

Effect of Mission Hospital Regional Medical Center's  
Acquisition of South Coast Medical Center on the  
Availability or Accessibility of Healthcare Services

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

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## INTRODUCTION AND PURPOSE

Adventist Health System/West (“Adventist Health” or “AH”), a California nonprofit religious corporation, is a healthcare system comprised of 18 hospitals in California, Oregon, Hawaii and Washington. AH owns and operates South Coast Medical Center (“SCMC” or “the Hospital”), a 208-licensed bed acute care hospital located in Laguna Beach, California (Orange County). AH, as the sole member of SCMC, a California nonprofit public benefit corporation, has requested the California Attorney General’s consent for the sale of substantially all of its assets including the Hospital, two Medical Office Buildings, real property and personal property associated with those buildings (including equipment) and associated intangible assets. The buyer is Mission Hospital Regional Medical Center (“Mission Hospital”), a California nonprofit public benefit corporation, whose sole corporate member is St. Joseph Health System (“SJHS”), a California nonprofit corporation.

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

Medical Development Specialists, Inc. (“MDS”), a healthcare consulting firm, was retained to analyze the “healthcare impacts” of this proposed transaction. MDS has prepared this report based on the following:

- A review of documents filed with the Attorney General by SCMC on February 20, 2009, in its request for the Attorney General’s consent to the transaction and supplemental information and documents provided to the Attorney General’s Office.
- Interviews with community members and representative officials from the City of Laguna Beach, SCMC management, SCMC medical staff, SCMC Board members, AH executives, representatives of other area hospitals, SJHS and Mission Hospital executives, representatives from the Orange County Emergency Medical Services Agency, a representative from the Orange County Department of Public Health, and others.
- An analysis of financial, utilization and service information provided by SCMC.
- Publicly available information provided by the California Office of Statewide Health Planning and Development (“OSHPD”).
- An analysis of data and information related to SCMC’s service area from various sources, including OSHPD, such as:
  - Demographic trends
  - Payer mix
  - Hospital utilization rates
  - Health status
  - Hospital market share and outmigration
  - Physician supply and availability
  - General availability of health care services

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

### ***Hospital History***

South Coast Medical Center opened as a new 74-bed hospital in Laguna Beach on July 1, 1959. In 1964, a \$1.5 million expansion of the Hospital was completed that included a parking structure, expanded radiology and obstetrics and additional surgery suites. In 1971, a \$7 million renovation added 105 beds, an emergency department, two additional surgery suites, new administrative offices and expanded radiology and laboratory services. During the 1970s and 1980s, several new programs were implemented, including an eating disorders program, chemical dependency program, emotional and mental health unit and free physician referral service. A second medical office building was built on the Hospital campus in 1986.

SCMC joined Adventist Health through an Affiliation Agreement dated September 11, 1997. Adventist Health West, a California nonprofit religious corporation, is a health system operating in California, Hawaii, Oregon, and Washington. Adventist Health is comprised of 18 hospitals with more than 2,800 beds, nearly 18,000 employees, numerous clinics and outpatient facilities, the largest system of rural health clinics in California, 15 home care agencies, and three joint venture retirement centers.

The South Coast Medical Center Foundation (“Foundation”), created in 1976, is responsible for raising funds to provide renovation and remodeling for the Hospital. Prior to July 10, 2006, the Foundation was a non-membership corporation under the control of an independent board of directors. Pursuant to the Affiliation Agreement, SCMC became the sole member of the Foundation on July 10, 2006. On or about November 12, 2008, SCMC and the Foundation merged with SCMC as the surviving corporation.

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

AH cites the following reasons for divesting the facility:

- Operating losses of \$26.8 million (\$22.3 million net loss) over the past 5 years (with a reported \$11.9 million operating loss in 2008) and a belief that the Hospital is unable to ever “break-even” financially
- Seismic retrofit costs of approximately \$25-30 million (estimate from a Wellspring Partners report dated 4/14/08) to comply with SB1953 (Alquist Act) requirements and other capital needs
- Low market share and difficulty attracting patients to the facility beyond a 5 mile radius
- Inability to financially maintain core programs and services (e.g., obstetrics, sub-acute, etc.)

## ***Transaction Process/Timing***

In 2005, AH attempted to sell SCMC but discontinued discussions because the disruption to the Hospital's operations by a potential sale "threatened its future viability." In June of 2008, SCMC's Board of Directors determined that a sale was the best option available and began the formal process to divest. After a review of proposals from five entities, the SCMC and AH Boards selected Mission Hospital/St. Joseph Health System as the buyer.

## ***Summary of the Asset Purchase Agreement***

The major provisions of the Asset Purchase Agreement, dated February 4, 2009, include the following:

- SCMC will transfer substantially all of its assets to Mission Hospital. The transferred assets will include an acute-care hospital with 208 licensed beds, two (2) medical office buildings, a four-story parking structure, real property and personal property associated with those buildings (including equipment) and associated intangible assets (for example, the name "South Coast Medical Center" and the employees currently at SCMC).
- Mission Hospital will pay Thirty-Five Million Seven Hundred Thousand Dollars (\$35,700,000) to SCMC upon closing.
- Mission Hospital intends to employ substantially all active SCMC employees (other than employees who are not needed as a result of integration initiatives and SCMC's closure of its sub-acute unit) and will offer all employee benefits, compensation and other employment terms and conditions to those employees. SJHS will use commercially reasonable efforts to offer an expedited application and credentialing process for current members of SCMC's medical staff for membership and clinical privileges on Mission Hospital's medical staff.
- Mission Hospital will assume some, but not all, of SCMC's existing contracts with third parties including some physician contracts and some vendor contracts.
- SJHS and AH have agreed that, for a period of three years, no AH affiliate will provide any health care services within the 29 ZIP Codes around the existing facility.
- Excluded assets include:
  - Cash, investments, and accounts receivable
  - AH assets and agreements
  - All claims of seller against third parties
  - Any amounts due in inter-company debt

### *Use of Net Sale Proceeds*

SCMC has stated that after payment of its debt obligations, SCMC will not have any net proceeds as a result of the sale of SCMC. The only assets remaining in SCMC after repayment of its debt obligations will be restricted charitable assets. The Attorney General evaluates the determination and proposed use of any proceeds. SCMC will transfer these restricted assets as directed by the Attorney General.

## SOUTH COAST MEDICAL CENTER'S PROFILE

### *General Information*

SCMC is a general acute care facility located at 31872 Coast Highway, Laguna Beach, CA 92651. The Hospital campus is situated on approximately 20 acres (approximately 12 acres developed and 8 acres undeveloped). Individual facilities and land parcels on the campus are as follows:

South Coast Medical Center Real Property Inventory and Campus Acreage				
Name	Address	Use	Sq. Footage	Acreage
SCMC	31872 Coast Highway	Main hospital	281,833	19
Physician Center West	31852 Coast Highway	Medical office	43,000	1.5
Physician Center East	31862 Coast Highway	Medical office	30,000	-
Parking Structure	31872 Coast Highway	4 deck parking structure	574 spaces	-

Source: SCMC, CB Richard Ellis, Foss Consulting, Wellspring Partners

- The hospital, a 5-story building with a basement, was built in 1959 with additions made in 1964, 1971 and 1993.
- Physician Center West is a 4-story, 43,000 gross square foot medical office building that was built in 1986.
- Physician Center East is a 4-story, 30,000 gross square foot medical office building that was built in 1972.
- In addition to the 4 level parking structure (574 parking spaces) built in 1970, there is an open lot with 140 spaces for a total of 714 parking spaces on the campus.
- The campus also includes certain unimproved real properties with an address of 31178 Sunset Avenue, Laguna Beach.

## *Hospital Beds by Type*

SCMC has a total of 208 licensed beds, not all of which are currently in operation.

SOUTH COAST MEDICAL CENTER		
Unit	Licensed Beds	Beds in Operation
Medical/Surgical <sup>(1)</sup>	114	114
Perinatal (Obstetric) <sup>(2)</sup>	19	0
Intensive Care	10	10
<b>Total Acute Care</b>	<b>143</b>	<b>124</b>
Acute Psychiatric	36	26
Skilled Nursing (Sub-acute) <sup>(3)</sup>	29	0
<b>Total Hospital</b>	<b>208</b>	<b>150</b>

<sup>(1)</sup> Includes telemetry/definitive observation beds and 10 chemical dependency beds

<sup>(2)</sup> Service was discontinued in May 2008.

<sup>(3)</sup> Unit is in process to close by May 2009 and has a patient census of two (4/15/09)

Source: OSHPD ALIRTS Annual Utilization Report, 2008; SCMC

SCMC's emergency department is a basic level with 12 licensed emergency treatment stations.

SCMC also has five surgical operating rooms and one cardiac catheterization lab.

## Key Statistics

- For calendar year (CY) 2008, SCMC had a total of 4,443 discharges, 29,450 patient days, and an average daily census of 80.7 (38.8% occupancy of licensed beds). However, based on the closure of the obstetrics program and the sub-acute unit, the adjusted average daily census for 2008 would be 54.8.
- Approximately 58% of SCMC’s 2008 inpatients (adjusted to exclude obstetrics and sub-acute) were psychiatric and chemical dependency patients (average daily census of 31.6). This percentage is consistent with the current mix of patients at SCMC.
- The Hospital has approximately 285 medical staff members with approximately 51% being “active” users of the facility.
- Approximately 80% of the active medical staff is Board Certified in their specialty practice.
- SCMC has approximately 460 full-time equivalent employees (“FTEs”).
- The Hospital had 13,142 emergency department visits and 203 babies delivered during CY 2008 (Obstetrics program was closed in May 2008).

<b>SOUTH COAST MEDICAL CENTER 2008 KEY STATISTICS</b>	
Total Licensed Beds	<b>208</b>
Total Available Beds (In Use)	<b>150</b>
Inpatient Discharges	<b>4,443</b>
Average Daily Census	<b>81</b>
Outpatient Visits	<b>27,581</b>
Emergency Services Visits	<b>13,142</b>
Cardiac Catheterization Procedures <sup>(1)</sup>	<b>41</b>
Bariatric Surgeries	<b>68</b>
Obstetrical Deliveries <sup>(2)</sup>	<b>203</b>
Physicians on Medical Staff (Total/Active)	<b>285/145</b>
Number of FTEs	<b>460</b>
<sup>(1)</sup> Includes diagnostic and therapeutic procedures	
<sup>(2)</sup> Service was eliminated in May of 2008	
Source: OSHPD ALIRTS Annual Utilization Report, 2008; SCMC	

## ***Programs and Services***

SCMC is a community hospital that offers primary and secondary medical and surgical healthcare services that are common to most general acute care hospitals. It also offers some specialized programs and services including bariatric surgery and behavioral health. Services at SCMC include the following:

- Acute medical/surgical services
- Bariatric surgery
- Cancer services, including radiation therapy
- Cardiovascular services including a catheterization lab
- Chemical dependency services
- Critical care (adult)
- Diagnostic imaging: x-ray, CT (computed tomography), nuclear medicine, MRI (magnetic resonance imaging) and ultrasound
- Emergency services: 24-hour basic emergency services
- Home health services
- Laboratory services
- Psychiatric services
- Rehabilitation services - outpatient
- Sub-acute services: 29-bed unit for patients who require complex medical technology and support to sustain life (to be closed May 2009)
- Surgical services (outpatient and inpatient): gynecological, vascular, orthopedic, thoracic, urologic and endoscopy
- Transportation services (for patients)

## ***Accreditations and Recognitions***

SCMC is fully accredited by the Joint Commission and licensed by the California Department of Public Health. The Hospital last received full accreditation from the Joint Commission in 2007. SCMC participates in the Medicare and Medi-Cal (Medicaid) programs.

## ***Seismic Issues***

SCMC is pursuing HAZUS certification from the Office of Statewide Health Planning and Development (“OSHPD”) that would allow the Hospital to meet State regulations for operation until 2030 without retrofitting the facility. If not reclassified, the seismic retrofit costs have been estimated to be approximately \$25-\$30 million (Wellspring Partners report dated 4/14/08) to comply with SB1953 (Alquist Act) requirements.

## Patient Volume

The following table shows patient volume trends at SCMC for calendar years 2004 through 2008.

SOUTH COAST MEDICAL CENTER - SERVICE VOLUMES					
	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008 <sup>(1)</sup>
<b>PATIENT DAYS</b>					
ICU/CCU	1,604	1,463	1,678	1,462	1,808
Med/Surg	8,523	7,711	7,277	6,119	6,634
Perinatal	1,363	1,948	1,815	1,822	583
Acute Psychiatric	6,751	6,525	4,869	4,720	5,016
Chemical Dependency	2,863	2,495	3,591	6,638	6,526
Skilled Nursing	8,107	8,928	9,383	8,829	8,883
<b>Total</b>	<b>29,211</b>	<b>29,070</b>	<b>28,613</b>	<b>29,590</b>	<b>29,450</b>
<b>DISCHARGES</b>					
ICU/CCU	281	258	288	274	251
Med/Surg	2,688	2,444	2,412	2,073	2,127
Perinatal	564	808	806	674	218
Acute Psychiatric	1,010	905	801	855	997
Chemical Dependency	552	528	555	766	836
Skilled Nursing	26	30	31	15	14
<b>Total</b>	<b>5,121</b>	<b>4,973</b>	<b>4,893</b>	<b>4,657</b>	<b>4,443</b>
<b>AVERAGE LENGTH OF STAY</b>					
ICU/CCU	5.7	5.7	5.8	5.3	7.2
Med/Surg	3.2	3.2	3.0	3.0	3.1
Perinatal	2.4	2.4	2.3	2.7	2.7
Acute Psychiatric	6.7	7.2	6.1	5.5	5.0
Chemical Dependency	5.2	4.7	6.5	8.7	7.8
Skilled Nursing	311.8	297.6	302.7	588.6	634.5
<b>Total</b>	<b>5.7</b>	<b>5.8</b>	<b>5.8</b>	<b>6.4</b>	<b>6.6</b>
<b>AVERAGE DAILY CENSUS</b>					
ICU/CCU	4.4	4.0	4.6	4.0	5.0
Med/Surg	23.4	21.1	19.9	16.8	18.2
Perinatal	3.7	5.3	5.0	5.0	4.8
Acute Psychiatric	18.5	17.9	13.3	12.9	13.7
Chemical Dependency	7.8	6.8	9.8	18.2	17.9
Skilled Nursing	22.2	24.5	25.7	24.2	24.3
<b>Total</b>	<b>80.0</b>	<b>79.6</b>	<b>78.4</b>	<b>81.1</b>	<b>80.7</b>
<b>OTHER SERVICES</b>					
Inpatient Surgeries	812	724	742	669	602
Outpatient Surgeries	1,675	1,457	1,375	1,350	1,366
Emergency Visits	10,399	14,804	14,966	13,189	13,142
Cardiac Cath Procedures <sup>(2)</sup>	33	10	-	21	41
Obstetric Deliveries	531	765	725	663	203

Source: OSHPD ALIRTS Annual Utilization Reports (2004-2008); SCMC

(1) The perinatal/obstetrics program closed in May 2008

(2) Includes diagnostic and therapeutic

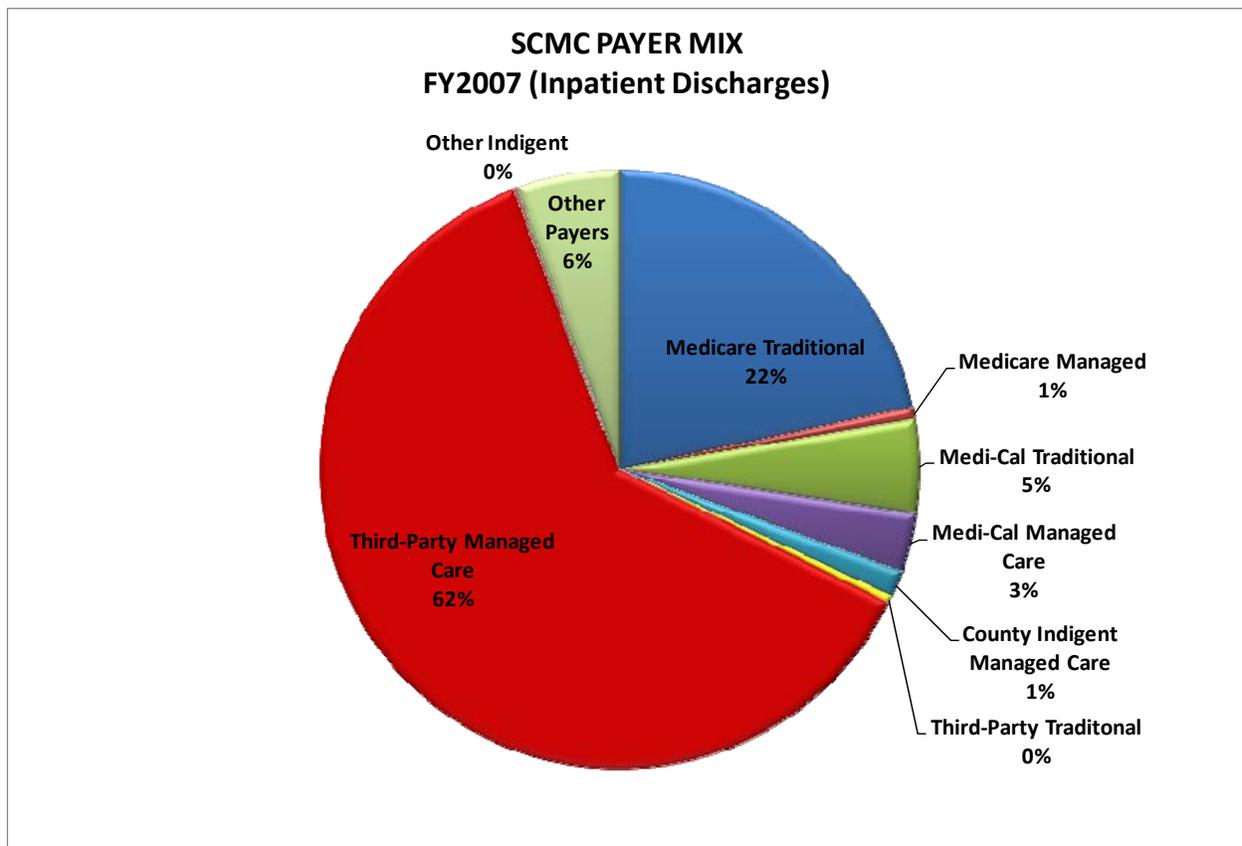
## *Patient Volume (continued)*

A review of historical utilization trends supports the following conclusions:

- Between CY 2004 and CY 2008, SCMC's total patient days remained relatively constant in spite of a 13% decrease in discharges. This is mainly attributable to the growth of the chemical dependency program. A continuing decrease in medical/surgical volume and the closure of the obstetric program have diminished the overall number of inpatients treated at SCMC.
- Surgical volume at SCMC has steadily eroded, with inpatient surgeries decreasing 26% from 2004 to 2008 and outpatient by 18%.
- Cardiac catheterization volume is very low – well below minimum recommended volume levels.
- Emergency visits have decreased 11% since 2005. SCMC's emergency volume is quite low for a facility of its size.

## Payer Mix

SCMC generally has a favorable financial payer mix of insured patients for a California hospital, with very few indigent patients and only 8% of discharges from Medi-Cal enrollees. Third-party managed care is the payer category with the highest percentage of discharges, representing approximately 62% of annual discharges (FY2007). Medicare (traditional and managed care) accounts for the second highest percentage of discharges (23% of all patients). Medi-Cal accounts for 8% of all discharges with two-thirds of those being fee-for-service patients (i.e., not enrolled in the County Medi-Cal HMO program known as “CalOptima”).



Source: OSHPD Financial Disclosure Report, FY2007 (12 months ending 12/31/07)

## Comparative Payer Mix

The following table illustrates SCMC's payer mix (discharges) compared to Orange County and California (total hospital patients). The comparison reflects that SCMC has a high percentage of managed care patients and low percentages of Medi-Cal and indigent.

2007 PAYER MIX COMPARISON						
Payer	SCMC		Orange County		California	
	Discharges*	% of Total	Discharges*	% of Total	Discharges*	% of Total
Traditional Medicare	1,015	21.7%	62,936	24.3%	873,323	28.9%
Managed Medicare	29	0.6%	31,193	12.0%	217,296	7.2%
Traditional Medi-Cal	235	5.0%	30,260	11.7%	575,261	19.0%
Medi-Cal Managed Care	149	3.2%	18,674	7.2%	193,728	6.4%
County Indigent Managed Care	66	1.4%	6,218	2.4%	85,351	2.8%
Third Party Traditional	18	0.4%	10,312	4.0%	162,789	5.4%
Third Party Managed Care	2,893	61.9%	90,414	34.9%	771,433	25.5%
Other Indigent	9	0.2%	2,930	1.1%	44,232	1.5%
Other Payers	259	5.5%	6,335	2.4%	101,395	3.4%

Note: SCMC's Total discharge number is similar but not identical to the 4,657 figure cited in 2007 OSHPD ALIRTS Report

\* Excludes normal newborns

Source: OSHPD Financial Disclosure Report, FY 2007 (12 months ended December 31, 2007)

## Medical Staff

SCMC has approximately 285 physicians on the medical staff with most physician specialties represented. 145 physicians are considered “active” users of the Hospital (representing 51% of the medical staff). 80% of active physicians are Board Certified. At most community hospitals in the U.S. the percentage is typically 90% or higher.

South Coast Medical Center Total and Active Medical Staff 2008		
Specialty	Active Staff Physicians	Total Physicians
Addiction Medicine	2	3
Allergy/Immunology	0	4
Anesthesiology/Pain Medicine	8	11
Bariatric Surgery	2	2
Cardiovascular Diseases	7	14
Clinical Weight Management	0	1
Dermatology	1	11
Emergency Medicine	9	12
Endocrinology	2	6
Gastroenterology	5	9
General/Family Practice	12	22
General Surgery	2	7
Infectious Disease	1	3
Internal Medicine	21	40
Neonatology	1	1
Nephrology	5	11
Neurological Surgery	2	2
Neurology	3	5
Nuclear Medicine	0	3
OB/Gyn	13	19
Oncology	3	4
Ophthalmology	3	11
Orthopedic Surgery	4	8
Otolaryngology	3	5
Pathology	6	6
Pediatrics	5	6
Plastic Surgery	3	13
Podiatry	1	1
Psychiatry	6	11
Pulmonary Disease	3	7
Radiation Oncology	2	2
Radiology	0	8
Rheumatology	1	1
Teleradiology	0	6
Thoracic Surgery	1	1
Urology	8	9
<b>Total</b>	<b>145</b>	<b>285</b>

Source: SCMC

## Financial Profile

SCMC's net operating revenue has fluctuated over the past five years, from a low of \$60.3 million in 2005 to \$68.3 million in 2008. Operating expenses have consistently increased over the five year period. SCMC reported a loss in operating income each year, with the exception of 2004 and, in aggregate over the five years, lost approximately \$26.8 million from operations. The Hospital's operating margin in 2008 was -15.1%, compared to the median for all California hospitals of 0.4%. SCMC's percentage of bad debt (1.4%) is slightly lower than the statewide median of 1.8% for all hospitals.

SOUTH COAST MEDICAL CENTER FINANCIAL AND RATIO ANALYSIS						
		FY 2004 <sup>(1)</sup>	FY 2005	FY 2006	FY 2007	FY 2008 <sup>(2)</sup>
Patient Days		29,759	29,455	28,635	29,603	29,449
Discharges		5,029	5,297	4,849	4,673	4,677
ALOS		5.9	5.6	5.9	6.3	6.6
Net Operating Revenue		\$67,170,851	\$60,305,656	\$64,529,651	\$64,648,291	\$68,331,127
Operating Expense		\$65,070,275	\$65,371,370	\$66,827,609	\$74,276,479	\$80,215,435
Net from Operations		\$2,100,576	(\$5,065,714)	(\$2,297,958)	(\$9,628,188)	(\$11,884,308)
Net Non-Operating Rev.		\$0	(\$294,838)	(314,748)	3,177,887	1,934,819
Net Income		\$2,100,576	(\$5,360,552)	(\$2,612,706)	(\$6,450,301)	(\$9,949,489)
	<b>California Median</b>					
Current Ratio	1.5	0.7	0.6	0.5	0.4	0.3
Days in A/R	61.3	70.5	57.3	58.3	67.1	72.0
Bad Debt/Oper. Exp.	1.8%	1.9%	2.3%	1.7%	1.2%	1.4%
Operating Margin	0.4%	3.1%	-8.4%	-3.6%	-14.9%	-15.1%
Note: Volume data from OSHPD Financial Disclosure Reports are slightly different from OSHPD ALIRTS Report						
(1) FY2004 included a one time, \$3 million revenue item (a health plan settlement). Otherwise the facility would have lost money in that year						
(2) FY2008 data from SCMC unaudited financials						
Sources: OSHPD Financial Disclosure Reports, except FY2008; SCMC						

## Cost of Services

SCMC's operating expenses increased 22.0% between 2003 and 2007 while its operating revenue increased only 12.3%. The operating cost of services by payer category includes both inpatient and outpatient care. In 2007, approximately 26% of SCMC's total costs were associated with Medicare patients, 12% from Medi-Cal patients, and 55% related to commercial third-party payers (HMO/PPO, indemnity). SCMC also reported 1.1% in total costs for care of indigent patients.

SOUTH COAST MEDICAL CENTER COST OF SERVICES BY PAYER CATEGORY										
	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
Total Operating Expenses	\$60,863,626		\$65,070,275		\$65,371,370		\$66,827,609		\$74,276,479	
<b>Cost of Services By Payer:</b>		%		%		%		%		%
Medicare	\$26,445,210	43.4%	\$25,733,701	39.5%	\$19,070,216	29.2%	\$23,480,767	35.1%	\$19,383,949	26.1%
Medi-Cal	\$3,080,328	5.1%	\$3,028,892	4.7%	\$5,917,549	9.1%	\$6,614,858	9.9%	\$8,739,449	11.8%
County Indigent	\$168,476	0.3%	\$149,140	0.2%	\$541,179	0.8%	\$410,821	0.6%	\$799,145	1.1%
Third Party	\$27,059,332	44.5%	\$28,725,760	44.1%	\$35,662,826	54.6%	\$29,864,645	44.7%	\$41,034,377	55.2%
Other	\$3,187,821	5.2%	\$3,470,851	5.3%	\$2,620,683	4.0%	\$4,274,926	6.4%	\$3,405,980	4.6%
Total Payer-Specific Expenses	\$59,941,167	98.5%	\$61,108,343	93.9%	\$63,812,453	97.6%	\$64,646,017	96.7%	\$73,362,899	98.8%
Expenses not Payer-Specific	\$922,459	1.5%	\$3,961,932	6.1%	\$1,558,917	2.4%	\$2,181,592	3.3%	\$913,580	1.2%

Note: 2008 data is unavailable  
Source: OSHPD Hospital Annual Financial Data Profile 2003-2007 (obtained from OSHPD website)

## Charity Care

Charity care charges often vary depending on different sources of hospital reports. MDS examined data from both OSHPD financial disclosure reports and SCMC's internal reports.

SCMC CHARITY CARE - TOTAL CHARGES FISCAL YEARS 2004-2008		
OSHPD Disclosure		
Year	Reports	SCMC Data <sup>(1)</sup>
2008	n/a	\$2,678,066
2007	\$4,294,433	\$1,527,176
2006	\$2,613,331	\$724,970
2005	\$2,198,091	\$1,682,468
2004	\$6,373,804	\$942,793
<b>Average 2004 - 2008</b>	<b>\$3,869,915</b>	<b>\$1,511,095</b>

Sources: OSHPD Hospital Annual Financial Data Profile; OSHPD Website; AH/SCMC  
(1) SCMC data reported to the Attorney General Office for this transaction

Per OSHPD, SCMC's reported charity care total charges have decreased from roughly \$6.4 million in 2004 to \$4.3 million in 2007. Data reported separately by SCMC indicates substantially different figures. SCMC's management indicates that figures reported to OSHPD for the five year period inadvertently included figures for County indigent patients, and that SCMC will be submitting amended reports to OSHPD to accurately reflect its charity care charges.

## Charity Care (continued)

The following table below shows a comparison of charity care and bad debt for SCMC and all hospitals in the State of California. The five-year average of charity care and bad debt for SCMC as a percentage of gross patient revenue was 3.2%. This is slightly lower than the four-year (2004-2007) statewide average of 3.3%. 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.”

	2008	2007	2006	2005	2004	2003	2002	2001	2000	
Gross Pt Revenue	\$240.0	\$163,424.9	\$244.6	\$179,239.4	\$244.2	\$196,325.6	\$250.2	\$207,991.2	\$268.9	n/a
Charity	\$6.4	\$2,136.0	\$2.2	\$2,258.9	\$2.6	\$3,044.5	\$4.3	\$3,162.2	\$2.7	n/a
Bad Debt	\$4.6	\$3,094.4	\$5.6	\$3,277.1	\$4.0	\$3,501.0	\$3.0	\$3,943.6	\$4.4	n/a
<b>Total</b>	<b>\$11.0</b>	<b>\$5,230.4</b>	<b>\$7.8</b>	<b>\$5,536.0</b>	<b>\$6.7</b>	<b>\$6,545.5</b>	<b>\$7.3</b>	<b>\$7,105.8</b>	<b>\$7.1</b>	<b>n/a</b>
Charity as a % of Gross Rev.	2.7%	1.3%	0.9%	1.3%	1.1%	1.6%	1.7%	1.5%	1.0%	n/a
Bad Debt as a % of Gross Rev.	1.9%	1.9%	2.3%	1.8%	1.7%	1.8%	1.2%	1.9%	1.6%	n/a
Total as a % of Gross Rev.	4.6%	3.2%	3.2%	3.1%	2.7%	3.3%	2.9%	3.4%	2.6%	n/a
<b>Uncompensated Care</b>										
Cost to Charge Ratio	25.5%	27.9%	26.1%	27.0%	26.5%	26.7%	29.3%	26.3%	29.3%	n/a
Charity	\$1.6	\$595.3	\$0.6	\$610.8	\$0.7	\$814.2	\$1.3	\$833.0	\$0.8	n/a
Bad Debt	\$1.2	\$862.4	\$1.5	\$886.1	\$1.1	\$936.2	\$0.9	\$1,038.9	\$1.3	n/a
Source: OSHPD Hospital Annual Financial Data Profile (2008 CA data is not yet available); AH/SCMC										
(1) 2008 SCMC data is from unaudited AH/SCMC hospital financials										

The table below shows SCMC’s historical costs for charity care as reported by SCMC for this transaction. SCMC’s costs of charity care have been highly variable, increasing from a low of \$184,599 in FY 2006 to a high of \$737,345 in FY 2008. The average cost of charity care for the last five-year period was \$408,238.

SOUTH COAST MEDICAL CENTER CHARITY CARE CHARGES/COSTS			
Year	SCMC Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to SCMC
<b>FY 2008</b>	\$2,678,066	27.5%	\$737,345
<b>FY 2006</b>	\$724,970	25.5%	\$184,599
<b>FY 2004</b>	\$942,793	26.5%	\$249,561
Source: Adventist Health/West			

## ***Community Benefit Services***

SCMC has historically offered a variety of community benefit programs, including community health services, public programs, and donations. SCMC management reports that the Hospital provided community benefit services in CY 2008 that included the following:

- Health education newsletters and brochures – compiling and providing health information valuable to the community
- Education and screening classes, seminars, life support training, fitness programs, and support groups
- Meals on Wheels – meals delivered to local residents who are confined to their homes and unable to prepare meals themselves
- Free flu shot program – provided annually
- Transportation services – providing free transportation to patients in need
- Maternity programs (discontinued in 2008) – classes, health education, support groups

As shown in the table below, SCMC had an annual average community benefit expenditure of approximately \$418,400 for the past five years. These figures do not include charity care, unpaid costs of Medi-Cal, or health professional education.

<b>SOUTH COAST MEDICAL CENTER</b>					
<b>Community Benefits Program Expenditures</b>					
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Basic Life Support Education	\$20,255	\$14,880	\$20,976	\$19,600	\$26,800
Other Education Programs	\$102,963	\$75,640	\$106,628	\$115,190	\$121,629
Senior Health: Meals on Wheels	\$104,229	\$76,570	\$107,939	\$148,000	\$91,575
Senior Health: Free Transportation	\$116,045	\$85,250	\$120,175	\$147,000	\$120,061
Maternity Programs	\$60,343	\$44,330	\$62,491	\$138,016	\$1,500
Other <sup>(1)</sup>	\$871	\$640	\$902	\$0	\$41,500
<b>Total</b>	<b>\$404,706</b>	<b>\$297,310</b>	<b>\$419,111</b>	<b>\$567,806</b>	<b>\$403,065</b>
<small>(1) donated equipment, clothing, and furnishings as well as free prescription medication for the homeless</small>					
<small>Source: SCMC</small>					

## **PROFILE OF PROSPECTIVE BUYER: MISSION HOSPITAL REGIONAL MEDICAL CENTER/ST. JOSEPH HEALTH SYSTEM**

### *Overview*

St. Joseph Health System (“SJHS”), a California nonprofit public benefit corporation, is a Catholic health care system established in 1982 and sponsored by The Sisters of St. Joseph of Orange. Its corporate office is located in Orange, California. SJHS currently operates 14 hospitals in California, Texas and New Mexico.

The SJHS hospital closest to SCMC is Mission Hospital (8 miles away) acquired by SJHS in 1994. Mission Hospital is one of only three trauma centers in Orange County, and the only trauma center serving all of the communities of South Orange County, including Laguna Beach. Mission Hospital has an operating agreement with Children’s Hospital of Orange County (“CHOC”) and is the only full service pediatric hospital in South Orange County.

There are two other SJHS hospitals in Orange County, St. Joseph Hospital – Orange (approximately 25 miles away from SCMC), and St. Jude Medical Center in Fullerton (approximately 36 miles away from SCMC).

A profile of the three Orange County hospitals is provided in the table on the following page:

*SJHS Health System: Overview (continued)*

<b>St. Joseph Health System Hospitals in Orange County</b>			
	<b>Mission Hospital Regional Medical Center</b>	<b>St. Joseph Hospital of Orange</b>	<b>St. Jude Medical Center</b>
Type of Care	General Acute	General Acute	General Acute
City	Mission Viejo	Orange	Fullerton
<b>Volume (CY2008)</b>			
Licensed Beds <sup>1</sup>	301	525	349
Patient Days	73,076	82,896	80,849
Discharges <sup>2</sup>	18,343	22,054	16,875
Inpatient Surgeries	4,465	13,745	4,534
Outpatient Surgeries	2,944	13,365	10,222
Births	3,320	5,010	2,083
<b>Payer Mix Based on Discharges (FY2008, unaudited)</b>			
Traditional Medicare	32.0%	24.2%	32.9%
Managed Medicare	3.2%	10.1%	16.2%
Traditional Medi-Cal	7.3%	10.7%	5.5%
Managed Medi-Cal	5.3%	4.1%	0.0%
County Indigent	3.3%	1.4%	1.7%
Traditional Third Party	3.6%	20.0%	1.5%
Managed Third Party	42.4%	27.1%	40.1%
Other Indigent	0.3%	0.0%	0.0%
Other	2.7%	2.4%	2.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Income Statement (FY2008, unaudited)</b>			
Net Pt Revenue	\$291,449,701	\$421,845,104	\$367,265,177
Other Operating Rev.	\$10,182,457	\$70,108,316	\$16,074,228
Total Operating Rev.	\$301,632,158	\$491,953,420	\$383,339,405
Total Operating Exp.	\$275,631,560	\$452,361,409	\$345,408,370
Net From Operations	\$26,000,598	\$39,592,011	\$37,931,035
Net Income	\$28,558,993	\$5,536,962	\$28,502,859
<b>Other Financial (FY 2008, unaudited)</b>			
Charity Care Charges	\$16,202,211	\$34,311,848	\$16,539,516
Bad Debt Charges	\$14,645,340	\$18,959,002	\$18,389,075
<b>Total Uncompensated Care Charges</b>	<b>\$30,847,551</b>	<b>\$53,270,850</b>	<b>\$34,928,591</b>
Cost to Charge Ratio	25.9%	25.0%	25.8%
Cost of Charity	\$4,202,854	\$8,577,962	\$4,273,811
Uncompensated Care as % of Charges	2.7%	3.2%	2.8%
State of Calif. Uncompensated Care <sup>(3)</sup>	3.1%	3.1%	3.1%
Fiscal Year Ending	6/30/2008	6/30/2008	6/30/2008
<sup>(1)</sup> Excludes beds in suspense			
<sup>(2)</sup> Excluding normal newborns			
<sup>(3)</sup> Statewide average for hospitals			
Source: OSHPD Financial Disclosure Reports, ALIRTS			

## ***SJHS Health System: Overview (continued)***

Some important observations about the SJHS facilities include:

- The three hospitals have a combined total of 1,175 licensed beds with an aggregate occupancy rate of 55.2% (CY 2008).
- Based on the most recent publicly available financial data (FY 2008, unaudited), all three hospitals had a positive net income. Each hospital had an 8% or better operating margin.
- At all three of the SJHS hospitals, third-party payers (traditional and managed care) represent the highest percentage payer mix (between 42% - 47%). Medi-Cal patient volume (traditional and managed care) at all three hospitals is between a 6-15%.
- The proportions of uncompensated care charges (bad debt and charity care) provided by the three SJHS hospitals are indicated below. While the statewide average for uncompensated care is 3.1%, SJHS's facilities were as follows for FY 2007.
  - Mission Hospital Regional Medical Center: 2.7%
  - St. Joseph Hospital of Orange: 3.2%
  - St. Jude Medical Center: 2.8%

## ***SJHS Healthcare Inc.: Overview (continued)***

SJHS's senior management team provided the following information and statements related to SJHS and its strategic vision and approach:

- SJHS will operate in a manner dedicated to the interests of the community and consistent with its mission of carrying out its Catholic Health Care ministry.
- SJHS is dedicated to continuing the operation of the Hospital as an acute care facility and is also dedicated to continuing to operate the emergency room services at current levels.
- SJHS is an industry leader in providing quality care. All of its hospital and home health entities are accredited by the Joint Commission, and ten of these received scores of 90 or better – in many cases, with commendation.
- SJHS is dedicated to maintaining the level of charity care that SCMC has historically provided and has a system policy as follows:
  - Annually dedicate 10% of the net income of the organization to fund “Care for the Poor” programs and services. If any local ministry does not have an income, system-wide Care for Poor funds are made available;
  - Allocate 1.5% of the hospital’s total operating expenses to improving health and creating healthy communities within the ministry’s service area; and
  - Provide financial assistance and a Charity Care policy that offers substantial discounts for individuals with incomes up to 500% of the federal poverty level.
- Mission Hospital has established a reputation for quality, and has earned multiple awards for its service to the community.
- Mission Hospital is the sole sponsor for Camino Health Center located in San Juan Capistrano, a free-standing community health clinic, dedicated to the underserved. The clinic provides primary care, dental care and a WIC program, with over 90,000 visits/year.
- SJHS has committed to use commercially reasonable efforts to offer an expedited application and credentialing process for SCMC’s medical staff and hopes to expand certain services on the SCMC campus by introducing various outpatient and wellness programs and complementing existing efforts in such areas as asthma prevention and childhood obesity.

## Locations of Orange County SJHS Hospitals and South Coast Medical Center

The locations of the three SJHS hospitals in Orange County are shown in the map below. Of the three hospitals, only Mission Hospital is located within the current SCMC Service Area. SCMC's service area (depicted as the highlighted area below) substantially overlaps that of Mission Hospital.



## *SCMC and Mission Hospital Capacity/Volume Comparisons (CY 2008)*

The tables below compare SCMC and Mission Hospital in terms of bed size, occupancy, and key volumes.

<b>LICENSED BED COMPARISON</b>				
Bed Type	SCMC		Mission Hospital	
	# of Beds	Occupancy	# of Beds	Occupancy
Med/Surg	114	15.9%	190	67.2%
Perinatal	19	25.6%	43	60.7%
ICU/CCU	10	49.4%	43	80.6%
Rehab	0	n/a	25	44.8%
Acute Psychiatric	36	38.1%	0	n/a
Skilled Nursing	29	83.7%	0	n/a
<b>Total</b>	<b>208</b>	<b>41.2%</b>	<b>301</b>	<b>66.3%</b>

Source: OSHPD ALIRTS Annual Utilization Reports 2008

<b>2008 VOLUME</b>		
	SCMC	Mission Hospital
Discharges	4,443	18,343
Days	29,450	73,076
ALOS	6.6	4.0
Emerg. Stations	12	38
Emerg. Visits	13,142	56,860
Visits/Station	1,095	1,496
% Admitted	23.8%	19.8%
OB Deliveries	203	3,320
CABG <sup>(1)</sup> Procedures	0	130
Cardiac Caths	41	2,316

Source: OSHPD ALIRTS Annual Utilization Reports 2008

<sup>(1)</sup> Coronary Artery Bypass Graft

# SOUTH COAST MEDICAL CENTER SERVICE AREA ANALYSIS

## *South Coast Medical Center's Service Area Definition*

SCMC's service area is composed of 21 ZIP Codes, from which approximately 74% of the Hospital's discharges emanated in 2007. Approximately half of SCMC's discharges were from the top five ZIP Codes.

South Coast Medical Center Patient Origin and Market Share* 2007							
ZIP Codes	Community	SCMC Total Discharges	% of Discharges	Cum % of Discharges	Total Area Discharges	SCMC Market Share	2008 Population
92651	Laguna Beach	638	13.4%	13.4%	2,009	31.8%	36,362
92677	Laguna Niguel	616	13.0%	26.4%	5,297	11.6%	68,590
92629	Dana Point	553	11.7%	38.1%	2,622	21.1%	28,630
92675	San Juan Capistrano	288	6.1%	44.2%	3,817	7.5%	65,158
92672	San Clemente	274	5.8%	49.9%	3,643	7.5%	48,262
92656	Aliso Viejo	152	3.2%	53.1%	3,257	4.7%	48,639
92673	San Clemente	140	3.0%	56.1%	2,281	6.1%	18,621
92692	Mission Viejo	119	2.5%	58.6%	4,196	2.8%	48,259
92630	Lake Forest	112	2.4%	61.0%	4,940	2.3%	61,898
92688	Rancho Santa Margarita	103	2.2%	63.1%	3,160	3.3%	42,522
92691	Mission Viejo	99	2.1%	65.2%	4,436	2.2%	49,249
92624	Capistrano Beach	83	1.7%	67.0%	771	10.8%	7,742
92653	Laguna Hills	82	1.7%	68.7%	3,036	2.7%	32,344
92694	Ladera Ranch	65	1.4%	70.1%	1,667	3.9%	21,250
92679	Trabuco Canyon	54	1.1%	71.2%	1,896	2.8%	43,806
92660	Newport Beach	38	0.8%	72.0%	2,884	1.3%	34,119
92637	Laguna Woods	28	0.6%	72.6%	4,456	0.6%	15,657
92625	Corona Del Mar	18	0.4%	73.0%	1,266	1.4%	13,015
92652	Laguna Beach PO Box	15	0.3%	73.3%	54	27.8%	n/a
92657	Newport Beach	13	0.3%	73.6%	662	2.0%	9,150
92674	San Clemente PO Box	11	0.2%	73.8%	87	12.6%	n/a
<b>Subtotal</b>		<b>3,501</b>	<b>73.8%</b>		<b>56,437</b>	<b>6.2%</b>	<b>693,273</b>
<b>Other ZIPs</b>		<b>1,243</b>	<b>26.2%</b>	<b>100.0%</b>			
<b>Total</b>		<b>4,744</b>	<b>89.5%</b>				

\*Excludes Normal Newborns (DRG 391)

Note: Total discharges are slightly different from discharges reported from OSHPD ALIRTS and Financial Disclosure Reports

Source: OSHPD Patient Discharge Database, 2007

## Comparative Patient Origin

SCMC and Mission Hospital have substantially overlapping service areas. The table below illustrates patient origin by ZIP Code for each facility as well as market share.

SCMC Mission Hospital Comparison Patient Origin and Market Share* 2007										
ZIP Codes	Community	SCMC			SCMC Market Share	Mission			Mission Market Share	Combined Market Share
		Total Discharges	% of Discharges	Cum % of Discharges		Total Discharges	% of Discharges	Cum % of Discharges		
92651	Laguna Beach	638	13.4%	13.4%	31.8%	217	1.2%	1.2%	10.8%	42.6%
92677	Laguna Niguel	616	13.0%	26.4%	11.6%	1,888	10.5%	11.7%	35.6%	47.3%
92629	Dana Point	553	11.7%	38.1%	21.1%	891	4.9%	16.6%	34.0%	55.1%
92675	San Juan Capistrano	288	6.1%	44.2%	7.5%	1,744	9.7%	26.3%	45.7%	53.2%
92672	San Clemente	274	5.8%	49.9%	7.5%	1,073	6.0%	32.2%	29.5%	37.0%
92656	Aliso Viejo	152	3.2%	53.1%	4.7%	775	4.3%	36.5%	23.8%	28.5%
92673	San Clemente	140	3.0%	56.1%	6.1%	617	3.4%	40.0%	27.0%	33.2%
92692	Mission Viejo	119	2.5%	58.6%	2.8%	1,697	9.4%	49.4%	40.4%	43.3%
92630	Lake Forest	112	2.4%	61.0%	2.3%	1,075	6.0%	55.3%	21.8%	24.0%
92688	Rancho Santa Margarita	103	2.2%	63.1%	3.3%	1,139	6.3%	61.7%	36.0%	39.3%
92691	Mission Viejo	99	2.1%	65.2%	2.2%	1,713	9.5%	71.2%	38.6%	40.8%
92624	Capistrano Beach	83	1.7%	67.0%	10.8%	262	1.5%	72.6%	34.0%	44.7%
92653	Laguna Hills	82	1.7%	68.7%	2.7%	803	4.5%	77.1%	26.4%	29.2%
92694	Ladera Ranch	65	1.4%	70.1%	3.9%	640	3.6%	80.6%	38.4%	42.3%
92679	Trabuco Canyon	54	1.1%	71.2%	2.8%	625	3.5%	84.1%	33.0%	35.8%
92660	Newport Beach	38	0.8%	72.0%	1.3%	41	0.2%	84.3%	1.4%	2.7%
92637	Laguna Woods	28	0.6%	72.6%	0.6%	354	2.0%	86.3%	7.9%	8.6%
92625	Corona Del Mar	18	0.4%	73.0%	1.4%	15	0.1%	86.4%	1.2%	2.6%
92652	Laguna Beach PO Box	15	0.3%	73.3%	27.8%	6	0.0%	86.4%	11.1%	38.9%
92657	Newport Beach	13	0.3%	73.6%	2.0%	22	0.1%	86.5%	3.3%	5.3%
92674	San Clemente PO Box	11	0.2%	73.8%	12.6%	20	0.1%	86.6%	23.0%	35.6%
Subtotal		3,501	73.8%		6.2%	15,617	86.6%		27.7%	33.9%
Other ZIPs		1,243	26.2%	100.0%		2,410	13.4%	100.0%		
<b>Total</b>		<b>4,744</b>	<b>100.0%</b>			<b>18,027</b>	<b>100.0%</b>			

\*Excludes Normal Newborns (DRG 391)

Note: 2007 is the most current publicly available data

Source: OSHPD Patient Discharge Database, 2007

## South Coast Medical Center's Service Area Map

SCMC's service area has natural or man-made barriers on three sides – the Pacific Ocean to the west, Cleveland National Forest to the east, and Camp Pendleton Marine Base to the south.

SCMC's service area and the closest regional hospitals are shown on the map below.



- H** South Coast Medical Center
- 1** Huntington Beach Hospital
- 2** Orange Coast Memorial Medical Center
- 3** Fountain Valley Regional Medical Center
- 4** Coastal Communities Hospital
- 5** Kaiser Foundation Hospital - Irvine
- 6** Irvine Regional Hospital
- 7** Hoag Memorial Hospital Presbyterian
- 8** Saddleback Memorial Medical Center
- 9** Mission Hospital
- 10** Saddleback Memorial Medical Center - San Clemente

## Demographic Profile

SCMC's service area has a total population of 693,273 (2008 estimate). It is projected to grow by approximately 6.6% over the next five years, which is higher than the expected California growth rate (5.5%), and the Orange County growth rate (4.2%).

SOUTH COAST MEDICAL CENTER SERVICE AREA POPULATION STATISTICS 2008 & 2013			
	2008	2013	% Change
Total Population	693,273	739,306	6.6%
Households	245,178	257,741	5.1%
% Female	50.5%	50.3%	

Source: Applied Geographic Solutions, 2008

The average age of the population in the service area is 39.3 years. For the State of California, it is 34.9. The percentage of adults over the age of 65 is expected to grow at a faster rate than any other age group. Meanwhile, the population of youth between the ages 0-14 and younger adults between the ages 15-44 in the service area are expected to increase overall but decrease slightly as a percentage of the total population. Consistent with national trends, the 45+ population is growing at the fastest rate, especially in the 65+ range.

SOUTH COAST MEDICAL CENTER SERVICE AREA POPULATION AGE DISTRIBUTION 2008 & 2013					
	2008		2013		Population % Change
	Population	% of Total	Population	% of Total	
Age 0-14	142,506	20.6%	143,942	19.4%	1.0%
Age 15 - 44	271,294	39.1%	274,674	37.1%	1.2%
Age 45 - 64	189,578	27.3%	216,232	29.3%	14.1%
Age 65+	89,895	13.0%	104,451	14.2%	16.2%
Female 15 - 44	132,441	19.1%	134,108	18.1%	1.3%
Average Age	39.3		40.9		

Source: Applied Geographic Solutions, 2008

**Demographic Profile (continued)**

The service area population is predominately white. The Asian population within the service area is expected to grow most rapidly over the next five years. Hispanics are also expected to grow from 17.5% to 19.7% of the population.

SOUTH COAST MEDICAL CENTER SERVICE AREA POPULATION RACE/ETHNICITY 2008 & 2013		
	2008	2013
White	80.9%	81.1%
Black	1.4%	1.4%
American Indian or Alaska Native	0.2%	0.1%
Asian or Pacific Islander	9.3%	11.0%
Some Other Race	4.4%	3.6%
Two or More Races	3.7%	2.8%
Hispanic Ethnicity	17.5%	19.7%
Not Hispanic or Latino	82.5%	80.3%

Source: Applied Geographic Solutions, 2008

The service area’s average household income (aggregate household income divided by total households) is \$137,802. This figure is very high (affluent) compared to the statewide average of \$82,999. Only 4-5% of households in the service area are currently below the federal poverty level (federal poverty level in 2008 was \$17,600 for a family of three). This percentage is less than half of the 11-14% of households in California that are below the poverty level.

SOUTH COAST MEDICAL CENTER SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION 2008 & 2013				
	2008		2013	
	Service Area	California	Service Area	California
\$0 - \$14,999	4.0%	10.5%	3.6%	9.5%
\$15,000 - 24,999	4.5%	9.3%	3.5%	7.8%
\$25,000 - 34,999	5.2%	9.3%	4.5%	8.5%
\$35,000 - 49,999	9.2%	13.4%	7.7%	12.2%
\$50,000 - 74,999	14.8%	18.0%	13.5%	17.6%
\$75,000 - 99,999	13.1%	12.6%	12.0%	12.6%
\$100,000 - 149,999	21.1%	14.7%	20.7%	16.1%
\$150,000 +	28.2%	12.2%	34.6%	15.7%
Average HH Income	\$137,802	\$82,999	\$158,121	\$95,097

Source: Applied Geographic Solutions, 2008

### *Service Area Payer/Insurance Mix*

Among individuals with health insurance, approximately 14% of the service area population is Medicare-eligible and approximately 4.2% is Medi-Cal-eligible. The average percentage of Medi-Cal-eligibles in this service area is much lower than for Orange County overall (12.4%) and the State of California (17.9%). Percentages of Medi-Cal-eligibles for ZIP Codes within the service area range from 1.2% to 7.6%.

<b>MEDI-CAL ELIGIBLES BY ZIP</b>				
<b>ZIP</b>	<b>City</b>	<b>Eligibles</b>	<b>Population</b>	<b>%</b>
92651	Laguna Beach	519	36,362	1.4%
92677	Laguna Niguel	2,600	68,590	3.8%
92629	Dana Point	1,101	28,630	3.8%
92675	San Juan Capistrano	3,797	65,158	5.8%
92672	San Clemente	2,281	48,262	4.7%
92656	Aliso Viejo	1,860	48,639	3.8%
92673	San Clemente	998	18,621	5.4%
92692	Mission Viejo	1,897	48,259	3.9%
92630	Lake Forest	4,701	61,898	7.6%
92688	Rancho Santa Margarita	1,877	42,522	4.4%
92691	Mission Viejo	2,387	49,249	4.8%
92624	Capistrano Beach	447	7,742	5.8%
92653	Laguna Hills	1,978	32,344	6.1%
92694	Ladera Ranch	459	21,250	2.2%
92679	Trabuco Canyon	519	43,806	1.2%
92660	Newport Beach	503	34,119	1.5%
92637	Laguna Woods	618	15,657	3.9%
92625	Corona Del Mar	205	13,015	1.6%
92652	Laguna Beach PO Box	45	n/a	n/a
92657	Newport Beach	140	9,150	1.5%
92674	San Clemente PO Box	53	n/a	n/a
<b>TOTAL</b>		<b>28,985</b>	<b>693,273</b>	<b>4.2%</b>

Sources: CA DHCS (as of 07/08), Applied Geographic Solutions

## Selected Health Indicators

Approximately 21.3% of the non-elderly population in Orange County is uninsured compared to 20.2% statewide.<sup>1</sup> With approximately 650,000 uninsured children and adults, access to healthcare and health insurance is important to consider. Of the uninsured, an estimated 94,000 are children residing in Orange County.

Overall, Orange County's health status is better than the State of California as a whole, and it is closer to meeting national goals compared to the State of California overall. A review of health status indicators<sup>2</sup> for Orange County (deaths, diseases and births) supports the following conclusions:

- Orange County is better than the State of California in the areas of obstetrics and prenatal care (refer to table below). Measures on low birth weight infants and the infant mortality rate are still worse than the national goal, but the measure for late or no prenatal care is better than the national goal.

Nativity Statistics			
Health Status Indicator	Orange County	California	National Goal
Low Birth Weight Infants	6.4%	6.9%	5.0%
Late or No Prenatal Care	9.6%	14.9%	10.0%
Infant Mortality Rate (per 1,000 births)	4.6	5.3	4.5

Source: California Department of Public Health, County Health Status Profiles, 2009

- The mortality rate for Orange County is better than that of the State of California for the measures seen on the table below. Mortality statistics for the Orange County population is also better than the national goals set for cancer, heart disease and cerebrovascular disease. Cancer has the highest mortality rate per thousand of all causes, similar to California as a whole.

Mortality Statistics Rate per 100,000 Population			
Selected Cause	Orange County	California	National Goal
Cancer	151.7	159.3	158.6
Heart Disease	137.1	145.2	162.0
Cerebrovascular Disease	41.7	43.5	50.0
Unintentional Injuries	22.4	30.4	17.1
Diabetes	16.9	21.9	N/A
Suicide	8.5	9.0	4.8
Drug-Related Deaths	8.7	10.5	1.2

Source: California Department of Public Health, County Health Status Profiles, 2009

<sup>1</sup> Source: 2005 California Health Interview Survey, UCLA Center for Health Policy Research

<sup>2</sup> Source: California Department of Health Services County Health Status Profiles 2009

### *Selected Health Indicators (continued)*

- Chlamydia has the highest incidence rate for Orange County, but it is still lower than the statewide rate. The rates of incidence of AIDS and TB are both lower than the statewide rates but higher than the national goals (see table below).

<b>Morbidity Statistics</b>			
<b>Incidence Rate per 100,000 Population</b>			
<b>Health Status Indicator</b>	<b>Orange County</b>	<b>California</b>	<b>National Goal</b>
Gonorrhea	35.1	88.3	19.0
AIDS	7.7	12.1	1.0
Tuberculosis	7.4	7.5	1.0
Chlamydia	257.4	364.1	N/A

Source: California Department of Public Health, County Health Status Profiles, 2009

## Hospital Supply, Demand, and Market Share

There are six other general acute care hospital campuses within 20 miles of SCMC. Children's Hospital at Mission is on the Mission Hospital campus. These six hospital campuses and SCMC have a combined total of 1,734 total licensed beds with an aggregate occupancy of 57.1%. This includes Irvine Regional Medical Center ("IRMC"), operated by Hoag Memorial Hospital Presbyterian. IRMC was closed in January of 2009 but is expected to re-open within 12-24 months. As previously indicated, Mission Hospital is 8.2 miles from SCMC. SCMC's licensed bed capacity (208) represents 12% of beds within 20 miles, and its inpatient volume accounts for 5.3% of discharges and 8.2% of patient days.

An analysis of the services offered by SCMC in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were the primary facilities analyzed to determine area hospital available bed capacity by service. In general, area hospitals, on aggregate, have substantial available capacity.

AREA HOSPITALS <sup>(1)</sup>										
Within Service Area	Facility	Ownership/Affiliation	City	Drive Dist from SCMC (miles)	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	
x	South Coast Medical Center	Adventist Health	Laguna Beach		208	4,443	29,450	81	38.8%	
x	Mission Hospital Regional Medical Center	St Joseph Health System	Mission Viejo	8.2	301	18,343	73,076	200	66.5%	
x	Children's Hospital at Mission	Children's Healthcare of California	Mission Viejo	8.2	48	2,219	9,583	26	54.7%	
x	Saddleback Memorial Medical Center - San Clemente	Memorial Health Services	San Clemente	6.9	73	2,764	8,926	24	33.5%	
x	Saddleback Memorial Medical Center - Laguna Hills	Memorial Health Services	Laguna Hills	10.8	252	15,574	61,282	168	66.6%	
	Irvine Regional Hospital and Medical Center <sup>(2)</sup>	Hoag Memorial Hospital Presbyterian	Irvine	13.5	176	6,863	22,633	62	35.2%	
	Hoag Memorial Hospital Presbyterian	Hoag Memorial Hospital Presbyterian	Newport Beach	14.9	498	28,509	118,268	324	65.1%	
	Coastal Communities Hospital	Integrated Healthcare Holdings	Santa Ana	19.3	178	4,932	38,032	104	58.5%	
<b>TOTAL (Hospitals within 20 Miles of SCMC)</b>					<b>1,734</b>	<b>83,647</b>	<b>361,250</b>	<b>990</b>	<b>57.1%</b>	
	Fountain Valley Regional Hospital - Euclid	Tenet Healthcare Corporation	Fountain Valley	21.4	293	16,732	82,019	225	76.7%	
	Huntington Beach Hospital	Prime Healthcare Services	Huntington Beach	22.1	131	4,308	16,929	46	35.4%	
	Orange Coast Memorial Medical Center	Memorial Health Services	Fountain Valley	22.2	224	12,582	44,976	123	55.0%	
<b>TOTAL (All Hospitals Above)</b>					<b>2,382</b>	<b>117,269</b>	<b>505,174</b>	<b>1,384</b>	<b>58.1%</b>	

<sup>(1)</sup> Bed and volume data are for CY 2008  
<sup>(2)</sup> Closed in January 2009, acquired by Hoag Memorial Hospital Presbyterian on February 2009, and planned to reopen in 2010  
Source: OSHPD ALIRTS Annual Utilization Reports, 2008; MapQuest

## Hospital Supply, Demand, and Market Share (continued)

### Hospital Market Share

The table below illustrates market share by individual hospital within SCMC's service area for the most recent three calendar years available.

SERVICE AREA MARKET SHARE BY HOSPITAL 2005 2007						
Hospital	Year 2005		Year 2006		Year 2007	
	Discharges	Mkt Share	Discharges	Mkt Share	Discharges	Mkt Share
Mission Hospital Regional Medical Center	14,339	25.5%	14,544	25.8%	15,617	27.7%
Saddleback Memorial Medical Center	14,353	25.5%	14,209	25.3%	13,276	23.5%
Hoag Memorial Hospital Presbyterian	5,857	10.4%	6,062	10.8%	6,394	11.3%
<b>South Coast Medical Center</b>	<b>4,087</b>	<b>7.3%</b>	<b>3,829</b>	<b>6.8%</b>	<b>3,501</b>	<b>6.2%</b>
Irvine Regional Hospital and Medical Center	3,013	5.4%	2,860	5.1%	2,938	5.2%
San Clemente Hospital and Medical Center <sup>(1)</sup>	2,535	4.5%	2,245	4.0%	2,427	4.3%
Children's Hospital at Mission	1,814	3.2%	1,845	3.3%	1,834	3.2%
Kaiser Foundation Hospital - Anaheim	1,026	1.8%	1,150	2.0%	1,186	2.1%
UCI Medical Center	1,196	2.1%	1,144	2.0%	1,131	2.0%
St Joseph - Orange	1,087	1.9%	1,186	2.1%	1,127	2.0%
Children's Hospital of Orange County	731	1.3%	815	1.4%	708	1.3%
Orange Coast Memorial	666	1.2%	600	1.1%	638	1.1%
Western Medical Center - Santa Ana	440	0.8%	495	0.9%	449	0.8%
Fountain Valley Regional Hospital	374	0.7%	346	0.6%	366	0.6%
College Hospital - Costa Mesa	322	0.6%	307	0.5%	290	0.5%
Western Medical Center - Anaheim	137	0.2%	244	0.4%	224	0.4%
Coastal Community Hospital	116	0.2%	142	0.3%	123	0.2%
St. Jude Medical Center	94	0.2%	99	0.2%	106	0.2%
Huntington Beach Hospital	124	0.2%	142	0.3%	55	0.1%
Other Hospitals	3,937	7.0%	4,001	7.1%	4,047	7.2%
<b>Total</b>	<b>56,248</b>	<b>100.0%</b>	<b>56,265</b>	<b>100.0%</b>	<b>56,437</b>	<b>100.0%</b>

Note: Discharges exclude Normal Newborns (DRG 391)  
 (1) Facility is currently called Saddleback Memorial Medical Center - San Clemente, but its former name is listed within the OSHPD database for this timeframe  
 Source: OSHPD Patient Discharge Database

- SCMC ranks fourth in terms of overall market share in the service area, based on discharges, with approximately 6.2% (CY 2007). However, SCMC's market share excluding obstetrics (which was closed in May of 2008), is only 5.3%.
- SCMC's market share has been steadily eroding over the past several years. Most recently, SCMC's share decreased from 7.3% for CY 2005 to 6.2% in CY 2007.
- Mission Hospital is the market share leader with 27.7% (CY 2007), followed by Saddleback Memorial Medical Center - Laguna Hills (23.5%) and Hoag Memorial Hospital Presbyterian (11.3%).

## Hospital Supply, Demand, and Market Share (continued)

### Market Share by Hospital System

The table below illustrates the most recent market share trend by hospital system within SCMC's service area.

SERVICE AREA MARKET SHARE BY SYSTEM 2005-2007						
Hospital/Hospital System	Year 2005		Year 2006		Year 2007	
	Discharges	Mkt Share	Discharges	Mkt Share	Discharges	Mkt Share
South Coast Medical Center	4,087	7.3%	3,829	6.8%	3,501	6.2%
Mission Hospital Regional Medical Center	14,339	25.5%	14,544	25.8%	15,617	27.7%
Children's Hospital at Mission	1,814	3.2%	1,845	3.3%	1,834	3.2%
St Joseph - Orange	1,087	1.9%	1,186	2.1%	1,127	2.0%
St. Jude Medical Center	106	0.2%	99	0.2%	106	0.2%
<b>SJHS Subtotal</b>	<b>17,346</b>	<b>30.8%</b>	<b>17,674</b>	<b>31.4%</b>	<b>18,684</b>	<b>33.1%</b>
Saddleback Memorial Medical Center	14,353	25.5%	14,209	25.3%	13,276	23.5%
San Clemente Hospital and Medical Center <sup>(1)</sup>	2,535	4.5%	2,245	4.0%	2,427	4.3%
Orange Coast Memorial	666	1.2%	600	1.1%	638	1.1%
<b>Memorial Health Services Subtotal</b>	<b>17,554</b>	<b>31.2%</b>	<b>17,054</b>	<b>30.3%</b>	<b>16,341</b>	<b>29.0%</b>
<b>Hoag Memorial Hospital Presbyterian</b>	<b>5,857</b>	<b>10.4%</b>	<b>6,062</b>	<b>10.8%</b>	<b>6,394</b>	<b>11.3%</b>
Western Medical Center - Santa Ana	440	0.8%	495	0.9%	449	0.8%
Western Medical Center - Anaheim	137	0.2%	244	0.4%	224	0.4%
Coastal Community Hospital	116	0.2%	142	0.3%	123	0.2%
<b>IHHI Subtotal</b>	<b>693</b>	<b>1.2%</b>	<b>881</b>	<b>1.6%</b>	<b>796</b>	<b>1.4%</b>
<b>Other Hospitals</b>	<b>10,711</b>	<b>19.0%</b>	<b>10,765</b>	<b>19.1%</b>	<b>10,721</b>	<b>19.0%</b>

<sup>(1)</sup> Facility is currently called Saddleback Memorial Medical Center - San Clemente, but its former name is listed within the OSHPD database for this timeframe  
 Note: Discharges exclude Normal Newborns (DRG 391)  
 Source: OSHPD Patient Discharge Database

- SJHS and Memorial Health Services both have substantial market presence and share within SCMC's service area (33.1% and 29.0%, respectively). Hoag Memorial Hospital Presbyterian is the next highest at 11.3%.
- SJHS's market share has been steadily increasing over the past several years, mainly from Mission Hospital. SJHS's market share increased from 30.8% for CY 2005 to 33.1% in CY 2007.

## Hospital Supply, Demand, and Market Share (continued)

### Market Share by Payer

The following table illustrates hospital market share by payer category (most recent data – CY 2007):

SERVICE AREA MARKET SHARE BY PAYER 2007												
Hospital	Total Discharges*	Total	Medicare		Private Coverage			Medi Cal		Other		
			FFS	Managed Care	HMO	PPO	FFS	FFS	Managed	County Indigent	Workers Comp	Other
Mission Hospital Regional Medical Center	15,617	27.7%	32.4%	8.7%	21.0%	31.3%	4.4%	60.8%	41.5%	46.2%	32.8%	32.0%
Saddleback Memorial Medical Center	13,276	23.5%	25.6%	48.8%	21.0%	16.4%	33.1%	8.2%	6.7%	14.9%	8.3%	11.1%
Hoag Memorial Hospital Presbyterian	6,394	11.3%	16.1%	1.6%	6.0%	19.9%	9.2%	0.9%	2.0%	8.0%	13.2%	5.4%
South Coast Medical Center	3,501	6.2%	5.6%	5.6%	5.5%	7.2%	8.4%	0.0%	12.0%	6.8%	3.6%	9.9%
Irvine Regional Hospital and Medical Center	2,938	5.2%	1.5%	13.4%	11.6%	2.4%	0.1%	0.1%	2.2%	1.3%	4.6%	1.6%
San Clemente Hospital and Medical Center	2,427	4.3%	5.9%	9.5%	1.9%	1.9%	4.0%	0.8%	2.7%	13.8%	2.0%	4.6%
Children's Hospital at Mission	1,834	3.2%	0.0%	0.0%	5.1%	5.8%	0.1%	3.8%	12.7%	0.0%	0.0%	7.3%
Kaiser - Anaheim	1,186	2.1%	0.0%	5.7%	6.5%	0.0%	0.0%	0.0%	1.5%	0.0%	0.7%	0.4%
UCI Medical Center	1,131	2.0%	2.1%	0.6%	1.7%	2.1%	3.3%	2.1%	5.3%	3.9%	3.3%	2.1%
St Joseph's Hospital - Orange	1,127	2.0%	1.8%	0.1%	2.9%	0.1%	25.6%	1.6%	1.1%	1.2%	5.0%	1.0%
All Others	7,006	12.4%	9.0%	6.0%	16.8%	12.9%	11.7%	21.6%	12.4%	3.9%	26.5%	24.8%
<b>Total</b>	<b>56,437</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Discharges</b>			<b>15,691</b>	<b>7,183</b>	<b>11,255</b>	<b>13,402</b>	<b>1,516</b>	<b>2,171</b>	<b>1,891</b>	<b>821</b>	<b>302</b>	<b>2,205</b>
<b>% of Total Discharges</b>			<b>27.8%</b>	<b>12.7%</b>	<b>19.9%</b>	<b>23.7%</b>	<b>2.7%</b>	<b>3.8%</b>	<b>3.4%</b>	<b>1.5%</b>	<b>0.5%</b>	<b>3.9%</b>

\*Excludes Normal Newborns (DRG 391)  
Source: OSHPD Patient Discharge Database, 2007

- As previously indicated, SCMC's service area is affluent and has a highly insured payer mix. Approximately, 46% of all patients hospitalized (inpatients) have private health insurance and roughly 40% are Medicare enrollees.
- SCMC's share by individual payer category ranges from 0-12%, and the facility is not close to a market share leader position in any single payer category.
- There were 821 discharges of indigent patients in the service area (1.5% of all discharges). Almost half of hospitalized indigent patients were treated at Mission Hospital.

## Hospital Supply, Demand, and Market Share (continued)

### Market Share by Service Line

The following table illustrates hospital market share by service line for 2007.

SERVICE AREA MARKET SHARE BY SERVICE LINE - 2007												
Service Line	Total Discharges <sup>(1)</sup>	Mission Hospital Regional Medical Center	Saddleback Memorial Medical Center	Hoag Memorial Hospital Presbyterian	South Coast Medical Center	Irvine Regional Hospital and Medical Center	San Clemente Hospital and Medical Center	Children's Hospital at Mission	Kaiser - Anaheim	UCI Medical Center	St. Joseph's Hospital - Orange	<All Others>
General Medicine	13,993	25.7%	25.2%	9.8%	5.3%	6.1%	7.8%	5.9%	2.0%	1.3%	0.9%	9.9%
Cardiac Services	8,106	30.0%	34.4%	8.9%	4.1%	6.4%	5.6%	0.2%	0.9%	0.6%	0.6%	8.3%
Obstetrics	7,912	37.7%	27.0%	13.3%	6.8%	6.5%	0.1%	0.0%	2.4%	0.5%	1.7%	4.2%
General Surgery	4,042	25.5%	18.2%	13.4%	4.4%	5.5%	3.9%	4.8%	2.4%	3.4%	2.2%	16.2%
Orthopedics	3,873	23.5%	23.8%	15.1%	4.8%	2.2%	4.2%	2.4%	2.7%	0.9%	4.1%	16.4%
Behavioral Health <sup>(2)</sup>	3,667	9.8%	4.0%	4.4%	28.1%	1.5%	2.0%	1.7%	0.7%	7.0%	7.8%	33.1%
Neurology	2,373	31.1%	22.7%	9.1%	3.9%	5.1%	8.6%	2.9%	2.1%	2.8%	0.5%	11.1%
Neonatology	2,158	27.0%	19.8%	21.7%	3.0%	5.0%	0.0%	12.7%	2.4%	1.0%	2.0%	5.3%
Oncology/Hematology	1,737	26.9%	16.2%	10.1%	4.1%	3.5%	6.1%	1.8%	3.1%	3.7%	1.3%	23.0%
Spine	1,639	32.0%	17.9%	13.7%	2.3%	5.9%	1.7%	0.4%	3.2%	1.7%	5.0%	16.2%
Gynecology	1,425	22.5%	25.5%	20.3%	5.3%	10.1%	0.6%	0.4%	2.0%	1.1%	3.6%	8.6%
ENT	1,139	35.7%	13.8%	9.0%	2.8%	4.2%	2.9%	11.4%	3.7%	1.3%	0.8%	14.3%
Other <sup>(3)</sup>	1,112	36.6%	15.5%	8.8%	2.9%	2.2%	2.5%	8.9%	2.5%	3.5%	0.8%	15.8%
Urology	1,023	19.6%	19.7%	16.8%	2.9%	6.2%	3.6%	0.3%	2.8%	8.0%	1.9%	18.2%
Vascular Services	921	17.8%	35.5%	13.4%	3.3%	2.5%	3.0%	0.2%	5.6%	6.4%	2.4%	9.9%
Rehabilitation	681	47.4%	25.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	26.4%
Neurosurgery	537	27.4%	14.3%	15.3%	4.1%	0.6%	0.4%	2.4%	4.7%	4.7%	1.7%	24.6%
Ophthalmology	99	20.2%	16.2%	12.1%	4.0%	3.0%	5.1%	7.1%	5.1%	7.1%	1.0%	19.2%
<b>Grand Total</b>	<b>56,437</b>	<b>27.7%</b>	<b>23.5%</b>	<b>11.3%</b>	<b>6.2%</b>	<b>5.2%</b>	<b>4.3%</b>	<b>3.2%</b>	<b>2.1%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>12.4%</b>

Source: OSHPD Patient Discharge Database

<sup>(1)</sup>Excludes Normal Newborns (DRG 391)

<sup>(2)</sup> Behavioral Health Breakdown

Psychiatry	2,562	8.3%	4.2%	0.9%	23.4%	1.4%	2.2%	1.8%	0.7%	9.6%	9.6%	37.9%
Chemical Dependency <sup>(4)</sup>	1,105	13.2%	3.3%	12.5%		1.7%	1.6%	1.4%	0.5%	0.9%	3.6%	22.0%

<sup>(3)</sup> Other includes burn, trauma, transplants, and other unspecified data.

<sup>(4)</sup> Other Chemical Dependency Notables

College Hospital Costa Mesa	76	6.9%
Chapman Medical Center	69	6.2%
Western Hospital Anaheim	7	0.6%
Tustin Hospital Medical Center	5	0.5%

- SCMC ranks 4th overall in market share (all services) within the service area.
- SCMC is the market share leader for only one of the 18 service lines (behavioral health) profiled. SCMC's market share for that service line, which includes inpatient psychiatry and chemical dependency, was 28.1%. This service line is provided at only a limited number of other hospitals.
- The service line with the next highest market share for SCMC was obstetrics at 6.8%; however, this service line was discontinued in May 2008.

## Comparative Service Matrix

SCMC's service area is well supported by area hospital programs and services. Mission Hospital, Saddleback Memorial, and Hoag Memorial Hospital Presbyterian are all tertiary-level facilities with broad programs and services and very good reputations. There are no real service "gaps" within the region.

The following grid shows a comparison of local hospitals and the services they provide as compared to the services offered at SCMC. SCMC provides some services that are typical for a community hospital and a few additional services that are not usually provided (e.g., alcoholism-drug abuse or dependency inpatient unit and inpatient psychiatry). SCMC recently discontinued its obstetrics program (May 2008) and will close the sub-acute unit in May of 2009.

2008 SERVICE COMPARISON											
Program/Service	South Coast Medical Center	Mission Hospital Regional Medical Center	Children's Hospital at Mission	Saddleback Memorial Medical Center	Saddleback Memorial Medical Center - San Clemente	Irvine Regional Hospital and Medical Center	Hoag Memorial Hospital Presbyterian	Huntington Beach Hospital	Fountain Valley Regional	Orange Coast Memorial Medical Center	Coastal Communities Hospital
Acute Long-term Care (SNF)	✓										✓
Adult Cardiac Surgery		✓		✓		✓	✓		✓		
Adult Diagnostic/Invasive Cathertization	✓	✓		✓		✓	✓	✓	✓	✓	
Adult Interventional Cardiac Cathertization	✓	✓		✓		✓	✓		✓	✓	
Alcoholism-drug abuse or dependency inpatient	✓						✓				
Bariatric/Weight Control Services	✓						✓		✓	✓	
Birthing Room-LDR Room-LDRP Room		✓		✓		✓	✓		✓	✓	✓
Breast Cancer Screening-Mammograms	✓	✓		✓	✓		✓	✓	✓	✓	
Cardiac Intensive Care Services		✓					✓		✓		
Cardiac Rehabilitation	✓	✓		✓	✓		✓		✓		
Chemotherapy	✓	✓		✓	✓	✓	✓		✓	✓	
CT Scanner	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Emergency Department	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Hemodialysis							✓				✓
HIV-AIDS Services											✓
Magnetic Resonance Imaging (MRI)	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Neonatal Intensive Care Services			✓	✓		✓	✓		✓	✓	
Obstetrics Services		✓		✓		✓	✓		✓	✓	✓
Oncology Services	✓	✓		✓	✓	✓	✓	✓	✓	✓	
Pediatric Intensive Care Services			✓								
Physical Rehabilitation Inpatient Services		✓		✓							
Physical Rehabilitation Outpatient Services	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Psychiatric Care	✓							✓			✓
Trauma Center (certified)		✓									
Women's Health Center/Services	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓

Source: American Hospital Association Guide (2008), OSHPD Annual Utilization Report

## Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, psychiatry, chemical dependency, and emergency services (CY 2008 data).

### Medical/Surgical Beds

Overall, there is substantial available hospital bed capacity in the region for medical/surgical services. Including SCMC and the area hospitals within 20 miles of the Hospital, in 2008, there was a total of 1,083 licensed medical/surgical beds, of which 55% were occupied. This indicates that for 2008, there were 485 beds unoccupied on an average day.

SERVICE AREA MEDICAL/SURGICAL SERVICES							
Within Service Area	Facility	Drive Dist from SCMC (miles)	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
x	South Coast Medical Center		114	2,127	6,634	18.2	15.9%
x	Mission Hospital Regional Medical Center	8.2	190	13,464	46,737	128.0	67.4%
x	Children's Hospital at Mission	8.2	24	1,713	4,158	11.4	47.5%
x	Saddleback Memorial Medical Center - San Clemente	6.9	66	2,654	7,612	20.9	31.6%
x	Saddleback Memorial Medical Center - Laguna Hills	10.8	151	11,918	40,136	110.0	72.8%
	Irvine Regional Hospital and Medical Center*	13.5	118	5,323	16,864	46.2	39.2%
	Hoag Memorial Hospital Presbyterian	14.9	341	22,151	87,146	238.8	70.0%
	Coastal Communities Hospital	19.3	79	2,079	8,949	24.5	31.0%
	<b>TOTAL (Hospitals within 20 Miles of SCMC)</b>		<b>1,083</b>	<b>61,429</b>	<b>218,236</b>	<b>597.9</b>	<b>55.2%</b>
	Fountain Valley Regional Hospital and Medical Center - Euclid	21.4	203	10,712	50,960	140	68.8%
	Huntington Beach Hospital	22.1	94	3,531	10,356	28.4	30.2%
	Orange Coast Memorial Medical Center	22.2	170	10,501	34,615	94.8	55.8%
	<b>TOTAL (All Hospitals Above)</b>		<b>1,550</b>	<b>86,173</b>	<b>314,167</b>	<b>860.7</b>	<b>55.5%</b>

\* Irvine Regional Hospital and Medical Center closed in January 2009  
Source: OSHPD ALIRTS Annual Utilization Report, 2008; MapQuest

## Service Availability by Bed Type (continued)

### Critical Care Beds (ICU/CCU)

The region also has adequate available capacity of hospital critical care beds. There are 177 beds at SCMC and the hospitals within 20 miles, with an occupancy rate near 58%. SCMC has 10 licensed critical care beds that were 49.5% occupied on average in 2008 (average daily census of 5). Mission Hospital has the highest occupancy rate in the region.

SERVICE AREA CRITICAL CARE SERVICES							
Within Service Area	Facility	Drive Dist from SCMC (miles)	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
x	South Coast Medical Center		10	251	1,808	5.0	49.5%
x	Mission Hospital Regional Medical Center	8.2	43	1,122	12,687	34.8	80.8%
x	Children's Hospital at Mission	8.2	8	251	961	2.6	32.9%
x	Saddleback Memorial Medical Center - San Clemente	6.9	7	110	1,314	3.6	51.4%
x	Saddleback Memorial Medical Center - Laguna Hills	10.8	31	318	6,490	17.8	57.4%
	Irvine Regional Hospital and Medical Center*	13.5	12	304	2,791	7.6	63.7%
	Hoag Memorial Hospital Presbyterian	14.9	57	414	9,151	25.1	44.0%
	Coastal Communities Hospital	19.3	9	176	1,974	5.4	60.1%
	<b>TOTAL (Hospitals within 20 Miles of SCMC)</b>		<b>177</b>	<b>2,946</b>	<b>37,176</b>	<b>101.9</b>	<b>57.5%</b>
	<b>TOTAL (Excluding Irvine Regional Medical Center)</b>		<b>165</b>	<b>2,642</b>	<b>34,385</b>	<b>94.2</b>	<b>57.1%</b>
	Fountain Valley Regional Hospital and Medical Center - Euclid	21.4	36	558	10,409	28.5	79.2%
	Huntington Beach Hospital	22.1	12	275	2,424	6.6	55.3%
	Orange Coast Memorial Medical Center	22.2	21	488	5,460	15.0	71.2%
	<b>TOTAL (All Hospitals Above)</b>		<b>246</b>	<b>4,267</b>	<b>55,469</b>	<b>152.0</b>	<b>61.8%</b>

\* Irvine Regional Hospital and Medical Center closed in January 2009  
Source: OSHPD ALIRTS Annual Utilization Report, 2008; MapQuest

## Service Availability by Bed Type (continued)

### Obstetrical Beds

In 2008, there were 206 obstetrical beds at hospitals within 20 miles of SCMC with an aggregate occupancy rate of 59%. This indicates that there is substantial available inpatient capacity for obstetrics in the region. Due to its low volumes, SCMC closed its obstetrical program in May of 2008. SCMC had 19 licensed obstetrical beds with a 25.6% occupancy rate for 2008. Mission Hospital, Saddleback Memorial, and Hoag Memorial Hospital Presbyterian all have substantial available capacity in obstetrics.

SERVICE AREA OBSTETRICS SERVICES CY2008							
Within Service Area	Facility	Drive Dist from SCMC (miles)	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
x	South Coast Medical Center <sup>(1)</sup>		19	218	583	4.8	25.6%
x	Mission Hospital Regional Medical Center	8.2	43	3,429	9,554	26.2	60.9%
x	Children's Hospital at Mission	8.2	0	0	0	0.0	n/a
x	Saddleback Memorial Medical Center - San Clemente	6.9	0	0	0	0.0	n/a
x	Saddleback Memorial Medical Center - Laguna Hills	10.8	39	2,901	8,479	23.2	59.6%
	Irvine Regional Hospital and Medical Center <sup>(2)</sup>	13.5	23	1,179	2,562	7.0	30.5%
	Hoag Memorial Hospital Presbyterian	14.9	70	5,601	16,826	46.1	65.9%
	Coastal Communities Hospital	19.3	12	2,181	6,524	17.9	148.9%
	<b>TOTAL (Hospitals within 20 Miles of SCMC)</b>		<b>206</b>	<b>15,509</b>	<b>44,528</b>	<b>122.0</b>	<b>59.2%</b>
	Fountain Valley Regional Hospital and Medical Center - Euclid	21.4	18	3,643	10,226	28	155.6%
	Huntington Beach Hospital	22.1	0	0	0	0.0	n/a
	Orange Coast Memorial Medical Center	22.2	21	1,413	3,572	9.8	46.6%
	<b>TOTAL (All Hospitals Above)</b>		<b>245</b>	<b>20,565</b>	<b>58,326</b>	<b>159.8</b>	<b>65.2%</b>

<sup>(1)</sup> Obstetrics program closed in May 2008  
<sup>(2)</sup> Irvine Regional Hospital and Medical Center closed in January 2009  
Source: OSHPD ALIRTS Annual Utilization Report, 2008; MapQuest

## Service Availability by Bed Type (continued)

### Inpatient Psychiatric Beds

Availability and accessibility of psychiatric services is more limited within the service area than for other services. SCMC is the sole provider of inpatient psychiatric services within the service area. Approximately 68% of SCMC's psychiatric patients are involuntary patients that are held because they are a danger to themselves or others (Welf. & Inst. Code §5150). Only three other hospitals within 20 miles of SCMC have inpatient psychiatric units. SCMC's psychiatric unit has an average census of approximately 13.7 patients per day within its 36 licensed beds (38.2% occupancy). Only 26 of the beds, however, are currently available for use. All of the beds can accommodate the involuntary ("5150") patients.

Within 20 miles of SCMC, SCMC and the other 7 hospitals have a total of four psychiatric programs, 192 beds, and an aggregate occupancy rate of 78% for CY 2008. Inpatient psychiatry tends to be a service that attracts patients on a broader regional basis depending on the specialized services offered. Within 40 miles of SCMC, there are ten inpatient psychiatric units. Those facilities are listed in the table below.

SERVICE AREA PSYCHIATRIC SERVICES							
Within Service Area	Facility	Drive Dist from SCMC (miles)	Licensed Beds	Discharges	Patient Days	Average Daily Census	Occupancy
x	South Coast Medical Center <sup>(1)</sup>		36	997	5,016	13.7	38.2%
	Newport Bay Hospital	13.4	34	801	10,236	28.0	82.5%
	College Hospital Costa Mesa	16.5	99	3,396	33,901	92.9	93.8%
	Coastal Communities Hospital	19.3	23	451	5,766	15.8	68.7%
	<b>TOTAL (Hospitals within 20 Miles of SCMC)</b>		<b>192</b>	<b>5,645</b>	<b>54,919</b>	<b>150.5</b>	<b>78.4%</b>
	Western Medical Center Hospital - Santa Ana	21.6	28	563	7,061	19.3	69.1%
	Huntington Beach Hospital	22.1	25	502	4,149	11.4	45.5%
	Chapman Medical Center	24.1	12	268	3,127	8.6	71.4%
	St. Joseph Hospital - Orange	24.6	37	2,060	10,178	27.9	75.4%
	UCI Medical Center	25.6	84	1,799	17,206	47.1	56.1%
	Western Medical Center Hospital - Anaheim	27.9	91	2,832	27,077	74.2	81.5%
	College Hospital - Cerritos	39.0	157	6,857	49,185	134.8	85.8%
	<b>TOTAL (All Hospitals Above)</b>		<b>626</b>	<b>20,526</b>	<b>172,902</b>	<b>473.7</b>	<b>75.7%</b>

<sup>(1)</sup> Note, SCMC operates 18 beds for adult psychiatry and 8 for eating disorders  
Source: OSHPD ALIRTS Annual Utilization Report, 2008; MapQuest; SCMC

*Service Availability by Bed Type (continued)*

**Psychiatric Program Payer Mix**

As shown in the table below, over two-thirds of SCMC patients have private insurance coverage.

SOUTH COAST MEDICAL CENTER Psychiatric Program Payer Mix* CY2007	
Payer	Percentage of Discharges
Private	66.8%
Medicare	15.5%
Self Pay	13.1%
All Other	2.9%
MediCal	1.7%
<b>Total</b>	<b>100.0%</b>

Source: OSHPD Patient Discharge Database, 2007

\* DRGs: 425-432

*Service Availability by Bed Type (continued)*

**SCMC Patient Origin for Psychiatric Services**

SCMC's patient origin (area of residence) for psychiatric services is similar to its draw for all services. The top 29 ZIP Codes from which SCMC draws inpatient psychiatry patients are indicated below.

SOUTH COAST MEDICAL CENTER Psychiatric Patient Origin* CY2007						
ZIP w/in SA	ZIP Codes	Community	Total Discharges	% of Discharges	Cum % of Discharges	
X	92677	Laguna Niguel	88	10.9%	10.9%	
X	92629	Dana Point	64	7.9%	18.8%	
X	92651	Laguna Beach	64	7.9%	26.7%	
X	92672	San Clemente	45	5.6%	32.2%	
X	92675	San Juan Capistrano	35	4.3%	36.5%	
X	92656	Aliso Viejo	35	4.3%	40.9%	
X	92688	Rancho Santa Margarita	30	3.7%	44.6%	
X	92630	Lake Forest	29	3.6%	48.1%	
X	92673	San Clemente	25	3.1%	51.2%	
X	92692	Mission Viejo	22	2.7%	54.0%	
X	92653	Laguna Hills	22	2.7%	56.7%	
X	92691	Mission Viejo	20	2.5%	59.1%	
X	92694	Ladera Ranch	14	1.7%	60.9%	
	92626	Costa Mesa	12	1.5%	62.3%	
X	92624	Capistrano Beach	11	1.4%	63.7%	
X	92679	Trabuco Canyon	11	1.4%	65.1%	
	92646	Huntington Beach	9	1.1%	66.2%	
	92603	Irvine	8	1.0%	67.2%	
	92604	Irvine	8	1.0%	68.1%	
	92620	Irvine	8	1.0%	69.1%	
	92627	Costa Mesa	7	0.9%	70.0%	
X	92625	Corona Del Mar	6	0.7%	70.7%	
X	92660	Newport Beach	6	0.7%	71.5%	
	92663	Newport Beach	6	0.7%	72.2%	
	92649	Huntington Beach	6	0.7%	73.0%	
	92614	Irvine	6	0.7%	73.7%	
	92886	Yorba Linda	5	0.6%	74.3%	
	92821	Brea	5	0.6%	74.9%	
	92610	Foothill Ranch	5	0.6%	75.6%	
Subtotal			612	75.6%		
Other ZIPs			198	24.4%	100.0%	
<b>Total</b>			<b>810</b>	<b>100.0%</b>		
*DRGs: 425-432						
Source: OSHPD Patient Discharge Database, 2007						

## Service Availability by Bed Type (continued)

### Chemical Dependency Beds

SCMC has a contractual relationship with Pacific Coast Recovery Centers, a private unrelated company, to operate the chemical dependency program. Chemical dependency inpatients at SCMC are treated within licensed medical/surgical beds. While 10 beds are shown on the SCMC license for chemical dependency, the average daily census is 18 patients and additional medical/surgical beds are utilized as needed.

There is currently only one other hospital within 20 miles, and two within 25 miles of SCMC with licensed inpatient chemical dependency units. However, patients utilizing inpatient chemical dependency services tend to travel longer distances based on limited program availability.

SERVICE AREA CHEMICAL DEPENDENCY SERVICES							
Within Service Area	Facility	Drive Dist from SCMC (miles)	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
x	South Coast Medical Center <sup>(1)</sup>		10	836	6,526	17.9	178.8%
	Hoag Memorial Hospital Presbyterian	14.9	21	443	4,831	13.2	63.0%
	Chapman Medical Center	24.1	28	444	6,005	16.5	58.8%
	Kaiser - Carson	40.6	20	385	1,166	3.2	16.0%
	Hemet Valley Medical Center	66.2	21	723	5,339	14.6	69.7%
	<b>TOTAL</b>		<b>100</b>	<b>2,831</b>	<b>23,867</b>	<b>65.4</b>	<b>65.4%</b>

(1) SCMC'S program is operated by a separate private company; SCMC's beds are licensed as part of general acute care beds  
Source: OSHPD ALIRTS Annual Utilization Report, 2008; MapQuest; SCMC

### Chemical Dependency Payer Mix

As shown in the table below, over 75% of SCMC patients have private insurance coverage.

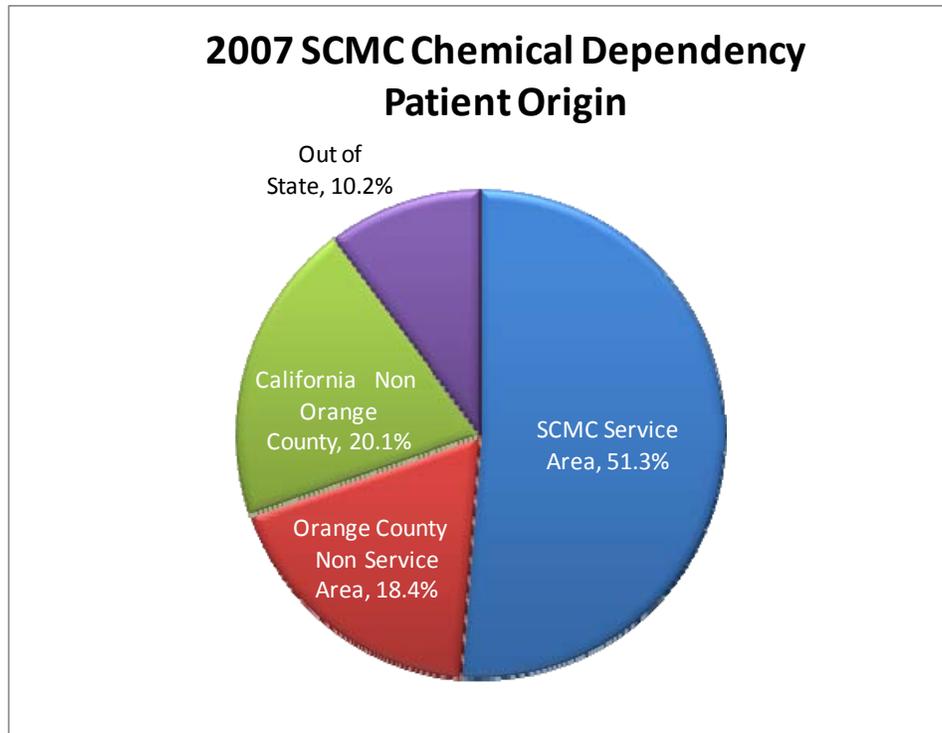
SOUTH COAST MEDICAL CENTER Chemical Dependency Program Payer Mix* 2007	
Payer	Percentage of Discharges
Private	76.9%
Self Pay	12.6%
Medicare	6.9%
Other	3.0%
Medi-Cal	0.6%
<b>Total</b>	<b>100.0%</b>

Source: OSHPD Patient Discharge Database, 2007  
\* DRGs: 433, 521-523

***Service Availability by Bed Type (continued)***

**SCMC Patient Origin for Chemical Dependency**

SCMC's patient origin (residence) for its chemical dependency program is much broader than its draw for all other services. As shown in the chart below, almost half of SCMC patients in the chemical dependency program come from outside the service area, with almost a third residing outside of Orange County.



## Service Availability by Bed Type (continued)

### Emergency Department Volume at Hospitals in the Service Area

SCMC has 12 licensed Emergency Department (ED) stations and had 13,142 visits in CY2008. There are two other EDs within a 10 mile distance of SCMC and six within 20 miles (as indicated in the table below). Mission Hospital has both a trauma and an EDAP (Emergency Department Approved for Pediatrics) designation and treats the most complex emergency patients. There are 60 emergency stations/beds within 10 miles of SCMC that had approximately 95,000 visits during 2008.

EMERGENCY DEPARTMENT VISITS BY CATEGORY - 2008													
Within Service Area	Facility	Drive Dist from SCMC (miles)	ER Level	Stations	Visits							Hours on Diversion	
					Total	Minor	Low/Moderate	Moderate	Severe without Threat	Severe with Threat	Admitted		
x	South Coast Medical Center		Basic	12	13,142	664	2,940	4,404	2,563	2,571	3,127	15	
x	Mission Hospital Regional Medical Center				56,860	3,274	10,148	8,322	12,663	22,453	11,285	317	
x	Children's Hospital at Mission				10,301	2,113	0	4,689	3,039	460	1,102	332	
x	<i>Mission and Children's Hospital at Mission Total</i>	8.2	Trauma	38	67,161	5,387	10,148	13,011	15,702	22,913	12,387	649	
x	Saddleback Memorial Medical Center - San Clemente	6.9	Basic	10	14,722	89	4,572	5,415	3,265	1,381	2,301	98	
x	Saddleback Memorial Medical Center - Laguna Hills	10.8	Basic	31	35,180	290	8,070	11,201	4,830	10,789	9,370	636	
	Irvine Regional Hospital and Medical Center*	13.5	Basic	11	20,811	488	4,087	5,434	6,317	4,485	3,424	522	
	Hoag Memorial Hospital Presbyterian	14.9	Basic	31	66,001	850	17,949	30,065	16,048	1,089	13,379	25	
	Coastal Communities Hospital	19.3	Basic	10	21,682	2,764	8,144	4,314	3,018	3,442	1,996	412	
	Fountain Valley Regional Hospital and Medical Center - E	21.4	Basic	20	32,825	359	8,215	7,516	9,108	7,627	8,125	509	
	Huntington Beach Hospital	22.1	Basic	12	19,073	656	3,035	6,787	3,399	5,196	4,129	21	
	Orange Coast Memorial Medical Center	22.2	Basic	14	24,138	153	5,528	9,254	7,531	1,672	6,678	364	
	<b>TOTAL</b>			<b>189</b>	<b>381,896</b>	<b>17,087</b>	<b>82,836</b>	<b>110,412</b>	<b>87,483</b>	<b>84,078</b>	<b>77,303</b>	<b>3,900</b>	

\*Closed in January 2009  
Source: OSHPD ALIRTS Annual Utilization Report, 2008; MapQuest

### Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians (“ACEP”), have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of emergency departments. Based upon this benchmark, the SCMC emergency department is operating at 55% of its 12 bed capacity. Both hospitals within 10 miles of SCMC (Mission Hospital and Saddleback Memorial - San Clemente) have available capacity, based on reported data.

EMERGENCY DEPARTMENT CAPACITY 2008								
Within Service Area	Facility	Drive Dist from SCMC (miles)	ER Level	Stations	Total Visits	Approximate Capacity Visits <sup>(1)</sup>	Remaining Capacity Visits	
x	South Coast Medical Center		Basic	12	13,142	24,000	10,858	
x	Mission Hospital Regional Medical Center				56,860			
x	Children's Hospital at Mission				10,301			
x	<i>Mission Hospital &amp; Children's Hospital at Mission Total</i>	8.2	Trauma	38	67,161	76,000	8,839	
x	Saddleback Memorial Medical Center - San Clemente	6.9	Basic	10	14,722	20,000	5,278	
x	Saddleback Memorial Medical Center - Laguna Hills	10.8	Basic	31	35,180	62,000	26,820	
	Irvine Regional Hospital and Medical Center <sup>(2)</sup>	13.5	Basic	11	20,811	22,000	1,189	
	Hoag Memorial Hospital Presbyterian <sup>(3)</sup>	14.9	Basic	31	66,001	62,000	(4,001)	
	Coastal Communities Hospital	19.3	Basic	10	21,682	20,000	(1,682)	
	Fountain Valley Regional Hospital and Medical Center - Euclid	21.4	Basic	20	32,825	40,000	7,175	
	Huntington Beach Hospital	22.1	Basic	12	19,073	24,000	4,927	
	Orange Coast Memorial Medical Center	22.2	Basic	14	24,138	28,000	3,862	
	<b>TOTAL</b>			<b>189</b>	<b>314,735</b>	<b>378,000</b>	<b>63,265</b>	

(1) Estimated at 2,000 per station  
(2) Closed in January 2009 and scheduled to reopen in 2010  
(3) Hoag is currently expanding its ED with estimated completion in 2011  
Source: OSHPD ALIRTS Annual Utilization Report, 2008; MapQuest

*Service Availability by Bed Type (continued)*

**SCMC's Patient Origin for Emergency Services**

The primary catchment area for SCMC's emergency services is similar to but smaller than its overall service area. The top 19 ZIP Codes from which SCMC draws emergency patients are indicated below. Approximately 56% of emergency department visits are from residents of Laguna Beach, Dana Point, and Laguna Niguel (as compared to only 38% for patients admitted).

SOUTH COAST MEDICAL CENTER EMERGENCY DEPARTMENT PATIENT ORIGIN* 2007				
ZIP Code	Community	SCMC ED Visits	% of ED Visits	Cumulative % of Visits
92651	Laguna Beach	2,680	24.4%	24.4%
92629	Dana Point	1,779	16.2%	40.5%
92677	Laguna Niguel	1,729	15.7%	56.2%
92675	San Juan Capistrano	482	4.4%	60.6%
92672	San Clemente	366	3.3%	64.0%
92656	Aliso Viejo	318	2.9%	66.8%
92673	San Clemente	153	1.4%	68.2%
92691	Mission Viejo	137	1.2%	69.5%
92624	Capistrano Beach	119	1.1%	70.6%
92653	Laguna Hills	119	1.1%	71.6%
92652	Laguna Beach PO Box	105	1.0%	72.6%
92692	Mission Viejo	103	0.9%	73.5%
92630	Lake Forest	103	0.9%	74.5%
92688	Rancho Santa Margarita	74	0.7%	75.1%
92660	Newport Beach	52	0.5%	75.6%
92625	Corona Del Mar	48	0.4%	76.0%
92679	Trabuco Canyon	46	0.4%	76.5%
92637	Laguna Woods	39	0.4%	76.8%
92694	Ladera Ranch	38	0.3%	77.2%
Subtotal		8,490	77.2%	
Other ZIPs		2,512	22.8%	100.0%
<b>Total</b>		<b>11,002</b>	<b>100.0%</b>	

Source: South Coast Medical Center

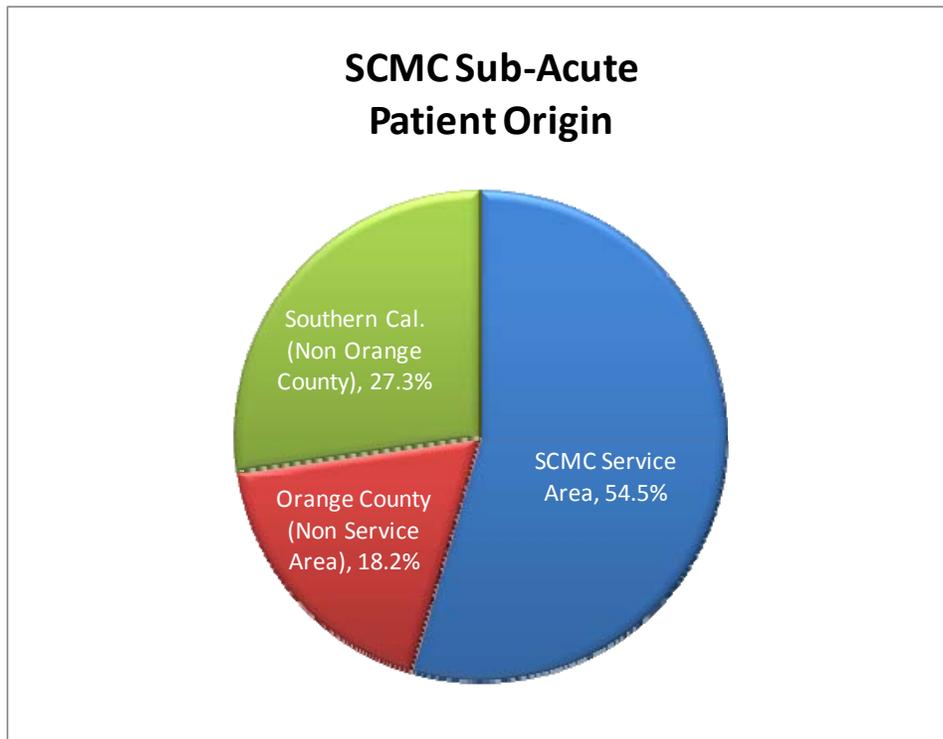
## *Service Availability by Bed Type (continued)*

### **Sub-Acute Beds**

SCMC is in the process of closing its 29-bed sub-acute care unit and transferring those patients to other facilities. SCMC has already submitted and received approval from the California Department of Public Health for its patient relocation plan and closure of the unit.

This process is expected to be completed by May 2009. On January 13, 2009, the unit had 22 patients and since then has not accepted any new patients. As of April 15, 2009, there were two sub-acute patients still being treated at SCMC.

SCMC has contacted over 90 acute care facilities that have available beds within 50 miles of the patients' residence. The majority of SCMC's patients have already been transferred to some of those facilities.



Source: SCMC patient listing, January 13, 2009

### *Service Availability by Bed Type (continued)*

Facilities within Southern California that have available sub-acute beds are listed on the table below. Many of the sub-acute patients that have been transferred from SCMC are now at some of these facilities.

Selected Southern California Sub-Acute Care Providers			
Facility	City	# of Beds	Beds Available as of 1/12/09
Alhambra Hospital Medical Center	Alhambra	30	5
Park Anaheim Healthcare Center	Anaheim	41	5
Briarcrest Nursing Center	Bell Gardens	24	3
Anaheim General Hospital - Buena Park	Buena Park	31	4
Buena Park Nursing Center	Buena Park	47	7
Topanga Terrace Convalescent Center	Canoga Park	48	5
Reche Canyon Rehabilitation & Health Care	Colton	78	1
Corona Regional Medical Center	Corona	30	4
Sharp Coronado Community Hospital	Coronado	94	2
Newport Subacute Healthcare Center	Costa Mesa	45	10
Chase Care Center	El Cajon	35	14
El Dorado Care Center	El Cajon	37	3
Villa Las Palmas Healthcare Center	El Cajon	15	1
Chapman Care Center	Garden Grove	31	1
Garden Park Care Center	Garden Grove	30	3
Memorial Hospital of Gardena	Gardena	69	4
Hemet Valley Medical Center	Hemet	23	2
Hi-Desert Medical Center	Joshua Tree	25	2
Colonial Care Center	Long Beach	24	1
Country Villa Belmont Heights Healthcare	Long Beach	23	1
Pacific Care Nursing Center	Long Beach	33	2
Country Villa Nursing and Rehabilitation Center	Los Angeles	26	1
Mountain View Subacute and Rehabilitation	Los Angeles	24	2
New Vista Post Acute Care Center	Los Angeles	30	5
Sunray Healthcare Center	Los Angeles	24	2
Western Convalescent Hospital	Los Angeles	24	2
Providence Holy Cross Medical Center	Mission Hills	48	2
Country Villa Sheraton Nursing & Rehab Center	North Hills	20	2
All Saints' Healthcare	North Hollywood	50	4
Sherman Village Healthcare Center	North Hollywood	40	1
Intercommunity Healthcare & Rehabilitation	Norwalk	30	2
Chapman Medical Center	Orange	27	3
New Orange Hills	Orange	34	4
Cameliia Gardens Care Center	Pasadena	28	2
Rose Garden Convalescent Center	Pasadena	18	2
Pomeroado Hospital	Poway	20	4
Mission Nursing Center	Riverside	20	1
Legacy Post-Acute Rehabilitation Center	San Bernadino	49	4
Coastal Communities Hospital	Santa Ana	46	8
Oceanview Convalescent Hospital	Santa Monica	20	2
Pacifica Hospital of the Valley	Sun Valley	89	10
Mountain View Convalescent Hospital	Sylmar	24	2
San Fernando Post Acute Hospital	Sylmar	50	3
Doctor's Hospital of West Covina	West Covina	24	3
Shea Rehabilitation Healthcare Center	Whittier	37	1

Sources: SCMC, January 2009; MDS

## ***Service Availability by Bed Type (continued)***

### **Cardiac Services**

SCMC provides partial scope cardiac care services including emergency, medical cardiology, and cardiac catheterization services. However, hospital volumes for these services are relatively low. For example, SCMC performed only 41 catheterization procedures in 2008, and that is well below minimum recommended industry standards.

### **Radiation Therapy Services**

SCMC provides radiation oncology (therapy) services that are predominantly outpatient in nature. In 2008, SCMC had 31 hospital inpatients who received radiation therapy treatments. One challenge is that SCMC's linear accelerator is over 20 years old and has limited capabilities compared to newer equipment. As such, the Hospital's ability to treat patients is limited compared to other hospitals, such as Mission Hospital or Hoag Hospital. Multiple other facilities in the region provide radiation therapy services.

## SUMMARY OF COMMUNITY INTERVIEWS

In March and April of 2009, both in-person and telephone interviews were conducted with numerous physicians, community members, and representatives from the Hospital, Mission Hospital and Adventist Health. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability or accessibility as a result of the proposed Hospital transaction. The major findings from the 49 interviews are summarized on the following pages.

### *Reasons for the Sale of SCMC*

Those interviewed generally understood that AH and SCMC leadership cite the following as the major reasons for selling the facility:

- Large and continuing financial losses
- Inability to gain economies of scale and managed care leverage since there are no other AH facilities within SCMC's service area
- Inability to re-invest appropriately into the facility in light of financial losses
- Strong regional competition from Mission Hospital, Memorial Health Services, Hoag Memorial Hospital Presbyterian and others

### *Acquisition by Mission Hospital*

The majority of people interviewed expressed support for the transaction. The general consensus expressed was that the facility struggled under AH's ownership and that a new owner would be welcomed, assuming services remain stable and the new buyer makes capital investments to upgrade facilities, information systems, and equipment.

Most interviewees were very familiar with Mission Hospital and SJHS. Roughly 90% of the physicians and Board members interviewed support the transaction. Some interviewees expressed the following concerns:

- There is potential for closure of programs and services.
- There is a potential loss of physicians from SCMC because of dissatisfaction with SJHS's approach to management and service delivery. The greatest concern was expressed related to hospital-based physicians, especially emergency physicians and pathologists.
- Some physicians with offices located within the two medical office buildings on campus are concerned about potential rental rate increases and affordability going forward (with Mission Hospital as the new landlord).

Despite these concerns, many interviewed felt that Mission Hospital would invest in SCMC and attempt to enhance programs and services.

## ***Importance of SCMC to the Community***

SCMC is viewed as important to the local community for its provision of emergency, general medical/surgical and mental health services. It is viewed as a community hospital with a significant depth of medical, surgical, and support services. Services frequently mentioned as important for healthcare access and availability include:

- Emergency services
- Mental health services (psychiatric services)
- Medical/surgical services, including operating rooms

The Orange County Emergency Medical Services Agency emphasized the importance of SCMC's emergency department to the community in light of long travel times to alternative hospital emergency departments for certain communities, including Laguna Beach, Dana Point and portions of Laguna Niguel. It was also emphasized that SCMC is an important site for disaster preparedness within Orange County.

SCMC is also viewed as an important employer and contributor to overall community economic development and prosperity.

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

Throughout the interview process, people were concerned about the potential for closure of the Hospital, and especially the emergency department. Without the commitment of Mission Hospital, people believed it is likely that AH would close the Hospital. Even with the acquisition by Mission, those interviewed are still concerned that the Hospital may close because it is not seismically compliant. Most felt that any buyer, even Mission, would not continue to operate inpatient services if it required large expenditures to become seismically compliant. Therefore, many expect that if the Hospital is not reclassified for seismic compliance or does not receive legislative relief, it will close inpatient services in 2013.

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

Interviewees almost unanimously indicated that they support the sale of SCMC to Mission Hospital.

## ***Closure of the Sub-Acute Unit***

Concerns were raised about the sub-acute patients that had been taken care of by the Hospital for, in some cases, many years. This sub-acute unit was the only one in South Orange County. While it was recognized that the closure of the unit created large changes and inconveniences for current patients and their families, the sub-acute unit was not viewed as an essential service for the community. Most SCMC sub-acute patients have since been able to find placement elsewhere.

### ***Reinvestment in the Facility***

Representatives of Mission Hospital indicated that the organization expects to make capital investments to improve the physical plant, equipment, and infrastructure at SCMC. During discussions with representatives of the City of Laguna Beach, Mission Hospital leadership indicated that capital investment of \$13 to \$18 million would probably be needed at SCMC to improve the central plant, information systems/technology, and other elements of the physical plant. Due to the fiscal challenges posed by the current economic conditions, SJHS has placed a “freeze” on capital project expenditures system-wide. Thus, while Mission Hospital hopes over time to be able to make sufficient capital expenditures to position SCMC for long-term viability and to provide facility upgrades and basic infrastructure support, the current economic conditions preclude any firm capital commitment by SJHS at this time.

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

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

Mission Hospital has stated that it is committed to continuing the operation of SCMC as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) for a period of five (5) years after the closing date, provided it obtains appropriate reclassification to SPC-2 HAZUS status for the buildings located on the SCMC campus, or is otherwise exempted by law from seismic safety requirements that would require it to incur more than \$1 million for seismic safety facility improvements at SCMC during the five-year period.

### ***Emergency Services***

With 12 emergency beds and over 13,000 visits in 2008, SCMC has a low volume emergency department compared to other regional hospitals. Based on a standard of 2,000 visits per station per year, SCMC's ED was at 55% capacity in 2008. While other area emergency departments have capacity and could absorb the volume of patients from SCMC, distance and access challenges would be problematic for local residents and visitors if SCMC's ED were eliminated. As previously discussed, SCMC's emergency department is needed for patient access and is considered very important by area physicians, the City of Laguna Beach and management of the Orange County Emergency Medical Services Agency, all of whom emphasized that travel times to other hospitals' EDs could equal 30-40 minutes from remote portions of the SCMC's service area and that this could pose a safety risk. Access would be particularly difficult when summer visitors increase the population and make traffic patterns much more difficult.

Mission Hospital has stated that it is committed to continue to provide emergency room services at current levels for a 5-year period after the closing date, subject to the hospital provisions referenced above concerning seismic compliance.

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

An analysis of the current supply and demand of area hospital beds shows that there is a sufficient number of beds in the service area and the region for medical/surgical services. However, if emergency services are provided, California Licensing and Certification Regulations of General Acute Hospitals ("Title 22") require maintaining medical/surgical beds.

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

SCMC has had a fairly low patient census within its intensive care unit (average of five patients per day). Currently there is substantial available bed capacity for intensive care patients within the region. However, if SCMC's emergency services remain intact, per Title 22, California Code of Regulations, a minimum of four intensive care beds is required.

### ***Psychiatric Services***

SCMC is an important provider of psychiatric services to the community, particularly for involuntary patients that are held because they are a danger to themselves or others (Welf. & Inst. Code §5150). SCMC, currently operating 26 psychiatric beds (18 general and 8 eating disorder), is the only provider of inpatient psychiatric services within the service area. Approximately 68% of psychiatric patients are involuntary admissions, based on data provided by SCMC. Hence, this is an important service at the Hospital and for the community. Mission Hospital has stated that it will continue to provide behavioral health services at levels to be determined after a thorough review of the program.

### ***Obstetrical Services***

SCMC's obstetric services were eliminated in May of 2008. There is adequate capacity in the service area to meet current needs.

### ***Sub-Acute Services***

SCMC is in the process of closing its sub-acute unit and currently has a patient census of two. While closing the unit has created anxiety and difficulties for many of the patients and families that have used the Hospital for years, there is available capacity at other facilities in Southern California. Furthermore, the financial losses of the sub-acute unit have been a significant contributor to SCMC losses. Mission Hospital has stated that it will not complete the transaction if required to continue to operate or reopen the sub-acute unit.

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

Approximately 33% of SCMC's inpatients are insured through Medicare (25%) and Medi-Cal (8%) – traditional and managed care (CalOptima). SJHS has agreed to continue Medicare, Medi-Cal, and other third-party contracts that will maintain patient access to the facility. The Hospital treats a low volume of County indigent patients, primarily through the emergency department. Access for this population is not anticipated to change.

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

Mission Hospital has stated that it will provide charity and indigent care at no less than the average annual amount provided by SCMC over the past five years (\$408,238), increasing at the rate of inflation for the region.

### ***Effects on Community Benefit Programs***

SCMC has provided an annual average of approximately \$418,400 over the last 5 fiscal years (2004-2008) to support community education and prevention, senior health initiatives, health professionals training, etc. In light of financial difficulties, community benefits programs have been more difficult for SCMC to support in recent years. Mission Hospital has stated that it commits to provide, for a period of 5 years after the closing date, a minimum of \$366,637 per year in community benefit expenditures plus an annual increase equal to the percentage increase of the Consumer Price Index for the Los Angeles/Riverside/Orange County metropolitan service area. The difference in the two figures reflects Mission Hospital's exclusion of prior funds related to obstetrics, as those services were discontinued in May of 2008.

### ***Effects on Staffing and Employee Rights***

Mission Hospital intends to employ substantially all active SCMC employees (other than employees who are not needed as a result of integration initiatives and closure of SCMC's sub-acute unit) and will offer all employee benefits, compensation and other employment terms and conditions to those employees.

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

Mission Hospital has stated it will use commercially reasonable efforts to offer an expedited application and credentialing process for current members of SCMC's medical staff for membership and clinical privileges on Mission Hospital's medical staff. As a result, it is expected that most physicians will continue to have privileges. The most notable exception could be the hospital-based specialists, whose contracts may not be renewed.

### ***Effects on Patient Access***

Mission Hospital will assume some but not all of SCMC's third-party contracts, including payer, physician and vendor contracts. Since Mission Hospital maintains most of the same contracts as SCMC, patient access is not expected to be negatively impacted.

### ***Alternatives***

If the proposed transaction is not approved, SCMC could be sold to other interested buyers on similar terms. There were multiple other prospective buyers that made competitive offers to purchase the Hospital. Those potential buyers would have substantially the same concerns.

## CONCLUSIONS

Overall, the purchase by Mission Hospital is likely to continue the availability and accessibility of health care services in the community. In general, it is expected that the access for Medicare, Medi-Cal Traditional and Managed Care (CalOptima) and other patients will remain unchanged. Furthermore, Mission Hospital's probable capital investment in the facility over the next 5 years could lead to an expansion and/or improvement of facilities, infrastructure and certain services at SCMC.

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

As a result of the analysis, MDS recommends the following conditions to the approval of the sales transaction:

- 1) Mission Hospital should continue to operate SCMC as a general acute care hospital through 12/31/2012 regardless of seismic retrofit requirements. Beyond 12/31/2012, Mission Hospital should continue to operate SCMC as a general acute care hospital for a period extending to at least five years from the close of the transaction provided that one of the following occurs:
  - a. Current seismic (SB1953) 2013 deadline is extended beyond the five year period
  - b. SCMC receives SPC-2 HAZUS approval (extends to 2030)
  - c. Other legislative provisions allow an extension or exemption of seismic requirements beyond the five year period
- 2) Mission Hospital should pursue all appropriate and available remedies for seismic compliance and exemptions necessary for continued inpatient operation and fully cooperate with OSHPD including, but not limited to, timely provision of all information and documentation requested by OSHPD.
- 3) Mission Hospital should, for at least five years, maintain emergency services at current licensure (12 treatment stations), types and levels of services through 12/31/2012. Beyond 12/31/2012, Mission Hospital should continue to maintain emergency services at current licensure (12 treatment stations), types, and levels of service for a period extending to at least five years from the close of the transaction provided that one of the factors in condition number 1 above occurs. If such factors do not occur, Mission Hospital should pursue any allowable designations as a free standing emergency department or, at a minimum, provide 24-hour urgent care services in Laguna Beach.

- 4) Mission Hospital should also maintain the following types and levels of services for at least five years:
  - a. ICU/CCU services, including a minimum of 4 beds
  - b. Psychiatric services, including a minimum of 18 inpatient beds and provision of services to involuntary patients.
- 5) Mission Hospital should maintain certification to participate in the Medi-Cal program for as long as Mission Hospital operates the Hospital and provides emergency services.
- 6) Mission Hospital should maintain CalOptima contracts for Med-Cal, Healthy Families, Healthy Kids, and OneCare, CalOptima's Medicare Advantage Special Needs Plan, at the Hospital to provide the same types and levels of emergency and non-emergency services as required in these conditions, for at least five years from the date of the transaction closing.
- 7) Mission Hospital should continue to maintain a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these conditions, for at least five years from the date of the transaction closing.
- 8) Mission Hospital should expend a minimum of \$408,238 in annual charity costs<sup>3</sup> (not charges) for at least five years. This amount should be increased annually based on the regional Consumer Price Index. The amount of any annual shortfall in charity care should be contributed to a nonprofit public benefit corporation that provides medical patient care to residents in the service area.
- 9) Mission Hospital should continue to expend an average of a minimum of \$418,400 annually in community benefit services for at least five years. This amount should be increased annually based on the regional Consumer Price Index.
- 10) Mission should participate in the following County contracts on a continuing basis:
  - a. Medical Services for the Indigents Program
  - b. Designated emergency services
  - c. Emergency preparedness and response to disasters and bioterrorism services
  - d. Transfer agreement for public health community clinics
- 11) Mission Hospital should agree to appoint a local advisory committee comprised of the Hospital CEO, physicians from the Hospital's medical staff, and community representatives.

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<sup>3</sup> 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."

### ***Recommended Action***

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

## APPENDICES

Interviews were conducted with the following people:

First	Last	Position	Affiliation
David	Ashkenaze	MD Orthopedics	SCMC Medical Executive Committee
Stuart	Anderson,	MD Member	SCMC Medical Executive Committee
Peter	Bastone	CEO	Mission Hospital
Greg	Baswell	Program Manager	Orange County EMS Agency
Andres	Betts	MD Physician	SCMC Medical Staff
Kathleen	Blackburn	Member	SCMC Hospital Community Board
Carole	Bowman	Member	SCMC Hospital Community Board
Bob	Carmen	President	Adventist Health
Hazem	Chehabi,	MD Member	SCMC Medical Executive Committee
Bruce	Christian	President / CEO	SCMC
Michael	Coccia,	MD Past Chief of Staff	SCMC Medical Exec and Governing Board
Steve	Collier	Administrator	Pacific Coast Recovery
Kent	Combs	MD ENT	SCMC Medical Staff
Markie	Cowley	Executive Vice President, COO	Mission Hospital
Lynne	Detlor	Member	SCMC Hospital Community Board
Vincent	Duda	MD Internal Medicine	SCMC Hospital Community Board
Chu-Pei	Feng	MD Radiation Oncology	SCMC Medical Staff
Joseph	Filipi	Nursing Director, Subacute	SCMC
Richard	Granese	MD Psychiatry	SCMC Medical Executive Committee
Ann	Greco	President	SCMC Auxiliary
Daniel	Haspert	MD Member	SCMC Medical Executive Committee
Harold	Kaufmann	Member	SCMC Hospital Community Board
Richard	Kempert,	MD Chief of Staff Elect	SCMC Medical Staff
David	Kim	MD Internal Medicine	SCMC Medical Staff
Cheryl	Kinsman	Member	Laguna Beach Task Force
Andrea	Kofl	RN COO/CNO	SCMC Executive Team
Gabor	Kovacs	MD Oncology	SCMC Medical Executive Committee
Kenneth	MacFarland	Senior Vice President/ CFO	Mission Hospital
Tom	Mahowald	Finance	SJHS
Tim	McMahon	Member	SCMC Hospital Community Board
Debrah	Miller	MD Pediatrics	SCMC Medical Staff
Eric	Miyamoto,	MD Secretary/Treasurer & Credentials Chair	SCMC Hospital Community Board
Gerald	Penick	Member	SCMC Hospital Community Board
John	Pietig	Assistant City Manager	City of Long Beach
Larry	Pugh	CFO	SCMC Executive Team
Frank	Rose	MD Cardiology	SCMC Medical Executive Committee
Joseph	Ruggio	MD Cardiology	SCMC Medical Executive Committee
Zareh	Sarrafiian	Member	SCMC Hospital Community Board
George	Schiffman	MD Pulmonary/Critical Care	SCMC Medical Staff
Helen	Simpson	Director	SCMC Auxiliary
Karen	Smith	Past President	SCMC Auxiliary
Larry	Snyder	MD Family Practice	SCMC Medical Executive Committee
Eric	Speare	MD Psychiatry	SCMC Medical Staff
Cecil	Spearman	Chair of Foundation Board	SCMC Hospital Community Board
Melissa	Tober	Manager, Medical & Institutional Health	Orange County Health Care Agency
Tri	Tong	MD Emergency Services	SCMC Medical Staff
Linda Mae	Torres	Member	SCMC Hospital Community Board
Christopher	Vanley	MD Chief of Staff	SCMC Medical Staff
Tom	Wilson	Member	SCMC Hospital Community Board

A copy of SCMC's hospital license is below:

License: 060000171  
Effective: 05/30/2008  
Expires: 04/27/2009  
Licensed Capacity: 208

CORRECTED COPY

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

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

*this License to*

**South Coast Medical Center**

to operate and maintain the following **General Acute Care Hospital**

**SOUTH COAST MEDICAL CENTER**

31872 COAST HIGHWAY  
LAGUNA BEACH, CA 92651

**Bed Classifications/Services**

- 143 General Acute Care
- 19 Perinatal Services
- 10 Chemical Dependency Recovery
- 10 Intensive Care
- 104 Unspecified General Acute Care
- 36 Acute Psychiatric (D/P)
- 29 Skilled Nursing (D/P)

**Other Approved Services**

- Basic Emergency
- Cardiac Catheterization Laboratory Services
- Mobile Unit - PET
- Nuclear Medicine
- Outpatient Services at 5 JOURNEY, SUITE #110  
AND #205, ALISO VIEJO
- Physical Therapy
- Radiation Therapy
- Respiratory Care Services
- Social Services

**Approved Other Certifiable Parts**

Prospective Payment System - Psychiatric Unit  
SOUTH COAST MEDICAL CENTER  
31872 COAST HIGHWAY  
LAGUNA BEACH, CA 92651

This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:  
19 General Acute Care beds suspended from 05/30/2008 to 04/27/2009.

Mark B. Horton, MD, MSPH  
DIRECTOR

Jacqueline A. Lincer  
JACQUELINE A. LINCER, District Manager (AUTHORIZED REP.)

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification,  
Orange County District Office, 2150 Towne Centre Place, Suite 210, Anaheim, CA 92806, (714)456-0630

POST IN A PROMINENT PLACE