

Saint Agnes Medical Center's Request for Modification of Condition VII

June 20, 2016

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Introduction & Purpose

On February 22, 2016, pursuant to Title 11, California Code of Regulations, Section 999.5, subdivision (h), Saint Agnes Medical Center, a 436 licensed bed general acute care hospital located in Fresno, California submitted a request to modify Condition VII set forth in the California Attorney General's "Conditions to Change in Governance of Saint Agnes Medical Center and Approval of Consolidation Agreement among Trinity Health Corporation, Catholic Health East, and CHE Trinity, Inc." Saint Agnes Medical Center's request to modify Condition VII seeks a reduction of the "Minimum Charity Care Amount." Condition VII requires Saint Agnes Medical Center to provide a certain level of charity care for six fiscal years beginning April 30, 2013 as set forth below:

VII.

For six fiscal years from the closing date of the Consolidation Agreement, Saint Agnes Medical Center shall provide an annual amount of Charity Care (as defined below) at Saint Agnes Medical Center equal to or greater than \$6,792,442 (the "Minimum Charity Care Amount"). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Saint Agnes Medical Center in connection with the operation and provision of services at Saint Agnes Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.¹ Saint Agnes Medical Center shall use charity care and collection policies that comply with Federal and California law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Saint Agnes Medical Center shall be decided upon by the Saint Agnes Medical Center's Board of Directors.

Saint Agnes Medical Center's obligation under this Condition shall be prorated on a daily basis if the closing date of the Consolidation Agreement is a date other than the first day of Saint Agnes Medical Center's fiscal year.

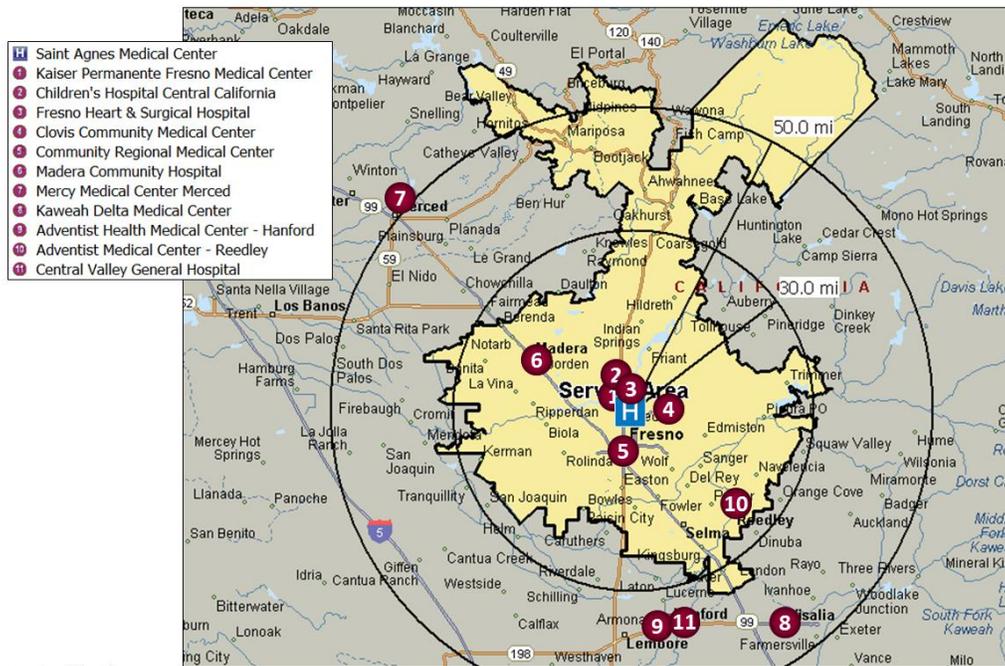
For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12-Month Percent Change: Consumer Price Index - All Urban Consumers in the West Region, West Urban Area, Base Period: 1982-84=100 (CPI-West Region, as published by the U.S. Bureau of Labor Statistics). If the actual amount of charity care provided at Saint Agnes Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Saint Agnes Medical Center shall pay an amount equal to the deficiency to a tax-exempt entity that provides direct health care services to residents in Saint Agnes Medical Center's service area (41 ZIP codes), as defined on page 30 of the

¹ OSHPD defines charity care by contrasting charity care and bad debt. 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."

Health Care Impact Report, dated March 15, 2013, and attached hereto as Exhibit 1². Such payment shall be made within four months following the end of such fiscal year.

Vizient, Inc. was retained to prepare this report for the Office of the California Attorney General to analyze Saint Agnes Medical Center's request to reduce its obligation to provide a certain level of charity care as set forth in Condition VII. In preparation of this report, Vizient, Inc. performed the following:

- A review of Saint Agnes Medical Center's request to modify Condition VII dated February 22, 2016 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 service area trends to determine if similar charity care and payer mix patterns are occurring at other area hospitals. Saint Agnes Medical Center's service area includes approximately 1,004,000 residents. There are eight area hospitals³ located within Saint Agnes Medical Center's service area and four additional hospitals located within a 50-mile radius:



² Exhibit 1 is available for review in the Appendix of this report.

³ Of the eight hospitals located in the service area, data for four of the hospitals, including Saint Agnes Medical Center, Clovis Community Medical Center, Community Regional Medical Center, and Madera Community Hospital, was analyzed. Due to Fresno Heart & Surgical Hospital's provision of specialty services and Children's Hospital Central California's status as a children's hospital, they provide services to very few patients needing charity care, and thus, were excluded from the analysis. Additionally, Kaiser Permanente Fresno Medical Center and Adventist Medical Center – Reedley were excluded from the analysis because FY 2015 OSHPD data is unavailable.

Background & History

In 1929, the Sisters of the Holy Cross established the original Saint Agnes Hospital with 75 beds in downtown Fresno. In 1975, the hospital moved and opened at its current location at 1303 E. Herndon Avenue in Fresno. Since the 1970s, Saint Agnes Medical Center has undergone several expansions and is currently licensed for 426 beds. In 2000, Trinity Health Corporation became the sole corporate member of Saint Agnes Medical Center when Holy Cross Health System merged with Mercy Health Services to form Trinity Health Corporation, an Indiana nonprofit corporation.

On October 17, 2012, Trinity Health Corporation and Catholic Health East, a Pennsylvania nonprofit corporation, entered into a Letter of Intent to consolidate the two health systems into a newly formed single healthcare system, CHE Trinity, Inc., an Indiana nonprofit corporation. On January 11, 2013, Trinity Health Corporation and Catholic Health East entered into a Consolidation Agreement. On January 22, 2013, Saint Agnes Medical Center, Trinity Health Corporation's only health facility located in California, requested the California Attorney General's consent for the proposed change in governance of Saint Agnes Medical Center and the approval of the Consolidation Agreement among Trinity Health Corporation, Catholic Health East, and the newly-formed CHE Trinity, Inc. Under the consolidation, CHE Trinity, Inc. will be the sole corporate member of both Trinity Health Corporation and Catholic Health East.

In early 2013, Medical Development Specialists, LLC, now Vizient, Inc., was retained by the Office of the California Attorney General to prepare a healthcare impact statement to describe the possible effects that the proposed change in governance could have on the communities served by Saint Agnes Medical Center. On March 15, 2013, the healthcare impact statement was issued. On April 26, 2013, the California Attorney General issued her decision granting conditional consent to the proposed change in governance.

Today, CHE Trinity, Inc., now known as Trinity Health, is based in Michigan and operates 92 hospitals and 120 continuing care facilities in 21 states and employs over 95,000 full-time employees, including nearly 4,000 employed physicians. Saint Agnes Medical Center remains Trinity Health's only California health facility. Saint Agnes Medical Center has a staff of approximately 2,400 and a medical staff of almost 800. It provides services to over one million residents living in Fresno, Madera, and Mariposa counties.

A) Charity Care Costs

Saint Agnes Medical Center

In Fiscal Year (FY) 2013⁴ and FY 2014, Saint Agnes Medical Center exceeded the minimum charity care cost required by Condition VII by \$2.8 million and \$1.1 million, respectively. However, as shown in the table below, in FY 2015, Saint Agnes Medical Center's charity care cost was approximately \$2.1 million less than the minimum amount required in Condition VII.

CHARITY CARE COSTS, FY 2013-2015			
Year	Charity Care Costs	Charity Care Costs Requirement	Difference
FY 2015	\$4,891,702	\$7,003,254	-\$2,111,552
FY 2014	\$7,990,396	\$6,903,159	\$1,087,237
FY 2013	\$9,630,298	\$6,792,442	\$2,837,856

Source: OSHPD & Attorney General's Conditions to Change in Governance of Saint Agnes Medical Center and Approval of Consolidation Agreement among Trinity Health Corporation, Catholic Health East, and CHE Trinity, Inc.

As a result of not meeting the minimum charity care requirement in FY 2015, Saint Agnes Medical Center is requesting a change to the charity care cost methodology⁵ that would result in a minimum charity care cost requirement of nearly \$3.9 million for FY 2015 and thereafter.

Vizient also analyzed calendar year (CY) data. The table below shows Saint Agnes Medical Center's calendar year charity care charges for CY 2013 through CY 2015 and the change in charity care costs over this period.

CHARITY CARE: TOTAL CHARGES CY 2013-2015			
Year	Charity Care Charges	Cost to Charge Ratio	Charity Care Costs
CY 2015	\$12,256,828	25.53%	\$3,129,168
CY 2014	\$25,783,788	26.02%	\$6,708,942
CY 2013	\$52,901,690	26.95%	\$14,257,005
Total	\$90,942,306		\$24,095,115
CY 2014 & CY 2015 Average (Post ACA)			\$4,919,055

Source: Saint Agnes Medical Center, CY 2013-2015

Between CY 2013 and CY 2015, charity care costs at Saint Agnes Medical Center decreased nearly 80%, from \$14.3 million in CY 2013 to \$3.1 million in CY 2015. The two-year post ACA calendar year average for charity care costs is \$4.9 million.

⁴ The Consolidation Agreement closed on April 30, 2013. Saint Agnes Medical Center's fiscal year is from July 1 to June 30. Fiscal year 2013 is from July 1, 2012 to June 30, 2013. The first time period subject to the Attorney General's Conditions was April 30, 2013 to June 30, 2013. For this first time period, Saint Agnes Medical Center provided charity care costs of \$1,609,056 calculated on a prorated basis of FY 2013. Under Condition VII, the prorated "Minimum Charity Care Amount" was \$1,135,175. The difference was \$473,881.

⁵ Saint Agnes Medical Center's proposed methodology can be found in Exhibit 2 of the Appendix of this report.

Saint Agnes Medical Center Compared to Other Service Area General Acute Care Hospitals

The table below compares charity care costs at service area general acute care hospitals in FY 2013 and FY 2015. Since FY 2013, charity care costs at Saint Agnes Medical Center have decreased by 49% from \$9.6 million in FY 2013 to \$4.9 million in FY 2015. This decrease in charity care costs is consistent across all these hospitals. Community Regional Medical Center, the largest provider of inpatient services in the service area, reported a 32% decrease between FY 2013 and FY 2015, and Clovis Community Medical Center, the third largest provider of inpatient services in the service area, reported a 69% decrease in charity care costs between FY 2013 and FY 2015. Collectively, there has been a 46% decrease in charity care costs among service area hospitals.

SERVICE AREA HOSPITAL COST OF CHARITY CARE: FY 2013 & FY 2015			
Hospital	FY2013	FY2015	% Change
Saint Agnes Medical Center	\$9,630,298	\$4,891,702	-49%
Clovis Community Medical Center	\$1,570,828	\$488,172	-69%
Community Regional Medical Center	\$5,395,765	\$3,687,027	-32%
Madera Community Hospital	\$2,291,927	\$1,074,999	-53%
Total	\$18,888,818	\$10,141,901	-46%

Source: OSHPD Disclosure Reports, 2015

Conclusion

Between FY 2013 and FY 2015, all of the service area general acute care hospitals showed a significant decrease in charity care costs of between 32% and 69%.

B) Payer Mix Trends

Saint Agnes Medical Center

In support of its request, Saint Agnes Medical Center cited the 2014 commencement of the Federal Patient Protection and Affordable Care Act (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 decrease in the number of indigent patients. As shown in the table below, when comparing 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) for inpatient and outpatient Medi-Cal encounters⁶, Saint Agnes Medical Center had an increase of 24% and 8%, respectively. When comparing FY 2013 to FY 2015 for inpatient and outpatient indigent⁷ encounters, Saint Agnes Medical Center had a decrease of 74% and 48%, respectively.

SAINT AGNES MEDICAL CENTER: MEDI-CAL AND INDIGENT PATIENT PAYER MIX			
	FY 2013	FY 2015	% Change
Medi-Cal Inpatient Discharges	6,172	7,625	24%
Medi-Cal Outpatient Visits	69,169	74,582	8%
Indigent Inpatient Discharges	528	135	-74%
Indigent Outpatient Visits	7,093	3,707	-48%
Total	82,962	86,049	4%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

Saint Agnes Medical Center Compared to Other Service Area General Acute Care Hospitals

The table below shows the service area general acute care hospitals' payer mix trends for FY 2013 and FY 2015. When comparing FY 2013 to FY 2015 for inpatient and outpatient Medi-Cal encounters, Community Regional Medical Center, the inpatient service area market share leader and a Disproportionate Share Hospital (DSH)⁸, had an increase of 29% and 86%, respectively. When comparing FY 2013 to FY 2015 for inpatient and outpatient indigent encounters, Community Regional Medical Center had a decrease of 91% and 78%, respectively. Similarly, when comparing FY 2013 and FY 2015, both inpatient and outpatient Medi-Cal encounters at Clovis Community Medical Center

⁶ "Encounters" are defined as inpatient discharges and outpatient visits.

⁷ At Saint Agnes Medical Center, care provided to indigent patients is recorded as charity care.

⁸ A designation for hospitals that serve a high percentage of Medi-Cal and other low-income patients, as provided by SB 855 (Statutes of 1991).

increased by 62%. When comparing FY 2013 to FY 2015 for inpatient and outpatient indigent encounters, Clovis Regional Medical Center had a decrease of 68% and 51%, respectively.

Overall, inpatient and outpatient Medi-Cal encounters increased, between FY 2013 and FY 2015, by 28% and 51%, respectively. Additionally, between FY 2013 and FY 2015, inpatient and outpatient indigent encounters decreased by 89% and 77%, respectively.

SERVICE AREA HOSPITALS: PAYER MIX FY 2013 & FY 2015						
	FY 2013		FY 2015		% Change	
	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits
Medi-Cal						
Saint Agnes Medical Center	6,172	69,169	7,625	74,582	24%	8%
Clovis Community Medical Center	2,462	18,132	3,983	29,322	62%	62%
Community Regional Medical Center	17,675	121,381	22,764	225,239	29%	86%
Madera Community Hospital	1,952	62,075	1,867	78,815	-4%	27%
Total	28,261	270,757	36,239	407,958	28%	51%
Indigent						
Saint Agnes Medical Center	528	7,093	135	3,707	-74%	-48%
Clovis Community Medical Center	166	523	53	257	-68%	-51%
Community Regional Medical Center	4,291	56,901	404	12,611	-91%	-78%
Madera Community Hospital	232	9,832	4	274	-98%	-97%
Total	5,217	74,349	596	16,849	-89%	-77%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

Conclusion

Between FY 2013 and FY 2015, Medi-Cal volume increased significantly at all service area general acute care hospitals except for the small decrease at Madera Community Hospital. The increase in Medi-Cal volume has a direct correlation to the drop in charity care costs. Between FY 2013 and FY 2015, indigent care volume decreased significantly at all service area's general acute care hospitals. The drop in indigent volume has a direct correlation to the drop in charity care costs.

C) Bad Debt

The table below shows bad debt at the service area general acute care hospitals for FY 2013 and FY 2015. There has been a 75% decrease in bad debt⁹ at Saint Agnes Medical Center from \$30.1 million to \$7.4 million.

SERVICE AREA HOSPITAL BAD DEBT: FY 2013 & FY 2015			
Hospital	FY 2013	FY 2015	% Change
Saint Agnes Medical Center	\$30,131,527	\$7,394,628	-75%
Clovis Community Medical Center	\$31,874,004	\$17,250,113	-46%
Community Regional Medical Center	\$135,012,429	\$52,532,989	-61%
Madera Community Hospital	\$4,728,212	\$8,256,245	75%
Total	\$201,746,172	\$85,433,975	-58%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

Community Regional Medical Center's bad debt decreased by 61% from \$135.0 million in FY 2013 to \$52.5 million in FY 2015, and Clovis Community Medical Center's bad debt decreased by 46% from \$31.9 million in FY 2013 to \$17.3 million FY 2015. Overall, the service area general acute care hospitals have seen a combined decrease in bad debt of 58%.

Conclusion

Between FY 2013 and FY 2015, bad debt decreased significantly at all service area general acute care hospitals except for Madera Community Hospital. For the same time period, bad debt at Saint Agnes Medical Center decreased by 75%, 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 Saint Agnes Medical Center).

⁹ 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, due to the expansion of Medi-Cal and increased enrollment in health insurance coverage, the number of Medi-Cal patients utilizing services at Saint Agnes Medical Center and the other general acute care hospitals located in the service area has risen significantly since FY 2013. Between FY 2013 and FY 2015, indigent care volume decreased significantly at all service area general acute care hospitals. As a result, the number of charity care patients served continues to decrease both at Saint Agnes Medical Center and at service area general acute care hospitals overall, resulting in a sharp decline in charity care costs. This decline in charity care costs at Saint Agnes Medical Center is consistent with other general acute care hospitals located in the service area.

Vizient analyzed the proposed charity care modification included in Saint Agnes Medical Center's request for modification of Condition VII (see Exhibit 2 of the Appendix). Saint Agnes Medical Center proposes using FY 2013 as a baseline for uninsured inpatient discharges and uninsured outpatient encounters. However, the FY 2013 baseline represents only a one-year period of time. Applying the same methodology to different baseline years instead yields a greater charity cost figure. Thus, using only FY 2013 as a baseline is not an accurate predictor of what the future charity care needs are for the community. Additionally, the methodology does not take into account changes in patient case mix and the accompanying costs that could occur, as well as other marketplace dynamics.

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.

Appendix

Exhibit 1

ANALYSIS OF SAINT AGNES MEDICAL CENTER'S SERVICE AREA

Service Area Definition

SAMC's service area is composed of 41 ZIP Codes, from which approximately 88% of SAMC's discharges originated in 2011. Nearly 50% of the discharges were from the top nine ZIP Codes, located in Fresno and Clovis. SAMC's market share in the service area was nearly 24%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2011						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
93722	Fresno	2,072	7.9%	7.9%	7,369	28.1%
93720	Fresno	1,658	6.4%	14.3%	3,943	42.0%
93727	Fresno	1,605	6.1%	20.4%	7,133	22.5%
93726	Fresno	1,497	5.7%	26.2%	4,695	31.9%
93711	Fresno	1,486	5.6%	31.7%	3,453	42.2%
93710	Fresno	1,341	5.1%	36.9%	3,169	42.3%
93705	Fresno	1,237	4.7%	41.6%	4,350	28.4%
93612	Clovis	1,129	4.3%	45.9%	3,725	30.3%
93611	Clovis	1,016	3.9%	49.8%	3,785	26.8%
93704	Fresno	961	3.7%	53.5%	3,056	31.4%
93703	Fresno	863	3.3%	56.8%	3,806	22.7%
93702	Fresno	862	3.3%	60.1%	5,531	15.6%
93706	Fresno	859	3.3%	63.4%	5,220	16.5%
93619	Clovis	549	2.1%	65.5%	2,109	26.0%
93729	Fresno	461	1.8%	67.3%	2,065	22.3%
93725	Fresno	451	1.7%	69.0%	2,667	16.9%
93637	Madera	446	1.7%	70.7%	3,321	13.4%
93657	Sanger	421	1.6%	72.3%	3,128	13.5%
93638	Madera	416	1.6%	73.9%	4,535	9.2%
93614	Coarsegold	353	1.4%	75.3%	1,095	32.2%
93636	Madera	298	1.1%	76.4%	875	34.1%
93730	Fresno	279	1.1%	77.5%	704	39.6%
93650	Fresno	252	1.0%	78.5%	581	43.4%
93723	Fresno	182	0.7%	79.1%	718	25.3%
93701	Fresno	145	0.6%	79.7%	1,616	9.0%
93721	Fresno	129	0.5%	80.2%	870	14.8%
93626	Friant	63	0.2%	80.4%	171	36.8%
93613	Clovis	62	0.2%	80.7%	150	41.3%
93737	Fresno	42	0.2%	80.8%	243	17.3%
93651	Prather	40	0.2%	81.0%	135	29.6%
93645	O'Neals	3	0.0%	81.0%	26	11.5%
93630	Kerman	344	1.3%	82.3%	1,613	21.3%
93644	Oakhurst	341	1.3%	83.6%	929	36.7%
93654	Reedley	336	1.3%	84.9%	2,712	12.4%
93662	Selma	293	1.1%	86.0%	3,343	8.8%
93631	Kingsburg	168	0.6%	86.7%	1,527	11.0%
95338	Mariposa	151	0.6%	87.3%	1,090	13.9%
93625	Fowler	117	0.4%	87.7%	749	15.6%
93648	Parlier	104	0.4%	88.1%	1,459	7.1%
93601	Ahwahnee	68	0.3%	88.4%	183	37.2%
93616	Del Rey	21	0.1%	88.4%	245	8.6%
Sub-Total		23,061	88.4%	88.4%	98,086	23.6%
All Other		3,017	11.6%	100%		
Total		26,108	100%			

Source: OSHPD Patient Discharge Database, 2011

Exhibit 2

Saint Agnes Medical Center's Proposed Calculation to Modify Minimum Charity Care Amount

Given the unforeseen impact of the Affordable Care Act on charity care costs, Saint Agnes Medical Center proposes that the Minimum Charity Care Amount in Condition VII be modified for Fiscal Year 2015 and thereafter (the "Request") in the following manner:

1. Using Fiscal Year 2013 as a "baseline", determine the number of FY13 Uninsured Inpatient Discharges, and also the number of FY13 Uninsured Outpatient Encounters.
2. Next, calculate the FY13 Charity Cost per Inpatient Discharge, and the FY13 Charity Cost per Outpatient Encounter. (Note that this calculation would be according to the methodology used by the California Office of Statewide Health Planning and Development ("OSHPD") for annual hospital reporting purposes.)
3. Next, perform the following calculation:

FY13 Charity Cost per Inpatient Discharge

x *FY 15 Uninsured Inpatient Discharges*

Charity Cost Target-Inpatient

FY13 Charity Cost per Outpatient Encounter

x *FY15 Uninsured Outpatient Encounters*

Charity Cost Target-Outpatient

4. Last, add "Inpatient Charity Cost Target" and "Outpatient Charity Cost Target" to determine a "Minimum Charity Cost Target".

The Minimum Charity Cost Target would be applicable for Saint Agnes Medical Center's Fiscal Year 2015 and subsequent Fiscal Years pursuant to the Consent Letter, and the Consumer Price Index escalator identified in the Consent Letter could be applied for the years following FY15. Exhibit A to this letter illustrates the foregoing and results in a Minimum Charity Cost Target of \$3,853, 796.