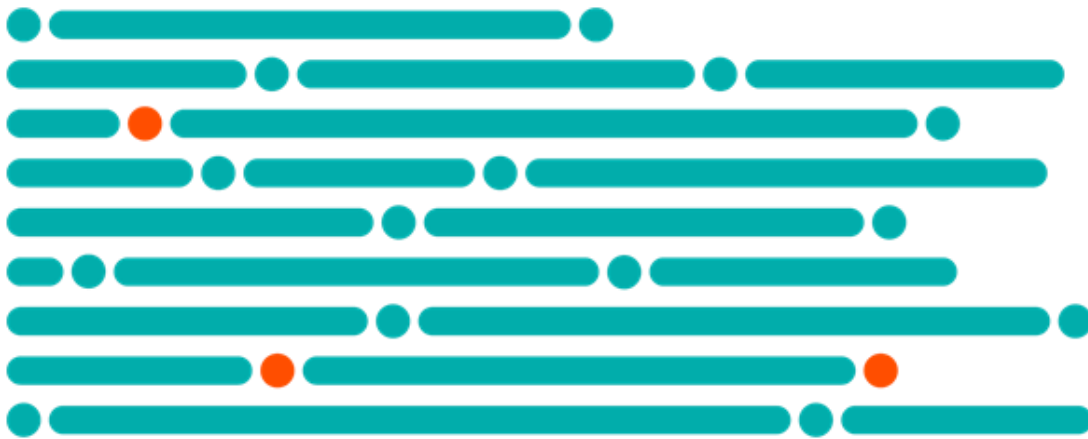


# Effect of the Ministry Alignment Agreement between Dignity Health and Catholic Health Initiatives on the Availability and Accessibility of Healthcare Services to the Communities Served by Dignity Health's Hospitals Located in Merced County

Prepared for the Office of the California Attorney General

August 30, 2018



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## Introduction & Purpose

JD Healthcare, Inc. and Vizient, Inc. were retained by the Office of the California Attorney General to prepare this healthcare impact statement to assess the potential impact of the proposed Ministry Alignment Agreement by and between Dignity Health, a California nonprofit public benefit corporation, and Catholic Health Initiatives, a Colorado nonprofit corporation (CHI), on the availability and accessibility of healthcare services to the communities served by Dignity Health’s hospital located in Merced County. Dignity Health owns and operates 31 general acute care hospitals in California, including one in Merced County: Mercy Medical Center, located in Merced.

CHI is the parent organization of several nonprofit corporations that own and/or operate over 100 hospitals in 18 states. CHI neither owns, nor controls any general acute care hospitals or other facilities in California. CHI is a Catholic organization.

### *Introduction*

Catholic Health Care Federation (CHCF) is a public juridic person<sup>1</sup> within the meaning of Canon Law and the canonical sponsor<sup>2</sup> of CHI.

While Dignity Health is not a Catholic organization, its Catholic hospitals are sponsored by six congregations of Women Religious<sup>3</sup>. Dignity Health owns and operates 31 general acute care hospitals in California<sup>4</sup>. Nineteen of the 31 California hospitals are Catholic and 12 are non-Catholic hospitals (also referred to as community hospitals). Four of the 12 non-Catholic general acute care hospitals are owned by separately incorporated California nonprofit public benefit corporations that have Dignity Health as their sole corporate member<sup>5</sup>. Dignity Health also owns and operates five hospitals in Arizona and three hospitals in Nevada.

The following summary chart is a list of Dignity Health owned and operated hospitals<sup>6</sup>.

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<sup>1</sup>A public juridic person is a group or persons approved by the Roman Catholic Church to oversee and ensure that the mission of its healthcare organization is carried out according to Catholic principles.

<sup>2</sup>The Catholic Health Association has defined canonical sponsorship of a healthcare ministry as a formal relationship between an authorized Catholic organization and a legally formed system, hospital, clinic, nursing home (or other institution) entered into for the sake of promoting and sustaining Christ's healing ministry to people in need.

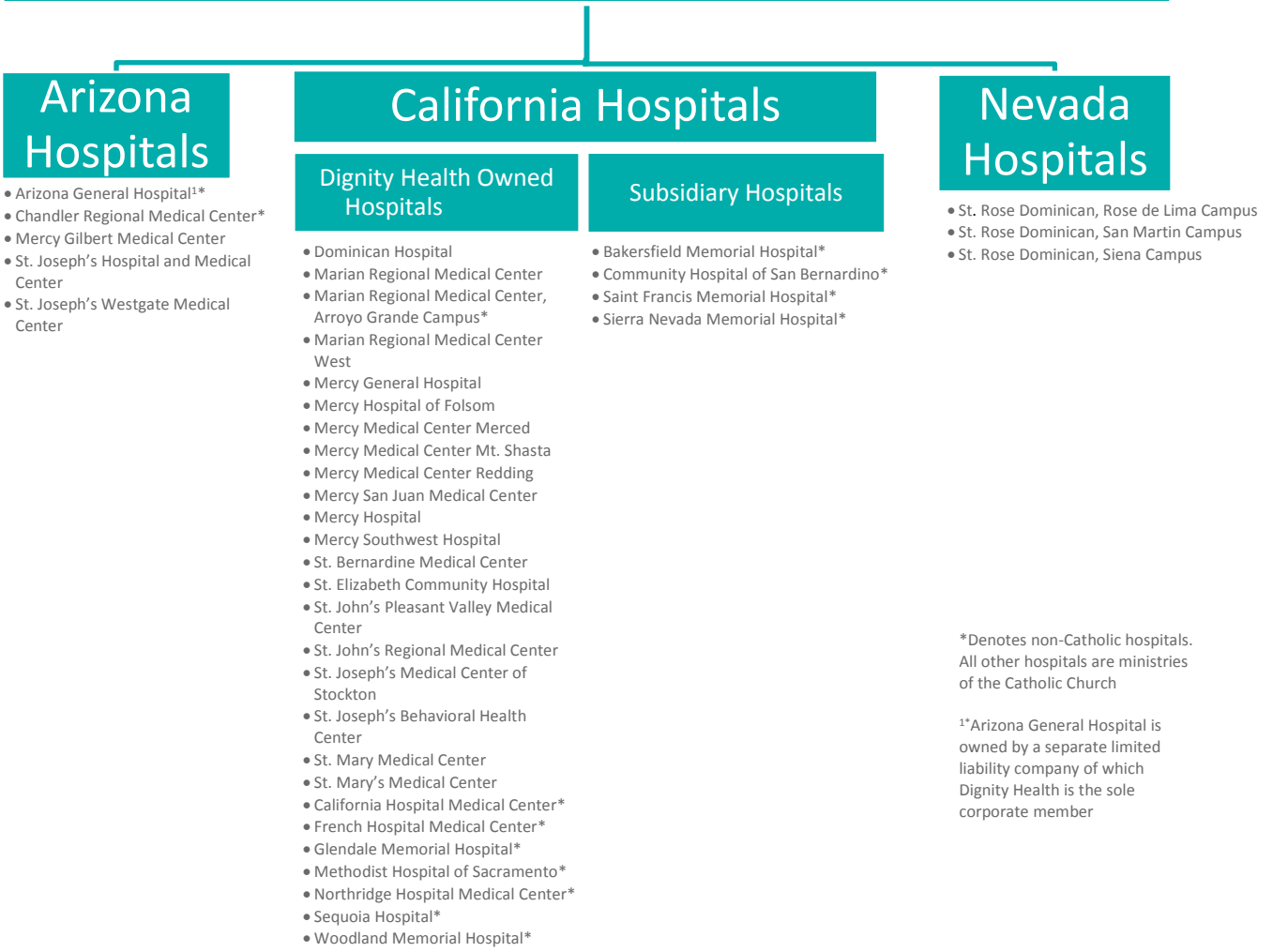
<sup>3</sup>A group of Roman Catholic women who dedicate their lives to the Gospel of Jesus Christ and take vows of poverty, chastity, obedience and service. The six congregations are: Sisters of Mercy of the Americas, Sister of Charity of the Incarnate Word, Dominican Sisters of San Rafael, Sisters of St. Francis of Penance and Christian Charity, Adrian Dominican Sisters and the Congregation of Sisters of St. Dominic of St. Catherine of Siena. Dignity Health’s sponsorship council is comprised of one sister from each congregation.

<sup>4</sup>The California Department of Public Health has issued twenty-eight general acute care hospital licenses with respect to these 31 facilities. Marian Regional Medical Center, Arroyo Grande Campus and Marian Regional Medical Center West operate under a consolidated license issued to Marian Regional Medical Center, and Mercy Southwest Hospital operates under a consolidated license issued to Mercy Hospital (in Bakersfield).

<sup>5</sup>The four facilities are Bakersfield Memorial Hospital, Community Hospital of San Bernardino, Saint Francis Memorial Hospital, and Sierra Nevada Memorial Hospital.

<sup>6</sup>St. Joseph’s Medical Center of Stockton and St. Joseph’s Behavioral Health Center are owned by Port City Operating Company, LLC, a joint venture between Kaiser Foundation Hospitals and Dignity Health. Dignity Health owns 80% of Port City Operating Company, LLC, and Kaiser Foundation Hospitals owns the remaining 20%.

# Dignity Health



In addition to the hospitals listed above, Dignity Health has a management agreement with Mark Twain Medical Center Corporation, a California nonprofit public benefit corporation, to operate Mark Twain Medical Center, a 25-bed critical access hospital<sup>7</sup> located at 768 Mountain Ranch Road, San Andreas, California. Mark Twain Medical Center is leased by Mark Twain Medical Center Corporation from the Mark Twain Healthcare District. The current lease agreement with Mark Twain Healthcare District expires on December 31, 2019. On June 6, 2018, the voters in the Healthcare District approved Ballot Measure A to enter into a new 30-year lease for Mark Twain Medical Center.

<sup>7</sup>A critical access hospital is a designation given to eligible rural hospitals, or those grandfathered as rural, by the Centers for Medicare and Medicaid Services. Conditions to obtain a Critical Access Hospital designation include having less than or equal to 25 acute care beds, being located more than 35 miles from another hospital, maintaining an annual average length of stay of 96 hours or less for acute care patients and providing 24-hour emergency care services.

***Purpose***

This healthcare impact statement describes the potential effects that the proposed transaction may have on the availability and accessibility of healthcare services to the residents served by Mercy Medical Center Merced.

In preparation of this report, JD Healthcare, Inc. and Vizient, Inc. performed the following:

- A review of the written notice delivered to the California Attorney General on March 29, 2018 and supplemental information subsequently provided by Dignity Health;
- A review of press releases and articles related to this and other hospital transactions;
- Interviews with representatives of Dignity Health;
- An analysis of financial, utilization, and service information provided by Dignity Health and the California Office of Statewide Health Planning and Development (OSHPD); and
- An analysis of publicly available data related to service areas for Mercy Medical Center Merced including hospital utilization rates and trends and hospital inpatient market share.

## Background & Description of the Transaction

### ***Background***

Dignity Health was formerly known as Catholic Healthcare West. Catholic Healthcare West was founded in 1986 when the Sisters of Mercy Burlingame Regional Community and the Sisters of Mercy Auburn Regional Community merged their healthcare ministries. In 2009, the United States Conference of Catholic Bishops changed the Ethical and Religious Directives<sup>8</sup> (ERDs) regarding partnerships between community and Catholic organizations. As a result of the changes to the ERDs, Catholic Healthcare West went through a process, between 2009 and 2011, to review its governance structure and its relationship to its owned and controlled non-Catholic community hospitals. In 2012, as a result of this review and based on discussions with its canonical sponsors, Catholic Healthcare West reorganized its governance structure and changed its name to Dignity Health. Dignity Health was no longer recognized as a Catholic organization, although many of its hospitals are Catholic. The restructure was designed to satisfy the requirements of the United States Conference of Catholic Bishops regarding partnerships with non-Catholic community hospitals while allowing Dignity Health to maintain its Catholic and non-Catholic hospitals under a single organization.

Following the 2012 reorganization, the six congregations of Women Religious began the exploration of alternative models for sponsorship of Dignity Health's Catholic hospitals, including the possibility for Dignity Health being recognized as a Catholic ministry. To facilitate this process, the Sponsors engaged a canon lawyer<sup>9</sup> to help explore all of the options, such as the creation of a new public juridic person or a merger with a Catholic healthcare system sponsored by an existing public juridic person. As further described below, the alignment discussions between Dignity Health and CHI revealed many significant potential strategic benefits for both organizations, including CHI's current sponsorship by a public juridic person known as Catholic Health Care Federation.

### ***Strategic Rationale, Transaction Process & Timing***

The leadership of Dignity Health and CHI had numerous partnership discussions over the previous ten years. In 2013, they explored potential affiliations between the two health systems. Dignity Health and CHI identified several opportunities to collaborate on programs and services, including telehealth, micro-hospitals, and precision medicine<sup>10</sup>. In September 2016, they formed a joint-venture named the Precision Medicine Alliance, LLC to create a large precision medicine program.

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<sup>8</sup>The Ethical and Religious Directives for Catholic Healthcare Services is a national code that guides Catholic healthcare providers on conformance with Christian theology.

<sup>9</sup>A canon lawyer is a lawyer who is knowledgeable of the ordinances and regulations made by ecclesiastical authority.

<sup>10</sup>Precision medicine is an emerging approach for disease treatment and prevention that uses extensive databases and takes into account individual variability in genes, environment, and lifestyle for each person.

In the spring of 2016, the executive leadership of Dignity Health and CHI began jointly exploring the potential for an alignment of their ministries. In March 2016, an outside advisor prepared a white paper<sup>11</sup> that analyzed the potential for an affiliation between Dignity Health and CHI that was shared with the boards of directors of Dignity Health and CHI in June 2016. The boards of directors of Dignity Health and CHI concluded that they:

- Share a vision of transformation for themselves and for the industry;
- Have highly complementary organizational missions, visions, and values;
- Serve complementary communities;
- Share strategic objectives in areas such as population health, quality, consumer focus, growth, and others; and
- Have multiple key complementary strengths – for example, CHI’s clinical excellence and Dignity Health’s operating model.

As a result, the boards of directors of Dignity Health and CHI requested that a business analysis for the aligned ministry be developed. That analysis identified the following potential synergies of aligned ministries:

- Enhancing clinical excellence;
- Improving patient experience;
- Ensuring care for the vulnerable and underserved;
- Developing talent and creating a learning organization;
- Improving access to care;
- Accelerating innovation and research; and
- Expanding the capabilities that support the health system of the future.

In addition, the white paper identified high level economic implications and synergies of an alignment that have the potential to:

- Provide the financial resources and complementary strengths to support the capabilities needed for a changing health system;

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<sup>11</sup>The white paper is entitled “Creating a Transformative Ministry in Response to the Signs of the Times, Cultural, Strategic, Business and Financial Planning for an Aligned Ministry.”



- Extend the mission of social justice through a national platform for care that is accessible and equitable to all people, with particular attention to the vulnerable and underserved; and
- Develop new models for integrated, community focused care that combine clinical excellence, health improvement and innovation.

On October 24, 2016, the boards of directors of Dignity Health and CHI announced the signing of a non-binding letter of intent to explore aligning the organizations. After the signing of the letter of intent, independent advisors from Kaufman Hall Associates, PricewaterhouseCoopers, McKinsey & Company, and Dentons US LLP provided analyses regarding the strategic, cultural, financial, legal, operational, and structural aspects of the alignment of the organizations. A steering committee, comprised of executives from both organizations, was formed to negotiate the terms of the Ministry Alignment Agreement. In March 2017, Dignity Health and CHI sought a moral analysis<sup>12</sup> from several Catholic theologians for the purposes of obtaining a *nihil obstat*<sup>13</sup> from Archbishop Aquila of the Denver Archdiocese and Archbishop Cordileone of the San Francisco Archdiocese. On April 20, 2017, the boards of directors of Dignity Health passed a resolution authorizing and approving the execution of the Ministry Alignment Agreement subject to the moral analysis. The resolution cited the intention to combine Dignity Health and CHI into a new nationwide health system that would:

- Serve as an unprecedented platform to further Catholic identity and the Catholic health ministry;
- Provide an opportunity for Dignity Health and CHI’s employees, physicians, partners and people in the communities served by Dignity Health and CHI to experience and participate in the enhanced Catholic health ministry;
- Enhance and expand access to care and the healthcare services performed for the poor and underserved;
- Possess a strong voice for social justice and promote advocacy at local, state and national levels;
- Be a leader in healthcare’s transformation;
- Promote clinical efficiency and effectiveness in the delivery of healthcare and medical services; and
- Provide a platform to accomplish other goals, objectives, and benefits for the communities served by the CHI and Dignity Health.

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<sup>12</sup>A formal report by a Catholic theologian on the appropriate application of Catholic moral teachings.

<sup>13</sup>A Roman Catholic Church certification by an official censor that something is not objectionable on doctrinal or moral grounds.

The *nihil obstats* were received in October 2017. The Ministry Alignment Agreement was signed by Dignity Health and CHI on December 6, 2017. On March 29, 2018, Dignity Health submitted the written notice to the California Attorney General's Office and requested the California Attorney General's consent to the Ministry Alignment Agreement.

### ***Summary of the Ministry Alignment Agreement***

The Ministry Alignment Agreement will be implemented primarily through the reorganization and renaming of CHI's current corporation. This reorganized entity will become the parent organization (henceforth referred to as "System Corporation") over the new health system and will be renamed before the Closing Date<sup>14</sup> of the transaction. The governing board of the System Corporation will initially be comprised of six directors each from the legacy boards of directors of Dignity Health and CHI, and the Chief Executive Officers from each organization (i.e., a total of 14 directors).

As part of the transaction, Dignity Health formed a separate Colorado nonprofit corporation named Integrated Healthcare Operations (IHO). As of the Effective Date<sup>15</sup> of the transaction, Dignity Health will transfer the assets of its eight non-Catholic owned hospitals (seven of which are in California and one in Arizona) to IHO. IHO will also become the sole corporate member of Dignity Health's four subsidiary hospitals in California for a total of 12 hospitals. The System Corporation is not a member of IHO. However, the System Corporation approves the majority of the IHO board from nominees selected by the IHO board and holds reserve powers over certain actions to be taken by IHO. IHO will not be Catholic, and the eleven California non-Catholic hospitals<sup>16</sup> transferred to IHO from Dignity Health and one Arizona non-Catholic hospital will remain non-Catholic and not subject to the ERDs. The 12 non-Catholic Dignity Health hospitals are not obligated to alter, restrict, or terminate any clinical medical service or program that was permitted on the effective date of the transaction by reason of Catholic doctrine or theology or any amendments to the Statement of Common Values<sup>17</sup> or Designated Procedures<sup>18</sup> that increases or expands prohibited services. The 12 non-Catholic Dignity Health hospitals will be provided with the same benefits, systems, services, and programs, and on the same terms as all other hospitals in System Corporation. The 12 non-Catholic Dignity Health hospitals will retain or adopt Dignity Health's Statement of Common Values.

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<sup>14</sup>The Closing Date is the date the parties exchange all signed documents pursuant to the conditions precedent set forth in the Ministry Alignment Agreement. One of those conditions precedent requires the Attorney General's consent.

<sup>15</sup>As of 12:00:01am on the day immediately after the "Closing Date".

<sup>16</sup>Marian Regional Medical Center, Arroyo Grande Campus is and will remain a non-Catholic general acute care hospital. It operates under a consolidated license issued to a Catholic general acute care hospital, Marian Regional Medical Center. Marian Regional Medical Center, Arroyo Grande Campus will not be transferred to IHO.

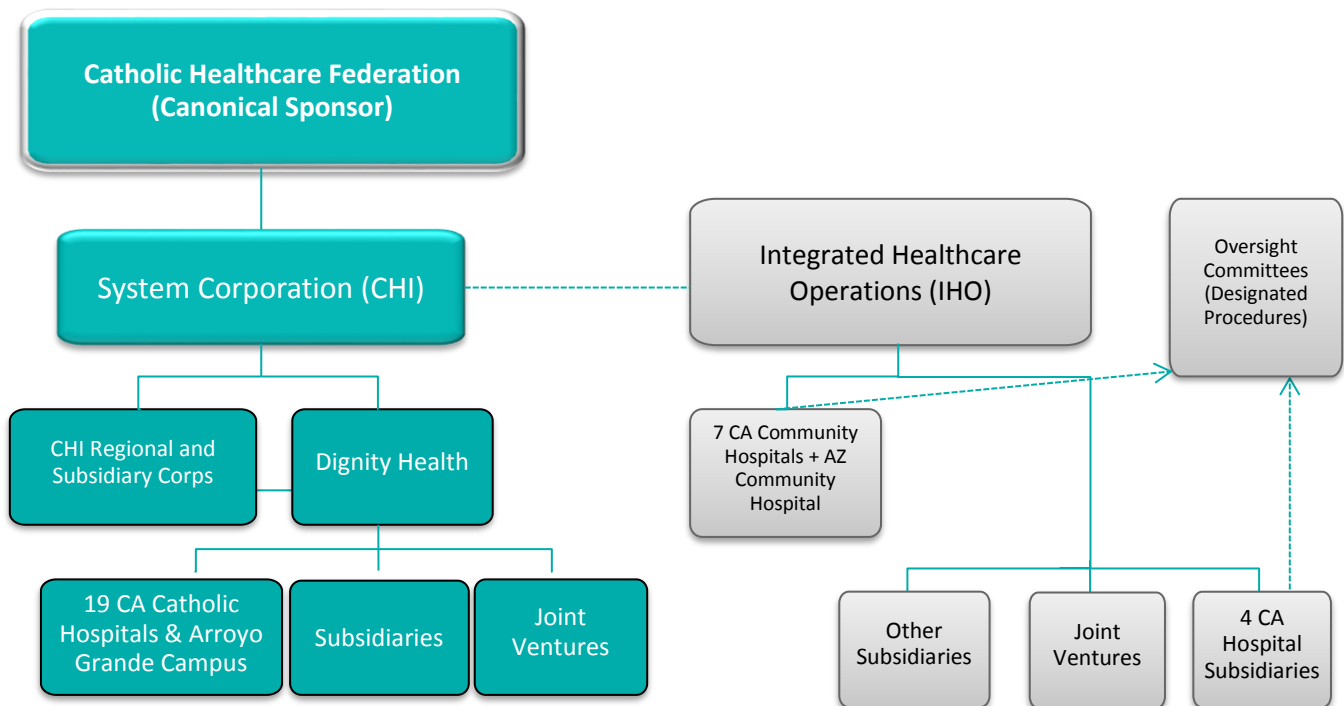
<sup>17</sup>Dignity Health's Statement of Common Values prohibits direct abortions, in-vitro fertilizations, and provider or physician-assisted suicide or aid in dying. The most common medical procedure performed in hospitals that is prohibited by the ERDs is tubal ligation (a surgical procedure for female sterilization that involves severing and tying the fallopian tubes). Tubal ligations are not prohibited by Dignity Health's Statement of Common Values.

<sup>18</sup>Designated Procedures means "direct sterilizations" that consist of an elective procedure, the primary purpose of which is to render the patient permanently incapable of reproducing; provided, however, that procedures that induce sterility do not constitute a "Designated Procedure" when their effect is the cure or alleviation of a present and serious pathology, and a simpler treatment is not available.

On the Effective Date, the System Corporation will become the sole corporate member of Dignity Health and the board of directors of Dignity Health will be comprised of the same persons who comprise the board of directors of the System Corporation. On the Closing Date, Catholic Healthcare Federation becomes the sponsor of all Catholic activities, including Dignity Health’s Catholic hospitals. The board members of System Corporation and Dignity Health will be identical. A single executive management team will manage the System Corporation, Dignity Health, and CHI Regional and Subsidiary Corporations<sup>19</sup>.

**System Corporation Post the Effective Date of the Ministry Alignment Agreement**

The following chart shows the organization of System Corporation after the Closing Date of the Ministry Alignment Agreement. System Corporation would be the sole member of Dignity Health and the CHI Regional and Subsidiary Corporations<sup>20</sup>. System Corporation would not be a member of IHO, however, a majority of the nominees to IHO’s board of directors will be subject to approval by System Corporation and IHO’s hospitals will retain or adopt Dignity Health’s Statement of Common Values.

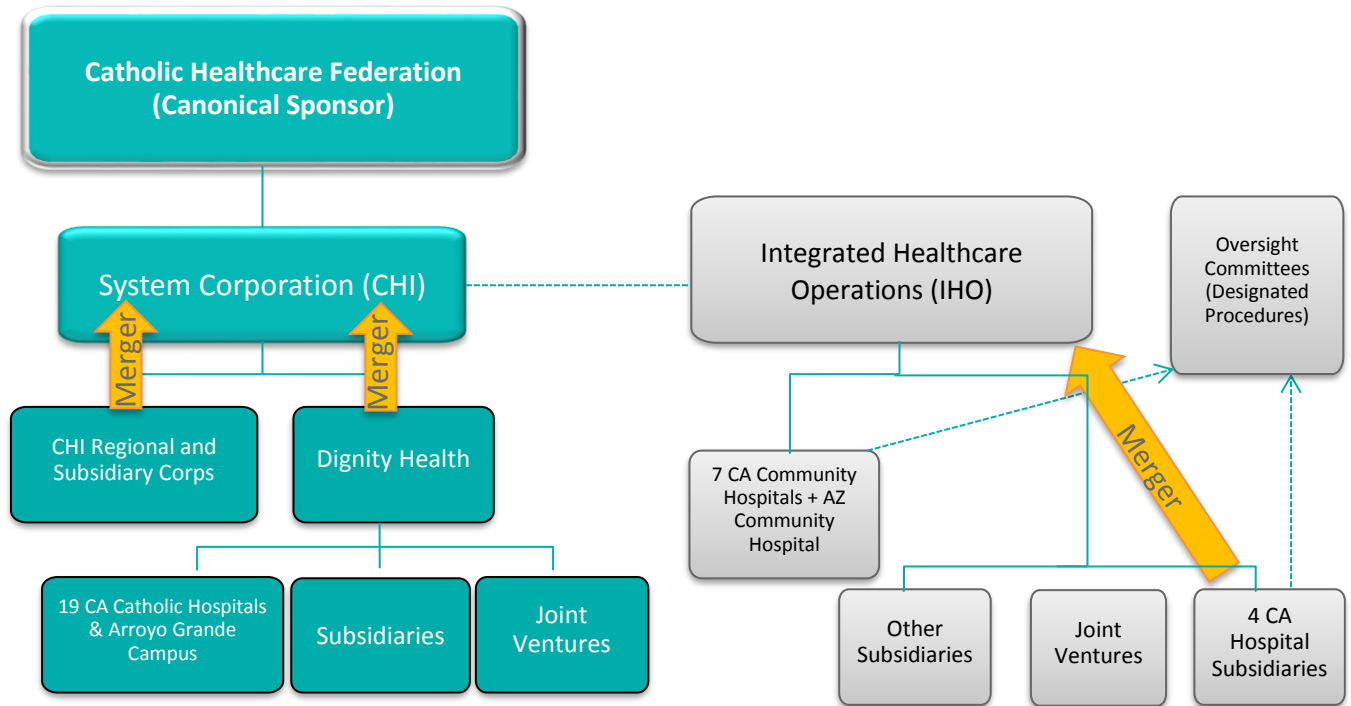


<sup>19</sup>Both Dignity Health’s and IHO’s local hospital community boards associated with each owned hospital, as well as the boards associated with the four subsidiary hospitals, will continue to exist.

<sup>20</sup>The majority of CHI hospitals are organized into eight regional corporations.

**System Corporation Post Debt Consolidation (Within 36 Months)**

After the Closing Date and after the restructuring and consolidation of the existing tax-exempt bonds and other debt of CHI and Dignity Health, Dignity Health and the CHI Regional and Subsidiary Corporations will merge into System Corporation, and the four non-Catholic separately-incorporated hospitals will merge into IHO.



## Major Provisions of the Ministry Alignment Agreement

The major provisions of the Ministry Alignment Agreement, dated December 6, 2017, include the following:

### *Structures and Responsibilities*

- Catholic Health Care Federation (CHCF)
  - CHCF, as a public juridic person, shall be the Catholic canonical sponsor of System Corporation, and shall serve as the canonical sponsor of all of the Catholic ministries that are a part of the Ministry Alignment Agreement;
  - CHCF's governance composition will be reconstituted after the Effective Date of the Ministry Alignment Agreement:
    - Dignity Health and CHI shall each select six individuals from their existing governing bodies to serve as the initial CHCF members. In addition, the members of CHCF shall also include the current president and CEO of Dignity Health, and the current CEO of CHI, for a total of fourteen members. No later than twelve months after the Effective Date, CHCF shall approve and appoint one individual who was previously neither a member of CHCF, nor the board of directors of Dignity Health or CHI to serve as the fifteenth CHCF member;
  - CHCF shall continue to provide for the participation of its congregations, and shall admit the six congregations of Women's Religious as additional participating congregations; and
  - CHCF reserves the rights to approve or remove any member of the Board of Stewardship Trustees and veto any amendments or changes to Dignity Health's Statement of Common Values.
- System Corporation
  - System Corporation, formerly known as Catholic Health Initiatives, shall become the parent entity and the surviving corporation;
  - System Corporation shall be a ministry of the Catholic Church and shall be subject to the ERDs;
  - System Corporation shall be governed by a board called the Board of Stewardship Trustee that shall consist of the same persons who serve as the CHCF members; and

- Under the supervision of the CHCF, the Board of Stewardship Trustee reserves the rights to control or manage the property, affairs and activities of System Corporation. Responsibilities include approving the policies of System Corporation, developing System Corporation’s strategic plan, and approving the System Corporation’s articles of incorporation and bylaws.
- Dignity Health
  - Dignity Health shall continue to be a California nonprofit corporation with federal tax-exempt 501 (c)(3) status until after debt consolidation between Dignity Health and CHI, at which point Dignity Health will merge into System Corporation;
  - As of the Effective Date:
    - Dignity Health shall transfer all of the assets and liabilities associated with the Dignity Health businesses and operations of the following California non-Catholic hospitals to IHO:
      - California Hospital Medical Center;
      - French Hospital Medical Center;
      - Glendale Memorial Hospital and Health Center;
      - Methodist Hospital of Sacramento;
      - Northridge Hospital Medical Center;
      - Sequoia Hospital; and
      - Woodland Memorial Hospital.
    - Dignity Health shall cause the four subsidiary hospitals that are separately incorporated, Bakersfield Memorial Hospital, Community Hospital of San Bernardino, Saint Francis Memorial Hospital, and Sierra Nevada Memorial Hospital, to first substitute its membership from Dignity Health to IHO, until after debt consolidation between Dignity Health and CHI, at which point these four subsidiary hospitals will merge into IHO; and
    - Marian Regional Medical Center, Arroyo Grande Campus, a non-Catholic hospital, will remain with Dignity Health under a consolidated license

with Marian Regional Medical Center, a Catholic hospital. Marian Regional Medical Center, Arroyo Grande Campus will not adhere to the ERDs. It will adopt or retain Dignity Health’s Statement of Common Values. It does not offer obstetrics or women’s healthcare services.

- Dignity Health’s nineteen Catholic hospitals shall remain a ministry of the Catholic Church and subject to the ERDs;
  - System Corporation (after the transfers of the community hospitals to IHO) shall become the sole corporate member of Dignity Health; and
  - Dignity Health shall be governed by a board consisting of the same individuals who are serving as the board for System Corporation and are also the members of CHCF.
- Integrated Healthcare Operations
    - IHO was formed by Dignity Health prior to the signing date without involvement, input, or direction from CHI. IHO shall continue to be a Colorado nonprofit corporation;
    - IHO and its subsidiaries shall not become ministries of the Catholic Church, shall not use the name “Catholic” for their respective public businesses, shall not be subject to the ERDs, and shall operate consistent with Dignity Health’s Statement of Common Values;
    - IHO shall be governed by a board of directors consisting of individuals who shall:
      - Be initially appointed by Dignity Health and then nominated by the board of directors of IHO or a committee thereof;
      - Serve in their individual capacities and not in any manner as a representative of System Corporation; and
      - Not contemporaneously serve; as a CHCF Member, or on the board of System Corporation, Dignity Health, nor any other subsidiary of System Corporation.
    - After the Effective Date, a majority of the members of the IHO Board who are subject to nomination or re-appointment shall be nominated by the IHO Board then in effect, subject to the acceptance (or rejection) of a majority of such nominees by the board of System Corporation;

- IHO is anticipated to operate on a collaborative basis with System Corporation. Neither CHCF, System Corporation, Dignity Health, or any other subsidiary of System Corporation shall be the corporate member of IHO; and
  - Prior to the Effective Date of the contemplated merger, Dignity Health shall require IHO and each of its subsidiary operating hospitals to create a Community Hospital Oversight Committee for each hospital. These committees will act as a separate governance body to oversee the operations, management, and financial results related to the Designated Procedures performed in each community hospital.
  - With respect to the Designated Procedures performed at each community hospital:
    - Such community hospital shall separately account for and regularly report to the Community Hospital Oversight Committee on the net revenues and expenses reasonably allocated to such Designated Procedures together with the net financial results (i.e. either a net profit or net loss); and
    - The Community Hospital Oversight Committee shall donate any net profits to one or more healthcare related tax-exempt charities that provide or advocate for activities, services, or procedures benefitting the communities served by the hospital and that are not inconsistent with the ERDs.
  - On an annual basis, and not more than four months following the end of each fiscal year of IHO, each Community Hospital Oversight Committee shall prepare and deliver a written certification to the IHO Board and to the Local Hospital Community Board or the applicable board of one of the four subsidiaries:
    - The Community Hospital Oversight Committee has not amended its charter in any manner that violates or otherwise modifies the structure or authorities contained in the IHO bylaws;
    - The composition of the Community Hospital Oversight Committee complies with the requirements; and
    - All donations or grants (if any) of the net profits from the performance of the Designated Procedures were contributed to one or more healthcare related tax-exempt charities.



- IHO reserves the right to approve changes of non-Catholic hospitals, its subsidiaries and its joint ventures. Changes include changing the mission or philosophical direction of entities, and approval or removal of entities under IHO. Modifications to Dignity Health's Statement of Common Values must be approved by the board of System Corporation and can be vetoed by CHCF.
- Port City Operating Company, LLC
  - St. Joseph's Medical Center of Stockton and St. Joseph's Behavioral Health Center are owned by Port City Operating Company, LLC, a joint venture between Kaiser Foundation Hospitals and Dignity Health. Dignity Health owns 80% of Port City Operating Company, LLC and Kaiser Foundation Hospitals owns the remaining 20%. Dignity Health's continued ownership in Port City Operating Company, LLC after a change of control of Dignity Health will be subject to Kaiser Foundation Hospitals' consent; and
  - Dignity Health's ownership interest of Port City Operating Company, LLC will transfer to System Corporation.
- CHI Regional Corporations
  - Each of the CHI Regional Corporations shall continue to be nonprofit corporations organized in their respective states of incorporation until Dignity Health and CHI consolidate debt. Afterwards, the CHI Regional Corporations will merge into System Corporation.
- Mark Twain Medical Center
  - Dignity Health and CHI acknowledge that the continued management of Mark Twain Medical Center by Dignity Health after a change of control of Dignity Health may be subject to consent from outside parties.

***Dignity Health Commitments***

- Licensed Acute Care Hospital Commitments
  - For a period of five years from the Effective Date of the transaction:
    - The System Corporation and Dignity Health shall continue to operate and maintain each Dignity Health owned hospital as a licensed general acute care hospital;
    - IHO shall continue to operate and maintain each IHO owned hospital as a licensed general acute care hospital; and
    - IHO and each IHO subsidiary shall continue to operate and maintain the IHO subsidiary hospital as a licensed general acute care hospital.
- Licensed Specialty Service Commitments and Additional Specialty Services Commitments
  - For a period of five years from the Effective Date of the transaction:
    - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals shall continue to operate, provide and maintain the following services at each California hospital:
      - Twenty-four-hour emergency medical services at current licensure, with the current number of emergency treatment stations, the current types and levels of emergency medical services, and the current designations or certifications associated with such emergency medical services;
      - Core specialty and additional specialty healthcare services at current licensure and designation with current minimum types and/or levels of services<sup>21</sup>; and
      - Additional specialty healthcare services at current licensure and designation with current types and/or levels of services.

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<sup>21</sup>See the “Assessment of Potential Issues Associated with the Availability or Accessibility of Healthcare Services” for a complete listing of commitments made by Dignity Health for Mercy Medical Center Merced.

- Women's Healthcare Services Commitments
  - For a period of five years from the Effective Date:
    - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, shall continue to provide women's healthcare services; and
    - Those Dignity Health California hospitals that are non-Catholic shall retain their identity as community hospitals and shall not become ministries of the Catholic Church, nor be subject to the ERDs. In addition, they will retain or adopt Dignity Health's Statement of Common Values.
  
- Medicare & Medi-Cal Commitment
  - For a period of five years from the Effective Date of the transaction:
    - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, shall:
      - Continue to be certified to participate in the Medicare program;
      - Continue to be certified to participate in the Medi-Cal program; and
      - Continue to have and maintain their respective Medi-Cal Managed Care contracts in effect as of the signing date.
  
- City/County Contract Commitment:
  - For a period of five years from the Effective Date of the transaction:
    - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, shall maintain healthcare-related services contracts, with any city or county in the State of California as of the signing date.
  
- Charity Care Commitment
  - For the six fiscal years from the Effective Date, System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, in California shall:

- Provide an annual amount of charity care at each hospital equal to or greater than the average annual amount of charity care provided by such hospital during the three fiscal years prior to the signing date and adjusted for cost-of-living-adjustments.
- Community Benefit Program Commitment
  - For a period of six fiscal years from the Effective Date, System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals in California, shall provide an annual amount of community benefit services at each such Dignity Health California Hospital equal to or greater than the average annual amount of community benefit services provided by hospital during the three fiscal years prior to the signing date and adjusted for cost-of-living adjustments.
- Medical Staff and Related Commitments
  - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals in California, shall maintain privileges for the current medical staff members of each such hospital who are in good standing as of the Effective Date.
- LGBT Non-Discrimination Commitments
  - There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at any Dignity Health California hospitals. System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, and IHO with respect to the IHO owned hospitals and the IHO subsidiary hospitals, shall cause this prohibition to be explicitly set forth in the written policies applicable to such hospitals, adhered to and strictly enforced.
- Seismic Compliance Commitments
  - System Corporation, Dignity Health and IHO shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at each Dignity Health California hospital until January 1, 2030.
- Union Commitments
  - Dignity Health and CHI agree that the collective bargaining agreements in effect as of the Effective Date shall remain in full force and effect following the Effective Date in accordance with their respective terms.

- Hospital Quality Assurance Fee Program Participation
  - System Corporation, Dignity Health and IHO commit to continue participation in the California Department of Health Care Services' Hospital Quality Assurance Fee Program for five years for all California hospitals.

***Use of Net Sale Proceeds***

There will be no net proceeds as a result of the proposed transaction.

## Profile of Catholic Health Initiatives

### Overview

CHI is a nonprofit, faith-based health system that formed in 1996 through the consolidation of three Catholic health systems: Catholic Health Corporation, Franciscan Health System, and Sisters of Charity Health System.

CHI, headquartered in Englewood, Colorado, has a service area that covers approximately 54 million people and operates acute care facilities in 13 states. CHI’s network consists of 97 acute care facilities, academic health centers and major teaching hospitals, critical-access facilities, community health-service organizations, nursing colleges, and senior living communities. The health system has more than 95,000 employees, including approximately 4,700 employed physicians and advanced practice clinicians.

CHI Acute Care Facilities	
REGION	ACUTE CARE FACILITIES
Arkansas	4
Colorado and Kansas	12
Iowa and Nebraska	21
Kentucky	13
Minnesota	4
North Dakota	10
Ohio	5
Tennessee	2
Texas	16
Oregon and Washington	10

Source: 2017 CHI Annual Report

CHI OPERATIONS	
Acute Care Facilities	97
Home Services Location	52
Critical- Access Hospitals	30
Long-Term Facilities	16
Clinical Integrated Networks	11
Academic Medical Centers a Major Teaching Hospital	3
Community Health Services Organizations	2

Source: 2017 CHI Annual Report

**Key Statistics**

In Fiscal Year (FY) 2017, CHI reported growth in the number of admissions, outpatient emergency visits, outpatient non-emergency visits, physician office visits, the number of full-time equivalent employees, and total employees overall compared to FY 2016. CHI reported a decrease in acute patient days, average daily census, residential days, and long-term care days.

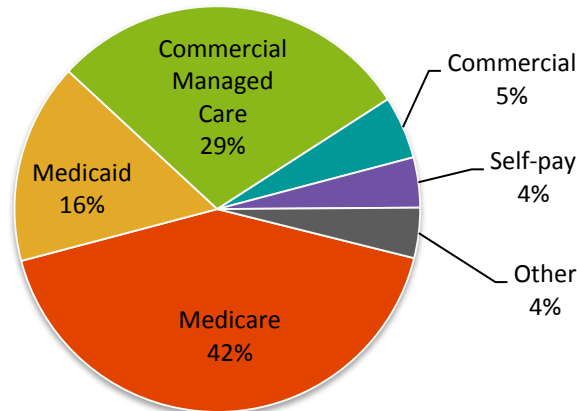
<b>CHI STATISTICAL HIGHLIGHTS FY 2016 – FY 2017</b>			
<i>Fiscal Year ended June 30, 2017</i>	<b>FY 2016</b>	<b>FY 2017</b>	<b>Change</b>
Acute Patient Days	2,382,402	2,366,980	-0.6%
Acute Average Daily Census	6,527	6,485	-0.6%
Acute Admissions	498,464	504,593	1.2%
Acute Average Length of Stay, in days	4.8	4.7	-2.1%
Outpatient emergency visits	1,951,714	1,966,342	0.7%
Outpatient non-emergency visits	5,557,647	5,804,586	4.4%
Physician office visits	9,635,875	10,540,482	9.4%
Residential days	751,072	665,885	-11.3%
Long-term care days	503,450	483,151	-4.0%
Full-time equivalent employees	79,194	84,463	6.7%
Employees	93,697	95,968	2.4%
Acute inpatient revenues as a percentage of total	44.70%	44.70%	-

Source: CHI 2017 Annual Report

**Payer Mix**

The following chart represents the gross revenue by payer for CHI's consolidated operations for the FY 2017.

**Gross Revenue By Payer**



Source: CHI Annual Report

**Financial Profile**

CHI’s audited consolidated financial statements show the following system-wide performance of CHI and its affiliates:

CHI COMBINED STATEMENT OF OPERATIONS		
FY 2016 – FY 2017 (In Thousands)		
	FY 2016	FY 2017
<b>Unrestricted Revenues and Support</b>		
Net Patient Service Revenue Less Bad Debt Provision	\$13,847,027	\$14,450,868
Donations	\$36,983	\$30,954
Changes in Equity of Unconsolidated Organizations	\$133,375	\$48,404
Gains on Business Combinations	\$223,036	-
Hospital Ancillary Revenues	\$351,509	\$339,072
Other	\$597,657	\$678,166
<b>Total Operating Revenues</b>	<b>\$15,189,587</b>	<b>\$15,547,464</b>
<b>Expenses</b>		
Salaries and Wages	\$6,117,712	\$6,294,834
Employee Benefits	\$1,182,203	\$1,201,044
Purchased Services, Medical Professional Fees, Medical Claims and Consulting	\$2,232,689	\$2,402,478
Supplies	\$2,490,524	\$2,550,328
Utilities	\$212,732	\$210,285
Rentals, Leases, Maintenance and Insurance	\$898,020	\$901,272
Depreciation and Amortization	\$833,394	\$846,291
Interest	\$281,581	\$295,476
Other	\$1,019,385	\$1,056,536
Restructuring, Impairment and Other Losses	\$292,758	\$374,167
<b>Total Expenses</b>	<b>\$15,560,998</b>	<b>\$16,132,711</b>
<b>Income From Operations</b>	<b>(\$371,411)</b>	<b>(\$585,247)</b>
<b>Non-operating Income (Loss)</b>		
Investment Income (Loss), net	(\$3,384)	\$638,519
Loss on early extinguishment of debt	(\$29,469)	(\$19,586)
Realized and Unrealized Gains (Losses) on Interest Rate Swaps	(\$154,816)	\$92,698
Other Non-operating Gains (Losses)	(\$16,491)	\$2,006
<b>Total Non-operating Income (Loss)</b>	<b>(\$204,160)</b>	<b>\$713,637</b>
<b>Excess of revenues over Expenses</b>	<b>(\$575,571)</b>	<b>\$128,390</b>

Source: CHI Audited Financial Statements

- Net Patient Service Revenue (less provision for bad debts) of \$14.5 billion in FY 2017 represents a net increase of approximately \$600 million, or 4.4%, as compared to FY 2016. Total operating revenues increased by \$358 million, or 2.4%, from \$15.2 billion in FY 2016 to \$15.5 billion in FY 2017;

Total expenses increased by 3.7% from \$15.6 billion in FY 2016 to \$16.1 billion in FY 2017. CHI’s salaries, wages and employee benefits expense accounted for 46% of total expenses;

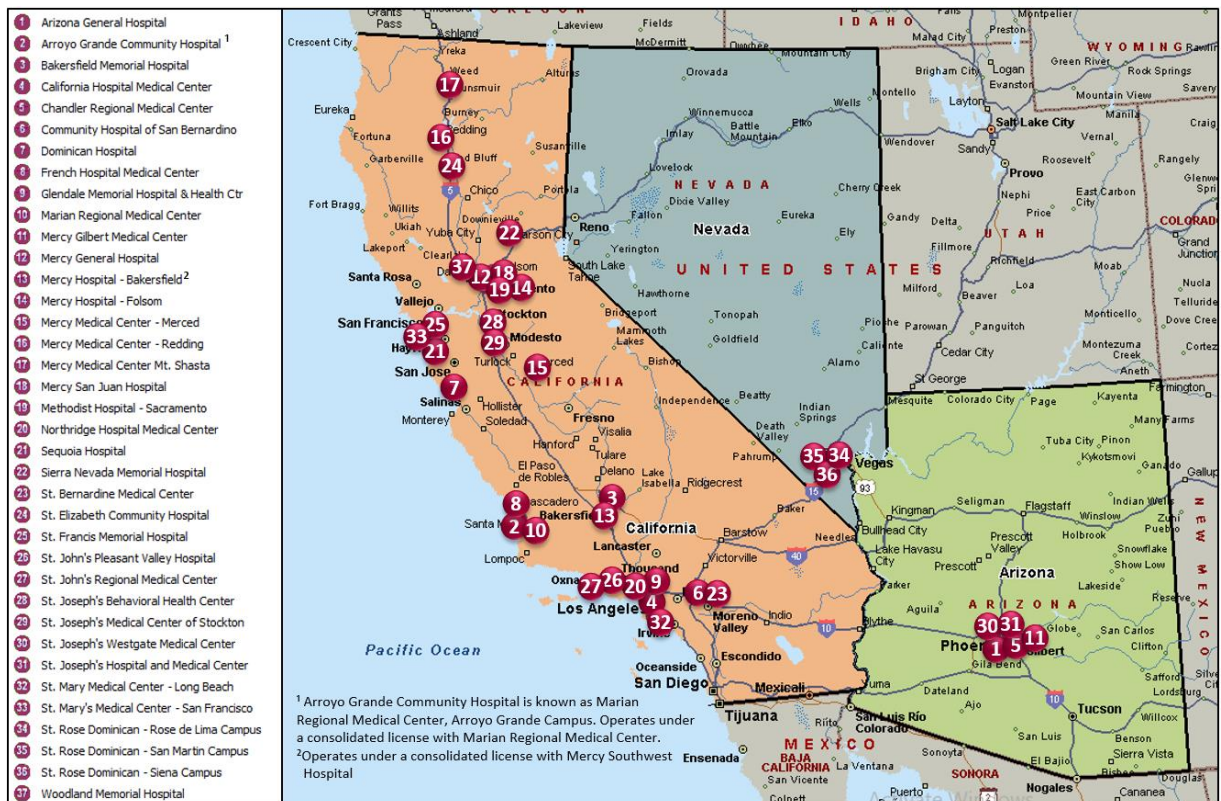
- In FY 2017, CHI realized a non-operating gain of approximately \$714 million, a substantial increase from the non-operating loss of \$204 million loss in FY 2016; and
- Excess revenue over expenses increased from a loss of approximately \$576 million in FY 2016 to a gain of approximately \$128 million in FY 2017. This is mainly due to an increase in non-operating revenue.



## Profile of Dignity Health

Dignity Health is a California nonprofit public benefit corporation that traces its history to the Sisters of Mercy, founded by Catherine McAuley in Dublin, Ireland in 1831. On December 8, 1854, eight Sisters of Mercy left Ireland and arrived in San Francisco, California to begin caring for residents struck by influenza, cholera and typhoid. The Sisters of Mercy opened St. Mary's Hospital, the oldest operating hospital in San Francisco, on July 27, 1857.

Today, Dignity Health has grown to be one of the largest health systems in the United States. Dignity Health provides healthcare services in California, Arizona and Nevada. In California, Dignity Health owns and operates 31 hospitals across 17 counties with an estimated 11,500 physicians on its hospitals' medical staff. Dignity Health also operates five general acute care hospitals in Arizona and three in Nevada.



**Payer Mix**

The following chart shows inpatient discharges by payer for Dignity Health’s consolidated California operations for FY 2016.

<b>DIGNITY HEALTH TOTAL PAYER MIX COMPARISON FY 2016<sup>22</sup></b>				
	Dignity Health FY 2016		California FY 2016 <sup>1</sup>	
	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	42,492	15.20%	441,300	14.70%
Medi-Cal Managed Care	65,590	23.40%	590,581	19.70%
<b>Medi-Cal Total</b>	<b>108,082</b>	<b>38.60%</b>	<b>1,031,881</b>	<b>34.40%</b>
Medicare Traditional	88,052	31.40%	829,621	27.60%
Medicare Managed Care	27,196	9.70%	315,579	10.50%
<b>Medicare Total</b>	<b>115,248</b>	<b>41.10%</b>	<b>1,145,200</b>	<b>38.10%</b>
Third-Party Managed Care	47,682	17.00%	648,533	21.60%
<b>Third-Party Managed Care Total</b>	<b>47,682</b>	<b>17.00%</b>	<b>648,533</b>	<b>21.60%</b>
Third-Party Traditional	5,245	1.90%	100,382	3.30%
Other Payers	2,495	0.90%	44,809	1.50%
Other Indigent	1,344	0.50%	17,246	0.60%
County Indigent	76	0.00%	15,160	0.50%
<b>Other Total</b>	<b>9,160</b>	<b>3.30%</b>	<b>177,597</b>	<b>5.90%</b>
<b>Total</b>	<b>280,172</b>	<b>100%</b>	<b>3,003,211</b>	<b>100%</b>

Source: OSHPD Disclosure Reports, FY 2016

<sup>1</sup> FY 2017 California data was not available when the data was collected to prepare this report.

- Dignity Health’s largest payer in California by percentage of inpatient discharges is Medicare (41.1%), followed by Medi-Cal (38.6%), and Third-Party Managed Care (17.0%);
- Dignity Health’s California hospitals care for 10.5% of all California Medi-Cal inpatient discharges;
- Dignity Health’s California hospitals had 10.1% of all California Medicare inpatient discharges; and
- In FY 2016, Dignity Health’s California hospitals cared for 9.3% of all inpatient discharges in California.

<sup>22</sup>Fiscal Year from July 1 through June 30.

**Financial Profile**

Dignity Health’s audited consolidated financial statements show the following system-wide performance of Dignity Health and its affiliates.

DIGNITY HEALTH COMBINED STATEMENT OF OPERATIONS FY 2016 - FY 2017 (In Thousands)		
Unrestricted Revenues and Support	FY 2016	FY 2017
Net Patient Service Revenue Less Bad Debt Provision	\$11,542,262	\$11,572,387
Premium Revenue	\$633,395	\$755,427
Revenue from health-related activities, net	\$66,586	\$139,013
Other Revenue	\$376,580	\$364,631
Contributions	\$17,452	\$18,649
<b>Total Unrestricted Revenues And Support</b>	<b>\$12,636,275</b>	<b>\$12,850,107</b>
Expenses		
Salaries and Benefits	\$6,581,323	\$6,883,671
Supplies	\$1,769,212	\$1,850,519
Purchased Services and Other	\$3,497,502	\$3,454,313
Depreciation and Amortization	\$581,624	\$606,370
Interest Expense, net	\$270,034	\$122,018
<b>Total Expenses</b>	<b>\$12,699,695</b>	<b>\$12,916,891</b>
<b>Income From Operations</b>	<b>(\$63,420)</b>	<b>(\$66,784)</b>
Non-operating Income (Loss)		
Investment Income (Loss), net	(\$123,869)	\$555,538
Loss on early extinguishment of debt	-	(\$48,012)
Income Tax Expense	(\$14,189)	(\$15,024)
<b>Total Non-operating Income (Loss)</b>	<b>(\$138,058)</b>	<b>\$492,502</b>
<b>Excess of Revenues over Expenses</b>	<b>(\$201,478)</b>	<b>\$425,718</b>

Source: Dignity Health Audited Financial Statements

- Net patient service revenue, less bad debt provision, increased slightly to \$11.6 billion in FY 2017. Total unrestricted revenues and support increased by \$214 million from \$12.6 billion in FY 2016 to \$12.9 billion in FY 2017;
- Total expenses increased by 1.7% from \$12.7 billion in FY 2016 to \$12.9 billion in FY 2017. Dignity Health’s salaries, wages and benefits expense accounted for approximately 53% of total expenses;
- In FY 2017, Dignity Health realized a net non-operating gain of \$493 million, representing a substantial increase from the net non-operating loss of \$138 million in FY 2016; and
- Excess revenue over expenses increased from a loss of \$201 million in FY 2016 to a gain of \$426 million in FY 2017, mainly due to an increase in investment income in FY 2017.

*Dignity Health’s California Hospitals Overview*

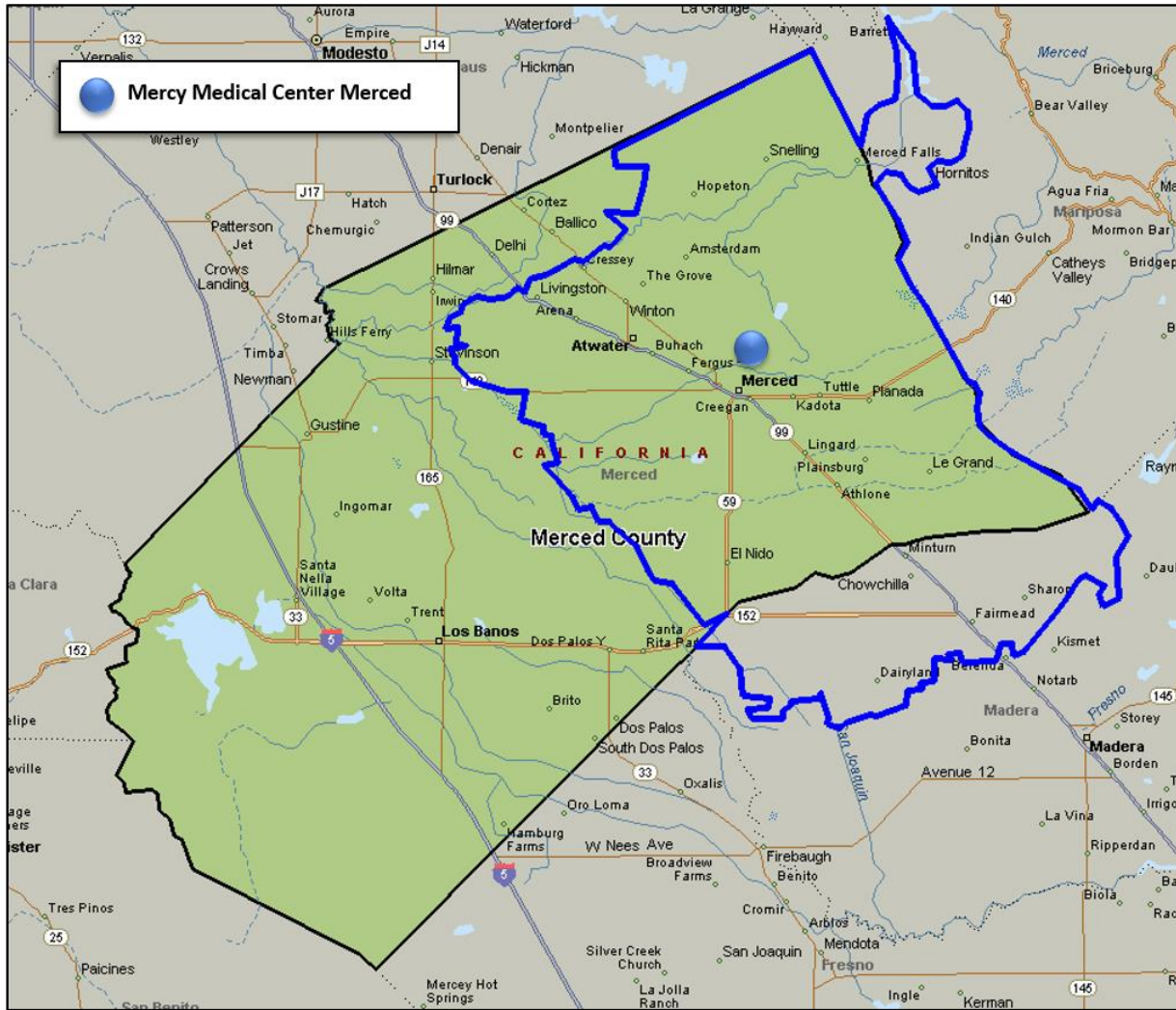
The following table lists the location of each Dignity Health owned and managed hospital in California.

<b>DIGNITY HEALTH'S OWNED &amp; OPERATED CALIFORNIA HOSPITALS</b>		
<b>Hospital</b>	<b>County</b>	<b>City</b>
Bakersfield Memorial Hospital	Kern County	Bakersfield
Mercy Hospital	Kern County	Bakersfield
Mercy Southwest Hospital	Kern County	Bakersfield
California Hospital Medical Center	Los Angeles	Los Angeles
Glendale Memorial Hospital	Los Angeles	Glendale
Northridge Hospital Medical Center	Los Angeles	Northridge
St. Mary Medical Center	Los Angeles	Long Beach
Mercy Medical Center Merced	Merced County	Merced
Sierra Nevada Memorial Hospital	Nevada County	Grass Valley
Marian Regional Medical Center, Arroyo Grande Campus	San Luis Obispo County	Arroyo Grande
French Hospital Medical Center	San Luis Obispo County	San Luis Obispo
Mercy General Hospital	Sacramento County	Sacramento
Mercy Hospital of Folsom	Sacramento County	Folsom
Mercy San Juan Medical Center	Sacramento County	Carmichael
Methodist Hospital of Sacramento	Sacramento County	Sacramento
Community Hospital of San Bernardino	San Bernardino	San Bernardino
St. Bernardine Medical Center	San Bernardino	San Bernardino
Saint Francis Memorial Hospital	San Francisco County	San Francisco
St. Mary's Medical Center	San Francisco County	San Francisco
St. Joseph's Behavioral Health Center	San Joaquin County	Stockton
Sequoia Hospital	San Mateo County	Redwood City
St. Joseph's Medical Center of Stockton	San Joaquin County	Stockton
Marian Regional Medical Center	Santa Barbara County	Santa Maria
Marian Regional Medical Center West	Santa Barbara County	Santa Maria
Dominican Hospital	Santa Cruz County	Santa Cruz
Mercy Medical Center Redding	Shasta County	Redding
Mercy Medical Center Mt Shasta	Siskiyou County	Mt. Shasta
St. Elizabeth Community Hospital	Tehama County	Red Bluff
St. John's Pleasant Valley Hospital	Ventura County	Camarillo
St. John's Regional Medical Center	Ventura County	Oxnard
Woodland Memorial Hospital	Yolo County	Woodland

Source: Dignity Health

### Analysis of Dignity Health’s Hospital Market Share in Merced County

Merced County has over 255,000 residents and encompasses almost 2,000 square miles. The map below shows the location of the one Dignity Health general acute care facility located in Merced County and its service area.





The table below lists hospitals where Merced County residents received inpatient care in calendar year (CY) 2016 and their respective market share. Dignity Health operates Mercy Medical Center in the City of Merced. The Hospital has a 46% market share of inpatient discharges in Merced County. The table shows Merced County inpatient market share for CY 2016, the most recent data available from OSHPD. A profile of Mercy Medical Center (Mercy Medical Center Merced)<sup>23</sup> is described in the following sections.

MERCED COUNTY MARKET SHARE BY HOSPITAL CY 2016		
Hospital	CY 2016 Discharges	Market Share
<b>Mercy Medical Center Merced<sup>1</sup></b>	<b>11,406</b>	<b>46%</b>
Emanuel Medical Center	3,014	12%
Memorial Hospital Los Banos	1,721	7%
Doctors Medical Center	1,572	6%
Memorial Medical Center - Modesto	1,370	6%
Valley Children's Hospital	1,220	5%
Stanford Health Care	578	2%
Community Regional Medical Center-Fresno	410	2%
UCSF Medical Center	338	1%
Marie Green Psychiatric Center	301	1%
<b>All Other Dignity Health Hospitals of California</b>	<b>193</b>	<b>1%</b>
All Other Hospitals	2,655	11%
<b>Total Non Dignity Health Discharges</b>	<b>13,179</b>	<b>53%</b>
<b>Total Dignity Health Discharges</b>	<b>11,599</b>	<b>47%</b>
<b>Total Discharges</b>	<b>24,778</b>	<b>100%</b>

Source: CY 2016 OSHPD Patient Discharge Database

Note: Excludes Normal Newborns

<sup>1</sup>Dignity Health Hospital

- Mercy Medical Center Merced has the largest inpatient market share (46%) of Merced County inpatient discharges;
- Emanuel Medical Center is the second-largest inpatient market share leader (12%); and
- “All Other Dignity Health Hospitals of California” includes residents of the Merced County that received inpatient care at Dignity Health hospitals located outside Merced County.

<sup>23</sup> While the Dignity Health hospital in the City of Merced is licensed as Mercy Medical Center, it will be referred to as Mercy Medical Center Merced to differentiate it from two other Dignity Health hospitals, Mercy Medical Center Mt. Shasta and Mercy Medical Center Redding.

## Profile of Mercy Medical Center Merced

### Overview

Mercy Medical Center Merced is a general acute care hospital located at 333 Mercy Avenue in Merced, California. It first opened in 1923, when it was founded by a group of city leaders and operated as a 20-bed facility.

Today, Mercy Medical Center Merced offers a range of services including a Primary Stroke Center and cardiac care. The Hospital has 18 surgical operating rooms and a “basic” emergency department<sup>24</sup> with 26 emergency treatment stations. According to Mercy Medical Center Merced’s current hospital license, it is licensed for 186 beds as shown below.

MERCY MEDICAL CENTER MERCED LICENSED BED DISTRIBUTION 2018	
Licensed Bed Type	Number of Beds <sup>1</sup>
<b>General Acute Care Beds</b>	
Perinatal	30
Intensive Care	20
Unspecified General Acute Care	136
<b>Total General Acute Care Beds</b>	<b>186</b>
<b>Total Licensed Beds</b>	<b>186</b>

<sup>1</sup> 2018 Hospital License

<sup>24</sup>A “basic” emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

**Key Statistics**

Mercy Medical Center Merced reported 12,704 inpatient discharges, 47,648 patient days, and an average daily census of 131 patients (approximately 70% occupancy) for FY 2017.

MERCY MEDICAL CENTER MERCED KEY STATISTICS FY 2015 - FY 2017 <sup>1</sup>			
	FY 2015	FY 2016	FY 2017
Inpatient Discharges	10,755	13,747	12,704
Licensed Beds	186	186	186
Patient Days	41,981	45,365	47,648
Average Daily Census	115	124	131
Occupancy	61.8%	66.8%	70.2%
Average Length of Stay	3.9	3.3	3.8
Cardiac Catheterization Procedures	134	78	8,322
Emergency Service Visits	69,585	70,108	70,084
Total Live Births	2,685	2,715	2,786

Sources: OSHPD Disclosure Reports, FY 2015 - FY 2017

<sup>1</sup> FY 2015 and FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 data is from unaudited.

- Since FY 2015, inpatient discharges increased by 18% and patient days increased by 14%;
- Between FY 2015 and FY 2017, the number of emergency service visits reported remained relatively constant; and
- From FY 2015 to FY 2017, total live births remained relatively constant.



**Patient Utilization Trends**

The following table shows FY 2013 - FY 2017 patient volume trends at Mercy Medical Center Merced.

MERCY MEDICAL CENTER MERCED					
SERVICE VOLUMES FY 2013 - FY 2017 <sup>1</sup>					
PATIENT DAYS	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Medical/Surgical <sup>2</sup>	30,118	31,512	31,775	34,867	36,057
Intensive Care	4,185	3,814	3,939	4,072	4,107
Obstetrics	6,255	6,196	6,267	6,426	7,484
Pediatrics Acute	875	228	-	-	-
<b>Total</b>	<b>41,433</b>	<b>41,750</b>	<b>41,981</b>	<b>45,365</b>	<b>47,648</b>
DISCHARGES					
Medical/Surgical <sup>2</sup>	6,224	7,563	7,768	9,929	8,988
Intensive Care	315	259	294	376	309
Obstetrics	2,738	2,805	2,693	3,442	3,407
Pediatrics Acute	392	102	-	-	-
<b>Total</b>	<b>9,669</b>	<b>10,729</b>	<b>10,755</b>	<b>13,747</b>	<b>12,704</b>
AVERAGE LENGTH OF STAY					
Medical/Surgical <sup>2</sup>	4.8	4.2	4.1	3.5	4.0
Intensive Care	13.3	14.7	13.4	10.8	13.3
Obstetrics	2.3	2.2	2.3	1.9	2.2
Pediatrics Acute	2.2	2.2	-	-	-
<b>Total</b>	<b>4.3</b>	<b>3.9</b>	<b>3.9</b>	<b>3.3</b>	<b>3.8</b>
AVERAGE DAILY CENSUS					
Medical/Surgical <sup>2</sup>	82.5	86.3	87.1	95.5	98.8
Intensive Care	11.5	10.4	10.8	11.2	11.3
Obstetrics	17.1	17.0	17.2	17.6	20.5
Pediatrics Acute	2.4	.6	-	-	-
<b>Total</b>	<b>114</b>	<b>114</b>	<b>115</b>	<b>124</b>	<b>131</b>
OTHER SERVICES					
Inpatient Surgeries	2,243	2,522	2,432	2,251	2,171
Outpatient Surgeries	1,460	1,242	4,069	3,888	2,781
Emergency Service Visits	73,364	65,004	69,585	70,108	70,084
Total Live Births	2,772	2,779	2,685	2,715	2,786

Sources: OSHPD Disclosure Reports, FY 2013 - FY 2017

<sup>1</sup> FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

<sup>2</sup> Includes Definitive Observation Beds

A review of Mercy Medical Center Merced’s historical utilization trends between FY 2013 and FY 2017 supports the following conclusions:

- Total patient days increased by 15%;
- Inpatient discharges increased by 31%; and
- The average daily census increased by 15% from 114 patients in FY 2013 to 131 patients in FY 2017.

## Financial Profile

Over the last five fiscal years, Mercy Medical Center Merced’s net income started with a loss of \$3.2 million in FY 2013 and increased to a gain of \$12.5 million in FY 2017. Between FY 2013 and FY 2017, net patient revenue and total operating revenue increased by 29% and 28% respectively. Over the same period, the Hospital’s operating expenses increased by 22% from \$243.5 million in FY 2013 to \$297.7 million in FY 2017. Other operating revenue<sup>25</sup> decreased by 58% from \$4.8 million in FY 2013 to \$2.0 million in FY 2017.

The Hospital’s current ratio<sup>26</sup> has fluctuated, but overall it has increased from 1.05 in FY 2013 to 3.26 in FY 2017. The California average in FY 2016 was 1.56. The Hospital’s FY 2017 percentage of bad debt is 1.4% and is higher than the state average (0.8%).

MERCY MEDICAL CENTER FINANCIAL AND RATIO ANALYSIS FY 2013 - FY 2017 <sup>1</sup>						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	
Patient Days	41,433	41,750	41,981	45,365	47,648	
Discharges	9,669	10,729	10,755	13,747	12,704	
ALOS	4.3	3.9	3.9	3.3	3.8	
Net Patient Revenue	\$238,147,989	\$232,594,550	\$305,680,900	\$299,404,550	\$307,871,514	
Other Operating Revenue	\$4,810,657	\$3,997,279	\$4,140,787	\$3,425,511	\$2,016,512	
Total Operating Revenue	\$242,958,646	\$236,591,829	\$309,821,687	\$302,830,061	\$309,888,026	
Operating Expenses	\$243,465,067	\$245,074,586	\$278,578,134	\$283,928,618	\$297,696,892	
Net from Operations	(\$506,421)	(\$8,482,757)	\$31,243,553	\$18,901,443	\$12,191,134	
Net Non-Operating Revenues and Expenses	(\$2,722,232)	(\$1,333,991)	\$522,576	\$380,719	\$283,457	
<b>Net Income</b>	<b>(\$3,228,653)</b>	<b>(\$9,816,748)</b>	<b>\$31,766,129</b>	<b>\$19,282,162</b>	<b>\$12,474,591</b>	
						2016 California Average <sup>2</sup>
Current Ratio	1.05	1.13	1.12	2.63	3.26	1.56
Days in A/R	39.6	41.3	27.9	35.1	45.9	57.1
Bad Debt Rate	2.8%	2.0%	0.7%	1.5%	1.4%	0.8%
Operating Margin	-0.21%	-3.59%	10.08%	6.24%	3.93%	2.74%

Source: OSHPD Disclosure Reports, FY 2013 - FY 2017

<sup>1</sup> FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

<sup>2</sup> FY 2017 California was not available when the data was collected to prepare this report.

<sup>25</sup>Other operating revenue represents amounts received for services that are central to the provision of healthcare services but are not directly related to patient care.

<sup>26</sup>The current ratio compares a company’s current assets to its current liabilities to measure its ability to pay short-term and long-term debt obligations. A low current ratio of less than 1.0 could indicate that a company may have difficulty meeting its current obligations. The higher the current ratio, the more capable the company is of paying its obligations as it has a larger proportion of assets relative to its liabilities.

### Cost of Hospital Services

Mercy Medical Center Merced’s operating cost of services includes both inpatient and outpatient care. In FY 2017, 43% of total costs were associated with Medicare, followed by 41% with Medi-Cal, and 15% with Third-Party.

MERCY MEDICAL CENTER OPERATING EXPENSES BY PAYER CATEGORY FY 2013 - FY 2017 <sup>1</sup>					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Operating Expenses</b>	<b>\$243,465,067</b>	<b>\$245,074,586</b>	<b>\$278,578,134</b>	<b>\$283,928,618</b>	<b>\$297,696,892</b>
<b>Cost of Services By Payer:</b>					
Medicare	\$102,454,261	\$101,866,179	\$113,410,753	\$117,773,996	\$126,769,994
Medi-Cal	\$78,276,418	\$89,940,241	\$119,105,681	\$120,217,132	\$120,274,436
County Indigent	\$8,668,906	\$3,917,299	-	-	-
Third-Party	\$36,380,572	\$35,735,147	\$39,739,649	\$34,972,297	\$45,771,471
Other Indigent	\$7,567,086	\$6,402,622	\$2,014,750	\$4,283,329	\$2,637,700
All Other Payers	\$10,117,824	\$7,213,098	\$4,307,301	\$6,681,864	\$2,243,290

Source: OSHPD Disclosure Reports, FY 2013 - FY 2017

<sup>1</sup>FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

### Charity Care

The following table shows a comparison of charity care and bad debt for Mercy Medical Center Merced to all general acute care hospitals in the State of California. The five-year (FY 2013 – FY 2017) average of charity care and bad debt, as a percentage of gross patient revenue, was 3.8% and greater than the four-year statewide average of 2.5%. 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.”

MERCY MEDICAL CENTER CHARITY CARE COMPARISON FY 2013 - FY 2017 <sup>1</sup> (In Thousands)										
	FY 2013		FY 2014		FY 2015		FY 2016		FY 2017	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA <sup>2</sup>
<b>Gross Patient Revenue</b>	\$981,493	\$320,382,471	\$1,028,470	\$338,322,364	\$1,064,931	\$365,501,463	\$1,158,119	\$396,427,743	\$1,249,081	-
<b>Charity</b>	\$30,955	\$6,563,487	\$27,709	\$5,113,965	\$21,302	\$3,441,227	\$21,266	\$3,457,868	\$13,942	-
<b>Bad Debt</b>	\$27,432	\$5,891,632	\$20,560	\$4,365,936	\$7,437	\$3,262,642	\$16,852	\$3,108,971	\$17,355	-
<b>Total Charity &amp; Bad Debt</b>	<b>\$58,387</b>	<b>\$12,455,119</b>	<b>\$48,268</b>	<b>\$9,479,902</b>	<b>\$28,738</b>	<b>\$6,703,869</b>	<b>\$38,118</b>	<b>\$6,566,839</b>	<b>\$31,297</b>	<b>-</b>
<b>Charity Care as a % of Gross Patient Revenue</b>	3.2%	2.0%	2.7%	1.5%	2.0%	0.9%	1.8%	0.9%	1.1%	-
<b>Bad Debt as a % of Gross Patient Revenue</b>	2.8%	1.8%	2.0%	1.3%	0.7%	0.9%	1.5%	0.8%	1.4%	-
<b>Total as a % of Gross Patient Revenue</b>	5.9%	3.9%	4.7%	2.8%	2.7%	1.8%	3.3%	1.7%	2.5%	-
<b>Uncompensated Care</b>										
<b>Cost to Charge Ratio</b>	24.3%	24.5%	23.4%	23.6%	25.8%	24.1%	24.2%	23.8%	23.7%	-
<b>Charity</b>	\$7,527	\$1,608,711	\$6,495	\$1,207,919	\$5,490	\$828,647	\$5,151	\$822,627	\$3,300	-
<b>Bad Debt</b>	\$6,670	\$1,444,039	\$4,819	\$1,031,234	\$1,916	\$785,644	\$4,082	\$739,624	\$4,108	-
<b>Total</b>	<b>\$14,197</b>	<b>\$3,052,750</b>	<b>\$11,314</b>	<b>\$2,239,153</b>	<b>\$7,406</b>	<b>\$1,614,292</b>	<b>\$9,232</b>	<b>\$1,562,251</b>	<b>\$7,409</b>	<b>-</b>

Source: OSHPD Disclosure Reports FY 2013 - FY 2017

<sup>1</sup> FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

<sup>2</sup> FY 2017 California data not available when the data was collected to prepare these reports.

The table below shows the Hospital’s historical costs for charity care as reported to OSHPD. Charity care costs have decreased from \$7.5 million in FY 2013 to \$3.3 million in FY 2017. The average cost of charity care for the last five-year period was approximately \$5.6 million, while the three-year average cost of charity care was \$4.6 million.

<b>MERCY MEDICAL CENTER MERCED COST OF CHARITY CARE FY 2013 - FY 2017<sup>1</sup></b>			
<b>Year</b>	<b>Charity Care Charges</b>	<b>Cost to Charge Ratio</b>	<b>Cost of Charity Care to the Hospital</b>
FY 2017	\$13,941,858	23.7%	\$3,300,294
FY 2016	\$21,265,981	24.2%	\$5,150,745
FY 2015	\$21,301,927	25.8%	\$5,489,600
FY 2014	\$27,708,684	23.4%	\$6,495,021
FY 2013	\$30,955,273	24.3%	\$7,526,911
<b>FY 2015 - FY 2017 Average</b>			<b>\$4,646,880</b>
<b>FY 2013 - FY 2017 Average</b>			<b>\$5,592,514</b>

Source: OSHPD Disclosure Reports FY 2013 - FY 2017

<sup>1</sup> FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

In the application to the California Attorney General, Dignity Health reported the following combined distribution of charity care costs by inpatient, outpatient, and emergency room charges.

<b>MERCY MEDICAL CENTER MERCED COST OF CHARITY CARE BY SERVICE FY 2013 - FY 2017</b>				
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Emergency Room</b>	<b>Total Costs</b>
<b>FY 2017:</b>				
Cost of Charity	\$467,146	\$1,052,054	\$647,524	\$2,166,724
Visits/Discharges	34	1,393	983	
<b>FY 2016:</b>				
Cost of Charity	\$475,338	\$2,227,680	\$1,210,142	\$3,913,160
Visits/Discharges	34	2,645	1,931	
<b>FY 2015:</b>				
Cost of Charity	\$1,180,151	\$2,493,457	\$1,370,350	\$5,043,958
Visits/Discharges	93	3,396	2,503	
<b>FY 2014:</b>				
Cost of Charity	\$2,235,462	\$2,615,419	\$1,332,481	\$6,183,362
Visits/Discharges	187	4,364	2535	
<b>FY 2013:</b>				
Cost of Charity	\$2,295,713	\$2,530,273	\$1,391,931	\$6,217,917
Visits/Discharges	204	4,983	287	

Source: Dignity Health

Note that these totals are different than what Dignity Health reported to OSHPD. However, after discussions with JD Healthcare, Inc. and Vizient Inc., Dignity Health has acknowledged that an error was made in its calculation of charity care costs. Dignity Health has stated that it accepts the calculations provided by JD Healthcare, Inc. and Vizient Inc. for the purposes of determining their charity care commitment.

**Community Benefit Services**

In the last five fiscal years, Mercy Medical Center Merced has provided a significant contribution for community benefit services. As shown in the table below, the average annual adjusted cost of community benefit services over the last three fiscal years was \$1.7 million. The average annual adjusted cost of community benefit services over the last five fiscal years was \$1.9 million.

MERCY MEDICAL CENTER MERCED COMMUNITY BENEFIT SERVICES FY 2013 - FY 2017							
Community Benefit Programs	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2015 – FY 2017 Average	FY 2013 – FY 2017 Average
Benefits for Living in Poverty	\$966,401	\$390,296	\$1,914,848	\$1,181,830	\$846,205	\$1,314,294	\$1,059,916
Benefits for Broader Community	\$2,278,547	\$1,792,364	\$1,462,632	\$2,133,363	\$1,599,920	\$1,731,972	\$1,853,365
<b>Totals</b>	<b>\$3,244,948</b>	<b>\$2,182,660</b>	<b>\$3,377,480</b>	<b>\$3,315,193</b>	<b>\$2,446,125</b>	<b>\$3,046,266</b>	<b>\$2,913,281</b>
Medi-Cal Provider Fee CHFT Grant Expense	(\$940,107)	(\$375,230)	(\$1,899,746)	(\$1,167,707)	(\$832,560)	-	-
<b>Adjusted Totals</b>	<b>\$2,304,841</b>	<b>\$1,807,430</b>	<b>\$1,477,734</b>	<b>\$2,147,486</b>	<b>\$1,613,565</b>	<b>\$1,746,262</b>	<b>\$1,870,211</b>

Source: Dignity Health

- The Hospital’s five-year average cost of community benefit services for persons living in poverty is \$1.1 million per year;
- The Hospital’s five-year average cost of community benefit services for the broader community is \$1.9 million per year; and
- Over the five-year period, the Hospital’s combined adjusted total cost of community benefit services decreased from \$2.3 million in FY 2013 to \$1.6 million in FY 2017.

The following table lists the Hospital’s community benefit services over the past five fiscal years that cost over \$10,000 in FY 2017, followed by descriptions of these community benefit services.

MERCY MEDICAL CENTER MERCED					
COST OF COMMUNITY BENEFIT SERVICES FY 2013 - FY 2017					
Services over \$10,000 in cost in FY 2017:	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Chronic Disease Self-Management Program	\$13,890	\$13,288	\$8,516	\$1,952	\$15,538
Donation - In-Kind: Space for Community Organizations	\$11,785	\$2,764	\$2,223	\$7,173	\$26,472
Childbirth Education Program	\$11,144	\$19,329	\$23,498	\$35,081	\$30,665
Community Health Fairs, Screenings and Clinics	\$4,104	\$9,479	\$35,807	\$34,260	\$36,423
Community and School Health Educational Presentations	\$33,607	\$5,144	\$4,816	\$6,684	\$23,314
Dignity Health Community Grants Program	\$118,383	\$125,100	\$121,987	\$264,855	\$267,518
Diabetes Self-Management Program, Community Classes and Support Groups	\$11,150	\$14,655	\$40,570	\$36,446	\$17,163
Exercise Programs	\$30,185	\$28,968	\$28,819	\$24,986	\$24,162
Family Practice Residency	\$1,339,008	\$1,238,664	\$949,056	\$1,413,790	\$1,000,755
Transportation: Merced Taxi Company	\$8,806	\$13,569	\$15,018	\$25,886	\$24,373
Language Interpretive Services (<5% of population)	\$672,649	\$229,403	\$141,926	\$198,775	\$56,883

Source: Dignity Health

- Chronic Disease Self-Management Program: Six-week evidence-based program to help people manage and cope with chronic disease. The program focus is on goal setting and problem solving, nutrition, communication skills, relaxation techniques, medication usage, community resources, and partnering with a doctor;
- Donation - In-Kind: In-kind donation of hospital space for use by local community organizations;
- Childbirth Education Program: Education for pregnant moms/families including la maze, breastfeeding assistance, stork tours, and general childbirth education;
- Community Health Fairs, Screenings, and Clinics: Participation in an average of 18 health fairs and screenings per year throughout the Hospital’s service area;
- Community and School Health Educational Presentations: Educational presentations to schools and in community settings on health education topics, in English and Spanish;
- Dignity Health Community Grants Program: The Hospital actively partners with non-profit organizations working to improve health status and quality of life in the communities served;
- Diabetes Self-Management Program, Community Classes and Support Groups: A six-week evidence-based program to help people manage and cope with diabetes. The program focus is on goal setting and problem solving, nutrition, communication skills, relaxation techniques, medication usage, community resources and partnering with a

doctor. The Hospital also delivers other diabetes community classes and support groups, in English and Spanish;

- Exercise Programs: The Hospital offers a range of exercise classes to the community, including zumba and yoga;
- Family Practice Residency: In conjunction with University of California Davis, family practice residents train at Mercy Medical Center Merced for three years;
- Transportation Merced Taxi Company: Taxi service for indigent patients - provide access to care for vulnerable persons; and
- Language Interpretive Services: The Hospital contracts with the United Way of Merced County to provide interpreting services for patients seen at the Hospital and rural clinics.

**Reproductive Health**

For CY 2016, Mercy Medical Center Merced reported 142 inpatient discharges related to reproductive health services. The following table lists inpatient reproductive services<sup>27</sup> by diagnostic related group (DRG) for CY 2016.

MERCY MEDICAL CENTER MERCED CY 2016 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP	
	Discharges
767-Vaginal Delivery W Sterilization &/Or D&C <sup>1</sup>	74
778-Threatened Abortion	35
777-Ectopic Pregnancy	14
779-Abortion W/O D&C <sup>1</sup>	10
770-Abortion W D&C <sup>1</sup> , Aspiration Curettage Or Hysterotomy	9
<b>Total Discharges:</b>	<b>142</b>

Source: CY 2016 OSHPD Patient Discharge Database

<sup>1</sup>D&C is an abbreviation for Dilation and Curettage

- Out of the five diagnostic related groups, DRG 767-Vaginal Delivery with Sterilization has the highest number of reproductive service inpatient discharges.

<sup>27</sup> Mercy Medical Center Merced is a Catholic hospital and is subject to the ERDs that prohibits direct abortions. While the ERDs prohibits abortions, these procedures are performed at the Hospital when the pathology is determined to present a medical need and/or a clear and present danger to the patient.

According to Dignity Health representatives, the following table indicates whether the Hospital performs the listed women’s reproductive health services.

MERCY MEDICAL CENTER MERCED REPRODUCTIVE SERVICES	
Procedure	Currently Performed? (Y/N)
Caesarean delivery with sterilization	Yes
Terminate pregnancy when:	
A. Placenta previa	No
B. Premature rupture of membranes	No
C. Second trimester bleeding with previable fetus	No
Placement of an IUD at time of other gynecological surgery	No
Postpartum placement of IUD	No
Gender affirming surgery	No
Emergency contraception as emergency room or inpatient service	No
Ectopic pregnancy treatment with methotrexate (medication in lieu of surgery)	No

Source: Dignity Health



## Analysis of Mercy Medical Center Merced

### *Service Area Definition*

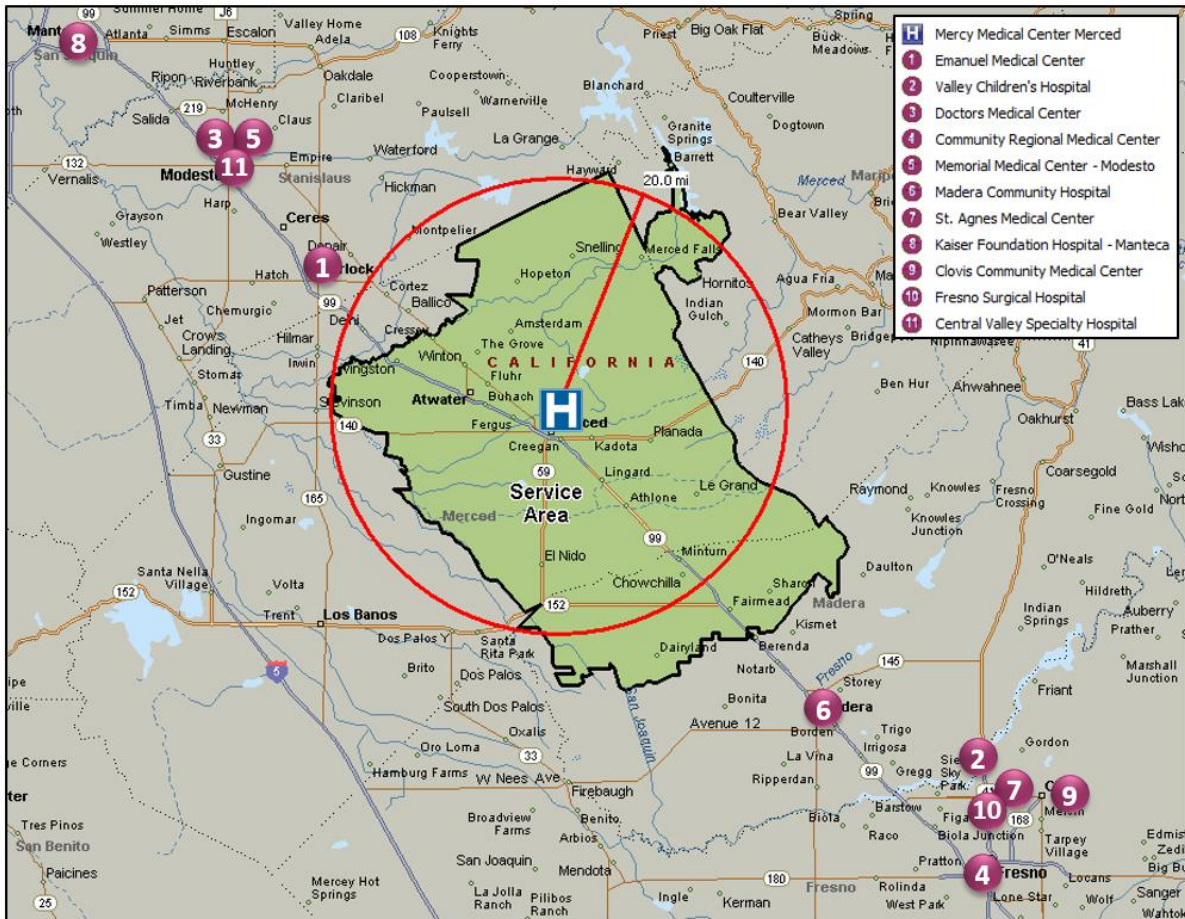
Mercy Medical Center Merced’s service area is comprised of 12 ZIP Codes from which 90.2% of its inpatient discharges originated in CY 2016. Approximately 45% of the Hospital’s discharges originated from the top two ZIP Codes, in the Cities of Merced and Atwater, and 75% in all the ZIP Codes for the Cities of Merced and Atwater. In CY 2016, the Hospital’s market share in the service area was 57.4%.

MERCY MEDICAL CENTER MERCED PATIENT ORIGIN CY 2016						
ZIP Code	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95340	Merced	3,532	28.7%	28.7%	4,936	71.6%
95301	Atwater	2,051	16.6%	45.3%	3,685	55.7%
95348	Merced	1,894	15.4%	60.7%	2,817	67.2%
95341	Merced	1,809	14.7%	75.3%	2,741	66.0%
95388	Winton	619	5.0%	80.4%	1,181	52.4%
95334	Livingston	337	2.7%	83.1%	1,319	25.5%
93610	Chowchilla	323	2.6%	85.7%	1,774	18.2%
95365	Planada	296	2.4%	88.1%	437	67.7%
95333	Le Grand	167	1.4%	89.5%	262	63.7%
95317	El Nido	37	0.3%	89.8%	70	52.9%
95369	Snelling	31	0.3%	90.0%	76	40.8%
95344	Merced	25	0.2%	90.2%	91	27.5%
<b>Subtotal</b>		<b>11,121</b>	<b>90.2%</b>	<b>90.2%</b>	<b>19,389</b>	<b>57.4%</b>
Other ZIPs		1,203	9.8%	100%		
<b>Total Discharges</b>		<b>12,324</b>	<b>100%</b>			

Note: Excludes normal newborns  
 Source: CY 2016 OSHPD Patient Discharge Database

**Service Area Map**

Mercy Medical Center Merced’s service area has approximately 208,000 residents. There are no other hospitals located within Mercy Medical Center Merced’s service area. There is no other hospital located within 20 miles from Mercy Medical Center Merced. Mercy Medical Center Merced is the inpatient market share leader in the service area.



**Hospital Market Share**

The table below provides the inpatient market share for Mercy Medical Center Merced’s service area.

MERCY MEDICAL CENTER MERCED MARKET SHARE BY HOSPITAL CY 2013 - CY 2016					
Hospital	CY 2013	CY 2014	CY 2015	CY 2016	Trend
<b>Mercy Medical Center - Merced</b>	<b>55.3%</b>	<b>52.2%</b>	<b>54.4%</b>	<b>57.4%</b>	<b>↗</b>
Emanuel Medical Center	8.3%	8.6%	9.0%	9.1%	↗
Valley Children's Hospital	5.7%	6.7%	7.2%	5.4%	↘
Doctors Medical Center	3.8%	4.7%	4.9%	4.8%	↗
Community Regional Medical Center-Fresno	2.4%	2.7%	2.1%	3.2%	↗
Memorial Medical Center - Modesto	3.4%	3.1%	2.6%	2.6%	↘
Madera Community Hospital	3.8%	3.2%	2.6%	2.5%	↘
Stanford Health Care	2.7%	2.7%	2.1%	2.0%	↘
St. Agnes Medical Center	1.5%	1.7%	2.1%	1.9%	↗
UCSF Medical Center	1.1%	1.3%	1.2%	1.3%	→
Marie Green Psychiatric Center - P H F	1.7%	1.8%	1.7%	1.2%	↘
Kaiser Foundation Hospital - Manteca	0.5%	0.5%	0.5%	0.6%	→
Aurora Behavioral Healthcare-Santa Rosa, LLC	0.0%	0.2%	0.8%	0.5%	→
Clovis Community Medical Center	0.5%	0.6%	0.4%	0.5%	→
Fresno Surgical Hospital	0.7%	0.7%	0.5%	0.5%	↘
University of California Davis Medical Center	0.6%	0.5%	0.4%	0.4%	→
Lucile Salter Packard Children's Hosp. at Stanford	0.5%	0.6%	0.3%	0.3%	↘
Central Valley Specialty Hospital	0.0%	0.2%	0.4%	0.3%	→
California Pacific Med Ctr-Pacific Campus	0.3%	0.3%	0.2%	0.3%	→
San Joaquin Valley Rehabilitation Hospital	0.2%	0.3%	0.3%	0.3%	→
Fremont Hospital	0.1%	0.2%	0.2%	0.2%	→
Heritage Oaks Hospital	0.3%	0.4%	0.2%	0.2%	↘
Sierra Vista Hospital	0.4%	0.4%	0.2%	0.2%	↘
Mercy San Juan Hospital	0.2%	0.3%	0.4%	0.2%	→
Stanislaus Surgical Hospital	0.3%	0.2%	0.1%	0.2%	→
San Joaquin General Hospital	0.3%	0.4%	0.3%	0.2%	↘
All Other	5.4%	5.5%	4.6%	3.6%	↘
<b>Total Percentage</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
<b>Total Discharges</b>	<b>16,352</b>	<b>16,209</b>	<b>18,404</b>	<b>19,389</b>	<b>↗</b>

Source: OSHPD Discharge Database, CY 2013 - CY 2016

Note: Excludes normal newborns

- The number of discharges in Mercy Medical Center Merced’s service area has increased by 18.6% from 16,352 inpatient discharges in CY 2013 to 19,389 discharges in CY 2016;
- From CY 2013 to CY 2016, Mercy Medical Center Merced consistently ranked first in overall market share for its service area based on inpatient discharges (57.4 % in CY 2016); and

- In CY 2016, Emanuel Medical Center ranked second in market share (9.1%), followed by Valley Children’s Hospital (5.4%).

**Market Share by Payer Type**

The following table shows inpatient market share by hospital and payer type for Mercy Medical Center Merced’s service area for CY 2016.

MERCY MEDICAL CENTER MERCED HOSPITAL MARKET SHARE BY PAYER TYPE CY 2016											
Payer Type	Total Discharges	Mercy Medical Center - Merced	Emanuel Medical Center	Valley Children's Hospital	Doctors Medical Center	Community Regional Medical Center-Fresno	Memorial Medical Center - Modesto	Madera Community Hospital	Stanford Health Care	All Others	Total
Medi-Cal	7,732	61.5%	8.7%	10.4%	1.5%	1.8%	2.2%	2.5%	1.4%	9.9%	100.0%
Medicare	7,079	63.7%	10.3%	0.1%	4.8%	3.3%	2.6%	1.7%	2.0%	11.6%	100.0%
Private Coverage	3,820	43.4%	8.5%	5.9%	11.0%	3.9%	3.2%	1.2%	3.0%	19.9%	100.0%
All Other	622	22.8%	3.1%	0.6%	6.8%	15.1%	2.9%	21.5%	2.4%	24.8%	100.0%
Self-Pay	136	41.2%	8.1%	0.7%	6.6%	8.1%	4.4%	1.5%	5.1%	24.3%	100.0%
<b>Total Percentage</b>		<b>57.4%</b>	<b>9.1%</b>	<b>5.4%</b>	<b>4.8%</b>	<b>3.2%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>13.1%</b>	<b>100.0%</b>
<b>Total Discharges</b>	<b>19,389</b>	<b>11,121</b>	<b>1,760</b>	<b>1,041</b>	<b>931</b>	<b>626</b>	<b>495</b>	<b>493</b>	<b>391</b>	<b>2,531</b>	

Note: Excludes normal newborns

Source: CY 2016 OSHPD Patient Discharge Database

- The largest payer categories of service area inpatient discharges are Medi-Cal with 7,732 discharges (40%), followed by Medicare with 7,079 discharges (37%) and Private Coverage with 3,820 discharges (20%); and
- Mercy Medical Center Merced is the inpatient market share leader for all payers.

**Market Share by Service Line**

The following table shows inpatient market share by hospital and service line for Mercy Medical Center Merced’s service area for CY 2016.

MERCY MEDICAL CENTER MERCED HOSPITAL MARKET SHARE BY SERVICE LINE CY 2016											
Service Line	Total Discharges	Mercy Medical Center - Merced	Emanuel Medical Center	Valley Children's Hospital	Doctors Medical Center	Community Regional Medical Center - Fresno	Memorial Medical Center - Modesto	Madera Community Hospital	Stanford Health Care	All Others	Total
General Medicine	6,259	68.3%	8.3%	6.3%	2.7%	1.6%	1.5%	3.5%	0.8%	6.9%	100.0%
Obstetrics	3,393	78.0%	9.3%	0.0%	1.4%	0.8%	1.2%	2.5%	0.0%	6.7%	100.0%
Cardiac Services	2,119	52.4%	23.8%	1.1%	6.8%	4.7%	2.3%	2.2%	1.1%	5.6%	100.0%
General Surgery	1,664	42.0%	9.3%	6.2%	6.1%	9.0%	7.7%	3.2%	4.2%	12.3%	100.0%
Orthopedics	1,194	48.2%	3.2%	4.6%	8.1%	2.8%	4.5%	1.7%	3.3%	23.6%	100.0%
Neonatology	998	52.7%	9.2%	23.3%	2.1%	1.6%	1.3%	1.6%	0.0%	8.1%	100.0%
Neurology	887	57.0%	4.6%	6.7%	5.1%	4.3%	2.6%	1.2%	2.4%	16.1%	100.0%
Behavioral Health	847	11.1%	1.5%	0.2%	9.8%	2.1%	0.1%	0.1%	0.4%	74.6%	100.0%
Oncology/Hematology (Medical)	422	46.9%	6.6%	14.7%	6.2%	3.8%	1.4%	2.8%	7.1%	10.4%	100.0%
Spine	317	24.3%	1.6%	2.2%	13.9%	10.4%	1.9%	0.3%	12.3%	33.1%	100.0%
Gynecology	254	56.3%	5.1%	1.6%	2.0%	2.4%	1.2%	2.8%	4.3%	24.4%	100.0%
Other	254	15.7%	2.4%	9.1%	21.3%	16.1%	14.6%	2.4%	3.5%	15.0%	100.0%
Vascular Services	239	40.6%	9.6%	2.5%	16.7%	8.4%	6.3%	1.3%	3.8%	10.9%	100.0%
Urology	187	33.2%	0.0%	7.5%	15.0%	4.8%	1.6%	2.1%	15.5%	20.3%	100.0%
ENT	183	27.3%	2.7%	25.1%	9.8%	3.8%	7.1%	2.2%	9.3%	12.6%	100.0%
Neurosurgery	120	0.8%	0.8%	3.3%	5.0%	11.7%	6.7%	0.0%	26.7%	45.0%	100.0%
No-match-found	30	43.3%	3.3%	3.3%	6.7%	0.0%	3.3%	6.7%	10.0%	23.3%	100.0%
Ophthalmology	16	18.8%	0.0%	31.3%	6.3%	6.3%	0.0%	0.0%	6.3%	31.3%	100.0%
<b>Total Percentage</b>		<b>57.4%</b>	<b>9.1%</b>	<b>5.4%</b>	<b>4.8%</b>	<b>3.2%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>13.0%</b>	<b>100.0%</b>
<b>Total Discharges</b>	<b>19,389</b>	<b>11,121</b>	<b>1,760</b>	<b>1,041</b>	<b>931</b>	<b>626</b>	<b>495</b>	<b>493</b>	<b>391</b>	<b>2,525</b>	

Note: Excludes normal newborns  
Source: CY 2016 OSHPD Patient Discharge Database

- Mercy Medical Center Merced is the service line leader in 14 of the 18 service lines:
  - general medicine (68.3%);
  - obstetrics (78%);
  - cardiac services (52.4%);
  - general surgery (42%);
  - orthopedics (48.2%);
  - neonatology (52.7%);
  - neurology (57%);
  - behavioral health (11%);
  - oncology/hematology (46.9%);
  - spine (24.3%);

- gynecology (56.3%);
  - vascular services (40.6%);
  - urology (33.2%); and
  - ENT (27.3%);
- Stanford Health Care is the service line leader in neurosurgery (26.7%).

**Market Share by ZIP Code**

The following table shows hospital market share by ZIP Code in Mercy Medical Center Merced’s service area for CY 2016.

MERCY MEDICAL CENTER MERCED HOSPITAL MARKET SHARE BY ZIP CODE CY 2016												
ZIP Code	Community	Total Discharges	Mercy Medical Center – Merced	Emanuel Medical Center	Valley Children’s Hospital	Doctors Medical Center	Community Regional Medical Center-Fresno	Memorial Medical Center - Modesto	Madera Community Hospital	Stanford Health Care	All Others	Total
95340	Merced	4,936	71.6%	4.2%	3.2%	3.9%	1.9%	2.1%	0.1%	1.7%	11.5%	100.0%
95301	Atwater	3,685	55.7%	12.2%	4.3%	6.8%	2.0%	3.4%	0.1%	2.4%	13.3%	100.0%
95348	Merced	2,817	67.2%	4.4%	5.2%	4.6%	2.1%	2.4%	0.1%	2.4%	11.5%	100.0%
95341	Merced	2,741	66.0%	3.6%	8.4%	4.6%	1.9%	1.9%	0.2%	2.1%	11.3%	100.0%
93610	Chowchilla	1,774	18.2%	0.8%	7.9%	0.9%	16.9%	1.0%	26.7%	1.2%	26.4%	100.0%
95334	Livingston	1,319	25.5%	43.4%	5.2%	8.8%	0.8%	4.6%	0.0%	1.7%	10.1%	100.0%
95388	Winton	1,181	52.4%	20.2%	5.5%	5.0%	1.6%	3.6%	0.0%	2.6%	9.0%	100.0%
95365	Planada	437	67.7%	3.4%	7.3%	4.3%	1.4%	1.4%	0.5%	1.8%	12.1%	100.0%
95333	Le Grand	262	63.7%	3.1%	13.4%	1.1%	3.8%	2.7%	0.4%	1.9%	9.9%	100.0%
95344	Merced	91	27.5%	15.4%	0.0%	8.8%	2.2%	7.7%	0.0%	1.1%	37.4%	100.0%
95369	Snelling	76	40.8%	18.4%	3.9%	6.6%	1.3%	7.9%	1.3%	5.3%	14.5%	100.0%
95317	El Nido	70	52.9%	7.1%	12.9%	10.0%	0.0%	1.4%	0.0%	2.9%	12.9%	100.0%
<b>Total Percentage</b>			<b>57.4%</b>	<b>9.1%</b>	<b>5.4%</b>	<b>4.8%</b>	<b>3.2%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>13.1%</b>	<b>100.0%</b>
<b>Total Discharges</b>			<b>19,389</b>	<b>11,121</b>	<b>1,760</b>	<b>1,041</b>	<b>931</b>	<b>626</b>	<b>495</b>	<b>493</b>	<b>391</b>	<b>2,531</b>

Note: Excludes normal newborns  
Source: CY 2016 OSHPD Patient Discharge Database

- Mercy Medical Center Merced is the inpatient market share leader in two of the 12 service area ZIP Codes;
- Emanuel Medical Center is the inpatient market share leader in five of the 12 service area ZIP Codes with the largest percentage in the City of Livingston; and
- Community Regional Medical Center-Fresno is the inpatient market share leader in three of the service area ZIP Codes.

## Assessment of Potential Issues Associated with the Availability or Accessibility of Healthcare Services

In the Ministry Alignment Agreement, Dignity Health and CHI have made commitments to maintain all Dignity Health owned hospitals, IHO owned hospitals, and IHO subsidiary hospitals with their current levels of healthcare services and programs. An analysis of these commitments is provided in the following sections.

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

In the Ministry Alignment Agreement, Dignity Health and CHI committed to maintaining Mercy Medical Center Merced as a licensed acute care hospital for five years after the Effective Date. The Hospital provides a significant amount of healthcare services to the communities served as shown by their inpatient volume and market share.

#### Mercy Medical Center Merced

In FY 2017, Mercy Medical Center Merced was the only general acute care hospital within its service area, offering a total of 186 licensed beds with an average occupancy rate of 70%. In CY 2016, Mercy Medical Center Merced was the market share leader with 57% of the service area inpatient discharges. The table below shows the Mercy Medical Center Merced hospital statistics.

SERVICE AREA HOSPITAL DATA						
Hospital	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied
<b>Mercy Medical Center Merced</b>	<b>Merced</b>	<b>186</b>	<b>12,704</b>	<b>47,648</b>	<b>131</b>	<b>70%</b>

Source: OSHPD Disclosure Report

Since Mercy Medical Center Merced is the only general acute care hospital provider within its service area, it is a very important provider of healthcare services to the community.

### *Emergency Services*

Mercy Medical Center Merced is an important provider of emergency services to the residents of its surrounding communities. In FY 2017, Mercy Medical Center Merced (a Certified Primary Stroke Center) reported 70,084 emergency service visits to its 26 emergency treatment stations, operating at over 135% capacity<sup>28</sup>.

As a result of the Affordable Care Act (ACA) and California’s participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. This influx of newly insured individuals, combined with the growing shortage of primary care physicians, is expected to increase emergency department utilization. Keeping Mercy Medical Center Merced’s

<sup>28</sup>Industry sources, including the American College of Emergency Physicians, use a benchmark of 2,000 visits per emergency station, per year, to estimate the capacity.



emergency department open is important for providing area residents access to emergency services.

In the Ministry Alignment Agreement, Dignity Health and CHI committed to maintaining the emergency services at all Dignity Health owned hospitals, IHO owned hospitals, and IHO subsidiary hospitals at current types and levels of services and current designations for five years after the Effective Date of the Ministry Alignment Agreement as shown below:

The five-year commitments to Mercy Medical Center Merced's existing emergency services include:

- 26 Treatment Stations;
- Certified Primary Stroke Center; and
- Paramedic Base Station<sup>29</sup>.

As a result of healthcare reform, aging demographics, and the growing shortage of primary care physicians, emergency service utilization is expected to continue to increase within the Hospital's service area. Maintaining Mercy Medical Center Merced's emergency department with at least its current number of emergency department stations and current designation is critical to providing emergency services within the Hospital's service area.

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

Mercy Medical Center Merced is an important provider of healthcare services to women. The Hospital averaged 2,729 live births per year between FY 2015 and FY 2017.

Mercy Medical Center Merced is a Catholic hospital and currently subject to the ERDs and will continue to be subject to the ERDs after the Effective Date. Although the ERDs prohibit tubal ligations and direct abortions, these procedures are being performed at Mercy Medical Center Merced when the pathology is determined to present a medical need and/or a clear and present danger to the patient. Additionally, Mercy Medical Center Merced does perform sterilization with both vaginal and caesarean deliveries<sup>30</sup>. Mercy Medical Center Merced is an important provider of a range of women's reproductive services and provides these services to a large underserved population that has lower rates of prenatal care, resulting in an increased number of high-risk births that can increase instances of stillborn delivery, miscarriage, and fetal abnormalities. In the Ministry Alignment Agreement, Dignity Health and CHI have committed to continue to provide women's health care services provided at each California hospital as of the Effective Date. Thus, the transaction is not expected to result in any reductions in the availability or accessibility of reproductive health services at Mercy Medical Center Merced.

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<sup>29</sup> While Dignity Health did not commit Mercy Medical Center Merced to being a Paramedic Base Station, the Hospital is contractually obligated with the County to provide a paramedic base station, and it is a very important service to the community.

<sup>30</sup> These services are being performed as approved by the prior Bishop of Fresno, John T. Steinbock in 1996.



The following table shows recorded inpatient reproductive service procedures in CY 2016 at Mercy Medical Center Merced.

CY 2016 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP	
Diagnostic Related Group	Mercy Medical Center Merced
767-Vaginal Delivery W Sterilization &/Or D&C <sup>1</sup>	74
778-Threatened Abortion	35
777-Ectopic Pregnancy	14
779-Abortion W/O D&C <sup>1</sup>	10
770-Abortion W D&C <sup>1</sup> , Aspiration Curettage Or Hysterotomy	9
<b>Total Discharges:</b>	<b>142</b>

Source: CY 2016 OSHPD Patient Discharge Database

<sup>1</sup>D&C is an abbreviation for Dilation and Curettage

### *Effects on the Level & Type of Charity Care Historically Provided*

Dignity Health committed to providing an annual amount of charity care based on the three most recent fiscal years as shown in the following table. As noted previously, Dignity Health has acknowledged that an error was made in its calculation of its charity care costs. Dignity Health has stated that it accepts the calculations provided by JD Healthcare, Inc. and Vizient Inc. for the purposes of determining their charity care commitment.

CHARITY CARE COSTS				
	Dignity Health <sup>1</sup>		OSHPD Reported <sup>2</sup>	
	FY 2015-FY2017 Average	FY 2013-FY2017 Average	FY 2015-2017 Average	FY 2013-FY2017 Average
Mercy Medical Center Merced	\$3,707,947	\$4,705,024	\$4,646,880	\$5,592,514

<sup>1</sup> Dignity Health charity care commitment as calculated by Dignity Health FY 2015 - FY 2017

<sup>2</sup> Charity care as reported in OSHPD Disclosure Reports FY 2013 - FY 2017.

### *Effects on Services to Medi-Cal, Medicare & Other Classes of Patients*

Mercy Medical Center Merced participates in the Medicare and Medi-Cal programs, contracts with Medi-Cal Managed Care plans, and provides services to other indigent and private pay patients.

As a result of the expansion of Medi-Cal and the ACA, fewer low-income individuals and families are uninsured and other indigent patients have decreased. While these patients can still access the emergency departments of Dignity Health hospitals, the number of patients served has decreased.

Commercially insured patients receive care at Dignity Health hospitals under negotiated contracts and are unlikely to be affected as result of the Dignity Health and CHI transaction

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Over 12 million Medi-Cal beneficiaries in all 58 counties in California receive their healthcare through six models of managed care, including: County Organized Health Systems, the Two-Plan Model, Geographic Managed Care, the Regional Model, the Imperial Model, and the San Benito Model.

Merced County has a County Organized Health Systems model that offers one managed care plan. In the County Organized Health Systems model, the Department of Health Care Services contracts with a health plan created by the County Board of Supervisors. The percentage of Merced County residents with Medi-Cal Managed Care coverage has increased significantly as a result of the ACA and California initiatives to expand Medi-Cal Managed Care. In Merced County, the County Organized Health Systems model is provided by Central California Alliance for Health. Currently, Dignity Health is contracted with Central California Alliance for Health to provide healthcare services for Medi-Cal Managed Care patients.

In the Ministry Alignment Agreement, Dignity Health and CHI commit to continued participation in the Medi-Cal and Medicare program for a period of five years after the Effective Date. The table shows the current contract that exists at Mercy Medical Center Merced.

DIGNITY HEALTH MERCED COUNTY MEDI-CAL CONTRACT	
Dignity Health Hospital	Health Plan
Mercy Medical Center Merced	• Central California Alliance for Health

Source: Dignity Health

As Dignity Health committed to continued participation in the Medicare, Medi-Cal, and Medi-Cal Managed Care programs in the Ministry Alignment Agreement, no reductions in the availability or accessibility of non-emergency healthcare services are anticipated for beneficiaries of Medicare, Medi-Cal, and Medi-Cal Managed Care programs for at least five years after the Effective Date.

***Effects on Community Benefit Programs***

Mercy Medical Center Merced supports a significant number of ongoing community benefit programs that serve the residents of the surrounding communities. In the Ministry Alignment Agreement, Dignity Health and CHI have made commitments to maintain expenditures for community benefit services based on an average of the expenditures for the years FY 2015-FY 2017. The table shows the annual average for both the three and five fiscal years at Mercy Medical Center Merced.

MERCED COUNTY COMMUNITY BENEFIT		
	FY 2015 - FY 2017*	FY 2013 – FY 2017*
Mercy Medical Center Merced	\$1,746,262	\$1,870,211

\*Less Medi-Cal Provider Fees and other non-community benefit costs as detailed in the profile sections.

While the Hospital offers various community benefit programs, the Ministry Alignment Agreement includes commitments to maintain many of the current community benefit programs. The table below shows the service and program commitments made by Dignity Health and CHI.

COMMITTED COMMUNITY BENEFIT SERVICES AND PROGRAMS	
Hospital Name	Community Benefit Service and Program Name
Mercy Medical Center Merced	<ul style="list-style-type: none"> <li>• Community Health Fairs, Screenings and Clinics</li> <li>• Community Health Grants Program</li> <li>• Diabetes Self-Management Program</li> <li>• Family Practice Residency Program</li> <li>• Language Interpretive Services</li> </ul>

***Effects on Hospital Licensed Services***

Mercy Medical Center Merced is an important provider of inpatient services to the residents of its community. Dignity Health and CHI committed to maintaining all licensed services at current types and levels of services and current designations for five years after the Effective Date of the Ministry Alignment Agreement as follows:

*Licensed Service Commitments for Mercy Medical Center Merced:*

- Obstetrics services, including a minimum of 30 licensed perinatal beds; and
- Intensive care services, including a minimum of 20 licensed intensive care beds.

Since Dignity Health and CHI make extensive five-year commitments to licensed inpatient services, no reductions in the availability or accessibility of healthcare services are expected for Mercy Medical Center Merced for at least five years as a result of the Ministry Alignment Agreement.

***Effects on Programs and Services***

Mercy Medical Center Merced is an important provider of inpatient and outpatient programs and services to the residents of its surrounding communities. Dignity Health and CHI committed to maintaining additional licensed programs and services at current types and levels and current designations for five years after the Effective Date of the Ministry Alignment Agreement as follows:

***Programs and Services Commitment for Mercy Medical Center Merced:***

- Coronary care and cardiovascular services;
  - Cardiac catheterization laboratory services;
  - Interventional cardiology;
  - Elective percutaneous coronary intervention services;
- Neuroscience services, including neurosurgery services;
- Oncology services, including inpatient medical and surgical oncology services;
  - Outpatient Services - Radiation Therapy Services at Radiology & Oncology at Mercy Cancer Center (G Street);
  - Outpatient Services - Outpatient infusion therapy services (M Street);
- Orthopedic services, including total joint replacements;
- General surgery services;
- Nuclear medicine services;
- Imaging and radiology services (inpatient and outpatient),
  - Outpatient Services – MRI;
- Laboratory services;
- Outpatient Services – Endoscopy (M Street);
- Outpatient Services – Surgery (M Street);
- Rural health clinic - Family Care Clinic;
- Rural health clinic - Kids Care Clinic;
- Rural health clinic – General Medicine Clinic;
- Mobile Unit – Lithotripsy services;
- Occupational therapy services;
- Physical therapy services;
  - Outpatient Services – Mercy Therapy Services (M Street);
- Respiratory care services;
- Social services; and
- Speech pathology services.

Since Dignity Health and CHI have committed to maintaining these additional licensed services and programs for five years after the Effective Date at Mercy Medical Center Merced, no negative impacts on the accessibility and availability of healthcare services are expected for at least five years as a result of the Ministry Alignment Agreement.

### ***Effects on Staffing & Employee Rights***

Dignity Health states that the proposed transaction will not change the status of any of Dignity Health's non-executive employees.

Dignity Health and CHI in the Ministry Alignment Agreement also agree to maintain the respective terms of the collective bargaining agreements that are in effect as of the Effective Date as shown below.

#### **Union Contracts for Mercy Medical Center Merced:**

- American Federation of State, County and Municipal Employees (AFSCME); and
- California Nurses Association (CNA).

It is anticipated that no reductions in the number of non-executive employees are expected at Mercy Medical Center Merced as a result of the Ministry Alignment Agreement.

### ***Effects on Medical Staff***

Dignity Health and CHI have committed to maintaining privileges for the current medical staff members of each Dignity Health California Hospital who are in good standing as of the Effective Date of the Ministry Alignment Agreement. Since Dignity Health committed to maintain the medical staffs' privileges, no reductions in the medical staff at Mercy Medical Center Merced are expected.

### ***Effects on City and County Contracts***

Mercy Medical Center Merced has a number of contracts with Merced County to provide and support specific services. According to the Ministry Alignment Agreement, these contracts will be maintained for a period of five years after the Effective Date, unless the contract is terminated for cause or expires in accordance with its current terms.

### ***Alternatives***

If the proposed Ministry Alignment Agreement is not approved, Dignity Health is expected to continue to operate as it has in the past. It may look for future partnerships; however, none are evident at this time.

## Conclusions and Recommendations

Based on Dignity Health's and CHI's commitments contained in the Ministry Alignment Agreement, the proposed transaction is likely to preserve the accessibility and availability of healthcare services to the communities served for at least five years. If the transaction is not approved, Dignity Health will not have the obligation to maintain these commitments.

### ***Potential Conditions for California Attorney General Approval of the Ministry Alignment Agreement***

If the California Attorney General approves the proposed transaction, JD Healthcare, Inc. and Vizient Inc. recommend the following conditions be required to minimize any potential negative healthcare impact that might result from the transaction:

#### *Mercy Medical Center Merced*

1. For at least ten years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall continue to operate as a general acute care hospital;
2. For at least ten years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain 24-hour emergency services at no less than current licensure and designation with the same types and/or levels of services, including the following:
  - a. 26 Treatment Stations;
  - b. Certified Primary Stroke Center; and
  - c. Paramedic Base Station.
3. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain the following services at current licensure, types, and/or levels of services:
  - a. Obstetrics services, including a minimum of 30 licensed perinatal beds; and
  - b. Intensive care services, including a minimum of 20 licensed intensive care beds.
4. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain the following services as committed to Attachment D in Exhibit L of the Ministry Alignment Agreement:
  - a. Coronary care and cardiovascular services;
    - i. Cardiac catheterization laboratory services;
    - ii. Interventional cardiology;

- iii. Elective percutaneous coronary intervention services;
    - b. Neuroscience services, including neurosurgery services;
    - c. Oncology services, including inpatient medical and surgical oncology services,
      - i. Outpatient Services - Radiation Therapy Services at Radiology & Oncology at Mercy Cancer Center (G Street),
      - ii. Outpatient Services - Outpatient infusion therapy services (M Street);
    - d. Orthopedic services, including total joint replacements;
    - e. General surgery services;
    - f. Nuclear medicine services;
    - g. Imaging and radiology services (inpatient and outpatient),
      - i. Outpatient Services – MRI;
    - h. Laboratory services;
    - i. Outpatient Services – Endoscopy (M Street);
    - j. Outpatient Services – Surgery (M Street);
    - k. Rural health clinic - Family Care Clinic;
    - l. Rural health clinic - Kids Care Clinic;
    - m. Rural health clinic – General Medicine Clinic;
    - n. Mobile Unit – Lithotripsy services;
    - o. Occupational therapy services;
    - p. Physical therapy services,
      - i. Outpatient Services – Mercy Therapy Services (M Street);
    - q. Respiratory care services;
    - r. Social services; and
    - s. Speech pathology services.
5. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain currently provided women’s healthcare services including reproductive health services.
6. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain a charity care policy that is no less favorable than its current charity care policy and in compliance with California and Federal law, and Mercy Medical Center Merced shall provide an annual amount of charity care equal to or greater than \$5,592,514 (the “Minimum Charity Care Amount”). Alternatively, because of the impact of Medi-Cal expansion and the ACA, the California Attorney General could consider adjusting the required commitment to charity care based on available data from time periods after implementation of the ACA. An example would be to require a commitment based on a three-year rolling average of the most recent available data. For FY 2018, Mercy Medical Center Merced’s required Minimum Charity Care amount using the three-year rolling average from FY 2015 – FY 2017 would be \$ 4,646,880. For purposes herein, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by Mercy Medical Center Merced in connection with the operations and provision of services at Mercy Medical Center Merced. The definition and methodology for calculating “Charity Care” and the methodology for

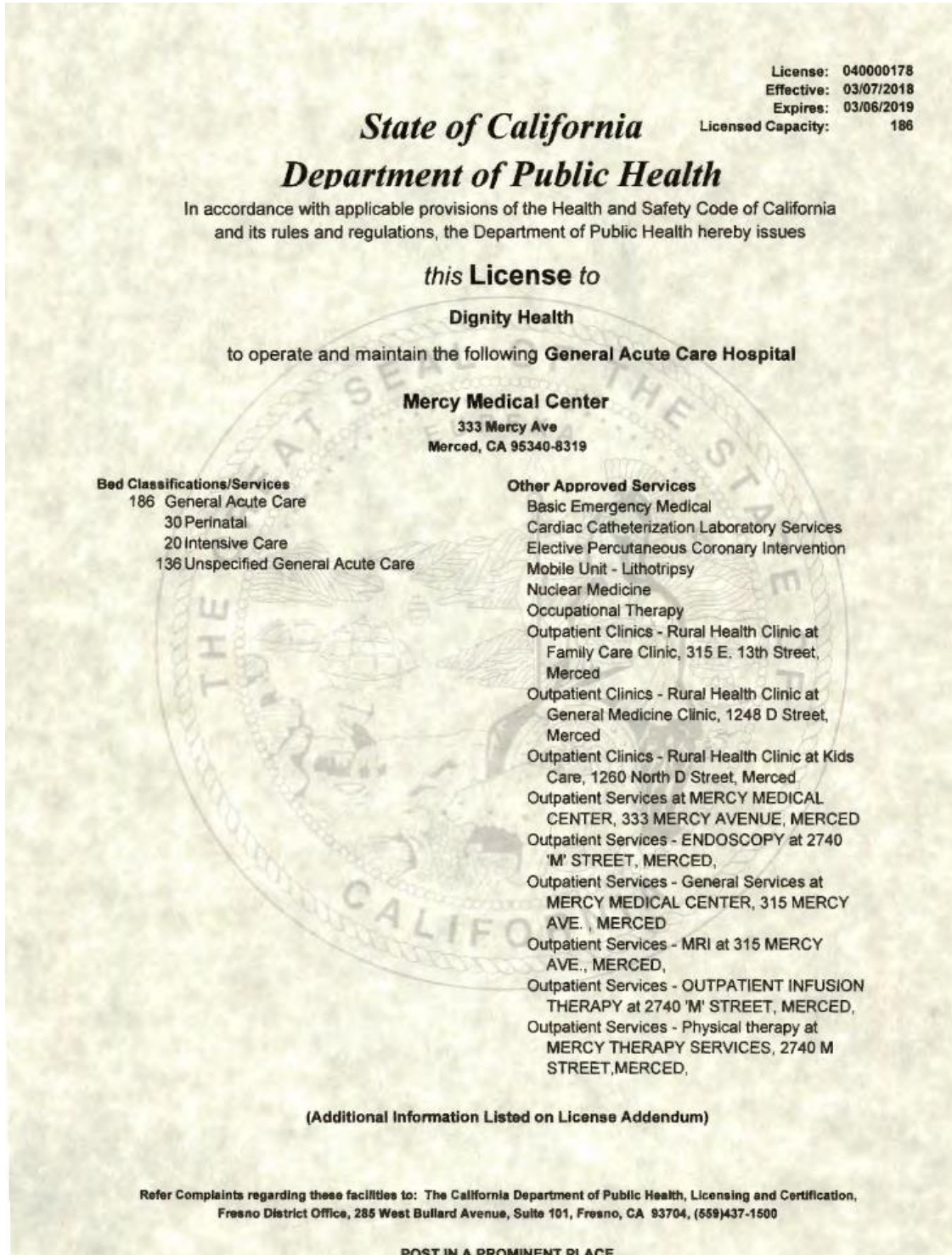
calculating “cost” shall be the same as that used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index from the U.S. Bureau of Labor Statistics;

7. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall continue to expend no less than \$1,870,221 annually in community benefit services. This amount should be increased annually based on the rate of inflation as measured by a Consumer Price Index from the U.S. Bureau of Labor Statistics. In addition, the following community benefit programs shall continue to be offered for at least five years from closing;
  - a. Community Health Fairs, Screenings and Clinics;
  - b. Community Health Grants Program;
  - c. Diabetes Self-Management Program;
  - d. Family Practice Residency Program; and
  - e. Language Interpretive Services.
8. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number;
9. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall be certified to participate in the Medi-Cal program, providing the same type, and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries;
10. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain its participation in the Medi-Cal Managed Care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease of quality, or gap in contracted hospital coverage, including continuation of the following contract:
  - a. County Organized Health Systems Plan: Central California Alliance for Health or its successor;
11. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Merced shall maintain its current city/county contracts for the programs listed below:



- a. Health Care Operating Agreement – MAP Payment by County;
  - b. Memorandum of Understanding – Helistop;
  - c. Reimbursement Agreement;
  - d. California Immunization Registry Region IV/Regional Immunization Data Exchange (RIDE) Organization Access Agreement;
  - e. Health Care Operating Agreement – Second Settlement Agreement;
  - f. Mental Health Services Agreement;
  - g. Base Hospital Agreement;
  - h. Agreement for Med-Cal Capacity Grant;
  - i. Operational Agreement (Child Abuse Treatment Program); and
  - j. Paramedic Base Station.
12. Dignity Health and CHI shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Mercy Medical Center Merced until January 1, 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act (Health & Safety Code, § 129675-130070); and
13. Mercy Medical Center Merced shall maintain written policies that prohibit discrimination against lesbian, gay, bisexual, or transgender individuals.

*Mercy Medical Center Merced License*



**State of California**  
**Department of Public Health**  
**License Addendum**

License: 04000178  
Effective: 03/07/2018  
Expires: 03/06/2019  
Licensed Capacity: 186

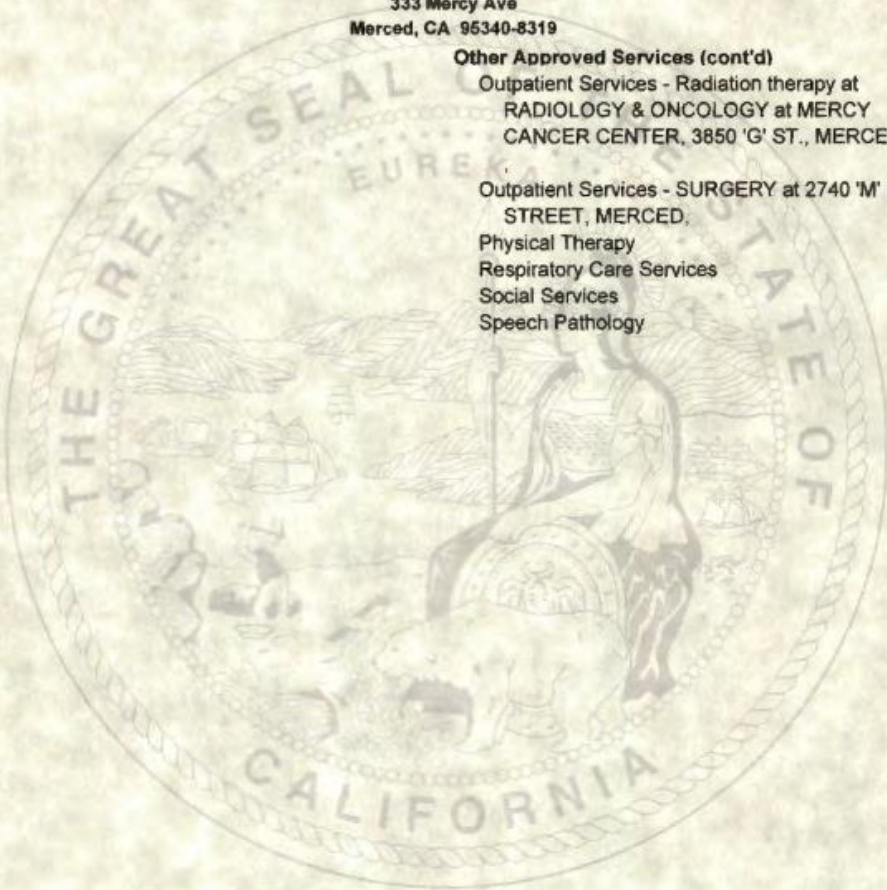
Mercy Medical Center (Continued)  
333 Mercy Ave  
Merced, CA 95340-8319

**Other Approved Services (cont'd)**

Outpatient Services - Radiation therapy at  
RADIOLOGY & ONCOLOGY at MERCY  
CANCER CENTER, 3850 'G' ST., MERCED

Outpatient Services - SURGERY at 2740 'M'  
STREET, MERCED.

Physical Therapy  
Respiratory Care Services  
Social Services  
Speech Pathology



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

Karen L. Smith, MD, MPH

Director and State Public Health Officer

Katrice Miller, Staff Services Manager I

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification,  
Fresno District Office, 285 West Bullard Avenue, Suite 101, Fresno, CA 93704, (559)437-1500

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