Effects of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC on the Availability and Accessibility of Healthcare Services to the Communities Served by O'Connor Hospital

Prepared for the Office of the California Attorney General

October 2, 2015

MDS Consulting, a VHA business
24596 Hawthorne Boulevard
Torrance, CA 90505
P: 424 237 2525 ■ F: 424 247 8248
www.MDSconsulting.com

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INTRODUCTION & PURPOSE

MDS Consulting, a VHA business (MDS) was retained to prepare reports for the Office of the California Attorney General on the Daughters of Charity Health System, including each of the system's five hospital corporations and their related health facilities. This report evaluates the potential impact of the proposed System Restructuring and Support Agreement (System Agreement) between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC, on the availability and accessibility of healthcare services to the communities served by O'Connor Hospital. O'Connor Hospital, a nonprofit religious corporation (O'Connor), operates O'Connor Hospital, a general acute care hospital located in San Jose, California (the Hospital).

Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation (Ministry), is the sole corporate member of Daughters of Charity Health System, a California nonprofit religious corporation (Daughters). Daughters is the sole corporate member of five California nonprofit religious corporations, including O'Connor, St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, and Seton Medical Center (collectively, the Hospital Corporations).

The Hospital Corporations are licensed to operate five general acute care hospitals including the Hospital, St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, and Seton Medical Center, which shares a consolidated license with Seton Medical Center Coastside, a skilled nursing facility (collectively, the Health Facilities).

Each of the Hospital Corporations is the sole corporate member of a California nonprofit public benefit corporation that handles its fundraising and grant-making programs: St. Francis Medical Center Foundation, St. Vincent Foundation, Seton Medical Center Foundation, Saint Louise Regional Hospital Foundation, and O'Connor Hospital Foundation (collectively, the Philanthropic Foundations). O'Connor is the sole corporate member of O'Connor Hospital Foundation (O'Connor Foundation).[1]

Daughters has requested the California Attorney General's consent to enter into a System Restructuring and Support Agreement with Certain Funds Managed by BlueMountain Capital Management, LLC, a Delaware limited liability company (BlueMountain)[2], and Integrity Healthcare, LLC, a Delaware limited liability company (Integrity), whereby Integrity will manage

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[1] In reference to St. Vincent Foundation and St. Francis Foundation, the System Agreement names St. Vincent Medical Center Foundation and St. Francis Medical Center of Lynwood in its inclusive definition of the "Philanthropic Foundations"; however, St. Vincent Foundation and St. Francis Foundation are the names under which they were incorporated.

[2] Certain Funds Managed by BlueMountain involved in this transaction include the following entitites: BlueMountain Guadalupe Peak Fund L.P., BlueMountain Summit Opportunities Fund II (US) L.P., BlueMountain Montenvers Master Fund SCA SICA V-SIF, BlueMountain Foinaven Master Fund L.P., BlueMountain Logan Opportunities Master Fund L.P., BlueMeridian Capital, LLC, and BMSB L.P., a Delaware limited partnership.

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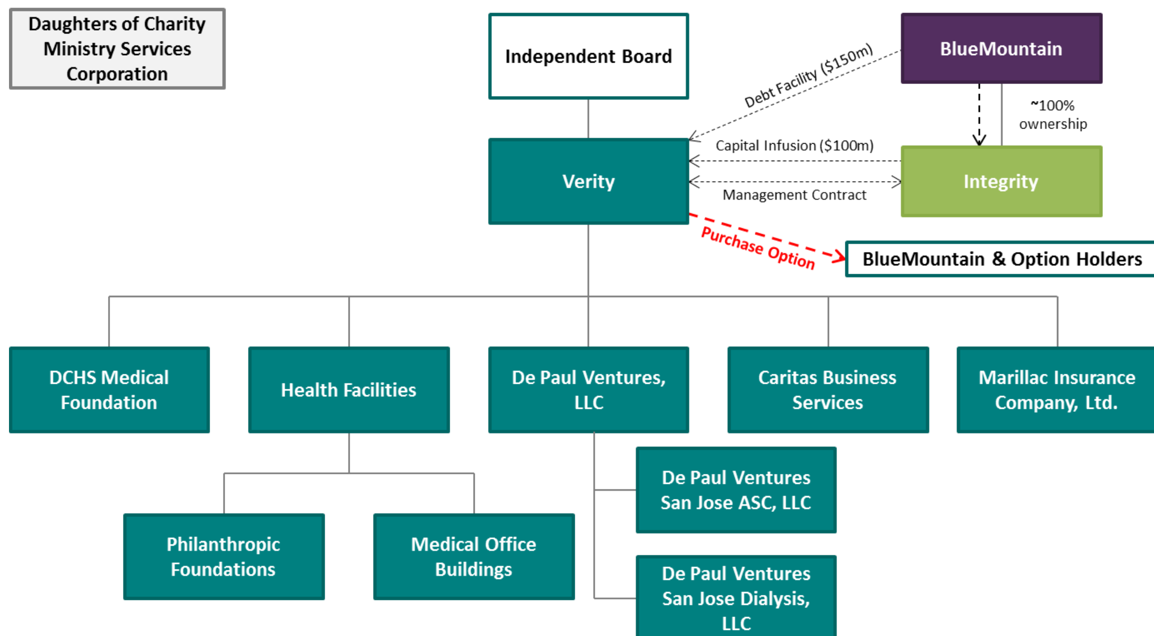
the operations of the Health Facilities under the oversight of a new independent board of directors, and Certain Funds Managed by BlueMountain will provide capital to support the financial and capital needs of Daughters (see the organizational chart below). The System Agreement includes purchase options for BlueMountain and the Certain Funds Managed by BlueMountain to buy all assets of Daughters and its affiliated entities.

Daughters is a multi-institutional Catholic health system that is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West. The table below shows Daughters' current governance structure for the Hospital Corporations and Daughters' Affiliates[3].

DAUGHTERS' GOVERNANCE STRUCTURE		
Included Corporations in the System Agreement	Current Corporate Structure	Description
Daughters	California nonprofit religious corporation	Sole corporate member of five California nonprofit religious corporations
O'Connor Hospital	Nonprofit religious corporation	Operates a general acute care hospital, O'Connor Hospital
Saint Louise Regional Hospital	Nonprofit religious corporation	Operates a general acute care hospital, Saint Louise Regional Hospital, and De Paul Urgent Care Center
Seton Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, Seton Medical Center, and Seton Medical Center Coastside, a skilled nursing facility
St. Francis Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Francis Medical Center
St. Vincent Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Vincent Medical Center
DCHS Medical Foundation	California nonprofit religious corporation	Group of physicians that provide primary and specialty care
Caritas Business Services	Nonprofit religious corporation	Provides support services for Daughters and hospital corporations. Daughters is the sole Class A member
St. Vincent Dialysis Center, Inc.	California nonprofit religious corporation	Speciality clinic licensed for provision of dialysis services
Philanthropic Foundations	California nonprofit religious corporation	Charitable foundations that support community benefit programs and capital expenditures
St. Vincent De Paul Ethics Corporation	California nonprofit religious corporation	Does not hold any assets
Marillac Insurance Company, Ltd.	Caymans entity	Captive insurance company to self-insure for professional and general liability exposures. Daughters is the sole shareholder
De Paul Ventures, LLC	California limited liability company	Created for the purpose of investing in a freestanding surgery center and other healthcare entities. Daughters is the sole member

Upon closing of the proposed transaction and the conversion of Daughters into Verity Health System of California, Inc., a non-member, nonprofit public benefit corporation (Verity), Daughters of Charity of St. Vincent de Paul, Province of the West, will cease its Catholic Sponsorship of Daughters, as shown in the post-transaction organizational chart below.



[3] Daughters' Affiliates refers to the following: the Health Facilities, DCHS Medical Foundation, Caritas Business Services, St. Vincent Dialysis Center, Inc., the Philanthropic Foundations, St. Vincent de Paul Ethics Corporation, Marillac Insurance Company, Ltd., and DePaul Ventures, LLC.

MDS performed the following in its preparation:

- A review of the application submitted by Daughters to the California Attorney General on July 31, 2015, and supplemental information and documents subsequently provided by Daughters and the Health Facilities;

- A review of press releases and news articles related to this and other hospital transactions;

- Interviews with community representatives, representatives of the Hospital's medical staff, management, and employees, O'Connor's Board of Directors (O'Connor's Board), Daughters' Board of Directors (Daughters' Board), Daughters' representatives, health plan representatives, and others listed in the Appendices;

- An analysis of financial, utilization, and service information provided by Daughters, the Hospital's management, and the California Office of Statewide Health Planning and Development (OSHPD); and

- An analysis of publicly available data and reports regarding the Hospital's service area including:

    - Demographic characteristics and trends;
    - Payer mix;
    - Hospital utilization rates and trends;
    - Health status indicators; and
    - Hospital market share.

Reasons for the Transaction

As set forth in Daughters' statement of reasons outlining why the Daughters' Board believes the proposed transaction is either necessary or desirable, Daughters' Board indicated the following:

- The current structure and sponsorship of Daughters and the Health Facilities are no longer plausible as a result of cash flow projections and dire financial conditions;

- In July and August of 2014, Daughters obtained a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. Repayment of the funds is due on December 15, 2015, at which time if the full amount is not repaid, Daughters will be at risk of defaulting on both the 2014 and 2005 Revenue Bonds[4]; and

- Without bankruptcy protection or additional financial support, Daughters could not continue hospital operations if there is a default.

Transaction Process and Objectives

The primary objective stated by Daughters for the proposed transaction is to ensure a sustainable future for the Health Facilities and the other related entities. In order to accomplish this goal, Daughters' Board engaged Houlihan Lokey Capital, Inc. (Houlihan Lokey)[5] , an investment banking firm with experience in healthcare mergers and acquisitions, in February 2014 to conduct a comprehensive offering of the Health Facilities. Daughters' Board specified the following guiding principles for the change of control:

- Protect the pensions of current employees, retired employees, and their beneficiaries;

- Repay major business partners, such as bondholders and vendors;

- Honor and assume the Collective Bargaining Agreements (CBAs)[6] held by the Hospital Corporations; and

- Obtain commitments to capital investments in the Health Facilities, and commitments to the continued provision of acute care services and indigent care, as well as to the

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

[5] Houlihan Lokey is a trade name for Houlihan Lokey, Inc. and its subsidiaries and affiliates, including Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of Financial Industry Regulatory Authority and Securities Investor Protection Corporation.

[6] A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.

continued participation in the Medi-Cal and Medicare programs, for the communities served by the Health Facilities.

Houlihan Lokey identified and contacted a total of 133 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit strategic buyers, government-related healthcare institutions, for-profit hospital operators, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After introductory conversations, 72 parties expressed interest.

Bids were solicited for individual hospitals, groups of hospitals, medical office buildings/facilities, as well as for Daughters' full system. The first round, in March 2014, included 29 bids: 11 bids for the full system, 14 bids for individual (or groups of) hospitals, and four bids for the medical office buildings. The second round, in May 2014, included 15 bids: eight bids for the full system and seven bids for the individual (or groups of) hospitals. As stated in the minutes from Daughters' Board meeting in May 2014, Daughters decided to focus efforts on buyers interested in a full system transaction as they felt there was not a combination of bids for individual (or groups of) hospitals to form a comprehensive solution. In Daughters' application to the Office of the California Attorney General, the following reasons were cited for focusing efforts on full-system offers:

- None of the bidders interested in individual hospitals and/or groups of hospitals were prepared to assume Daughters' pension obligations;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- If there was any transaction failure, there would be a withdrawal liability on the Multiemployer Pension Plan[7] of approximately $200 million; and
- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

[7] Daughters' Multiemployer Pension Plan is a defined benefit pension plan that is subject to the Employee Retirement Income Security Act of 1974 (ERISA), and these benefits are insured by the Pension Benefit Guaranty Corporation in accordance with ERISA. The Multiemployer Pension Plan includes the Stationary Engineers Local 39 Pension Plan and the Retirement Plan for Hospital Employees. The Retirement Plan for Hospital Employees is the pension plan in which the employees of the Hospital, Seton Medical Center, Seton Medical Center Coastside, Saint Louise Regional Hospital, and Caritas Business Services participate. Its benefit accruals have been frozen with respect to many Daughters' employees.

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In September 2014, the final round of negotiations commenced and involved four offers for the full health system[8].

The following table summarizes the submitted bids received by Daughters throughout the three rounds of the bidding process:

SUMMARY OF BIDDING PROCESS: 2014				
		Bids for Daughters' Entities:		
		Full System	Individual (or groups of) Hospitals	Medical Office Buildings/ Facilities
First Round March 2014 29 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	1	4	-
	For-Profit Hospital Operator	5	5	-
	Private Equity Fund / Management Team	5	1	-
	Healthcare Related Real Estate Investor*	-	2	4
	Total:	**11**	**14**	**4**
Second Round May 2014 15 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	-	2	-
	For-Profit Hospital Operator	4	2	-
	Private Equity Fund / Management Team	4	1	-
	Healthcare Related Real Estate Investor*	-	-	-
	Total:	**8**	**7**	**-**
Final Round September 2014 6 Bids	Catholic Healthcare Organizations	-	-	-
	Nonprofit / Government Related Institutions	-	-	-
	For-Profit Hospital Operator	4	-	-
	Private Equity Fund / Management Team	2	-	-
	Healthcare Related Real Estate Investor*	-	-	-
	Total:	**6**	**-**	**-**

Source: Daughters
* Includes skilled nursing facilities, real estate investment trusts, and others

Daughters' Board applied eleven criteria to evaluate the final four proposals:

- Post-closing healthcare services: Bidder's commitment and ability to sustain healthcare services in the communities served by the Health Facilities following the close of the transaction;
- Treatment of pension obligations: Bidder's treatment of Daughters' employee pension obligations, the level of future funding assurance provided to the pension beneficiaries, and the financial means of the bidder to fully fund future pension obligations;
- Treatment of CBAs: Bidder's willingness to assume the current CBAs;

[8] Two late-stage full-system bidders did not submit final bids. One was unable to raise the necessary capital in order to submit a timely bid, and the other revised its valuation of the transaction and was unable to provide a financially competitive proposal.

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- Operational and transactional experience: Bidder's prior experience and success in turning around distressed hospitals and breadth of experience in owning and operating acute care facilities, particularly within California;

- Historical service quality: Evaluation of the bidder's relative performance on quality measures for its California-based operations (if applicable), including relative patient safety, practice of evidence-based care, readmission rates, mortality rates, and patient satisfaction scores in comparison to Daughters, the national average, and the other final bidders;

- Financial wherewithal: Bidder's financial strength, measured in terms of cash and other assets, and its potential access to additional capital for Daughters' cash requirements at closing and post-closing;

- Capital commitment: Bidder's willingness to invest in the Health Facilities following the closing of the transaction;

- Need for bankruptcy: The likelihood of the bidder to require bankruptcy proceedings in order to reduce liabilities as a condition of closing;

- Valuation: Distributable value of the offer, calculated as the sum of the estimated cash consideration paid at closing, plus the face value of the short- and long-term liabilities;

- Closing risk: Potential risk of not being willing or able to close due to financing contingencies, regulatory issues, or other barriers, including a strong consideration of the bidder's potential to fund a meaningful good-faith deposit; and

- Timeline: Bidder's ability to meet the necessary strict timeframe for closing in light of Daughters' deteriorating working capital.

After consideration of these eleven criteria, on October 3, 2014, Daughters' Board selected the offer proposed by Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc. (collectively, Prime). Daughters' Board believed Prime's proposal satisfied the selection criteria and that no other proposal demonstrated similar strength. Daughters' Board stated that Prime was the only candidate that was able to fully fund the employee pensions and who made the commitment for all of the capital required to close the transaction. Additionally, Daughters' Board believed that Prime's offer materially exceeded the other offers, and provided a higher level of assurance, relative to the other bidders, in terms of Prime's balance sheet, experience in operations, depth of existing operations to support the Health Facilities, and access to capital in order to ensure that the assumed liabilities were honored in the long-term.

In January 2015, the Office of the California Attorney General held six public meetings to receive comments on the proposed change in governance and control of each of the Health Facilities. On February 20, 2015, the California Attorney General conditionally consented to the proposed change in governance and control of Daughters. However, on March 9, 2015, Prime terminated its transaction agreement with Daughters.

Shortly thereafter, Daughters' Board authorized the immediate commencement of a new comprehensive offering to evaluate new potential sale alternatives. These marketing efforts, led again by Houlihan Lokey, were undertaken with the intent to continue hospital operations, preserve access to healthcare services and jobs, and satisfy pension and creditor obligations.

Houlihan Lokey identified and contacted a total of 86 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit buyers, government-related healthcare institutions, for-profit strategic buyers, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After preliminary discussions, 76 parties expressed interest and received confidential information about Daughters after signing confidentiality agreements.

In April 2015, the first round of the bidding process included 14 bids: five for the full system, six for individual (or groups of) hospitals, and three for management agreement transactions. After evaluating the first round bids, Daughters' Board decided to focus efforts on bids for the full system as they were deemed to be the most viable option to address the objectives of the transaction. In Daughters' application to the Office of the California Attorney General, the following reasons were cited for focusing efforts on full-system offers:

- None of the bidders interested in individual hospitals or multiple hospitals were prepared to assume the pension obligations in full;

- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;

- Certain bidders would require a bankruptcy proceeding in order to move forward with the transaction; and

- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

The deadline for the final round bids was in June 2015 and included four bids[9]: one bid for a full system acquisition and three bids for a management agreement transaction with an option to purchase.

Daughters' Board applied the same eleven criteria used during the first selection process (described previously on pages 10 and 11) to evaluate the final four proposals.

On July 14, 2015, Daughters' Board selected the offer submitted by BlueMountain as it was believed to be the proposal that best satisfied the selection criteria and met many of the fundamental objectives of the transaction.

Timeline of the Transaction

The events leading up to this transaction are chronologically ordered as follows:

- February 2005 – 2005 Bonds are issued in the amount of $364 million to refinance existing debt and fund future capital expenditures[10];

- November 2008 – 2008 Bonds[11] are issued in the amount of $143.7 million to refinance existing debt;

- February 24, 2012 – Daughters executes a memorandum of understanding with Ascension Health Alliance as a precursor to system integration discussions;

- June 20, 2012 – Daughters and Ascension Health Alliance effect an amendment to the memorandum of understanding;

- December 2012 – Daughters and Ascension Health Alliance execute an affiliation agreement that did not involve a transfer of assets or liabilities or a change of control. Rather, Daughters and the Hospital Corporations became participants in various purchasing programs of Ascension Health and obtained access to other Ascension Health support services;

- March 15, 2013 – Daughters solicits offers for the Hospital and Saint Louise Regional Hospital, and sends out a request for proposal and confidential descriptive memorandum to 15 potential partners, of which five submit indications of interest;

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[9] Two additional parties submitted unsolicited indications of interest in late June 2015, neither of which referenced a capital commitment.

[10] This amount is gross of an estimated $26 million in the debt service reserved funds that will be used to defease the 2005 Bonds.

[11] The 2008 Bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2008A Bonds that include a debt service reserve fund of $13.7 million.

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- August 5, 2013 – Daughters solicits offers for Seton Medical Center and Seton Medical Center Coastside, and sends out a request for proposal and confidential descriptive memorandum to eight organizations, of which three submit indications of interest;

- October 2013 – 2008 Bonds retire[12];

- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;

- January 2014 – Daughters announces the initiation of its process to evaluate strategic alternatives for the entire system;

- February 2014 – Request for Proposal process is initiated by contacting over 133 health systems and other potential buyers who potentially could have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- February 2014 – Prime, along with 71 other potential buyers, sign confidentiality agreements and receive a confidential information memorandum summarizing key facts about Daughters and its related entities;

- March 21, 2014 – Daughters receives 29 bids by the first round deadline;

- May 30, 2014 – Daughters' Board decides to focus efforts on full system bidders, as it had been determined that no combination of proposals to purchase individual facilities would provide an adequate solution to Daughters' pressing financial situation;

- July 30, 2014 – Daughters secures $110 million in short-term "bridge financing" in order to access working capital to continue operations through the sale process (2014 Bonds, Series A & B);

- August 27, 2014 – Daughters secures an additional $15 million under the 2014 Bonds (Series C);

- September 12, 2014 – Daughters receives four final proposals;

- October 3, 2014 – Daughters' Board passes a resolution to authorize the execution of the Definitive Agreement between Daughters, Ministry, and Prime, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

[12] In October 2013, Daughters of Charity Foundation, an organization separate and independent from Daughters, made a restricted donation of $130 million for the benefit of Daughters by depositing sufficient funds with the bond trustee to redeem the $143.7 million principal amount of the 2008 Bonds.

- October 9, 2014 – O'Connor's Board passes a resolution to authorize any necessary or advisable amendments to the Articles of Incorporation and Bylaws of O'Connor and O'Connor Foundation, and recommends approval of the transaction to Ministry's Board;

- October 9, 2014 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the Definitive Agreement between Daughters, Ministry, and Prime;

- October 10, 2014 – Ministry and Daughters enter into the Definitive Agreement with Prime;

- October 23, 2014 – Ministry and Daughters enter into Amendment No. 1 to Definitive Agreement with Prime;

- October 24, 2014 – "Notice of Submission and Request for Consent" is submitted by Daughters to the California Attorney General;

- January 2015 – The California Attorney General holds six public meetings, two in Southern California and four in Northern California, to receive comments on the proposed change in governance and control of each of the Health Facilities;

- February 11, 2015 – RET Development Company, LLC is formed as a limited liability company and filed with the Secretary of State of the State of Delaware[13];

- February 20, 2015 – The California Attorney General conditionally consents to the proposed change in governance and control of Daughters;

- March 9, 2015 – Prime terminates its transaction agreement with Daughters;

- March 2015 – Request for Proposal process is initiated by contacting 86 potential buyers who could possibly have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- March 2015 – BlueMountain, along with 75 other parties, sign confidentiality agreements and receive a confidential information memorandum supplemental update summarizing important information about Daughters and its related entities;

- April 15, 2015 – Daughters receives 14 first round bids, including one from BlueMountain;

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[13] RET Development Company, LLC is the original name under which Integrity Healthcare, LLC was filed with the Secretary of State of the State of Delaware.

- April & May 2015 – Daughters' Board reviews current active bids and determines that full system bids are the most viable option to address Daughters' transaction objectives;

- May 2015 – Houlihan Lokey sends final bid letters to parties still pursuing full system offers;

- May 22, 2015 – BlueMountain submits an amended first round bid to Daughters;

- May 29, 2015 – Loeb & Loeb, LLP, on behalf of Daughters, requests a determination letter from the IRS to recognize the Hospital Corporations, Caritas Business Services, DCHS Medical Foundation, and St. Vincent Dialysis Center, Inc. as 501(c)(3) tax-exempt entities[14]

- June 29, 2015 – Daughters receives four final proposals by the deadline, including one from BlueMountain;

- July 14, 2015 –Daughters' Board reviews the final proposals and passes a resolution to authorize the execution of the System Agreement between Daughters, Ministry, BlueMountain, and Integrity, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

- July 15, 2015 – O'Connor's Board passes a resolution to authorize the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;

- July 15, 2015 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;

- July 16, 2015 – Under the Amended and Restated Limited Liability Company Agreement of Integrity Healthcare, LLC, RET Development Company, LLC is renamed to Integrity Healthcare, LLC;

- July 17, 2015 – Ministry and Daughters enter into the System Agreement with BlueMountain and Integrity;

- July 31, 2015 – "Notice of Submission and Request for Consent" is submitted by Daughters to the Office of the California Attorney General; and

- September 2015 - Ministry and Daughters enter into Amendment No. 1 to System Restructuring and Support Agreement with BlueMountain and Integrity.

[14] Daughters has not yet received a response from the IRS for its request for a 501(c)(3) group exemption ruling. Once a response is received from the IRS, it will be forwarded to the Office of the California Attorney General.

Summary of Agreements

The System Agreement, originally dated July 17, 2015, and amended in September 2015, was entered into by and between Ministry, Daughters, Certain Funds Managed by BlueMountain, and Integrity. Under the terms of the System Agreement, Daughters shall enter into a number of supplemental agreements, either concurrent with the execution of the System Agreement, or subsequent to the closing of the transaction. Each of the supplemental agreements is included as a separate exhibit to the System Agreement.

The supplemental agreements, as stated under the terms of the System Agreement, are listed as follows:

- Exhibit A – Transitional Consulting Services Agreement;
- Exhibit B – Health System Management Agreement (the Management Agreement);
- Exhibit C – Debt Facility Commitment Letter;
- Exhibit D – Purchase Option Agreements, including:
    - Operating Asset Purchase Option Agreement; and
    - Real Estate Purchase Option Agreement.
- Exhibit E – Information Technology Lease Agreement (the IT Agreement);
- Exhibit F – Deposit Escrow Agreement;
- Exhibit G – Mitigation Plans; and
- Exhibit H – Performance Improvement Plan.

System Restructuring and Support Agreement

The System Agreement contains the following major provisions:

- Ministry, as the sole corporate member of Daughters, shall cause Daughters to approve and adopt amended and restated articles of incorporation and bylaws, as may be necessary in order to implement the System Agreement, and to effectuate the following post-closing changes:
    - The name of Daughters shall change to Verity Health System of California, Inc.[15]; and
    - Daughters shall be converted from a nonprofit religious corporation to a non-member, nonprofit public benefit corporation.

- The amended and restated bylaws of Daughters shall reflect the terms and conditions of the Request for Group Exemption Letter directed to the Internal Revenue Service;

- Ministry shall cause the resignation or removal of the existing directors of Daughters, and appoint new directors who will assume office upon closing of the transaction;
    - Candidates may be recommended to Ministry by Integrity and the current directors of Daughters; however, Ministry has sole and exclusive discretion, in accordance with Daughters' current bylaws, and may or may not choose to follow the candidate recommendations for appointment.

- Following the closing of the transaction, Ministry shall resign as the sole member of Daughters;

- Daughters shall cause the resignation or removal of the existing members of the Boards of Directors of the Hospital Corporations and appoint, or cause the appointment of, replacement directors;

- Daughters' Board and the Boards of Directors of the Hospital Corporations and of Daughters' Affiliates shall cause the articles of incorporation and bylaws, and or other governing documents of the Hospital Corporations and other related entities, to be amended in order to:
    - Make the changes necessary to implement the System Agreement; and

[15] Within the System Agreement, the Recitals state that Daughters' articles of incorporation and bylaws shall be amended to change the name of Daughters to Integrity Health System, Inc.; however, for clarification, as stated throughout the remainder of the System Agreement, as well as in the Daughters' amended and restated articles of incorporation and bylaws, the name of Daughters shall be changed to Verity Health System of California, Inc.

- Reflect the terms and conditions, inclusive of the reserve powers, as stated in the Request for Group Exemption Letter that was directed to the Internal Revenue Service.

- Daughters and/or Daughters' Affiliates shall transfer the following retained assets to Ministry prior to closing:

    - Intellectual property;
    - Religious artifacts and donor-restricted assets;
    - Historical records and memorabilia;
    - Property located at 25 San Fernando in Daly City, California 94015;
    - Property located at 253 South Lake Street in Los Angeles, California 90057;
    - Lease agreement between Daughters of Charity of St. Vincent de Paul, Province of the West and Daughters, dated October 1, 2001, for the building located at 26000 Altamont Road in Los Altos Hills, California;
    - All furniture, fixtures, and equipment at Daughters' corporate office in Los Altos Hills, other than computer and IT equipment; and
    - Accounts receivable that are payable to Daughters by Ministry and any non-affiliated entities, including:
        - GRACE, Inc.[16];
        - Daughters of Charity of St. Vincent de Paul, Province of the West; and
        - Owner of the Meals on Wheels program.

- BlueMountain and Integrity shall collectively make cash payments to Daughters at closing in the combined aggregate amount of $100,000,000 (the Contribution Funding), as consideration for the Purchase Option Agreements and IT Agreement less Escrow Deposit;

- Concurrently with the execution of the System Agreement, Integrity shall deliver a deposit in the sum of $40,000,000, as set forth under the terms within the Deposit Escrow Agreement;

    - Upon closing of the transaction, this deposit and any accrued earnings shall be applied to payment of the Contribution Funding; and
    - If the System Agreement is validly terminated due to the failure of BlueMountain or Integrity, for any reason other than a failure of Daughters to satisfy any of the considerations listed in the System Agreement, then Daughters shall be entitled to 100% of the deposit and any interest accrued in the account.

- Concurrently with the execution of the System Agreement, Daughters shall enter into a Transitional Consulting Services Agreement with Integrity in order to facilitate

[16]GRACE, Inc. is a ministry of Ministry Services of Daughters of Charity of St. Vincent de Paul that provides outreach and social services for low-income families and their children.

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cooperation between the execution of the System Agreement and the closing of the transaction;

  - Transitional Consulting Services Agreement stipulates performance of the Mitigation Plans and the Performance Improvement Plan; and
  - All costs and expenses incurred by Daughters and Integrity in carrying out their respective obligations under the Performance Improvement Plan shall be paid out of the Escrow Deposit.

- In connection with the closing of the transactions contemplated under the System Agreement, Integrity and Daughters shall each execute and deliver the Management Agreement;

- Daughters, the Hospital Corporations, Daughters' Affiliates, and BlueMountain shall execute and deliver the Purchase Option Agreements;

- BlueMountain shall execute and deliver the Debt Facility Commitment Letter to Daughters, stating the commitment to provide a loan or line of credit available at closing, in the principal amount of no less than $150,000,000 (the Debt Facility)[17] , to further support the financial and capital needs of Daughters;

- At closing, Daughters shall transfer funds from the Debt Facility proceeds to Ministry, that will be retained and controlled by Ministry in a separate deposit account, in the amount equal to $11,500,000, less the amount of severance paid to Daughters' employees who cease employment following closing, and less the amount of severance pay that would have been owed to Daughters' corporate office employees who sign new written employment agreements under the new system (the Holdback Amount);

- Upon closing of the transaction, Daughters and Daughters' Affiliates shall lease, sublicense, and/or assign certain information technology infrastructure and equipment to Integrity, upon the terms and conditions stated within the IT Agreement;

  - Integrity will use the information technology infrastructure and equipment for the purpose of managing Daughters and Health Facilities after closing.

- Integrity acknowledges and agrees to the following pre-closing commitments made by Daughters under the terms of the System Agreement:

  - For at least five years following the closing, the Health Facilities shall continue to operate as general acute care hospitals, with open emergency departments,

[17] Debt Facility of $150 million excludes additional permitted draws (up to $10 million) to cover potential buyer transaction expenses.

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subject to physician availability, needs of the community, and financial viability of such services;

- For at least five years following the closing, the charity care policies for the treatment of indigent patients shall be maintained at the Health Facilities similar to the policies currently in effect, or these policies will be replaced with policies of either similar or greater benefit to the community;
- For at least five years following the closing, the existing chapels at the Health Facilities shall continue to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Health Facilities;
- Employment shall continue, with comparable salaries, wages, job titles, and duties that were in place prior to closing, for substantially all employees who remain in good standing and employed by Daughters as of the closing date, including the following:
  - Unrepresented employees of the Daughters and Daughters Affiliates; and
  - Unionized employees working under CBAs.
- Integrity agrees and acknowledges that it shall adhere to the severance obligations written in the employment agreements or in the absence of any such agreement, Integrity shall adhere to Daughters' severance pay obligations for a period of twelve months following the closing;
- Verity shall reserve or expend at least $180,000,000 over the first five years following the closing in capital expenditures at the Health Facilities. The specific allocation of the expenditures shall include:
  - $40,000,000 per year in years one through three; and
  - $30,000,000 per year in years four and five.
- Verity shall ensure that the inpatient beds of Seton Medical Center will be seismically compliant as of January 1, 2020.
  - In addition, Verity will use commercially reasonable efforts to include Seton Medical Center in the Voluntary Seismic Incentive Program administered by OSHPD.[18]

- Integrity acknowledges and agrees to the following commitments regarding the pension liabilities:

  - As of the closing date, subject to necessary Daughters' Board direction and approval, Integrity shall cause Daughters to amend and convert the Defined Benefit Church Plan[19] and the Defined Contribution Church Plans[20] from non-

[18] Daughters, BlueMountain, and Integrity will make a decision regarding how best to approach seismic compliance at the Hospital/Seton Medical Center by November 1, 2015.

[19] Defined Benefit Church Plan means the Daughters retirement plan, which has been consistently treated and administered by Daughters as a non-electing church plan.

[20] Defined Contribution Church Plans means the Daughters of Charity Health System Retirement Plan Account, the Daughters of Charity Health System Supplemental Retirement Plan and the Daughters of Charity Health System Supplemental Retirement Plan.

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electing church plans to employee pension benefit plans (ERISA[21]), covered by the Pension Benefit Guaranty Corporation insurance program[22]; and

- Integrity shall facilitate Daughters taking the following actions with respect to the Multiemployer Plans to which Daughters has made contributions prior to the closing date, pursuant to the CBAs;
  - Take any actions necessary with respect to the uninterrupted continuation of Daughters' obligations to the Multiemployer Plans as required under the CBAs; and
  - Provide funding for the Multiemployer Plans in accordance with the requirements of ERISA and the Internal Revenue Service Code of 1986.

- Ministry, Daughters, BlueMountain, and Integrity acknowledge and agree that following the closing of the transaction, Verity will continue to address funding shortfalls for Employee Pension Benefit Plans and Employee Welfare Benefit Plans;

- The System Agreement may be terminated prior to closing based upon, but not limited to, any of the following conditions:

  - Upon mutual written consent between Daughters, Integrity, and BlueMountain; and
  - If the closing has not occurred on or before the date which is nine months following the date the System Agreement was executed.

Transitional Consulting Services Agreement

The Transitional Consulting Services Agreement entered into on July 17, 2015, by and between Integrity, Daughters, the Hospital Corporations, and Daughters' Affiliates, includes the following major provisions:

- Integrity will provide general consulting services and operational advice to Daughters for the following purposes:

  - To assist in the implementation of the Performance Improvement Plan and Mitigation Plans; and
  - To facilitate the implementation of the Management Agreement.

- Daughters shall facilitate and accommodate the implementation of the Management Agreement by performing the following:

[21] The Employee Retirement Income Security Act of 1974, or ERISA, protects the assets of millions of Americans so that funds placed in retirement plans during their working lives will be there when they retire.

[22] Congress set up the Pension Benefit Guaranty Corporation to insure defined-benefit pensions of working Americans. It insures nearly 26,000 pension plans.

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- Providing assistance to Integrity as necessary;
- Arrange, attending, and participating in meetings, negotiations, and planning discussions; and
- Ensuring that Integrity has reasonable access to and ability to communicate and interact with Daughters.

- Daughters shall retain a Chief Restructuring Officer[23] who shall have the following responsibilities:
  - To direct and oversee the implementation of the Performance Improvement Plan and Mitigation Plans; and
  - To report to the Performance Improvement Steering Committee.

- A Performance Improvement Steering Committee shall be established, as of July 24, 2015, and will be comprised of six members of whom:
  - Three members shall be appointed by Integrity; and
  - Three members shall by appointed by Daughters' Board with input from Integrity.

- The Performance Improvement Steering Committee shall have the following responsibilities:
  - To meet on a biweekly basis;
  - To recommend capital and operating budgets for Daughters;
  - To support implementation of the Performance Improvement Plans and Mitigation Plans; and
  - To recommend performance improvement initiatives or actions proposed by the Chief Restructuring Officer to Daughters' Board.

- Daughters shall retain one or more strategic consulting firms proposed by Integrity that shall have the following duties and obligations:
  - Performing a Daughters-wide clinical, financial, and operational assessment; and
  - Recommending best practices for implementation of the Performance Improvement Plan initiatives.

[23] Per discussions with Daughters, Daughters originally retained an interim independent consultant for the Chief Restructuring Officer position. However, Daughters recently retained an outside consulting firm to perform the duties of the Chief Restructuring Officer.

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Debt Facility Commitment Letter

The Debt Facility Commitment Letter dated July 17, 2015 by BlueMountain outlines the following commitments to arrange for funding and otherwise provide a Debt Facility:

- The Debt Facility shall consist of a loan in the principal amount of $150,000,000 subject to the consent of the 2005 Bonds holders in numbers sufficient to support certain modifications to the master trust indenture;

    - If the holders of the 2005 bonds consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will have the following terms and conditions:
        - The Debt Facility will have a term of five years;
        - Interest will be payable on a monthly basis, and principal will be payable at maturity; and
        - The Debt Facility will be secured by the same collateral that secures the 2005 bonds, as well as a security position on accounts receivable and a first lien on certain real property.
    - If the holders of the 2005 bonds do not consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will consist of revolving lines of credit; and
    - The Debt Facility funds have the following restricted uses: existing indebtness of 2014 Bonds (currently estimated at $62 million plus $625,000 of interest); Daughters' closing and other transaction costs (estimated at $15,000,000); closing costs of Integrity, BlueMountain, and the Certain Funds Managed by BlueMountain that do not exceed $10,000,000; capital expenditures; the Holdback Amount (capped at $11,500,000); and general corporation and working capital purposes.

Deposit Escrow Agreement

The Deposit Escrow Agreement entered into as of July 17, 2015, by and among Integrity, Daughters, and Citibank National Association, includes the following major provisions:

- Integrity and Daughters shall appoint and designate Citibank National Association as the escrow agent;

- In conjunction with the execution of the System Agreement, Integrity shall deposit the sum of $40,000,000 with Citibank National Association;

- Citibank National Association shall invest and reinvest the $40,000,000 in separate accounts in accordance with the joint written direction of Integrity and Daughters;

- The $40,000,000 may be disbursed to Daughters by Citibank National Association under the following circumstances:

  - Upon closing of the transaction; and
  - If costs and expenses of Daughters arise under or in connection with the Transitional Consulting Services Agreement or the implementation of the Performance Improvement Plan prior to closing and in accordance with Article 2.5 of the System Agreement.

Purchase Option Agreements

The Purchase Option Agreements entered into by and among Daughters, the Hospital Corporations, Daughters' Affiliates, and Certain Funds Managed by BlueMountain consist of two agreements: the Operating Asset Purchase Option Agreement and the Real Estate Purchase Option Agreement, as defined below:

- The Operating Asset Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the assets of Daughters, whether tangible or intangible, other than real property and related fixtures, whether tangible or intangible. Attached as Exhibit A is the Operating Asset Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;

- The Real Estate Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the real property and related fixtures of Daughters. Attached as Exhibit A is the Real Estate Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;

- The exercise of a purchase per either the Operating Asset Purchase Option Agreement or the Real Estate Purchase Option Agreement triggers the simultaneous required exercise of a purchase per the other one;

- The purchase price for the respective assets outlined in the Operating Asset Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Operating Asset Purchase Agreement by the operating asset allocation factor;

  - The underlying purchase price for the respective assets outlined in the Operating Asset Purchase Agreement is the sum of:
    - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
    - Cash payment in the amount of remaining bond obligations;

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        - A portion of all non-scheduled liabilities multiplied by the operating asset allocation factor; and
        - Cash payment for reasonable transaction costs up to 2% of the purchase price.

- The purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Real Estate Purchase Option Agreement by the real estate allocation factor;

    - The underlying purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the sum of:
        - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
        - Cash payment in the amount of remaining bond obligations;
        - A portion of all non-scheduled liabilities multiplied by the real estate allocation factor; and
        - Cash payment for reasonable transaction costs up to 2% of the purchase price.

- A purchase per the Operating Asset Purchase Option Agreement or the Real Estate Asset Purchase Option Agreement may be exercised beginning in year three following the closing of the transaction, and may be exercised through year 15 following the closing of the transaction; and

- The Management Agreement shall terminate upon exercise of a purchase per either the Operating Asset Purchase Option Agreement or Real Estate Asset Purchase Option Agreement.

IT Agreement

The IT Agreement outlines the following:

- Integrity will provide specific services related to transitioning, transforming, and realigning the Daughters' information technology strategy; and

- Integrity will provide a portion of the Contribution Funding amount to Daughters at closing in exchange for the rights and benefits associated with leasing certain technology of Daughters.

Mitigation Plans

- Covenants of Daughters, as outlined in the System Agreement, include the following:
    - Implementation of the Mitigation Plans[24] from the execution date until closing;
    - Programs and services closed, destined to close, or altered, as outlined in the Mitigation Plans, include:

DAUGHTERS' MITIGATION PLAN							
Hospital	Program Modifications & Contract Termination	Implementation of Modifications in DRG, Length of Stay, Admissions vs. Observations, and Patient Transfer Improvements	Reductions in Force	Other Labor Prodcutivity Improvements	Supply Expense Reductions	Purchased Service Expense Reductions	Physician Fee Reductions
O'Connor Hospital	1) Negotiate new terms with SCFHP and VHP 2) In lieu of closing, seeking NICU program flexibility 3) Outpatient: PT/OT/ST Program Changes	Yes	Yes - Management/ Overhead Reductions	1) Review Productivity, Premium Pay, and Use of Registry	Yes	Yes	Yes
Saint Louise Regional Hospital	1) Negotiate new terms with SCFHP and VHP 2) Modification: Inpatient OB	Yes - Transfer Policy	Yes - Management/ Overhead Reductions	-	Yes	Yes	Yes
Seton Medical Center/ Seton Medical Center Coastside	Closures: 1) Obstetrics 2) Saint Elizabeth Ann Seton New Life Center 3) Cardiac Rehab 4) Observation 5) Outpatient Infusion Center	Yes	Yes - Management/ Overhead Reductions	1) Review Scheduling 2) Review Productivity, Premium Pay, and Use of Registry	Yes	-	Yes
St. Francis Medical Center	-	Yes	Yes - Management/ Overhead Reductions	1) Review Productivity, Premium Pay, and Use of Registry	Yes	Yes	Yes
St. Vincent Medical Center	1) Expansion - Paramedic Receiving ED 2) Closures of Casa de Amigos 3) Closure of Asian Pacific Liver Center 4) Closure of Health Benefits Resource Center 5) Closure of Multicultural Health Awareness & Prevention Center 6) Closure of General Orthopedic Clinic	Yes	Yes - Management/ Overhead Reductions	1) Review Scheduling 2) Review Productivity, Premium Pay, and Use of Registry	Yes	-	Yes

Source: Daughters

[24] The Mitigation Plans are a set of cost-cutting, and/or revenue enhancing measures, provided by each Health Facility. The Mitigation Plans include, but are not limited to; reduction and/or closure of programs and services, and reduction in labor force.

Performance Improvement Plan

- Implementation of the Performance Improvement Plan[25], in conjunction with the implementation of the Mitigation Plans, from the effective date until closing;

- Performance Improvement Plan requirements include, but are not limited to, the following:

    - Establishment of a Performance Improvement Steering Committee comprised of six voting members for the purpose of recommending operating and capital budgets, supporting the implementation of the Performance Improvement Plan and Mitigation Plans, and recommending any improvement initiatives;
        - Retention of a Chief Restructuring Officer for the purpose of implementing the Performance Improvement Plan and Mitigation Plans under the direction of the Performance Improvement Steering Committee; and
        - Retention of a consulting firm experienced in healthcare operations and selected by Daughters from candidates proposed by Integrity.
    - Prior to closing, Daughters will continue to operate in good standing and not make any material change to the assets, interests or obligations, or any change in the governing documents of the Daughters Affiliates.

Health System Management Agreement

Upon closing of the System Agreement, Integrity and Daughters shall each execute and deliver the Management Agreement. Under the terms set forth in the Management Agreement, the major provisions include, but are not limited to, the following:

- Integrity acknowledges that management of Daughters will be in a manner consistent with the charitable purposes (as set forth in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended);

- Daughters designates and appoints Integrity as its sole exclusive agent to provide and assume responsibility for the management, administrative, and support services of Daughters and Daughters' Affiliates;

- Subject to budgetary limitations and personnel allocations, Integrity shall provide management services for the continuing operation of Daughters by, among other things, supervising, overseeing, and directing (including, but not limited to, the right to hire, discipline, suspend, lay off and/or terminate) Daughters' personnel;

[25] The Performance Improvement Plan is a set of requirements to be pursued during the period beginning on the Effective Date through and until the closing date.

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- Integrity shall employ and provide a Chief Executive Officer, Chief Operating Officer, Director of Medical and Clinical Affairs, and a Chief Financial Officer for Daughters;
- Integrity has the exclusive right to provide such services as Daughters determines to be necessary or appropriate for the management, support, and administration of Daughters. Services include, but are not limited to, the following:
  - Financial management and accounting services;
  - Credentialing or certification activities on behalf of Daughters physicians and other licensed medical care professionals;
  - Contract negotiations with payers on behalf of Daughters;
  - Preparation of quarterly and annual operating and capital budgets for Daughters, to be reviewed and approved by the Daughters' Board;
  - Strategic planning activities of Daughters, including pursuit of joint venture partnerships, clinical affiliations, and co-management arrangements;
  - Provision of all patient care initiatives as required under regulations and standards; and
  - Timely payment and administration of all retirement plans, the multiemployer plans, and health and welfare plans.

- Integrity shall be entitled to receive fixed compensation for management services based on a fee percentage equal to 4.0% of the trailing 12 months of operating revenues[26] preceding either the Management Agreement Effective Date[27] or the System Agreement Effective Date, whichever is greater;

- The base monthly management fee increases annually based on the greater of the Consumer Price Index or zero;

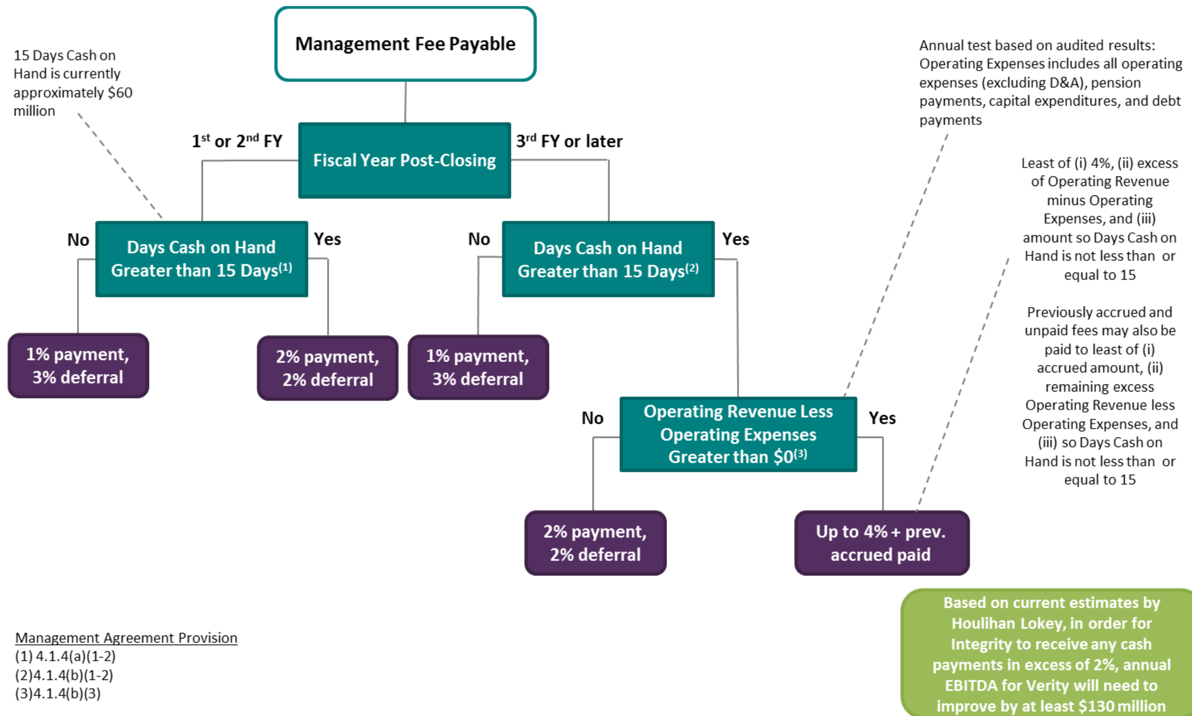
- 25% of the monthly management fee is paid and the remainder is deferred if the number of days of cash on hand[28] does not exceed 15. If the number of days of cash on hand does exceed 15, 50% of the monthly management fee is paid and the remainder deferred. Management fee deferrals accrue interest at the annual rate of 2.82%;

- In year three and each year thereafter, an annual calculation is made to determine whether excess capital is present to pay previous deferrals of management fees after

[26] Operating revenues include all net revenues recognized in Daughters' financial statements, in accordance with GAAP, including without duplication: revenues that are attributable to the rendering of hospital inpatient and outpatient services and relate to any and all presently existing and future DSH Payments, Stabilization Funds, QAF Payments, Governmental Receivables, and grants.
[27] The date the Management Agreement was entered into by and between Integrity and Daughters.
[28] Days of cash on hand measures the period of time in which the organization is able to meet cash requirements in the absence of outside funding.

debt service. These payments are made to the extent that they do not result the number of days of cash on hand does not go below 15; and

- Daughters may terminate the Management Agreement with 90-days' prior written notice and shall pay a termination fee equal to the present value of the management fees that would be payable from the date of the noticed termination through the remainder of the initial term. Below is a flow chart explaining the management fees and provides references to the provisions in the Management Agreement.



Use of Net Sale Proceeds

There will be no net proceeds from the proposed transaction.

PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM

Daughters of Charity Health System

Daughters is a Catholic, nonprofit regional healthcare system headquartered in Los Altos Hills, California. Daughters is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, to support the mission of the Catholic Church through their commitment to serving the sick and poor.

Daughters of Charity, a group of women dedicated to caring for the needs of the poor, was established in France by St. Vincent de Paul and St. Louise de Marillac in 1633. Daughters of Charity continued its mission and opened its first hospital in Los Angeles in 1859. Daughters of Charity expanded its hospitals into San Jose in 1889 and San Francisco in 1893. These establishments were the forerunners of St. Vincent Medical Center, the Hospital, and Seton Medical Center.

During the 1980s, Daughters of Charity expanded to include Seton Medical Center Coastside (1980), St. Francis Medical Center (1981), and Saint Louise Regional Hospital (1987). In 1986, the Hospital Corporations joined Daughters of Charity National Health System, based in St. Louis, Missouri. In 1995, the Hospital Corporations left Daughters of Charity National Health System and merged with Catholic Healthcare West. When it withdrew from Catholic Healthcare West, Daughters, as presently constituted, was formed in 2001.

Today, Daughters' Health Facilities and their locations include: the Hospital in San Jose, St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Los Angeles, Medical Center in Daly City, Seton Medical Center Coastside in Moss Beach, and Saint Louise Regional Hospital in Gilroy. Daughters' corporate offices are located in Los Altos Hills, Redwood Shores, and Pasadena.

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DCHS Medical Foundation

In 2011, the DCHS Medical Foundation was incorporated with Daughters as the sole corporate member. Under California Health and Safety Code section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than 10 board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

The DCHS Medical Foundation began operations in April 2012 through the establishment of a professional services agreement with a group of approximately 200 physicians and associates of the San Jose Medical Group. DCHS Medical Foundation includes approximately 140 full-time physicians as follows:

DCHS MEDICAL FOUNDATION: FULL-TIME PHYSICIANS 2015 [1]				
	Physician Count by Market*			
Top 10 Specialties	St. Francis Medical Center / St. Vincent Medical Center	O'Connor Hospital / Saint Louise Regional Hospital	Seton Medical Center / Seton Medical Center Coastside	Total
Family Practice	5	25	0	30
Internal Medicine	2	17	1	20
Hospitalist	0	10	11.5	21.5
Acute Care	0	9	0	9
Obstetrics & Gynecology	1	7	0	8
Pediatrics	2	7	0	9
General Surgery	2	3	0	5
Ophthalmology	2	1	0	3
Orthopedic Surgery	0	2	0	2
Podiatry	1	3	0	4
Total Top 10 Specialties	**15**	**84**	**12.5**	**111.5**
Total - Other Specialties	10	18	**0**	**28**
Total Full-Time Physicians	**25**	**102**	**12.5**	**139.5**

Source: Daughters

* Excludes Independent Physician Associations

[1] Based on changes in the primary service areas of the medical groups within the DCHS Medical Foundation, the DCHS Medical Foundation will include approximately 100 full-time physicians as of 10/1/2015

In 2013, DCHS Medical Foundation acquired Northern Cal Advantage Medical Group, a regional Independent Physicians Association in Santa Clara County, comprised of approximately 200 physicians and nine additional independent physician practices.

Presently, DCHS Medical Foundation consists of urgent care centers, physician groups, and approximately 400 primary care and specialty physicians (including San Jose Medical Group and Northern Cal Advantage Medical Group). With more than 100 physicians, Santa Clara County has the largest medical foundation presence within the system. DCHS Medical Foundation's clinics and facilities are located throughout California in the communities served by the Health Facilities.

Caritas Business Services

Daughters operates Caritas Business Services, a nonprofit religious corporation. Caritas Business Services provides support services to Daughters and the Hospital Corporations including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

De Paul Ventures, LLC

De Paul Ventures, LLC, is a wholly-owned and operated holding company of Daughters that was formed in August 2010 for the purpose of investing in a freestanding surgery center and other healthcare entities.

In February 2011, De Paul Ventures, LLC formed De Paul Ventures – San Jose ASC, LLC, a limited liability company. De Paul Ventures – San Jose ASC, LLC, owns a 25% interest as a limited partner in a partnership with Physician Surgery Services, dba Advanced Surgery Center, a freestanding surgery center in San Jose.

In April 2013, De Paul Ventures, LLC formed De Paul Ventures – San Jose Dialysis, LLC. In May 2013, De Paul Ventures – San Jose Dialysis, LLC, entered into an ownership agreement with Priday Dialysis, LLC, a Delaware ambulatory healthcare center specializing in end-stage renal disease treatment.

Marillac Insurance Company, Ltd.

Daughters is the sole shareholder of Marillac Insurance Company, Ltd., a Caymans entity. Marillac Insurance Company, Ltd., was incorporated in 2003 as a captive insurance company to self-insure the system for professional and general liability exposures.

St. Vincent De Paul Ethics Corporation

St. Francis Medical Center is the sole corporate member of St. Vincent De Paul Ethics Corporation, which does not hold any assets.

Daughters' Inpatient Volume

Over the past five years, the number of inpatient discharges has declined by approximately 12% from approximately 55,600 discharges to approximately 49,000 discharges in FY 2015. Between FY 2014 and FY 2015, inpatient discharges increased by 1.7% and patient days decreased by approximately 0.8%.

The following table provides inpatient volume trends for FY 2014 and FY 2015:

DAUGHTERS' TOTAL SERVICE VOLUMES FY 2014 & FY 2015														
	O'Connor Hospital		Seton Medical Center		Seton Coastside		Saint Louise Regional Hospital		St. Francis Medical Center		St. Vincent Medical Center		Daughters' Total	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Licensed Beds	358	358	357	357	121	121	93	93	384	384	366	366	1,679	1,679
Available Beds	282	282	294	294	121	121	93	93	382	382	366	366	1,538	1,538
Discharges	10,971	10,835	6,755	3,456	86	74	3,044	2,903	18,850	19,563	8,244	8,925	47,950	48,756
Patient Days	49,663	47,729	46,805	46,606	37,382	36,511	10,550	9,838	87,676	89,627	47,942	49,922	280,018	280,233
Average Daily Census	136	131	128	128	102	100	29	27	240	246	131	137	767	768
Acute Licensed Beds	334	335	274	274	5	5	72	72	314	314	320	320	1,319	1,319
Acute Available Beds	258	258	250	250	5	5	72	72	312	312	252	253	1,150	1,150
Acute Discharges	10,947	10,816	6,717	6,408	0	0	3,044	2,903	16,329	16,775	7,223	7,977	44,260	44,879
Acute Patient Days	41,747	39,807	33,039	31,755	0	0	10,550	9,838	69,665	71,415	34,634	36,995	189,635	189,810
Acute Average Length of Stay	3.8	3.7	4.9	5.0	0.0	0.0	3.5	3.4	4.3	4.3	4.8	4.6	4.3	4.2

Source: Daughters, 2014 Audited & 2015 Unaudited Internal Financials

[1] The figures provided by Daughters differ slightly from OSHPD data reported in subsequent volume tables, which is cited in the source

Financial Profile

Statement of Operations

DAUGHTERS' STATEMENT OF OPERATIONS: FY 2014 & FY 2015 (thousands)														
	O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Seton Coastside		St. Francis Medical Center		St. Vincent Medical Center		Daughters' Total (including all other entities)	
	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015	FY 2014	FY 2015
Net Patient Service Revenue	$260,822	$291,015	$83,636	$88,173	$233,924	$234,141	$19,212	$19,252	$310,816	$432,708	$178,544	$197,503	$1,136,719	$1,313,611
Provision and Write-Off of Doubtful Accounts	($11,612)	($7,822)	($3,399)	($2,469)	($10,218)	($5,853)	($318)	($992)	($12,128)	($9,903)	($5,530)	($5,012)	($43,283)	($31,903)
Premium Revenue	-	-	-	-	-	-	-	-	$40,211	$77,330	$10,176	$16,205	$83,298	$128,317
Other Revenue	$21,551	$9,227	$2,518	$1,879	$18,477	$20,636	$426	$478	$3,726	$6,371	$15,499	$5,779	$59,657	$47,047
Contributions	$1,459	$125	$977	$135	$569	$357	$4,000	-	$5,618	$5,621	$1,889	$1,835	$157,694	$8,322
Total Unrestricted Revenues & Other Support	$272,220	$292,545	$83,732	$87,718	$242,752	$249,281	$23,320	$19,738	$348,243	$512,127	$200,578	$216,310	$1,394,085	$1,465,394
Salaries and Benefits	$189,846	$186,369	$57,514	$56,359	$153,681	$153,249	$16,238	$16,180	$196,608	$197,751	$102,314	$99,965	$805,073	$796,898
Supplies	$43,301	$43,779	$7,763	$7,900	$35,819	$32,163	$1,547	$1,769	$32,650	$34,873	$42,855	$40,031	$172,535	$167,048
Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Services & Other	$65,810	$81,346	$21,050	$24,532	$58,137	$69,661	$3,048	$3,174	$116,359	$188,500	$71,596	$94,456	$360,193	$481,060
Depreciation	$12,762	$11,178	$5,903	$5,627	$10,392	$10,008	$356	$326	$19,739	$17,344	$12,443	$12,609	$65,554	$60,530
Net Interest	$3,504	$4,505	$1,985	$3,137	$3,724	$3,743	($11)	$19	$5,158	$3,882	$3,378	$6,943	$19,106	$22,550
Total Expenses	$315,220	$327,177	$94,215	$97,555	$261,753	$268,824	$21,178	$21,468	$370,514	$442,350	$232,586	$254,004	$1,422,461	$1,528,086
Operating Income	($43,000)	($34,632)	($10,483)	($9,837)	($19,001)	($19,543)	$2,142	($2,730)	($22,271)	$69,777	($32,008)	($37,694)	($28,376)	($62,692)
Investment Income	$271	($1)	$35	($1)	$52	($1)	-	-	$6,676	$683	$674	($24)	$16,276	$3,504
Excess (Deficit) of Revenues Over Expenses	($42,729)	($34,633)	($10,448)	($9,838)	($18,949)	($19,544)	$2,142	($2,730)	($15,595)	$70,460	($31,334)	($37,718)	($12,100)	($59,188)

Source: Daughters, 2014 Audited & 2015 Internal Unaudited Financials

Daughters' internal unaudited statement of operations for FY 2015 displays the individual performance of the Health Facilities in conjunction with Daughters' system-wide performance. The individual Health Facilities, excluding the St. Francis Medical Center, show operating losses,

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as well as deficits of revenue over expenses. On a system-wide basis, Daughters also reports an operating loss of $12,100,000 in FY 2014 and $59,188,000 in FY 2015.

Net Patient Service Revenue

Net patient service revenue (less provision for bad debts) of $1.3 billion represents a net increase of $188.3 million (17.2%) as compared to FY 2014. Net patient service revenue during FY 2015 included $46.5 million in revenue from DCHS Medical Foundation, as compared to $45.1 million for FY 2014. Additionally, net patient service revenue for FY 2015 was also impacted by an increase of $172.9 million in Hospital Qualified Assurance Fee Program[29] revenue.

Between FY 2014 and FY 2015, net patient service revenue at St. Francis Medical Center increased 39% from $310.8 million in FY 2014 to $432.7 million in FY 2015. Premium revenue increased 93% from $40.2 million in FY 2014 to $77.3 million in FY 2015. These increases are largely attributable to increased Hospital Qualified Assurance Fee Program revenue. St. Francis Medical Center's membership increased by approximately 9,000 lives in FY 2015, which also has contributed to the overall increase in premium revenues and other revenues.

Operating Expenses

Total operating expenses of $1.528 billion for FY 2015 increased 7.4% from FY 2014. A portion of the net increase may be attributed to an increase of $100.8 million in Hospital Qualified Assurance Fee Program expenses, as well as a decrease of $10.3 million in expenses from DCHS Medical Foundation. Daughters' salaries and benefits amounted to approximately 52% of total expenses. This is significantly higher than the average percentage for all nonprofit general acute care hospitals in California (49% in FY 2013).

Non-Recurring Items

For FY 2014, Daughters' statement of operations includes a large non-recurring item related to the favorable accounting treatment of the 2008 Bond Redemption in the amount of $130 million. Inclusion of this item has the effect of overstating operating income. Adjusting for this non-recurring item, FY 2014 shows an operating loss of $146.3 million and a net income loss of $130 million.

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[29] Hospital Qualified Assurance Fee Program: This program uses fees assessed by the state on hospitals to draw down federal matching funds. These provider fees are then issued as supplemental payments to hospitals. These provider fees are an integral element to improving access to healthcare for some of California's most vulnerable residents.

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Historic Comparison

The table below displays adjusted operating/net income figures for FY 2011 to FY 2015. Over the past several years, Daughters' operating losses have significantly increased due to declining reimbursement, declining volume, and increasing salary costs. Between FY 2011 to FY 2014, Daughters reported an operating loss of between $44.6 million in FY 2011 to over $146.3 million in FY 2014.

In addition, Daughters' days of cash on hand has significantly declined due to operating losses. This ratio may be influenced by a variety of cash flow inflows or outflows, though higher figures generally indicate better liquidity and a safer margin to meet outflow obligations. The following table reports additional trends in operating income, net income, labor costs, and liquidity from FY 2011 to FY 2015:

DAUGHTERS' FINANCIAL TRENDS: FY 2011 - FY 2015					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Income[1] (millions)	(44.6)	(61.0)	(90.7)	(146.3)	(62.7)
Net Income (millions)	(4.1)	(59.5)	(74.5)	(130.0)	(59.2)
Labor Costs as a % of Net Patient Service Revenues	59.2%	61.9%	63.7%	73.6%	62.2%
Days Cash on Hand	87	70	50	31	26

Source: Daughters, 2015 Unaudited

[1] 2014 operating income excludes the favorable accounting treatment of the 2008 bond redemption

- Due to a $54 million net benefit from the Quality Assurance Fee Program, the operating income improved slightly in FY 2011, before declining in FY 2012 – 2015;

- Labor costs as a percentage of net patient service revenues increased from 59.2% in FY 2011 to 73.6% in FY 2014 before dropping to 62.2% in FY 2015 (compared to Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 57.7%); and

- Liquidity levels are significantly lower than Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 204.6 days cash on hand.

Cash Position and Debt Obligations

Between FY 2014 and FY 2015, total cash and marketable securities decreased by $13.6 million (7.3% decrease), and total unrestricted cash and marketable securities decreased by $10.4 million (9.2% decrease). Over the same time period, unrestricted days cash on hand decreased by 16%, from 31 days in FY 2014 to over 26 days in FY 2015. Daughters' mounting declines in days cash on hand is one indicator of liquidity challenges.

The following table reports the summary of Daughters' cash position for FY 2014 and FY 2015:

DAUGHTERS' CASH POSITION: FY 2014 & FY 2015 (in thousands)		
	FY 2014	**FY 2015**
Cash and Cash Equivalents	$101,276	$108,429
Marketable Securities	$85,617	$64,814
Subtotal	**$186,893**	**$173,243**
Less: Restricted Portion of Cash and Marketable Securities	**$73,441**	**$70,185**
Total Unrestricted Cash and Marketable Securities	**$113,452**	**$103,058**
Unrestricted Days Cash on Hand	**30.5**	**25.6**

Source: Daughters, Unaudited Financials, 2015

In order to address the liquidity shortage and outstanding obligations, Daughters of Charity Foundation[30] made a restricted donation of $130 million for the benefit of Daughters in October 2013. On October 25, 2013, Daughters redeemed the 2008 Bonds, consisting of the $130 million donation and a $13.7 million reserve fund, totaling $143.7 million in redemptions. The effect of the non-recurring donation on the statement of operations for FY 2014 is covered in the previous section.

Additionally, Daughters accessed a $125 million short-term financing bridge loan in August 2014 to provide enough days cash on hand to support hospital operations through the end of FY 2015. The bridge loan consists of the $100 million 2014 Bonds (Series A), the $10 million 2014 Bonds (Series B), and the $15 million 2014 Bonds (Series C). The bridge loan originally had a maturity date of July 10, 2015. The maturity date has been extended to December 15, 2015.

Credit Rating and Outlook

In April 2014, Standard & Poor's Rating Service downgraded certain bond issuances of Daughters from "BBB-" to "B-." A rating of "B-" represents less-than-investment grade status. An issuers' credit quality is generally reflective of its financial condition and ability to meet ongoing debt service obligations. A downgrade can pose future challenges for an issuer to raise capital in the debt markets as the cost of debt rises because buyers of lower rated bonds require higher rates of return to justify the greater relative risk incurred. Some of the following reasons were cited for Standard & Poor's Rating Service downgrade:

- Escalating operating losses during the past several years;
- Substantial loss from operations through the first half of FY 2014;

[30] Daughters of Charity Foundation engages in the solicitation, receipt, and administration of contributions and their disbursements to and for the benefit of the ministries of Daughters of Charity of St. Vincent de Paul, Province of the West.

- Continued weakening of the balance sheet despite substantial debt refunding as a result of the restricted donation made by Daughters of Charity Foundation in the amount of $130 million in October 2013;

- Eroding unrestricted reserves;

- Lack of a merging and/or acquiring entity (at the time of Standard & Poor's decision);

- Heavy reliance on hospital provider fee benefits and disproportionate share receipts[31] to help offset operating losses; and

- Substantially underfunded pension plans, with a 50% funded status based on projected benefit obligations at June 30, 2013.

At the time of the downgrade, Standard & Poor's Rating Service anticipated further operating losses through the second half of FY 2014. Additional downgrade potential was cited within the one-year outlook period if Daughters' divestiture plans were not finalized. This underscores the belief that Daughters would continue its operational difficulties on a stand-alone basis without outside intervention. Also of concern are continued operating pressures and the view that the balance sheet offers a "very limited cushion" to absorb continued losses.

Financial Distress and Divestiture Plans

The declining financial condition of Daughters is documented in both audited and unaudited financial statements, credit rating action, and internal communications. Prior to the credit rating downgrade, the internal communications and Daughters' Board meeting minutes in late 2013 reflected a growing concern of system-wide insolvency and the need to secure options.

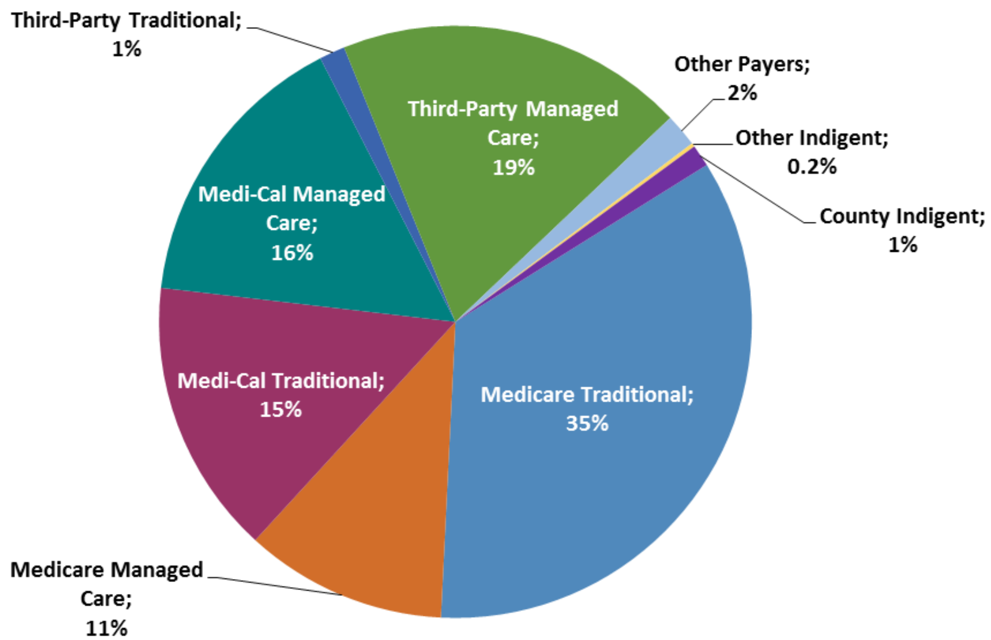
At a subsequent Daughters' Board meeting on December 24th, 2013, a motion was approved selecting Houlihan Lokey as the financial advisor. An offering process was undertaken for the sale of Daughters' assets and liabilities, but the transaction did not close.

A second offering process was undertaken in March 2015 for the sale of Daughters' assets and liabilities. In the event that this proposed transaction does not close, Daughters' Board will consider alternatives, including alternative transactions, closure of facilities, and use of bankruptcy proceedings.

[31] Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid & Medicare Services to cover the costs of providing care to uninsured patients.

Daughters' Payer Mix

In FY 2014, 46% of Daughters' inpatient payer mix consisted of Medicare Traditional (35%) and Medicare Managed Care (11%) patients. Approximately 31% of Daughters' inpatient payer mix consisted of Medi-Cal Managed Care (16%) and Medi-Cal Traditional (15%) patients. In addition, 20% of Daughters' payer mix consisted of Third-Party Managed Care (19%) and Third-Party Traditional (1%) patients. The remaining 3% of Daughters' inpatient discharges consisted of Other Payers* (2%), County Indigent (1%), and Other Indigent (0.2%) payers.



Total Discharges: 47,959

* "Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2014 (based on inpatient discharges)

Unionized Employees

Daughters has relationships with various unions across the State of California, including a system-wide CBA with Service Employees International Union, United Healthcare Workers West, that covers nearly 2,600 employees at the Health Facilities through October 31, 2015. In addition, each of the Health Facilities has CBAs with other unions, including California Nurses Association, California Licensed Vocational Nurses Association, United Nurses Association of California/Union of Health Care Professionals, International Union of Operating Engineers, Local 39, and Engineering Scientists of California, Local 20. Approximately 72% of Daughters' employees are covered under CBAs as of June 30, 2015.

UNION PARTICIPATION AMONG DAUGHTERS' EMPLOYEES

Union	O'Connor Hospital	Saint Louise Regional Hospital	Seton Medical Center & Seton Medical Center Coastside	St. Francis Medical Center	St. Vincent Medical Center	System Office - Redwood City	System Office - Los Altos Hills	DCHS Medical Foundation	Total
California Licensed Vocational Nurses Association	18	-	-	-	-	-	-	-	18
California Nurses Association	557	189	416	-	362	-	-	-	1,524
Engineering Scientists of California, Local 20	46	16	28	-	-	-	-	-	90
International Union of Operating Engineers, Local 39	17	9	20	-	-	-	-	-	46
Service Employees International Union	500	198	678	813	375	-	-	-	2,564
United Nurses Association of California	-	-	-	729	-	-	-	-	729
Total Represented by Unions	**1,138**	**412**	**1,142**	**1,542**	**737**	**-**	**-**	**-**	**4,971**
Total Non-Union Employees	308	84	190	481	289	116	28	397	1,893
Total Employees	**1,446**	**496**	**1,332**	**2,023**	**1,026**	**116**	**28**	**397**	**6,864**
Total Percentage of Employees Represented by Unions	**79%**	**83%**	**86%**	**76%**	**72%**	**0%**	**0%**	**0%**	**72%**

Source: Daughters

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PROFILE OF O'CONNOR HOSPITAL

O'Connor

Daughters of Charity of St. Vincent de Paul founded O'Connor Hospital as the first hospital in Santa Clara County in 1889. In 1953, the Hospital moved to its current location at 2105 Forest Avenue, San Jose, CA 95128. The 358 licensed-bed, general acute care hospital provides comprehensive inpatient, outpatient, and emergency medical services for the residents of Santa Clara County.

O'Connor Foundation

O'Connor Foundation was incorporated in 1983 and is governed by a Board of Trustees. Charitable donations and endowments help fund the acquisition of new equipment, the expansion of the Hospital's facilities, healthcare services, and community outreach programs. O'Connor is the sole corporate member of O'Connor Foundation.

O'Connor Foundation has also supported the following programs:

- The Pediatric Center for Life[32]: The clinic provides primary care, including yearly wellness exams, immunizations, and urgent care treatment to children and adolescents from low-income families; and

- Family Medicine Residency Program: The Program is a three-year residency training program in collaboration with Stanford University Medical School. O'Connor Foundation supports a portion of the costs associated with training the physicians.

As of May 31, 2015, O'Connor Foundation had a balance of $2.4 million in temporarily restricted assets and a balance of approximately $334,800 in permanently restricted assets for the purpose of funding the cardiac catheterization lab, wound care services, equipment and renovation, surgical services, and various other programs.

[32] O'Connor Foundation no longer supports the Pediatric Center for Life as the clinic moved under the support of DCHS Medical Foundation and was recently absorbed by the Indian Health Center effective June 29, 2015.

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Overview of the Hospital

O'Connor operates a 358 licensed-bed, general acute care hospital that serves residents from the greater San Jose area.

BED DISTRIBUTION 2015	
Bed Type	**Number of Beds**
General Acute Care	210
Intensive Care	14
Neonatal Intensive Care	10
Coronary Care	8
Pediatric	27
Perinatal	65
Total General Acute Care Beds	**334**
Skilled Nursing (D/P)	24
Total Beds	**358**

Source: Hospital License 2015

The Hospital has a "basic" emergency department[33] with 23 emergency treatment stations. It also has 11 surgical operating rooms and two cardiac catheterization labs.

Key Statistics

KEY STATISTICS			
	FY 2012	**FY 2013**	**FY 2014**
Inpatient Discharges	11,828	11,751	10,971
Licensed Beds	358	358	358
Patient Days	48,711	52,175	49,663
Average Daily Census	133	143	136
Occupancy	37.2%	39.9%	38.0%
Average Length of Stay	4.1	4.4	4.5
Emergency Services Visits[1]	53,174	48,229	48,950
Cardiac Catheterization Procedures	1,793	1,532	2,680
Coronary Artery Bypass Graft (CABG) Surgeries[1]	66	70	92
Total Live Births	3,341	3,245	3,032

Physicians on Medical Staff	551
Hospital Employees/Associates[2]	1,446

Sources: OSHPD Disclosure Reports, FY 2012-2014 and Daughters

[1] OSHPD Alirts Annual Utilization Reports

[2] Includes part-time employees

[33] A "basic" emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

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- In FY 2014, the Hospital had a total of 10,971 discharges, 49,663 patient days, and an average daily census of 136 (38.0% occupancy);
- Inpatient discharges decreased by approximately 7% between FY 2012 and FY 2014;
- In FY 2014, the Hospital had 48,950 emergency department visits and 3,032 obstetrical deliveries;
- Between FY 2012 and FY 2014, coronary artery bypass graft surgeries increased by 39% to 92 surgeries; and
- The Hospital performed approximately 2,680 diagnostic cardiac catheterization procedures in FY 2014 (nearly 50% growth since FY 2012).

Programs and Services

The Hospital offers a comprehensive range of healthcare services, including emergency, cardiac, orthopedic, cancer, obstetrics, and sub-acute care services.

- Cancer services include: Clinical labs, chemotherapy, biotherapy, radiology, radiation therapy, nuclear medicine, and endoscopic ultrasound. The Ambulatory Infusion Center offers short-term and long-term blood and intravenous transfusions;
- Critical care services include: 22 licensed beds with diagnostic and monitoring equipment to provide observation and intervention services;
- Progressive Care Unit services include: 24 beds for bedside and telemetry monitoring;
- Emergency services include: 23 emergency treatment stations, including 21 beds and two triage stations, and a designated Primary Stroke Center, with specialized services for stroke, cardiac, orthopedic, and pediatric patients;
- Cardiovascular services include: Coronary artery bypass, cardiac catheterization, valve replacement and repair, and endovascular surgeries to treat artery diseases and aneurysms. The Hospital is a designated STEMI Receiving Center;
- Imaging services include: Diagnostic radiography and fluoroscopy, digital mammography, interventional radiology, CT, MRI, ultrasound, and nuclear medicine;
- Laboratory services include: Thyroid, glucose, enzyme, lipid panel, A1C, and BHcG tests;

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- Orthopedics and joint replacement services include: Total knee, shoulder, and hip replacements, back, spine, and disc surgery, shoulder surgery, and treatment of fractures and broken bones, and spine pain and arthritis management;

- Pediatric services include: Inpatient pediatric care. Approximately one-third of the Hospital's Emergency Department visits are pediatric patients;

- Rehabilitation and sports therapy services include: Inpatient acute therapy services and outpatient physical therapy, occupational therapy, and speech-language therapy;

- Stroke services include: A team of physicians, pharmacists, and therapists that coordinate the diagnosis and treatment of stroke patients. The Hospital is certified as an Advanced Primary Stroke Center; and

- Sub-acute services include: Long-term care for patients with complex medical cases, such as multiple sclerosis, Parkinson's disease, and ALS. The sub-acute care program, managed by VitalCare America, treats patients who require the use of a tracheotomy, gastronomy tube, or ventilator.

The Hospital also operates the following clinics and specialty services:

- Family Center: Offers newborn hearing assessments, breastfeeding support groups, childbirth education, and comprehensive services for high-risk pregnancies and childbirths at the neonatal intensive care unit. The Family Center delivers over 2,000 babies each year;

- Family Medicine Residency Program: Trains residents to become community physicians with expertise in fields such as cardiology, epidemiology, geriatric medicine, obstetrics, and public health. The program is affiliated with Stanford University and partners with the Indian Health Center of Santa Clara Valley, a Federally Qualified Health Center:

    - Sports Medicine Fellowship Program: Offers a Certificate of Added Qualification to two candidates in the Family Medicine Residency Program. The fellows supervise, teach, and lecture to residents in the Sports Medicine Clinics.

- Cancer Diagnosis Center: Delivers diagnostic and ongoing testing through angiography, CT, MRI, digital radiography, ultrasound, and mammography;

- Vascular Center: Provides early detection, minimally invasive procedures, and prevention treatment for endovascular conditions. The Endovascular Suite includes a flat panel detector for endovascular procedures; and

- Wound Care Clinic: Includes complete wound management using surgical techniques and hyperbaric oxygen therapy.

Accreditations, Certifications, and Awards

The Hospital is accredited by the Joint Commission, effective October 2014 through October 2017. Additionally, the Joint Commission has accredited the Hospital's clinical laboratory, effective September 2013 through September 2016.

Other accreditations, certifications, and awards the Hospital has received include:

- Accredited by the American College of Surgeons' Commission on Care for Cancer Care Program;

- Certified by the Joint Commission as a Primary Stroke Center, effective December 2013 through December 2015;

- Designated by Santa Clara County as a STEMI Receiving Center;

- Recognized by the Joint Commission for its "Centers of Excellence" for hip replacement, knee replacement, and wound care effective January 2014 through January 2016;

- Awarded a Target Stroke Award and a Get With The Guidelines 2015 Stroke Gold Plus from the American Heart Association/American Stroke Association;

- Given an "A" Rating for Hospital Safety from The Leapfrog Group Hospital Safety Score Program for Spring 2015; and

- Designated by the Blue Cross and Blue Shield Association as a Blue Distinction Center for cardiac care and knee and hip replacement.

Quality Measures

The Hospital Value-Based Purchasing Program, established by the Patient Protection and Affordable Care Act (ACA) in 2012, encourages hospitals to improve the quality and safety of care. Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on multiple measures within four domains: clinical process of care, patient experience, outcome, and efficiency. For FY 2013, Centers for Medicare & Medicaid Services reduced Medicare payments to the Hospital by 0.04%. During FY 2014, the Hospital was rewarded with a 0.04% Medicare payment bonus. For FY 2015, the Hospital will be rewarded with a 0.02% Medicare payment bonus.

The following table reports the Hospital's average scores for each of the measures within the four domains in comparison to the statewide and national averages:

QUALITY SCORES COMPARISON				
Domain	Measure	Hospital	California Average	National Average
Clinical Process of Care Domain	Average of Acute Myocardial Infarction, Heart Failure, Pneumonia, Surgical Care Improvement & Healthcare Associated Infection Measures	**97.9%**	97.3%	97.6%
Patient Experience of Care Domain	Average of Measures for the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) Survey	**68.4%**	67.2%	71.0%
Outcome Domain	Average of Outcome Measures for Acute Myocardial Infarction, Heart Failure & Pneumonia 30-Day Mortality Rates & Central-Line Bloodstream Infection Rates	**13.6%**	12.5%	12.9%
Efficiency Domain	Medicare Spending per Beneficiary Ratio	**1.01**	0.98	0.98

Source: Medicare.gov Hospital Compare, April 16, 2015

- For the clinical process of care domain, the Hospital scored higher (97.9%) than the statewide and national averages (97.3% and 97.6%, respectively);

- The Hospital scored approximately 1% higher (68.4%) than the California average (67.2%) and 2% lower than national average (71%) for the patient experience of care domain;

- Within the outcome domain, the Hospital has slightly poorer 30-day mortality rates and central-line bloodstream infection rates (13.6%) than the California and national averages (12.5% and 12.9%, respectively); and

- With a ratio of 1.01, the Hospital spends more per patient for an episode of care initiated at the Hospital than California hospitals (0.98) and national hospitals (0.98).

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The Hospital Readmissions Reduction Program, implemented in 2012, penalizes hospitals for excess patient readmissions within 30 days of discharge for the following three applicable conditions: heart attack, heart failure, and pneumonia. In FY 2015, 223 California hospitals will be penalized at an average of 0.41%. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

In FY 2013 and FY 2014, the Hospital was penalized at 0.46% and 0.15%, respectively. The following graph shows the Hospital's 30-day readmission rates for heart attack, heart failure, pneumonia, and surgical patients:

30-DAY READMISSION RATES			
Condition	**Hospital**	**National Average**	**California Average**
Heart Attack	**18.3%**	17.8%	17.8%
Heart Failure	**22.5%**	22.7%	22.7%
Pneumonia	**17.4%**	17.3%	17.3%
Average 30-Day Readmission Rate	**19.4%**	**19.3%**	**19.3%**

Source: IPRO & Medicare.gov Hospital Compare, April 16, 2015

- The Hospital had slightly higher 30-day readmissions (19.4%) than the national average (19.3%) and California average (19.3%); and

- For FY 2015, the Hospital will be penalized at 0.22% (not shown on table).

Seismic Issues

Under the HAZUS seismic criteria[34], the Hospital's structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC). These classifications require that the Hospital's structures undergo construction to comply with the California Office of Statewide Health Planning and Development's seismic safety standards.

O'CONNOR HOSPITAL SEISMIC OVERVIEW		
Building	**SPC Compliance Status**	**NPC Compliance Status**
1) Replacement Boiler House	**SPC-4s***	**NPC-2**
2) Replacement Facility (Main Hospital)	**SPC-4s***	**NPC-2**
3) 1969 Addition	**SPC-2**	**NPC-2**
4) 1953 Boiler Plant	**SPC-1**	**NPC-2**
5) 1953 Building	**SPC-1**	**NPC-2**
6) 2005 Emergency Expansion	**SPC-5**	**NPC-4**
7) Linear Accelerator	**SPC-4**	**NPC-2**
8) Canopy 1	**SPC-3**	**NPC-2**
9) Canopy 2	**SPC-3**	**NPC-2**
10) 2005 Emergency Expansion Canopy	**SPC-5**	**NPC-4**

Source: Daughters & OSHPD

* 2s, 3s, 4s and 5s indicate SPC rating self-reported by the hospital and not verified by OSHPD

- Two of the Hospital's buildings, the 1953 Boiler Plant and the 1953 Building, require upgrades to be seismically compliant. Upgrades to the 1953 Boiler Plant must be completed by January 1, 2019, and upgrades to the 1953 Building must be completed by July 1, 2019. Per Daughters, the seismic upgrades to the two building will reportedly cost approximately $18 million in order to comply with seismic standards until 2030.

[34] OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

Patient Utilization Trends

The following table shows patient volume trends at the Hospital for FY 2010 through FY 2014.

SERVICE VOLUMES: FY 2010-2014					
PATIENT DAYS	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**
Medical/Surgical	34,977	30,060	27,432	28,847	26,872
Intensive Care	5,381	4,669	4,789	4,848	4,484
Neonatal Intensive Care	1,678	2,026	1,779	1,660	1,391
Obstetrics	8,629	8,492	8,558	8,195	7,706
Pediatric	1,710	1,468	1,532	1,402	1,294
Sub-Acute	-	-	3,195	7,223	7,916
Skilled Nursing	6,723	5,896	1,426	-	-
Total	**59,098**	**52,611**	**48,711**	**52,175**	**49,663**
DISCHARGES					
Medical/Surgical	7,614	7,194	6,686	6,854	6,406
Intensive Care	1,229	1,153	1,196	1,178	1,087
Neonatal Intensive Care	186	156	164	157	107
Obstetrics	3,377	3,329	3,265	3,195	3,034
Pediatric	390	363	383	341	313
Sub-Acute	-	-	93	26	24
Skilled Nursing	519	477	41	-	-
Total	**13,315**	**12,672**	**11,828**	**11,751**	**10,971**
AVERAGE LENGTH OF STAY					
Medical/Surgical	4.6	4.2	4.1	4.2	4.2
Intensive Care	4.4	4.0	4.0	4.1	4.1
Neonatal Intensive Care	9.0	13.0	10.8	10.6	13.0
Obstetrics	2.6	2.6	2.6	2.6	2.5
Pediatric	4.4	4.0	4.0	4.1	4.1
Sub-Acute	-	-	-	-	-
Skilled Nursing	13.0	12.4	-	-	-
Total	**4.4**	**4.2**	**4.1**	**4.4**	**4.5**
AVERAGE DAILY CENSUS					
Medical/Surgical	95.8	82.4	75.0	79.0	73.6
Intensive Care	14.7	12.8	13.1	13.3	12.3
Neonatal Intensive Care	4.6	5.6	4.9	4.5	3.8
Obstetrics	23.6	23.3	23.4	22.5	21.1
Pediatric	4.7	4.0	4.2	3.8	3.5
Sub-Acute	-	-	8.7	19.8	21.7
Skilled Nursing	18.4	16.2	3.9	-	-
Total	**161.9**	**144.1**	**133.1**	**142.9**	**136.1**
OTHER SERVICES					
Inpatient Surgeries	4,960	5,310	4,124	4,186	3,832
Outpatient Surgeries	10,272	10,823	11,095	10,616	10,983
Emergency Visits	43,507	53,167	53,174	48,229	48,950
Cardiac Cath Procedures	2,525	2,058	1,793	1,532	2,680
Obstetric Deliveries	3,414	3,341	3,341	3,245	3,032

Sources: OSHPD Disclosure Reports,FY 2010-2014

In 2012, the Hospital's skilled nursing unit began functioning as a sub-acute care unit

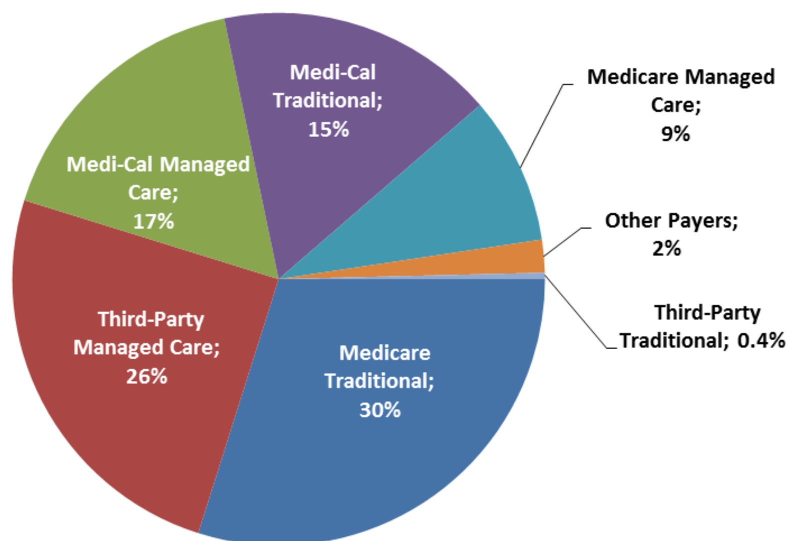
A review of historical utilization trends at the Hospital between FY 2010 and FY 2014 supports the following conclusions:

- Total patient days have decreased by approximately 16% from 59,098 in FY 2010 to 49,663 in FY 2014;
- Inpatient discharges have decreased 17% from 13,315 in FY 2010 to 10,971 in FY 2014;
- The average daily census has decreased from 162 patients per day in FY 2010 to 136 patients in FY 2014;
- Inpatient surgeries decreased by 23% from 4,960 in FY 2010 to 3,832 in FY 2014; and
- Obstetric deliveries have decreased by 13% from 3,414 in FY 2010 to 3,032 in FY 2014.

Payer Mix

In FY 2014, 34% of the Hospital's inpatient payer mix consisted of Medi-Cal Managed Care (17%) and Medi-Cal Traditional (15%) patients. Approximately 39% of the Hospital's inpatient payer mix consisted of Medicare Traditional (30%) and Medicare Managed Care (9%) patients. The remaining 27% of the Hospital's inpatient discharges consisted of Third-Party Managed Care (26%) and, Third-Party Traditional (0.4%), and Other Payers* (2%).

Hospital Payer Mix, FY 2014



Total Discharges: 10,971

* "Other Payers" includes self-pay, workers' compensation, other government, and other payers
Source: OSHPD Financial Disclosure Report, FY 2014 (based on inpatient discharges)

The following table illustrates the Hospital's inpatient discharge payer mix compared to Santa Clara County and statewide for 2014. The comparison shows that the Hospital has higher percentages of Medi-Cal Managed Care and lower percentages of Third-Party Traditional and indigent patients relative to other hospitals in Santa Clara County and the State of California.

PAYER MIX COMPARISON						
	Hospital (2014)		Santa Clara County (2013)		California (2013)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	1,812	16.5%	16,276	13.3%	444,932	15.0%
Medi-Cal Managed Care	1,841	16.8%	12,522	10.3%	354,720	12.0%
Medi-Cal Total	**3,653**	**33.3%**	**28,798**	**23.6%**	**799,652**	**27.0%**
Medicare Traditional	3,272	29.8%	35,685	29.2%	863,909	29.1%
Medicare Managed Care	950	8.7%	5,539	4.5%	265,857	9.0%
Medicare Total	**4,222**	**38.5%**	**41,224**	**33.8%**	**1,129,766**	**38.1%**
Third-Party Managed Care	2,783	25.4%	41,261	33.8%	657,290	22.2%
Third-Party Managed Care Total	**2,783**	**25.4%**	**41,261**	**33.8%**	**657,290**	**22.2%**
Third-Party Traditional	40	0.4%	2,229	1.8%	127,396	4.3%
Other Payers	273	2.5%	2,931	2.4%	87,399	2.9%
Other Indigent	0	0.0%	3,468	2.8%	50,699	1.7%
County Indigent	0	0.0%	2,221	1.8%	113,812	3.8%
Other Total	**313**	**2.9%**	**10,849**	**8.9%**	**379,306**	**12.8%**
Total	**10,971**	**100%**	**122,132**	**100%**	**2,966,014**	**100%**

Source: OSHPD Disclosure Reports, FY 2013-2014

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Over 11 million Medi-Cal beneficiaries in all 58 counties of California receive their healthcare through six models of managed care: County Organized Health Systems, Geographic Managed Care, Two-Plan Model, Regional Model, Imperial Model, and the San Benito Model.

Santa Clara County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a "Commercial Plan," available through Anthem Blue Cross of California, and a "Local Initiative," the Santa Clara Family Health Plan that has a sub-capitation agreement with Santa Clara Valley Health Plan. In 2013, Santa Clara County had approximately 275,000 inpatient discharges from patients with either Medi-Cal Traditional (13.3%) or Medi-Cal Managed Care coverage (10.3%). The percentage of Santa Clara County residents with Medi-Cal Managed Care coverage will increase as a result of the ACA and state initiatives to expand managed care.

Currently, the Hospital is contracted with the Commercial Plan, Anthem Blue Cross, to provide services for Medi-Cal Managed Care beneficiaries. The Hospital terminated its contract with the Local Initiative, Santa Clara Family Health Plan, as well as Santa Clara Valley Health Plan on April 15, 2015.

Medical Staff

The Hospital has 551 physicians on the medical staff representing various specialties. Of the 551 physicians, 465 are considered “active” users of the Hospital (representing approximately 84% of the medical staff). Internal medicine, pediatrics, and family practice are the largest three specialties, comprising 29% of the active physicians. The 86 “non-active” users of the Hospital include administrative, provisional, courtesy, temporary, and other medical staff.

MEDICAL STAFF PROFILE 2015		
Specialty	**Count**	**% of Total**
Active Physicians		
Internal Medicine	56	12%
Pediatrics	42	9%
Family Practice	37	8%
Cardiology	30	6%
Obstetrics/Gynecology	32	7%
Orthopedic Surgery	19	4%
Anesthesiology	14	3%
Teleradiology	19	4%
General Surgery	18	4%
Emergency Medicine	12	3%
Other	186	40%
Total Active	**465**	**100%**
Non-Active	86	
Total Physicians	**551**	

Source: Daughters

Unionized Employees/Associates

The Hospital has 500 employees/associates represented by Service Employees International Union. Daughters' system-wide CBA with Service Employees International Union, United Healthcare Workers West, covers employees/associates that are members of technical, service, and maintenance bargaining units at the Health Facilities through October 31, 2015.

The Hospital also has CBAs with the following unions:

- California Licensed Vocational Nurses Association through October 31, 2015. This agreement covers 18 Licensed Vocational Nurses providing direct patient care;
- California Nurses Association through December 30, 2015. The agreement covers 557 Registered Nurses at the Hospital that are involved in direct patient care;
- Engineering Scientists of California, Local 20 covering 41 employees/associates through August 30, 2015. This CBA is currently negotiated on a month-to-month basis; and
- International Union of Operating Engineers, Local 39 through September 30, 2016 that covers 17 bargaining unit members at the Hospital.

In total, approximately 79% of the Hospital's employees/associates are covered by CBAs.

EMPLOYEES REPRESENTED BY UNIONS	
Union	**Total**
California Licensed Vocational Nurses Association	18
California Nurses Association	557
Engineering Scientists of California, Local 20	46
International Union of Operating Engineers, Local 39	17
Service Employees International Union	500
Total Employees Represented by Unions	**1,138**
Total Non-Union Employees	308
Total Employees	**1,446**
Total Percentage of Employees Represented by Unions	**79%**

Source: Daughters

Financial Profile

From FY 2010 to FY 2014, the Hospital reported a combined net loss of over $115 million. In FY 2014 alone, the loss was approximately $43 million. Much of the reported losses can be attributed to net patient revenue decreasing while operating expenses increased disproportionately (over the five-year period net patient revenue decreased 10% and operating expenses increased by 4%). These losses would have been larger without net non-operating revenue[35] totaling nearly $55 million since FY 2010.

The Hospital's current assets-to-liabilities ratio has decreased over the last five years from 2.25 in FY 2010 to 0.82 in FY 2014 (the California average in FY 2013 was 1.76). The Hospital's average percentage of bad debt is approximately 0.8% and is lower than the statewide average of 1.7%.

FINANCIAL AND RATIO ANALYSIS: FY 2010-2014						
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Patient Days		59,098	52,611	48,711	52,175	49,663
Discharges		13,315	12,672	11,828	11,751	10,971
ALOS		4.4	4.2	4.1	4.4	4.5
Net Patient Revenue		$278,752,977	$281,243,574	$271,023,580	$284,436,533	$249,209,593
Other Operating Revenue		$2,178,364	$1,706,185	$1,609,942	$2,384,212	$4,680,678
Total Operating Revenues		$280,931,341	$282,949,759	$272,633,522	$286,820,745	$253,890,271
Operating Expenses		$297,815,368	$315,029,575	$303,121,738	$317,012,714	$310,603,352
Net from Operations		($16,884,027)	($32,079,816)	($30,488,216)	($30,191,969)	($56,713,081)
Net Non-Operating Revenue		$13,120,357	$13,875,082	$3,124,130	$7,337,228	$17,060,225
Net Income		($3,763,670)	($18,204,734)	($27,364,086)	($22,854,741)	($43,083,064)
	California Average 2013					
Current Ratio	1.76	2.25	1.94	1.58	1.88	0.82
Days in A/R	59.9	53.8	48.5	51.6	47.5	49.3
Bad Debt Rate	1.7%	0.6%	0.8%	0.5%	0.7%	0.8%
Operating Margin	2.64%	-6.01%	-11.34%	-11.18%	-10.53%	-22.34%

Source: OSHPD Disclosure Reports, FY 2010-2014

[35] Revenue received or recognized for services that are not directly related to the provision of healthcare services. Examples of non-operating revenue include unrestricted contributions, income and gains from investments, and various government assessments, taxes, and appropriations.

Capital Expenditures

Between FY 2011 and FY 2015, the Hospital spent approximately $42.7 million in capital expenditures, including software and infrastructure upgrades, new medical equipment, and renovations to the radiology and dialysis facilities.

SUMMARY OF RECENT CAPITAL EXPENDITURES: FY 2011-2015 (in millions)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Building, Fixtures, and Leasehold					
Building Fixtures	$0.5	$0.2	$0.1	$0.1	$1.5
Building Improvements	$3.0	$0.4	$1.1	-	$0.1
Furniture and Fixtures	$1.4	-	-	-	-
Sub-Total	**$3.9**	**$0.7**	**$1.2**	**$0.1**	**$1.6**
Software and IT					
Software	$10.3	$3.8	$1.1	$5.2	$0.8
Computer Equipment	$0.5	$0.2	-	$0.1	-
Network Equipment	$1.2	$0.6	$0.6	$1.0	$0.2
Telephone Equipment	$0.2	$0.1	-	-	-
Sub-Total	**$12.2**	**$4.6**	**$1.7**	**$6.3**	**$1.0**
Medical Equipment	$1.4	$1.9	$2.3	$3.4	$0.5
Total	**$17.4**	**$7.2**	**$5.2**	**$9.8**	**$3.1**

Source: Daughters

Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In FY 2014, approximately 47% of the Hospital's total costs were associated with Medicare, 24% with Medi-Cal, and 25% with Third Party payers. The remaining 4% is attributed to Other Payers.

COST OF SERVICES BY PAYER CATEGORY: FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Expenses	$297,815,368	$315,029,575	$303,121,738	$317,012,714	$310,603,352
Cost of Services By Payer:					
Medicare	$147,560,131	$152,552,406	$142,387,451	$147,536,156	$147,308,970
Medi-Cal	$50,546,517	$66,547,935	$68,238,908	$76,610,601	$74,560,758
County Indigent	$0	$0	$0	$0	$0
Third Party	$92,225,757	$87,816,611	$79,923,370	$81,479,116	$78,750,812
Other Indigent	$0	$0	$0	$0	$0
Other Payers	$7,482,963	$8,112,623	$12,572,009	$11,386,841	$9,982,812

Source: OSHPD Disclosure Reports, FY 2010-2014

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Charity Care

According to the Hospital's reports submitted to OSHPD, the Hospital's charity care charges have increased from nearly $14.0 million in FY 2010 to approximately $19.2 million in FY 2014. The five-year average for charity care charges was approximately $17.2 million.

The following table shows a comparison of charity care and bad debt for the Hospital and all general acute care hospitals in the state. The five-year (FY 2010 - FY 2014) average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 1.8%. This is lower than the four-year statewide average of 3.5%. According to OSHPD, "the determination of what is classified as…charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON
CHARITY CARE - FY 2010 to FY 2014
(Millions)

	2010		2011		2012		2013		2014	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	$1,543.7	$270,511.0	$1,524.7	$288,636.7	$1,435.9	$303,278.6	$1,464.4	$317,543.8	$1,426.4	-
Charity	$14.0	$5,587.1	$16.8	$6,171.5	$12.2	$6,251.0	$23.9	$6,209.9	$19.2	-
Bad Debt	$8.9	$4,510.8	$11.8	$4,815.5	$7.4	$5,046.5	$10.7	$5,549.5	$11.6	-
Total	**$22.9**	**$10,097.9**	**$28.6**	**$10,987.0**	**$19.6**	**$11,297.5**	**$34.6**	**$11,759.4**	**$30.9**	**-**
Charity as a % of Gross Revenue	0.9%	2.1%	1.1%	2.1%	0.9%	2.1%	1.6%	2.0%	1.3%	-
Bad Debt as a % of Gross Revenue	0.6%	1.7%	0.8%	1.7%	0.5%	1.7%	0.7%	1.7%	0.8%	-
Total as a % of Gross Revenue	1.5%	3.7%	1.9%	3.8%	1.4%	3.7%	2.4%	3.7%	2.2%	-
Uncompensated Care										
Cost to Charge Ratio	19.2%	25.0%	20.6%	24.6%	21.0%	24.7%	21.5%	24.4%	21.4%	-
Cost of Charity	$2.7	$1,396.2	$3.5	$1,520.9	$2.6	$1,542.1	$5.1	$1,514.6	$4.1	-
Cost of Bad Debt	$1.7	$1,127.3	$2.4	$1,186.8	$1.5	$1,245.0	$2.3	$1,353.5	$2.5	-
Total	**$4.4**	**$2,523.5**	**$5.9**	**$2,707.7**	**$4.1**	**$2,787.1**	**$7.4**	**$2,868.1**	**$6.6**	**-**

Source: OSHPD Disclosure Reports, FY 2010-2014

The table below shows the Hospital's historical costs for charity care as reported by OSHPD. The Hospital's charity care costs increased from $2.7 million in FY 2010 to $5.1 million in FY 2013, before dropping to $4.1 million in FY 2014. The average cost of charity care to the Hospital for the same five-year period was approximately $3.6 million.

COST OF CHARITY CARE

Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital	Percent of Total Costs Represented by Charity Care
FY 2014	$19,248,021	21.4%	$4,119,076	1.3%
FY 2013	$23,897,307	21.5%	$5,137,921	1.6%
FY 2012	$12,238,789	21.0%	$2,570,146	0.8%
FY 2011	$16,793,051	20.6%	$3,450,972	1.1%
FY 2010	$13,965,719	19.2%	$2,674,435	0.9%
5-Year Average	**$17,228,577**		**$3,590,510**	

Source: OSHPD Disclosure Reports, FY 2010-2014

The Hospital reported the following distribution of charity care by inpatient, outpatient, and emergency room charges:

COST OF CHARITY CARE BY SERVICE					
		Inpatient	Outpatient	Emergency Room	Total Charges
2015:					
	Cost of Charity	$1,702,109	$993,673	$3,664,862	$6,360,644
	Visits/Discharges	73	191	1,227	
2014:					
	Cost of Charity	$8,737,490	$1,749,237	$8,761,293	$19,248,020
	Visits/Discharges	175	372	2,666	
2013:					
	Cost of Charity	$11,829,537	$2,335,397	$9,732,373	$23,897,307
	Visits/Discharges	472	902	3,626	
2012:					
	Cost of Charity	$6,090,910	$4,989,645	$1,158,233	$12,238,788
	Visits/Discharges	393	594	2,141	
2011:					
	Cost of Charity	$8,639,914	$1,242,732	$6,910,407	$16,793,053
	Visits/Discharges	351	594	2,389	
2010:					
	Cost of Charity	$4,860,339	$1,039,833	$8,056,546	$13,965,718
	Visits/Discharges	358	528	2,062	

Source: Daughters

Because of Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

Community Benefit Services

The Hospital has consistently provided a significant contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over the five fiscal years has been approximately $2.75 million per year:

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	**2011**	**2012**	**2013**	**2014**	**2015**	**5-Year Average**	**Total**
Benefits for Persons Living in Poverty	$685,404	$573,621	$3,653,120	$3,660,297	$2,676,552	$2,249,799	**$11,248,994**
Benefits for the Broader Community*	$963,382	$850,340	$381,396	$278,516	$33,536	$501,434	**$2,507,170**
Total	**$1,648,786**	**$1,423,961**	**$4,034,516**	**$3,938,813**	**$2,710,088**	**$2,751,233**	**$13,756,164**

Source: Hospital

* FY 2015 Benefits for the Broader Community decresed from the prior year due to the following:

1. Elimination of the Career Academy: The costs associated with this program in FY2014 was $101,232
2. Elimination of "In-Kind" donations. The costs associated with this program in FY2014 was $106,270
3. Reduction in costs associated to childbirth education and support courses. The costs associated with this program have decreased approximately $25,000

- The Hospital's five-year average cost of community benefit services for persons living in poverty is approximately $2.25 million per year. The services for persons living in poverty include community health improvement, and health professions education;

- The Hospital's five-year average cost of community benefit services to the broader community is approximately $500,000 per year. These services include community health improvement, financial and in-kind contributions, health professional education, and subsidized health services; and

- Between FY 2011 and FY 2015, the Hospital's total benefits for persons living in poverty increased from $685,000 in FY 2011 to $2.75 million in FY 2015. The Hospital's total benefits for the broader community have decreased from nearly $1.0 million in FY 2011 to approximately $34,000 in FY 2014.

The Hospital's cost of community benefit services over the past five fiscal years included the following program expenditures over $10,000:

COST OF COMMUNITY BENEFIT SERVICES FY 2011-2015					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Services over $10,000 in cost:					
Chilbirth and Family Education	$22,987	$27,880	$25,703	$22,267	$21,000
New Directions Case Management	$112,500	$75,000	$12,500	-	-
Medical Respite Center	$25,000	$25,000	$25,000	$25,000	-
Career Academy	$107,008	$109,136	$109,440	$101,232	-
Family Medicine Residency Program	$3,900,000	$4,100,000	$4,000,000	$3,700,000	$3,800,000
Nursing Students Clinical & Preceptorship Hours	$46,853	$29,878	$22,954	-	-
Living Well Community Health Education	$64,727	$114,811	$68,777	$13,097	$4,700
Health Benefits Resource Center	$400,469	$359,350	$271,080	$82,262	$297,000
Parish Nursing	$1,674,308	$97,164	-	-	-
Laboratory Clinical Internships	$90,297	$107,687	-	-	-
Ultrasound Internships	$186,708	$141,280	-	-	-
Radiology Program Internships	$40,078	-	-	-	-
Meals on Wheels	$44,366	-	-	-	-
Community Building Sponsorships	-	$27,045	$11,241	$19,975	$8,150
Support Group Administration	$27,672	$30,062	$28,055	$24,386	$15,255
Palliative Care Services	$202,000	$198,000	$184,000	$180,000	-

Source: Daughters

The Hospital's community benefit services have supported many programs for the community including the Living Well Community Education Classes, the Health Benefits Resource Center, and the Family Medicine Residency Program[36]:

- Childbirth and Family Education: The programs provides classes for pregnant women and family on childbirth and parenting;
- Living Well Community Education Classes: The classes address a wide range of health topics, including cardiovascular disease, heart attacks, stroke, exercise, and cancer. Each month, the program presents a series of childbirth and family education classes for new families and provides support groups for various illnesses;
- Family Medicine Residency Program: The 3-year residency program trains eight residents per year to become community physicians that care for patients of all ages. The Sports Medicine Fellowship Program is an additional component of the residency program that offers a Certificate of Added Qualification in Sports Medicine to two candidates per year. The program is partnered with the Indian Health Center, a Federally Qualified Health Center, and affiliated with Stanford University. Students from

[36] Since the completion of MDS' analysis of the proposed transaction involving Prime Healthcare Services, Inc. in December 2014, the following community benefit programs and services are no longer being provided: Career Academy, Medical Respite Center, New Directions Case Management, Parish Nursing, Laboratory, Ultrasound, and Radiology Internships, Meals on Wheels, RotaCare San Jose, and Palliative Care Services.

the Stanford University School of Medicine rotate through the program, and the physician-educators hold positions on Stanford's voluntary clinical faculty;

- Health Benefits Resource Center: The program provides health benefits resources for those living in poverty. It helps low-income individuals and families enroll in government-sponsored health benefits and social services, such as CalFresh;

- Community Building Sponsorships: The program provides immunizations and glucose, cholesterol, and blood pressure screenings at health fairs; and

- Support Group Administration: The program provides health education to the community.

PROFILE OF BLUEMOUNTAIN & INTEGRITY

BlueMountain Capital Management, LLC

BlueMountain is a global private investment firm headquartered in New York City, New York. The firm provides services to pooled investment vehicles operating as private investment funds and institutional accounts operating as single-investor limited partnerships. BlueMountain's services include managing client-focused portfolios and launching and managing hedge funds. The firm investments in public equity, fixed income, and alternative investment markets across the world. BlueMountain's investment team utilizes credit and capital structure, distressed and special situations, equity, structured finance and real estate, arbitrage and technical investment strategies. Currently, BlueMountain has approximately $20 billion in assets under management, including over $5 billion of assets with long-term realization strategies related to private holdings.

BlueMountain was founded in 2003 by Andrew Feldstein, Chief Executive Officer and Co-Chief Investment Officer, and Stephen Siderow, Co-Founder, Managing Partner, and Co-President. Today, BlueMountain employs approximately 300 professionals and has offices located in New York City and London.

Throughout recent years, BlueMountain has invested over $1 billion into healthcare-related sectors and has developed a portfolio that includes the following investments:

- MedEquities Realty Trust: A self-managed real estate investment trust that invests in various healthcare properties and healthcare-related real estate debt investments. MedEquities invests primarily in acute and post-acute care properties, including acute care hospitals, short stay surgical and specialty hospitals, skilled nursing facilities, and outpatient surgery centers. MedEquities has acquired assets in excess of $350 million. Recent transactions include the following:
    - Lakeway Regional Medical Center: MedEquities purchased the defaulted mortgage loan of Lakeway Regional Medical Center, a 106-bed acute care hospital located near Austin, Texas, and contributed working capital to cover shortfalls during the turnaround period;
    - Kentfield Rehabilitation & Specialty Hospital: MedEquities provided a $60 million financing solution to Vibra Healthcare to fund the purchase and renovations of Kentfield Hospital, located in Kentfield, California;
    - Mountain's Edge Acute Care Hospital and Horizon Specialty Hospital: MedEquities entered into a $30 million capital transaction with Fundamental Long Term Care to acquire Mountain's Edge Hospital in Las Vegas, Nevada, in order to capitalize on strategic opportunities in the Las Vegas market. In

addition, MedEquities entered into a $20 million financing transaction with Fundamental Long Term Care to acquire Horizon Hospital in Henderson, Nevada; and

  - Life Generations Skilled Nursing & Rehabilitation Facilities Portfolio: MedEquities entered into a $95 million capital financing transaction related to the acquisition of six skilled nursing facilities in California.

- Capital Senior Ventures: BlueMountain and Capital Funding Inc. formed a joint venture to acquired undermanaged skilled nursing and rehabilitation facilities in order to increase profitability through operational overhaul. Capital Senior Ventures has acquired eight assets, including five skilled nursing facilities in California in partnership with Providence Healthcare Group;

- Legacy Sun West Senior Living Portfolio: BlueMountain, in partnership with Formation Capital and Safanad, acquired a $400 million portfolio of assisted living facilities across 10 states;

- LifeCare Holdings: BlueMountain is an equity holder of LifeCare Holdings, the third largest operator of long-term acute care hospitals in the United States. In June 2013, BlueMountain, along with other investors, formed Hospital Acquisition LLC to bid on LifeCare Holdings; and

- Angiotech Pharmaceuticals, Inc.: BlueMountain is the largest shareholder in Angiotech Pharmaceuticals, a company that designs, manufactures, and sells wound care surgical products and kits.

Integrity Healthcare, LLC

Integrity, incorporated on February 11, 2015, is a newly formed entity owned by BlueMountain that was developed to oversee Daughters and Daughters Affiliates. While Certain Funds Managed by BlueMountain will provide the necessary capital to invest in the operations and Health Facilities, Integrity will provide management services and daily operational support.

BlueMountain and Integrity state that their philosophy is centered on creating environments open to change, addressing the critical factors that drive financial performance, educating the workforce on sound business practices, and focusing on employees as champions. Integrity's stated core beliefs for the management of Daughters and Daughters Affiliates include the following:

- Community hospitals must assume a central role in population health management in order to benefit from healthcare reform's evolving incentives to create more affordable and more accessible healthcare services;

- Quality of care and employee retention are key priorities that need to be addressed through superior stewardship and a commitment to clinical partnerships;
- Patient experience and clinical outcomes drive organizational success and are best achieved by maximizing physician and employee satisfaction;
- Advanced technology and management techniques are important tools for future success; and
- Hospital and physician integration is vital to the success of the enterprise.

Integrity's leadership team is comprised of healthcare executives with leadership experience in hospitals and health systems, including Mitch Creem, Chief Executive Officer, and Mark Meyers, Chief Operating Officer.

BlueMountain and Integrity have stated that turning around the financial losses of Daughters will require investment and growth in services and revenue, as well as improvements in efficiency. They also expect to partner with other area healthcare providers that have shared interests in population health management.

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of 25 ZIP Codes, from which 80% of its discharges originated in 2014. Approximately 50% of the Hospital's discharges came from the top ten ZIP Codes, located in San Jose, Santa Clara, and Milpitas. In 2014, the Hospital's market share in the service area was 11%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95127	San Jose	618	5.7%	5.7%	5,248	11.8%
95122	San Jose	585	5.4%	11.0%	4,554	12.8%
95112	San Jose	576	5.3%	16.3%	4,056	14.2%
95128	San Jose	564	5.2%	21.5%	3,182	17.7%
95116	San Jose	562	5.2%	26.6%	4,913	11.4%
95111	San Jose	553	5.1%	31.7%	4,418	12.5%
95125	San Jose	533	4.9%	36.6%	4,294	12.4%
95050	Santa Clara	531	4.9%	41.5%	2,706	19.6%
95126	San Jose	466	4.3%	45.8%	2,662	17.5%
95035	Milpitas	378	3.5%	49.2%	4,383	8.6%
95121	San Jose	347	3.2%	52.4%	2,734	12.7%
95132	San Jose	321	2.9%	55.4%	2,614	12.3%
95117	San Jose	307	2.8%	58.2%	2,131	14.4%
95148	San Jose	298	2.7%	60.9%	2,833	10.5%
95051	Santa Clara	287	2.6%	63.5%	3,737	7.7%
95123	San Jose	250	2.3%	65.8%	4,561	5.5%
95136	San Jose	242	2.2%	68.0%	3,046	7.9%
95110	San Jose	218	2.0%	70.0%	1,445	15.1%
95008	Campbell	204	1.9%	71.9%	3,266	6.2%
95133	San Jose	195	1.8%	73.7%	1,880	10.4%
95124	San Jose	182	1.7%	75.4%	3,385	5.4%
95131	San Jose	181	1.7%	77.0%	1,826	9.9%
95129	San Jose	147	1.3%	78.4%	2,036	7.2%
95118	San Jose	140	1.3%	79.7%	2,465	5.7%
95113	San Jose	36	0.3%	80.0%	1,095	3.3%
Subtotal		**8,721**	**80.0%**	**80.0%**	**79,470**	**11.0%**
Other ZIPs		2,180	20.0%	100%		
Total		**10,901**	**100.0%**			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

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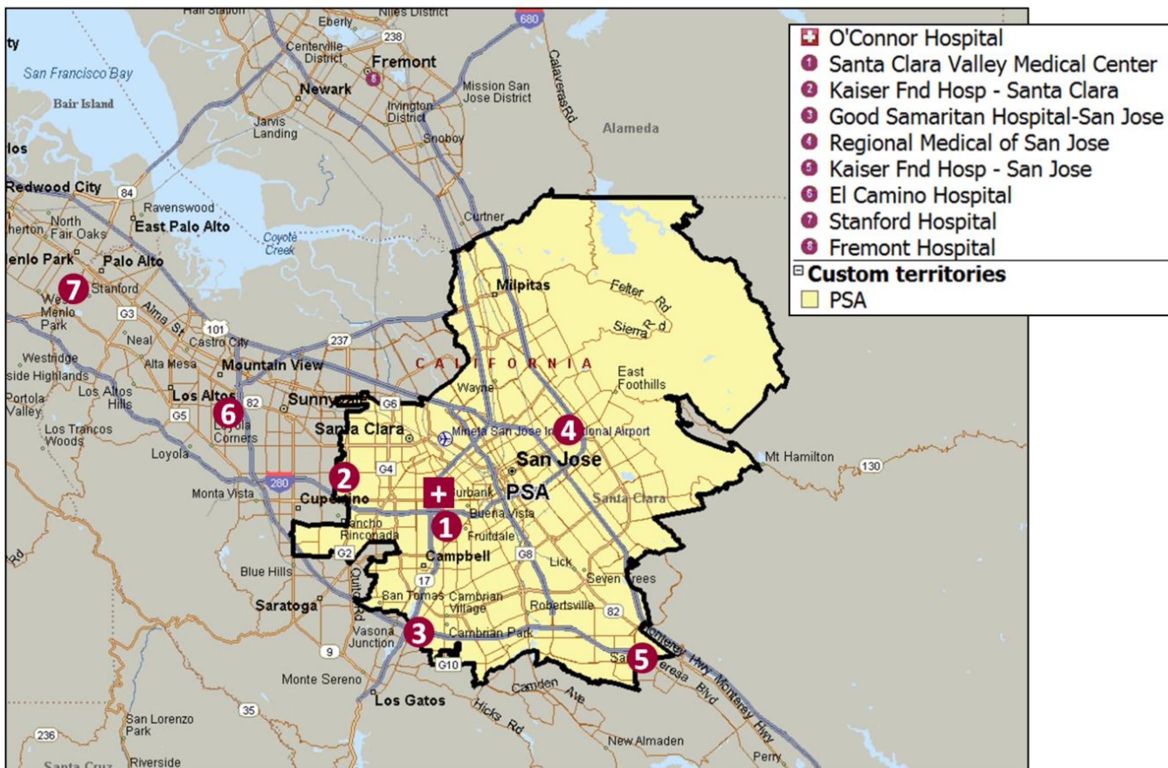
Service Area Map

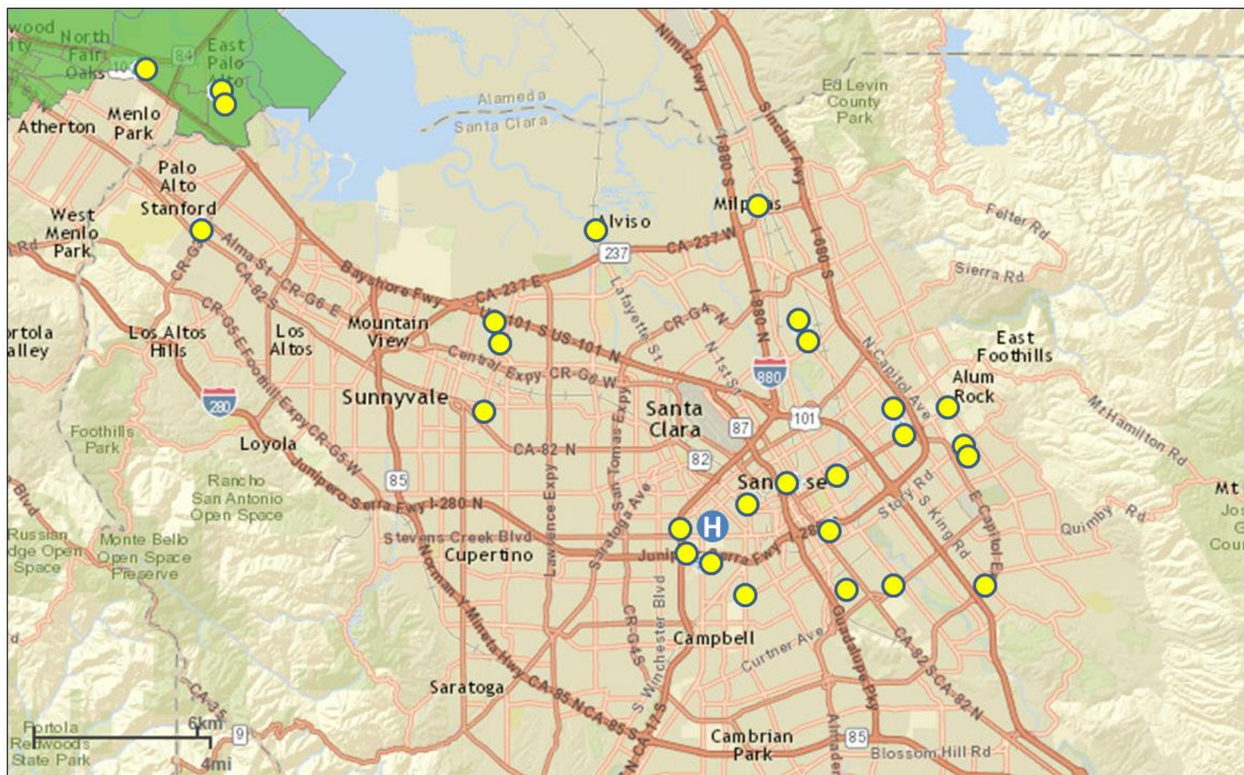
The Hospital's service area, with approximately 1.1 million residents, includes the communities of San Jose, Santa Clara, Milpitas, and Campbell.

There are four other hospitals located with the Hospital's service area: Santa Clara Valley Medical Center, Kaiser Foundation Hospital – Santa Clara, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose. Santa Clara Valley Medical Center is the overall market leader in the Hospital's service area.



Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

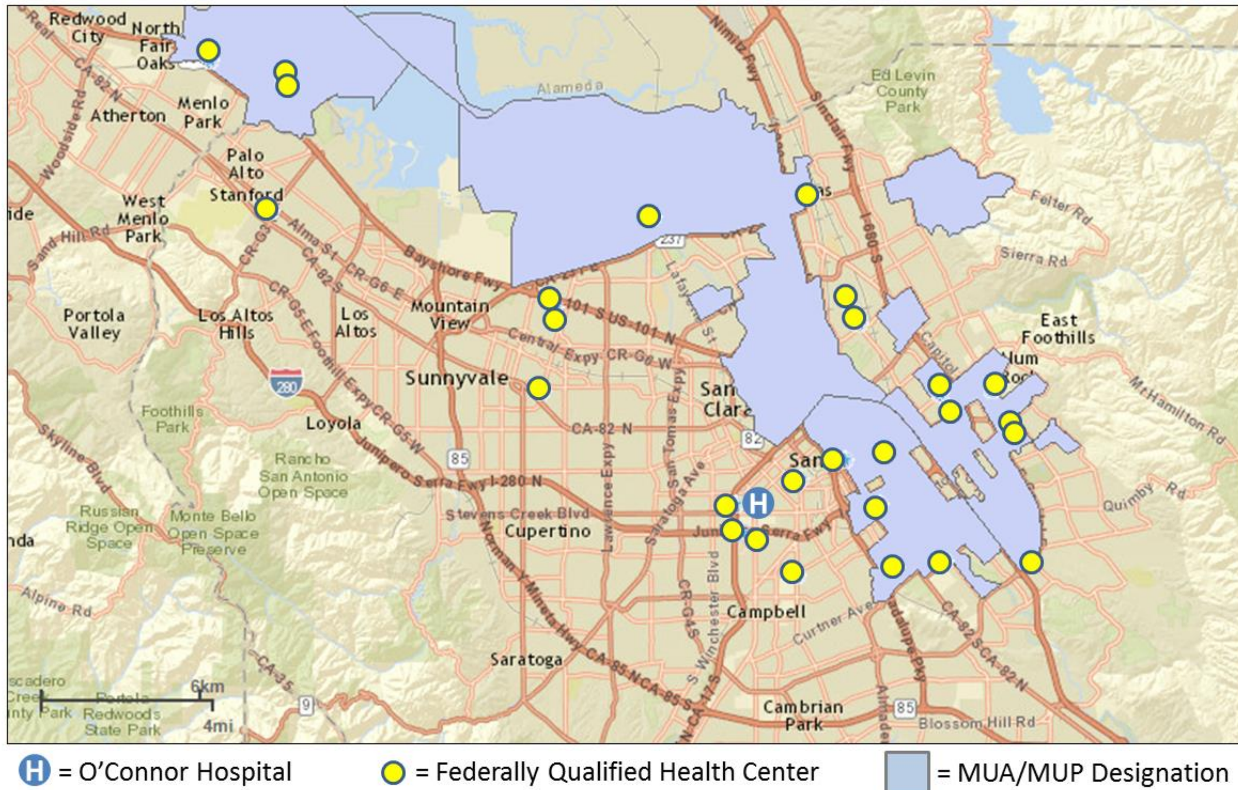
The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Neither the Hospital, nor its service area, is designated as a Health Professional Shortage Area. The map below shows the closest shortage areas in proximity to the Hospital's location. The closest Health Professional Shortage Area is located in and around East Palo Alto, approximately 15 miles from the Hospital. Neither the Hospital, nor its service area, is located in or near a Health Professional Shortage Area.



H = O'Connor Hospital   ○ = Federally Qualified Health Center   ■ = HPSA: Primary care

Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local conditions that result in access barriers to medical services. Medically Underserved Areas

and Medically Underserved Populations are permanently set and no renewal process is necessary. The map below depicts the Medically Underserved Areas and Medically Underserved Populations relative to the Hospital’s location.



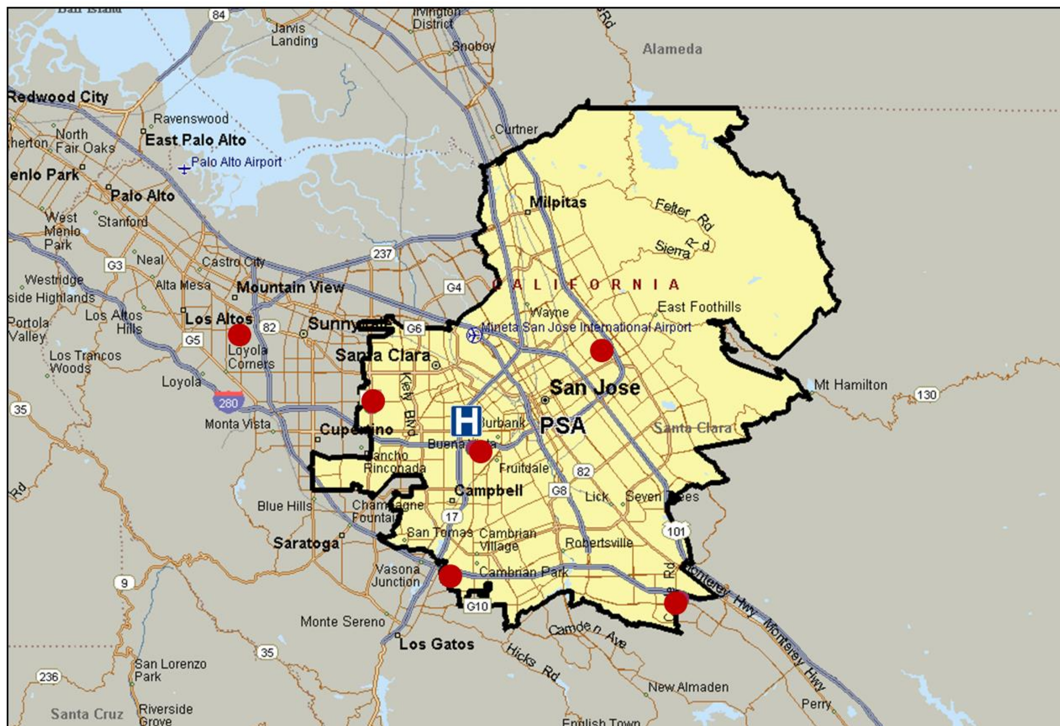
Despite the Hospital not being situated in a designated Medically Underserved Area/Medically Underserved Population, the majority of the Hospital's service area to the north and east is Medically Underserved Area/Medically Underserved Population designated, suggesting there is a shortage of healthcare services in this area.

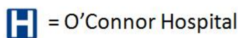
In addition, there are twenty-three Federally Qualified Health Centers within a ten mile radius of the Hospital. Federally Qualified Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. Federally Qualified Health Centers must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors. The ACA included provisions that increased federal funding to Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges.

STEMI Receiving Centers in Santa Clara County

There are seven STEMI Receiving Centers in Santa Clara County that administer percutaneous coronary intervention for patients experiencing an acute heart attack. They are located at the Hospital, Regional Medical Center of San Jose, Good Samaritan Hospital – San Jose, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, and Santa Clara Valley Medical Center.

In addition to the Hospital's STEMI Receiving Center, four of the seven STEMI Receiving Centers in Santa Clara are located within the Hospital's service area. They are located at Regional Medical Center of San Jose, Good Samaritan Hospital, Kaiser Foundation Hospital – Santa Clara, and Santa Clara Valley Medical Center.

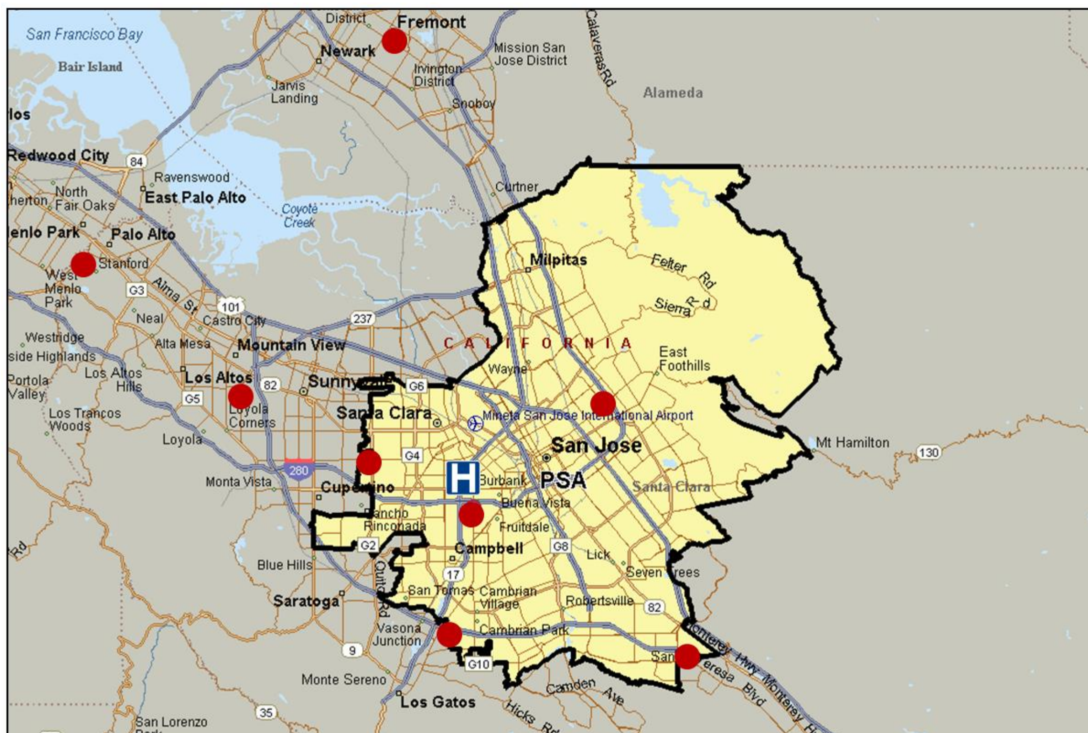




Certified Stroke Centers in Santa Clara County

There are nine Joint Commission-Certified Stroke Centers in Santa Clara County, including three Comprehensive Stroke Centers, located at Stanford Hospital, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose, and six Primary Stroke Centers, located at the Hospital, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, Saint Louise Regional Hospital, and Santa Clara Valley Medical Center.

In addition to the Hospital's Primary Stroke Center, the stroke centers at Regional Medical Center of San Jose, Good Samaritan Hospital, Kaiser Foundation Hospital – Santa Clara, and Santa Clara Valley Medical Center are also located within the Hospital's service area.



= O'Connor Hospital

= Service Area

= Stroke Center

Demographic Profile

The Hospital's service area population is projected to grow by 5.4% over the next five years. This is lower than the expected growth rate for Santa Clara County (5.8%), but higher than the expected growth rate statewide (3.7%).

SERVICE AREA POPULATION STATISTICS 2015-2020			
	2015 Estimate	2020 Projection	% Change
Total Population	1,099,891	1,158,861	5.4%
Households	353,864	374,248	5.8%
Percentage Female	49.6%	49.7%	0.2%

Source: Esri

The median age of the population in the Hospital's service area is 35.8 years, which is comparable to the statewide median age of 35.7 years. The percentage of adults over the age of 65 is the fastest growing age cohort and projected to increase by approximately 20% between 2015 and 2020. The number of women of child-bearing age is expected to increase slightly over the next five years.

AGE DISTRIBUTION: 2015-2020				
	2015 Estimate		2020 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	224,378	20.4%	227,137	19.6%
Age 15-44	476,253	43.3%	490,198	42.3%
Age 45-64	273,873	24.9%	292,033	25.2%
Age 65+	124,288	11.3%	149,493	12.9%
Total	**1,099,891**	**100%**	**1,158,861**	**100%**
Female 15-44	231,213	21.0%	237,468	20.5%
Median Age	35.8		36.8	

Source: Esri

The largest population cohorts in the Hospital's service area are Whites (41%) and Asian/Pacific Islanders (35%). Approximately 67% of the service area is of Non-Hispanic ethnicity. This is lower than the Santa Clara County Non-Hispanic ethnic population (73%), but higher than the California Non-Hispanic ethnic population (61%).

SERVICE AREA POPULATION RACE/ETHNICITY: 2015-2020		
	2015	2020
White	40.5%	38.6%
Black	3.1%	3.1%
American Indian or Alaska Native	0.8%	0.8%
Asian or Pacific Islander	34.6%	36.6%
Some Other Race	15.7%	15.6%
Two or More Races	5.3%	5.4%
Total	**100%**	**100%**
Hispanic Ethnicity	33.0%	33.0%
Non-Hispanic or Latino	67.0%	67.0%
Total	**100%**	**100%**

Source: Esri

The average household income in the service area is $103,673. This is approximately 20% less than the county average of $124,407, and 16% above the statewide average of $87,152. Projections anticipate that the number of higher income households ($150,000+) in the Hospital's service area will represent a higher percentage of households than anticipated in Santa Clara County, but a small percentage of households than anticipated in the State of California.

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2015-2020						
	2015 Estimate			2020 Estimate		
	Service Area	Santa Clara County	California	Service Area	Santa Clara County	California
$0 - $15,000	8.3%	7.2%	11.1%	7.2%	6.2%	10.3%
$15 - $24,999	6.4%	5.4%	9.0%	4.4%	3.7%	6.6%
$25 - $34,999	6.4%	5.7%	9.3%	5.1%	4.4%	7.7%
$35 - $49,999	9.3%	8.2%	12.2%	8.2%	7.1%	11.3%
$50 - $74,999	13.8%	12.5%	16.5%	12.6%	11.2%	15.9%
$75 - $99,999	13.6%	12.6%	12.3%	14.7%	13.4%	14.2%
$100 - $149,999	22.7%	21.5%	14.9%	25.5%	23.6%	16.6%
$150,000+	19.5%	26.8%	14.6%	22.4%	30.4%	17.4%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Average Household Income	**$103,673**	**$124,407**	**$87,152**	**$117,328**	**$141,428**	**$99,512**

Source: Esri

Medi-Cal Eligibility

As of 2011, the California Department of Health Care Services reported that 19% of the population in the Hospital's service area was eligible for Medi-Cal. With the implementation of the ACA and the expansion of Medi-Cal, the number and percentage of the State of California's population that is currently eligible for Medi-Cal has greatly increased, reporting more than 2.7 million total enrollees in the Medi-Cal program in 2014. Currently, approximately 11 million individuals are covered by Medi-Cal in the State of California. Based on the Hospital's service area income demographics, and the Hospital's payer mix consisting of 34% Medi-Cal patients, many of the service area residents qualify for coverage under Medi-Cal expansion.

Selected Health Indicators

A review of health indicators for Santa Clara County (deaths, diseases, and births) supports the following conclusions:

- The percentage of low birth weight infants is slightly higher than the percentage in California overall, but superior to the national goal;

- Santa Clara County measures above California and the national goal for first trimester prenatal care; and

- The rate for adequate/adequate plus care is lower than California and the national goal.

NATALITY STATISTICS: 2015			
Health Status Indicator	Santa Clara County	California	National Goal
Low Birth Weight Infants	7.0%	6.8%	7.8%
First Trimester Prenatal Care	85.4%	83.6%	77.9%
Adequate/Adequate Plus Care	77.0%	79.2%	77.6%

Source: California Department of Public Health

- The overall age-adjusted mortality rate for Santa Clara County is lower than the statewide rate. Santa Clara County's rates for sixteen of the eighteen causes are lower than the statewide rate. Santa Clara County achieved thirteen out of the fourteen reported national goals based on underlying and contributing cause of death.

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MORTALITY STATISTICS: 2015 RATE PER 100,000 POPULATION				
	Santa Clara County		(Age Adjusted)	
Selected cause	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	510.0	523.6	641.1	N/A
- All Cancers	129.8	133.7	151.0	161.4
- Colorectal Cancer	11.4	11.5	13.9	14.5
- Lung Cancer	26.0	27.2	33.6	45.5
- Female Breast Cancer	19.0	17.3	20.7	20.7
- Prostate Cancer	13.6	17.8	20.2	21.8
- Diabetes	21.5	22.4	20.8	N/A
- Alzheimer's Disease	30.4	31.3	30.8	N/A
- Coronary Heart Disease	70.5	72.5	103.8	103.4
- Cerebrovascular Disease (Stroke)	24.5	25.5	35.9	34.8
- Influenza/Pneumonia	12.8	13.2	16.3	N/A
- Chronic Lower Respiratory Disease	22.8	24.2	35.9	N/A
- Chronic Liver Disease And Cirrhosis	9.6	9.0	11.7	8.2
- Accidents (Unintentional Injuries)	23.2	23.0	27.9	36.4
- Motor Vehicle Traffic Crashes	5.2	5.2	7.6	12.4
- Suicide	8.4	8.2	10.2	10.2
- Homicide	3.2	3.2	5.1	5.5
- Firearm-Related Deaths	4.6	4.6	7.8	9.3
- Drug-Induced Deaths	8.1	7.6	11.1	11.3

Source: California Department of Public Health

Santa Clara County has lower morbidity rates than California and the national goal overall, with the exception of tuberculosis.

MORBIDITY STATISTICS: 2015 RATE PER 100,000 POPULATION			
Health Status Indicator	Santa Clara County	California	National Goal
AIDS	5.3	8.1	12.4
Chlamydia	307.9	442.6	N/A
Gonorrhea Female 15-44	83.3	152.8	251.9
Gonorrhea Male 15-44	123.0	213.1	194.8
Tuberculosis	9.8	5.9	1.0

Source: California Department of Public Health

2013 Community Health Needs Assessment

In an effort to identify the most critical healthcare needs in the Hospital's service area, a Community Health Needs Assessment is conducted every three years. The Hospital's most recent assessment was completed in 2013 in partnership with the Santa Clara County Community Benefit Coalition. The Coalition targeted Santa Clara County overall, and the Hospital specifically targeted the areas of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale.

Based upon the defined service area, the study included a summary of population and household demographics measures related to access to healthcare, mortality, and findings from community interviews as provided below:

- The percentage of people 55-years and over with Alzheimer's is expected to increase by 19% in Santa Clara County between 2008 and 2015;
- The breast cancer incidence rate per 100,000 females is 161.4 in Santa Clara County, compared to 154.1 statewide and 122 nationwide;
- Adults within the service area have higher rates of cholesterol (29%) and hypertension (26%) than the Healthy People 2020 benchmarks of 17% and 16%, respectively;
- The percentage of overweight adults (36%) exceeds the Healthy People 2020 Benchmark (31%); and
- Children are hospitalized at a higher rate for asthma (24.5%) compared to the Healthy People 2020 Benchmark of 18.1%.

The most important healthcare needs in the community were identified to be the following:

- Diabetes;
- Obesity;
- Violence;
- Poor Mental Health;
- Poor Oral/Dental Health;
- Cardiovascular Disease, Heart Disease, and Stroke;
- Substance Abuse;
- Cancer;
- Respiratory Conditions;
- STDs and HIV/AIDS;
- Birth Outcomes; and
- Alzheimer's.

Hospital Supply, Demand, and Market Share

There are four other general acute care hospitals within the Hospital's service area that, together with the Hospital, have a combined total of 2,015 licensed beds and an aggregate occupancy rate of nearly 54%. Hospitals in the service area have occupancy rates that range between 38% at the Hospital to nearly 71% at Kaiser Foundation Hospital – Santa Clara. The Hospital's 358 licensed beds represent approximately 18% of the service area's beds, and its inpatient volume accounts for approximately 13% of discharges and patient days.

An analysis of the services offered by the Hospital in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were analyzed to determine area hospital available bed capacity by service.

AREA HOSPITAL DATA: 2014

Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
O'Connor Hospital	**Daughters of Charity Health System**	**San Jose**	**X**	**358**	**10,971**	**49,663**	**136**	**38.0%**	**-**
Santa Clara Valley Medical Center	County of Santa Clara	San Jose	X	574	22,603	121,183	332	57.8%	1.5
Kaiser - Santa Clara*	Kaiser Foundation Hospitals	Santa Clara	X	327	20,776	84,368	231	70.7%	3.9
Good Samaritan Hospital - San Jose*	Hospital Corporation of America	San Jose	X	474	16,307	78,632	215	45.4%	6.9
Regional Medical Center of San Jose*	Hospital Corporation of America	San Jose	X	282	11,955	63,338	174	61.5%	8.3
SUB-TOTAL				**2,015**	**82,612**	**397,184**	**1,088**	**54.0%**	
El Camino Hospital	El Camino Hospital District	Mountain View		443	18,566	86,883	238	53.7%	12.4
Kaiser - San Jose*	Kaiser Foundation Hospitals	San Jose		242	11,051	39,380	108	44.6%	12.7
Washington Hospital - Fremont	Washington Township Health Care District	Fremont		390	11,573	55,619	152	39.1%	19.8
Stanford Hospital	Stanford University Hospital	Stanford		613	25,092	144,928	397	64.8%	21.3
Lucile Packard Children's Hospital	Lucile Salter Packard	Palo Alto		302	12,934	81,804	224	74.2%	21.4
Sequoia Hospital	Sequoia Hospital	Redwood City		189	5,395	20,447	56	29.6%	28.8
Dominican Hospital - Santa Cruz/Soquel	Dignity Health	Santa Cruz		223	10,363	47,015	129	57.8%	30.4
St. Louise Regional Hospital	Daughters of Charity Health System	Gilroy		72	3,045	10,551	29	40.1%	33.3
Kindred Hospital - San Francisco Bay Area*	THC-Orange County, Inc.	Alameda		99	517	19,181	53	53.1%	36.0
Mills-Peninsula Medical Center*	Sutter Health	Burlingame		376	13,991	62,960	172	45.9%	38.1
Watsonville Community Hospital*	Community Health Systems, Inc.	Watsonville		106	4,541	17,387	48	44.9%	41.5
UCSF Medical Center	Regents of the University of California	San Francisco		650	28,736	178,986	490	75.4%	50.8
Hazel Hawkins Memorial Hospital	San Benito Health Care District	Hollister		189	2,497	43,631	120	63.2%	52.0
St. Mary's Medical Center - San Francisco	Dignity Health	San Francisco		403	5,785	30,887	96	21.0%	52.2
California Pacific Medical Center - Pacific*	Sutter Health	San Francisco		970	25,948	151,739	416	42.9%	52.7
Memorial Hospital Medical Center - Modesto*	Sutter Central Valley Hospitals	Modesto		423	17,307	82,286	237	53.3%	83.5
TOTAL				**7,705**	**279,953**	**1,470,868**	**4,053**	**52.3%**	

Source: OSHPD Disclosure Reports, 2014
* 2013

- The four largest providers of inpatient services to the service area by market share (Santa Clara Valley Medical Center, Kaiser Foundation Hospital – Santa Clara, Good Samaritan Hospital – San Jose, and O'Connor Hospital) operate at a combined average occupancy rate of nearly 53%.

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Hospital Market Share

The table below illustrates market share discharges by individual hospital, within the Hospital's service area, from 2010 to 2014:

HOSPITAL MARKET SHARE: 2010-2014						
Hospital	**2010**	**2011**	**2012**	**2013**	**2014**	**Trend**
Santa Clara Valley Medical Center	22.6%	21.9%	22.0%	22.1%	22.5%	↔
Kaiser - Santa Clara	14.3%	14.6%	14.1%	14.0%	13.1%	↘
Good Samaritan Hospital - San Jose	12.3%	12.5%	12.1%	12.2%	12.5%	↔
O'Connor Hospital - San Jose	**12.9%**	**12.7%**	**11.9%**	**12.2%**	**11.0%**	↘
Regional Medical of San Jose	10.6%	11.2%	11.5%	11.8%	12.2%	↗
Kaiser - San Jose	8.9%	8.6%	8.4%	8.3%	8.0%	↘
El Camino Hospital	7.1%	7.0%	7.3%	7.1%	7.5%	↗
Stanford Hospital	3.2%	3.6%	3.5%	3.4%	3.6%	↔
Lucile Packard Children's Hospital	2.0%	1.9%	2.0%	2.0%	2.1%	↔
Fremont Hospital	1.1%	0.9%	1.1%	1.1%	1.2%	↔
Other Discharges	4.9%	4.9%	6.0%	5.9%	6.3%	↗
Total Percentage	**100%**	**100%**	**100%**	**100%**	**100%**	
Total Discharges	**80,593**	**79,813**	**79,612**	**79,474**	**79,482**	↘

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database, 2010-2014

- The number of discharges in the Hospital's service area has dropped approximately 1% from 80,593 in 2010 to 79,482 in 2014;
- Over the last five reported years, the Hospital has fluctuated between third and fourth in terms of overall market share for its service area based on discharges (11% in 2014). However, the Hospital's market share has dropped from nearly 13% in 2010 to roughly 11% in 2014;
- Santa Clara Valley Medical Center has consistently ranked first in overall market share for the service area based on discharges (approximately 23% in 2014); and
- Kaiser Foundation Hospital – Santa Clara (13%) and Kaiser Foundation Hospital – San Jose (8%) have a high combined percentage of the market share for the service area based on discharges (approximately 21% in 2014).

Market Share by Payer Type

The following table illustrates hospital market share by payer category as reported by OSHPD for 2014:

HOSPITAL MARKET SHARE BY PAYER TYPE: 2014											
Payer Type	Total Discharges	Santa Clara Valley Medical Center	Kaiser Foundation Hospital - Santa Clara	Good Samaritan Hospital-San Jose	Regional Medical of San Jose	O'Connor Hospital	Kaiser Foundation Hospital - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
Private Coverage	28,353	4.4%	22.0%	18.6%	5.9%	7.6%	11.7%	13.0%	2.9%	13.7%	100%
Medicare	23,309	6.4%	15.5%	13.5%	20.9%	13.6%	10.9%	7.4%	5.5%	6.2%	100%
Medi-Cal	19,477	59.0%	2.3%	4.1%	13.3%	8.8%	1.9%	1.9%	2.3%	6.6%	100%
All Other	6,352	57.5%	0.3%	8.4%	4.4%	11.0%	0.4%	2.2%	2.8%	13.1%	100%
Self Pay	1,991	0.0%	5.4%	9.3%	12.1%	49.4%	5.5%	1.7%	5.3%	11.4%	100%
		22.5%	**13.1%**	**12.5%**	**12.2%**	**11.0%**	**8.0%**	**7.5%**	**3.6%**	**9.6%**	**100%**
Grand Total	**79,482**	**17,888**	**10,437**	**9,918**	**9,685**	**8,721**	**6,343**	**5,970**	**2,853**	**7,667**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The largest categories of service area inpatient discharges are private coverage at 36%, followed by Medicare at 29% and Medi-Cal at 25%;
- The Hospital is the market share leader for self-pay at 49% and has the third highest market share for Medicare at 14%;
- Santa Clara Valley Medical Center is the market share leader for Medi-Cal (59%);
- Kaiser Foundation Hospital – Santa Clara ranks first in private coverage (22%); and
- Regional Medical Center of San Jose ranks first in Medicare at 21%.

Market Share by Service Line

The following table illustrates service area hospital market share by service line for 2014:

HOSPITAL MARKET SHARE BY SERVICE LINE: 2014											
Service Line	Total Discharges	Santa Clara Valley Medical Center	Kaiser Foundation Hospital - Santa Clara	Good Samaritan Hospital-San Jose	Regional Medical Of San Jose	O'Connor Hospital	Kaiser Foundation Hospital - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
General Medicine	23,268	24.7%	11.9%	10.5%	19.1%	11.6%	8.9%	4.8%	3.9%	4.7%	100%
Obstetrics	15,527	18.8%	17.0%	15.4%	3.6%	17.2%	9.4%	13.3%	0.1%	5.4%	100%
Cardiac Services	7,494	24.7%	14.2%	10.7%	20.2%	9.9%	8.0%	4.0%	3.8%	4.5%	100%
General Surgery	5,888	20.1%	12.7%	13.3%	14.2%	9.6%	8.1%	5.9%	7.2%	8.9%	100%
Neonatology	5,135	26.4%	19.2%	18.1%	3.0%	7.2%	6.9%	9.6%	0.0%	9.6%	100%
Behavioral Health	4,731	20.5%	1.5%	9.2%	2.1%	1.2%	0.9%	6.3%	2.2%	56.1%	100%
Orthopedics	4,359	12.8%	18.4%	12.6%	9.1%	12.1%	10.6%	9.8%	6.1%	8.4%	100%
Neurology	2,992	27.3%	11.4%	12.7%	18.4%	8.5%	8.1%	3.5%	3.3%	6.6%	100%
Oncology/Hematology (Medical)	2,208	20.7%	13.5%	9.4%	12.6%	7.7%	6.2%	7.3%	9.4%	13.2%	100%
Other	1,335	33.9%	10.3%	8.6%	18.4%	7.4%	3.6%	3.7%	4.6%	9.4%	100%
Spine	1,299	17.6%	2.8%	15.2%	6.6%	10.0%	17.9%	10.5%	6.9%	12.5%	100%
Gynecology	1,022	33.8%	9.6%	14.1%	6.4%	13.3%	5.5%	11.4%	2.7%	3.2%	100%
Vascular Services	962	13.1%	11.3%	11.1%	18.4%	13.6%	7.5%	7.5%	11.9%	5.6%	100%
ENT	934	34.0%	14.9%	8.0%	9.6%	7.1%	2.7%	3.1%	7.2%	13.4%	100%
Urology	849	22.6%	18.3%	9.8%	10.6%	6.0%	6.8%	9.7%	7.3%	9.0%	100%
Neurosurgery	679	15.8%	2.9%	13.8%	13.4%	5.3%	1.6%	2.4%	15.2%	29.6%	100%
Rehabilitation	630	33.7%	0.0%	27.6%	0.0%	0.0%	0.0%	25.7%	0.0%	13.0%	100%
<All others>	170	32.9%	7.6%	7.6%	10.0%	8.2%	1.8%	3.5%	15.3%	12.9%	100%
Grand Total	**79,482**	**22.5%** **17,888**	**13.1%** **10,437**	**12.5%** **9,918**	**12.2%** **9,685**	**11.0%** **8,721**	**8.0%** **6,343**	**7.5%** **5,970**	**3.6%** **2,853**	**9.6%** **7,667**	**100%**

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- Service lines where the Hospital has a notable market share include obstetrics (17%), vascular services (14%), general medicine (12%), and gynecology (13%);

- In 2014, Santa Clara Valley Medical Center had the highest market share in the service area (23%) and was the market share leader for thirteen service lines including ear, nose, and throat (34%), rehabilitation (34%), neurology (27%), neonatology (26%), general medicine (25%), cardiac services (25%), and urology (23%);

- Kaiser Foundation Hospital – Santa Clara had the highest market share for orthopedics (18%) and Kaiser Foundation Hospital – San Jose had the highest market share for spine services (18%); and

- Regional Medical Center of San Jose had the highest market share in vascular services (18%).

Market Share by ZIP Code

The following table illustrates service area hospital market share by ZIP code for 2014:

HOSPITAL MARKET SHARE BY ZIP CODE: 2014

ZIP Code	Community	Total Discharges	Santa Clara Valley Medical Center	Kaiser Foundation Hospital - Santa Clara	Good Samaritan Hospital-San Jose	Regional Medical of San Jose	O'Connor Hospital	Kaiser Foundation Hospital - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
95127	San Jose	5,248	26.1%	11.3%	5.5%	24.8%	11.8%	6.7%	2.9%	2.8%	8.2%	100%
95116	San Jose	4,913	27.6%	6.3%	3.9%	36.0%	11.4%	4.6%	1.5%	2.2%	6.5%	100%
95123	San Jose	4,561	14.1%	6.9%	24.6%	3.5%	5.5%	26.0%	5.6%	3.9%	9.9%	100%
95122	San Jose	4,554	32.5%	6.8%	5.1%	23.5%	12.8%	8.3%	1.5%	1.9%	7.4%	100%
95111	San Jose	4,418	30.3%	4.2%	9.3%	13.3%	12.5%	17.0%	2.2%	3.9%	7.2%	100%
95035	Milpitas	4,383	15.1%	21.6%	5.8%	15.5%	8.6%	1.3%	11.8%	4.3%	15.9%	100%
95125	San Jose	4,294	17.7%	12.3%	21.9%	3.1%	12.4%	9.6%	8.1%	4.7%	10.2%	100%
95112	San Jose	4,056	33.8%	10.4%	6.6%	13.6%	14.2%	4.1%	4.7%	2.9%	9.7%	100%
95051	Santa Clara	3,737	13.5%	32.0%	6.7%	0.9%	7.7%	1.1%	23.5%	4.7%	10.0%	100%
95124	San Jose	3,385	11.3%	13.1%	38.8%	1.4%	5.4%	9.4%	7.1%	4.0%	9.6%	100%
95008	Campbell	3,266	16.3%	18.1%	26.4%	0.9%	6.2%	3.0%	14.1%	4.2%	10.8%	100%
95128	San Jose	3,182	31.5%	14.3%	8.9%	2.1%	17.7%	2.5%	7.1%	3.1%	12.8%	100%
95136	San Jose	3,046	14.8%	10.2%	23.0%	4.2%	7.9%	20.6%	6.6%	3.4%	9.1%	100%
95148	San Jose	2,833	16.8%	9.6%	7.3%	24.1%	10.5%	14.6%	4.6%	3.7%	8.8%	100%
95121	San Jose	2,734	19.5%	7.1%	9.6%	21.8%	12.7%	13.6%	2.5%	4.9%	8.3%	100%
95050	Santa Clara	2,706	15.8%	25.8%	8.5%	2.2%	19.6%	0.9%	14.2%	3.1%	9.9%	100%
95126	San Jose	2,662	26.9%	14.9%	11.0%	2.8%	17.5%	3.7%	9.2%	4.2%	9.9%	100%
95132	San Jose	2,614	13.8%	19.1%	6.2%	24.6%	12.3%	2.4%	6.4%	4.5%	10.9%	100%
95118	San Jose	2,465	15.1%	9.3%	30.6%	1.5%	5.7%	16.8%	7.6%	3.5%	9.9%	100%
95117	San Jose	2,131	33.3%	17.2%	10.6%	2.3%	14.4%	1.1%	9.8%	3.2%	8.3%	100%
95129	San Jose	2,036	14.8%	20.5%	13.1%	1.3%	7.2%	1.0%	24.7%	5.6%	11.7%	100%
95133	San Jose	1,880	19.3%	13.7%	6.6%	28.9%	10.4%	3.7%	5.6%	2.9%	8.8%	100%
95131	San Jose	1,826	17.6%	18.6%	7.4%	17.2%	9.9%	2.3%	10.1%	4.0%	12.8%	100%
95110	San Jose	1,445	40.8%	10.0%	8.2%	4.6%	15.1%	5.8%	3.7%	2.4%	9.3%	100%
95113	San Jose	1,095	79.0%	1.5%	1.5%	3.8%	3.3%	1.4%	1.7%	1.8%	6.0%	100%
95053	Santa Clara	12	8.3%	16.7%	8.3%	0.0%	0.0%	25.0%	16.7%	0.0%	25.0%	100%
			22.5%	**13.1%**	**12.5%**	**12.2%**	**11.0%**	**8.0%**	**7.5%**	**3.6%**	**9.6%**	**100%**
Grand Total		**79,482**	**17,888**	**10,437**	**9,918**	**9,685**	**8,721**	**6,343**	**5,970**	**2,853**	**7,667**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- Santa Clara Valley Medical Center is the market share leader in nine service area ZIP codes, located in San Jose, six of which have over 30% market share;

- Kaiser Foundation Hospital – Santa Clara is the market share leader in four service area ZIP Codes, three of which have over 20% market share;

- Good Samaritan Hospital – San Jose is the market share leader in five service area ZIP Codes, all of which have over 20% market share; and

- Regional Medical Center of San Jose is the market share leader in five service area ZIP Codes, all of which have over 20% market share.

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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, pediatrics, neonatal, and emergency services using FY 2014 data.

Medical/Surgical Capacity Analysis

Medical/surgical beds in the Hospital's service area were 54% occupied in FY 2014. The Hospital has the lowest occupancy rate, with approximately 35% medical/surgical beds occupied, whereas Kaiser Foundation Hospital – Santa Clara has the highest occupancy rate at 80%.

MEDICAL/SURGICAL BEDS 2014							
Hospital	Miles from Hospital	Wihtin Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**210**	**6,406**	**26,872**	**73.6**	**35.1%**
Santa Clara Valley Medical Center	1.5	X	209	11,722	46,849	128.4	61.4%
Kaiser - Santa Clara*	3.9	X	185	13,878	53,886	147.6	79.8%
Good Samaritan Hospital - San Jose*	6.9	X	211	9,426	36,797	100.8	47.8%
Regional Medical Center of San Jose*	8.3	X	160	6,577	28,561	78.2	48.9%
SUB-TOTAL			**975**	**48,009**	**192,965**	**528.7**	**54.2%**
El Camino Hospital	12.4		238	10,480	46,536	127.5	53.6%
Kaiser - San Jose*	12.7		175	8,438	31,238	85.6	48.9%
Washington Hospital - Fremont	19.8		263	7,531	34,646	94.9	36.1%
Stanford Hospital	21.3		491	23,836	115,080	315.3	64.2%
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		96	1,816	5,944	16.3	17.0%
Dominican Hospital - Santa Cruz/Soquel	30.4		137	5,956	20,389	55.9	40.8%
St. Louise Regional Hospital	33.3		48	2,138	7,447	20.4	42.5%
Kindred Hospital - San Francisco Bay Area*	36.0		89	471	17,027	46.6	52.4%
Mills-Peninsula Medical Center*	38.1		160	7,605	29,730	81.5	50.9%
Watsonville Community Hospital*	41.5		73	2,196	11,711	32.1	44.0%
UCSF Medical Center	50.8		324	21,258	107,416	294.3	90.8%
Hazel Hawkins Memorial Hospital	52.0		33	1,479	4,903	13.4	40.7%
St. Mary's Medical Center - San Francisco	52.2		263	4,048	16,207	44.4	16.9%
California Pacific Medical Center - Pacific*	52.7		541	15,422	65,397	179.2	33.1%
Memorial Hospital Medical Center - Modesto*	83.5		337	13,376	63,214	173.2	51.4%
TOTAL			**4,243**	**174,059**	**769,850**	**2,109.2**	**49.7%**

Source: OSHPD Disclosure Reports, 2014
* 2013

- The Hospital reported approximately 6,406 inpatient hospital discharges and 26,872 patient days resulting in an average daily census of 74 patients; and
- The Hospital's 210 medical/surgical beds represented 22% of the beds in this category for the service area overall.

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Intensive Care Unit/Coronary Care Unit Capacity Analysis

There are 189 intensive care unit/coronary care unit beds within the service area, with an overall occupancy rate of approximately 65%. The Hospital has 14 licensed intensive care beds and eight coronary care beds with a combined average occupancy rate of 56% in FY 2014 (average daily census of 12).

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**22**	**1,087**	**4,484**	**12.3**	**55.8%**
Santa Clara Valley Medical Center	1.5	X	32	482	9,154	25.1	78.4%
Kaiser - Santa Clara*	3.9	X	38	704	9,705	26.6	70.0%
Good Samaritan Hospital - San Jose*	6.9	X	63	661	10,238	28.0	44.5%
Regional Medical Center of San Jose*	8.3	X	34	615	11,043	30.3	89.0%
SUB-TOTAL			**189**	**3,549**	**44,624**	**122.3**	**64.7%**
El Camino Hospital	12.4		39	658	4,139	11.3	29.1%
Kaiser - San Jose*	12.7		24	287	3,730	10.2	42.6%
Washington Hospital - Fremont	19.8		58	464	8,358	22.9	39.5%
Stanford Hospital	21.3		75	557	20,164	55.2	73.7%
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		20	146	1,795	4.9	24.6%
Dominican Hospital - Santa Cruz/Soquel	30.4		16	318	4,446	12.2	76.1%
St. Louise Regional Hospital	33.3		8	216	1,780	4.9	61.0%
Kindred Hospital - San Francisco Bay Area*	36.0		10	46	2,154	5.9	59.0%
Mills-Peninsula Medical Center*	38.1		24	301	3,075	8.4	35.1%
Watsonville Community Hospital*	41.5		6	388	1,135	3.1	51.8%
UCSF Medical Center	50.8		90	444	17,802	48.8	54.2%
Hazel Hawkins Memorial Hospital	52.0		8	147	740	2.0	25.3%
St. Mary's Medical Center - San Francisco	52.2		37	133	2,617	7.2	19.4%
California Pacific Medical Center - Pacific*	52.7		44	383	9,707	26.6	60.4%
Memorial Hospital Medical Center - Modesto*	83.5		35	381	8,617	23.6	67.5%
TOTAL			**683**	**8,418**	**134,883**	**369.5**	**54.1%**

Source: OSHPD Disclosure Reports, 2014
* 2013

- In FY 2014, the average daily census was 122 patients for all service area hospitals that collectively had an average occupancy rate of 65%;
- The Hospital provided nearly 12% of the service area's intensive care/coronary care beds in FY 2014; and
- The Hospital accounted for nearly 31% of the service area's intensive care/coronary care discharges in FY 2014.

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Obstetrics Capacity Analysis

As shown below, there were 274 obstetric beds located in the service area with an aggregate occupancy rate of 39% in FY 2014. The Hospital reported 65 licensed obstetric beds with an occupancy rate of 33% (average daily census of 21).

OBSTETRICS BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**65**	**3,034**	**7,706**	**21.1**	**32.5%**
Santa Clara Valley Medical Center	1.5	X	82	3,639	10,208	28.0	34.1%
Kaiser - Santa Clara*	3.9	X	52	4,391	8,662	23.7	45.5%
Good Samaritan Hospital - San Jose*	6.9	X	69	4,006	11,813	32.4	46.9%
Regional Medical Center of San Jose*	8.3	X	6	390	928	2.5	42.4%
SUB-TOTAL			**274**	**15,460**	**39,317**	**107.7**	**39.3%**
El Camino Hospital	12.4		58	5,345	16,169	44.3	76.4%
Kaiser - San Jose*	12.7		31	2,127	3,525	9.7	31.2%
Washington Hospital - Fremont	19.8		22	1,838	4,860	13.3	60.5%
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		32	4,622	15,067	41.3	129.0%
Sequoia Hospital	28.8		23	1,604	4,607	12.6	54.9%
Dominican Hospital - Santa Cruz/Soquel	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		16	691	1,324	3.6	22.7%
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		30	2,009	8,522	23.3	77.8%
Watsonville Community Hospital*	41.5		17	1,376	3,789	10.4	61.1%
UCSF Medical Center	50.8		29	1,920	8,473	23.2	80.0%
Hazel Hawkins Memorial Hospital	52.0		21	452	1,105	3.0	14.4%
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		77	5,388	17,988	49.3	64.0%
Memorial Hospital Medical Center - Modesto*	83.5		29	1,922	4,580	12.5	43.3%
TOTAL			**659**	**44,754**	**129,326**	**354.3**	**53.8%**

Source: OSHPD Disclosure Reports, 2014

* 2013

(1) Kaiser - Santa Clara, Kaiser - San Jose, Washington Hospital - Fremont, and Mills-Peninsula have Alternate Birthing Centers

- All hospitals within the service area have available capacity, with occupancy rates ranging from 33% at the Hospital to 47% at Good Samaritan Hospital – San Jose;
- Hospitals located outside of the service area also have the capacity to provide additional obstetrics services, except for Lucile Packard Children’s Hospital, which has an occupancy rate of 129% based on 2013 OSHPD figures;
- Twelve of the Hospital’s 65 obstetrics beds are used as labor, delivery, and recovery rooms; and
- At current volumes, the Hospital’s obstetrics unit occupancy is approximately 33%. With 39 obstetrics beds, the occupancy rate would be 54%. With 30 beds, the occupancy rate would be 70%. Therefore, a reduction to 30 beds would adequately provide services to support existing obstetrics volume.

Pediatric Capacity Analysis

In FY 2014, service area hospitals had an occupancy rate of 27% with 130 licensed beds. The Hospital reported 27 pediatric beds with 1,294 patient days and an occupancy rate of 13%.

PEDIATRIC ACUTE / INTENSIVE CARE BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**27**	**313**	**1,294**	**3.5**	**13.1%**
Santa Clara Valley Medical Center	1.5	X	52	1,774	4,579	12.5	24.1%
Kaiser - Santa Clara*	3.9	X	26	1,387	4,316	11.8	45.5%
Good Samaritan Hospital - San Jose*	6.9	X	17	888	2,276	6.2	36.7%
Regional Medical Center of San Jose*	8.3	X	8	254	542	1.5	18.6%
SUB-TOTAL			**130**	**4,616**	**13,007**	**35.6**	**27.4%**
El Camino Hospital	12.4		31	143	125	0.3	1.1%
Kaiser - San Jose*	12.7		-	-	-	-	-
Washington Hospital - Fremont	19.8		15	217	340	0.9	6.2%
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		190	6,817	45,399	124.4	65.5%
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		-	-	-	-	-
UCSF Medical Center	50.8		104	4,261	26,196	71.8	69.0%
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		37	1,105	3,371	9.2	25.0%
Memorial Hospital Medical Center - Modesto*	83.5		10	1,464	4,597	12.6	125.9%
TOTAL			**517**	**18,623**	**93,035**	**254.9**	**49.3%**

Source: OSHPD Disclosure Reports, 2014

* 2013

- The hospitals within and even those no more than 20 miles outside the Hospital's service area have the capacity to provide additional pediatric services based on FY 2014 OSHPD figures.

Neonatal Intensive Care Unit Capacity Analysis

As shown below, the Hospital's service area provides 133 licensed beds with an average daily census of 61 patients.

NEONATAL INTENSIVE CARE BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital	**-**	**X**	**10**	**107**	**1,391**	**3.8**	**38.1%**
Santa Clara Valley Medical Center	1.5	X	40	228	4,934	13.5	33.8%
Kaiser - Santa Clara*	3.9	X	26	338	6,965	19.1	73.4%
Good Samaritan Hospital - San Jose*	6.9	X	51	393	8,885	24.3	47.7%
Regional Medical Center of San Jose*	8.3	X	6	30	147	0.4	6.7%
SUB-TOTAL			**133**	**1,096**	**22,322**	**61.2**	**46.0%**
El Camino Hospital	12.4		22	568	5,980	16.4	74.5%
Kaiser - San Jose*	12.7		12	199	887	2.4	20.3%
Washington Hospital - Fremont	19.8		2	45	392	1.1	53.7%
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		80	1,495	21,338	58.5	73.1%
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel	30.4		14	333	2,646	7.2	51.8%
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		10	581	753	2.1	20.6%
UCSF Medical Center	50.8		51	731	14,213	38.9	76.4%
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		36	485	9,528	26.1	72.5%
Memorial Hospital Medical Center - Modesto*	83.5		12	164	1,278	3.5	29.2%
TOTAL			**372**	**5,697**	**79,337**	**217.4**	**58.4%**

Source: OSHPD Disclosure Reports, 2014
* 2013

- All hospitals in the service area offer neonatal intensive care services with a combined occupancy rate of approximately 46%;

- The Hospital has 10 licensed neonatal intensive care beds, making up approximately 8% of the service area neonatal intensive care beds, with a reported occupancy rate of approximately 38%; and

- The Hospital reported 107 inpatient hospital discharges and 1,391 patient days, resulting in an average daily census of nearly 4 patients.

Sub-Acute Care Capacity Analysis

The Hospital has 24 licensed skilled nursing beds that are used for long-term sub-acute care services. Sub-acute care services are for medically fragile patients who require special services such as inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management.

As the only general acute care hospital in the area that provides licensed sub-acute care beds, the Hospital receives referrals from other area hospitals for sub-acute care services. In FY 2014, the Hospital had an occupancy rate of 90% based on an average daily census of nearly 22 patients.

SUB-ACUTE CARE BEDS 2014							
Hospital	**Miles from Hospital**	**Within Service Area**	**Licensed Beds**	**Discharges**	**Patient Days**	**Average Daily Census**	**Percent Occupied**
O'Connor Hospital	**-**	**X**	**24**	**24**	**7,916**	**21.7**	**90.4%**
Santa Clara Valley Medical Center	1.5	X	-	-	-	-	-
Kaiser - Santa Clara*	3.9	X	-	-	-	-	-
Good Samaritan Hospital - San Jose*	6.9	X	-	-	-	-	-
Regional Medical Center of San Jose*	8.3	X	-	-	-	-	-
SUB-TOTAL			**24**	**24**	**7,916**	**21.7**	**90.4%**
El Camino Hospital	12.4		-	-	-	-	-
Kaiser - San Jose*	12.7		-	-	-	-	-
Washington Hospital - Fremont	19.8		-	-	-	-	-
Stanford Hospital	21.3		-	-	-	-	-
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		-	-	-	-	-
UCSF Medical Center	50.8		-	-	-	-	-
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		-	-	-	-	-
Memorial Hospital Medical Center - Modesto*	83.5		-	-	-	-	-
TOTAL			**24**	**24**	**7,916**	**21.7**	**90.4%**

Source: OSHPD Disclosure Reports, 2014
* 2013
(1) The Hospital's sub-acute care beds are listed as skilled nursing care beds on the Hospital license

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Emergency Department Volume at Hospitals in the Service Area

In 2014, the Hospital had 23 emergency treatment stations. In total, there are currently 141 treatment stations among all service area hospitals. The table below shows the visits by severity category for area emergency departments as reported by OSHPD Automated Licensing Information and Report Tracking System.[37]

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2014

Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Minor	Low/ Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
O'Connor Hospital	**-**	**-**	**Basic**	**23**	**48,950**	**28**	**8,317**	**16,501**	**18,686**	**5,418**	**11.9%**	**34**
Santa Clara Valley Medical Center	1.5	X	Comprehensive	24	64,203	222	2,598	22,876	22,472	16,035	**18.9%**	243
Kaiser - Santa Clara	3.9	X	Basic	32	67,031	15,110	8,205	8,768	23,363	11,585	**11.9%**	21
Good Samaritan Hospital - San Jose	6.9	X	Basic	29	57,496	426	12,927	33,847	3,673	363	**14.8%**	15
Regional Medical Center of San Jose	8.3	X	Basic	33	73,549	3,786	7,701	30,885	16,352	14,825	**13.6%**	55
SUB-TOTAL				**141**	**311,229**	**19,572**	**39,748**	**112,877**	**84,546**	**48,226**	**14.3%**	**368**
El Camino Hospital	12.4		Basic	28	45,206	327	10,304	13,131	10,839	10,605	**14.4%**	196
Kaiser - San Jose	12.7		Basic	28	56,447	18,741	5,482	6,726	16,675	8,823	**10.3%**	101
Washington Hospital - Fremont	19.8		Basic	23	49,533	48	207	15,079	18,607	15,592	**13.9%**	0
Stanford Hospital	21.3		Basic	54	62,899	67	7,652	23,199	13,816	18,165	**17.9%**	0
Lucile Packard Children's Hospital	21.4		-	-	-	-	-	-	-	-	**-**	-
Sequoia Hospital	28.8		Basic	15	22,370	308	7,610	6,995	4,937	2,520	**10.2%**	0
Dominican Hospital - Santa Cruz/Soquel	30.4		Basic	24	45,738	482	5,114	14,515	14,138	11,489	**17.8%**	97
St. Louise Regional Hospital	33.3		Basic	8	27,687	3,509	13,296	7,560	3,212	110	**8.6%**	0
Kindred Hospital - San Francisco Bay Area	36.0		-	-	-	-	-	-	-	-	**-**	-
Mills-Peninsula Medical Center	38.1		Basic	23	48,122	8,449	11,611	16,001	10,857	1,204	**17.3%**	0
Watsonville Community Hospital	41.5		Basic	14	29,381	1,997	2,080	11,984	8,810	4,510	**8.7%**	8
UCSF Medical Center	50.8		Basic	33	44,572	292	2,606	13,893	8,978	18,803	**20.9%**	1,031
Hazel Hawkins Memorial Hospital	52.0		Basic	18	17,363	268	7,039	5,233	3,346	1,477	**8.5%**	3
St. Mary's Medical Center - San Francisco	52.2		Basic	13	16,990	227	1,681	7,827	4,676	2,579	**13.2%**	192
California Pacific Medical Center - Pacific	52.7		Basic	19	25,213	305	2,744	9,995	7,970	4,199	**8.0%**	1,157
Memorial Hospital Medical Center - Modesto	83.5		Basic	44	69,284	544	6,188	20,292	20,754	21,506	**16.7%**	0
TOTAL				**274**	**525,314**	**38,755**	**63,393**	**171,012**	**144,483**	**101,411**	**14.3%**	**665**

Source: OSHPD Alirts Annual Utilization Reports, 2014

- The Hospital has 23 emergency department stations and is classified as "basic." In 2014, the Hospital had nearly 49,000 visits, accounting for 16% of the total visits among area hospitals (over 311,000 total visits);
- In 2014, approximately 49% of the Hospital's emergency department visits were classified as severe with/without threat;
- Service area emergency departments had 368 hours of diversion[38] with approximately 243 of these hours attributable to Santa Clara Valley Medical Center. The Hospital had 34 hours of diverted emergency department traffic in 2014; and
- In 2014, approximately 14% of service area emergency department visits resulted in an inpatient admission.

[37] The Automated Licensing Information and Report Tracking System contains license and utilization data information of healthcare facilities in California.

[38] A hospital goes on diversion when there are not enough beds or staff available in the emergency room or the hospital itself to adequately care for patients. When a hospital goes on diversion, it notifies area Emergency Medical Services units so that they can consider transporting patients to other hospitals that are not on diversion.

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Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, in 2014, the Hospital's emergency department was operating at 106% of its 23-bed capacity. Other area facilities are also at overcapacity: Santa Clara Valley Medical Center (134%), Kaiser Foundation Hospital – Santa Clara (105%), and Regional Medical Center of San Jose (111%).

EMERGENCY DEPARTMENT CAPACITY 2014							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
O'Connor Hospital	**-**	**X**	**Basic**	**23**	**48,950**	**46,000**	**(2,950)**
Santa Clara Valley Medical Center	1.5	X	Comprehensive	24	64,203	48,000	(16,203)
Kaiser - Santa Clara	3.9	X	Basic	32	67,031	64,000	(3,031)
Good Samaritan Hospital - San Jose	6.9	X	Basic	29	57,496	58,000	504
Regional Medical Center of San Jose	8.3	X	Basic	33	73,549	66,000	(7,549)
SUB-TOTAL				**141**	**311,229**	**282,000**	**(29,229)**
El Camino Hospital	12.4		Basic	28	45,206	56,000	10,794
Kaiser - San Jose	12.7		Basic	28	56,447	56,000	-447
Washington Hospital - Fremont	19.8		Basic	23	49,533	46,000	(3,533)
Stanford Hospital	21.3		Basic	54	62,899	108,000	45,101
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		Basic	15	22,370	30,000	7,630
Dominican Hospital - Santa Cruz/Soquel	30.4		Basic	24	45,738	48,000	2,262
St. Louise Regional Hospital	33.3		Basic	8	27,687	16,000	(11,687)
Kindred Hospital - San Francisco Bay Area	36.0		-	-	-	-	-
Mills-Peninsula Medical Center	38.1		Basic	23	48,122	46,000	(2,122)
Watsonville Community Hospital	41.5		Basic	14	29,381	28,000	(1,381)
UCSF Medical Center	50.8		Basic	33	44,572	66,000	21,428
Hazel Hawkins Memorial Hospital	52.0		Basic	18	17,363	36,000	18,637
St. Mary's Medical Center - San Francisco	52.2		Basic	13	16,990	26,000	9,010
California Pacific Medical Center - Pacific	52.7		Basic	19	25,213	38,000	12,787
Memorial Hospital Medical Center - Modesto	83.5		Basic	44	69,284	88,000	18,716
TOTAL				**274**	**525,314**	**548,000**	**22,686**

Source: OSHPD Alirts Annual Utilization Reports, 2014

- Santa Clara Valley Medical Center has the only "comprehensive[39]" emergency department of the service area hospitals; and
- Overall, service area hospitals' emergency departments are at approximately 110% capacity. Any reduction in the number of emergency treatment stations at service area hospitals or at the Hospital could have an adverse effect on emergency care services in the service area.

[39] Comprehensive service level emergency departments provides diagnostic and therapeutic services for unforeseen physical and mental disorders that, if not properly treated, would lead to marked suffering, disability, or death.

SUMMARY OF INTERVIEWS

In August and September of 2015, both in-person and telephone interviews were conducted with representatives of the Hospital, Daughters, Integrity, and BlueMountain, as well as physicians, Santa Clara County representatives, health plan representatives, the Hospital's employees, union representatives, and other community representatives. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability and accessibility as a result of the proposed change in governance and control of the ownership and operations from Ministry and Daughters to BlueMountain and Integrity. The list of individuals who were interviewed is located in the Appendices of this report. The major findings of these interviews are summarized below.

Reasons for the Proposed Transaction

Members of the Hospital's managed team, medical staff, and O'Connor's Board cited a number of reasons why a transaction was necessary, including the following:

- Without the transaction, Daughters and the Health Facilities, including the Hospital, would not be able to sustain their current operations and would likely be forced into insolvency and bankruptcy. Bankruptcy could lead to the reduction of services or the closure of the Hospital, thereby reducing community access to medical care and increasing demand on other area emergency rooms and hospitals;

- Given the Hospital's important role in providing healthcare for the poor, without the transaction, the community could be at risk of losing key services that are essential for the uninsured and underinsured patient population;

- Daughters does not have the financial resources required to repay outstanding debt, including the repayment of the 2005 Bonds and 2014 Bonds. Additionally, Daughters is unable to provide financial support for the protection of the underfunded pension plans, and is also unable to provide the necessary capital required at all of the Health Facilities. The interests of patients, the community, physicians, and employees are best met by finding a suitable health system to assume control of Daughters and the Health Facilities, including the Hospital; and

- Almost all of those interviewed believed that a change in governance and operation is necessary to keep the Health Facilities, including the Hospital, from eliminating services or closing.

Importance of the Hospital to the Community

According to all who were interviewed, the Hospital is a critically important provider of healthcare services to the local community and known for providing essential services to the uninsured, under-served populations, and the elderly. The Hospital's emergency and obstetrics services are very important for patient access, and play an important role in preserving the safety net. Some of the programs and services that were mentioned in the interviews as especially important include the following:

- Emergency services;
- Obstetrics and Neonatal Intensive Care Unit;
- Pediatric services;
- Stroke services, including certification as an Advanced Primary Stroke Center;
- Cardiac services, including designation as a STEMI Receiving Center;
- Sub-acute care services;
- Orthopedic services; and
- Family Medicine Residency Program.

Representatives of Santa Clara County, local Federally Qualified Health Centers, and community representatives all believed that it was essential for the Hospital to retain all or most of the services that it currently offers, especially emergency and obstetric services, and continue to serve Medi-Cal patients and the uninsured.

If the Hospital does not maintain its current level of healthcare services and is unable to renegotiate contracts for Medi-Cal with Santa Clara Family Health Plan and Valley Health Plan, availability and accessibility issues would be created for residents of the communities served by the Hospital.

Selection of BlueMountain and Integrity for the Proposed Transaction

While other alternatives for a potential buyer were considered among the final bids, members of the Hospital's management team, medical staff, and O'Connor's Board who were interviewed explained that a number of factors were involved in finalizing the selection of BlueMountain and Integrity including the following:

- Commitment to continue the operation of the Health Facilities, including the Hospital, as general acute care facilities;

- Continued operation of the Health Facilities as nonprofit, tax exempt hospitals;

- Enhanced financial support and access to capital to repay the bonds in full;

- Commitment to retain the CBAs of the employees at each of the Health Facilities;

- Experience with safety net hospitals and hospital turnarounds; and

- Ability to operate the Health Facilities efficiently and profitably.

The majority of those interviewed from the Hospital's management and medical staff, as well as from O'Connor's Board, were supportive of the proposed transaction and the selection of BlueMountain and Integrity and expressed a strong desire for the transaction to be finalized. Additionally, most people also conveyed an overall understanding and knowledge of the pressing financial issues and the necessity for a transaction to occur in order for Daughters to become financially sustainable, to ensure funding of the pension obligations, to retire outstanding bond debt, to avoid bankruptcy filings, and to ensure continued operations of the Health Facilities.

While the majority of those interviewed expressed support for the transaction with BlueMountain and Integrity, some individuals also expressed concerns regarding the potential effects that the proposed transaction could have on the Hospital if the transaction were approved. Some of the concerns with the selection of BlueMountain and Integrity included the following:

- The motivations of BlueMountain to make a profit may be in conflict with the interests of the community to operate the Health Facilities and their services;

- The lack of history and experience of BlueMountain in operating general acute care facilities;

- The potential for BlueMountain to close the Health Facilities and use the properties for unrelated real estate value;

- The complicated structure of the transaction, including the uncertainty surrounding whether or not BlueMountain will carry out the purchase options between the third and fifteenth anniversary of closing;

- Integrity may reduce or eliminate unprofitable services negatively impacting the accessibility and availability of healthcare services for the communities served by the Hospital; and

- Integrity may reduce necessary staffing and other types of expenses, which in turn, could have a negative impact on the quality and delivery of patient care.

The Hospital employees interviewed, many of whom were also members of unions, understood the reasons for the transaction, and mostly expressed being neither in favor nor opposed to BlueMountain and Integrity as long as employees are treated well, pensions are protected, and the surrounding communities continue to be served by the Health Facilities.

Similarly, many nonprofit healthcare organizations, advocacy groups, County of Santa Clara, and other community representatives understood the need for a transaction to occur and were neither in favor nor opposed to BlueMountain and Integrity provided that the well-being of the public is protected. Many of the representatives expressed concerns about the continuation of charity care and community benefit programs, the continuation of important services for the community, including the Medi-Cal, underinsured, and uninsured populations, and the complicated structure of the transaction, including the uncertainty surrounding the purchase options.

Views of Health Plans and Independent Physician Association Representatives

The majority of locally-based health plan representatives expressed that they had strong, long-lasting relationships with Daughters. They stated that the Health Facilities are important providers of healthcare services to their lower-income Medi-Cal and dual Medicare/Medi-Cal eligible patient populations. Despite some unfamiliarity with BlueMountain and Integrity, they believed they would be able to establish contractual relationships going forward.

The representatives of locally-based health plans emphasized the importance of the Hospital as a historical provider of services for the lower-income Medi-Cal, underinsured, and uninsured populations in the area, and expressed concerns that if Integrity did not contract or it raised rates, it would impact managed care and integrated delivery models, and reduce provider choice, patient access, and service availability.

The representatives of local Federally Qualified Health Centers and Independent Physician Associations stated that it is essential that the Hospital continue to care for the Medi-Cal and indigent populations, and felt that the loss of services or closure of the Hospital would be very disruptive for their patient populations.

All of those interviewed emphasized the importance of preserving the scope of services as well as the breadth of providers at each of the Health Facilities.

Impact on the Availability and Accessibility of Healthcare Services

Almost all interviewed believed that the proposed transaction would lead to some level of change in regard to access and/or availability of certain services. While many believed that the transaction was necessary in order to keep the Health Facilities in operation as general acute care hospitals, they also believed there would be further reductions and elimination of some unprofitable services in addition to the services and programs that have already been closed, resulting in a negative impact on the availability or accessibility of some healthcare services to lower-income and underserved populations historically served by the Hospital.

Alternatives

The majority of those interviewed believed that a transaction was necessary in order to avoid insolvency and bankruptcy. Most believed that if Daughters went into bankruptcy, services would be curtailed, some of the Health Facilities could close, and some employee pension funds would be lost. While many interviewed were not familiar with BlueMountain, many other individuals were confident that BlueMountain and Integrity's offer would ensure the future financial sustainability and operations of the Health Facilities, and the continuation of the Health Facilities as general acute care hospitals.

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

Importance of the Hospital to the Community

The Hospital is a critically important safety-net provider of healthcare services to the residents of the surrounding communities. The Hospital is especially essential for its provision of emergency and obstetric services to residents within the service area. The Hospital is a large provider of services to Medi-Cal patients, especially since the County's Santa Clara Valley Medical Center is at or near full capacity. Other key services offered at the Hospital include the neonatal intensive care unit, cardiac services, including the designation as a STEMI Receiving Center, and stroke services, including the certification as a Primary Stroke Receiving Center.

The Hospital also has provided a historically significant level of charity care and community benefits for low-income, uninsured, and underinsured populations residing in the surrounding communities.

Continuation as a General Acute Care Hospital

The System Agreement states that the Hospital will continue to operate as a general acute care facility for a minimum of five years, subject to availability of physicians necessary to support these services.

Emergency Services

The Hospital is a critically important provider of emergency services to the residents of the surrounding communities. In 2014, the Hospital reported nearly 49,000 visits to its 23 emergency treatment stations, operating over capacity at 106% based on a standard of 2,000 visits per station, per year. Emergency departments at other area facilities are extremely overburdened and functioning beyond capacity, including Santa Clara Valley Medical Center (134%), Kaiser Foundation Hospital – Santa Clara (105%), and Regional Medical Center of San Jose (111%). As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Therefore, emergency department utilization is expected to increase within the service area. Keeping the Hospital's Emergency Department open is critical to providing emergency services within the Hospital's service area.

Medical/Surgical Services

With 210 licensed medical/surgical beds, an occupancy rate of 35%, and an average daily census of approximately 74 patients, the Hospital is an important provider of medical/surgical services.

Intensive Care/Coronary Care Services

The Hospital reports an occupancy rate of approximately 56% on its 14 licensed intensive care and eight coronary care beds. These services are an important resource for supporting the emergency department and other medical and surgical services at the Hospital. Service area hospitals had a combined occupancy rate of nearly 65% on their 189 total intensive care beds. Although service area hospitals do have some available capacity, any reduction or elimination in the number of intensive care beds at the Hospital could negatively impact the availability and capacity of these same services at Santa Clara Valley Medical Center, Regional Medical Center of San Jose, and Good Samaritan Hospital - San Jose. Maintaining the current licensure of the 22 beds is important in ensuring the accessibility and availability of these beds in the service area.

Obstetrics Services

The Hospital has an occupancy rate of nearly 33% on its 65 licensed obstetrics beds based on an average daily census of approximately 21 patients. With approximately 3,000 reported deliveries in FY 2014, the Hospital is an important provider of obstetrics services with approximately 20% market share of inpatient obstetrics discharges within its service area. A reduction in the type and/or level of obstetrics services provided at the Hospital, or in the number of licensed obstetrics beds, could have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities, especially for the large percentage of obstetrics patients that are Medi-Cal patients.

Pediatric Services

The Hospital is licensed for 27 pediatric beds (21% of the total service area beds) with a relatively low occupancy rate (13%) and average daily census (approximately 4 patients per day). Excluding Kaiser, three other hospitals offer pediatric services in the service area and had a combined occupancy rate of 26% in FY 2014. Santa Clara Valley Medical Center had an occupancy rate of approximately 24%, Good Samaritan Hospital – San Jose had an occupancy rate of only 37%, and Regional Medical Center of San Jose had an occupancy rate of 19%. Additionally, Lucile Packard Children's Hospital, located approximately 21 miles away from the Hospital, is licensed for 190 pediatric beds and runs at an occupancy rate of 66%. While the Hospital’s average daily census for pediatric patients is relatively low, approximately 30% of emergency services visits are pediatric patients, making the Hospital’s inpatient pediatric services important to the residents of the local communities.

Neonatal Intensive Care Services

The Hospital operates 10 licensed neonatal intensive care beds (approximately 8% of the combined area neonatal intensive care beds) and maintains an occupancy rate of approximately 38%. Excluding Kaiser, three other service area hospitals offer neonatal intensive care services and had a combined occupancy rate of approximately 39%. Santa Clara Valley

Medical Center had an occupancy rate of approximately 34%, Good Samaritan Hospital - San Jose had an occupancy rate of only 48%, and Regional Medical Center of San Jose had an occupancy rate of 7%. Because the Hospital had approximately 3,000 deliveries in FY 2014, some of which are high risk, it is important to continue operations of the neonatal intensive care unit.

Sub-Acute Care Services

Sub-acute patients are medically fragile and require special services, such as inhalation therapy, tracheotomy care, and intravenous tube feeding. The Hospital, the only provider of sub-acute care services in the community, is licensed for 24 sub-acute beds with a high occupancy rate (90%) and average daily census (approximately 22 patients per day). Because of the specialized capabilities of this unit to care for ventilated patients, a reduction in the number of sub-acute beds provided at the Hospital could have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities.

Reproductive Health Services

The Hospital is an important provider of a range of healthcare services for women including approximately 3,000 obstetrical deliveries per year. Some women's reproductive health services are prohibited by the Ethical and Religious Directives of the Catholic Church, including elective abortions and tubal ligations. Since the Hospital will no longer be sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, the Hospital will no longer be required to adhere to the Ethical and Religious Directives. Therefore, it is expected that patients will not be referred elsewhere for these services.

It is expected that patients and physicians will seek elective reproductive services at the Hospital including tubal ligations. Integrity has stated in its interview with MDS that it is open to providing various types of services that the community needs, including women's reproductive services, and it will not prohibit physicians from offering or performing reproductive procedures. Additionally, without the Ethical and Religious Directives, physicians will no longer be prohibited from offering reproductive services in their campus offices, and access and availability of these services could improve.

Below is a table showing instances where the Hospital recorded a small number of reproductive-related procedures that were in accordance with the Ethical and Religious Directives in 2014.

REPRODUCTIVE SERVICES BY DIAGNOSTIC RELATED GROUP	
Diagnostic Related Group	**O'Connor Hospital**
770: Abortion D&C, Aspiration Curettage or Hysterectomy	7
778: Threatened Abortion	21
779: Abortion w/o D&C	6
777: Ectopic Pregnancy	5
767: Vaginal Delivery w Sterilization & /OR D&C	2
Total 2014 Discharges:	**41**

Source: OSHPD Inpatient Discharge Database

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

Approximately 71% of the Hospital's inpatient discharges are reimbursed through Medicare (39%) and Medi-Cal (32%). The Hospital currently participates in the Medicare program and the Medi-Cal managed care program, and also has managed care contracts for these types of patients. The Hospital terminated its contract with the Local Initiative, Santa Clara Family Health Plan, as well as Santa Clara Valley Health Plan on April 15, 2015.

The System Agreement includes a commitment to keep the Hospital's Emergency Department open for at least five years in order to ensure access of services to Medicare and Medi-Cal patients. However, in order for the Medicare and Medi-Cal patients to access other key services not provided through the Hospital's Emergency Department, the Hospital must maintain its participation in both programs, as well as maintain its contractual agreements with payers. In the System Agreement, Integrity has not made any specific commitments regarding continued participation in the Medicare and the Medi-Cal managed care programs, nor has Integrity committed to maintain current contractual agreements. However, Integrity has stated in its interview with MDS that it would be willing to accept reasonable rates for Medi-Cal managed care that are comparable to other similarly situated hospitals.

If the Hospital did not participate in the Medicare and Medi-Cal managed care programs, these classes of patients could be denied access to certain healthcare services, thus creating a negative impact on the availability or accessibility for these patient populations.

Effects on the Level and Type of Charity Care Historically Provided

Many uninsured and underinsured individuals in the community rely on the Hospital for healthcare services. The Hospital has historically provided a significant amount of charity care, averaging approximately $3.6 million in charity care costs per year over the last five years. Integrity has agreed to maintain and adhere to Daughters' current policy on charity care (or a comparable policy) for a minimum of five years, though no specific commitment has been made to maintain historical levels of financial support for charity care at the Hospital. Because of Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

Effects on Community Benefit Programs

The Hospital has historically provided a significant amount of community benefit services, averaging $2.8 million per year over the last five years (on a cost basis). The Hospital supports a significant number of community benefit programs that serve residents from the surrounding lower-income communities. Some of the Hospital's community benefit programs include Family Medicine Residency Program and the Health Benefits Resource Center. Integrity has not made any specific commitments in the System Agreement to maintain the Hospital's community benefit programs at historical levels of financial support for community benefit expenditures.

Effects on Staffing and Employee Rights

Integrity has agreed to continue the employment at comparable salaries, job titles, and duties, for both the unrepresented employees and unionized employees at the Hospital and Daughters Affiliates who remain in good standing, pass standard employee background checks, and are still employed by Daughters as of closing. Integrity has agreed to adhere to severance obligations as defined in the written employment agreements, or if no such agreement exists, Integrity will adhere to Daughters' severance pay obligations for a period of twelve months following closing.

While Integrity makes short-term commitments for employment, it is expected that Integrity will reduce labor costs by eliminating some positions within the Hospital. It is also expected that the number of employees will be reduced unless the Hospital's patient volume increases.

Effects on Medical Staff

Integrity has not made any specific commitments in the System Agreement to maintain physician contracts, including contracts for on-call services, or the Hospital's medical staff. Additionally, Integrity has not made any specific commitments to maintain the medical staff officers or the department or committee chairs/heads or vice-chairs/heads of the Hospital's medical staff.

Alternatives

Upon evaluation of the final bids, Daughters' Board and Ministry's Board did not believe that other alternatives offered the same advantages as BlueMountain's offer in terms of ability to repay Daughters' outstanding bond debt and financially sustain and operate the Health Facilities.

If the proposed transaction was not approved, Daughters would be forced to consider other options or enter into bankruptcy. It is possible that a previously submitted and negotiated transaction could be entered into with one of the other final bidders; however, it may not meet the same terms and commitments currently proposed by BlueMountain. These alternatives may negatively impact the pension plans, the provision of services at the Health Facilities, the levels of community benefits and charity care provided, among other potential impacts, depending on the commitments made by these organizations.

CONCLUSIONS

Daughters contends the proposed System Agreement between Ministry, Daughters, BlueMountain, and Integrity will help ensure continued operation of the medical services offered at the Hospital and avoid bankruptcy.

Potential Conditions for Transaction Approval by the California Attorney General

If the California Attorney General approves the proposed transaction, MDS Consulting recommends the following conditions be required in order to minimize any potential negative healthcare impact that might result from the transaction:

1. For at least ten years from closing, the Hospital shall continue to operate as a general acute care hospital;

2. For at least ten years from closing, the Hospital shall maintain its 23 licensed treatment stations, providing 24-hour emergency medical services at no less than current licensure and designation, with the same types and/or levels of services;

3. For at least five years from closing, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

   a. Cardiac services, including the two cardiac catheterizations and designation as a STEMI Receiving Center;
   b. Cancer services, including radiation therapy and the Ambulatory Infusion Center;
   c. Advanced certification as a Primary Stroke Center;
   d. Neonatal intensive care services, including a minimum of 10 neonatal intensive care beds;
   e. Orthopedics and joint replacement services;
   f. Wound care and hyperbaric medicine services; and
   g. Pediatric services, including a minimum of 14 pediatric beds.

4. For at least ten years from closing, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

   a. Critical care services, including a minimum of 22 intensive care/coronary care beds;
   b. Obstetric services, including a minimum of 30 obstetrics beds;
   c. Sub-acute care services, including a minimum of 24 sub-acute beds; and
   d. Women's health services, including mammography.

5. - For at least ten years from closing, the Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value;

6. - For at least five years from closing, the Hospital shall maintain a charity care policy that is no less favorable than the Hospital's current charity care policy and the Hospital should provide an annual amount of Charity Care equal to or greater than $3,590,510 (the "Minimum Charity Care Amount"). Alternatively, because of the impact of Medi-Cal expansion and the ACA, the California Attorney General could consider adjusting the required commitment to charity care based on available data from time periods after implementation of the ACA. purposes herein, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by the Hospital in connection with the operations and provision of services at the Hospital . The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as those used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California;

7. - For at least five years from closing, the Hospital shall continue to expend an average of no less than $2,751,213 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California. The following community benefit programs and services shall continue to be offered:

   a. - Family Medicine Residency Program; and
   b. - Health Benefits Resource Center.

8. - The Hospital shall maintain privileges for current medical staff members who are in good standing as of closing. Further, closing shall not impact the medical staff officers, committee chairs or independence of the Hospital's medical staff and those such persons shall remain in good standing for the remainder of their tenure;

9. - For at least ten years from closing, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease in quality, or gap in contracted hospital coverage, including continuation of the following contracts or their successors:

   a. - Santa Clara Family Health Plan;
   b. - Santa Clara Valley Health Plan; and
   c. - Anthem Blue Cross of California.

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10. For at least ten years from closing, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries by maintaining a Medicare Provider Number;

11. For at least five years from closing, the Hospital shall maintain its current contracts, subject to the request of the County of Santa Clara, for services, including the following:

    a. County of Santa Clara Hospital Mutual Aid System Memorandum of Understanding;
    b. Agreement between the County of Santa Clara and the Hospital for the Grant of Bioterrorism Hospital Preparedness Program; and
    c. Agreement between the County of Santa Clara and the Hospital for Use of Automated Vital Statistics System.

12. BlueMountain, Integrity, Certain Funds Managed by BlueMountain, and Verity shall commit the necessary investments required to maintain OSHPD seismic compliance requirements at the Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070); and

13. BlueMountain, Integrity, Certain Funds Managed by BlueMountain, and Verity shall comply with the "Capital Commitment" set forth in section 7.7 of the System Agreement to reserve or expend $180 million over five years for improvements at the Health Facilities.

APPENDICES

List of Interviewees

Last Name	First Name	Position	Affiliation
Alvarado	Dolores	Chief Executive Officer	Community Health Partnership
Bassiri, MD	Ali	President, Medical Staff	O'Connor Hospital
Battles	Stephanie	Vice President, Human Resources	Daughters of Charity Health System
Bennett	Warren	Biomedical Engineer	International Union of Operatinng Engineers, Stationary Engineers, Local 39
Blackfield	Bruce	Director, Finance	O'Connor Hospital & Saint Louise Regional Hospital
Brach	Dennis	Board Member, O'Connor Foundation	O'Connor Hospital
Brownstein	Bob	Director, Policy & Research	Working Partnerships USA
Butler	Bruce	Chief Executive Officer	Valley Health Plan
Cameron	Dave	Chief Financial Officer	Santa Clara Family Health Plan
Cayabyab	Cecilia	Nursing Director, Oncology & Orthopedics	O'Connor Hospital
Chou	Danny	County Counsel	County of Santa Clara
Creem	Mitch	Chief Executive Officer	Integrity Healthcare
Didech, MD	Dean	Chief Medical Officer	DCHS Medical Foundation
Espinoza	Reymundo	Chief Executive Officer	Gardner Family Health Network
Goeringer	Dawn	Chief Clinical Care Officer	O'Connor Hospital
Goll	Peter	Chief Executive Officer	Physicians Medical Group
Gregorio	Lorraine	Licensed Vocational Nurse & Steward	California Licensed Vocational Nurses Association
Hansen	Todd	Chief Operating Officer	The Health Trust
Ho	Wendy	Advocacy Manager	United Way Silicon Valley
Holmes	Ryan	Assistant Director, Healthcare Ethics	Markkula Center for Applied Ethics, Santa Clara University
Ilhardt	Ben	Associate, Financial Restructuring	Foley & Lardner LLP
Issai	Robert	President & Chief Executive Officer	Daughters of Charity Health System
Jackson	Scott	Senior Vice President, Financial Restructuring	Houlihan Lokey
Jagtiani	Tina	Community & Health Policy Analyst	North East Medical Services
Keaveney	Sr. Margaret	President & Chief Executive Officer	O'Connor Hospital & Saint Louise Regional Hospital
Kenny	Sr. Eileen	Board Chair, O'Connor's Board	O'Connor Hospital
Lorenz	Paul	Chief Executive Officer	Santa Clara Valley Medical Center
Melikian	Annie	Chief Financial Officer	Daughters of Charity Health System
Meyers	Mark	Chief Operating Officer	Integrity Healthcare
Miao	Barbara	Chief Financial Officer	Indian Health Center of Santa Clara Valley
Norman, MD	Robert	San Jose Family Medicine Residency Program Staff	O'Connor Hospital
Padua, MD	Thad	Vice Chair, O'Connor's Board & Pediatrician	O'Connor Hospital
Paul, MD	Ria	Chief Medical Officer	Indian Health Center of Santa Clara Valley
Penner, MD	Mark	Medical Director, Emergency Department	O'Connor Hospital
Pieri	James	Portfolio Manager	BlueMountain Capital Management
Preminger	Steve	County Executive	County of Santa Clara
Rai, MD	Dale	San Jose Family Medicine Residency Program Staff	O'Connor Hospital
Randall	Sr. Michelle	Vice President, Mission Integration	O'Connor Hospital
Sabatino	Carol	Board Member, O'Connor Foundation	O'Connor Hospital
Santiago	Rene	Director	Santa Clara Valley Health & Hospital System
Schieble	Mark	Partner	Foley & Lardner LLP
Sheffler	Susan	Associate	Ropes and Gray
Smith	Jeffrey	County Executive	County of Santa Clara
Tetnowski	Sonia	Chief Executive Officer	Indian Health Center of Santa Clara Valley
Tomcala	Christine	Chief Executive Officer	Santa Clara Family Health Plan
Turnbull	Andrew	Managing Director	Houlihan Lokey
Waxman	Mark	Partner	Foley & Lardner LLP
Wilder	Chris	CEO, Valley Medical Center Foundation	Santa Clara Valley Medical Center
Winning	Jane	Nursing Director, Surgery & Cardiac Catheterization Lab	O'Connor Hospital

Hospital License

License: 070000072
Effective: 01/01/2015
Expires: 12/31/2015
Licensed Capacity: 358

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

O'Connor Hospital

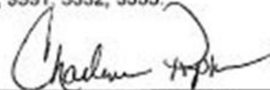
to operate and maintain the following **General Acute Care Hospital**

O'CONNOR HOSPITAL
2105 Forest Ave
San Jose , CA 95128-1425

Bed Classifications/Services
334 General Acute Care
65 Perinatal
27 Pediatric
14 Intensive Care
10 Intensive Care Newborn Nursery
8 Coronary Care
210 Unspecified General Acute Care
24 Skilled Nursing (D/P)

Other Approved Services
Basic Emergency Medical
Cardiac Catheterization Laboratory Services
Cardiovascular Surgery
Mobile Unit - PET
Nuclear Medicine
Occupational Therapy
Outpatient Services - SPORTS MEDICINE at 455 O'Connor Drive, Suites 150 and 170, San Jose
Outpatient Services - WOUND CARE at 125 Ciro Avenue, #201, San Jose
Physical Therapy
Radiation Therapy
Respiratory Care Services
Social Services
Speech Pathology

This **LICENSE** is not transferable and is granted solely upon the following conditions, limitations and comments:
Effective August 20, 2004 suspend one bed: Room 3411 12 Perinatal beds as LDRP's. This includes Rooms 3310, 3311.3312, 3315, 3320, 3321, 3322, 3323, 3330, 3331, 3332, 3333.



Ron Chapman, MD, MPH
Director & State Health Officer

Charlene Popke, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Jose District Office, 100 Paseo de San Antonio, Suite 235, San Jose, CA 95113, (408)277-1784

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