Daughters of Charity Health System ("DCHS") respectfully requests the approval of the Attorney General under Section 5914 of the California Nonprofit Corporation Law ("NCL") and the Attorney General’s Health Facility Transaction Regulations¹ for the change of control of the six “health facilities” (as defined in the NCL and the Health Facility Transaction Regulations) named below (the “DCHS Health Facilities”). The following sections summarize the proposed agreement and transactions comprising the change of control of the Hospital Corporations.

DCHS is the sole member of the five California nonprofit religious corporations (collectively, the “Hospital Corporations”) that are licensed to operate the health facilities named below. DCHS controls the Hospital Corporations within the meaning of the NCL through its power to appoint and remove the members of their governing bodies and accordingly is acting as the applicant for approval under the Health Facility Transaction Regulations. The DCHS Health Facilities are:

- O’Connor Hospital, a general acute care hospital located in San Jose, County of Santa Clara;
- Seton Medical Center, a general acute care hospital in Daly City, County of San Mateo;
- Seton Medical Center Coastside, a skilled nursing facility located in Moss Beach, County of San Mateo (“Seton Coastside”);
- Saint Louise Regional Hospital, a general acute care hospital located in Gilroy, California, County of Santa Clara;
- St. Francis Medical Center, a general acute care hospital located in Lynwood, County of Los Angeles; and
- St. Vincent Medical Center, a general acute care hospital located in Los Angeles, County of Los Angeles.

Each of the DCHS Health Facilities is a sponsored ministry of the Daughters of Charity of St. Vincent de Paul, a religious institute of the Roman Catholic Church (the “Daughters of Charity”). Each is owned by a Hospital Corporation having the same name as the DCHS Health Facility it owns except Seton Coastside, which is owned by Seton Medical Center. DCHS, the Hospital Corporations and their affiliated entities² comprise the “Health System” when that term is used in this application. A separate application for consent under the Health Facility Transaction Regulations is being filed for each of the five general acute care hospitals; the Seton Medical Center application also covers Seton Coastside.

¹ Title 11, Ch. 15, Cal. Admin. Code § 999.5.
² The affiliated entities consist of Caritas Business Services, De Paul Ventures, LLC, DCHS Medical Foundation, O’Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, Seton Medical Center Foundation, St. Francis Medical Center Foundation, St. Vincent Medical Center Foundation, St. Vincent Dialysis Center, Inc. and Marillac Insurance Company, Ltd.
History of the DCHS Health Facilities

DCHS, the Hospital Corporations and their affiliates have comprised an integrated group of affiliated religious corporations through which the Daughters of Charity have carried out their historical ministry and mission of care for the sick and poor. The Daughters of Charity were founded in Paris, France in 1633 by St. Vincent de Paul and St. Louise de Marillac. The Daughters of Charity’s earliest mission was to care for the sick and the poor, and their work and message quickly spread across the Western world. In 1858, the Daughters of Charity began its health care ministry in California by opening the first hospital in the state, the Los Angeles Infirmary – today’s St. Vincent Medical Center in Los Angeles. Since that time, the Daughters of Charity have served the sick and poor of California for more than 155 years with a mission rooted in the spirit of the Vincentian Order.

History of Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc.³

Prime Healthcare Services, Inc., a Delaware corporation (“Prime”), is an award winning healthcare system based in Ontario, California. Prime has been in operation since 2001 and, by and through its subsidiaries, operates owns and operates 23 acute care hospitals with approximately 4,500 beds throughout California, Indiana, Kansas, Michigan, Nevada, New Jersey, Pennsylvania, Rhode Island, and Texas:

1. Alvarado Hospital in San Diego, California (306 beds)
2. Centinela Hospital Medical Center in Inglewood, California (369 beds)
3. Chino Valley Medical Center in Chino, California (126 beds)
4. Dallas Medical Center in Dallas, Texas (155 beds)
5. Desert Valley Hospital in Victorville, California (148 beds)
6. Garden City Hospital in Garden City, Michigan (323 beds)
7. Garden Grove Hospital Medical Center in Garden Grove, California (167 beds)
8. Glendora Community Hospital in Glendora, California (128 beds)
9. Harlingen Medical Center in Harlingen, Texas (112 beds)
10. La Palma Intercommunity Hospital in La Palma, California (141 beds)
11. Landmark Medical Center in Woonsocket, Rhode Island (214 beds)
12. Lower Bucks Hospital in Bristol, Pennsylvania (156 beds)
13. Monroe Hospital in Bloomington, Indiana⁴ (32 beds)

³ The “History of Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc.” has been provided by Prime and included by DCHS as relevant material for the Attorney General’s review.
⁴ Prime Healthcare currently manages Monroe Hospital in Bloomington, Indiana.
14. Paradise Valley Hospital in National City, California (301 beds)
15. Providence Medical Center in Kansas City, Kansas (400 beds)
16. Rehabilitation Hospital of Rhode Island in North Smithfield, Rhode Island (82 beds)
17. Roxborough Memorial Hospital in Philadelphia, Pennsylvania (140 beds)
18. Saint Mary’s Hospital in Passaic, New Jersey (269 beds)
19. Saint Mary’s Regional Medical Center in Reno, Nevada (380 beds)
20. Saint John Hospital in Leavenworth, Kansas (80 beds)
21. San Dimas Community Hospital in San Dimas, California (101 beds)
22. Shasta Regional Medical Center in Redding, California (246 beds)
23. West Anaheim Medical Center in Anaheim, California (219 beds)

Prime is also affiliated with the Prime Healthcare Foundation, a 501(c)(3) public charity with assets of approximately $900 million (“Prime Foundation”), which owns and operates six (6) acute care hospitals in California and Texas:

1. Encino Hospital Medical Center in Encino, California (150 beds)
2. Huntington Beach Hospital in Huntington Beach, California (131 beds)
3. Knapp Medical Center in Weslaco, Texas (227 beds)
4. Montclair Hospital Medical Center in Montclair, California (102 beds)
5. Pampa Regional Medical Center in Pampa, Texas (115 beds)
6. Sherman Oaks Hospital in Sherman Oaks, California (153 beds)

One of the many strengths of Prime and Prime Foundation is the quality of service provided at the Prime and Prime Foundation health care facilities, which was a very important factor to the DCHS Board of Directors (“DCHS Board”) as described in this application. Thomson Reuters/Truven Health Analytics, the world’s leading source of intelligent information with more than 50,000 employees worldwide, ranked Prime as one of the Top 10 Health Systems in the United States in 2009 and as one of the Top 15 Health Systems in the United States in 2012 & 2013. These accomplishments are especially remarkable when one considers that all of Prime’s hospitals were acquired in severe financial distress or in bankruptcy.

Additionally, the following hospitals were ranked as Top 100 Hospitals by Thomson Reuters/Truven Health Analytics numerous times in the past five years including:

- Centinela Hospital Medical Center – 3 times including 2014
- Chino Valley Medical Center – 3 times including 2014
• Desert Valley Hospital – 5 times
• Garden Grove Hospital Medical Center – 3 times including 2014
• Montclair Hospital Medical Center – 2 times including 2014
• Paradise Valley Hospital – 2014
• San Dimas Community Hospital – 2 times including 2014
• Shasta Regional Community Hospital – 2 times including 2014
• West Anaheim Medical Center – 5 times including 2014

Overall, Prime hospitals have been ranked in the Top 100 a total of 27 times. Thomson Reuters/Truven Health Analytics is known for the rigor and breadth of its study, which focuses on significant criteria, including mortality rates, medical complications, Medicare core measures, risk–adjusted length of stay and patient satisfaction.

In 2012, over 2,600 hospitals were given a letter grade by the Leapfrog Group based upon patient safety metrics such as preventable errors, medication mix-ups hospital-acquired infections, and medical complications. Only 729 hospitals received an “A” grade. Eleven of Prime’s or Prime Foundation’s hospitals were given an “A” grade. In addition, eleven Prime or Prime Foundation hospitals were recognized as “Top Performers” by The Joint Commission in 2013.

The following sections summarize the proposed agreement and transactions comprising the change of control of the Hospital Corporations.

The Changes in Control That Make Up the Health Facility Transaction

DCHS and its sole member Daughters of Charity Ministry Services Corporation (“DOCMSC”) have entered into a Definitive Agreement dated October 10, 2014 (as may be amended from time to time, the “Definitive Agreement”) among DOCMSC, DCHS, Prime and Prime Foundation. The Definitive Agreement contemplates the following corporate changes under the Health Facility Transaction Regulations, which constitute a change of control of each of the Hospital Corporations, as well as the other corporate changes described below, which are not subject to review under the Health Facility Transactions Regulations:

Prime will replace DOCMSC as the sole member of DCHS;

DCHS, each of the Hospital Corporations and Caritas Business Services\(^5\) will simultaneously be converted from religious to business corporation status under NCL § 9621 and St. Vincent Dialysis Center, Inc.\(^6\) will be simultaneously converted from public benefit to business corporation status under § 9621;

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\(^5\) Caritas Business Services is a California nonprofit religious corporation that provides financial, billing and related services supporting the Health Facilities.

\(^6\) St. Vincent Dialysis Center, Inc. is a California public benefit corporation that provides ambulatory kidney dialysis services.
Prime Foundation will become the sole member of the nonprofit public benefit corporations that have served as the fund-raising and grant-making arms of the Hospital Corporations (the “**Fundraising Foundations**”); and

Prime Foundation will become the sole member of DCHS Medical Foundation, a California nonprofit religious corporation which operates licensure-exempt clinics under Health & Safety Code § 1206(l), which will be converted simultaneously to a public benefit corporation under § 9621.

As a result of the change-of-control transactions, Prime will be the parent entity, respectively, of DCHS and the Hospital Corporations. The corporate structure after closing is diagrammed in **Exhibits A and B**.

**Consideration**

Prime’s and Prime Foundation’s consideration for the transaction as described in the Definitive Agreement consists of estimated cash consideration in the amount of approximately $394 million and the assumption of liabilities estimated at approximately $449 million, for a total estimated distributable value of $843 million.

**Cash.** At closing, Prime will transfer cash sufficient to pay off the Health System’s largest joint and several liabilities: the principal on all of the Health System’s outstanding tax-exempt bonds (consisting of both the Series 2005 and 2014 bonds), which total approximately $409,475,000 in principal amount. The bonds are obligations of a California state agency, California Statewide Communities Development Authority, payable from revenues of DCHS and secured by substantially all of the Health System’s real property, equipment, furnishings and revenues. Prime will also fund or assume the obligation to pay all transfer taxes, paid-time-off and other employment-related payments that may become due at closing, and to pay or permit DCHS to pay all transaction costs. [Definitive Agreement, §§ 2.3-2.4]

**Assumed Liabilities.** Prime will assume all liabilities of the Health System, other than those paid in full in cash at closing other than liabilities associated with limited assets (the “Retained Assets” identified in §§ 2.2 of the Definitive Agreement), including:

**Pension Liabilities.** The largest and, from the standpoint of the more than 16,000 present and former DCHS employees and their beneficiaries, most important of these assumed obligations are nearly $280 million in underfunded pension liabilities. Not only are the underfunded pension liabilities assumed as part of the transaction, but Prime, as parent of 23

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7 O’Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, St. Francis Medical Center Foundation, St. Vincent Medical Center Foundation, and Seton Medical Center Foundation.

8 Amount consists of $284,475,000 of 2005 Bonds and $125,000,000 of 2014 Bonds. Both amounts are gross of estimated cash in the debt service reserve funds that will be used to defease the bonds at closing ($26 million associated with the 2005 Bonds and an estimated $40 million associated with the 2014 Bonds).

9 The bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005A, F, G and H (the “2005 Bonds”) and Series 2014A and 2014B (the “2014 Bonds”).

10 Actuarially determined underfunded liability.
hospitals and other operating entities with over $2.3 billion in assets, will assume direct responsibility for ongoing payment of all funding obligations under ERISA requirements and related Pension Benefit Guaranty Corporation insurance premiums (as applicable) owed by the Health System’s defined benefit church plan, the defined contribution church plan and DCHS’s multi-employer plan, and the Retirement Plan for Hospital Employees. [Definitive Agreement, § 7.4]

Other Liabilities. Prime and Prime Foundation will assume liabilities related to collective bargaining agreements, paid-time-off, vacation, sick and other leave-of-absence liabilities. Additionally, the liabilities of the Health System to physicians, vendors and others will remain unaffected by the transfer of control and will continue in force.

Commitments to the Work Force

Prime and Prime Foundation have agreed to continue the employment of substantially all of the employees of the Health System following the closing date. [Definitive Agreement, §7.3(a)] The continuing employees will receive substantially the same salaries and wages, and have similar job titles and duties as were provided by the Health System prior to the closing. [Definitive Agreement, §7.3(a)] Prime and Prime Foundation will abide by the severance pay obligations contained in the Health System’s severance policies in force prior to the closing for a period of at least twelve months post-closing. [Definitive Agreement, §7.3(c)] Prime and Prime Foundation will provide employment benefits to the continuing employees that are consistent with the employee benefit plans to which similarly situated Prime employees receive, subject to any requirements as may be provided in any collective bargaining agreement. [Definitive Agreement, §7.3(e)] The Definitive Agreement protects service credit for an employee’s years of service for purposes of determining eligibility, vesting, and the amount of holiday, vacation and sick pay. [Definitive Agreement, §7.3(f)] Prime and Prime Foundation agree to use commercially reasonable efforts to cause all pre-existing conditions of continuing employees and their dependents to be covered by insurance and to waive or meet coverage conditions of health plans to the same extent as waived or met under the Health System’s plans, and to credit employees with prior paid deductibles and copayments. [Definitive Agreement, §7.3(g), (h)] Prime and Prime Foundation have made further commitments to the California Nurses Association, the terms of which are detailed in Exhibit C.

Union Contracts

DCHS and its affiliates are parties to several collective bargaining agreements with unions representing a large number of DCHS employees. Prime has agreed to assume each of these agreements without modification before closing (including expired agreements with respect to which DCHS continues to have a duty to bargain). [Definitive Agreement, § 2.6] The agreements are:

California Licensed Vocational Nurses Association

- Collective Bargaining Agreement between O’Connor Hospital and California Licensed Vocational Nurses Association
- Collective Bargaining Agreement between Saint Louise Regional Hospital and California Licensed Vocational Nurses Association
California Nurses Association (“CNA”)
Master Agreement between Daughters of Charity Health System and CNA
- Agreement between O’Connor Hospital and CNA
- Agreement between Seton Medical Center and CNA
- Agreement between Saint Louise Regional Hospital and CNA
- Agreement between St. Vincent Medical Center and CNA

International Union of Operating Engineers, Stationary Engineers, Local 39, AFL-CIO (Local 39)
- Collective Bargaining Agreement by and between O’Connor Hospital and International Union of Operating Engineers, Stationary Engineers, Local 39
- Collective Bargaining Agreement by and between Saint Louise Regional Hospital and International Union of Operating Engineers, Stationary Engineers, Local 39
- Collective Bargaining Agreement by and between Seton Medical Center/Seton Coastside and International Union of Operating Engineers, Stationary Engineers, Local 39

Service Employees International Union – United Healthcare Workers West (SEIU-UHW)
- SEIU Healthcare UHW United Healthcare Workers – West; United Healthcare Workers – West Service Employees International Union, CTW, CLC Collective Bargaining Agreement with O’Connor Hospital, Saint Louise Regional Hospital, Seton Medical Center, Seton Medical Center-Coastside, St. Francis Medical Center and St. Vincent Medical Center
- United Healthcare Workers West Service Employees International Union and San Jose Medical Management, Inc.

United Nurses Association of California (UNAC)
- Labor Management Agreement between St. Francis Medical Center and St. Francis Registered Nurses Association, United Nurses Associations of California/Union of Health Care Professionals (UNAC/UHCP) NUHHCE, AFSCME, AFL-CIO

Engineers and Scientists of California Local 20, AFL-CIO
- Agreements between O’Connor Hospital and Engineers and Scientists of California, International Federation of Professional and Technical Engineers, Local 20, AFL-CIO/CLC
- Agreements between Seton Medical Center and Engineers and Scientists of California, International Federation of Professional and Technical Engineers, Local 20, AFL-CIO/CLC
- Agreements between Saint Louise Regional Hospital and Engineers and Scientists of California, International Federation of Professional and Technical Engineers, Local 20, AFL-CIO/CLC

Side Letter Agreements:
- Side Letter Agreement between Local 20 and O’Connor Hospital dated July 16, 2014
- Side Letter Agreement between CNA and Saint Louise Regional Hospital dated January 6, 2010
- Settlement Agreement among Saint Louise Regional Hospital, Victoria Hughes and SEIU dated October 19, 2011
- Side Letter Agreement between SEIU and Saint Louise Regional Hospital dated December 16, 2011
Post-Closing Commitments to Maintain Health Care Access and Services

Prime has made substantive multi-year commitments to ensure ongoing access to key health care services to the communities historically served by the Hospital Corporations:

**Commitment to Continue Operating the DCHS Health Facilities as Acute Care Hospitals.** Prime has committed to operate the Health System’s hospitals as general acute care hospitals for at least five years after closing, offering open emergency departments, subject to physician availability, the needs of the community and financial viability. [Definitive Agreement, §7.8(b)]

**Charity Care.** For at least five years after the closing, Prime will maintain policies for the treatment of indigent patients at the DCHS Health Facilities similar to those policies currently in effect at such hospitals. [Definitive Agreement, §7.8(a)]

**Capital Commitment.** Prime has agreed to spend or commit to spend at least $150 million over the first three years after the closing in capital expenditures at the DCHS Health Facilities. [Definitive Agreement, §7.9)]

**No Restriction on Medical Services Post-Closing.** Neither Prime nor DCHS has in any way restricted the type or level of medical services that may be provided at the DCHS Health Facilities following the closing.
Exhibit A: Post-Closing Corporate Structure Chart for DCHS & Hospital Corporations*

This chart omits the following ancillary entities: BMC Primary Care Physicians, LLC; BMC Specialty Physicians, LLC; Garden Grove Imaging Center, LLC; Prime Healthcare Services- Harlingen Real Estate, LLC; Landmark Physician Office Services; Prime Healthcare Physician Services - Providence, Inc. (50% Interest by Providence, 50% Interest by Prime Healthcare - Saint John; Saint Mary's Outpatient Summit Surgery Center at Galena; Rico Imaging Partners, LLC PET / CT Joint Venture; Reno Cyber Knife, LLC 20%: Saint Mary's Medical Group (100% Interest); Prime Healthcare Services- Roxborough Providers, LLC; Prime Garden City Medical Group, Inc. (100% owned by Garden City Hosp.); Amerigard Development Corp. (100% owned by Garden City Hosp.); United Health Services, Inc. (100% Owned by Garden City Hosp.); and Pulse EMS, LLC (50% owned by Garden City Hosp.).
Exhibit B: Post-Closing Corporate Structure Chart for Fundraising Foundations & DCHS Medical Foundation

Prime Healthcare Services Foundation, Inc.

- Prime Healthcare Services Sherman Oaks, LLC dba Sherman Oaks Hospital
  - Prime Healthcare Huntington Beach LLC dba Huntington Beach Hospital
  - Knapp Medical Center
  - Mid Valley Physician Organization
  - Knapp Medical Group
  - Knapp Medical Center, LLC

- Prime Healthcare Services Montclair LLC dba Montclair Hospital Medical

Daughters of Charity Health System

- Prime Healthcare Services Montclair, LLC dba Montclair Hospital Medical

Caritas Business Services

- Prime Healthcare Services Endino, LLC dba Endino Hospital Medical Center

O’Connor Hospital Foundation

- Prime Healthcare Services Endino, LLC dba Endino Hospital Medical Center

Saint Louise Regional Hospital Foundation

- Prime Healthcare Services Riverside, LLC (Inactive)

Seton Medical Center Foundation

- Prime Healthcare Services Pampa, LLC dba Pampa Regional Medical Center

St. Vincent Medical Center Foundation

- SPMG Signature Pampa Medical Group, a Texas nonprofit corporation

Seton Medical Center Foundation
Exhibit C: Description of Prime Commitments to CNA

In addition to the Definitive Agreement, Prime has entered into three Memoranda of Agreements (“MOAs”) with the CNA that provide additional protections to the nurses who are currently employed in existing DCHS bargaining units. These additional protections include the following:

1. As provided in the Definitive Agreement, Prime agreed in the MOAs to protect “all past pension accruals.”

2. As provided in the Definitive Agreement, Prime agreed in the MOAs to acquire all of the DCHS hospitals; continue to operate each of them for at least five years; and commit that it has no current plans to reduce or eliminate the services currently offered by the hospitals.

3. Prime represented in the MOAs that it “has no interest in the bankruptcy of any of the hospitals” which may result in the termination of the collective bargaining agreements (“CBAs”) between DCHS and CNA.

4. Prime guaranteed employment of all Registered Nurses who are represented by CNA for a period of one year following the closing of the transaction on the terms and conditions of employment set forth in the current CBAs.

5. CNA agreed that all nurses covered by the bargaining unit can be moved immediately after closing into Prime’s health care plans, so long as (a) the co-pay and deductible levels are the same as the current plans; and (b) the nurses covered by the bargaining unit will be made whole for already paid co-pays and deductibles if the plan change is made mid-year.