs.	2.4%	n/a	12.2%	n/a	10.4%	n/a	7.5%	n/a
State of Calif. Uncompensated Care <sup>4</sup>	3.5%	n/a	3.5%	n/a	3.5%	n/a	3.5%	n/a
Fiscal Year Ending	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010

<sup>1</sup> Excludes normal newborns

<sup>2</sup> OSHPD Alerts discharge data

<sup>3</sup> Pre-tax Net Income for FY2010

<sup>4</sup> Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2009-2010

## Hospitals Owned by Prime Healthcare Services, Inc. - continued

HOSPITALS OWNED BY PRIME HEALTHCARE SERVICES, Inc.								
	Garden Grove Hospital Medical Center General Acute		Huntington Beach Hospital General Acute		La Palma Intercommunity Hospital General Acute		Paradise Valley Hospital General Acute	
	2009	2010	2009	2010	2009	2010	2009	2010
City	Garden Grove		Huntington Beach		La Palma		National City	
Licensed Beds	167	167	131	131	141	141	520	301
Patient Days	25,989	24,255	15,741	15,302	15,486	17,029	49,008	47,170
Discharges <sup>1</sup>	7,200	6,825	3,889	3,742	4,007	4,147	10,435	9,730
ALOS	3.6	3.6	4.0	4.1	3.9	4.1	4.7	4.8
Average Daily Census	71	66	43	42	42	47	134	129
Occupancy	42.6%	39.8%	32.9%	32.0%	30.1%	33.1%	25.8%	42.9%
ED Visits <sup>2</sup>	22,419	21,142	15,077	14,690	11,570	11,080	26,553	24,198
Inpatient Surgeries <sup>2</sup>	1,218	1,250	479	350	402	423	665	714
Outpatient Surgeries <sup>2</sup>	1,580	1,180	196	247	365	278	1,004	911
Births <sup>2</sup>	2,544	2,173	0	0	216	260	1,189	1,244
<b>Payer Mix (Based on Discharges):</b>								
Traditional Medicare	24.7%	23.6%	41.2%	43.7%	42.3%	45.3%	32.3%	39.3%
Managed Medicare	10.1%	9.5%	13.3%	13.2%	13.1%	11.8%	3.4%	4.5%
Traditional Medi-Cal	26.7%	26.8%	4.5%	4.4%	14.1%	15.1%	24.6%	28.2%
Managed Medi-Cal	17.2%	22.1%	9.6%	9.8%	5.1%	5.5%	3.2%	4.9%
County Indigent	2.5%	2.8%	7.4%	6.6%	2.4%	2.0%	1.3%	2.8%
Traditional Third Party	5.4%	8.7%	19.3%	16.8%	17.9%	16.3%	4.9%	5.6%
Managed Third Party	0.0%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Other Indigent	1.4%	0.3%	0.1%	0.2%	0.1%	0.0%	4.3%	4.0%
Other	12.0%	6.1%	4.6%	5.3%	5.0%	4.0%	26.0%	10.7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Income Statement:</b>								
Net Pt. Revenue	\$98,410,681	\$99,803,256	\$56,557,914	\$55,162,370	\$47,882,020	\$59,477,407	\$108,183,613	\$123,588,712
Other Operating Rev.	\$225,026	\$371,711	\$324,534	\$392,591	\$253,457	\$260,964	\$670,661	\$818,311
Total Operating Rev.	\$98,635,707	\$100,174,967	\$56,882,448	\$55,554,961	\$48,135,477	\$59,738,371	\$108,854,274	\$124,407,023
Total Operating Exp.	\$90,939,610	\$88,886,403	\$52,585,482	\$51,130,408	\$44,595,925	\$54,590,543	\$103,804,694	\$120,772,143
Net From Operations	\$7,696,097	\$11,288,564	\$4,296,966	\$4,424,553	\$3,539,552	\$5,147,828	\$5,049,580	\$3,634,880
Non-operating Rev.	\$3,165,001	\$771,265	\$461	(\$68,592)	\$0	\$17,461	\$1,478,515	\$860,725
Non-operating Exp.	\$5,980,144	\$0	\$600,000	\$0	\$570,000	\$0	\$2,226,663	\$0
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Income<sup>3</sup></b>	<b>\$4,880,954</b>	<b>\$12,059,829</b>	<b>\$3,697,427</b>	<b>\$4,355,961</b>	<b>\$2,969,552</b>	<b>\$5,165,289</b>	<b>\$4,301,432</b>	<b>\$4,495,605</b>
<b>Other Financial:</b>								
Charity Care Charges	\$6,026,055	n/a	\$5,269,315	n/a	\$2,660,562	n/a	\$22,235,068	n/a
Bad Debt Charges	\$22,371,422	n/a	\$20,190,266	n/a	\$17,977,122	n/a	\$17,594,193	n/a
<b>Total Uncompensated Care</b>	<b>\$28,397,477</b>	<b>n/a</b>	<b>\$25,459,581</b>	<b>n/a</b>	<b>\$20,637,684</b>	<b>n/a</b>	<b>\$39,829,261</b>	<b>n/a</b>
Cost to Charge Ratio	23.9%	21.8%	27.4%	25.2%	28.2%	28.1%	21.9%	26.5%
Cost of Charity	\$1,442,917	n/a	\$1,442,788	n/a	\$750,556	n/a	\$4,869,702	n/a
Uncompensated Care as % of Chgs.	7.5%	n/a	13.3%	n/a	13.1%	n/a	8.5%	n/a
State of Calif. Uncompensated Care <sup>4</sup>	3.5%	n/a	3.5%	n/a	3.5%	n/a	3.5%	n/a
Fiscal Year Ending	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010

<sup>1</sup> Excludes normal newborns

<sup>2</sup> OSHPD Alirits discharge data

<sup>3</sup> Pre-tax Net Income for FY2010

<sup>4</sup> Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2009-2010

## Hospitals Owned by Prime Healthcare Services, Inc. - continued

HOSPITALS OWNED BY PRIME HEALTHCARE SERVICES, Inc.								
	San Dimas Community Hospital General Acute		Shasta Regional Medical Center General Acute		Sherman Oaks Hospital General Acute		West Anaheim Medical Center General Acute	
	2009	2010	2009	2010	2009	2010	2009	2010
City	San Dimas		Redding		Sherman Oaks		Anaheim	
Licensed Beds	64	93	246	246	153	153	219	219
Patient Days	15,086	12,565	29,085	31,636	19,984	17,704	33,320	34,557
Discharges <sup>1</sup>	4,597	4,003	7,871	17,704	4,504	3,995	6,840	6,540
ALOS	3.3	3.1	3.7	1.8	4.4	4.4	4.9	5.3
Average Daily Census	41	34	80	87	55	49	91	95
Occupancy	64.6%	37.0%	32.4%	35.2%	35.8%	31.7%	41.7%	43.2%
ED Visits <sup>2</sup>	13,639	10,241	26,296	30,035	15,441	14,852	24,421	23,398
Inpatient Surgeries <sup>2</sup>	1,020	892	2,041	1,932	1,053	708	847	871
Outpatient Surgeries <sup>2</sup>	1,349	1,070	1,060	980	620	313	201	160
Births <sup>2</sup>	470	484	0	2	0	0	0	0
<b>Payer Mix (Based on Discharges):</b>								
Traditional Medicare	24.0%	24.5%	55.7%	56.2%	52.0%	57.5%	45.5%	46.1%
Managed Medicare	20.9%	20.3%	3.0%	4.3%	6.4%	6.0%	15.6%	14.5%
Traditional Medi-Cal	6.4%	7.3%	15.5%	15.2%	12.0%	12.6%	4.5%	5.2%
Managed Medi-Cal	2.8%	2.9%	3.8%	5.4%	5.4%	4.0%	12.9%	13.6%
County Indigent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.8%	5.8%
Traditional Third Party	19.8%	5.6%	16.4%	14.2%	18.0%	14.4%	12.1%	9.8%
Managed Third Party	20.0%	34.5%	0.6%	0.9%	0.0%	0.2%	0.1%	0.1%
Other Indigent	0.8%	0.0%	1.8%	0.2%	0.4%	0.0%	0.3%	0.6%
Other	5.1%	4.9%	3.1%	3.7%	5.8%	5.2%	4.3%	4.3%
Total	100%	100%	100%	100%	100%	100%	100%	100%
<b>Income Statement:</b>								
Net Pt. Revenue	\$64,571,308	\$59,887,373	\$125,552,222	\$176,092,954	\$75,614,613	\$72,178,016	\$89,897,465	\$93,528,057
Other Operating Rev.	\$306,575	\$469,688	\$488,449	\$1,049,307	\$589,950	\$1,133,363	\$583,611	\$608,586
Total Operating Rev.	\$64,877,883	\$60,357,061	\$126,040,671	\$177,142,261	\$76,204,563	\$73,311,379	\$90,481,076	\$94,136,643
Total Operating Exp.	\$54,900,345	\$52,324,334	\$116,284,651	\$161,654,912	\$70,336,542	\$68,996,377	\$84,279,899	\$88,002,695
Net From Operations	\$9,977,538	\$8,032,727	\$9,756,020	\$15,487,349	\$5,868,021	\$4,315,002	\$6,201,177	\$6,133,948
Non-operating Rev.	\$737,509	\$205,885	\$90,484	\$41,581	\$2,728	\$0	\$122,250	(\$98,782)
Non-operating Exp.	\$336,952	\$0	\$3,257,544	\$0	\$0	\$0	\$177,269	\$0
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income <sup>3</sup>	\$10,378,095	\$8,238,612	\$6,588,960	\$15,528,930	\$5,870,749	\$4,315,002	\$6,146,158	\$6,035,166
<b>Other Financial:</b>								
Charity Care Charges	\$990,474	n/a	\$28,917,777	n/a	\$12,587,903	n/a	\$8,268,815	n/a
Bad Debt Charges	\$35,328,105	n/a	\$22,953,743	n/a	\$27,966,215	n/a	\$20,009,473	n/a
Total Uncompensated Care	\$36,318,579	n/a	\$51,871,520	n/a	\$40,554,118	n/a	\$28,278,288	n/a
Cost to Charge Ratio	17.9%	19.4%	14.8%	20.5%	24.5%	26.4%	24.0%	21.4%
Cost of Charity	\$177,302	n/a	\$4,282,217	n/a	\$3,082,058	n/a	\$1,981,802	n/a
Uncompensated Care as % of Chgs.	11.9%	n/a	6.6%	n/a	14.2%	n/a	8.1%	n/a
State of Calif. Uncompensated Care <sup>4</sup>	3.5%	n/a	3.5%	n/a	3.5%	n/a	3.5%	n/a
Fiscal Year Ending	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010

<sup>1</sup> Excludes normal newborns

<sup>2</sup> OSHPD Alirits discharge data

<sup>3</sup> Pre-tax Net Income for FY2010

<sup>4</sup> Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2009-2010

## Hospitals Owned by Purchaser

HOSPITALS OWNED BY PURCHASER				
	Encino Hospital Medical Center General Acute		Montclair Hospital Medical Center General Acute	
	2009	2010	2008	2009
City	Encino		Montclair	
Licensed Beds	150	150	102	102
Patient Days	24,038	21,211	13,972	15,126
Discharges <sup>1</sup>	2,727	2,353	4,577	5,138
ALOS	8.8	9.0	3.1	2.9
Average Daily Census	66	58	38	41
Occupancy	43.9%	38.7%	37.5%	40.6%
ED Visits <sup>2</sup>	10,449	8,136	18,836	15,506
Inpatient Surgeries <sup>2</sup>	292	272	1,047	976
Outpatient Surgeries <sup>2</sup>	205	166	371	506
Births <sup>2</sup>	0	0	1,105	916
<b>Payer Mix (Based on Discharges):</b>				
Traditional Medicare	64.2%	63.4%	16.9%	17.3%
Managed Medicare	6.1%	5.4%	8.3%	7.7%
Traditional Medi-Cal	8.1%	7.6%	36.9%	36.1%
Managed Medi-Cal	3.1%	3.3%	14.3%	15.6%
County Indigent	0.0%	0.0%	0.4%	1.3%
Traditional Third Party	13.8%	15.0%	6.6%	7.6%
Managed Third Party	0.0%	0.2%	1.6%	9.7%
Other Indigent	0.5%	0.0%	1.3%	0.0%
Other	4.2%	5.1%	13.8%	4.8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Income Statement:</b>				
Net Pt. Revenue	\$46,502,771	\$51,112,305	\$39,418,559	\$49,466,841
Other Operating Rev.	\$427,479	\$362,683	\$343,236	\$2,683,410
Total Operating Rev.	\$46,930,250	\$51,474,988	\$39,761,795	\$52,150,251
Total Operating Exp.	\$42,351,306	\$48,504,213	\$38,131,866	\$44,306,208
Net From Operations	\$4,578,944	\$2,970,775	\$1,629,929	\$7,844,043
Non-operating Rev.	\$12,164	\$0	\$147,860	(\$144,608)
Non-operating Exp.	\$0	\$0	\$1,149,272	\$0
Provision for Taxes	\$0	\$0	\$0	\$0
<b>Net Income<sup>3</sup></b>	<b>\$4,591,108</b>	<b>\$2,970,775</b>	<b>\$628,517</b>	<b>\$7,699,435</b>
<b>Other Financial:</b>				
Charity Care Charges	\$2,598,101	n/a	\$4,970,497	n/a
Bad Debt Charges	\$35,056,307	n/a	\$16,083,376	n/a
<b>Total Uncompensated Care</b>	<b>\$37,654,408</b>	<b>n/a</b>	<b>\$21,053,873</b>	<b>n/a</b>
Cost to Charge Ratio	19.0%	24.0%	21.3%	21.7%
Cost of Charity	\$493,087	n/a	\$1,057,113	n/a
Uncompensated Care as % of Chgs.	17.0%	n/a	11.8%	n/a
State of Calif. Uncompensated Care <sup>4</sup>	3.5%	n/a	3.5%	n/a
Fiscal Year Ending	6/30/2009	6/30/2010	6/30/2009	6/30/2010

<sup>1</sup> Excludes normal newborns

<sup>2</sup> OSHPD Alirits discharge data

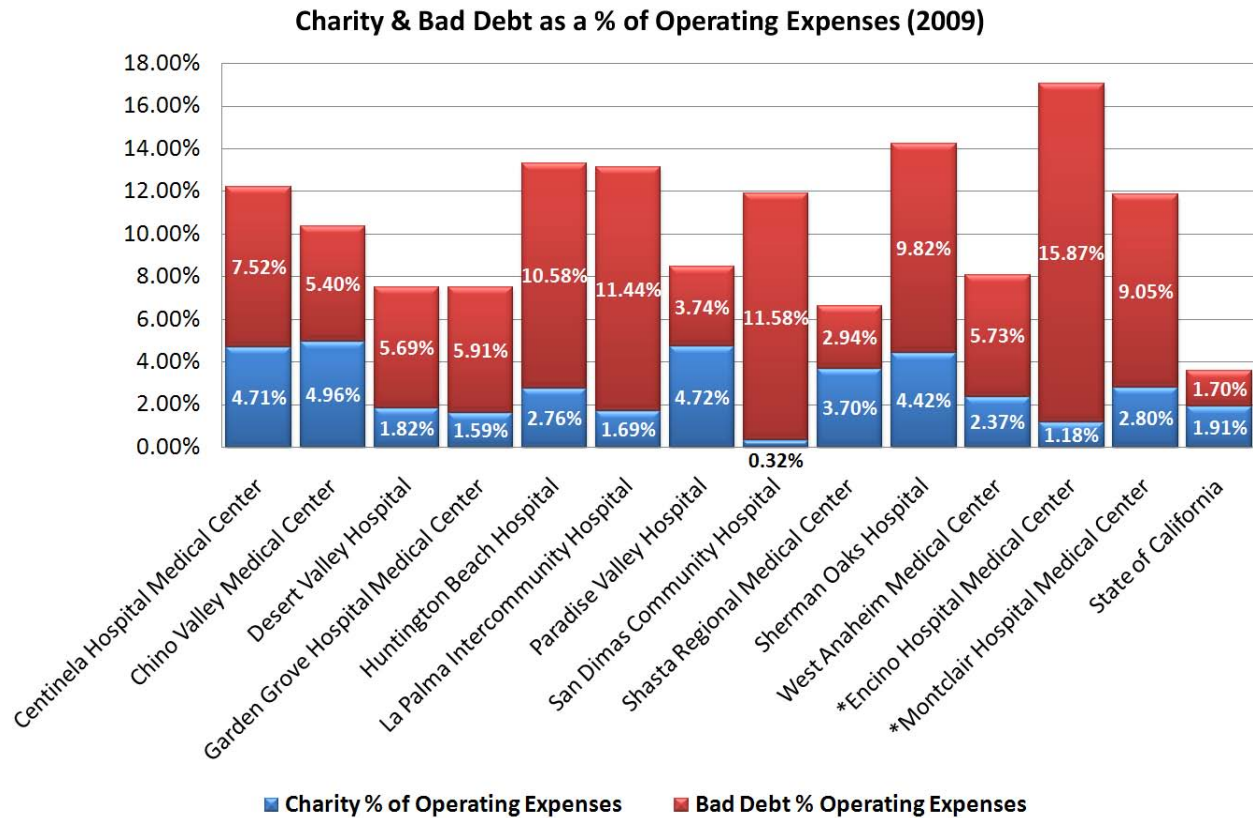
<sup>3</sup> Pre-tax Net Income for FY2010

<sup>4</sup> Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2009-2010

## *Prime Healthcare Services, Inc. and Purchaser: Charity Care and Bad Debt*

Below is a table illustrating both Purchaser and Prime Healthcare Services, Inc.'s charity care and bad debt rates as a percentage of operating expenses. The combined rates of charity care and bad debt at all hospitals far exceed the statewide average.



\*Owned by Purchaser

Source: OSHPD Disclosure Reports, 2010



## ANALYSIS OF VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA

### *Definition of Victor Valley Community Hospital's Service Area*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto. The Hospital's market share in the service area was only 15.5%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009						
ZIP Codes	Community	VVCH Discharges	% of Discharges	Cumulative % of Discharges	Total Discharges	Market Share
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
Sub Total		6,081	85.8%		39,843	15.5%
Other ZIPs		1,004	14.2%	100%		
Total		7,085	100%			

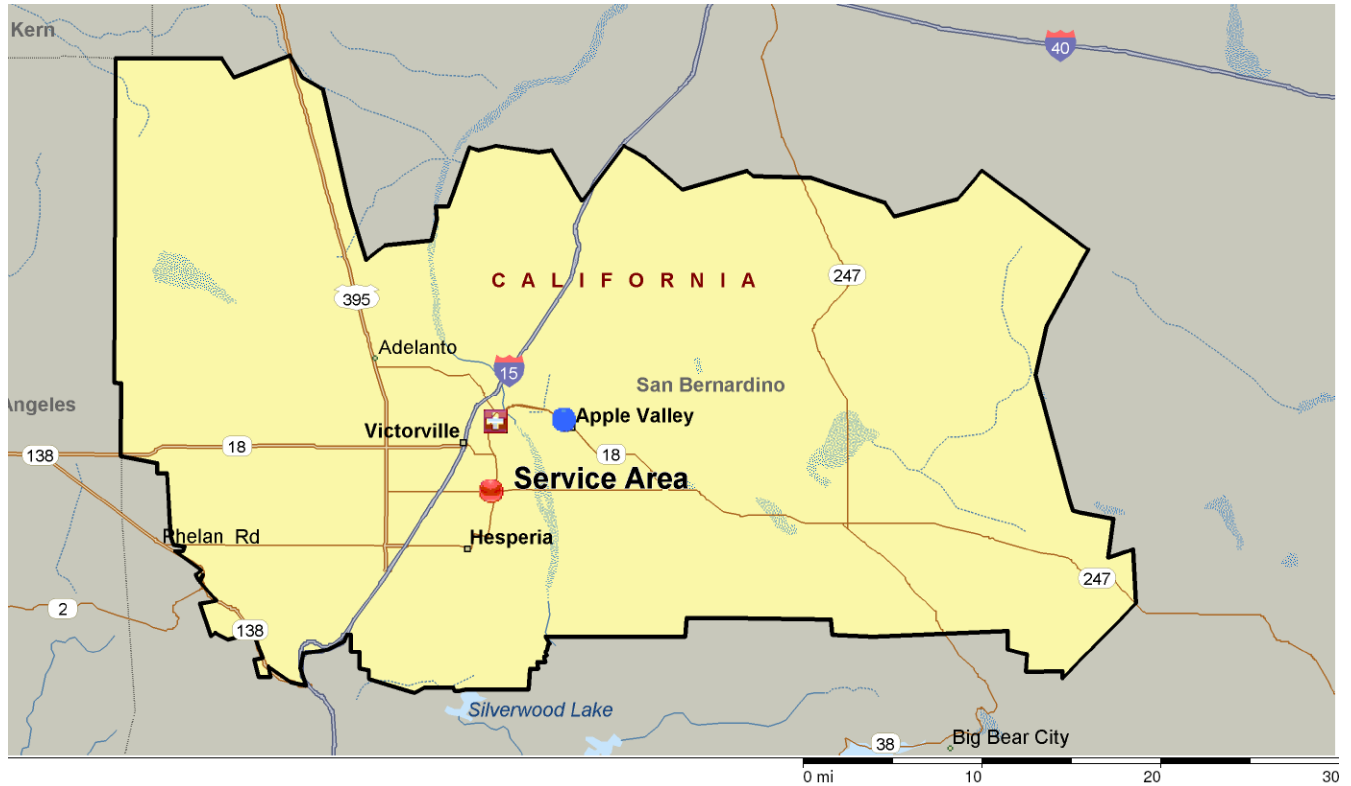
Source: OSHPD Patient Discharge Database

Note: Excludes normal newborns

## *Service Area Map*

The Hospital's service area includes the communities of Victorville, Apple Valley, Hesperia, Phelan, Lucerne Valley, Oro Grande, and Adelanto. Approximately 339,000 people live within the service area.

The two other hospitals are located within the Hospital's service area: St. Mary's with has 186 licensed beds, and Desert Valley with 83 licensed beds.





## Demographic Profile

The Hospital's service area is projected to grow by approximately 7.4% over the next five years. This is significantly higher than the expected growth rate statewide and for San Bernardino County (4.3% and 4.1% respectively).

VVMC SERVICE AREA POPULATION STATISTICS: 2010-2015			
	2010	2015	% Change
Total Populations	339,258	364,275	7.4%
Households	106,942	117,975	10.3%
Percentage Female	50.3%	50.3%	

Source: AGS

The average age of the population in the Hospital's service area is 33.4 years. The statewide average is slightly higher (35.3 years). The percentage of adults over the age of 65 is expected to grow by approximately 20% between 2010 and 2015. This is the largest percentage increase of any age group. The population of children between the ages 0-14 and adults between the ages 15-44 is expected to increase overall but decrease slightly as a percentage of the total population.

VVMC SERVICE AREA POPULATION AGE DISTRIBUTION: 2010-2015					
	2010		2015		2010-2015 Growth
	Population	% of Total	Population	% of Total	
Age 0-14	79,809	23.5%	81,044	22.2%	1.5%
Age 15-44	142,977	42.1%	149,943	41.2%	4.9%
Age 45-64	78,753	23.2%	88,085	24.2%	11.9%
Age 65+	37,719	11.1%	45,200	12.4%	19.8%
<b>Total</b>	<b>339,258</b>	<b>100%</b>	<b>364,273</b>	<b>100%</b>	<b>7.4%</b>
Female 15-44	70,937	20.9%	74,025	20.3%	4.4%
Average Age	33.4		35.1		

Source: AGS

Over 80% of the service area population is made up of Non-Hispanic Whites and Hispanics. The population of Non-Hispanic Whites is considerably higher than the rest of San Bernardino County. The Hispanic population is expected to grow by approximately 5% as a percentage of total population by 2015.

VVCH 2010 POPULATION ESTIMATES ETHNIC & RACIAL DISTRIBUTION COMPARISON				
Cohort	VVCH Service Area	San Bernardino County	California	U.S.
Non-Hispanic: White	42.0%	32.5%	39.4%	63.7%
Hispanic	38.4%	47.8%	36.7%	15.5%
Non-Hispanic: Black	3.4%	2.5%	2.7%	10.3%
Non-Hispanic: Multiple Races	3.0%	2.5%	3.2%	2.3%
Non-Hispanic: Asian	1.6%	2.5%	7.7%	3.4%
Non-Hispanic: American Indian or Alaska Native	0.5%	0.4%	0.4%	0.6%
Non-Hispanic: Hawaiian/Pacific Islander	0.1%	0.1%	0.2%	0.1%
Non-Hispanic: Other Race	10.9%	11.7%	9.6%	4.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: AGS

The average household income (aggregate household income divided by total households) in the service area is \$66,027. This is 9% lower than the County average of \$71,974, and 30% less than the statewide average of \$85,095. The growth projections anticipate that the Hospital's service area will grow more in higher household income categories in the County and statewide.

VVCH SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2010 2015												
	2010						2015					
	VVCH Service Area		San Bernardino County		California		VVCH Service Area		County		California	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
\$0 - \$15,000	12,051	11.3%	61,572	10.1%	1,322,266	10.6%	11,748	10.0%	57,015	8.8%	1,266,859	9.8%
\$15,000 - \$24,999	12,368	11.6%	63,123	10.4%	1,217,777	9.8%	12,798	10.8%	62,642	9.7%	1,205,056	9.3%
\$25,000 - \$34,999	12,332	11.5%	64,789	10.7%	1,180,386	9.5%	12,806	10.9%	64,752	10.0%	1,154,306	8.9%
\$35,000 - \$49,999	16,710	15.6%	88,617	14.6%	1,610,486	13.0%	17,836	15.1%	89,941	13.9%	1,585,821	12.3%
\$50,000 - \$74,999	23,727	22.2%	122,233	20.1%	2,234,766	18.0%	25,841	21.9%	127,832	19.7%	2,266,753	17.6%
\$75,000 - \$99,999	13,446	12.6%	85,007	14.0%	1,591,806	12.8%	15,983	13.6%	97,099	15.0%	1,704,499	13.2%
\$100,000 - \$149,999	10,793	10.1%	80,746	13.3%	1,805,116	14.5%	13,704	11.6%	97,779	15.1%	2,039,732	15.8%
\$150,000 +	5,514	5.2%	42,171	6.9%	1,453,432	11.7%	7,258	6.2%	51,424	7.9%	1,686,519	13.1%
Total	106,941	100.0%	608,258	100.0%	12,416,035	100.0%	117,975	100.0%	648,484	100.0%	12,909,545	100.0%
Average Household Income	\$66,027		\$71,974		\$85,095		\$73,802		\$79,830		\$93,390	

Source: AGS

### ***Payer/Insurance Mix in the Service Area***

Approximately 22% of the population in the Hospital's service area is Medi-Cal eligible, which is higher than for San Bernardino County overall (19%) and statewide (18%). The percentage of Medi-Cal eligibles for ZIP Codes within the Hospital's service area range from 11% to over 35%. The number and percent of the population that is Medi-Cal eligible is expected to grow significantly as a result of healthcare reform.

SERVICE AREA MEDI CAL ELIGIBLES				
ZIP Codes	City	Eligibles	Population	Percentage
92301	Adelanto	10,197	29,869	34.1%
92307	Apple Valley	7,073	36,121	19.6%
92308	Apple Valley	7,549	37,813	20.0%
92344	Hesperia	2,517	18,744	13.4%
92345	Hesperia	17,687	72,462	24.4%
92356	Lucerne Valley	1,719	5,737	30.0%
92368	Oro Grande	365	1,036	35.2%
92371	Phelan	1,561	13,809	11.3%
92392	Victorville	9,656	51,465	18.8%
92394	Victorville	7,112	26,919	26.4%
92395	Victorville	10,394	45,283	23.0%
Total		75,830	339,258	22.4%

Source: California Department of Health Care Services, AGS

## Selected Health Indicators

Overall, health status in San Bernardino County is worse than in the State of California as a whole, and is farther from meeting national goals. A review of health status indicators<sup>4</sup> for San Bernardino County (deaths, diseases, and births) supports the following conclusions:

- Health status in San Bernardino is inferior to health status statewide in the areas of obstetrics and prenatal care (refer to table below). Measures on low birth weight infants, late or no pre-natal care, and the infant mortality rate are also much higher than the national goal.

NATALITY STATISTICS: 2011			
Health Status Indicator	San Bernardino		
	County	California	National Goal
Low birth weight infants	7.1%	6.8%	5.0%
Late or no pre-natal care	18.6%	17.3%	10.0%
Infant mortality rate (per 1,000 births)	6.4%	5.3%	4.5%

Source: California Department of Health Care Services

- The overall age-adjusted mortality rate for San Bernardino County is higher than that of the State of California as a whole but slightly lower than the National rate. San Bernardino County's rates for most causes are higher than the statewide rate. Coronary heart disease and chronic lower respiratory disease are significantly higher.

MORTALITY STATISTICS RATE PER 100,000 POPULATION					
Selected cause	San Bernardino County		(Age Adjusted)		National Goal
	Crude Death Rate	Age Adjusted Death Rate	California	National	
All Causes	568.4	755.3	647.2	758.6	—
- All Cancers	125.2	164.2	154.0	175.5	158.6
- Colorectal Cancer	11.8	15.7	14.4	16.5	13.7
- Lung Cancer	29.8	40.1	37.2	49.6	43.3
- Female Breast Cancer	20.8	23.5	21.2	22.9	21.3
- Prostate Cancer	14.2	25.6	21.7	23.5	28.2
- Diabetes	22.1	29.4	20.3	21.8	n/a
- Alzheimer's Disease	17.8	27.4	26.7	24.4	n/a
- Coronary Heart Disease	119.6	167.9	128.0	132.3	162.0
- Cerebrovascular Disease (Stroke)	30.8	43.5	38.4	40.6	50.0
- Influenza/Pneumonia	10.9	15.4	18.2	17.0	n/a
- Chronic Lower Respiratory Disease	37.9	54.2	37.1	44.0	n/a
- Chronic Liver Disease And Cirrhosis	10.7	12.4	10.8	9.2	3.2
- Accidents (Unintentional Injuries)	25.0	27.1	28.7	38.6	17.1
- Motor Vehicle Traffic Crashes	12.5	12.5	9.2	12.9	8.0
- Suicide	9.5	10.1	9.6	11.6	4.8
- Homicide	7.0	6.6	5.8	5.9	2.8
- Firearm-Related Deaths	9.5	9.4	8.2	10.3	3.6
- Drug-Induced Deaths	10.1	10.5	10.7	12.3	1.2

Source: California Department of Public Health, Center for Health Statistics. 2007-2009

<sup>4</sup> Source: California Department of Health Services' County Health Status Profiles 2011

- San Bernardino County has the highest incidence rate for Chlamydia, well above the statewide rate. The rates of incidence of AIDS and tuberculosis are both lower than the statewide rates but higher than the National goals (see table below).

MORBIDITY STATISTICS: 2009 RATE PER 100,000 POPULATION			
Health Status Indicator	San Bernardino County	California	National Goal
AIDS	7.6	10.7	1.0
Chlamydia	397.0	382.4	n/a
Gonorrhea	67.7	70.2	19.0
Tuberculosis	3.4	6.9	1.0

Source: California Department of Health Care Services

## ***2008 Community Health Needs Assessment***

In 2008, VVCH, in collaboration with St. Mary and the High Desert Health Collaborative Council, prepared a community needs assessment. The assessment focused on the needs in the communities surrounding Victorville and encompassing all of the Hospital's service area. The study analyzed quantitative and qualitative data, including interviews of community leaders and members. The results included:

- Measures of access to care and insurance were below National goals;
- Heart disease and cancer were the top two leading causes of death;
- Measures of adolescent obesity were significantly above National goals (40% versus 10%);
- Measures for diabetes and high blood pressure were significantly above National goals; and
- The most important health issues in the community were viewed to be the following:
  - 1) The availability of health insurance and access to health and dental services;
  - 2) Childhood obesity;
  - 3) Diabetes;
  - 4) Barriers to healthcare services, including language, communication, and transportation;
  - 5) Access to services for seniors; and
  - 6) Access to emergency care.

## Hospital Supply, Demand, and Market Share

There are two other general acute care hospitals (St. Mary and Desert Valley) within 5 miles of the Hospital that, together with the Hospital, have a combined total of 370 licensed beds with an aggregate occupancy rate of 76.2%. In general, hospital beds in this service area are in very short supply, and many patients travel out of the area for hospital services. The average number of beds per thousand in California is approximately 2.0. The average number of beds per thousand in the Hospital's service area is approximately 1.1. Both Desert Valley and St. Mary run at very high occupancy levels, 85% and 83% respectively, whereas, the Hospital's occupancy level is 57.4%. The Hospital's licensed-bed capacity (101 beds) represents 27% of the area's beds, and the Hospital's inpatient volume accounts for 23% of discharges and 21% of patient days.

An analysis of the services offered by the Hospital in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were the primary facilities analyzed to determine area hospital available bed capacity by service. Although some of these hospitals are located over 30 miles away, they provide hospital care to 34% of the Hospital's service area population.

AREA HOSPITAL DATA: 2010								
Hospital	Ownership/Affiliation	City	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from VVCH
Victor Valley Community Hospital	Victor Valley Community Hospital	Victorville	101	6,760	21,158	58.0	57.4%	—
St. Mary Medical Center <sup>1</sup>	St. Joseph Health System	Apple Valley	186	15,649	56,190	153.9	82.8%	2.1
Desert Valley Hospital <sup>1</sup>	Prime Health Services	Victorville	83	7,081	25,610	70.2	84.5%	4.5
<b>SUB-TOTAL</b>			<b>370</b>	<b>29,490</b>	<b>102,958</b>	<b>282.1</b>	<b>76.2%</b>	
<b>Other Hospitals:</b>								
Barstow Community Hospital <sup>1</sup>	Community Health Systems	Barstow	56	2,734	7,725	21.2	37.8%	32.9
Community Hospital of San Bernardino <sup>2</sup>	Catholic Healthcare West	San Bernardino	321	11,343	77,883	213.4	66.5%	36.9
St. Bernardine Medical Center <sup>2</sup>	Catholic Healthcare West	San Bernardino	427	17,047	74,872	205.1	48.0%	39.0
Arrowhead Regional Medical Center	San Bernardino County	Colton	373	24,325	105,301	288.5	77.3%	43.3
Loma Linda University Medical Center <sup>2</sup>	Loma Linda University Adventist Health Sciences Center	Loma Linda	881	31,063	193,642	530.5	60.2%	44.8
Kaiser - Fontana <sup>1</sup>	Kaiser Permanente	Fontana	440	27,088	110,406	302.5	68.7%	48.5
Pomona Valley Hospital Medical Center <sup>1</sup>	Pomona Valley Hospital Medical Center	Pomona	453	22,644	110,477	302.7	66.8%	54.5
Corona Regional Medical Center - Main <sup>2</sup>	Universal Health Services Incorporated	Corona	240	9,446	50,862	139.3	58.1%	56.6
Antelope Valley Hospital Medical Center <sup>2</sup>	Antelope Valley Hospital District	Lancaster	420	25,111	105,022	287.7	68.5%	59.8
<b>SUB-TOTAL</b>			<b>3,611</b>	<b>170,801</b>	<b>836,190</b>	<b>2,290.9</b>	<b>63.4%</b>	
<b>TOTAL</b>			<b>3,981</b>	<b>200,291</b>	<b>939,148</b>	<b>64.6%</b>	<b>64.6%</b>	

Source: OSHPD Annual Utilization Reports

<sup>1</sup>Based on 2009 data

<sup>2</sup>Based on 2010 unaudited data

Both St. Mary and Desert Valley have expansion projects underway. St. Mary is adding general medical/ surgical beds with an expectation of growing to 210 beds in total. Desert Valley is adding approximately 60 beds (12 ICU and approximately 50 general medicine/surgical beds with an expectation of growing to a total of 145 beds.

## Hospital Market Share

The table below illustrates market share by individual hospital within the Hospital's service area over the past four years.

SERVICE AREA HOSPITAL MARKET SHARE 2006 2009								
Hospital	2006		2007		2008		2009	
	Discharges	Mkt Share	Discharges	Mkt Share	Discharges	Mkt Share	Discharges	Mkt Share
St. Mary Medical Center	11,349	33.5%	12,118	33.7%	13,201	34.9%	14,275	36.5%
<b>Victor Valley Community Hospital</b>	<b>5,531</b>	<b>16.3%</b>	<b>5,646</b>	<b>15.7%</b>	<b>5,685</b>	<b>15.0%</b>	<b>6,081</b>	<b>15.5%</b>
Desert Valley Hospital	4,845	14.3%	5,258	14.6%	5,703	15.1%	5,475	14.0%
Kaiser - Fontana	2,714	8.0%	2,867	8.0%	3,022	8.0%	3,029	7.7%
Loma Linda University Medical Center	2,510	7.4%	2,702	7.5%	2,707	7.2%	2,743	7.0%
Arrowhead Regional Medical Center	1,457	4.3%	1,547	4.3%	1,756	4.6%	1,700	4.3%
St. Bernardine Medical Center	489	1.4%	470	1.3%	579	1.5%	624	1.6%
Loma Linda University Behavioral Medicine Center	408	1.2%	456	1.3%	409	1.1%	418	1.1%
Community Hospital of San Bernardino	251	0.7%	267	0.7%	303	0.8%	296	0.8%
San Antonio Community Hospital	223	0.7%	284	0.8%	271	0.7%	271	0.7%
Canyon Ridge Hospital	134	0.4%	226	0.6%	233	0.6%	279	0.7%
Pomona Valley Hospital Medical Center	183	0.5%	233	0.6%	233	0.6%	191	0.5%
Kaiser - Riverside	169	0.5%	175	0.5%	197	0.5%	165	0.4%
Redlands Community Hospital	183	0.5%	159	0.4%	144	0.4%	179	0.5%
All Others	3,430	10.1%	3,526	9.8%	3,368	8.9%	3,382	8.6%
<b>Total</b>	<b>33,876</b>	<b>100%</b>	<b>35,934</b>	<b>100%</b>	<b>37,811</b>	<b>100%</b>	<b>39,108</b>	<b>100%</b>

Source: OSHPD Patient Discharge Database

- The number of discharges in the Hospital's service area has grown by 15% over the four years.
- The Hospital ranks second in terms of overall market share for the Hospital's service area based on discharges, with approximately 15.5% in FY 2009.
- The Hospital's market share in the service area has decreased slightly over the past four years. However, St. Mary's market share over the same period has increased significantly from 33.5% in 2006 to 36.5% in 2009.
- St. Mary provides care to more than twice as many hospital patients as the Hospital or Desert Valley.
- Kaiser has approximately 8% market share of service area discharges.
- The combined market share of VVCH and Desert Valley (29.5%) is less than that of St. Mary (36.5%).
- Approximately 34% of inpatients receive services out of the area



## Market Share by Payer

The following table illustrates hospital market share by payer category as reported to OSHPD for FY 2009.

Market Share by Payer 2009											
Hospital	Total Discharges	Commercial Managed Care	Traditional Medicare	Traditional Medi Cal	PPO EPO POS	Managed Medi Cal	Managed Medicare	Other	Private Insurance	County Indigent	Workers Comp.
St. Mary Medical Center	14,275	34.8%	43.4%	33.3%	63.2%	0.0%	22.6%	26.7%	51.9%	24.6%	20.6%
<b>Victor Valley Community Hospital</b>	<b>6,081</b>	<b>0.0%</b>	<b>10.9%</b>	<b>12.6%</b>	<b>13.5%</b>	<b>74.1%</b>	<b>12.3%</b>	<b>23.3%</b>	<b>20.4%</b>	<b>15.0%</b>	<b>6.8%</b>
Desert Valley Hospital	5,475	18.7%	23.5%	19.2%	0.1%	0.0%	0.0%	15.3%	11.8%	10.2%	6.8%
Kaiser - Fontana	3,029	22.9%	0.8%	0.1%	0.0%	2.8%	39.4%	1.1%	0.2%	0.0%	0.3%
Loma Linda University Medical Center	2,743	5.2%	5.9%	11.4%	8.4%	7.8%	6.0%	7.7%	0.6%	3.6%	4.1%
Arrowhead Regional Medical Center	1,700	0.1%	1.3%	11.0%	0.0%	4.3%	0.0%	12.2%	7.0%	35.3%	3.4%
St. Bernardine Medical Center	624	3.0%	0.8%	0.5%	1.2%	1.8%	5.2%	0.6%	0.6%	0.0%	5.4%
Loma Linda University Behavioral Medicine Center	418	1.0%	0.4%	0.8%	2.0%	2.2%	0.9%	2.6%	0.3%	0.0%	0.3%
Community Hospital Of San Bernardino	296	0.1%	0.6%	1.8%	0.4%	1.0%	0.4%	0.5%	0.2%	5.8%	0.0%
Canyon Ridge Hospital	279	1.0%	0.4%	1.1%	1.0%	0.1%	0.0%	0.2%	0.0%	3.5%	1.4%
San Antonio Community Hospital	271	1.0%	0.6%	0.1%	1.7%	0.2%	1.0%	0.5%	0.0%	0.0%	1.7%
All Others	3,917	12.2%	11.6%	8.1%	8.7%	5.8%	12.2%	9.4%	6.9%	2.0%	49.3%
<b>Total Discharges</b>	<b>39,108</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total Percentage</b>	<b>100%</b>	<b>20.8%</b>	<b>20.2%</b>	<b>18.8%</b>	<b>12.5%</b>	<b>7.8%</b>	<b>6.4%</b>	<b>5.6%</b>	<b>5.4%</b>	<b>1.7%</b>	<b>0.8%</b>
<b>Total Discharges</b>	<b>39,108</b>	<b>8,140</b>	<b>7,903</b>	<b>7,346</b>	<b>4,900</b>	<b>3,043</b>	<b>2,487</b>	<b>2,208</b>	<b>2,127</b>	<b>658</b>	<b>296</b>

Source: OSHPD Patient Discharge Database

- The table reflects reporting inconsistencies including for Medi-Cal and Managed Medi-Cal (St. Mary apparently reporting all Medi-Cal under one category). The combined totals for Medi-Cal show that the Hospital has the largest market share with 33%, St. Mary ranks second with 26% and Desert Valley ranks third with 15%.
- Desert Valley ranks second in many payer categories including Traditional Medicare and Traditional Medi-Cal.
- Kaiser ranks first in Medicare Managed Care and second in Commercial Managed Care.

## Market Share by Service Line

The following table illustrates hospital market share by service line for 2009.

Service Line Market Share by Hospital 2009										
Service Line	Total Discharges	St. Mary Medical Center	Victor Valley Community Hospital	Desert Valley Hospital	Kaiser Fontana	Loma Linda University Medical Center	Arrowhead Regional Medical Center	St. Bernardine Medical Center	Loma Linda University Behavioral Medicine Center	All Others
General Medicine	12,126	35.6%	17.3%	22.2%	8.3%	6.1%	2.1%	0.3%	0.0%	8.1%
Obstetrics	6,316	44.1%	25.8%	7.1%	7.3%	2.7%	2.7%	2.1%	0.1%	8.0%
Cardiac Services	5,546	52.6%	10.0%	14.9%	6.7%	3.2%	2.5%	2.8%	0.0%	7.2%
General Surgery	2,776	29.9%	12.9%	12.7%	8.1%	10.2%	4.3%	2.2%	0.0%	19.7%
Behavioral Health	1,827	3.1%	1.3%	1.8%	5.0%	0.8%	21.5%	0.0%	22.4%	44.2%
Orthopedics	1,752	24.8%	14.0%	9.5%	10.0%	11.2%	8.1%	4.4%	0.0%	17.9%
Neonatology	1,751	49.7%	17.8%	0.9%	10.3%	8.5%	3.7%	2.0%	0.0%	7.1%
Neurology	1,712	32.7%	11.9%	24.9%	8.1%	6.7%	4.1%	0.4%	0.1%	11.2%
Oncology/Hematology (Medical)	1,041	29.1%	11.6%	15.1%	8.2%	15.1%	4.4%	0.9%	0.0%	15.7%
Gynecology	884	25.8%	33.1%	8.3%	5.2%	12.2%	3.8%	1.6%	0.0%	10.0%
Spine	746	25.3%	6.7%	5.0%	6.0%	19.4%	3.1%	4.0%	0.0%	30.4%
Urology	659	45.8%	4.6%	14.9%	8.0%	7.7%	3.0%	4.9%	0.0%	11.1%
Vascular Services	621	42.0%	9.5%	9.5%	6.4%	11.8%	3.4%	3.5%	0.0%	13.8%
ENT	521	23.0%	12.7%	8.3%	9.2%	29.9%	5.8%	0.2%	0.0%	10.9%
Other	495	13.1%	6.1%	9.1%	6.7%	18.6%	26.1%	0.8%	0.0%	19.6%
Neurosurgery	215	11.6%	2.3%	0.9%	11.2%	35.3%	14.4%	0.5%	0.0%	23.7%
Rehabilitation	76	0.0%	0.0%	0.0%	9.2%	36.8%	0.0%	0.0%	0.0%	53.9%
Ophthalmology	44	18.2%	6.8%	11.4%	11.4%	29.5%	9.1%	0.0%	0.0%	13.6%
<b>Total Percentage</b>		<b>36.5%</b>	<b>15.5%</b>	<b>14.0%</b>	<b>7.7%</b>	<b>7.0%</b>	<b>4.3%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>12.2%</b>
<b>Total Discharges</b>	<b>39,108</b>	<b>14,275</b>	<b>6,081</b>	<b>5,475</b>	<b>3,029</b>	<b>2,743</b>	<b>1,700</b>	<b>624</b>	<b>418</b>	<b>4,763</b>

Source: OSHPD Patient Discharge Database

- The Hospital ranks second in overall market share (all services) within the service area, albeit with less than half of the discharges of St. Mary.
- The Hospital is the market share leader for only one of the eighteen service lines (gynecology) profiled. Its market share for that service line is 33.1%.
- The service line with the next highest market share for the Hospital is obstetrics (25.8%).
- Approximately 34% of patients received hospital care outside of the service area.
- The most frequently used hospitals outside the service area were Kaiser – Fontana (7.7%) and Loma Linda University Medical Center (7.0%).

## Comparative Service Matrix

The Hospital's service area includes a full array of hospital programs and services. Service "gaps" within the region exist in substance abuse, bariatric surgery, psychiatric care, trauma care, and quaternary services.

The following grid shows a comparison of local hospitals and the services provided as compared to the services offered at the Hospital. The Hospital provides many services that are typical for a small community hospital and a few additional services that are not usually provided (e.g., neonatal intensive care, cardiac catheterization, diagnostic imaging and lithotripsy).

SERVICE COMPARISON								
Program/Service	Victor Valley Community Hospital	St. Mary Medical Center	Desert Valley Hospital	Kaiser Fontana	Loma Linda University Medical Center	Arrowhead Regional Medical Center	St. Bernardine Medical Center	Barstow Community Hospital
Adult Cardiac Surgery		✓	✓		✓	✓	✓	
Adult Diagnostic Catheterization	✓	✓	✓	✓	✓	✓	✓	
Adult Cardiac Catheterization		✓	✓		✓	✓	✓	
Alcoholism-Drug Abuse or Dependency Inpatient								
Bariatric/Weight Control Services						✓	✓	
Birthing Room-LDR Room-LDRP Room	✓	✓	✓	✓	✓	✓	✓	✓
Breast Cancer Screening-Mammograms	✓	✓		✓	✓	✓	✓	✓
Cardiac Rehabilitation		✓	✓	✓	✓	✓	✓	
Chemotherapy				✓	✓	✓	✓	
CT Scanner	✓	✓	✓	✓	✓		✓	✓
Emergency Department	✓	✓	✓	✓	✓	✓	✓	✓
Hemodialysis	✓	✓		✓	✓		✓	
Magnetic Resonance Imaging (MRI)	✓	✓	✓	✓	✓	✓	✓	✓
Medical/Surgical Intensive Care Services	✓	✓	✓	✓	✓	✓	✓	
Neonatal Intensive Care Services	✓	✓		✓	✓	✓	✓	
Obstetrics Services	✓	✓	✓	✓	✓	✓	✓	✓
Oncology Services	✓	✓		✓	✓	✓	✓	
Pediatrics	✓	✓		✓	✓	✓	✓	
Physical Rehabilitation Inpatient Services				✓	✓			
Physical Rehabilitation Outpatient Services		✓	✓		✓	✓	✓	
Psychiatric Care						✓		
Trauma Center					✓	✓		
Women's Health Center/Services	✓	✓			✓	✓	✓	

Source: American Hospital Association Guide 2008, OSHPD Disclosure Report 2009

## Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, and emergency services (FY 2009 and 2010 data).

### Medical/Surgical Beds

Overall, there is little available hospital bed capacity for medical/surgical services in the immediate service area (Desert Valley occupancy in 2009 was approximately 93%). The next closest available hospitals are over 30 miles away. Collectively, service area hospitals had an occupancy rate of 75%, leaving little capacity available for seasonal variances, catastrophe, and outbreak.

MEDICAL/SURGICAL BEDS 2010							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Victor Valley Community Hospital	—	X	61	3,852	13,017	35.7	58.5%
St. Mary Medical Center <sup>1</sup>	2.1	X	138	11,061	37,352	102.3	74.2%
Desert Valley Hospital <sup>1</sup>	4.5	X	59	6,327	20,045	54.9	93.1%
<b>Subtotal</b>			<b>258</b>	<b>21,240</b>	<b>70,414</b>	<b>192.9</b>	<b>74.8%</b>
Barstow Community Hospital <sup>1</sup>	32.9		44	1,967	5,620	15.4	35.0%
Community Hospital Of San Bernardino <sup>2</sup>	36.9		119	4,675	20,538	56.3	47.3%
St. Bernardine Medical Center <sup>2</sup>	39.0		197	6,404	27,603	75.6	38.4%
Arrowhead Regional Medical Center	43.3		144	12,394	50,831	139.3	96.7%
Loma Linda University Medical Center <sup>2</sup>	44.8		370	12,300	69,764	191.1	51.7%
Kaiser - Fontana <sup>1</sup>	48.5		250	18,675	70,942	194.4	77.7%
Pomona Valley Hospital Medical Center <sup>1</sup>	54.5		145	7,192	28,598	78.4	54.0%
Corona Regional Medical Center-Main <sup>2</sup>	56.6		101	4,918	18,582	50.9	50.4%
Antelope Valley Hospital Medical Center <sup>2</sup>	59.8		251	14,811	60,339	165.3	65.9%
<b>Total</b>			<b>1,879</b>	<b>104,576</b>	<b>423,231</b>	<b>1,159.5</b>	<b>61.7%</b>

Source: OSHPD Annual Utilization Reports, MapPoint

<sup>1</sup>Based on 2009 data

<sup>2</sup>Based on 2010 unaudited data

The planned addition of approximately 70 beds by St. Mary and 50 by Desert Valley (to be available by 2011/2012) will help alleviate this medical/surgical bed shortage.

## Critical Care Beds (ICU/CCU)

There are 36 critical care beds within the service area, with an overall occupancy rate of approximately 85%. The Hospital has 10 licensed critical care beds that were 61% occupied on average in 2010 (average daily census of 6.1). Both St. Mary and Desert Valley were running at full capacity in 2009 with occupancy rates of 92% and 101% respectively. There is currently very little extra capacity to adjust to seasonal variations in ICU needs.

ICU/CCU BEDS 2010							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Victor Valley Community Hospital	—	X	10	460	2,231	6.1	61.1%
St. Mary Medical Center <sup>1</sup>	2.1	X	20	558	6,701	18.4	91.8%
Desert Valley Hospital <sup>1</sup>	4.5	X	6	119	2,210	6.1	100.9%
<b>Subtotal</b>			<b>36</b>	<b>1,137</b>	<b>11,142</b>	<b>30.5</b>	<b>84.8%</b>
Barstow Community Hospital <sup>1</sup>	32.9		4	358	1,287	3.5	88.2%
Community Hospital Of San Bernardino <sup>2</sup>	36.9		21	242	4,389	12.0	57.3%
St. Bernardine Medical Center <sup>2</sup>	39.0		47	666	14,183	38.9	82.7%
Arrowhead Regional Medical Center	43.3		48	1,368	10,459	28.7	59.7%
Loma Linda University Medical Center <sup>2</sup>	44.8		26	212	5,996	16.4	63.2%
Kaiser - Fontana <sup>1</sup>	48.5		34	1,162	12,235	33.5	98.6%
Pomona Valley Hospital Medical Center <sup>1</sup>	54.5		22	529	7,377	20.2	91.9%
Corona Regional Medical Center-Main <sup>2</sup>	56.6		22	301	3,648	10.0	45.4%
Antelope Valley Hospital Medical Center <sup>1</sup>	59.8		21	881	12,634	34.6	164.8%
<b>TOTAL</b>			<b>281</b>	<b>6,856</b>	<b>83,350</b>	<b>228.4</b>	<b>81.3%</b>

Source: OSHPD Annual Utilization Reports, MapPoint

<sup>1</sup>Based on 2009 data

<sup>2</sup>Based on 2010 unaudited data

Desert Valley is adding 12 ICU beds that will help alleviate capacity issues within the service area.

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## Obstetrics Beds

In 2010, there were 34 obstetrics beds located in the service area with an aggregate occupancy rate of 91%. This indicates that there is a substantial shortage of obstetrics beds in the region. The Hospital reported 12 licensed obstetric beds with an 83% occupancy rate for 2010<sup>5</sup>. St. Mary reported an occupancy rate of 144% on 12 licensed beds in 2009. Desert Valley reported 10 alternative birthing center beds with an occupancy rate of 36%.

LICENSED OBSTETRICS BEDS 2010							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Victor Valley Community Hospital	—	X	12	1,718	3,644	10.0	83.2%
St. Mary Medical Center <sup>1</sup>	2.1	X	12	2,903	6,308	17.3	144.0%
Desert Valley Hospital <sup>1</sup>	4.5	X	10	400	1,298	3.2	35.6%
<b>Subtotal</b>			<b>34</b>	<b>5,021</b>	<b>11,250</b>	<b>30.8</b>	<b>90.7%</b>
Barstow Community Hospital <sup>1</sup>	32.9		8	409	818	2.2	28.0%
Community Hospital Of San Bernardino <sup>2</sup>	36.9		24	2,669	6,082	16.7	69.4%
St. Bernardine Medical Center <sup>2</sup>	39.0		46	2,499	5,485	15.0	32.7%
Arrowhead Regional Medical Center	43.3		24	3,594	10,276	28.2	117.3%
Loma Linda University Medical Center <sup>2</sup>	44.8		71	2,760	9,366	25.7	36.1%
Kaiser - Fontana <sup>1</sup>	48.5		44	3,854	9,054	24.8	56.4%
Pomona Valley Hospital Medical Center <sup>1</sup>	54.5		—	—	—	—	—
Corona Regional Medical Center-Main <sup>2</sup>	56.6		12	1,698	3,505	9.6	80.0%
Antelope Valley Hospital Medical Center <sup>2</sup>	59.8		48	4,926	13,392	36.7	76.4%
<b>Total</b>			<b>311</b>	<b>27,430</b>	<b>69,228</b>	<b>189.7</b>	<b>61.0%</b>

Source: OSHPD Annual Utilization Reports, MapPoint

<sup>1</sup>Based on 2009 data

<sup>2</sup>Based on 2010 unaudited data

<sup>5</sup> However, the Hospital's license states 9 perinatal (obstetric) service beds and 4 labor, deliver, & recovery beds.

## Pediatric Beds

In 2010, there were a total of 24 pediatric beds in the service area, with an aggregate occupancy rate of 47%. The occupancy rate at St. Mary was over 80%. The next closest pediatric beds are 37 miles away. While the Hospital is an important provider of pediatric services, its 16 beds are only utilized 30% of the time.

LICENSED PEDIATRIC BEDS 2010							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Victor Valley Community Hospital	—	X	16	585	1,775	4.9	30.4%
St. Mary Medical Center <sup>1</sup>	2.1	X	8	969	2,343	6.4	80.2%
Desert Valley Hospital <sup>1</sup>	4.5	X	—	—	—	—	—
<b>Subtotal</b>			<b>24</b>	<b>1,554</b>	<b>4,118</b>	<b>11.3</b>	<b>47.0%</b>
Barstow Community Hospital <sup>1</sup>	32.9		—	—	—	—	—
Community Hospital Of San Bernardino <sup>2</sup>	36.9		27	842	2,683	7.4	27.2%
St. Bernardine Medical Center <sup>2</sup>	39.0		20	506	1,542	4.2	21.1%
Arrowhead Regional Medical Center	43.3		23	1,653	2,713	7.4	32.3%
Loma Linda University Medical Center <sup>2</sup>	44.8		94	4,791	17,967	49.2	52.4%
Kaiser - Fontana <sup>1</sup>	48.5		40	1,802	5,691	15.6	39.0%
Pomona Valley Hospital Medical Center <sup>1</sup>	54.5		34	1,766	4,305	11.8	34.7%
Corona Regional Medical Center-Main <sup>2</sup>	56.6		5	489	1,211	3.3	66.4%
Antelope Valley Hospital Medical Center <sup>2</sup>	59.8		22	1,264	3,422	9.4	42.6%
<b>Total</b>			<b>289</b>	<b>14,667</b>	<b>43,652</b>	<b>119.6</b>	<b>41.4%</b>

Source: OSHPD Annual Utilization Reports, MapPoint

<sup>1</sup>Based on 2009 data

<sup>2</sup>Based on 2010 unaudited data

## Neonatal Intensive Care Beds

Combined neonatal intensive care occupancy at the Hospital and St. Mary is running at 109%. St. Mary has 8 licensed neonatal intensive care beds with a reported occupancy rate of approximately 120% in 2009. The Hospital has an unusually small number of licensed beds (2) and its average daily census is only slightly above one patient. The next closest beds are 37 miles away.

NEONATAL ICU SERVICES 2010							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
<b>Victor Valley Community Hospital</b>	—	X	2	145	491	1.3	67.3%
St. Mary Medical Center <sup>1</sup>	2.1	X	8	257	3,486	9.6	119.4%
Desert Valley Hospital <sup>1</sup>	4.5	X	—	—	—	—	—
<b>Subtotal</b>			<b>10</b>	<b>402</b>	<b>3,977</b>	<b>10.9</b>	<b>109.0%</b>
Barstow Community Hospital <sup>1</sup>	32.9		—	—	—	—	—
Community Hospital Of San Bernardino <sup>2</sup>	36.9		5	340	2,160	5.9	118.4%
St. Bernardine Medical Center <sup>2</sup>	39.0		20	263	4,586	12.6	62.8%
Arrowhead Regional Medical Center	43.3		30	382	7,312	20.0	66.8%
Loma Linda University Medical Center <sup>2</sup>	44.8		84	1106	25,933	71.0	84.6%
Kaiser - Fontana <sup>1</sup>	48.5		36	478	7,871	21.6	59.9%
Pomona Valley Hospital Medical Center <sup>1</sup>	54.5		53	975	18,981	52.0	98.1%
Corona Regional Medical Center-Main <sup>2</sup>	56.6		—	—	—	—	—
Antelope Valley Hospital Medical Center <sup>2</sup>	59.8		48	715	5,901	16.2	33.7%
<b>Total</b>			<b>286</b>	<b>4,661</b>	<b>76,721</b>	<b>210.2</b>	<b>73.5%</b>

Source: OSHPD Annual Utilization Reports, MapPoint

<sup>1</sup>Based on 2009 data

<sup>2</sup>Based on 2010 unaudited data



## Emergency Department Volume at Hospitals in the Service Area

The Hospital has 13 Emergency Department (“ED”) stations and had 32,980 visits in 2010, amounting to 27% of total visits among the three area hospitals (123,416 total visits). St. Mary had the highest percentage of emergency visits of area hospitals (52%). Approximately 17% of the region’s ED visits resulted in admission to the hospital.

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2010												
Hospital	Miles from VCH	Within Service Area	ER Level	Stations	Total	Minor	Low/Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
Victor Valley Community Hospital	—	X	Basic	13	32,980	3,009	11,333	11,862	4,145	2,631	8.6%	0
St. Mary Medical Center	2.1	X	Basic	26	64,245	888	8,335	29,822	15,978	9,222	19.6%	0
Desert Valley Hospital	4.5	X	Basic	18	26,191					26,191	23.3%	0
<b>Subtotal</b>				<b>57</b>	<b>123,416</b>	<b>3,897</b>	<b>19,668</b>	<b>41,684</b>	<b>20,123</b>	<b>38,044</b>	<b>17.4%</b>	<b>0</b>
Barstow Community Hospital	32.9		Basic	10	20,761	984	2,496	15,844	1,419	18	8.9%	0
Community Hospital Of San Bernardino	36.9		Basic	19	37,362	1,695	12,337	17,091	5,532	707	15.4%	0
St. Bernardine Medical Center	39.0		Basic	25	55,454	3,043	14,656	25,401	10,818	1,536	14.2%	0
Arrowhead Regional Medical Center	43.3		Basic	43	127,121	32,063	26,623	41,383	12,998	14,054	16.6%	0
Loma Linda University Medical Center	44.8		Basic	58	44,777	2,743	8,606	16,463	11,538	5,427	31.2%	2
Kaiser - Fontana	48.5		Basic	62	75,127	656	20,129	46,035	7,849	458	17.6%	0
Pomona Valley Hospital Medical Center	54.5		Basic	50	66,542	1,866	10,404	30,158	22,776	1,338	15.0%	0
Antelope Valley Hospital Medical Center	59.8		Basic	28	94,471	610	8,470	42,786	39,347	3,258	17.5%	0
<b>Total</b>				<b>352</b>	<b>645,031</b>	<b>47,557</b>	<b>123,389</b>	<b>276,845</b>	<b>132,400</b>	<b>64,840</b>	<b>17.3%</b>	<b>2</b>

Source: OSHPD Alirits Annual Utilization Reports, MapPoint

## Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians (“ACEP”), have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, the Hospital’s ED is operating at 127% of its 13-bed capacity. ED capacity at St. Mary is also overburdened (124%) and, overall, area hospitals are at approximately 108% of capacity.

EMERGENCY DEPARTMENT CAPACITY 2010							
Hospital	Miles from VCH	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
Victor Valley Community Hospital	—	X	Basic	13	32,980	26,000	(6,980)
St. Mary Medical Center	2.1	X	Basic	26	64,245	52,000	(12,245)
Desert Valley Hospital	4.5	X	Basic	18	26,191	36,000	9,809
<b>Subtotal</b>				<b>57</b>	<b>123,416</b>	<b>114,000</b>	<b>(9,416)</b>
Barstow Community Hospital	32.9		Basic	10	20,761	20,000	(761)
Community Hospital Of San Bernardino	36.9		Basic	19	37,362	38,000	638
St. Bernardine Medical Center	39.0		Basic	25	55,454	50,000	(5,454)
Arrowhead Regional Medical Center	43.3		Basic	43	127,121	86,000	(41,121)
Loma Linda University Medical Center	44.8		Basic	58	44,777	116,000	71,223
Kaiser - Fontana	48.5		Basic	62	75,127	124,000	48,873
Pomona Valley Hospital Medical Center	54.5		Basic	50	66,542	100,000	33,458
Antelope Valley Hospital Medical Center	59.8		Basic	28	94,471	56,000	(38,471)
<b>Total</b>				<b>352</b>	<b>645,031</b>	<b>704,000</b>	<b>58,969</b>

Source: OSHPD Alirits Annual Utilization Reports, MapPoint

## SUMMARY OF COMMUNITY INTERVIEWS

In July and August of 2011, both in-person and telephone interviews were conducted with numerous physicians, community members, and representatives from the Hospital and the Purchaser. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability or accessibility as a result of the proposed hospital transaction. The major findings from the interviews are summarized on the following pages.

### *Reasons for the Sale of VVCH*

Those interviewed generally cited the following as the major reasons for selling the Hospital:

- Poor financial performance and the risk of continuing financial losses;
- Large amount of outstanding debt;
- Inability to make appropriate capital investments in the facility in light of the financial losses;
- A challenging payer mix (large percentage of uninsured and Medi-Cal patients);
- Low rates of reimbursement from IEHP and other managed care organizations;
- The declining reputation of the Hospital has had an adverse effect on support from physicians and patients; and
- A loss of laboratory services due to revocation of the CLIA certificate by the Centers for Medicare and Medicaid Services.

### *Acquisition Overview*

The majority of people interviewed expressed support for the proposed sale transaction. The general consensus was that the Hospital has struggled for the last ten years and that a new owner would be welcomed, assuming services remain stable and the new buyer makes capital investments to upgrade facilities, information systems, and equipment.

Most physicians and VVCH's Board members interviewed support the transaction but have a few concerns. These concerns include:

- Physicians may not support the Hospital and would continue to take patients elsewhere.
- The potential cancelation of managed care contracts by Purchaser would require managed care patients to go to other hospitals (mainly St. Mary, which is already impacted by high patient volume). Most physicians were not opposed to the Purchaser except for the concern that they would terminate managed care contracts.
- Cancellation of managed care contracts could affect the ability to coordinate patient care and disrupt the practice patterns of the medical staff that serve managed care patients.

Two IPAs operate under capitated medical agreements with payers. If the Hospital becomes a non-contracted hospital, there is concern that increases in the cost of care could result. This increased cost may affect the economic viability of these physician organizations.

- Some physicians believe that the Purchaser's business and patient care model makes it difficult for physicians to care for their patients that become hospitalized through the emergency department.

Despite these concerns, most interviewees felt that Purchaser would invest in the Hospital's infrastructure and would attempt to enhance programs and services. Most believed that with investment, the Hospital could be successful.

### ***Importance of the Hospital to the Community***

The Hospital is viewed as very important to the local community for its provision of emergency, obstetrics and pediatric services. It is viewed as a community hospital with a significant depth of medical, surgical, and support services. Services frequently mentioned as important for healthcare access and availability include:

- Emergency;
- Obstetrics;
- Pediatric;
- Intensive care; and
- Women's health.

Because there is already a shortage of hospital beds and healthcare services in the area, the closure of the Hospital or discontinuance of its services would have a significant negative impact on the availability and accessibility of healthcare services. The Hospital is especially important to IEHP, which had an average daily census of approximately thirteen patients for the twelve-month period ending March, 2011. IEHP also currently contracts with St. Mary but, due to its limited patient capacity, St. Mary would not be able to handle additional patients from the Hospital (St. Mary currently has an average daily census of fourteen IEHP patients). St. Mary executives have stated to IEHP that St. Mary is especially impacted by obstetric patients, and that it has no remaining capacity. The other area hospital, Desert Valley, does not contract with IEHP, and provides obstetrics services to only a small volume of patients.

The Hospital is also viewed as an important employer and contributor to overall community economic development and prosperity and is cited as one of Victorville's largest employers.

### ***Potential Closure of the Hospital***

Throughout the interview process, community stakeholders, physicians and VVCH Board members expressed relief that a buyer would keep the Hospital open and continue services in the community.

### ***Opposition to the Sale***

Interviewees almost unanimously indicated that, when faced with the expected alternative of closure, they support the sale of the Hospital to Purchaser.

### ***Investment in the Hospital***

The Purchaser has agreed to make capital investments of at least \$25 million over five years for working capital to improve the physical plant, equipment, information technology, and infrastructure of the Hospital. Some of the capital may be used to accomplish seismic retrofits.

## **ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES**

### ***Continuation of VVCH as a General Acute Care Hospital***

The Purchaser has agreed to maintain the Hospital as a licensed acute care hospital with services including emergency, obstetrics, and pediatrics. Continuation of those services as well as adult intensive care is critical to the community needs for healthcare services.

### ***Emergency Services***

With 13 emergency beds and over 32,900 visits in 2010, the Hospital has a high volume compared to other hospitals of its size. Based on a standard of 2,000 visits per station per year, the Hospital's emergency department was at 126% capacity in 2010. Additionally, St. Mary also appears to be operating beyond its optimal capacity. Therefore, keeping the Hospital's emergency department open is critical to providing adequate emergency services in the community.

### ***Medical/Surgical Services***

An analysis of the current supply and demand of area hospital beds shows that there is a shortage of medical/surgical beds in the community based on current utilization patterns that include a large amount of patient out-migration. The combined medical/ surgical occupancy rate for the Hospital, St. Mary and Desert Valley was 75% in 2009 and 2010. Due to seasonal and various health factors, occupancy of over 70% indicates the possibility of shortages in the community. St. Mary and Desert Valley are both in the process of increasing medical/surgical beds which should help alleviate the shortage. St. Mary has also announced the future construction of a new 126-bed hospital alongside Interstate 15.

### ***Intensive Care Services***

The Hospital has a fairly low occupancy rate (approximately 61%) and patient census (average of six patients per day) within its ICU in comparison with the other area hospitals. However, the ICUs of both St. Mary and Desert Valley are near or at capacity, resulting in a combined occupancy of approximately 85% among the three hospitals.

### ***Obstetrics Services***

The Hospital's obstetrics services were mentioned in the community interviews as being one of the most important services the Hospital provides. It has an occupancy rate of 83% for its 12 beds reported to OSHPD. Based on the current 9 licensed beds, the occupancy rate would be 110%. St. Mary has an occupancy rate of nearly 145%, and Desert Valley has a 36% occupancy rate for its 10 beds.

### ***Effect on Services to Medi-Cal, Medicare, County Indigent, and Other Classes of Patients***

Approximately 70% of the Hospital's inpatients are insured through Traditional and Managed Care Medicare (24%) and Traditional and Managed Care Medi-Cal (47%). The Hospital also treats a significant number of County indigent patients, primarily through the emergency department.

### ***Effect on the Level and Type of Charity Care Historically Provided***

The Hospital provides a higher percentage of charity care than the statewide average. The Purchaser has agreed to provide charity and indigent care at levels no less than historically provided. The Hospital's five-year average costs (not charges) for charity care reported to OSHPD is \$1,495,000.

### ***Effect on Community Benefit Programs***

Because of its poor financial performance, the Hospital has provided limited support to community benefit programs. Over the four fiscal years prior to 2010, in which community benefit services were curtailed, the support to community education and prevention, health initiatives, health professionals training, etc. has averaged approximately \$31,000 per year.

### ***Effect on Staffing and Employee Rights***

The Purchaser agreed to employ substantially all active Hospital employees and will offer employee benefits, compensation and other employment terms and conditions provided to similarly situated employees of the Purchaser.

### ***Effect on the Medical Staff***

While the Purchaser has agreed to maintain privileges for current medical staff members in good standing, some physicians may choose to practice at St. Mary because of dissatisfaction with the Purchaser.

### ***Effect on Patient Access***

Purchaser is currently in discussions to contract with IEHP. It is anticipated that Purchaser may not renew commercial managed care contracts and the patients associated with those health plans may need to seek services elsewhere. Without commercial managed care contracts, these patients may not have access to the Hospital for non-emergency services; however, these patients would still have access emergency services.

### ***Reproductive Health Services***

Tubal ligations and other reproductive health services are not prohibited at the Hospital. The sale is not expected to change or reduce the availability or accessibility of these services.

### ***Alternatives***

If the proposed transaction is not approved, without a CLIA certificate, the Hospital would be forced to close. While it is possible that another buyer could step forward, the Hospital would be financially strained to remain open pending another sale.

## CONCLUSIONS

Overall, the Purchaser is likely to continue the availability and accessibility of healthcare services at the Hospital. In general, it is expected that access for Medicare, Traditional Medi-Cal, and patients other than Third Party Managed care, will remain unchanged. Furthermore, the Purchaser's capital investment over the next five years should lead to substantial improvement to facilities, infrastructure, and certain services at the Hospital.

The largest potential impact on accessibility and availability to the community results if the Purchaser does not enter into a contract with IEHP. If IEHP and other patients do not have access to the Hospital, healthcare services at St. Mary would be overwhelmed with the additional patient load, creating access difficulties for all patients.

### ***Potential Conditions for Transaction Approval by the California Attorney General***

As a result of the above analysis, if the California Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the following conditions be required in order to minimize any potential negative health impact that might result from the transaction:

- 1) For at least five years from the Closing Date, the Purchaser should continue to operate the Hospital as a licensed general acute care hospital.
- 2) Purchaser should make the Hospital, and any other required structures, compliant with California seismic safety requirements that require retrofitting under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070).
- 3) For at least five years from the Closing Date, Purchaser should maintain 24-hour emergency medical services as currently licensed (minimum of 13 emergency stations/beds) with the same types and levels of services.
- 4) For at least five years from the Closing Date, Purchaser should also maintain the licensure with the same types and levels of services as follows:
  - a. ICU/CCU services, including a minimum of 10 beds;
  - b. Obstetrics services, including a minimum of 9 perinatal and 4 labor, delivery and recovery beds; and
  - c. Pediatric services, including a minimum of 10 beds.
- 5) For at least five years from the Closing Date, Purchaser should continue to operate the Victor Valley Community Hospital Women's Health Center with the same types and levels of services.
- 6) Purchaser should maintain certification to participate in the Medi-Cal program for as long as Purchaser operates the Hospital and to provide the same types and levels of emergency and



non-emergency services to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions.

- 7) Purchaser should negotiate a contract with IEHP effective at the time of Closing Date and maintain said contract for at least five years, on similar terms and conditions as other similarly-situated hospitals, for Medi-Cal, Healthy Families, Healthy Kids, and IEHP's Medicare Special Needs Plan.
- 8) For at least five years from the Closing Date, Purchaser should continue to maintain a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.
- 9) For at least five years from the Closing Date, Purchaser should expend a minimum of \$1,495,000 in annual charity costs (not charges). This amount should be increased annually based on the regional Consumer Price Index.
- 10) For at least five years from the Closing Date, Purchaser should continue to expend at least \$31,000 annually in community benefits. This amount should be increased annually based on the regional Consumer Price Index.
- 11) Purchaser should appoint a local governing Board comprised of physicians from the Hospital's medical staff, and community representatives. Purchaser should consult with the local governing Board regarding the use of the capital expenditure funds, the elimination of any medical services, any changes to community benefit programs, and any changes to the charity care and collection policies and services at the Hospital. Such consultation should occur at least thirty days prior to the effective date of such changes. The local governing Board should approve any reports submitted to the California Attorney General regarding compliance with these Conditions.
- 12) Annual amounts of expected capital expenditures including, equipment, information technology, and infrastructure improvements, as required in section 5.9 of the Asset Sale Agreement, should not be less than \$4 million per year for the first three years with the total capital expenditures and working capital of no less than \$25 million over five years.
- 13) For at least five years from the Closing Date, Purchaser should maintain all current contracts with the County of San Bernardino, without interruption of service or quality, to provide the same services under the current contracts. These contracts include:
  - a. San Bernardino County Superintendant of Schools-Occupational Program;
  - b. San Bernardino County Department of Public Health-Birth Registration Program;
  - c. County of San Bernardino Agreement for Paternity Opportunity Program;
  - d. County of San Bernardino Agreement for Medi-Cal Eligibility Worker;
  - e. ICEMA-Hospital Disaster Preparedness Program;
  - f. Reddinet-Emergency Communications System; and
  - g. Arrowhead Regional Medical Center-MIA Program.

### ***Recommended Action***

If the California Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the preceding conditions be required in order to minimize any potential negative health impact that might result from the transaction.

## APPENDICES

Interviews were conducted with the following people:

Last Name	First Name	Position	Affiliation
Ahluwalia	Mohinder	MD Medical Staff	Heritage Medical Group
Bhutwala	Ashvin	MD Internal Medicine	VVCH Medical Staff
Brady	Joe	President, Bradco	Community Stakeholder
Channel	Sue	Former VVCH Board Member	VVCH Board of Directors
Dann	Doreen	COO/CNO	VVCH Administration
Davis	Kathy	Chairman, Board of Directors	VVCH
Dhillon	Manjit	MD Medical Staff	VVCH Medical Staff
Fischl	Peter	MD Medical Staff	VVCH Medical Staff
Ganapavarap	Sreekanth	MD Internal Medicine	VVCH Medical Staff
Gilbert	Bradley	MD CEO	Inland Empire Health Plan
Grover	Rajiv	MD General Surgery	VVCH Medical Staff
Hardy	Doreen	CDO	VVCH Foundation
Killion	Dennis	Vice Chairman	VVCH Board of Directors
King	Lu-Wei	MD Medical Staff	VVCH Medical Staff
Lindsay	Peggy		VVCH Quality Sub Committee
Matthews	Ed	CFO	VVCH Administration
McEachron	Ryan	Victorville Mayor	City of Victorville
Menon	Radha	MD Chief of Staff & MEC Executive	VVCH Medical Staff
Murthy	Nirmala	MD Pediatrics	VVCH Medical Staff
Nayyar	Manmohan	MD	PHM/ Choice
O'Brian	David	MD Chief Operating Officer	SMMC
Pelley	Cathy	CEO	VVCH Administration
Puri	Rajiv	MD MEC Member/ Former Chief of Staff	VVCH Medical Staff
Reddy	Lex	President & CEO	Prime Healthcare Services
Reddy	Prem	MD Chairman of the Board	Prime Healthcare Services
Rutledge	Alan	MD Medical Staff	VVCH Medical Staff
Sarrao	Michael	Attorney	Prime Healthcare Services
Velasquez	Joel	MD Former Chief of Staff	VVCH Medical Staff
Villarosa	Daniel	MD OB/GYN	VVCH Medical Staff

A copy of VVCH's hospital license is below:

License: 240000218  
Effective: 11/01/2010  
Expires: 10/31/2011  
Licensed Capacity: 101

**State of California**  
**Department of Public Health**

In accordance with applicable provisions of the Health and Safety Code of California  
and its rules and regulations, the Department of Public Health hereby issues

*this License to*

**Victor Valley Community Hospital**

to operate and maintain the following General Acute Care Hospital

**Bed Classifications/Services \***

101 General Acute Care  
16 Pediatric Services  
10 Intensive Care  
9 Perinatal Services  
2 Intensive Care Newborn Nursery  
64 Unspecified General Acute Care

**Other Approved Services\***

Basic Emergency  
Nuclear Medicine  
Outpatient Services  
Outpatient Services at MRI/Cardiac  
Catheterization Laboratory, 15237 11th  
Street, Victorville  
Physical Therapy  
Radiological Services  
Respiratory Care Services  
Social Services



This **LICENSE** is not transferable and is granted solely upon the following conditions, limitations and comments:

4 LDR beds approved effective 1/11/90.

Voluntary suspension of 16 Beds from the Behavioral Health Unit.

Mark B. Horton, MD, MSPH

DIRECTOR

Lena Resurreccion, RN, BSN, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and  
Certification, San Bernardino District Office, 464 W. Fourth Street, Suite 529, San Bernardino, CA 92401,  
(909)383-4777

POST IN A PROMINENT PLACE