

Mission Community Hospital's Request for Amendment of Condition XI

October 14, 2016

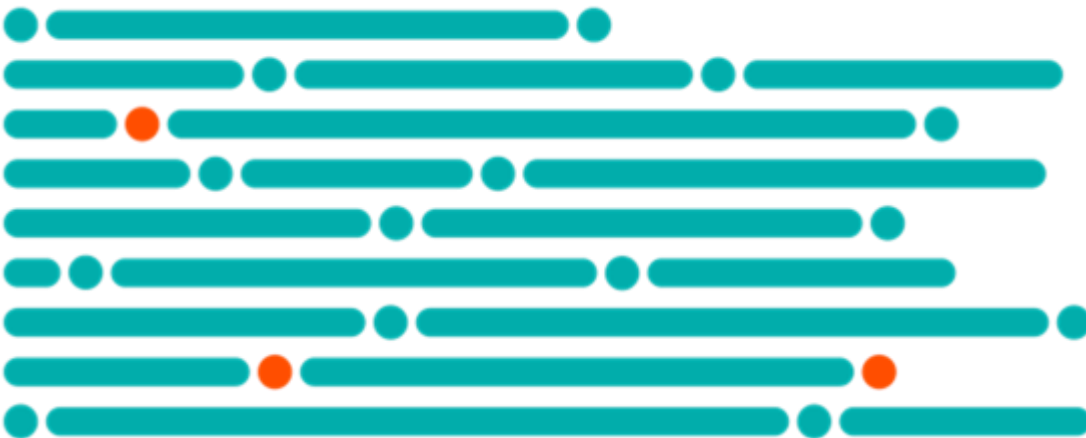


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Introduction & Purpose

On July 21, 2016, pursuant to Title 11, California Code of Regulations, Section 999.5, subdivision (h), Deanco Healthcare, LLC, doing business as Mission Community Hospital submitted a request to amend Condition XI set forth in the California Attorney General's "Conditions to Approval of Sale of Mission Community Hospital." Condition XI requires Mission Community Hospital to provide a certain level of charity care for six fiscal years after transfer of the Seller's assets as set forth below:

XI.

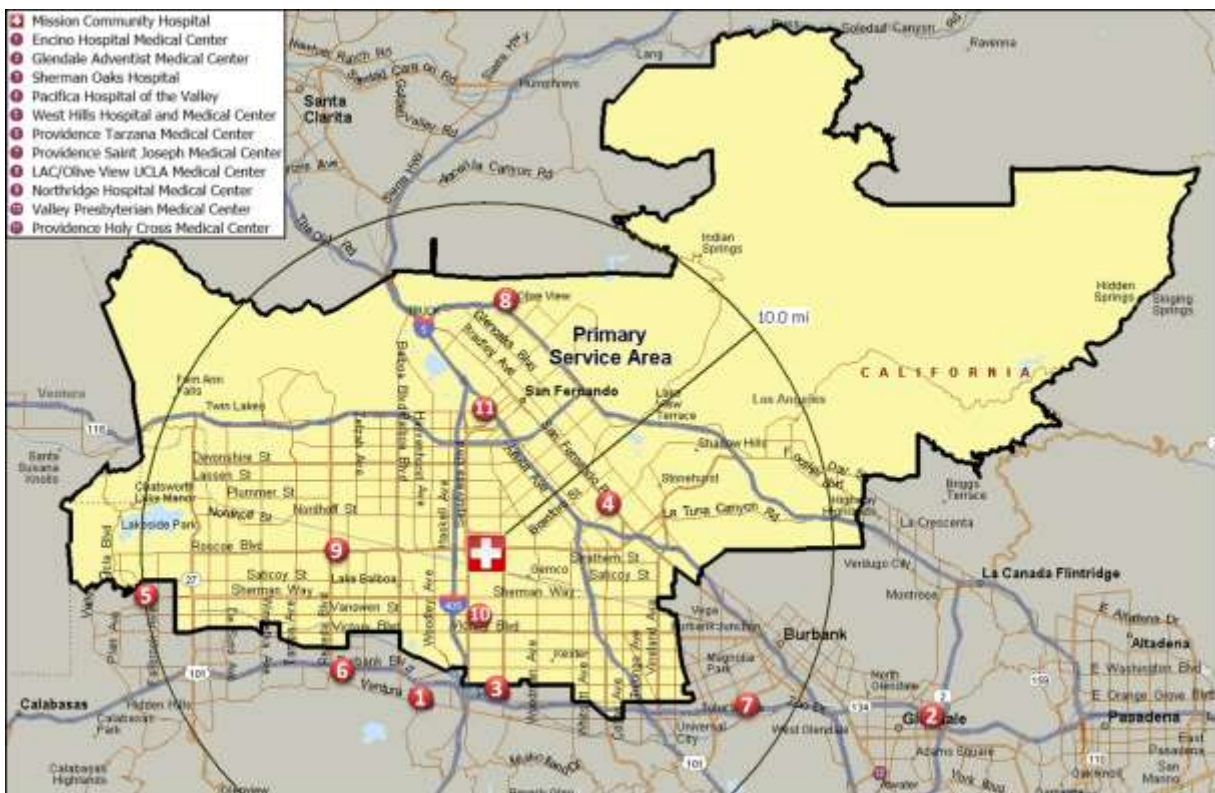
With respect to each of Buyer's six (6) fiscal years after the transfer of the Seller's assets to the Buyer, Buyer shall provide annual amount of Charity Care (as defined below) at Mission Community Hospital equal to or greater than the annual "Minimum Charity Care Amount" required by the Seller at the time of the transfer of Seller's assets to the Buyer./ For purposes hereof, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by the Buyer in connection with the operations and provision of services at Mission Community Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by the California Office of Statewide Health Planning and Development (OSHPD) for annual hospital reporting purposes. The Buyer shall use the same charity care and collections policies attached hereto as Exhibit 1. If the transfer of Seller's assets to the Buyer occurs on a date other the first day of Buyer's fiscal year, the Minimum Charity Care Amount will be prorated on a daily basis.

For each fiscal year thereafter, the Minimum Charity Care Amount shall be increased (but not decreased) by an equal amount to the Annual Percent increase, if any, in the "12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPA-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of Charity care provided by Buyer at Mission Community Hospital for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-reference Consumer Price Index) required for such fiscal year, Buyer shall pay an amount equal to the deficiency to a nonprofit public benefit corporation for direct medical care to residents in the Mission Community Hospital's primary service area for Medical/Surgical Services, as defined on page 30 of the Health Care Impact Report and in the ZIP Codes for Inpatient Psychiatric Services that are specifically referenced on page 31 of the Health Care Impact Report and Homeless in such areas. (Exhibit 2) Such payment shall be made within nine (9) months following the end of such fiscal year.

Vizient, Inc. was retained by the Office of the California Attorney General to analyze Mission Community Hospital's request to reduce its charity care obligation as set forth in Condition XI. In preparation of this report, Vizient, Inc. performed the following:

- A review of Mission Community Hospital's request to amend Condition XI dated July 21, 2016 and submitted to the Office of the California Attorney General;
- An analysis of financial, utilization, and service information provided by the California Office of Statewide Health Planning and Development (OSHPD); and
- A review of trends to determine if similar charity care and payer mix patterns are occurring at other area hospitals. Mission Community Hospital's service area includes approximately 1.2 million residents. There are six hospitals located within Mission Community Hospital's service area and six additional hospitals located just beyond the service area that are also important providers of healthcare services to service area residents.



Background & History

In 1974, San Fernando Community Hospital, Inc. was established as a California nonprofit public benefit corporation to operate San Fernando Community Hospital, a general acute care hospital located in San Fernando, California. San Fernando Community Hospital operated as a general acute care hospital until 1986 when it was converted to an inpatient psychiatric facility. In 1992, San Fernando Community Hospital, Inc. purchased the closed Panorama City Hospital and reopened it as Mission Community Hospital, a general acute care hospital.

In 1995, San Fernando Community Hospital, Inc. filed bankruptcy as a result of reopening the Panorama City campus and of damage from the 1994 Northridge earthquake. In 1997, San Fernando Community Hospital, Inc. exited bankruptcy and formed plans to rebuild the hospital campus in Panorama City and provide upgrades to the exterior of the campus in San Fernando. The psychiatric services provided at the campus in San Fernando were moved to Panorama City. In 2002, the Panorama City campus opened as a general acute care provider of medical, surgical, and behavioral health services (Mission Community Hospital).

On May 26, 2010, the Mission Community Hospital's Board of Directors approved the sale of substantially all of Mission Community Hospital's assets to Deanco Healthcare, LLC, a newly formed for-profit California limited liability company, for a purchase price of assumption of Mission Community Hospital's liabilities that included the bond debt of \$32 million owed to Cal-Mortgage¹. On June 10, 2010, the parties entered into an Asset Purchase Agreement and a Hospital Management Services Agreement, whereby Deanco Healthcare, LLC will manage the Mission Community Hospital for a period of no more than three years beginning October 1, 2010 and can purchase Mission Community Hospital once it meets financial performance thresholds.

On June 23, 2010, San Fernando Community Hospital, Inc. requested the California Attorney General's consent to the proposed transaction. The Office of the California Attorney General retained Verité Healthcare Consulting, LLC to prepare a healthcare impact statement to describe the possible effects that the proposed transaction could have on the communities served by Mission Community Hospital. On August 13, 2010, the healthcare impact statement was issued. On September 22, 2010, the California Attorney General issued his decision granting conditional consent to the proposed transaction.

¹ Cal-Mortgage is a Division of the Office of Statewide Health Planning and Development (OSHPD). Cal-Mortgage administers the California Health Facility Construction Loan Insurance Program. Cal-Mortgage provides credit enhancement for eligible health care facilities when they borrow money for capital needs. Cal-Mortgage insured loans are guaranteed by the "full faith and credit" of the State of California. This guarantee permits borrowers to obtain lower interest rates, similar to the rates received by the State of California.

Between October 1, 2010 and July 11, 2013, Deanco Healthcare, LLC managed Mission Community Hospital. On July 12, 2013, Deanco Healthcare, LLC acquired substantially all of San Fernando Community Hospital, Inc.'s assets, including Mission Community Hospital.

Today, the campus in San Fernando provides community benefit services, including a dental clinic and diabetes education and management services called the San Fernando Community Health Center, and Mission Community Hospital in Panorama City provides a full range of medical, surgical, and psychiatric services to the San Fernando Valley community.

A) Charity Care Costs

Mission Community Hospital

In Fiscal Years (FY) 2011, 2012, 2013², and 2013³, Mission Community Hospital exceeded the minimum charity care cost required by Condition X by approximately \$2.3 million, \$640,000, \$940,000, and \$60,000, respectively. However, as shown in the table below, in FY 2014 and FY 2015, Mission Community Hospital's charity care costs were approximately \$48,000 and \$1.2 million less than the minimum amount required in Condition XI.

CHARITY CARE COSTS, FY 2011 - FY 2015			
Year	Charity Care Costs	Charity Care Costs Requirement	Difference
FY 2015 ³	\$1,174,476	\$2,379,034	-\$1,204,558
FY 2014 ^{3,4}	\$2,309,750	\$2,357,814	-\$48,064
FY 2013 ²	\$1,162,475	\$1,102,762	\$59,713
FY 2013 ¹	\$3,250,682	\$2,310,464	\$940,218
FY 2012 ¹	\$2,904,190	\$2,268,497	\$635,693
FY 2011 ¹	\$4,518,371	\$2,218,948	\$2,299,423

Source: OSHPD Disclosure Reports (some of the reports have been subsequently amended)

Note: In 2014, the Fiscal Year changed to January 1-December 31. FY 2015 is unaudited

¹ Fiscal Year is July 1-June 30

² Partial Fiscal Year is July 12, 2013 to December 31, 2013 (173 days)

³ Fiscal Year is January 1-December 31

⁴ As of 7/23/2015, the FY 2014 OSHPD Disclosure Report reported charity care costs of \$2,048,299, resulting in a deficiency of \$309,515

² During FY 2011-2013, Deanco Healthcare, LLC operated Mission Community Hospital under a Management Services Agreement and was subject to Condition X of the California Attorney General's conditions regarding charity care requirements. At this time, the Fiscal Year was July 1 to June 30. When Deanco Healthcare, LLC acquired Mission Community Hospital on July 12, 2013, Mission Community Hospital became subject to Condition XI of the California Attorney General's conditions regarding charity care requirements.

³ This partial Fiscal Year reflects the time period between July 12, 2013 and December 31, 2013.

As a result of not meeting the required minimum charity care amount over the past two complete fiscal years, Mission Community Hospital is asking the Attorney General to reduce the required minimum charity care amount by seventy-five percent (75%) for Mission Community Hospital's FY 2015 Report and thereafter.

Mission Community Hospital Compared to Other General Acute Care Hospitals Serving the Service Area

The table below compares charity care costs provided by area general acute care hospitals in FY 2013 and FY 2015. Since FY 2013, charity care costs at Mission Community Hospital have decreased by 64% from \$3.3 million in FY 2013 to \$1.2 million in FY 2015. This decrease in charity care costs is consistent across almost all of the area hospitals. Seven of the area hospitals have seen decreases in their charity care costs of over 50%, including Encino Hospital Medical Center, Glendale Adventist Medical Center, Northridge Hospital Medical Center, Providence Saint Joseph Medical Center, Valley Presbyterian Hospital, and West Hills Hospital and Medical Center. Two of the area hospitals, Pacifica Hospital of the Valley and Sherman Oaks Hospital and Health Center, have seen increases in their charity care costs between FY 2013 and FY 2015 of 142% and 46%, respectively. Collectively, there has been a 50% decrease in charity care costs among area hospitals.

AREA HOSPITAL COST OF CHARITY CARE: FY 2013 & FY 2015			
Hospital	FY 2013	FY 2015	% Change
Mission Community Hospital*	\$3,250,682	\$1,174,476	-64%
Encino Hospital Medical Center*	\$242,986	\$87,990	-64%
Glendale Adventist Medical Center*	\$4,791,931	\$1,326,082	-72%
LAC/Olive View-UCLA Medical Center	-	-	-
Northridge Hospital Medical Center*	\$12,158,461	\$4,410,722	-64%
Pacifica Hospital of The Valley*	\$1,285,587	\$3,108,865	142%
Providence Holy Cross Medical Center*	\$15,866,404	\$9,845,202	-38%
Providence Saint Joseph Medical Center*	\$9,917,781	\$4,041,593	-59%
Providence Tarzana Medical Center*	\$3,111,630	\$2,023,041	-35%
Sherman Oaks Hospital & Health Center*	\$771,837	\$1,127,596	46%
Valley Presbyterian Hospital*	\$2,189,379	\$421,424	-81%
West Hills Hospital & Medical Center*	\$1,596,651	\$0	-100%
Total	\$55,183,328	\$27,566,992	-50%

Source: OSHPD Disclosure Reports

*2015 Unaudited Information

Conclusion

Between FY 2013 and FY 2015, nine of the 12 area general acute care hospitals showed a significant decrease in charity care costs of between 35% and 100%.

B) Payer Mix Trends

Mission Community Hospital

In support of its request, Mission Community Hospital cited the January 1, 2014 commencement of the 2010 Federal Patient Protection and Affordable Care Act (the ACA) as the reason for the drop in charity care costs. The impact of the ACA has resulted in a substantial increase in the number of Medi-Cal beneficiaries and a substantial reduction in the number of indigent patients without insurance. The table below compares the fiscal year prior to the implementation of the ACA (i.e., FY 2013) to the fiscal year after the implementation of the ACA (i.e., FY 2015). Between FY 2013 and FY 2015, Mission Community Hospital had an increase of 6% for its Medi-Cal inpatient discharges and a decrease of 7% for its Medi-Cal outpatient visits. Between FY 2013 and FY 2015, Mission Community Hospital had a decrease of 83% for its indigent⁴ inpatient discharges and a decrease of 97% for its indigent outpatient visits.

MISSION COMMUNITY HOSPITAL: MEDI-CAL AND INDIGENT PATIENT PAYER MIX			
	FY 2013	FY 2015*	% Change
Medi-Cal Inpatient Discharges	3,371	3,569	6%
Medi-Cal Outpatient Visits	8,647	8,074	-7%
Indigent Inpatient Discharges	430	75	-83%
Indigent Outpatient Visits	751	23	-97%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

*2015 Unaudited Information

⁴ At Mission Community Hospital, care provided to indigent patients is recorded as charity care.

Mission Community Hospital Compared to Other General Acute Care Hospitals Serving the Service Area

The table below shows the area general acute care hospitals' payer mix trends for FY 2013 and FY 2015. Between FY 2013 and FY 2015, inpatient and outpatient Medi-Cal encounters⁵ increased at most of the 12 area hospitals. Between FY 2013 and FY 2015, most of the area hospitals showed a decrease in inpatient and outpatient indigent encounters.

AREA HOSPITALS: PAYER MIX FY 2013 & FY 2015						
Medi-Cal	FY 2013		FY 2015		% Change	
	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits
Mission Community Hospital*	3,371	8,647	3,569	8,074	6%	-7%
Glendale Adventist Medical Center*	5,940	28,288	6,023	55,995	1%	98%
LAC/Olive View-UCLA Medical Center	6,558	64,357	9,297	187,643	42%	192%
Encino Hospital Medical Center*	182	1,929	380	3,710	109%	92%
Northridge Hospital Medical Center*	4,041	21,022	4,058	30,391	0%	45%
Pacifica Hospital of The Valley*	3,356	2,401	3,434	8,983	2%	274%
Providence Holy Cross Medical Center*	4,616	26,655	5,750	53,040	25%	99%
Providence Saint Joseph Medical Center*	3,844	44,325	3,820	24,725	-1%	-44%
Providence Tarzana Medical Center*	2,607	5,253	2,963	18,761	14%	257%
Sherman Oaks Hospital & Health Center*	861	5,253	1,435	14,857	67%	183%
Valley Presbyterian Hospital*	9,217	64,355	9,503	74,876	3%	16%
West Hills Hospital & Medical Center*	769	11,005	1,569	20,460	104%	86%
Total	45,362	283,490	51,801	501,515	14%	77%
Indigent						
Mission Community Hospital*	430	751	75	23	-83%	-97%
Glendale Adventist Medical Center*	184	222	108	288	-41%	30%
LAC/Olive View-UCLA Medical Center	0	0	0	0	-	-
Encino Hospital Medical Center*	0	0	0	54	-	-
Northridge Hospital Medical Center*	1	5,310	72	2,204	7100%	-58%
Pacifica Hospital of The Valley*	65	15	2	6	-97%	-60%
Providence Holy Cross Medical Center*	653	7,297	310	7,310	-53%	0%
Providence Saint Joseph Medical Center*	360	11,329	96	1,702	-73%	-85%
Providence Tarzana Medical Center*	7	1,203	69	1,168	886%	-3%
Sherman Oaks Hospital & Health Center*	13	0	21	135	62%	-
Valley Presbyterian Hospital*	116	637	6	275	-95%	-57%
West Hills Hospital & Medical Center*	54	1,085	39	787	-28%	-27%
Total	1,883	27,849	798	13,952	-58%	-50%

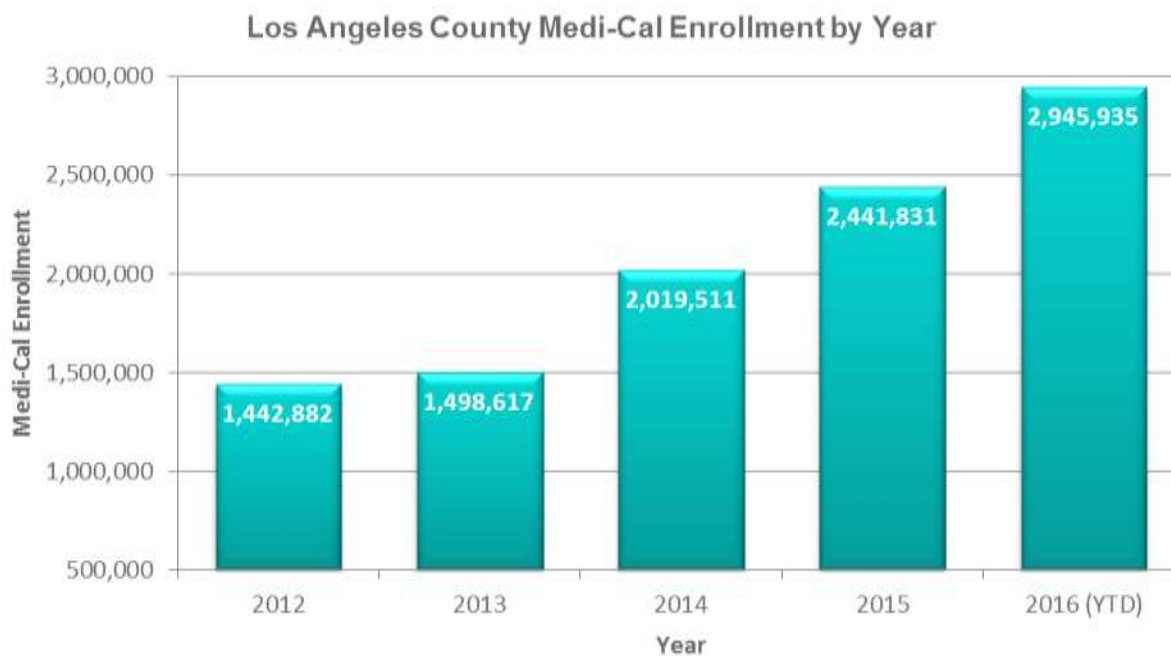
Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

* 2015 Unaudited Information

For all of the area hospitals between FY 2013 and FY 2015, inpatient and outpatient Medi-Cal encounters increased by a combined 14% and 77%, respectively. Additionally, between FY 2013 and FY 2015, inpatient and outpatient indigent encounters decreased by a combined 58% and 50%, respectively.

⁵ "Encounters" are defined as inpatient discharges and outpatient visits.

The table below shows Medi-Cal enrollment in Los Angeles County between 2012 and 2016:



Source: California Department of Health Care Services

Since 2013, Medi-Cal enrollment in Los Angeles County has nearly doubled to almost 3 million enrollees.

Los Angeles County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a “Local Initiative” and a “commercial plan.” L.A. Care Health Plan is the Local Initiative plan for Los Angeles County. Medi-Cal beneficiaries can choose L.A. Care Health Plan or one of the contracting partners that include Blue Cross of California, Care 1st, Community Health Plan, and Kaiser Permanente. The second Medi-Cal plan in Los Angeles County is a private commercial plan provided by Health Net Community Solutions, Inc. in partnership with Molina Healthcare.

Currently, Mission Community Hospital is contracted with the Commercial Medi-Cal managed care plan through Health Net Community Solutions.

San Fernando Community Health Center, a local Federally Qualified Health Center, provides primary, specialty, and dental care services to the residents of San Fernando Valley. According to the CEO, Audrey Simons, undocumented patient encounters account for approximately 30% of all patients’ visits at San Fernando Community Health Center. According to Ms. Simons, San Fernando Community Health Center has contracts with Mission Community Hospital to provide inpatient and outpatient services to all

its patients, including undocumented patients. Services provided by Mission Community Hospital to San Fernando Community Health Center include behavioral health services, radiology services and laboratory services.

Conclusion

Between FY 2013 and FY 2015, inpatient and outpatient Medi-Cal encounters increased significantly at most of the area general acute care hospitals. At Mission Community Hospital, the Medi-Cal inpatient discharges increased; however, the Medi-Cal outpatient visits decreased. An increase in inpatient and outpatient Medi-Cal encounters has a direct correlation to a drop in charity care costs.

Between FY 2013 and FY 2015, indigent inpatient and outpatient encounters decreased significantly at most of the area's general acute care hospitals including at Mission Community Hospital. A drop in indigent inpatient and outpatient encounters has a direct correlation to a drop in charity care costs.

C) Bad Debt

The table below shows bad debt at the area general acute care hospitals for FY 2013 and FY 2015. There has been a 26% decrease in bad debt⁶ at Mission Community Hospital.

AREA HOSPITAL BAD DEBT: FY 2013 & FY 2015			
Hospital	FY 2013	FY 2015	% Change
Mission Community Hospital*	\$8,815,173	\$6,560,877	-26%
Glendale Adventist Medical Center*	\$7,977,162	\$27,621,243	246%
LAC/Olive View-UCLA Medical Center	\$1,079,949	\$507,372	-53%
Encino Hospital Medical Center*	\$18,008,998	\$10,086,212	-44%
Northridge Hospital Medical Center*	\$38,707,400	\$18,753,116	-52%
Pacifica Hospital of The Valley*	\$6,100,188	\$4,435,020	-27%
Providence Holy Cross Medical Center*	\$12,272,226	\$10,388,684	-15%
Providence Saint Joseph Medical Center*	\$11,816,302	\$15,755,709	33%
Providence Tarzana Medical Center*	\$6,625,352	\$6,890,315	4%
Sherman Oaks Hospital & Health Center*	\$31,769,610	\$19,061,553	-40%
Valley Presbyterian Hospital*	\$10,273,112	\$12,541,336	22%
West Hills Hospital & Medical Center*	\$6,496,368	-\$1,585,385	-124%
Total	\$159,941,840	\$131,016,052	-18%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

* 2015 Unaudited Information

Bad debt at LAC/Olive View-UCLA Medical Center, Encino Hospital Medical Center, Northridge Hospital Medical Center, Sherman Oaks Hospital and Health Center, and West Hills Hospital and Medical Center, decreased by over 40% between FY 2013 and FY 2015. However, bad debt increased by between 4% and 246% at Glendale Adventist Medical Center, Providence Saint Joseph Medical Center, Providence Tarzana Medical Center, and Valley Presbyterian Hospital between FY 2013 and FY 2015. Overall, the area general acute care hospitals have seen a combined decrease in bad debt of 18%.

Conclusion

Between FY 2013 and FY 2015, bad debt decreased significantly at most of the area general acute care hospitals. During this time period, bad debt at Mission Community Hospital decreased by 26%, indicating that the decrease in charity care costs could not be explained by an increase in bad debt (e.g., did the newly insured, often enrolled in high deductible health plans, have difficulty paying co-pays leading to increased bad debt at Mission Community Hospital).

⁶ The amount of accounts receivable that are determined to be uncollectible due to the patient's unwillingness to pay. This amount is charged as a credit loss against gross patient revenue. Bad debts are classified as deductions from revenue and not included in operating expenses.

Summary

In summary, the ACA led to the expansion of Medi-Cal and increased enrollment in health insurance coverage. Between FY 2013 and FY 2015, indigent inpatient and outpatient encounters decreased significantly at almost all of the area general acute care hospitals. As a result, the number of charity care patients served continues to decrease both at Mission Community Hospital and at area general acute care hospitals overall, resulting in a sharp decline in charity care costs. This decline in charity care costs at Mission Community Hospital is consistent with other area general acute care hospitals.

Vizient analyzed Mission Community Hospital's request of a 75% reduction of the required minimum charity care amount for FY 2015 and thereafter. No explanation was provided in the Request to Amend 2010 Conditions to Approval of Sale on how Mission Community Hospital calculated the proposed percentage reduction in charity care obligation for FY 2015 and thereafter.

If the California Attorney General approves a recalculation of the Minimum Charity Care Amount, Vizient recommends that the required amount be determined by a rolling average of charity care costs using available data for the time period after the implementation of the ACA. This methodology would provide a more accurate representation of the community's need for charity healthcare.