

Effects of the Proposed Change in Governance and Control of
Ownership & Operation of the
Daughters of Charity Health System to
Prime Healthcare Services, Inc., & Prime Healthcare Foundation, Inc.,
on the Availability & Accessibility of Healthcare Services to the
Communities Served by St. Francis Medical Center

Prepared for the Office of the
California Attorney General

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INTRODUCTION & PURPOSE

Medical Development Specialists, LLC (MDS), a healthcare planning and policy consulting firm, 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 Definitive Agreement between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Prime Healthcare Services, Inc., and Prime Healthcare Foundation, Inc., on the availability and accessibility of healthcare services to the communities served by St. Francis Medical Center. St. Francis Medical Center, a nonprofit religious corporation (St. Francis), operates St. Francis Medical Center, a general acute care hospital located in Lynwood, 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 St. Francis, St. Vincent Medical Center, O'Connor Hospital, 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. Vincent Medical Center, O'Connor Hospital, 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). St. Francis is the sole corporate member of St. Francis Medical Center Foundation (St. Francis Foundation).¹

Ministry and Daughters have requested the California Attorney General's consent to enter into a Definitive Agreement with Prime Healthcare Services, Inc., a Delaware corporation (Prime Inc.), and Prime Healthcare Foundation, Inc., a Delaware nonprofit non-stock corporation (Prime Foundation), (collectively, Prime), whereby control and governance of Daughters and its affiliated entities will be transferred to Prime Inc. or Prime Foundation, and in some cases, converted to California for-profit business corporations or California nonprofit public benefit corporations. (Refer to the summary table on the following page.)

¹ In reference to St. Vincent Foundation, the Definitive Agreement names St. Vincent Medical Center Foundation in its inclusive definition of the "Philanthropic Foundations"; however, St. Vincent Foundation is the name under which it was incorporated. In addition, there are proposed plans to merge St. Francis Medical Center Foundation, O'Connor Hospital Foundation, Saint Louise Regional Hospital Foundation, and Seton Medical Center Foundation into St. Vincent Foundation.

Daughters is a multi-institutional Catholic health system that is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West. Upon closing of the proposed transaction and the conversion of Daughters into a for-profit corporation, Daughters of Charity of St. Vincent de Paul, Province of the West, will cease its Catholic Sponsorship of Daughters.

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

* Will remain a wholly-owned subsidiary of St. Vincent Medical Center

In its preparation, MDS performed the following:

- A review of the application submitted by Ministry and Daughters to the California Attorney General on October 24, 2014, and supplemental information and documents subsequently provided by Daughters and the Health Facilities, including the Hospital;
- 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, St. Francis' Board of Directors (St. Francis' 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

In December 2012, Daughters entered into an affiliation agreement with Ascension Health Alliance that provided Daughters with an opportunity to share in certain consulting and strategic services provided by Ascension Health Alliance. Further, the agreement also served as a platform for both parties to continue their strategic dialogue surrounding the formation of some type of official partnership or merger.

After comprehensive discussions and due diligence with respect to a potential merger, the parties could not reach a mutual agreement that ensured the long-term viability of Daughters and the Health Facilities.

As stated in Daughters’ statement of reasons why Daughters’ Board believes the proposed transaction is either necessary or desirable, Daughters’ Board provided the following:

- The current structure and sponsorship of Daughters and the Health Facilities are not feasible as a result of the dire financial conditions and cash projections;
- Based upon cash flow projections, Daughters would fall below minimum liquidity thresholds in the first quarter of Fiscal Year (FY) 2015 and would ultimately run out of cash in the third quarter of FY 2015;
- In July and August of 2014, Daughters accessed 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. The bridge loan of \$125 million must be repaid in full, on or before, July 10, 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 Bonds²; and
- The lender holds liens on substantially all of Daughters’ assets. If there is a default, Daughters’ operations, without the protection of a bankruptcy proceeding, could not continue.

² 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).

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, in 2013 with the advisor Kaufman Hall, Daughters initiated a process to find potential buyers or partners to purchase O'Connor Hospital, Saint Louise Regional Hospital, Seton Medical Center, and Seton Medical Center Coastside. Daughters received several offers.

In February 2014, Daughters widened the process to include soliciting offers for the Hospital, and St. Vincent Medical Center, as well as for the entire health system. This 2014 process was supported by Houlihan Lokey, an advisory investment bank with experience in healthcare mergers and acquisitions. 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)³ 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 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 Attorney General, the following reasons were cited for focusing efforts on full-system offers:

³ A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.

- 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 Plan⁴ 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.

In September 2014, the final round of negotiations commenced and involved four offers for the full health system.⁵

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

SUMMARY OF BIDDING PROCESS				
		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

⁴ 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 Seton Medical Center, Seton Medical Center Coastside, O'Connor Hospital, Saint Louise Regional Hospital, and Caritas Business Services participate. Its benefit accruals have been frozen with respect to many Daughters' employees.

⁵ 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.

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;
- 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, the Daughters' Board selected the offer proposed by Prime. Daughters' Board believed Prime's proposal satisfied the selection criteria and that no other proposal demonstrated similar strength. The Daughters' Board stated 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, the 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.

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 expenditures⁶;
- November 2008 – 2008 Bonds⁷ 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;
- March 15, 2013 – Daughters solicits offers for O'Connor 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;
- 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 retire⁸;
- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;

⁶ This amount is gross of an estimated \$26 million in the debt service reserved funds that will be used to defease the 2005 Bonds.

⁷ 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.

⁸ 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.

- 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, including one from Prime;
- 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. Daughters’ Board decides to proceed to the final round focusing on only full system offers;
- 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);
- October 9, 2014 – St. Francis’ Board passes a resolution to authorize any necessary or advisable amendments to the articles of incorporation and bylaws of St. Francis and the St. Francis 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; and
- October 24, 2014 – “Notice of Submission and Request for Consent” is submitted by Daughters to the California Attorney General.

Summary of the Definitive Agreement

The proposed Definitive Agreement, originally dated October 10, 2014, and amended on October 23, 2014, contains the following major provisions:

- At closing, to authorize Prime Inc. as the sole corporate member of Daughters, the Ministry and Daughters shall approve amended and restated articles of incorporation and bylaws of Daughters, and of each of the Hospital Corporations and Caritas Business Services;
- Daughters and Ministry will transfer the ownership and operation of Daughters, the Hospital Corporations, Caritas Business Services, and St. Vincent Dialysis Center, Inc., to Prime Inc., whereby substituting Prime Inc. will become the sole corporate member of Daughters;
 - Daughters will be converted from a nonprofit religious corporation into a for-profit corporation, and concurrently, the Hospital Corporations and Caritas Business Services will also be converted into for-profit corporations; and
 - St. Vincent Dialysis Center, Inc., will be converted from a nonprofit public benefit corporation into a for-profit corporation and will remain a wholly-owned subsidiary of St. Vincent Medical Center.
- The ownership and operation of the Philanthropic Foundations, DCHS Medical Foundation, and St. Vincent De Paul Ethics Corporation will be transferred to Prime Foundation, and Prime Foundation will become their sole corporate member upon approval of the entities’ amended articles of incorporation and bylaws by Ministry and Daughters:
 - DCHS Medical Foundation will be converted from a nonprofit religious corporation into a nonprofit public benefit corporation;
 - Modification to the name of DCHS Medical Foundation in order to eliminate any reference to Daughters as listed in the defined retained assets; and
 - St. Vincent De Paul Ethics Corporation and the Philanthropic Foundations will remain nonprofit public benefit corporations.
- Prime will acquire substantially all of the assets, with the exception of the following retained assets:
 - 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.⁹;
 - Daughters of Charity of St. Vincent de Paul, Province of the West; and
 - Owner of the Meals on Wheels program.
- Prime will assume the liabilities relating to:
 - Pensions;
 - CBAs;
 - Accrued, but unpaid, paid-time off, vacation, sick, and other leaves of absence;
 - Taxes, including transfer taxes, and any unpaid real estate taxes;
 - Government payment program, including any overpayments;
 - Accounts payable;
 - Short-term and long-term debt;
 - Amounts due to government agencies;
 - Accrued liabilities;
 - Incurred, but not yet recorded, liabilities;
 - All of Daughters' paid time-off, retirement benefit plans, and any off-balance sheet pension liabilities, including those arising under:
 - Multiemployer Plans;
 - Defined Benefit Church Plan¹⁰;
 - Defined Contribution Church Plans¹¹, including the DCHS Medical Foundation Management Bargaining Unit 401(k) Plan, DCHS Medical Foundation 401(k) Plan, Seton CNA Money Purchase Plan, Kennedy Savings Plan, and Seton Coastside Annuity Plan; and
 - Any single-employer defined benefit plan to which the liabilities of Daughters under one or more of the Multiemployer Plans may be transferred as a result of the partition of one or more of the Multiemployer Plans.

⁹GRACE, Inc., is a ministry of Ministry Services of the Daughters of Charity of St. Vincent de Paul that provides outreach and social services for low-income families and their children.

¹⁰ A Defined Benefit Church Plan is a single employer non-electing church pension plan exempt from ERISA. The DCHS Retirement Plan, also referred to as the "Church Plan," covers the employees of St. Francis, St. Vincent Medical Center, O'Connor Hospital, Saint Louise Regional Hospital, and Daughters' system office.

¹¹ Defined Contribution Church Plans are fully funded available pension plans, in which plan assets are held in trust and invested as directed by individual participants among the investment options under the plans.

- Contracts, operating and capital leases, real estate leases, agreements, and commitments, including:
 - Physician services agreements;
 - CBAs; and
 - Any continuing legal obligation to bargain with unions, including any liabilities resulting from these negotiations.
 - Any professional liability claim or similar third-party litigation related to operation of Daughters and its related entities prior to the closing;
 - Any legal violation related to acts or omissions, prior to closing, related to the operation of Daughters and its related entities;
 - Marillac Insurance Company, Ltd.; and
 - Liabilities related to D&O Insurance and the Fiduciary Liability Insurance, including, but not limited to, deductibles, copays, and any other non-covered expense or financial obligation.
- Excluded liabilities include:
 - Those liabilities related to the retained assets.
 - At closing, Ministry will retain and control funds from Daughters' available cash in a separate deposit account (or Prime Inc. will deposit the necessary amount if the funds are insufficient), in the amount of \$11.5 million, less the amount of severance paid to Daughters' employees who cease employment under Prime Inc., and less the amount of severance pay that would have been owed to Daughters' corporate office employees who sign new employment agreements with Prime Inc.;
 - At closing, Prime Inc. shall deliver the cash purchase price amount to Daughters equaling the sum of the liabilities, including the following:
 - Total outstanding principal amount for the 2005 Bonds and 2014 Bonds¹²;
 - Accrued paid-time off of any employee who is terminated as of closing;
 - Outstanding amount of any distributions from the nonqualified retirement benefit plans are to be paid to those who are entitled to these benefits¹³;
 - Transfer taxes; and
 - Transaction costs upon closing¹⁴.
 - The total consideration amount estimated at \$843 million to be paid by Prime Inc. for the proposed transaction consists of:
 - Estimated cash consideration in the amount of \$394 million; and

¹² The outstanding principal amount of the 2005 Bonds and 2014 Bonds totals \$409,475,000, including an estimated total of \$284,475,000 for the 2005 Bonds and an estimated total of \$125,000,000 for the 2014 Bonds.

¹³ The nonqualified retirement benefit plans include: Daughters of Charity Health System 401(a)(17) Retirement Plan, estimated at \$2,600,611, and Daughters of Charity Health System 401(a)(17) Supplemental Retirement Plan Account, estimated at \$528,726.30.

¹⁴ Assumes no bankruptcy, no labor disruptions, and receipt of Quality Assurance Fees as projected.

- Assumption of liabilities estimated at \$449 million.
- Prime Inc. made the following commitments:
 - For at least five years following the closing, Prime Inc. will maintain charity care policies for the treatment of indigent patients at the Health Facilities similar to the policies currently in effect, or replace these with policies of either similar or greater benefit to the community;
 - Prime Inc. will maintain the Health Facilities as general acute care hospitals, with open emergency departments, subject to physician availability, needs of the community, and financial viability, for at least five years following the closing;
 - Prime Inc. will maintain the existing chapels and provide appropriately staffed and funded pastoral care services at the Health Facilities for a minimum of five years following the closing of the transaction;
 - Prime Inc. will provide \$150 million in capital expenditures at the Health Facilities over three years following the closing of the transaction;
 - Prior to closing, Prime Inc. shall make offers of employment, with comparable salaries, wages, job titles, and duties that were in effect prior to closing, to substantially all of the corporate office employees who remain in good standing and employed by Daughters as of the closing date, including the following:
 - All of Daughters' corporate office employees;
 - Executives of Daughters or employees holding executive positions;
 - Chief Executive Officers of the Health Facilities;
 - President and Chief Medical Officer of DCHS Medical Foundation; and
 - Senior Director of Caritas Business Services.
 - Prime Inc. shall continue employment, 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 Health Facilities, DCHS Medical Foundation, and Caritas Business Services; and
 - Unionized employees working under CBAs.
 - Prime Inc. agrees to adhere to the severance obligations written in the employment agreements, or in the absence of any such agreement, Prime Inc. shall adhere to Daughters' severance pay obligations for a period of twelve months following the closing date;
- Prime Inc. has made the following commitments regarding the pension liabilities:
 - Will amend the Defined Benefit Church Plan and the Defined Contribution Church Plans as necessary to satisfy the requirements of ERISA and the Internal Revenue Code;
 - Will assume responsibility for all of Daughters' liabilities under the Defined Benefit Church Plan and Defined Contribution Church Plans;
 - Will reasonably cooperate with Daughters to take necessary action to assume Daughters' obligations to the Multiemployer Plans, as required by the CBAs, for

- substantially the same number of contribution base units for which Daughters had an obligation to contribute immediately prior to closing;
- Will provide funding for the Multiemployer Plans under the requirements of ERISA and the Internal Revenue Code;
 - Will assume responsibility for Daughters' portion of the liabilities under the Multiemployer Plans; and
 - Will indemnify, defend, and hold harmless Ministry and Daughters from any liability resulting from failure, or alleged failure, by Daughters to satisfy an obligation to fund the Defined Benefit Church Plan or to contribute to any of the Multiemployer Plans.

In addition to the Definitive Agreement, Prime Inc. has entered into three Memoranda of Agreements with the California Nurses Association that provide additional protections to the nurses currently employed under existing CBAs with Daughters.

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. The 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, O'Connor Hospital, and Seton Medical Center.

During the 1980s, Daughters of Charity expanded to include Seton Medical Center Coastside (1980), the Hospital (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 Lynwood, St. Vincent Medical Center in Los Angeles, O'Connor Hospital in San Jose, Seton 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.



DCHS Medical Foundation

In 2011, the DCCHS 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 DCCHS 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. DCCHS Medical Foundation includes 144 full-time physicians as follows:

DCCHS MEDICAL FOUNDATION: FULL-TIME PHYSICIANS 2014				
Specialty	Physician Count by Market			Total
	St. Francis Medical Center / St. Vincent Medical Center	O'Connor Hospital / Saint Louise Regional Hospital	Seton Medical Center / Seton Medical Center Coastside	
Family Practice	5	32	1	38
Internal Medicine	3	15	1	19
Hospitalist	-	6	10	16
Acute Care	-	12	-	12
Obstetrics & Gynecology	2	7	-	9
Pediatrics	2	4	-	6
General Surgery	2	2	-	4
Ophthalmology	2	2	-	4
Orthopedic Surgery	3	1	-	4
Podiatry	1	3	-	4
Total Top 10 Specialties	20	84	12	116
Other	10	18	-	28
Total Physicians	30	102	12	144

Source: Daughters

* Excludes Independent Physician Associations

In 2013, DCCHS 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, DCCHS 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. DCCHS 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 has nearly 140 employees and 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 Friday 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 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 nearly 20% to approximately 48,000 discharges in FY 2014. While inpatient discharges decreased by 4.4% between FY 2013 and FY 2014, emergency services increased by 4.6% over the same period.

The following table provides inpatient volume trends for FY 2013 and FY 2014:

DAUGHTERS' TOTAL SERVICE VOLUMES: FY 2013 AND 2014														
	St. Francis Medical Center		St. Vincent Medical Center		O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Seton Medical Center Coastside		Daughters' Total	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014
Licensed Beds	384	384	366	366	358	358	93	93	357	357	121	121	1,679	1,679
Available Beds	382	382	366	366	281	282	93	93	307	294	121	121	1,550	1,538
Discharges	18,957	18,850	9,213	8,244	11,751	10,971	3,021	3,044	7,125	6,755	101	86	50,168	47,950
Patient Days	87,944	87,676	52,946	47,942	52,175	49,663	11,026	10,550	47,479	46,805	38,782	37,382	290,352	280,018
Average Daily Census	241	240	145	131	143	136	30	29	130	128	106	102	795	767
Acute Licensed Beds	314	314	320	320	334	334	72	72	274	274	5	5	1,319	1,319
Acute Available Beds	312	312	253	252	257	258	72	72	224	250	5	5	1,123	1,150
Acute Discharges	16,738	16,329	8,156	7,223	11,725	10,947	3,021	3,044	7,080	6,717	-	-	46,720	44,260
Acute Patient Days	70,073	69,665	38,869	34,634	44,952	41,747	11,026	10,550	33,687	33,039	-	-	198,607	189,635
Acute Average Length of Stay	4.2	4.3	4.8	4.8	3.8	3.8	3.7	3.5	4.8	4.9	-	-	4.3	4.3

Source: Daughters, 2013 Audited & 2014 Unaudited Internal Financials

(1) These figures provided by Daughters differ slightly from OSHFD data reported in subsequent tables, which is cited in the source

Financial Profile

Statement of Operations

DAUGHTERS' STATEMENT OF OPERATIONS: FY 2014 (thousands)												
	St. Francis Medical Center		St. Vincent Medical Center		O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Daughters' Total (including all other entities)	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014
Net Patient Service Revenue	\$440,397	\$310,816	\$191,904	\$178,544	\$308,334	\$260,822	\$93,517	\$83,636	\$257,931	\$233,921	\$1,352,711	\$1,136,719
Provision and Write-Off of Doubtful Accounts	(\$68,275)	(\$12,128)	(\$1,177)	(\$5,530)	(\$23,897)	\$11,612	(\$15,144)	(\$3,399)	(\$12,732)	(\$10,218)	(\$121,836)	(\$43,282)
Premium Revenue	\$33,019	\$40,211	\$8,593	\$10,176	-	-	-	-	-	-	\$65,489	\$83,298
Other Revenue	\$7,523	\$3,726	\$5,746	\$15,499	\$9,131	\$1,551	\$779	\$2,518	\$6,241	\$18,477	\$29,433	\$60,619
Contributions	\$4,146	\$5,618	\$1,774	\$1,889	\$1,582	\$1,459	\$883	\$977	\$593	\$569	\$16,723	\$157,695
Total Unrestricted Revenues & Other Support	\$416,810	\$348,243	\$206,840	\$200,578	\$295,150	\$272,220	\$80,035	\$83,732	\$252,033	\$242,752	\$1,342,520	\$1,395,049
Salaries and Benefits	\$190,873	\$196,608	\$100,488	\$102,314	\$188,899	\$189,846	\$52,270	\$57,514	\$159,549	\$153,681	\$783,586	\$805,077
Supplies	\$30,277	\$32,650	\$46,151	\$42,855	\$40,593	\$43,301	\$7,351	\$7,763	\$36,258	\$35,819	\$170,261	\$172,346
Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Services & Other	\$134,659	\$116,359	\$81,531	\$71,596	\$71,213	\$65,807	\$22,875	\$21,050	\$69,289	\$58,137	\$393,616	\$348,086
Depreciation	\$17,796	\$19,739	\$9,882	\$12,443	\$14,383	\$12,762	\$4,338	\$5,903	\$10,428	\$10,392	\$60,439	\$65,786
Net Interest	\$7,026	\$5,158	\$4,894	\$3,379	\$5,060	\$3,504	\$2,771	\$1,985	\$5,840	\$3,725	\$25,336	\$19,355
Total Expenses	\$380,631	\$370,514	\$242,946	\$232,587	\$320,148	\$315,220	\$94,605	\$94,215	\$381,364	\$261,754	\$1,433,238	\$1,410,650
Operating Income	\$36,179	(\$22,271)	(\$36,106)	(\$32,009)	(\$24,998)	(\$43,000)	(\$14,570)	(\$10,483)	(\$29,331)	(\$19,002)	(\$90,718)	(\$15,601)
Investment Income	\$8,394	\$6,676	\$994	\$674	\$2,210	\$271	\$49	\$35	\$1,028	\$52	\$16,252	\$16,315
Excess (Deficit) of Revenues Over Expenses	\$44,573	(\$15,595)	(\$35,112)	(\$31,335)	(\$22,788)	(\$42,729)	(\$14,521)	(\$10,448)	(\$28,303)	(\$18,950)	(\$74,466)	\$714

Source: Daughters, 2013 Audited & 2014 Internal Unaudited Financials

Daughters' internal unaudited statement of operations for FY 2014 displays the individual performance of the Health Facilities in conjunction with Daughters' system-wide performance. The individual Health Facilities show operating losses, as well as deficits of revenue over expenses. On a system-wide basis, Daughters also reports an operating loss, though this is offset by income from investment activities (unadjusted for a substantial non-recurring item related to the favorable treatment in redeeming the 2008 Bonds).

Net Patient Service Revenue

Net patient service revenue (less provision for bad debts) of \$1.1 billion represents a net decrease of \$137.4 million (11.2%) as compared to FY 2013. Net patient service revenue during FY 2014 included \$45.1 million in revenue from DCHS Medical Foundation, as compared to \$33.4 million for FY 2013. Additionally, net patient service revenue for FY 2014 was also impacted by a decrease of \$119.9 million in Hospital Qualified Assurance Fee Program¹⁵ revenue.

Operating Expenses

Total operating expenses of \$1.410 billion for FY 2014 represent a decrease of 1.6% from FY 2013. A portion of the net decrease may be attributed to the inclusion of \$111.1 million in operating expenses from DCHS Medical Foundation, as compared to \$75.7 million during FY 2013, as well as a decrease of \$64.2 million in Hospital Qualified Assurance Fee Program expenses. Daughters' salaries and benefits amounted to nearly 70% 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

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.

Historic Comparison

The table below displays adjusted operating/net income figures for FY 2014, as well as similar figures for FY 2011- FY 2013. Over the past several years, Daughters' operating losses have significantly increased due to changes in declining reimbursement, declining volume, and increasing salary costs. Between FY 2010 to FY 2014, Daughters reported an operating loss of between \$49.4 million in 2010 to over \$146.3 million in 2014.

In addition, Daughters' days cash on hand has significantly declined due to pressure from the operating losses. Days cash on hand measures the period of time in which the organization is able to meet cash requirements in the absence of outside funding. 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. Based on internal financial projections, Daughters expects to run out of cash by the third quarter of FY 2015 (January-March) without any financial intervention. The following table reports additional trends in operating income, net income, labor costs, and liquidity from 2010 through 2014:

¹⁵ 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.

DAUGHTERS' FINANCIAL TRENDS: FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Income ¹ (millions)	(49.4)	(44.6)	(61.0)	(90.7)	(146.3)
Net Income (millions)	(18.8)	(4.1)	(59.5)	(74.5)	(130.0)
Labor Costs as a % of Net Patient Service Revenues	65.3%	59.2%	61.9%	63.7%	73.6%
Days Cash on Hand	93	87	70	50	31

Source: Daughters, 2014 Unaudited

(1) 2014 operating income excludes the favorable accounting treatment of the 2008 bond redemption

- Due to a \$54 million net provider fees benefit, the operating income improved slightly in FY 2011, before declining in 2012, 2013, and 2014;
- Labor costs as a percentage of net patient service revenues have continued to increase to nearly 74% in 2014 (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 2013 and FY 2014, total cash and marketable securities decreased by \$82.8 million (31% decrease), and total unrestricted cash and marketable securities decreased by \$74.6 million (40% decrease). Over the same time period, unrestricted days cash on hand decreased by 38%, from 50 days in FY 2013 to over 31 days in FY 2014. Daughters' mounting declines in days cash on hand is one indicator of liquidity challenges.

The following table reports the summary of Daughters' outstanding obligations as of FY 2014:

DAUGHTERS' SUMMARY OF OUTSTANDING OBLIGATIONS: FY 2014	
Obligation	Amount (millions)
Total Trade, Employee, and Other Obligations	\$185
2005 Bonds	\$290
Other Long-Term Debt	\$6
Total Short- and Long-Term Debt	\$481
Total Unfunded Retirement Plan Liabilities	\$278
Total Short-Term and Long-Term Obligations	\$759

Source: Daughters, Unaudited Financials, 2014

(1) Excludes the \$125 million 2014 Bonds

In order to address the liquidity shortage and outstanding obligations, Daughters of Charity Foundation¹⁶ 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 matures on July 10, 2015 and is dependent upon ensuring that the sale of all Daughters' assets is completed in a timely manner.

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 issuer's 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;
- 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 receipts¹⁷ to help offset operating losses; and

¹⁶ 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.

¹⁷ 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.

- 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 the system would continue its operational difficulties on a stand-alone basis without outside intervention. Also there is the concern of continued operating pressures and the view that the balance sheet offers a "very limited cushion" to absorb continued losses.

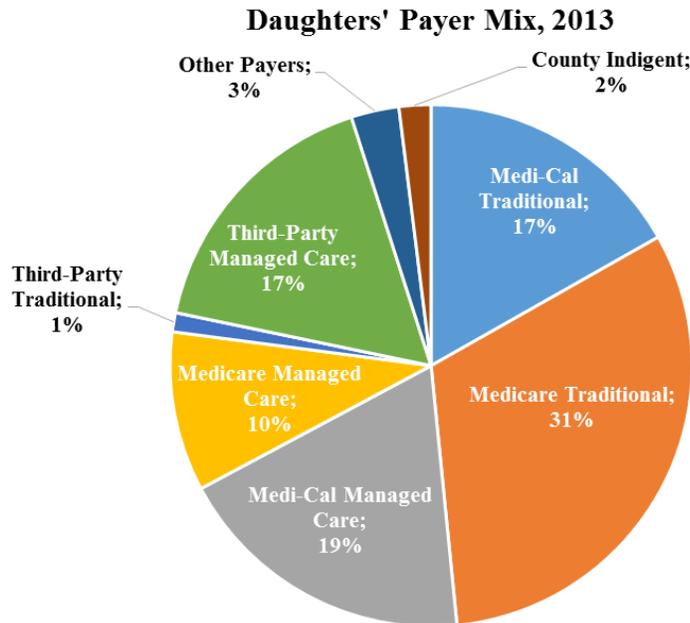
Financial Distress and Divestiture Plans

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, 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 a financial advisor. Its directive was to guide Daughters' Board in entertaining solutions and to include staffing in the contract. An offering process was undertaken for the sale of Daughters' assets and liabilities.

Daughters' Payer Mix

In 2013, approximately 31% of Daughters' inpatient payer mix consisted of Medicare Traditional, 19% consisted of Medi-Cal Managed Care, 17% consisted of Medi-Cal Traditional, and 17% consisted of Third-Party Managed Care. The remaining 16% of Daughters' inpatient discharges consisted of Medicare Managed Care (10%), Other Payers* (3%), County Indigent (2%), and Third-Party Traditional (1%) payers.



Total Discharges: 47,950

* "Other" includes self-pay, workers' compensation, other government, and other payers
Source: OSHPD Financial Disclosure Report, FY 2013 (based on inpatient discharges)

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 over 2,800 employees at the Health Facilities for the period of May 1, 2012 through April 30, 2015. In addition, each of the Health Facilities has CBAs with other unions, including California Nurses Association, California Licensed Vocational Nurses Association, United Nurses Associations of California/Union of Health Care Professionals, International Union of Operating Engineers, Local 39, and Engineering Scientists of California, Local 20. In 2013, Daughters reported approximately 7,650 employees, with nearly 74% covered under CBAs.

UNION PARTICIPATION AMONG DAUGHTERS EMPLOYEES						
Union	St. Francis Medical Center	St. Vincent Medical Center	O Connor Hospital	Saint Louise Regional Hospital	Seton Medical Center & Seton Medical Center Coastside	Total
Service Employees International Union, Local 250	543	419	496	274	703	2,435
Service Employees International Union, Local 250 Technical	286	-	137	-	-	423
California Nurses Association	-	364	750	269	475	1858
California Licensed Vocational Nurses Association	-	-	27	8	-	35
International Union of Operating Engineers, Local 39	-	-	17	11	22	50
United Nurses Association of California	762	-	-	-	-	762
Engineering Scientists of California, Local 20	-	-	41	17	33	91
Total	1,591	783	1,468	579	1,233	5,654

Source: Daughters

PROFILE OF ST. FRANCIS MEDICAL CENTER

PROFILE OF ST. FRANCIS MEDICAL CENTER

St. Francis

The Hospital was established in 1945 and gained sponsorship from Daughters of Charity, Province of the West, in 1981. The Hospital, a 384-bed general acute care facility, provides comprehensive healthcare services and operates one of the busiest emergency trauma centers in Los Angeles County. The Hospital serves 1.2 million residents of Southeast Los Angeles, located in the communities of Lynwood, South Gate, Downey, Huntington Park, Bell Gardens, Maywood, and Compton.

As a provider of healthcare services for many Medi-Cal and uninsured patients, the Hospital receives significant Disproportionate Share Hospital funding. Approximately 76% of the Hospital's reimbursements for services are derived from Medi-Cal, Medicare, and Los Angeles County.

St. Francis Foundation

St. Francis is the sole corporate member of St. Francis Foundation. St. Francis Foundation was incorporated in 1983 as a nonprofit public benefit corporation and is governed by a volunteer 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. St. Francis Foundation raises funds through grants, special events, and individual donors. In FY 2014, St. Francis Foundation received substantial grants in excess of \$250,000 from each of the following:

- UniHealth Foundation, in the amount of \$1,201,738, to fund a pilot project for the Patient Protection and Affordable Care Act (ACA);
- First 5 LA, in the amount of \$2,352,704, to fund the Hospital's Welcome Baby Program;
- Los Angeles County Department of Public Health, in the amount of \$1,885,000, to fund the two initiatives of the Vida Sana program;
- Los Angeles County Department of Health Services, in the amount of \$294,108, to support four community clinics' non-reimbursable indigent care costs; and
- Daughters of Charity Foundation, in the amount of \$1,764,584, to fund the Health Benefits Resource Center, non-reimbursable indigent care costs, and the Vida Sana program.

Overview of the Hospital

St. Francis operates a 384 licensed bed, general acute care hospital located at 3630 East Imperial Highway in Lynwood, California.

BED DISTRIBUTION 2014	
Bed Type	Number of Beds
General Acute Care	164
Intensive Care	36
Neonatal Intensive Care	29
Pediatric	14
Perinatal	71
Total General Acute Care Beds	314
Acute Psychiatric (D/P)	40
Skilled Nursing (D/P)	30
Total Licensed Beds	384

Source: Hospital License 2014

The Hospital has a “basic” emergency department¹⁸ with 46 licensed emergency treatment stations and a Level II Trauma Center. It also has nine surgical operating rooms and three cardiac catheterization labs for inpatient and outpatient cardiac catheterization services.

Key Statistics

KEY STATISTICS: FY 2011 - 2013			
	2011	2012	2013
Inpatient Discharges	19,855	19,383	18,957
Licensed Beds	384	384	384
Patient Days	102,259	97,682	87,944
Average Daily Census	279	267	240
Occupancy	73.0%	69.5%	62.7%
Average Length of Stay	5.2	5.0	4.6
Emergency Services Visits ¹	60,324	64,624	68,323
Cardiac Catheterization Procedures ¹	710	651	629
Coronary Artery Bypass Graft (CABG) Surgeries ¹	47	34	29
Total Live Births	5,786	5,186	5,186

Physicians on Medical Staff	376
Hospital Employees (Full-Time Equivalents)	1,675

Sources: OSHPD Disclosure Reports, 2011-2013 & Daughters

¹OSHPD Alirts' Annual Utilization Reports

¹⁸ 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.

- In FY 2013, the Hospital had 18,957 total inpatient discharges, 87,944 patient days, and an average daily census of 240 patients (62.7% occupancy);
- Inpatient discharges and patient days have both declined by approximately 5% and 14%, respectively;
- In FY 2013, the Hospital had nearly 70,000 emergency department visits and more than 5,000 deliveries; and
- In FY 2013, the Hospital performed over 600 diagnostic cardiac catheterization procedures.

Programs and Services

The Hospital offers a comprehensive range of services, including emergency and trauma care, neonatal intensive, cardiovascular, oncology, pediatrics, behavioral health, and maternity and child services.

- Cardiac services include: The Heart Center provides inpatient non-invasive and minimally invasive surgical techniques, diagnostic and interventional catheterizations, angioplasty, open heart surgery, drug-eluting stent implantation, and pacemaker monitoring at the Pacemaker Clinic. The Heart Center is a designated STEMI Receiving Center and includes three digital interventional labs, two surgical suites for open heart surgery, critical care, and telemetry units;
- Behavioral health services include: A licensed 40-bed acute psychiatric unit that provides inpatient stabilization and outpatient treatments. The Hospital has a Psychiatric Evaluation Team that has 5150¹⁹ authority and conducts mobile crisis evaluation services for patients who are experiencing, or are at risk of experiencing, a psychotic episode;
- Cancer services include: Radiation oncology, inpatient chemotherapy, and intensity modulated radiation therapy, an advanced technique to provide cancer treatment for stomach, lung, prostate, and other cancers;
- Imaging services include: Mammography, CT, MRI, ultrasound, X-ray, nuclear medicine, and radiation therapy. The Hospital's imaging services are accredited by the American College of Radiology;
- Emergency and trauma services include: An Emergency Department with 46 treatment stations, Fast Track services, a Rapid Medical Evaluation area, heliport, and a Level II Trauma Center. The Hospital's Emergency Department is one of the busiest emergency trauma centers in Los Angeles County and has the following designations:

¹⁹ Welfare and Institutions Code, Section 5150: When a person, as a result of a mental health disorder, is a danger to oneself or others, a peace officer, professional person, or member of the staff at a designated 5150 Receiving Center may, upon probable cause, hold the person at the 5150 facility for evaluation and treatment over a 72-hour period.

- Designated Level II Trauma Center that has been verified by the American College of Surgeons, meeting the essential criteria by providing the necessary resources and scope of specialty physician services in order to provide comprehensive trauma coverage;
 - Certified Primary Stroke Center;
 - Designated Emergency Department Approved for Pediatrics that is able to provide emergency pediatric medicine services;
 - Designation as a 5150 Receiving Facility for behavioral health patients under involuntary evaluation; and
 - Designated Paramedic Base Station.
- Women’s health services include: Obstetrics and maternity, neonatal intensive care unit services, oncology, and cardiovascular services.
 - Family Life Center provides: Maternal-child health services with approximately 5,000 births per year. The center is certified as a California Children’s Services provider, offering healthcare and services for children up to the age of 21-years-old with certain diseases or health problems. The Hospital is designated as a “Welcome Baby” facility and has recently achieved designation as a “Baby Friendly Hospital”; and
 - Women’s Imaging Center provides: 3D and screening mammography, ultrasound, and bone density scanning.
- Intensive care/critical care services include: A 36-bed unit that is a combined intensive medical, surgical, and cardiac care unit composed of three separate 12 bed “pods” that provide management of critically ill patients, including cardioversion/defibrillation, intubation, mechanical ventilation, and oxygen administration;
- Telemetry services include: A 36-bed unit that provides care for patients in need of continuous cardiac monitoring. The unit is available and staffed 24 hours per day;
- Rehabilitation services include: Physical therapy, occupational therapy, and speech therapy provided for inpatient, outpatient, and skilled nursing unit patients. Patients and families receive fall prevention, energy conservation, home safety, and joint protection education;
- Industrial & occupational services include: A comprehensive program that provides injury care, physical rehabilitation, and work site evaluations;
- Skilled nursing services include: A 30-bed unit that provides skilled nursing care to an adult and geriatric patient population. The skilled nursing unit offers basic nursing care, oxygen administration, medication and fluid administration, tube feedings, physical therapy, social work services, and patient/family education;

- Pediatric Services include: A 14-bed unit that provides general acute care pediatric services. Approximately one third of the Hospital's Emergency Department visits are pediatric patients;
- Surgical Services include: General, trauma, cardiac, thoracic, neurological, orthopedic, ophthalmologic, otolaryngologic, and vascular surgical services. The trauma and cardiac surgery team is available 24-hours a day; and
- Wound Care Services include: Inpatient services and an outpatient clinic that provides treatment for patients with chronic, non-healing wounds.

In addition to the inpatient programs and services, the Hospital also offers various outpatient services, including ambulatory surgical services, laboratory services, imaging services, infusion therapy, nuclear medicine services, respiratory therapy, and physical therapy. Other outpatient services are provided at the following California Health and Safety Code section 1206(d)²⁰ clinics:

- Orthopedics Clinic provides: Total joint replacement, including hip and knee replacement surgery;
- Wound Care Clinic offers: Surgical intervention, vascular testing, hyperbaric oxygen therapy, and wound prevention education;
- Industrial Clinic provides: A comprehensive program for industrial injury care, physical rehabilitation, and work site evaluations;
- Compton Clinic provides: Pediatric and family practice services, as well as community benefit services (South Los Angeles Access to Care);
- Lynwood Clinic provides: Pediatric and family practice services, including immunizations and treatment for chronic and episodic adult and pediatric illnesses;
- Downey Clinic provides: Pediatric and family practice services, including immunizations and treatment for chronic and episodic adult and pediatric illnesses; and
- Huntington Park Clinic provides: Pediatric and family practice services, including immunizations and treatment for chronic and episodic adult and pediatric illnesses.

²⁰ A section 1206(d) clinic is exempt from licensure if it is conducted, operated, or maintained as an outpatient department of a hospital.

Accreditations, Certifications, and Awards

The Hospital is accredited by The Joint Commission, effective November 10, 2012 through November 10, 2015. In recent years, the Hospital has received several accolades and achievements as a leading hospital in Southern California, including:

- Designated by Los Angeles Emergency Medical Services as a Level II Trauma Center;
- Designated by the Joint Commission as a Primary Stroke Center, effective July 2014 through July 2015;
- Named by Thomson Reuters as a Top 50 U.S. Cardiovascular Hospital in 2012;
- Received Healthcare Leadership Award – Hospital Finalist in 2013 by Los Angeles Business Journal.
- Awarded High Performing Hospital in Ear, Nose & Throat, Nephrology, and Urology in 2012 by U.S. News and World Report.

Quality Measures

The Hospital Value-Based Purchasing Program, established by the 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 the following three sets of measures: timely and effective care, surveys of patient experience, and 30-day mortality rates for heart attack, heart failure, and pneumonia patients. For FY 2013 and 2014, the Centers for Medicare & Medicaid Services reduced Medicare payments to the Hospital by 0.29% and 0.18%, respectively.

The following table reports the Hospital's measures of evidence-based care²¹, patient satisfaction, patient willingness to recommend the hospital, and 30-day mortality rates for heart attack, heart failure, pneumonia, and surgical care patients in comparison to the national average for FY 2014:

²¹ Applying the current best data-driven clinical expertise and research evidence when making decisions about the care of an individual patient.

QUALITY SCORES COMPARISON: FY 2014				
Domain	Measure	Hospital	National Average	California Average
Clinical Process of Care Domain	Evidence-Based Care	95.4%	98.3%	98.1%
Patient Experience of Care Domain	% of Patients Highly Satisfied with Hospital	69.0%	71.0%	68.0%
	% of Patients Willing to Recommend the Hospital to Others	66.0%	71.0%	70.0%
Outcome Domain	30-Day Mortality Rate for Heart Attack, Heart Failure, Pneumonia, and Surgical Care Patients	9.8%	12.3%	12.0%

Source: Daughters

- For measures of evidence-based care, the Hospital scored below the national average (95.4% and 98.3%, respectively);
- For FY 2014, 69% of the Hospital’s patients reported being highly satisfied with the Hospital, compared to 71% nationwide. Also, 66% of the Hospital’s surveyed patients would recommend the Hospital to others, compared to 71% nationwide; and
- Within 30 days following treatment for pneumonia, heart attack, or surgical care, fewer of the Hospital’s patients died (9.8%) compared to the national average of 12.3%.

The Hospital Readmissions Reduction Program, implemented in 2012, penalizes hospitals for high patient readmissions within 30 days of discharge. Hospital readmissions following treatment for heart attack, heart failure, and pneumonia are considered to be indicative of poor quality. In FY 2015, 223 California hospitals will be penalized by reducing federal reimbursement 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, the Hospital was not penalized. However, in FY 2014, the Hospital was penalized by a 0.01% reduction in reimbursement. The following graph shows the Hospital’s combined 30-day readmission rate for heart attack, heart failure, pneumonia, and surgical patients for FY 2014:

30-DAY READMISSION RATES: FY 2014		
Hospital	National Average	California Average
19.4%	19.9%	19.9%

Source: Daughters

- The Hospital had fewer 30-day readmissions (19.4%) than the national average of 19.9%, and therefore, it will not be penalized in FY 2015.

Seismic Issues

Under the HAZUS seismic criteria²², 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). The classifications given to the Hospital's structures specify the need for construction in order to comply with the California Office of Statewide Health Planning and Development's seismic safety standards.

Four of the Hospital's buildings require approximately \$3.4 million in fire sprinkler bracing renovations to comply with current seismic standards beyond 2030.

SEISMIC OVERVIEW OF THE HOSPITAL		
Building	SPC Compliance Status	NPC Compliance Status
1) Family Life Center	SPC-5	NPC-2
2) Health Services Pavilion	SPC-3	NPC-2
3) Central Plant	SPC-4	NPC-2
4) Hospital Tower	SPC-5	NPC-2

Source: Daughters & OSHPD

²² OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

Utilization Trends

The following table shows inpatient volume trends at the Hospital for FY 2009 through FY 2013.

SERVICE VOLUMES: FY 2009-2013					
PATIENT DAYS	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Medical/Surgical	44,219	43,719	44,253	44,966	39,186
Neonatal Intensive Care	14,055	10,023	9,828	8,249	7,933
Intensive Care	12,273	10,276	10,437	10,269	9,820
Pediatric Acute	2,898	2,739	2,317	2,057	1,878
Psychiatric Acute	10,742	10,405	12,309	11,497	11,056
Obstetrics	17,436	15,718	15,048	13,103	11,256
Skilled Nursing	8,277	7,675	8,067	7,541	6,815
Total	109,900	100,555	102,259	97,682	87,944
DISCHARGES					
Medical/Surgical	10,335	9,743	9,435	9,631	9,495
Neonatal Intensive Care	715	693	586	564	517
Intensive Care	834	791	723	766	806
Pediatric Acute	949	901	746	708	691
Psychiatric Acute	1,545	1,526	1,805	1,763	1,831
Obstetrics	7,271	6,486	6,140	5,569	5,229
Skilled Nursing	392	372	420	382	388
Total	22,041	20,512	19,855	19,383	18,957
AVERAGE LENGTH OF STAY					
Medical/Surgical	4.3	4.5	4.7	4.7	4.1
Neonatal Intensive Care	19.7	14.5	16.8	14.6	15.3
Intensive Care	14.7	13.0	14.4	13.4	12.2
Pediatric Acute	3.1	3.0	3.1	2.9	2.7
Psychiatric Acute	7.0	6.8	6.8	6.5	6.0
Obstetrics	2.4	2.4	2.5	2.4	2.2
Skilled Nursing	21.1	20.6	19.2	19.7	17.6
Total	5.0	4.9	5.2	5.0	4.6
AVERAGE DAILY CENSUS					
Medical/Surgical	121	120	121	123	107
Neonatal Intensive Care	39	27	27	23	22
Intensive Care	34	28	29	28	27
Pediatric Acute	8	8	6	6	5
Psychiatric Acute	29	29	34	31	30
Obstetrics	48	43	41	36	31
Skilled Nursing	23	21	22	21	19
Total	301	275	280	268	241
OTHER SERVICES					
Inpatient Surgeries	3,283	3,113	3,165	3,059	3,047
Outpatient Surgeries	5,410	7,089	6,581	10,250	9,430
Emergency Visits ²	68,367	59,402	60,324	64,624	68,323
Cardiac Catheterization Procedures ¹	219	958	710	651	629
Obstetric Deliveries	6,949	6,144	5,786	5,186	5,186

Sources: OSHPD Disclosure Reports, 2009-2013

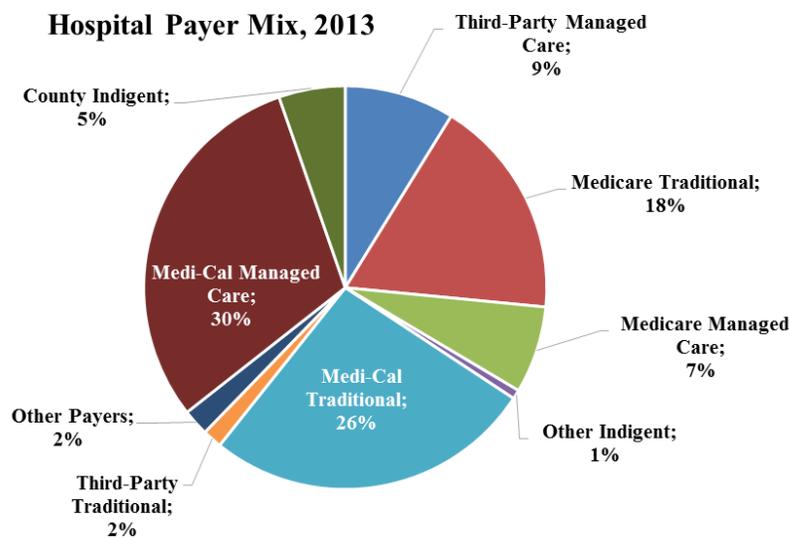
¹OSHPD Alerts Annual Utilization Reports

A review of the historical utilization trends at St. Francis between FY 2009 and FY 2013 supports the following conclusions:

- Total patient days decreased by approximately 20% from 109,900 in 2009 to 87,944 in 2013;
- Inpatient discharges decreased 5% from 19,855 in 2011 to 18,957 in 2013;
- The average daily census decreased from 301 to 241 patients per day;
- The overall average length of stay decreased from 5.2 days in 2011 to 4.6 days in 2013;
- Inpatient surgeries decreased by 4% from 5,855 in 2011 to 4,977 in 2013, while outpatient surgeries increased by approximately 43% over the same timeframe; and
- Obstetric deliveries decreased from nearly 7,000 deliveries in 2009 to 5,186 deliveries in 2013 (25% decrease).

Payer Mix

In 2013, approximately 57% of the Hospital’s inpatient payer mix consisted of Medi-Cal Managed Care (30%) and Medi-Cal Traditional (27%) patients. In 2013, approximately 25% of the Hospital’s inpatient payer mix consisted of Medicare Traditional (18%) and Medicare Managed Care (7%). The remaining 18% of the Hospital’s inpatient discharges consisted of Third-Party Managed Care (9%), Third-Party Traditional (2%), Indigent (5%), and Other Payers* (2%).



Total Discharges: 18,957

* “Other” includes self-pay, workers’ compensation, other government, and other payers
 Source: OSHPD Financial Disclosure Report, FY 2013 (based on inpatient discharges)

The following table illustrates the Hospital's inpatient discharge payer mix compared to Los Angeles County and California for FY 2013. The comparison shows that the Hospital has much higher percentages of Medi-Cal Managed Care and Medi-Cal Traditional patients and lower percentages of Medicare Traditional, Medicare Managed Care, and Third-Party Managed Care and Third-Party Traditional patients relative to other hospitals in Los Angeles County and statewide.

PAYER MIX COMPARISON						
	Hospital (2013)		Los Angeles County (2013)		California (2013)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	5,017	26.5%	157,005	17.4%	444,932	15.0%
Medi-Cal Managed Care	5,739	30.3%	117,838	13.1%	354,720	12.0%
Medi-Cal Total	10,756	56.7%	274,843	30.5%	799,652	27.0%
Medicare Traditional	3,358	17.7%	252,268	28.0%	863,909	29.1%
Medicare Managed Care	1,325	7.0%	81,638	9.1%	265,857	9.0%
Medicare Total	4,683	24.7%	333,906	37.1%	1,129,766	38.1%
Third-Party Managed Care	1,672	8.8%	183,670	20.4%	657,290	22.2%
Third-Party Managed Care Total	1,672	8.8%	183,670	20.4%	657,290	22.2%
Third-Party Traditional	295	1.6%	33,081	3.7%	127,396	4.3%
Other Payers	401	2.1%	30,928	3.4%	87,399	2.9%
Other Indigent	139	0.7%	11,480	1.3%	50,699	1.7%
County Indigent	1,011	5.3%	33,290	3.7%	113,812	3.8%
Other Total	1,846	9.7%	108,779	12.1%	379,306	12.8%
Total	18,957	100%	901,198	100%	2,966,014	100%

Source: OSHPD Disclosure Reports, 2013

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Approximately 6.6 million Medi-Cal beneficiaries in all 58 counties in California receive their healthcare through six models of managed care, including: County Organized Health Systems, the Two-Plan Model, Geographic Managed Care, the Regional Model, the Imperial Model, and the San Benito Model.

Los Angeles County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a “Local Initiative” and a “commercial plan.” In 2013, Los Angeles County had approximately 275,000 inpatient discharges from patients with either Medi-Cal Traditional (57%) or Medi-Cal Managed Care coverage (43%). The percentage of Los Angeles County residents with Medi-Cal Managed Care coverage will increase drastically as a result of the ACA and state initiatives to expand managed care.

L.A. Care Health Plan is the Local Initiative plan for Los Angeles County. Medi-Cal beneficiaries can choose L.A. Care Health Plan or one of the contracting partners that include Blue Cross of California, Care 1st, Community Health Plan, and Kaiser Permanente.

The second Medi-Cal plan in Los Angeles County is a private commercial plan provided by Health Net Community Solutions, Inc., in partnership with Molina Healthcare. Currently, the

Hospital is contracted with both the Local Initiative and commercial Medi-Cal managed care plans.

Medical Staff

The Hospital has 376 physicians on the medical staff representing various specialties. Of the Hospital’s physicians, 257 are considered “active” (representing approximately 68% of the medical staff). Pediatrics, internal medicine, and obstetrics/gynecology are the three largest specialties, comprising 27% of the active physicians. The 119 “non-active” physicians of the Hospital include administrative, provisional, courtesy, temporary, and other medical staff.

The Hospital has relationships with various Independent Physician Associations including AppleCare Medical Group, Omnicare Medical Group, Health Care LA IPA, Angeles IPA, and AltaMed.

MEDICAL STAFF PROFILE 2014		
Specialty	Count	% of Active
Active Physicians		
Pediatrics	24	9%
Internal Medicine	23	9%
Obstetrics/Gynecology	23	9%
Nephrology	17	7%
Family Practice	16	6%
Emergency Medicine	14	5%
General Surgery	13	5%
Anesthesiology	11	4%
Cardiology	11	4%
Orthopedic Surgery	8	3%
Other	97	38%
Total Active	257	100%
Non-Active	119	
Total Physicians	376	

Source: Daughters

Unionized Employees

The Hospital has 543 employees represented by Service Employees International Union, Local 250 and 286 employees represented by Service Employees International Union, Local 250 Technical. The Daughters’ system-wide CBA with Service Employees International Union, United Healthcare Workers West, for the period of May 1, 2012 through April 30, 2015, covers employees that are members of technical, service, and maintenance bargaining units at the Health Facilities.

The Hospital also has a CBA with United Nurses Associations of California/Union of Health Care Professionals for the period of September 8, 2011 through September 30, 2014. This agreement covers 762 Registered Nurses that are involved in direct patient care.

In total, approximately 75% of the Hospital’s employees are covered by CBAs.

EMPLOYEE UNION PARTICIPATION		
Employee Category	Total Count*	Full-Time Equivalents
Union		
United Nurses Association of California	762	598
Service Employees International Union, Local 250	543	421
Service Employees International Union, Local 250 Technical	286	197
Total Union	1,591	1,216
Non-Union		
Manager	44	44
Director	36	36
Supervisor	37	33
Administration	7	7
Other	408	339
Total Non-Union	532	459
Total Employees	2,123	1,675

Source: Daughters

* Includes full-time and part-time employees

Financial Profile

Over the past five years, the financial state of the Hospital has fluctuated substantially, reporting a net loss of approximately \$10.4 million in FY 2009 and a net gain of approximately \$44.6 million in 2013. Between FY 2009 and FY 2013, the Hospital's net patient revenue increased by nearly 40%, while reporting nearly \$39.5 million in non-operating revenue²³ over the same period. However, total operating expenses have increased from \$294 million in FY 2009 to \$378 million in FY 2013. The increase in net patient revenue has not been significant enough to offset the increase in expenses.

The Hospital's ratio of current assets to current liabilities has fluctuated over the last five years with a high of 1.47 in FY 2011 and a low of 0.96 in FY 2012 (the California average in 2013 was 1.76). This ratio measures the ability of an entity to cover short term debt obligations with short-term assets. A lower figure may indicate reduced ability to cover immediate obligations. The Hospital's percentage of bad debt was approximately 0.9% in FY 2013, which is lower than the statewide average of 1.7% in 2013.

²³ 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.

FINANCIAL AND RATIO ANALYSIS: FY 2009-2013					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Patient Days	109,900	100,555	102,259	97,682	87,944
Discharges	22,041	20,512	19,855	19,383	18,957
ALOS	5.0	4.9	5.2	5.0	4.6
Net Patient Revenue	\$289,678,448	\$290,727,637	\$383,148,390	\$371,143,436	\$404,819,633
Other Operating Revenue	\$7,364,650	\$6,198,700	\$5,412,734	\$4,279,291	\$2,456,176
Total Operating Revenues	\$297,043,098	\$296,926,337	\$388,561,124	\$375,422,727	\$407,275,809
Operating Expense	\$294,466,303	\$302,794,734	\$355,925,881	\$363,455,627	\$378,087,533
Net from Operations	\$2,576,795	(\$5,868,397)	\$32,636,243	\$11,967,100	\$29,188,276
Net Non-Operating Revenue	(\$12,928,999)	\$14,354,499	\$17,301,430	\$5,431,025	\$15,385,860
Net Income	(\$10,352,204)	\$8,486,102	\$49,937,673	\$17,398,125	\$44,574,136
California Average 2013					
Current Ratio	1.76	1.33	1.15	1.47	0.96
Days in A/R	59.9	71.7	67.0	39.0	48.5
Bad Debt Rate	1.7%	0.7%	0.8%	0.7%	1.7%
Operating Margin	2.64%	0.87%	-1.98%	8.40%	3.19%

Source: OSHPD Disclosure Reports, 2009-2013

Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In FY 2013, approximately 45.8% of the Hospital's total costs were associated with Medi-Cal and 28.5% with Medicare. Approximately 8.7% and 9.5% of the total costs were associated with Third-Party payers and other payers, respectively. The remaining 7.5% of total costs were associated with indigent patients.

COST OF SERVICES BY PAYER CATEGORY 2009-2013					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Operating Expenses	\$294,466,303	\$302,794,734	\$355,924,881	\$363,455,627	\$378,087,533
Cost of Services By Payer:					
Medicare	\$54,548,752	\$119,434,098	\$100,520,621	\$146,020,749	\$107,758,578
Medi-Cal	\$148,329,405	\$67,245,675	\$209,230,203	\$80,114,546	\$173,173,837
County Indigent	\$32,291,087	\$7,479,354	\$18,441,002	\$10,037,606	\$19,204,965
Third Party	\$35,957,976	\$94,693,025	\$15,651,733	\$109,555,515	\$32,853,520
Other Indigent	\$6,715,632	\$4,989,875	\$9,337,079	\$6,362,498	\$9,247,238
Other Payers	\$16,623,450	\$8,952,706	\$2,744,243	\$11,364,712	\$35,849,395

Source: OSHPD Disclosure Reports, 2009-2013

Capital Expenditures

Between FY 2011 and FY 2013, the Hospital invested approximately \$45.9 million in capital expenditures, including building improvements and fixtures, new medical equipment, and software and IT hardware. Projected capital expenditure needs over the next two years will total approximately \$5.2 million, including elevator upgrades and new medical equipment.

SUMMARY OF RECENT CAPITAL EXPENDITURES: FY 2011-2013 (in millions)			
	FY 2011	FY 2012	FY 2013
Building, Fixtures, and Leasehold			
Building Fixtures	\$0.2	\$1.1	-
Building Improvements	\$1.3	\$5.2	\$1.5
Furniture and Fixtures	\$0.2	\$0.2	\$0.2
Sub-Total	\$1.7	\$6.5	\$1.7
Software and IT			
Software	\$1.5	\$11.2	\$8.6
Computer Equipment	\$0.6	\$0.5	\$0.1
Network Equipment	\$2.3	\$1.0	\$1.1
Telephone Equipment	-	\$0.1	\$0.5
Sub-Total	\$4.4	\$12.7	\$10.2
Medical Equipment	\$3.7	\$2.5	\$2.6
Total	\$9.8	\$21.6	\$14.5

Source: Daughters

Charity Care

According to the Hospital's reports submitted to OSHPD, the Hospital's charity care charges have fluctuated from a high of \$78 million in FY 2010 to a low of approximately \$51.3 million in FY 2009. The five-year average for charity care charges was \$65 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 of California. The five-year (FY 2009 - FY 2013) average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 6.1%. This is notably higher than the four-year statewide average of 3.7%. 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 2009 to FY 2013										
(Millions)										
	2009		2010		2011		2012		2013	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	\$1,129.0	\$252,629.7	\$1,136.4	\$270,511.0	\$1,209.9	\$288,636.7	\$1,253.4	\$303,278.6	\$1,311.9	\$317,543.8
Charity	\$51.3	\$4,792.3	\$78.0	\$5,587.1	\$64.7	\$6,171.5	\$64.8	\$6,251.0	\$68.3	\$6,209.9
Bad Debt	\$8.2	\$4,333.2	\$9.5	\$4,510.8	\$8.8	\$4,815.5	\$6.8	\$5,007.6	\$11.8	\$5,549.5
Total	\$59.5	\$9,125.5	\$87.5	\$10,097.9	\$73.5	\$10,987.0	\$71.6	\$11,258.6	\$80.1	\$11,759.4
Charity as a % of Gross Rev.	4.5%	1.9%	6.9%	2.1%	5.4%	2.1%	5.2%	2.1%	5.2%	2.0%
Bad Debt as a % of Gross Rev.	0.7%	1.7%	0.8%	1.7%	0.7%	1.7%	0.5%	1.7%	0.9%	1.7%
Total as a % of Gross Rev.	5.3%	3.6%	7.7%	3.7%	6.1%	3.8%	5.7%	3.7%	6.1%	3.7%
Uncompensated Care										
Cost to Charge Ratio	25.4%	25.1%	26.1%	25.0%	29.0%	24.6%	28.7%	24.6%	28.6%	24.4%
Cost of Charity	\$13.0	\$579.8	\$20.4	\$1,396.2	\$18.8	\$1,520.9	\$18.6	\$1,539.1	\$19.5	\$1,514.6
Cost of Bad Debt	\$2.1	\$1,085.7	\$2.5	\$1,127.3	\$2.6	\$1,186.8	\$2.0	\$1,232.9	\$3.4	\$1,353.5
Total	\$15.1	\$1,665.5	\$22.8	\$2,523.5	\$21.3	\$2,707.7	\$20.5	\$2,772.0	\$22.9	\$2,868.1

Source: OSHPD Disclosure Reports, 2009-2013

The table below shows the Hospital's historical costs for charity care as reported by OSHPD using the annual cost to charge ratio and multiplying it by the charity care charges. The Hospital's charity care costs increased from \$13.0 million in 2009 to a high of \$20.4 million in 2010. The average cost of charity care over the last five-years was approximately \$18,056,084.

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 2013	\$68,274,953	28.6%	\$19,548,667	6.4%
FY 2012	\$64,803,115	28.7%	\$18,572,573	5.1%
FY 2011	\$64,733,062	29.0%	\$18,754,069	5.3%
FY 2010	\$78,011,864	26.1%	\$20,361,598	6.7%
FY 2009	\$51,291,721	25.4%	\$13,043,516	4.4%
5-Year Average	\$65,422,943		\$18,056,084	

Source: OSHPD Disclosure Reports, 2009-2013

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

COST OF CHARITY CARE BY SERVICE: FY 2010-2014				
	Inpatient	Outpatient	Emergency Room	Total Charges
2014:				
Cost of Charity	\$29,546,910	\$2,443,090	\$31,457,695	\$63,447,695
Visits/Discharges	757	1,816	10,272	
2013:				
Cost of Charity	\$44,521,260	\$1,181,975	\$22,571,717	\$68,274,953
Visits/Discharges	1358	1,750	9,688	
2012:				
Cost of Charity	\$35,083,009	\$2,791,104	\$26,929,001	\$64,803,115
Visits/Discharges	1271	2,511	11,025	
2011:				
Cost of Charity	\$36,023,182	\$2,953,690	\$25,576,190	\$64,733,062
Visits/Discharges	1,560	2,909	10,947	
2010:				
Cost of Charity	\$43,192,563	\$5,720,929	\$29,098,372	\$78,011,864
Visits/Discharges	1,958	4,686	15,153	

Source: Daughters

Because of Medicaid expansion and increased access to healthcare coverage through health exchanges under the ACA, the level of charity care provided to uninsured patients nationwide 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 \$10,420,114 million per year.

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	2010	2011	2012	2013	2014	5-Year Average	Total
Benefits for Persons Living in Poverty	\$9,260,922	\$9,671,297	\$9,561,983	\$9,988,201	\$7,831,091	\$9,262,699	\$46,313,494
Benefits for Broader Community	\$1,047,928	\$764,033	\$882,495	\$1,260,683	\$1,831,939	\$1,157,416	\$5,787,078
Total*	\$10,308,850	\$10,435,330	\$10,444,478	\$11,248,884	\$9,663,030	\$10,420,114	\$52,100,572

Source: Daughters

* Grant funds and grant supported programs not included

- The Hospital’s five-year average cost of community benefit services for persons living in poverty is approximately \$9.3 million per year. The services include health professions education, community health improvement services, community building activities, financial and in-kind contributions, and subsidized health services, which include medical fees for physician on-call coverage for trauma; and

- The Hospital’s five-year average cost of community benefit services to the broader community is approximately \$1.2 million per year. These services include health professions education, community building activities, community benefit operations, and financial and in-kind contributions.

The Hospital’s cost of community benefit services with program expenditures greater than \$10,000, over the past five fiscal years, included:

COST OF COMMUNITY BENEFIT SERVICES: FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Services over \$10,000 in cost:					
Baby Friendly	-	-	-	\$169,303	\$135,928
Bet Tzedek Legal Services	-	\$82,995	\$83,017	\$87,083	\$87,397
Casa de Esperanza	\$63,038	\$49,404	\$32,118	\$22,277	\$16,861
Children's Counseling Center	-	\$112,656	\$144,010	\$50,519	\$100,000
Community Benefit Planning and Reporting	\$13,388	\$11,353	-	\$16,910	\$12,720
South Los Angeles Access to Care - SFMC Compton Clinic	\$811,223	\$184,051	\$442,841	\$386,439	\$202,241
COPE Clinical Health Extenders	-	\$78,000	\$83,620	\$91,120	\$119,377
Dental Grant	\$12,375	-	\$52,565	-	-
Diabetes Intervention Program	-	\$342,302	\$133,599	-	-
Footprints	\$59,401	\$40,515	\$49,007	\$43,292	\$32,944
Health Benefits Resource Center	\$625,325	\$1,394,506	\$1,014,221	\$1,092,531	\$1,972,411
HCI	\$721,107	\$431,308	\$436,771	\$406,429	\$812,067
Indigent Care	-	-	-	\$209,000	\$315,000
Naseau Reading Program	\$24,153	\$25,283	\$36,206	\$25,519	\$31,291
Paramedic Training and Education	\$204,173	\$96,851	\$117,909	\$168,897	\$261,476
Patient Transportation - SFMC Vehicles	\$157,609	\$88,500	\$95,101	\$38,410	-
Patient Transportation - Taxi Vouchers	\$48,402	\$37,551	\$40,041	\$50,356	\$45,169
Senior Wellness and Educational Program	-	-	-	-	\$18,883
Southern California Crossroads Program	-	-	-	-	\$73,711
St. Francis Career College	\$2,470,771	\$2,634,345	\$2,330,660	\$1,486,843	-
Support Groups	\$134,173	-	\$85,612	\$92,093	\$103,649
Trauma Injury Prevention Program	-	\$29,900	\$52,325	\$59,800	\$48,750
Welcome Baby	-	-	-	-	\$2,428,199
Vida Sana/Search Your Heart	\$135,405	\$82,729	\$148,164	\$299,218	-
Vida Sana/Diabetes Education	\$98,631	-	-	-	-
Vincetian Service Corp	\$61,944	\$29,361	\$12,657	\$31,079	\$14,912

Source: Daughters

The Hospital’s community benefit services have supported many important programs for the community including: Baby Friendly, Healthy Community Initiatives, Vida Sana/Healthy Life Community Wellness Program, SeniorCircle Wellness Program, Trauma & Injury Prevention Program, Casa de Esperanza, Children’s Counseling Center, and Welcome Baby, as described below:

- **Baby Friendly Hospital Initiative:** The Baby Friendly Hospital Initiative program’s purpose is to encourage breastfeeding rates to reduce childhood illness and death. The three-year grant provided by First 5 LA to fund the program and help the Hospital to achieve its Baby Friendly designation will end in FY 2015. The Hospital recently achieved Baby Friendly Hospital designation;
- **Bet Tzedek Legal Services:** Bet Tzedek, a nonprofit organization, provides pro bono legal support services at no cost to Health Benefits Resource Center clients who need assistance with legal issues;
- **Casa de Esperanza Transitional Housing:** The program provides temporary shelter, housing, and support services to assist homeless families achieve stability and transition into safe homes. In FY 2013, the program assisted and sheltered 7 homeless families, transitioned 5 families to permanent and safe housing, and provided 265 hours of general support;
- **Children’s Counseling Center:** The Children’s Counseling Center, located on the Hospital’s main campus and in a satellite office in South Gate, provides mental health, case management, and medication services to decrease emotional and behavioral distress. In FY 2013, the program provided over 2,500 family members with counseling and educational support through targeted school-based counseling services;
- **South Los Angeles Access to Care – SFMC Compton Clinic:** The clinic provides preventive and primary care services to Compton residents who lack healthcare access;
- **COPE Clinical Health Extenders:** The program provides pre-health clinical interns with the opportunity to act as part of a patient-care team to gain clinical experience;
- **Dental Grant:** Provides funding to provide dental work for children with special needs;
- **Diabetes Education and Disease Management:** Provides diabetes education services to address the rise of diabetes in the Hospital’s community;
- **Footprints:** The program provides children with new and used shoes and clothing and toiletries and food items for families;
- **Health Benefits Resource Center:** The program assists individuals and families to enroll in health insurance and social services programs to improve access to ongoing healthcare coverage. During FY 2013, the program had nearly 17,800 visits, provided nearly 9,100 eligibility screenings, and assisted 4,000 individuals in applying for health insurance;
- **Healthy Community Initiatives:** The Healthy Community Initiatives program brings health screenings, immunizations, and health education directly to area schools, churches, businesses, and community organizations. In FY 2013, over 4,600 individuals received free health screenings, 5,900 people received health education, and 2,100 people received a total of 5,250 immunizations;

- **Indigent Care:** The program provides healthcare services to patients who cannot afford services. The program is in addition to traditional charity care;
- **Paramedic Training and Education:** The program provides paramedic training through the Hospital's emergency department;
- **Patient Transportation:** The program provides transportation to individuals without any means in order to access outpatient care and treatment. Transportation is also provided to individuals receiving behavioral health services at the Hospital;
- **St. Francis Career College:** It prepares students interested in healthcare professions by providing education and career training, including vocational nursing and certified nurse assistant training. In June 2013, the Hospital transferred ownership to American Career College, but it continues to train many of the Hospital's nurses;
- **Trauma and Injury Prevention Program and Southern California Crossroads:** The program works with schools, hospitals, and other organizations to help prevent traumatic injury. The Hospital collaborates with organizations including Violence Prevention Coalition, Every 15 Minutes drunk-driving prevention, Los Angeles Violence Intervention Training Academy, and Walk This Way safe street crossing;
- **Vida Sana/Healthy Life Community Wellness:** The program promotes healthier living through a six-month program that advances heart health, diabetes, and obesity awareness. In 2013, the Hospital received a grant from Anthem Blue Cross Foundation to expand the program with a patient module, Health Options for Patient Empowerment that focuses on improving patient communication and navigation within the healthcare system. In FY 2013, more than 5,600 individuals participated in the program;
- **SeniorCircle Wellness Program:** The program offers activities and senior-specific health educational sessions for local senior citizens aged 55 years and older. Seniors can receive flu immunizations and attend bi-monthly dinners at the Hospital that provide entertainment and nutritious meals. In FY 2013, 1,102 seniors were served through the wellness program; and
- **Welcome Baby:** The program provides primary care health prevention, parent education, and social services to the Hospital's maternity patients. Services include personalized prenatal care, post-partum care, and hospital visits with a Parent Coach. First 5 LA, a nonprofit child-advocacy organization, fully funds the Hospital's Welcome Baby program.

PROFILE OF PRIME

Prime Healthcare Services, Inc.

Prime Inc. is a for-profit national healthcare system headquartered in Ontario, California. Today, Prime Inc. and its subsidiaries operate 29 hospitals and one skilled nursing facility in nine states, including California, Pennsylvania, Nevada, Kansas, Rhode Island, Texas, Michigan, Indiana, and New Jersey with more than 30,000 employees and 4,500 patient beds.

Dr. Reddy originally established Desert Valley Medical Group in 1985 and Desert Valley Hospital in 1994. After selling both the medical group and the hospital to PhyCor, Dr. Reddy founded Prime Inc. in 2001 for the purpose of reacquiring Desert Valley Medical Group and Desert Valley Hospital from PhyCor. Since 2001, Prime Inc. has continued to expand its presence by acquiring hospitals across the nation. Prime Inc.'s recent hospital acquisitions include the following:

- August 2014 – Prime Inc. acquires St. Mary's Hospital in Passaic, New Jersey;
- August 2014 – Prime Inc. acquires Monroe Hospital in Bloomington, Indiana;
- July 2014 – Prime Inc. acquires Garden City Hospital in Garden City, Michigan;
- May 2014 – Prime Inc. acquires East Valley Hospital Medical Center in Glendora, California. East Valley Hospital Medical Center reverts back to its original name, Glendora Community Hospital;
- December 2013 – Prime Inc. acquires Landmark Medical Center in Woonsocket, Rhode Island; and
- January 2013 – Prime Inc. acquires controlling interest in Knapp Medical Center, located in Weslaco, Texas.

In total, Prime Inc., or an affiliated entity, has acquired a total of 14 hospitals outside of California: Monroe Hospital in Indiana, Saint John Hospital and Providence Medical Center in Kansas, Garden City Hospital in Michigan, Saint Mary's Regional Medical Center in Nevada, St. Mary's Hospital in New Jersey, Lower Bucks Hospital and Roxborough Memorial Hospital in Pennsylvania, Landmark Medical Center and Rehabilitation Hospital of Rhode Island in Rhode Island, and Dallas Medical Center, Harlingen Medical Center, Knapp Medical Center, and Pampa Regional Medical Center in Texas. In addition, Prime Inc. operates Providence Place Rehabilitation Center and Providence Medical Group in Kansas, Saint Mary's Medical Group in New Jersey, and Dallas Medical Physician Group in Texas.

Within California, Prime Inc., or an affiliated entity, owns and operates approximately 2,200 beds at 11 for-profit facilities:

Alvarado Hospital Medical Center, founded in 1972, was acquired by Prime Inc. in 2010. The medical center, with 306 licensed beds and more than 800 nurses and 400 physicians, serves the residents of San Diego. The medical center offers critical care, orthopedic, drug rehabilitation, cardiology, oncology, and general surgery services.

Centinela Hospital Medical Center, located in Inglewood, was acquired by Prime Inc. in 2007 serves the residents of Inglewood and its surrounding areas. In 1960, the medical center began construction on a 60 licensed bed addition. Throughout the late 1960s and 1970s, the medical center expanded to include 369 licensed beds. Today, the 369 licensed bed facility includes approximately 1,500 employees and 400 medical staff. The medical center provides orthopedic services, cardiac services, and obstetrics/gynecology services, as well as a “basic” Level II Emergency Department.

Chino Valley Medical Center, established in 1972, serves the communities of Chino, Ontario, and Pomona. Prime Inc. acquired the medical center in 2004. It currently is licensed for 126 beds with approximately 300 physicians and 7,000 admissions per year. Medical services include emergency treatment, intensive care, radiological, laboratory, and pain management services.

Desert Valley Hospital, located in Victorville, was founded by Dr. Reddy in 1994. The hospital is licensed for 148 beds and serves the High Desert communities of San Bernardino County. Medical services at the hospital include cardiology-neurology, imaging, laboratory, critical care, surgery, physical therapy, and Fast Track services at the “basic” emergency department.

Garden Grove Hospital Medical Center, located and servicing Garden Grove, is a 140 licensed bed acute care facility and was acquired by Prime Inc. in 2008. Established in 1982, the medical center has more than 500 employees and over 550 physician affiliates. The medical center provides 24-hour “basic” emergency treatment services, medical/surgical services, intensive care services, maternity services, and diagnostic imaging services.

Glendora Community Hospital, located in Glendora, was founded in 1958. Previously known as the East Valley Hospital Medical Center, the hospital serves the residents of Glendora and surrounding communities. It is currently licensed for 118 beds and was acquired by Prime Inc. in 2014. The hospital offers a variety of medical services including intensive and critical care services, diagnostic imaging, senior mental health, women’s health services, and a 24-hour “basic” emergency department.

La Palma Intercommunity Hospital, a 141 licensed bed facility, provides La Palma and surrounding communities with general acute care services. Established in 1972 and purchased by Prime Inc. in 2006, the hospital provides emergency, maternity, behavioral health, imaging, pharmacy, and intensive care services.

Paradise Valley Hospital, located in National City, is a 291 licensed bed acute care hospital that provides obstetrics, rehabilitation, hyperbaric medicine, behavioral health, “basic” emergency

treatment, surgical, and senior health services. Founded in 1904 and acquired by Prime Inc. in 2007, the hospital operates with more than 300 physicians.

San Dimas Community Hospital, located in San Dimas, opened in 1971 and serves the communities of San Dimas, Glendora, La Verne, Covina, West Covina, Azusa, Walnut, Diamond Bar, Pomona, and Claremont. Prime Inc. purchased the hospital in 2008, and currently owns and operates the 13-acre campus with 101 licensed beds. The hospital offers cardiopulmonary services, diagnostic services, gastroenterology services, orthopedic services, rehabilitation services, women’s services, and a 24-hour “basic” emergency department.

Shasta Regional Medical Center, a 246 licensed bed acute care facility located in Redding, was established in 1945. Prime Inc. purchased the medical center in 2008. The medical center provides a “basic” emergency department, cardiac catheterization, stroke treatment, and inpatient diabetes services. Outpatient services include cardiac rehabilitation, pulmonary rehabilitation, and wound care treatment.

West Anaheim Medical Center, located in Anaheim, opened in 1964 and serves the communities of Orange County. Prime Inc. purchased the medical center in 2006, and currently owns and operates the 219 licensed bed facility. The medical center offers general medical/surgical services, behavioral health services, cardiovascular services, respiratory services, and pediatric services.

Prime Healthcare Foundation, Inc.

In 2006, Dr. Reddy founded Prime Foundation for the primary stated charitable purpose of providing healthcare services to the communities served by Prime’s hospitals and supporting other charitable activities, such as medical education, scholarships, community educational programs, and a public health library.

Prime Inc., or an affiliated entity, has donated six hospitals to Prime Foundation. Two of the hospitals, Knapp Medical Center and Pampa Regional Medical Center, are located in Texas. The remaining four hospitals are located in California: Encino Hospital Medical Center, Huntington Beach Hospital, Montclair Hospital Medical Center, and Sherman Oaks Hospital.

Encino Hospital Medical Center, located in Encino, is licensed for 150 beds and has more than 500 employees and 300 physicians. Prime Inc. purchased it in 2008. The medical center offers gastrointestinal services, imaging services, rehabilitation services, mental health services, respiratory therapy, sub-acute nursing services, inpatient and outpatient surgery services, and a 24-hour “basic” emergency department.

Huntington Beach Hospital, a 102 licensed bed facility with over 300 physicians and 500 employees, was founded in Huntington Beach in 1967. Acquired in 2006, the hospital was donated to Prime Foundation in 2012, and currently operates as a non-profit general acute care facility. The hospital provides emergency, surgical, cardiovascular, wound care, imaging, intensive care, and behavioral health services.

Montclair Hospital Medical Center, acquired by Prime Inc. in 2006, was donated to Prime Foundation in 2010. The 102 licensed bed facility provides healthcare services to the communities of Montclair, Ontario, Claremont, Upland, and Pomona. Healthcare services include general medicine, maternity, rehabilitation, and nutrition services.

Sherman Oaks Hospital, located in Sherman Oaks, opened in 1969 and is staffed by approximately 500 employees and 400 physicians. Prime Inc. purchased the hospital in 2005. The hospital has 153 licensed beds, and offers a 24-hour “basic” emergency department and intensive care, radiology, laboratory, surgery, behavioral health, cardiology, rehabilitation, and sub-acute nursing services.

Location of Hospitals Owned by Prime

The following map identifies the various locations of Prime’s fifteen California hospitals:



The following map identifies the location and number of Prime’s hospitals by state:



Profile of California Hospitals Owned by Prime

Prime Inc.

CALIFORNIA HOSPITALS OWNED BY PRIME INC.: FY 2013						
	Prime Inc.	Alvarado Hospital Medical Center	Centinela Hospital Medical Center	Chino Valley Medical Center	Desert Valley Hospital	Garden Grove Hospital Medical Center
City	-	San Diego	Inglewood	Chino	Victorville	Garden Grove
Licensed Beds	2,205	306	369	126	148	140
Patient Days	331,607	30,088	71,719	14,397	33,535	22,904
Discharges ¹	78,874	6,702	18,638	5,352	9,279	6,017
ALOS	4.4	4.5	3.8	2.6	3.6	3.8
Average Daily Census	83	82	196	39	92	63
Occupancy	40.0%	26.9%	53.2%	31.3%	62.1%	44.8%
ED Visits	338,896	24,734	66,449	39,737	38,826	26,838
Inpatient Surgeries	11,484	1,783	1,411	808	1,419	1,246
Outpatient Surgeries	6,728	1,111	513	191	562	815
Births	5,699	0	833	0	1,089	1,693
Payer Mix (Based on Discharges):						
Medicare Traditional	40.7%	40.5%	39.8%	26.0%	29.3%	26.3%
Managed Medicare	10.7%	7.3%	9.5%	15.2%	19.7%	9.2%
Medi-Cal Traditional	12.5%	7.1%	8.5%	11.9%	10.9%	23.8%
Managed Medi-Cal	12.9%	11.5%	25.3%	17.0%	18.9%	20.1%
County Indigent	3.7%	9.1%	0.0%	1.1%	4.5%	4.8%
Traditional Third-Party	7.9%	5.6%	7.5%	19.4%	8.7%	5.7%
Managed Third-Party	5.6%	18.4%	0.0%	5.5%	3.6%	0.7%
Other Indigent	0.6%	0.0%	4.7%	0.1%	0.0%	0.0%
Other	5.4%	0.5%	4.7%	3.8%	4.4%	9.5%
Total	100%	100%	100%	100%	100%	100%
Income Statement:						
Gross Patient Revenue	\$5,386,567,996	\$610,732,778	\$1,327,895,579	\$360,851,371	\$460,079,434	\$409,555,371
Net Pt. Revenue	\$1,204,560,785	\$129,291,325	\$267,441,719	\$97,671,516	\$114,162,114	\$100,314,453
Other Operating Revenue	\$10,006,849	\$853,602	\$1,555,451	\$461,721	\$1,943,188	\$509,831
Total Operating Revenue	\$1,214,567,634	\$130,144,927	\$268,997,170	\$98,133,237	\$116,105,302	\$100,824,284
Total Operating Expenses	\$1,173,678,690	\$152,906,443	\$231,641,308	\$91,967,579	\$110,921,651	\$87,800,789
Net From Operations	\$40,888,944	(\$22,761,516)	\$37,355,862	\$6,165,658	\$5,183,651	\$13,023,495
Non-operating Revenue	\$24,300,810	\$2,722,890	\$5,790,467	\$1,572,971	\$1,733,364	\$2,711,872
Non-operating Expenses	\$9,930,431	\$642,403	\$4,236,426	\$12,982	\$2,244,737	\$1,485,650
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$55,259,323	(\$20,681,029)	\$38,909,903	\$7,725,647	\$4,672,278	\$14,249,717
Other Financial:						
Charity Care Charges	\$97,091,461	\$204,241	\$61,781,029	\$973,296	\$954,960	\$4,398,297
Bad Debt Charges	\$337,194,028	\$17,666,251	\$18,669,337	\$51,303,936	\$36,001,017	\$29,751,204
Total Uncompensated Care	\$434,285,489	\$17,870,492	\$80,450,366	\$52,277,232	\$36,955,977	\$34,149,501
Cost to Charge Ratio	21.6%	24.9%	17.3%	25.4%	23.7%	21.3%
Cost of Charity	\$20,974,877	\$50,849	\$10,704,864	\$246,812	\$226,200	\$937,435
Uncompensated Care as % of Chgs. State of Calif.	8.1%	2.9%	6.1%	14.5%	8.0%	8.3%
Uncompensated Care ²	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

¹ Excludes normal new borns

² Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

CALIFORNIA HOSPITALS OWNED BY PRIME INC.: FY 2013							
	Prime Inc.	Glendora Community Hospital	La Palma Intercommunity Hospital	Paradise Valley Hospital	San Dimas Community Hospital	Shasta Regional Medical Center	West Anaheim Medical Center
City	-	Glendora	La Palma	National City	San Dimas	Redding	Anaheim
Licensed Beds	2,205	118	141	291	101	246	219
Patient Days	331,607	10,331	18,050	56,499	13,836	28,329	31,919
Discharges ¹	78,874	1,559	3,614	10,615	4,073	7,124	5,901
ALOS	4.4	6.6	5.0	5.3	3.4	4.0	5.5
Average Daily Census	83	28	49	155	38	78	87
Occupancy	40.0%	24.0%	35.1%	53.2%	37.5%	31.6%	39.9%
ED Visits	338,896	4,344	15,219	33,747	15,343	42,152	31,507
Inpatient Surgeries	11,484	284	391	476	973	1,726	967
Outpatient Surgeries	6,728	92	262	817	954	1,232	179
Births	5,699	191	403	1,080	410	0	0
Payer Mix (Based on Discharges):							
Medicare Traditional	40.7%	67.9%	47.6%	37.9%	29.7%	61.3%	41.5%
Managed Medicare	10.7%	2.8%	11.1%	5.1%	19.0%	2.7%	16.5%
Medi-Cal Traditional	12.5%	15.5%	15.9%	23.8%	5.1%	10.0%	5.4%
Managed Medi-Cal	12.9%	4.5%	8.7%	7.8%	6.7%	9.7%	11.6%
County Indigent	3.7%	0.6%	2.7%	7.8%	2.1%	0.0%	8.3%
Traditional Third-Party	7.9%	0.1%	9.4%	4.2%	7.8%	8.4%	9.6%
Managed Third-Party	5.6%	1.5%	1.4%	0.0%	25.5%	4.1%	0.9%
Other Indigent	0.6%	0.0%	0.0%	1.7%	0.0%	0.2%	0.0%
Other	5.4%	7.1%	3.1%	11.7%	4.2%	3.6%	6.3%
Total	100%	100%	100%	100%	100%	100%	100%
Income Statement:							
Gross Patient Revenue	\$5,386,567,996	\$66,720,923	\$205,097,623	\$484,672,693	\$258,080,668	\$798,835,700	\$404,045,856
Net Pt. Revenue	\$1,204,560,785	\$18,644,403	\$56,986,522	\$137,032,609	\$61,453,891	\$134,359,527	\$87,202,706
Other Operating Revenue	\$10,006,849	\$1,890,589	\$253,421	\$592,170	\$439,988	\$956,968	\$549,920
Total Operating Revenue	\$1,214,567,634	\$20,534,992	\$57,239,943	\$137,624,779	\$61,893,879	\$135,316,495	\$87,752,626
Total Operating Expenses	\$1,173,678,690	\$23,212,297	\$52,880,927	\$141,149,059	\$57,663,794	\$128,464,583	\$95,070,260
Net From Operations	\$40,888,944	(\$2,677,305)	\$4,359,016	(\$3,524,280)	\$4,230,085	\$6,851,912	(\$7,317,634)
Non-operating Revenue	\$24,300,810	\$0	\$1,313,339	\$3,298,197	\$1,821,798	\$1,706,937	\$1,628,975
Non-operating Expenses	\$9,930,431	\$0	\$0	\$757,124	\$475,526	\$15,583	\$60,000
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$55,259,323	(\$2,677,305)	\$5,672,355	(\$983,207)	\$5,576,357	\$8,543,266	(\$5,748,659)
Other Financial:							
Charity Care Charges	\$97,091,461	\$87,258	\$1,660,782	\$14,259,586	\$1,642,068	\$8,085,309	\$3,044,635
Bad Debt Charges	\$337,194,028	\$2,175,317	\$13,863,316	\$15,692,625	\$58,373,009	\$39,551,319	\$54,146,697
Total Uncompensated Care	\$434,285,489	\$2,262,575	\$15,524,098	\$29,952,211	\$60,015,077	\$47,636,628	\$57,191,332
Cost to Charge Ratio	21.6%	32.0%	25.7%	29.0%	22.2%	16.0%	23.4%
Cost of Charity	\$20,974,877	\$27,885	\$426,152	\$4,135,333	\$364,093	\$1,290,551	\$712,246
Uncompensated Care as % of Chgs. State of Calif.	8.1%	3.4%	7.6%	6.2%	23.3%	6.0%	14.2%
Uncompensated Care ²	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

¹ Excludes normal new births

² Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

Prime Foundation

CALIFORNIA HOSPITALS OWNED BY PRIME FOUNDATION: FY 2013					
	Prime Foundation	Encino Hospital Medical Center	Huntington Beach Hospital	Montclair Hospital Medical Center	Sherman Oaks Hospital
City	-	Encino	Huntington Beach	Montclair	Sherman Oaks
Licensed Beds	507	150	102	102	153
Patient Days	79,537	21,554	19,401	11,598	26,984
Discharges ¹	15,459	2,193	3,681	4,034	5,551
ALOS	23	9.8	5.3	2.9	4.9
Average Daily Census	218	59	53	32	74
Occupancy	2	39.4%	52.1%	31.2%	48.3%
ED Visits	67,779	8,306	17,390	20,964	21,119
Inpatient Surgeries	1,916	282	301	816	517
Outpatient Surgeries	1,096	198	121	432	345
Births	769	0	0	769	0
Payer Mix (Based on Discharges):					
Medicare Traditional	50.7%	72.9%	46.7%	21.1%	61.9%
Managed Medicare	8.0%	4.1%	12.3%	8.9%	6.6%
Medi-Cal Traditional	9.8%	1.8%	4.9%	26.9%	5.4%
Managed Medi-Cal	13.2%	6.5%	9.2%	26.8%	10.1%
County Indigent	2.8%	0.0%	9.5%	1.8%	0.0%
Traditional Third-Party	10.0%	10.6%	11.1%	7.1%	11.0%
Managed Third-Party	0.3%	0.0%	0.8%	0.2%	0.0%
Other Indigent	0.1%	0.0%	0.0%	0.0%	0.2%
Other	5.4%	4.1%	5.6%	7.2%	4.8%
Total	100%	100%	100%	100%	100%
Income Statement:					
Gross Patient Revenue	\$857,788,170	\$189,495,977	\$212,387,808	\$158,633,654	\$297,270,731
Net Pt. Revenue	\$227,598,823	\$49,638,807	\$55,192,622	\$46,741,400	\$76,025,994
Other Operating Revenue	\$1,025,322	\$192,860	\$312,649	\$249,288	\$270,525
Total Operating Revenue	\$228,624,145	\$49,831,667	\$55,505,271	\$46,990,688	\$76,296,519
Total Operating Expenses	\$229,602,782	\$53,569,715	\$54,646,950	\$49,291,194	\$72,094,923
Net From Operations	(\$978,637)	(\$3,738,048)	\$858,321	(\$2,300,506)	\$4,201,596
Non-operating Revenue	\$4,079,401	\$670,815	\$1,199,472	\$968,783	\$1,240,331
Non-operating Expenses	\$257,635	\$0	\$271,366	\$12,360	(\$26,091)
Provision for Taxes	\$0	\$0	\$0	\$0	\$0
Net Income	\$2,843,125	(\$3,067,233)	\$1,786,427	(\$1,344,083)	\$5,468,014
Other Financial:					
Charity Care Charges	\$7,235,861	\$862,638	\$2,901,928	\$276,772	\$3,194,523
Bad Debt Charges	\$91,168,065	\$18,008,998	\$22,926,813	\$18,462,644	\$31,769,610
Total Uncompensated Care	\$98,403,926	\$18,871,636	\$25,828,741	\$18,739,416	\$34,964,133
Cost to Charge Ratio	26.6%	28.2%	25.6%	30.9%	24.2%
Cost of Charity	\$1,928,162	\$242,986	\$742,388	\$85,565	\$771,837
Uncompensated Care as % of Chgs.	11.5%	10.0%	12.2%	11.8%	11.8%
State of Calif. Uncompensated Care ²	3.5%	3.5%	3.5%	3.5%	3.5%

¹ Excludes normal new borns

² Stawew ide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

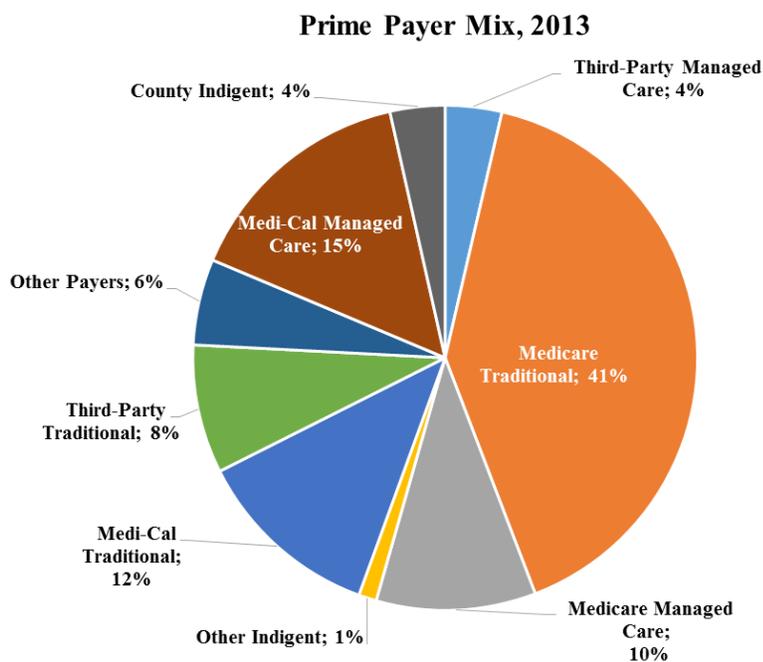
Key Statistics

Key statistics for Prime’s California hospitals include the following:

- In FY 2013, Centinela Hospital Medical Center was Prime’s top performing hospital, reporting \$38.9 million in net income. However, six of Prime’s hospitals reported a net loss in FY 2013, with the most substantial loss reported at Alvarado Hospital Medical Center (\$20.7 million); and
- In FY 2013, Prime operated 2,712 licensed beds with an average occupancy rate of 42% and an average daily census of 1,126 patients.

Payer Mix

In 2013, Prime’s California inpatient payer mix consisted of predominantly Medicare Traditional (41%), Medi-Cal Managed Care (15%), Medi-Cal Traditional (12%), and Medicare Managed Care (10%). The remaining 23% of the Hospital’s inpatient discharges is made up of Third-Party Traditional (8%), Other Payers* (6%), Indigent (5%), and Third-Party Managed Care (4%).



Total Discharges: 94,333

* “Other” includes self-pay, workers’ compensation, other government, and other payers

Source: OSHPD Disclosure Reports, 2013

Quality & Awards

All of Prime’s California hospitals have received accreditation as indicated below:

Hospital	Hospital Accreditation	Effective Date
Alvarado Hospital Medical Center	The Joint Commission	6/7/2014
Centinela Hospital Medical Center	The Joint Commission	12/8/2011
Chino Valley Medical Center	Healthcare Facilities Accreditation Program	current
Desert Valley Hospital	Healthcare Facilities Accreditation Program	current
Encino Hospital Medical Center	The Joint Commission	7/25/2014
Garden Grove Hospital Medical Center	The Joint Commission	12/3/2011
Glendora Community Hospital	Healthcare Facilities Accreditation Program	current
Huntington Beach Hospital	The Joint Commission	9/9/2011
La Palma Intercommunity Hospital	The Joint Commission	4/19/2014
Montclair Hospital Medical Center	The Joint Commission	12/10/2011
Paradise Valley Hospital	The Joint Commission	6/1/2013
San Dimas Community Hospital	The Joint Commission	11/2/2011
Shasta Regional Medical Center	The Joint Commission	10/15/2011
Sherman Oaks Hospital	Healthcare Facilities Accreditation Program	current
West Anaheim Medical Center	The Joint Commission	9/1/2011

Source: The Joint Commission Accreditation Program and Health Facilities Accreditation Program

Prime has received several accolades and achievements, some of which include:

- *Healthcare IT News*’ “Best Hospital IT Departments” ranked Prime’s information technology department fifth in the “Super Hospital” category;
- Centers of Medicare and Medicaid Services’ Hospital Value-Based Purchasing Program named Centinela Hospital Medical Center as one of the top 25 hospitals nationwide based on value-based purchasing scores; and
- The Joint Commission recognized 11 of Prime’s hospitals as Top Performers on Key Quality Measures. The hospitals in California include: Centinela Hospital Medical Center, Encino Hospital Medical Center, Garden Grove Hospital Medical Center, Huntington Beach Hospital, La Palma Intercommunity Hospital, Paradise Valley Hospital, San Dimas Community Hospital, and Shasta Regional Medical Center; in Kansas: Saint John Hospital; in Pennsylvania: Roxborough Memorial Hospital; and in Texas: Harlingen Medical Center.

The following table reports Prime’s FY 2014 quality scores for measures of evidence-based care, patient satisfaction, patient willingness to recommend the hospital, and 30-day mortality rates for heart attack, heart failure, pneumonia, and surgical care patients in comparison to the national average:

QUALITY SCORES COMPARISON: FY 2014				
Domain	Measure	Prime Average	California Average	National Average
Clinical Process of Care Domain	Evidence-Based Care	98.8%	98.1%	98.3%
Patient Experience of Care Domain	% of Patients Highly Satisfied with Hospital	61.0%	68.0%	71.0%
	% of Patients Willing to Recommend the Hospital to Others	62.0%	70.0%	71.0%
Outcome Domain	30-Day Mortality Rate for Heart Attack, Heart Failure, Pneumonia, and Surgical Care Patients	10.4%	12.0%	12.3%

Source: Daughters

- For measures of evidence-based care, Prime scored higher than the national average (98.8% and 98.3%, respectively);
- Prime scored 10% lower than the national average for the percentage of patients who were highly satisfied with the Hospital;
- The percentage of patients willing to recommend Prime’s facilities to others (62%) was 9% lower than the national average of 71%; and
- Prime had a lower 30-day mortality rate (10.4%) for heart failure, heart attack, pneumonia, and surgical care patients than the national average of 12.3%.

The Hospital Readmissions Reduction Program, implemented in 2012, penalizes hospitals for high patient readmissions within 30 days of discharge. Hospital readmissions following treatment for heart attack, heart failure, and pneumonia are considered to be indicative of poor quality. In FY 2015, 223 California hospitals will be penalized by reducing federal reimbursement 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.

The following graph shows Prime’s 30-day readmission rate for heart attack, heart failure, pneumonia, and surgical patients for FY 2014:

30-DAY READMISSION RATES: FY 2014		
Prime Average	California Average	National Average
20.6%	19.9%	19.9%

Source: Daughters

- Prime had slightly higher 30-day readmissions (20.6%) than the national average of 19.9%;
- For FY 2015, Prime Inc.’s hospitals will be penalized at an average reported estimate of 0.27%: Alvarado Hospital Medical Center (0.05%), Centinela Hospital Medical Center

(0.79%), Chino Valley Medical Center (0.02%), Desert Valley Hospital (0.38%), Garden Grove Hospital Medical Center (0.13%), Glendora Community Hospital (0.00%), La Palma Intercommunity Hospital (0.20%), Paradise Valley Hospital (0.05%), San Dimas Community Hospital (0.46%), Shasta Regional Medical Center (0.65%), and West Anaheim Medical Center (0.29%);

- For FY 2015, Prime Foundation's hospitals will be penalized at an average reported estimate of 0.36%: Encino Hospital Medical Center (0.35%), Huntington Beach Hospital (0.38%), Montclair Hospital Medical Center (0.20%), and Sherman Oaks Hospital (0.49%); and
- Prime's combined hospitals will be penalized at an average reported estimate of 0.30% for FY 2015.

Dr. Prem Reddy Family Foundation

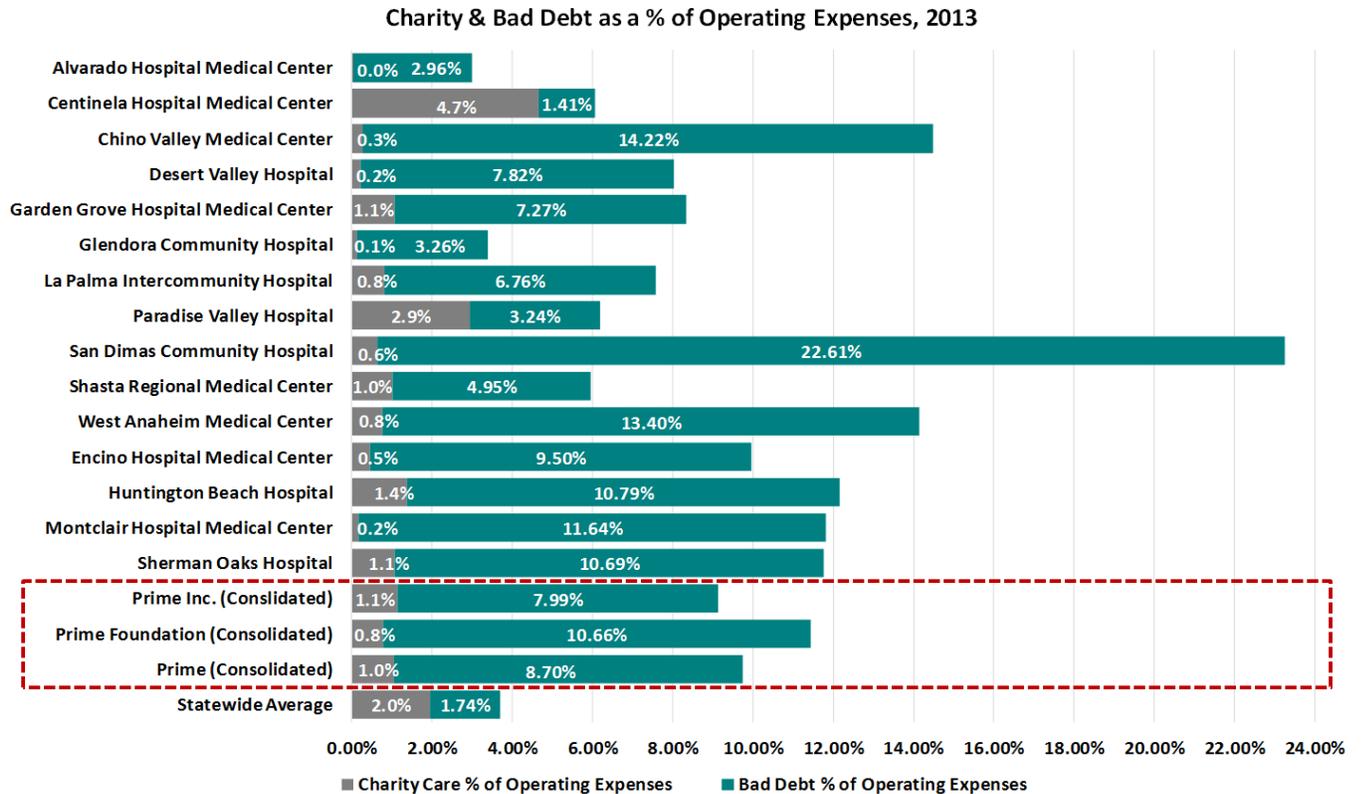
The Dr. Prem Reddy Family Foundation, located in Victorville, is a nonprofit 501(c)(3) charitable organization established in 1986 for the purpose of providing and supporting healthcare education for residents of Southern California and the High Desert communities.

It supports community educational programs, diabetes educational programs, AARP 55 Drive Alive Program, and Lamaze classes for expectant mothers:

- Educational scholarships include: support for students pursuing careers in healthcare, including the Academic Excellence Endowed Scholarship for California State University, San Bernardino, the Western University of Health Sciences, Chaffey Community College, and the Weekend Nursing Program at Victor Valley College;
- Public Health Library includes: books, journals, magazines, videos, and Internet for access to health-related topics. The library, located in Victorville, provides resources for college students, and offers tours for pre-school through high school groups;
- Circle of Care Foundation includes: the S+AGE program for seniors and the Circle of Care Leeza's Place that offers assistance to individuals and their caregivers who are affected by memory disorders;
- Circle of Friends Program includes: healthcare services at a community health clinic in Huntington Beach for the senior community of Orange County; and
- Kelly Lukart's Vision for the Future Program includes: free eyeglasses for elementary school children.

Charity Care and Bad Debt

The table below shows Prime's charity care and bad debt as a percentage of operating expenses in comparison to the statewide average. Overall, Prime's charity care as a percentage of operating expenses is 1.0% compared to the statewide average of 2.0%. Prime's percentage of charity care and bad debt combined as a percentage of operating expenses (9.7%) far exceeds the statewide average of 3.7%.



Source: OSHPD Disclosure Reports, 2013

ANALYSIS OF THE HOSPITAL'S SERVICE AREA

Service Area Definition

Based upon the Hospital's FY 2013 inpatient discharges, the Hospital's service area is comprised of 31 ZIP Codes. 82% of the Hospital's inpatient discharges came from the 31 ZIP Codes. Approximately 47% of the Hospital's discharges originated from the top six ZIP Codes, located in Lynwood, South Gate, Los Angeles, Compton, and Bell Gardens. In 2013, the Hospital's market share in the service area was approximately 10% based on total area discharges.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2013						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
90262	Lynwood	2,420	12.6%	12.6%	6,685	36.2%
90280	South Gate	1,779	9.3%	21.8%	7,409	24.0%
90002	Los Angeles	1,248	6.5%	28.3%	5,771	21.6%
90221	Compton	1,233	6.4%	34.7%	5,583	22.1%
90059	Los Angeles	1,196	6.2%	41.0%	4,872	24.5%
90201	Bell Gardens	1,095	5.7%	46.7%	7,623	14.4%
90255	Huntington Park	887	4.6%	51.3%	6,205	14.3%
90222	Compton	876	4.6%	55.8%	3,533	24.8%
90001	Los Angeles	786	4.1%	59.9%	6,105	12.9%
90220	Compton	761	4.0%	63.9%	5,872	13.0%
90003	Los Angeles	584	3.0%	66.9%	7,546	7.7%
90044	Los Angeles	504	2.6%	69.5%	11,540	4.4%
90061	Los Angeles	379	2.0%	71.5%	3,648	10.4%
90723	Paramount	320	1.7%	73.2%	5,008	6.4%
90270	Maywood	293	1.5%	74.7%	2,336	12.5%
90805	Long Beach	291	1.5%	76.2%	9,862	3.0%
90650	Norwalk	237	1.2%	77.4%	11,126	2.1%
90242	Downey	225	1.2%	78.6%	4,029	5.6%
90706	Bellflower	203	1.1%	79.7%	7,271	2.8%
90241	Downey	146	0.8%	80.4%	4,379	3.3%
90240	Downey	58	0.3%	80.7%	1,951	3.0%
90660	Pico Rivera	51	0.3%	81.0%	7,189	0.7%
90703	Cerritos	27	0.1%	81.1%	4,351	0.6%
90701	Artesia	26	0.1%	81.3%	1,783	1.5%
90606	Whittier	25	0.1%	81.4%	3,406	0.7%
90670	Sante Fe Springs	24	0.1%	81.5%	1,593	1.5%
90604	Whittier	23	0.1%	81.6%	3,741	0.6%
90605	Whittier	22	0.1%	81.7%	3,992	0.6%
90638	La Mirada	18	0.1%	81.8%	4,243	0.4%
90603	Whittier	7	0.0%	81.9%	2,124	0.3%
90639	La Mirada	0	0.0%	81.9%	10	0.0%
Sub-Total		15,744	81.9%	81.9%	160,786	9.8%
All Other		3,485	18.1%	100%		
Total		19,229	100%			

Source: OSHPD Patient Discharge Database, 2013

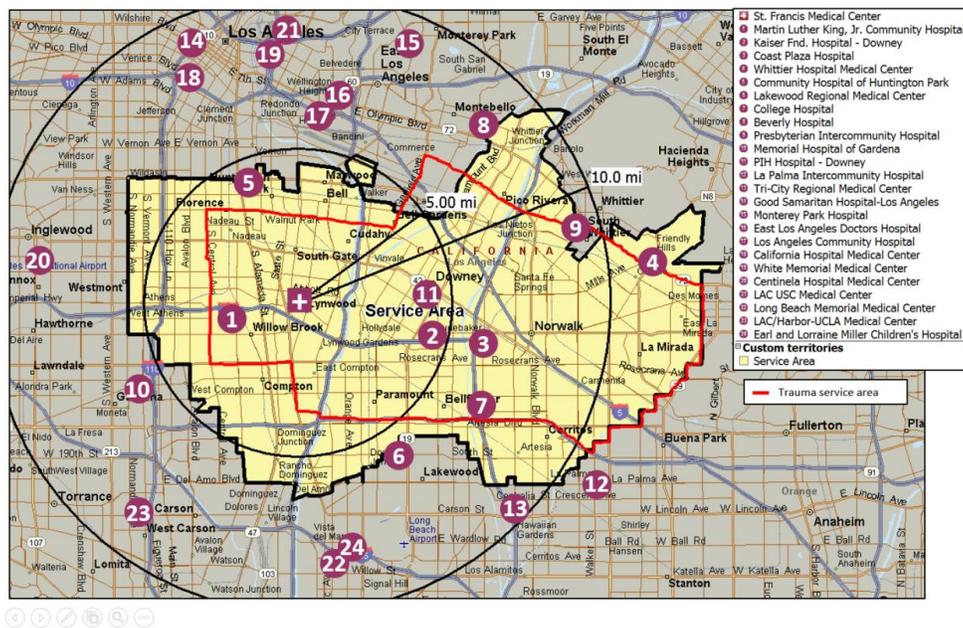
Service Area Map

The Hospital's service area, with nearly 1.2 million residents, includes the communities of Lynwood, South Gate, Los Angeles, Compton, Bell Gardens, Huntington Park, Paramount, Maywood, Long Beach, Downey, and Bellflower.

There are eight other hospitals located within the Hospital's service area, including Downey Regional Medical Center and Community Hospital of Huntington Park. Memorial Hospital of Gardena, Los Angeles Community Hospital, Lakewood Regional Medical Center, and Centinela Hospital Medical Center are located just outside of the service area, all within approximately 10 miles from the Hospital. The Hospital is the inpatient market share leader in the service area.

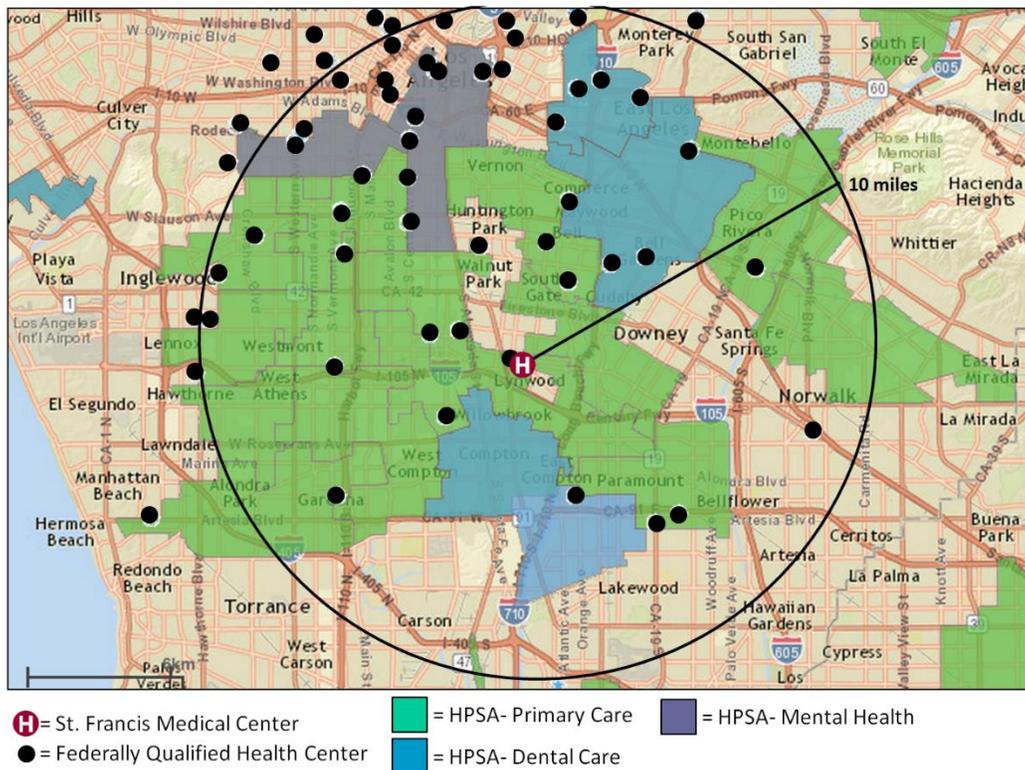
Martin Luther King, Jr. – Harbor Hospital, located within the service area and less than three miles away from the Hospital, closed in 2007 as a general acute care hospital, thus impacting the surrounding communities that lost access to medical and surgical care, as well as emergency services. Local hospitals in the area, including the Hospital, absorbed Martin Luther King, Jr. – Harbor Hospital's patients for inpatient care and received some funding from Los Angeles County to treat those patients.

Martin Luther King, Jr. Community Hospital is scheduled to open in 2015 as a private non-profit, general acute care hospital with 131 licensed beds on the location of the former Martin Luther King, Jr. – Harbor Hospital. It is expected to operate within the Hospital's service area as another safety-net provider to the surrounding communities. It has partnered with the University of California, Los Angeles to provide medical staff, and with the County of Los Angeles for financial support, and with other community providers. Its Board of Directors is governed by Martin Luther King, Jr. – Los Angeles Healthcare Corporation, an independent nonprofit organization that will govern and operate the new community hospital.

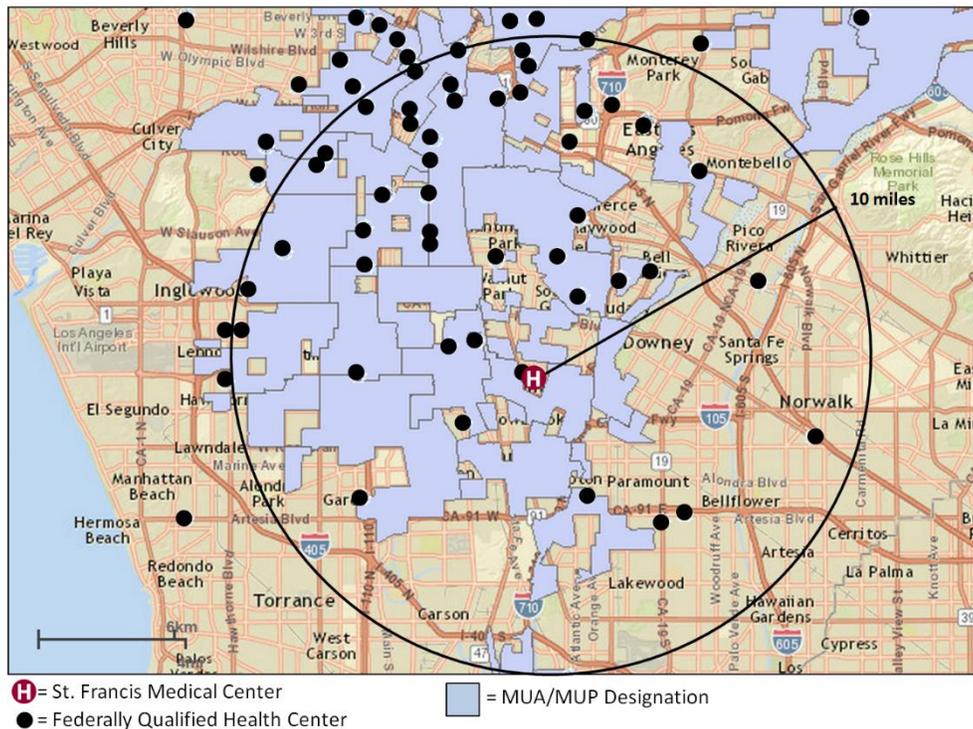


Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

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). The Hospital's location, and the majority of its service area, are Health Professional Shortage Areas designated. The map below depicts these shortage areas relative to the Hospital's location.



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 /Medically Underserved Populations relative to the Hospital’s location.

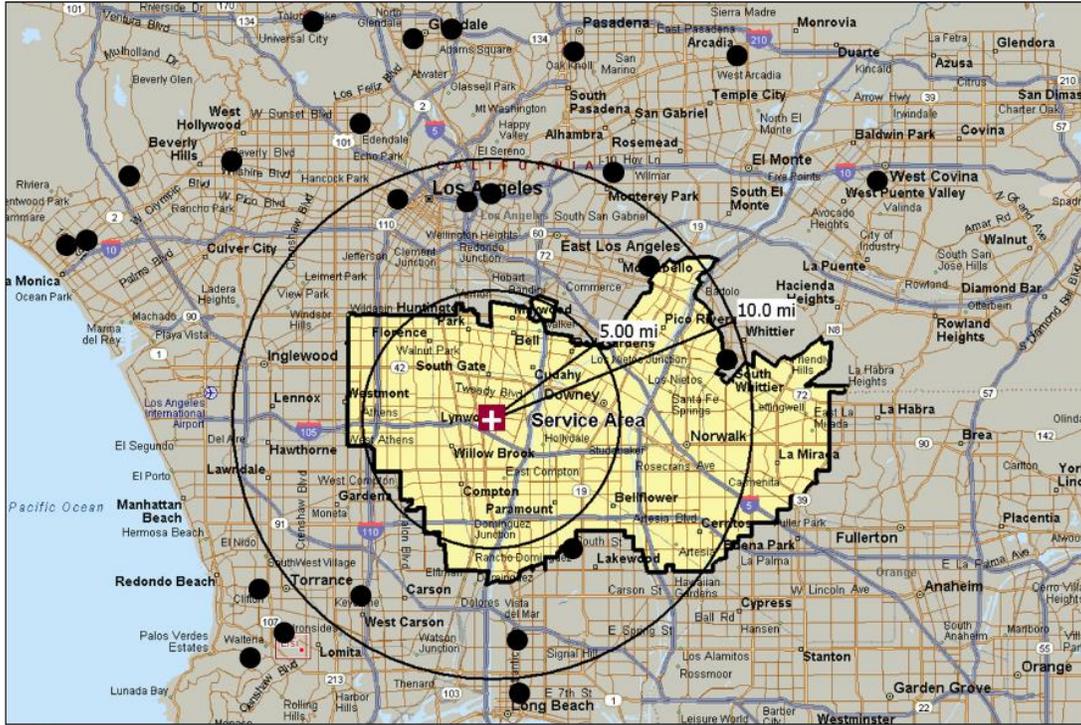


The census tract in which the Hospital is located is not Medically Underserved Areas /Medically Underserved Populations designated. However, the majority of the surrounding areas to the north, south, and west of the Hospital is Medically Underserved Areas /Medically Underserved Populations designated.

There are also approximately 50 Federally Qualified Health Centers within a 10 mile radius of the Hospital. They are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. They must provide primary care services to an underserved area or population, offer a sliding fee scale, 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. Many of the area Federally Qualified Health Centers’ patients utilize the services of the Hospital.

STEMI Receiving Centers in Los Angeles County

Within Los Angeles County, there are 32 STEMI Receiving Centers that administer percutaneous coronary intervention for patients experiencing an acute heart attack. The Hospital is the only STEMI Receiving Center within the Hospital's service area and is an important provider of percutaneous coronary intervention treatment services for service area residents.



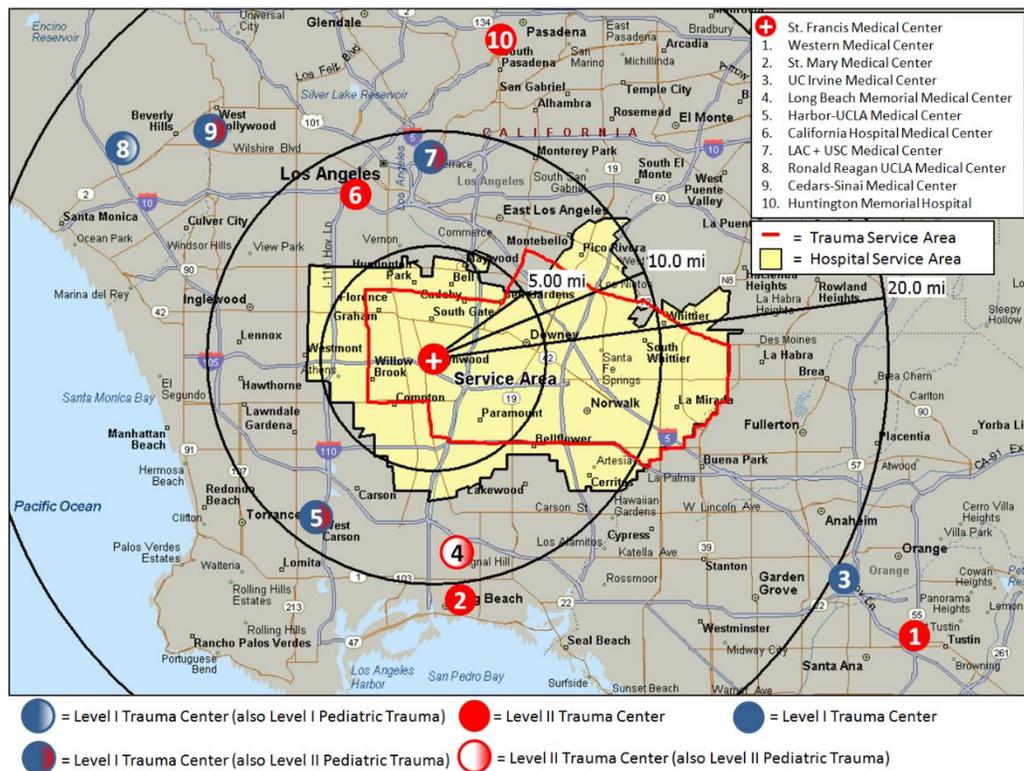
- + = St. Francis Medical Center
- = STEMI Receiving Center
- = Service Area

Service Area Trauma Services

The American College of Surgeons' Committee on Trauma classifies trauma centers as Level I through Level IV. Level I Trauma Centers provide the highest level of trauma care, while those designated as Level IV provide initial trauma care and transfer trauma patients to a higher level trauma center if necessary.

The Hospital is a Level II Trauma Center and is thus required to have emergency and surgical services available 24 hours a day and on-call coverage in place for select specialists including neurosurgeons, pulmonologists, intensivists, trauma surgeons, anesthesiologists, and orthopedists. A Level II Trauma Center must also have an in-house lab, and be able to provide immediate advanced life support for air and ambulance transport, as well as have the necessary equipment and staff available in the intensive care unit, emergency department, and operating rooms.

The map below illustrates the Hospital's trauma service area boundary, as defined by the Emergency Medical Services Agency – Los Angeles County, relative to other area trauma centers within 20 miles of the Hospital.



- There are four other trauma centers located within 10 miles of the Hospital, including Long Beach Memorial Medical Center, Harbor – UCLA Medical Center, California Hospital Medical Center, and LAC+USC Medical Center;

- The Hospital's trauma boundary includes the cities of Bellflower, Bell Gardens, Cerritos, Compton, Downey, La Mirada, Lynwood, Norwalk, Paramount, Pico Rivera, and South Gate; and
- As one of the busiest emergency trauma centers in Los Angeles County, the Hospital provides care to approximately 2,000 trauma patients per year.

The table below categorizes trauma cases, by mechanism of injury, for the Hospital, LAC+USC Medical Center, and for Los Angeles County overall:

MECHANISM OF INJURY BY TRAUMA CENTER, 2012			
	Hospital	LAC+USC	LA County
Gun Shot Wound	14%	4%	6%
Stabbing	9%	6%	5%
Fall	20%	27%	27%
Auto Accident	25%	23%	25%
Motorcycle	1%	2%	3%
Auto vs. Bike/Pedestrian	17%	22%	19%
Other ¹	15%	16%	15%
Total Percentage	100%	100%	100%
Total	2,046	6,367	25,758

Source: Los Angeles County EMS Agency

¹Other includes assault, self inflicted injury, sports, work related, crush, burns, and animal bites

- The Hospital provides care to approximately 8% of all the trauma cases in Los Angeles County; and
- The Hospital has a greater total percentage of trauma cases as a result of gunshot wounds (14%), and stabbings (9%), when compared to LAC+USC Medical Center (4% and 6%, respectively), and Los Angeles County, (6% and 5%, respectively).

Demographic Profile

The Hospital's service area population is projected to grow by 1.0% over the next five years, which is lower than the expected growth rate for Los Angeles County (1.8%) and statewide (4.0%).

SERVICE AREA POPULATION STATISTICS 2014-2019			
	2014 Estimate	2019 Projection	% Change
Total Population	1,633,353	1,650,409	1.0%
Households	430,634	435,618	1.2%
Percentage Female	51.0%	50.9%	0.8%

Source: Alteryx's Analytic Apps

The median age of the population in the Hospital's service area is 30.6 years, lower than the statewide median age of 35.5 years. However, the percentage of adults over the age of 65 is the fastest growing age cohort and is forecasted to increase by approximately 14% by 2019. The number of women of child-bearing age is expected to decrease slightly over the next five years.

SERVICE AREA POPULATION AGE DISTRIBUTION: 2014-2019				
	2014 Estimate		2019 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	395,697	24.2%	390,974	23.7%
Age 15-44	746,653	45.7%	739,836	44.8%
Age 45-64	348,166	21.3%	356,315	21.6%
Age 65+	142,836	8.7%	163,284	9.9%
Total	1,633,352	100%	1,650,409	100%
Female 15-44	374,473	22.9%	369,869	22.4%
Median Age	30.6		31.4	

Source: Alteryx's Analytic Apps

The largest population cohorts in the Hospital's service area are White (42%), Other Race (34%), and Black (12%). Approximately 73% of the service area population is of Hispanic ethnicity, which is considerably higher when compared to the Los Angeles County and California Hispanic ethnic populations of 49% and 39%, respectively.

SERVICE AREA POPULATION RACE/ETHNICITY: 2014-2019		
	2014	2019
White	42.2%	41.7%
Black	12.0%	11.5%
American Indian or Alaska Native	0.9%	0.9%
Asian or Pacific Islander	6.6%	6.6%
Other Race	34.2%	35.1%
Two or More Races	4.0%	4.2%
Total	100%	100%
Hispanic Ethnicity	73.1%	74.3%
Non-Hispanic or Latino	26.9%	25.7%
Total	100%	100%

Source: Alteryx's Analytic Apps

The Hospital's service area has an average household income of \$61,644. This is significantly lower than both Los Angeles County and State of California averages for household income. The Hospital's service area household income is nearly 34% lower than Los Angeles County's average of \$82,525, and nearly 42% lower than the statewide average of \$87,251. Projections indicate that the percentage of higher income households (\$150,000+) in the Hospital's service area will grow at a slower rate than those for Los Angeles County and state, and will represent a much smaller percentage of households.

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2014-2019												
	2014 Estimate						2019 Projection					
	Service Area		Los Angeles County		California		Service Area		Los Angeles County		California	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
\$0 - \$15,000	63,395	14.7%	445,975	13.2%	1,484,147	11.3%	53,628	12.3%	375,323	10.9%	1,275,300	9.3%
\$15 - \$24,999	56,273	13.1%	376,692	11.2%	1,325,082	10.1%	51,623	11.9%	344,872	10.0%	1,235,052	9.0%
\$25 - \$34,999	50,726	11.8%	332,119	9.9%	1,220,260	9.3%	46,874	10.8%	305,126	8.9%	1,144,140	8.4%
\$35 - \$49,999	65,445	15.2%	438,844	13.0%	1,672,179	12.7%	60,894	14.0%	403,748	11.7%	1,576,670	11.5%
\$50 - \$74,999	78,794	18.3%	577,428	17.1%	2,235,800	17.0%	76,052	17.5%	550,527	16.0%	2,142,699	15.7%
\$75 - \$99,999	47,626	11.1%	380,311	11.3%	1,600,574	12.2%	55,377	12.7%	433,133	12.6%	1,749,144	12.8%
\$100 - \$149,999	46,121	10.7%	439,438	13.0%	1,944,936	14.8%	60,612	13.9%	554,599	16.1%	2,453,231	17.9%
\$150,000 +	22,254	5.2%	377,575	11.2%	1,644,190	12.5%	30,557	7.0%	476,575	13.8%	2,108,282	15.4%
Total	430,634	100%	3,368,382	100%	13,127,168	100%	435,617	100%	3,443,903	100%	13,684,518	100%
Average Household Income	\$61,644		\$82,525		\$87,251		\$71,182		\$95,276		\$100,285	

Source: Alteryx's Analytic Apps

Medi-Cal Eligibility

As of 2011, the California Department of Health Care Services reported that 35% 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. By 2015, California’s total number of Medi-Cal beneficiaries is expected to increase to approximately 11.5 million individuals. Based on the Hospital’s service area income demographics, and the Hospital’s payer mix consisting of 56% Medi-Cal patients, a large percentage of the service area residents qualify for coverage under expansion.

Selected Health Indicators

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

- The Hospital’s measures of first trimester prenatal care and adequate/adequate plus care in Los Angeles County are superior to those statewide and the national goal. The rate of low birth weight infants is above the State of California average, but lower than the national goal.

NATALITY STATISTICS: 2014			
Health Status Indicator	Los Angeles		National
	County	California	Goal
Low Birth Weight Infants	7.1%	6.8%	7.8%
First Trimester Prenatal Care	85.6%	83.6%	77.9%
Adequate/Adequate Plus Care	82.4%	79.5%	77.6%

Source: California Department of Health Care Services, 2014

- The overall age-adjusted mortality rate for Los Angeles County is lower than that of the State of California average. Los Angeles County’s age-adjusted rates for eleven of the eighteen causes of mortality are lower than the State of California rate. Los Angeles County’s age-adjusted rates are higher in colorectal cancer, female breast cancer, diabetes, coronary heart disease, influenza/pneumonia, chronic liver disease and cirrhosis, and homicide. Based on underlying and contributing cause of death statistics, Los Angeles County reported lower age-adjusted death rates for nine out of the fourteen reported national goals.

MORTALITY STATISTICS: 2014 RATE PER 100,000 POPULATION				
Selected cause	Los Angeles County		(Age Adjusted)	
	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	585.5	611.4	641.5	n/a
- All Cancers	141.9	149.3	153.3	160.6
- Colorectal Cancer	13.8	14.4	14.2	14.5
- Lung Cancer	29.3	31.4	34.8	45.5
- Female Breast Cancer	22.9	21.4	20.9	20.6
- Prostate Cancer	15.3	20.3	20.5	21.2
- Diabetes	21.3	22.5	20.4	n/a
- Alzheimer's Disease	23.9	25.1	30.5	n/a
- Coronary Heart Disease	119.7	124.9	106.2	100.8
- Cerebrovascular Disease (Stroke)	33.5	35.4	36.6	33.8
- Influenza/Pneumonia	20.5	21.8	16.1	n/a
- Chronic Lower Respiratory Disease	28.9	31.1	36.2	n/a
- Chronic Liver Disease And Cirrhosis	12.5	12.4	11.5	8.2
- Accidents (Unintentional Injuries)	19.7	19.5	27.3	36.0
- Motor Vehicle Traffic Crashes	6.3	6.2	7.3	12.4
- Suicide	7.8	7.7	10.1	10.2
- Homicide	6.3	6.0	5.2	5.5
- Firearm-Related Deaths	7.6	7.4	7.7	9.2
- Drug-Induced Deaths	6.9	6.7	10.8	11.3

Source: California Department of Public Health, Center for Health Statistics, 2014

- Los Angeles County has higher morbidity rates for the reported conditions than California overall. As shown in the table below, the measured Los Angeles County incidence of the following health status indicators is higher than the national goals in all indicators with the exception of gonorrhea among females ages 15-44.

MORBIDITY STATISTICS: 2014 RATE PER 100,000 POPULATION			
Health Status Indicator	Los Angeles		National Goal
	County	California	
AIDS	12.7	8.6	12.4
Chlamydia	506.1	434.5	n/a
Gonorrhea Female 15-44	162.8	139.6	251.9
Gonorrhea Male 15-44	272.2	186.6	194.8
Tuberculosis	7.4	6.1	1.0

Source: California Department of Health Care Services, 2014

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 independently in 2013, utilizing consultative services, and targeted Los Angeles County Service Planning Areas that include the primary and secondary service areas served by the Hospital.

The Hospital defined its service area for purposes of the assessment to include the communities that correspond to Service Planning Areas 6, 7, and 8.

- The communities of Service Planning Area 6 include: Athens, Compton, Crenshaw, Florence, Hyde Park, Lynwood, Paramount, and Watts;
- The communities of Service Planning Area 7 include: Artesia, Bell, Bellflower, Bell Gardens, Cerritos, City of Commerce, City Terrace, Cudahy, Downey, East Los Angeles, Hawaiian Gardens, Huntington Park, La Habra Heights, Lakewood, La Mirada, Los Nietos, Maywood, Montebello, Norwalk, Pico Rivera, Santa Fe Springs, Signal Hill, South Gate, Vernon, Walnut Park, Whittier, and others; and
- The communities of Service Planning Area 8 include: Athens, Avalon, Carson, Catalina Island, El Segundo, Gardena, Harbor City, Hawthorne, Inglewood, Lawndale, Lennox, Long Beach, Hermosa Beach, Manhattan Beach, Palos Verdes Estates, Rancho Dominguez, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, San Pedro, and Wilmington.

Based on the defined service area above, the study included a summary of population health indicators reproduced below:

- 32.4% of adults within the Hospital's service area are uninsured, compared to 28.5% of adults in Los Angeles County;
- 21.3% of adults within the Hospital's service area reported having no regular source of care compared to only 14.2% statewide;
- The Hospital's service area reported higher percentages of adult obesity and diabetes (28.5% and 11.7%, respectively) than the Los Angeles County average (23.6% and 9.5%, respectively); and
- 14.7% of children in the Hospital's service area reported difficulty accessing medical care, compared to 12.3% of children in Los Angeles County.

Based upon the defined service area, the study identified the most important healthcare needs in the community as follows:

- Lack of access to affordable health insurance coverage and health services;

- High rates of:
 - Coronary heart disease;
 - Stroke;
 - Lung cancer/emphysema;
 - Diabetes and obesity;
 - Hypertension;
 - Sexually transmitted diseases;
 - Respiratory disease among children; and
 - Teen births.

- Low breastfeeding rates;

- Lack of access to affordable, quality childcare; and

- Poor overall health status.

Hospital Supply, Demand, and Market Share

There are eight other general acute care hospitals within the Hospital's service area that, together with the Hospital, have a combined total of 2,255 licensed beds and an aggregate occupancy rate of approximately 55%. Hospitals in the service area run at occupancy rates that range between 32% at Coast Plaza Hospital to approximately 90% at College Hospital. It is anticipated that an additional 131 licensed acute care beds will be included in the service area bed total when Martin Luther King, Jr. Community Hospital opens in 2015.

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 listed in the table below were analyzed to determine area hospital available bed capacity by service.

AREA HOSPITAL DATA: 2013									
Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
St. Francis Medical Center	Daughters of Charity Health System	Lynwood	X	384	18,957	87,944	241	62.7%	-
Kaiser - Downey	Kaiser Foundation Hospitals	Downey	X	352	18,263	69,520	190	54.1%	4.8
PIH - Downey	PIH Health	Downey	X	199	11,678	42,198	116	58.1%	5.0
Community Hospital of Huntington Park	Avanti Hospitals, LLC	Huntington Park	X	108	4,038	14,382	39	36.5%	5.4
Coast Plaza Hospital	Avanti Hospitals, LLC	Norwalk	X	117	3,295	13,782	38	32.3%	6.6
College Hospital	Cerritos Townhouse Investment	Cerritos	X	187	6,992	61,495	168	89.8%	8.0
Lakewood Regional Medical Center	Tenet Healthcare Corporation	Lakewood	X	172	8,172	38,081	104	60.7%	9.1
PIH - Whittier	Interhealth Corporation	Whittier	X	558	19,275	90,434	247	44.3%	10.9
Whittier Hospital Medical Center	Whittier Hospital Medical Center	Whittier	X	178	7,654	32,961	90	50.6%	12.8
SUB-TOTAL				2,255	98,324	450,797	1235	54.8%	
Memorial Hospital of Gardena	Avanti Hospitals, LLC	Gardena		172	6,725	52,427	144	83.5%	7.9
Los Angeles Community Hospital	Alta Hospitals System, LLC	Los Angeles		180	8,854	53,039	145	80.7%	9.0
Centinela Hospital Medical Center	Prime Healthcare Services	Inglewood		369	18,118	71,719	196	53.2%	9.0
Earl and Lorraine Miller Childrens Hospital	Memorial Health Services	Long Beach		373	16,385	83,042	228	61.0%	9.1
Long Beach Memorial Medical Center	Memorial Health Services	Long Beach		462	21,424	98,811	271	58.6%	9.2
Beverly Hospital	Beverly Community Hospital	Montebello		214	9,423	35,777	98	45.8%	9.7
Monterey Park Hospital	Monterey Park Hospital	Monterey Park		101	4,681	15,879	44	43.1%	9.9
LAC/Harbor-UCLA Medical Center	Los Angeles County DHS	Torrance		453	19,992	117,710	322	71.2%	11.1
California Hospital Medical Center	Dignity Health	Los Angeles		318	17,127	68,962	189	59.4%	13.2
Tri City Regional Medical Center	Tri City Regional Medical	Hawaiian Gardens		107	3,130	15,388	42	39.4%	13.2
East Los Angeles Doctors Hospital	Avanti Hospitals, LLC	Los Angeles		127	3,796	25,116	69	54.2%	13.5
Good Samaritan Hospital-Los Angeles	Good Samaritan Hospital	Los Angeles		408	12,956	59,882	164	40.2%	13.9
White Memorial Medical Center	Adventist Health	Los Angeles		353	20,498	89,825	246	69.7%	14.1
LAC+USC Medical Center	Los Angeles County DHS	Los Angeles		676	30,899	199,552	547	80.9%	14.5
La Palma Intercommunity Hospital	Prime Healthcare Services	La Palma		141	3,614	18,050	49	35.1%	15.3
Pacific Alliance Medical Center, Inc.	PAMC, Ltd.	Los Angeles		142	6,945	25,468	70	49.0%	15.3
Children's Hospital Los Angeles	Children's Hospital Los Angeles	Los Angeles		603	13,834	102,788	282	46.7%	18.6
Cedars Sinai Medical Center	Cedars Sinai Medical Center	Los Angeles		896	49,216	251,803	690	77.0%	21.4
TOTAL				8,350	365,941	1,836,035	5,030	60.2%	

Source: OSHPD Disclosure Reports, 2013

(1) Bellflower Medical Center closed in 2013

- The Hospital's 384 licensed beds represent approximately 17% of the area's beds, and its inpatient volume accounts for approximately 19% of discharges and 20% of patient days; and
- The four largest providers of inpatient services located in the Hospital's service area operate at a combined average occupancy rate of 55%.

Hospital Market Share

The table below illustrates service area hospital inpatient market share from 2009 to 2013.

HOSPITAL MARKETSHARE: FY 2009-2013						
Hospital	2009	2010	2011	2012	2013	Trend
St. Francis Medical Center	10.7%	9.9%	9.8%	10.0%	9.8%	↔
Kaiser - Downey	2.4%	8.7%	8.9%	8.5%	8.4%	↔
PIH - Whittier	5.8%	6.7%	6.6%	6.2%	6.8%	↗
PIH - Downey	6.5%	5.8%	5.8%	5.6%	5.2%	↘
Earl and Lorraine Miller Children's Hospital	3.5%	3.5%	3.8%	4.0%	4.3%	↗
LAC/Harbor-UCLA Medical Center	4.8%	4.7%	4.4%	4.2%	4.2%	↘
Lakewood Regional Medical Center	2.9%	3.0%	3.0%	3.1%	3.3%	↗
Long Beach Memorial Medical Center	3.6%	3.5%	3.2%	3.2%	3.3%	↔
LAC+USC Medical Center	2.7%	3.1%	3.1%	3.1%	3.1%	↔
Centinela Hospital Medical Center	3.1%	3.2%	3.2%	3.3%	3.0%	↔
Other Discharges	54.0%	47.9%	48.3%	48.8%	48.6%	↘
Total Percentage	100%	100%	100%	100%	100%	
Total Discharges	174,302	171,857	170,193	167,212	160,786	↘

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database, 2009-2013

- The number of discharges in the Hospital's service area decreased by 8% between 2009 and 2013;
- The Hospital has consistently been the market share leader for its service area based on discharges (approximately 10% in FY 2013). Kaiser Foundation Hospital – Downey ranked second in inpatient discharges with 8% market share in 2013; and
- PIH – Whittier increased its market share slightly by 7%.

The following table illustrates hospital market share by payer category for 2013:

HOSPITAL MARKET SHARE BY PAYER TYPE: FY 2013												
Payer Type	St. Francis Medical Center	Kaiser - Downey	PIH - Whittier	PIH - Downey	Earl and Lorraine Miller	Childrens Hospital	LAC/Harbor-UCLA Medical Center	Lakewood Regional Medical Center	Long Beach Memorial Medical Center	All Others	Total	Total Discharges
Medi-Cal	14.9%	1.6%	2.7%	2.9%	8.4%	5.9%	1.5%	2.3%	59.9%	100%	62,269	
Medicare	7.2%	9.1%	11.4%	8.0%	0.0%	1.2%	5.8%	4.3%	52.8%	100%	49,482	
Private Coverage	3.2%	23.0%	9.1%	6.5%	4.4%	0.3%	2.6%	3.3%	47.6%	100%	33,129	
All Other	0.2%	0.4%	1.4%	2.2%	0.6%	21.5%	4.4%	2.8%	66.3%	100%	8,512	
Uninsured	24.5%	3.7%	7.8%	3.4%	2.0%	8.5%	3.0%	5.6%	41.5%	100%	7,394	
Total Percentage	9.8%	8.4%	6.8%	5.2%	4.3%	4.2%	3.3%	3.3%	54.7%	100%		
Total Discharges	15,744	13,428	11,001	8,394	6,894	6,808	5,308	5,276	87,933		160,786	

Note: Excludes normal new births

Source: OSHPD Patient Discharge Database, 2013

- The largest categories of service area inpatient discharges are comprised of Medi-Cal at nearly 62,300 discharges (39%), Medicare at nearly 50,000 discharges (31%), and private coverage at over 33,000 discharges (21%);
- The Hospital is the market share leader for Medi-Cal (15%) and uninsured (25%);
- Kaiser Foundation Hospital – Downey ranks first in private coverage (23%); and
- The Hospital provides care to a small proportion of private coverage patients with a 3.2% market share.

Market Share by Service Line

The following table illustrates service area hospital market share by service line for 2013.

HOSPITAL MARKET SHARE BY SERVICE LINE: FY 2013											
Service Line	Total Discharges	St. Francis Medical Center	Kaiser - Downey	PIH - Whittier	PIH - Downey	Earl and Lorraine Miller Childrens Hospital	LAC/Harbor- UCLA Medical Center	Lakewood Regional Medical Center	Long Beach Memorial Medical Center	All Others	Total
General Medicine	50,502	7.3%	8.5%	7.5%	6.4%	3.8%	4.1%	4.5%	3.7%	54.3%	100%
Obstetrics	27,262	17.2%	10.7%	6.1%	4.3%	9.5%	1.2%	0.1%	0.4%	50.4%	100%
Cardiac Services	16,757	8.1%	6.3%	8.3%	8.3%	0.3%	4.6%	6.1%	4.4%	53.6%	100%
Behavioral Health	12,046	9.6%	0.8%	0.3%	0.3%	0.1%	2.3%	0.6%	0.3%	85.7%	100%
General Surgery	11,860	8.5%	8.9%	7.8%	4.3%	3.1%	7.8%	3.4%	4.2%	51.9%	100%
Neurology	6,931	7.6%	7.1%	7.5%	6.3%	2.4%	4.1%	6.6%	5.4%	53.1%	100%
Orthopedics	6,781	7.1%	11.8%	10.1%	6.8%	2.6%	6.9%	4.6%	4.4%	45.5%	100%
Neonatology	6,778	16.3%	15.7%	6.1%	3.0%	11.8%	2.5%	0.0%	0.0%	44.6%	100%
Oncology/Hematology	5,282	6.1%	8.4%	5.8%	4.8%	5.2%	7.0%	4.0%	7.0%	51.6%	100%
Gynecology	2,653	6.0%	11.3%	6.9%	5.6%	1.2%	9.5%	2.8%	7.4%	49.4%	100%
Vascular Services	2,584	12.7%	7.5%	6.9%	3.5%	0.2%	6.7%	6.3%	5.0%	51.2%	100%
ENT	2,255	8.5%	5.8%	4.5%	4.8%	12.0%	8.5%	2.5%	5.0%	48.4%	100%
Other	2,106	12.3%	5.5%	6.6%	2.4%	5.9%	8.1%	3.0%	6.7%	49.5%	100%
Urology	2,081	7.2%	13.6%	7.0%	4.7%	1.4%	5.8%	4.1%	3.8%	52.3%	100%
Spine	2,004	4.9%	7.9%	8.2%	5.8%	1.1%	2.9%	3.4%	5.7%	60.0%	100%
Rehabilitation	1,445	10.1%	0.0%	19.0%	0.0%	0.2%	0.0%	0.0%	8.2%	62.4%	100%
Neurosurgery	916	5.5%	1.9%	6.0%	6.2%	5.5%	6.3%	3.3%	7.0%	58.4%	100%
All Others	543	5.5%	6.4%	5.2%	1.5%	3.9%	16.2%	1.5%	4.1%	55.8%	100%
Total Percentage		9.8%	8.4%	6.8%	5.2%	4.3%	4.2%	3.3%	3.3%	54.7%	100%
Total Discharges	160,786	15,744	13,428	11,001	8,394	6,894	6,808	5,308	5,276	87,933	

Note: Excludes normal new births

Source: OSHPD Patient Discharge Database, 2013

- The Hospital is the service line leader in five of sixteen service lines: obstetrics (17%), neonatology (16%), behavioral health (10%), vascular services (13%), and neurology (8%);
- The Hospital also has a notable service line market share in rehabilitation (10%), general surgery (9%), Ear, Nose, and Throat (9%), general medicine (7%), and orthopedics (7%);
- In 2013, Kaiser Foundation Hospital – Downey was the market share leader for six service lines including urology (14%), orthopedics (12%), gynecology (11%), general surgery (9%), general medicine (9%), and oncology/hematology (8%);
- PIH – Whittier has the highest market share in rehabilitation (19%) and spine (8%);
- Earl and Lorraine Miller Children's Hospital has the highest market share in Ear, Nose, and Throat (12%); and
- Long Beach Memorial Medical Center has the highest market share in neurosurgery (7%).

Market Share by ZIP Code

The following table illustrates service area hospital market share by ZIP Code for 2013:

HOSPITAL MARKET SHARE BY ZIP CODE, 2013														
ZIP Code	Community	Total Discharges	St. Francis Medical Center	Kaiser Foundation Hospital - Downey	Presbyterian Intercommunity Hospital	PIH Hospital - Downey	Earl and Lorraine Miller Childrens Hospital	LAC/Harbor-UCLA Medical Center	Lakewood Regional Medical Center	Long Beach Memorial Medical Center	All Others	Total		
90044	Los Angeles	11,540	4.4%	1.0%	0.1%	0.2%	1.4%	7.2%	0.2%	0.5%	85.0%	100%		
90650	Norwalk	11,126	2.1%	12.0%	8.7%	8.7%	3.4%	2.0%	3.2%	2.2%	57.7%	100%		
90805	Long Beach	9,862	3.0%	6.4%	0.3%	1.1%	15.6%	4.1%	11.1%	20.8%	37.7%	100%		
90201	Bell	7,623	14.4%	7.9%	1.6%	7.8%	3.3%	3.0%	1.1%	0.7%	60.1%	100%		
90003	Los Angeles	7,546	7.7%	2.0%	0.1%	0.6%	1.6%	7.5%	0.3%	0.8%	79.5%	100%		
90280	South Gate	7,409	24.0%	12.4%	1.1%	12.6%	4.2%	3.8%	1.8%	1.3%	38.8%	100%		
90706	Bellflower	7,271	2.8%	16.1%	1.3%	5.8%	8.7%	3.5%	15.3%	5.8%	40.7%	100%		
90660	Pico Rivera	7,189	0.7%	9.2%	24.5%	3.3%	0.9%	0.4%	0.6%	0.3%	60.1%	100%		
90262	Lynwood	6,685	36.2%	8.9%	0.6%	5.1%	4.4%	4.8%	2.0%	1.9%	36.0%	100%		
90255	Huntington Park	6,205	14.3%	7.6%	0.6%	5.2%	2.0%	2.5%	0.8%	0.5%	66.6%	100%		
90001	Los Angeles	6,105	12.9%	4.0%	0.3%	2.3%	1.9%	4.7%	0.4%	0.7%	72.9%	100%		
90220	Compton	5,872	13.0%	7.0%	0.1%	1.0%	7.9%	9.1%	4.2%	6.7%	51.0%	100%		
90002	Los Angeles	5,771	21.6%	5.2%	0.3%	1.7%	2.5%	7.2%	1.2%	1.3%	58.9%	100%		
90221	Compton	5,583	22.1%	9.6%	0.1%	2.5%	8.5%	8.0%	7.9%	7.9%	33.4%	100%		
90723	Paramount	5,008	6.4%	11.3%	0.9%	5.9%	8.7%	4.5%	11.6%	5.1%	45.6%	100%		
90059	Los Angeles	4,872	24.5%	5.0%	0.2%	1.7%	3.2%	9.5%	1.0%	1.8%	52.9%	100%		
90241	Downey	4,379	3.3%	14.5%	5.1%	34.0%	3.9%	1.3%	1.6%	1.1%	35.1%	100%		
90703	Cerritos	4,351	0.6%	11.6%	1.6%	2.8%	3.2%	1.4%	6.3%	6.1%	66.4%	100%		
90638	La Mirada	4,243	0.4%	7.9%	23.5%	1.4%	1.1%	0.5%	0.7%	0.9%	63.6%	100%		
90242	Downey	4,029	5.6%	16.9%	2.6%	21.6%	4.5%	2.1%	2.8%	2.0%	41.9%	100%		
90605	Whittier	3,992	0.6%	8.5%	40.1%	1.3%	1.8%	0.7%	0.3%	0.4%	46.4%	100%		
90604	Whittier	3,741	0.6%	9.0%	37.2%	1.2%	1.7%	0.7%	0.5%	0.5%	48.6%	100%		
90061	Los Angeles	3,648	10.4%	2.6%	0.1%	0.5%	2.0%	10.8%	0.4%	1.2%	72.0%	100%		
90222	Compton	3,533	24.8%	7.9%	0.2%	1.7%	6.2%	7.8%	2.6%	4.2%	44.5%	100%		
90606	Whittier	3,406	0.7%	8.8%	45.5%	1.4%	1.4%	1.1%	0.5%	0.4%	40.2%	100%		
90270	Maywood	2,336	12.5%	6.7%	1.7%	5.5%	1.8%	1.6%	0.7%	0.5%	68.9%	100%		
90603	Whittier	2,124	0.3%	6.3%	44.9%	0.6%	0.4%	0.5%	0.4%	0.1%	46.5%	100%		
90240	Downey	1,951	3.0%	17.9%	8.3%	25.9%	3.6%	1.8%	1.8%	1.7%	36.0%	100%		
90701	Artesia	1,783	1.5%	6.9%	1.9%	4.5%	2.9%	3.3%	8.1%	4.7%	66.3%	100%		
90670	Santa Fe Springs	1,593	1.5%	12.8%	37.4%	5.8%	2.1%	0.8%	1.2%	0.8%	37.5%	100%		
90639	La Mirada	10	0.0%	0.0%	10.0%	0.0%	10.0%	0.0%	0.0%	0.0%	80.0%	100%		
Total Percentage			9.8%	8.4%	6.8%	5.2%	4.3%	4.2%	3.3%	3.3%	54.7%	100%		
Total Discharges		160,786	15,744	13,428	11,001	8,394	6,894	6,808	5,308	5,276	87,933			

Note: Excludes normal new births
Source: OSHPD Patient Discharge Database

- The Hospital is the market share leader in twelve of the service area ZIP Codes. In six of these ZIP Codes, the Hospital had over 20% of the market share in 2013. The communities represented by these ZIP Codes include Los Angeles, Lynwood, and Compton;
- PIH – Whittier is the market share leader in eight service area ZIP Codes, located in communities including Pico Rivera, La Mirada and Whittier;
- PIH – Downey is the market share leader in three service area ZIP Codes, all of which have over 20% market share; and
- Kaiser Foundation Hospital – Downey, despite having the second highest market share in the service area, is the leader in only three service area ZIP Codes, located in the communities of Norwalk, Bellflower, and Cerritos.

Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, intensive/coronary care, obstetrics, pediatrics, neonatal intensive care, acute psychiatric care, skilled nursing, and emergency services (FY 2013 data).

Martin Luther King, Jr. Community Hospital, located within the service area approximately 2.9 miles from the Hospital, will be a 131-licensed bed general acute care hospital. It is expected to feature a 21-bed emergency department, a critical care unit, and labor and delivery services. It will include radiology and imaging as well as additional hospital-based services.

Medical/Surgical Capacity Analysis

The medical/surgical beds within the service area run at an overall occupancy rate of approximately 48%.

MEDICAL/SURGICAL BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Francis Medical Center	-	X	185	9,495	39,186	107.4	57.9%
Kaiser - Downey*	4.8	X	182	12,456	43,987	120.5	66.0%
PIH - Downey	5.0	X	96	7,031	22,167	60.7	63.1%
Community Hospital of Huntington Park*	5.4	X	69	2,442	7,399	20.3	29.3%
Coast Plaza Hospital	6.6	X	110	3,156	11,946	32.7	29.7%
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	53	2,966	11,551	31.6	59.5%
PIH - Whittier	10.9	X	302	10,223	39,483	108.2	35.7%
Whittier Hospital Medical Center*	12.8	X	63	2,637	8,198	22.5	35.6%
SUB-TOTAL			1,060	50,406	183,917	504	47.5%
Memorial Hospital of Gardena*	7.9		51	4,047	10,523	28.8	56.5%
Los Angeles Community Hospital*	9.0		94	7,563	34,697	95.1	101.1%
Centinel Hospital Medical Center*	9.0		244	16,349	55,640	152.4	62.5%
Earl and Lorraine Miller Childrens Hospital	9.1		-	-	-	-	-
Long Beach Memorial Medical Center	9.2		197	11,735	47,995	131.5	66.6%
Beverly Hospital*	9.7		131	6,701	30,389	83.3	63.6%
Monterey Park Hospital*	9.9		85	3,062	10,418	28.5	33.5%
LAC/Harbor-UCLA Medical Center	11.1		266	14,723	75,633	207.2	77.7%
California Hospital Medical Center	13.2		132	6,150	24,840	68.1	51.4%
Tri City Regional Medical Center	13.2		89	2,905	12,481	34.2	38.3%
East Los Angeles Doctors Hospital*	13.5		54	1,665	12,241	33.5	61.9%
Good Samaritan Hospital-Los Angeles*	13.9		121	4,390	17,755	48.6	40.1%
White Memorial Medical Center*	14.1		78	4,607	17,318	47.4	60.7%
LAC+USC Medical Center	14.5		308	19,650	101,680	278.6	90.2%
La Palma Intercommunity Hospital	15.3		91	2,813	11,537	31.6	34.6%
Pacific Alliance Medical Center, Inc.**	15.3		100	4,335	14,994	41.0	41.0%
Children's Hospital Los Angeles	18.6		-	-	-	-	-
Cedars Sinai Medical Center	21.4		431	27,846	129,048	353.6	81.8%
TOTAL			3,532	188,947	791,106	2167.4	61.2%

Source: OSHPD Disclosure Reports, 2013

* Unaudited ** 2012 Disclosure Report

(1) Bellflower Medical Center closed in 2013

- The Hospital reported 9,495 inpatient hospital discharges and 39,186 patient days resulting in an occupancy rate of approximately 58% and an average daily census of 107 patients in 2013;
- The Hospital's 185 licensed medical/surgical beds represented approximately 17% of the beds in this category for the service area. Any further reduction to the number of available medical/surgical beds in the service area or at the Hospital could impact the availability and accessibility of medical/surgical services; and

- Between 2012 and 2013, Centinela Hospital Medical Center recently increased the number of licensed medical/surgical beds to 244 beds. In 2013, Centinela Hospital Medical Center reported over 16,300 discharges and an occupancy rate of nearly 63%.

Intensive Care Unit/Coronary Care Unit Capacity Analysis

There are 211 intensive care unit/coronary care unit beds within the service area, with an overall occupancy rate of approximately 66%. The Hospital has 36 licensed intensive care beds with an average occupancy rate of 75% in 2013 (average daily census of 27).

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Francis Medical Center	-	X	36	806	9,820	26.9	74.7%
Kaiser - Downey*	4.8	X	38	351	4,090	11.2	29.5%
PIH - Downey	5.0	X	18	342	5,223	14.3	79.5%
Community Hospital of Huntington Park*	5.4	X	4	132	1,343	3.7	92.0%
Coast Plaza Hospital	6.6	X	7	139	1,836	5.0	71.9%
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	32	819	9,243	25.3	79.1%
PIH - Whittier	10.9	X	60	3,415	16,462	45.1	75.2%
Whittier Hospital Medical Center*	12.8	X	16	276	2,857	7.8	48.9%
SUB-TOTAL			211	6,280	50,874	139.4	65.9%
Memorial Hospital of Gardena*	7.9		10	216	3,910	10.7	107.1%
Los Angeles Community Hospital*	9.0		12	266	3,768	10.3	86.0%
Centinela Hospital Medical Center*	9.0		31	526	8,242	22.6	72.8%
Earl and Lorraine Miller Childrens Hospital	9.1		-	-	-	-	-
Long Beach Memorial Medical Center	9.2		61	729	14,441	39.6	64.9%
Beverly Hospital*	9.7		25	384	2,366	6.5	25.9%
Monterey Park Hospital*	9.9		4	76	1,190	3.3	81.5%
LAC/Harbor-UCLA Medical Center	11.1		42	727	13,522	37.0	88.2%
California Hospital Medical Center	13.2		36	2,029	6,844	18.8	52.1%
Tri City Regional Medical Center	13.2		18	225	2,907	8.0	44.2%
East Los Angeles Doctors Hospital*	13.5		10	109	2,064	5.7	56.5%
Good Samaritan Hospital-Los Angeles*	13.9		68	610	7,848	21.5	31.6%
White Memorial Medical Center*	14.1		42	1,617	11,176	30.6	72.9%
LAC+USC Medical Center	14.5		120	5,779	35,696	97.8	81.5%
La Palma Intercommunity Hospital	15.3		8	124	1,571	4.3	53.8%
Pacific Alliance Medical Center, Inc.**	15.3		9	120	1,502	4.1	45.7%
Children's Hospital Los Angeles	18.6		-	-	-	-	-
Cedars Sinai Medical Center	21.4		118	1,214	28,731	78.7	66.7%
TOTAL			825	21,031	196,652	538.8	65.1%

Source: OSHPD Disclosure Reports, 2013

*Unaudited ** 2012 Disclosure Report

(1) Bellflower Medical Center closed in 2013

- Among the service area hospitals, the average daily census was 139 patients based on over 50,874 patient days;
- In addition to the fairly high occupancy rate at the Hospital, PIH – Downey and Community Hospital of Huntington Park ran at high occupancy rates of 80% and 92%, respectively; and

- The Hospital accounted for 17% of the service area’s licensed intensive care/coronary care beds in 2013. Any reduction to the number of intensive care/coronary care beds at the Hospital would impact the availability and accessibility of intensive care/coronary care services.

Obstetrics Capacity Analysis

In 2013, there were 230 obstetrics beds located in the service area with an aggregate occupancy rate of 51%. The Hospital reported 50 licensed obstetric beds with an occupancy rate of 62%.

OBSTETRICS BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Francis Medical Center	-	X	50	5,229	11,256	30.8	61.5%
Kaiser - Downey*	4.8	X	66	4,018	7,831	21.5	32.4%
PIH - Downey	5.0	X	20	1,296	2,768	7.6	37.8%
Community Hospital of Huntington Park*	5.4	X	-	-	-	-	-
Coast Plaza Hospital	6.6	X	-	-	-	-	-
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	-	-	-	-	-
PIH - Whittier	10.9	X	66	6,654	15,195	41.6	62.9%
Whittier Hospital Medical Center*	12.8	X	28	2,500	5,814	15.9	56.7%
SUB-TOTAL			230	19,697	42,864	117.1	50.9%
Memorial Hospital of Gardena*	7.9		23	1,302	3,389	9.3	40.4%
Los Angeles Community Hospital*	9.0		16	118	316	0.9	5.4%
Centinel Hospital Medical Center*	9.0		29	845	2,355	6.5	22.2%
Earl and Lorraine Miller Childrens Hospital	9.1		59	4,815	15,771	43.1	73.0%
Long Beach Memorial Medical Center	9.2		-	-	-	-	-
Beverly Hospital*	9.7		18	806	1,802	4.9	27.4%
Monterey Park Hospital*	9.9		12	1,543	4,271	11.7	97.2%
LAC/Harbor-UCLA Medical Center	11.1		27	1,073	3,163	8.7	32.0%
California Hospital Medical Center	13.2		37	3,824	11,578	31.7	85.5%
Tri City Regional Medical Center	13.2		-	-	-	-	-
East Los Angeles Doctors Hospital*	13.5		13	690	2,204	6.0	46.3%
Good Samaritan Hospital-Los Angeles*	13.9		69	4,069	10,776	29.5	42.7%
White Memorial Medical Center*	14.1		24	4,073	8,509	23.3	96.9%
LAC+USC Medical Center	14.5		12	1,234	4,575	12.5	104.2%
La Palma Intercommunity Hospital	15.3		25	414	982	2.7	10.7%
Pacific Alliance Medical Center, Inc.**	15.3		10	2,265	6,331	17.3	173.0%
Children's Hospital Los Angeles	18.6		-	-	-	-	-
Cedars Sinai Medical Center	21.4		64	7,006	19,894	54.5	84.9%
TOTAL			668	53,774	138,780	380.2	56.8%

Source: OSHPD Disclosure Reports, 2013

*Unaudited ** 2012 Disclosure Report

(1) Bellflower Medical Center closed in 2013

(2) Kaiser Foundation Hospital - Downey and PIH - Whittier have Alternative Birthing Centers

- The Hospital provides 22% of licensed obstetrics beds within its service area, and in 2013, reported approximately 27% of the service area’s 19,697 discharges;
- Hospitals within the service area have a combined occupancy rate of 51%. Community Hospital of Huntington Park does not have any licensed obstetric beds, and PIH – Downey is running at 38% occupancy;

- Many of the hospitals that fall outside of the service area provide obstetrics services to the service area residents and have high occupancy rates. Monterey Park Hospital (97%), California Hospital Medical Center – Los Angeles (86%), White Memorial Medical Center (97%), LAC+USC Medical Center (104%), and Pacific Alliance Medical Center (173%) are all limited in their ability to accommodate additional obstetrics volume; and
- Martin Luther King, Jr. Community Hospital is expected to provide obstetrics services when it opens in 2015.

Pediatric Capacity Analysis

In 2013, there were 92 pediatric beds located within the service area with an aggregate occupancy rate of approximately 18%. The Hospital reported 14 licensed pediatric beds with an occupancy rate of 37%.

PEDIATRIC ACUTE / INTENSIVE CARE BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Francis Medical Center	-	X	14	691	1,878	5.1	36.7%
Kaiser - Downey*	4.8	X	17	813	2,201	6.0	35.4%
PIH - Downey	5.0	X	7	-	-	-	-
Community Hospital of Huntington Park*	5.4	X	20	179	508	1.4	6.9%
Coast Plaza Hospital	6.6	X	-	-	-	-	-
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	-	-	-	-	-
PIH - Whittier	10.9	X	34	760	1,561	4.3	12.5%
Whittier Hospital Medical Center*	12.8	X	-	-	-	-	-
SUB-TOTAL			92	2,443	6,148	16.8	18.3%
Memorial Hospital of Gardena*	7.9	-	-	-	-	-	-
Los Angeles Community Hospital*	9.0	-	19	760	1,737	4.8	25.0%
Centinel Hospital Medical Center*	9.0	-	-	-	-	-	-
Earl and Lorraine Miller Childrens Hospital	9.1	-	172	7,634	31,413	85.8	49.9%
Long Beach Memorial Medical Center	9.2	-	-	-	-	-	-
Beverly Hospital*	9.7	-	15	532	1,220	3.3	22.2%
Monterey Park Hospital*	9.9	-	-	-	-	-	-
LAC/Harbor-UCLA Medical Center	11.1	-	33	2,105	6,914	18.9	57.2%
California Hospital Medical Center	13.2	-	12	637	2,099	5.8	47.8%
Tri City Regional Medical Center	13.2	-	-	-	-	-	-
East Los Angeles Doctors Hospital*	13.5	-	-	-	-	-	-
Good Samaritan Hospital-Los Angeles*	13.9	-	-	-	-	-	-
White Memorial Medical Center*	14.1	-	33	1,985	4,338	11.9	35.9%
LAC+USC Medical Center	14.5	-	44	2,331	8,374	22.9	52.0%
La Palma Intercommunity Hospital	15.3	-	-	-	-	-	-
Pacific Alliance Medical Center, Inc.**	15.3	-	-	-	-	-	-
Children's Hospital Los Angeles	18.6	-	505	13,455	87,529	239.2	47.4%
Cedars Sinai Medical Center	21.4	-	49	1,649	4,191	11.5	23.4%
TOTAL			974	33,531	153,963	421.8	43.2%

Source: OSHPD Disclosure Reports, 2013

*Unaudited ** 2012 Disclosure Report

(1) Bellflower Medical Center closed in 2013

- The Hospital provides 16% of the occupied pediatric beds within the service area; and

- There are two Children’s Hospitals within 19 miles of the Hospital. Earl and Lorraine Miller Children’s Hospital, located approximately 11 miles away, is licensed for 172 pediatric beds and runs at an occupancy rate of approximately 50%. Additionally, Children’s Hospital of Los Angeles is located 19 miles from the Hospital and has 505 licensed pediatrics beds and an occupancy rate of 47%.

Neonatal Intensive Care Unit Capacity Analysis

As shown below, the occupancy rate for neonatal intensive care services within the service area hospitals is approximately 62% based on 119 licensed beds.

NEONATAL INTENSIVE CARE BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Francis Medical Center	-	X	29	517	7,933	21.7	74.7%
Kaiser - Downey*	4.8	X	49	625	11,411	31.3	63.6%
PIH - Downey	5.0	X	7	222	1,162	3.2	45.4%
Community Hospital of Huntington Park*	5.4	X	-	-	-	-	-
Coast Plaza Hospital	6.6	X	-	-	-	-	-
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	-	-	-	-	-
PIH - Whittier	10.9	X	34	462	6,603	18.1	53.1%
Whittier Hospital Medical Center*	12.8	X	-	-	-	-	-
SUB-TOTAL			119	1,826	27,109	74.1	62.4%
Memorial Hospital of Gardena*	7.9	-	-	-	-	-	-
Los Angeles Community Hospital*	9.0	-	-	-	-	-	-
Centinela Hospital Medical Center*	9.0	-	9	99	1,765	4.8	53.7%
Earl and Lorraine Miller Childrens Hospital	9.1	-	107	1,237	24,653	67.4	63.0%
Long Beach Memorial Medical Center	9.2	-	-	-	-	-	-
Beverly Hospital*	9.7	-	-	-	-	-	-
Monterey Park Hospital*	9.9	-	-	-	-	-	-
LAC/Harbor-UCLA Medical Center	11.1	-	29	43	3,378	9.3	31.8%
California Hospital Medical Center	13.2	-	26	605	7,648	21.0	80.4%
Tri City Regional Medical Center	13.2	-	-	-	-	-	-
East Los Angeles Doctors Hospital*	13.5	-	-	-	-	-	-
Good Samaritan Hospital-Los Angeles*	13.9	-	23	555	7,695	21.1	91.4%
White Memorial Medical Center*	14.1	-	28	592	7,038	19.3	68.7%
LAC+USC Medical Center	14.5	-	40	482	8,109	22.2	55.4%
La Palma Intercommunity Hospital	15.3	-	-	-	-	-	-
Pacific Alliance Medical Center, Inc.**	15.3	-	-	-	-	-	-
Children's Hospital Los Angeles	18.6	-	98	379	15,259	41.7	42.5%
Cedars Sinai Medical Center	21.4	-	45	459	9,927	27.2	60.3%
TOTAL			524	6,277	112,581	308.4	58.7%

Source: OSHFD Disclosure Reports, 2013

*Unaudited ** 2012 Disclosure Report

(1) Bellflower Medical Center closed in 2013

- The Hospital has 29 licensed neonatal intensive care beds, making up approximately 24% of the service area neonatal intensive care beds, with a reported occupancy rate of approximately 75%;
- The Hospital reported 517 inpatient hospital discharges and 7,933 patient days in 2013, resulting in an average daily census of approximately 22 patients; and

- The Hospital’s neonatal intensive care beds are important to area residents and reductions to their number at the Hospital would impact the availability and accessibility of such services.

Skilled Nursing Capacity Analysis

The Hospital is one of only two general acute care hospitals in the service area that are licensed for skilled nursing beds. The Hospital reported an occupancy rate of 62% and an average daily census of 19 patients on its 30 licensed skilled nursing beds.

There are numerous long-term care facilities in the Hospital’s service area that are collectively licensed for an additional 4,798 skilled nursing beds. While the long-term care facilities ran at a high occupancy rate of 92%, there are almost 500 beds available within the Hospital’s service area. If there were any reduction or elimination of these services, the Hospital’s average daily census of 19 skilled nursing patients could easily be accommodated elsewhere.

SKILLED NURSING BEDS 2013							
	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
General Acute Care Hospitals							
St. Francis Medical Center	-	X	30	388	6,815	18.7	62.1%
Kaiser - Downey*	4.8	X	-	-	-	-	-
PIH - Downey	5.0	X	-	-	-	-	-
Community Hospital of Huntington Park*	5.4	X	-	-	-	-	-
Coast Plaza Hospital	6.6	X	-	-	-	-	-
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	-	-	-	-	-
PIH - Whittier	10.9	X	-	-	-	-	-
Whittier Hospital Medical Center*	12.8	X	-	-	-	-	-
Long-Term Care Facilities							
42 Long-Term Care Facilities	-	X	4,798	13,652	1,593,012	4364.4	90.7%
TOTAL			4,828	14,040	1,599,827	4,383	90.8%

Source: OSHFD Disclosure Reports, 2013

* Unaudited ** 2012 Disclosure Report

(1) Bellflower Medical Center closed in 2013

Acute Psychiatric Capacity Analysis

There are 186 acute psychiatric beds within the Hospital’s service area, with an overall occupancy rate of approximately 88%. The Hospital has 40 licensed acute psychiatric beds that were 76% occupied on average in 2013 (average daily census of 30 patients).

There is a shortage of area beds licensed for psychiatric services, making the Hospital’s inpatient psychiatric unit essential and of critical importance for the provision of behavioral health services to residents within the Hospital’s service area and the rest of Los Angeles County. College Hospital, the only other provider of acute psychiatric services in the service area, ran at an occupancy rate of 91% in 2013. Any reduction in the level of psychiatric services provided at the Hospital’s inpatient psychiatric unit and emergency department, or any reduction to the number of licensed psychiatric beds at the Hospital, would greatly and negatively impact the

availability and accessibility of these types of services for service area and Los Angeles County residents.

PSYCHIATRIC ACUTE BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Francis Medical Center	-	X	40	1,831	11,056	30.3	75.5%
Kaiser - Downey*	4.8	X	-	-	-	-	-
PIH - Downey	5.0	X	-	-	-	-	-
Community Hospital of Huntington Park*	5.4	X	-	-	-	-	-
Coast Plaza Hospital	6.6	X	-	-	-	-	-
College Hospital	8.0	X	146	5,442	48,759	133.6	91.2%
Lakewood Regional Medical Center	9.1	X	-	-	-	-	-
PIH - Whittier	10.9	X	-	-	-	-	-
Whittier Hospital Medical Center*	12.8	X	-	-	-	-	-
SUB-TOTAL			186	7,273	59,815	164	88.1%
Memorial Hospital of Gardena*	7.9	-	-	-	-	-	-
Los Angeles Community Hospital*	9.0	-	-	-	-	-	-
Centinela Hospital Medical Center*	9.0	-	-	-	-	-	-
Earl and Lorraine Miller Childrens Hospital	9.1	-	-	-	-	-	-
Long Beach Memorial Medical Center	9.2	-	-	-	-	-	-
Beverly Hospital*	9.7	-	-	-	-	-	-
Monterey Park Hospital*	9.9	-	-	-	-	-	-
LAC/Harbor-UCLA Medical Center	11.1	-	38	870	12,941	35.5	93.0%
California Hospital Medical Center	13.2	-	-	-	-	-	-
Tri City Regional Medical Center	13.2	-	-	-	-	-	-
East Los Angeles Doctors Hospital*	13.5	-	-	-	-	-	-
Good Samaritan Hospital-Los Angeles*	13.9	-	-	-	-	-	-
White Memorial Medical Center*	14.1	-	33	2,046	10,009	27.4	82.9%
LAC+USC Medical Center	14.5	-	65	1,015	18,232	50.0	76.6%
La Palma Intercommunity Hospital	15.3	-	-	-	-	-	-
Pacific Alliance Medical Center, Inc.**	15.3	-	-	-	-	-	-
Children's Hospital Los Angeles	18.6	-	-	-	-	-	-
Cedars Sinai Medical Center	21.4	-	-	-	-	-	-
TOTAL			322	11,204	100,997	276.7	85.7%

Source: OSHPD Disclosure Reports, 2013

* Unaudited ** 2012 Disclosure Report

(1) Bellflower Medical Center closed in 2013

- The average daily census for all hospitals in the service area was 164 based on 59,815 patient days;
- The Hospital provided 22% of the service area's acute psychiatric beds in 2013 and ran at a high occupancy rate of 76%;
- Bellflower Medical Center closed in 2013, reducing the number of acute psychiatric beds within the service area to 186 licensed beds; and
- Any further reduction to the number of acute psychiatric beds in the service area would greatly impact the availability and accessibility of psychiatric services.

Emergency Department Volume at Hospitals in the Service Area

The table below shows the visits by severity category for area emergency departments as reported by OSHPD Automated Licensing Information and Report Tracking System²⁴.

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2013												
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
St. Francis Medical Center	-	X	Basic	46	68,323	1,832	6,369	41,428	10,935	7,759	15.1%	0
Kaiser - Downey	4.8	X	Basic	63	94,172	807	9,911	60,793	18,161	4,500	10.6%	1,258
PIH - Downey	5.0	X	Basic	22	52,376	1,738	8,113	21,579	11,795	9,151	13.3%	2
Community Hospital of Huntington Park	5.4	X	Basic	14	37,092	626	1,779	14,103	11,335	5,009	11.4%	84
Coast Plaza Hospital	6.6	X	Basic	8	13,591	11	760	3,485	4,317	5,048	22.4%	0
College Hospital	8.0	X	-	-	-	-	-	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	Basic	14	47,622	4,577	4,725	13,869	13,001	11,450	13.3%	705
PIH - Whittier	10.9	X	Basic	61	70,719	832	4,244	25,934	30,592	9,117	15.8%	156
Whittier Hospital Medical Center	12.8	X	Basic	11	25,522	126	1,550	12,053	4,671	7,122	20.3%	60
SUBTOTAL				239	409,417	10,549	37,451	193,244	104,807	59,156	14.0%	2,265
Memorial Hospital of Gardena	7.9		Basic	10	35,389	12	2,677	12,213	10,949	9,538	21.5%	97
Los Angeles Community Hospital	9.0		Standby	3	8,641	614	1,792	2,554	1,711	1,970	39.1%	0
Centinel Hospital Medical Center	9.0		Basic	44	63,772	2,260	7,326	13,952	21,038	19,196	21.8%	1
Earl and Lorraine Miller Childrens Hospital	9.1		-	9	24,642	82	142	15,745	8,183	490	11.7%	1,620
Long Beach Memorial Medical Center	9.2		Basic	53	64,895	133	156	20,646	36,290	7,670	23.3%	1,901
Beverly Hospital	9.7		Basic	17	32,793	4,146	922	7,603	12,639	7,483	20.4%	572
Monterey Park Hospital	9.9		Basic	6	14,506	375	1,903	4,894	4,314	3,020	13.4%	572
LAC/Harbor-UCLA Medical Center	11.1		Basic	46	74,115	713	12,071	44,396	7,987	8,948	18.8%	2,823
California Hospital Medical Center	13.2		Basic	27	66,348	4,423	10,712	33,019	13,176	5,018	13.0%	894
Tri City Regional Medical Center	13.2		Basic	8	11,689	421	3,994	1,987	4,798	489	18.9%	75
East Los Angeles Doctors Hospital	13.5		Basic	8	17,429	218	2,535	6,000	4,471	2,105	12.0%	18
Good Samaritan Hospital-Los Angeles	13.9		Basic	12	30,425	215	1,705	7,337	9,871	11,297	17.2%	1,271
White Memorial Medical Center	14.1		Basic	28	51,892	617	5,731	15,698	17,469	12,377	15.8%	2
LAC+USC Medical Center	14.5		Comprehensive	106	167,052	7,460	36,789	91,621	29,262	1,920	12.8%	4
La Palma Intercommunity Hospital	15.3		Basic	10	15,219	555	1,009	3,685	4,329	5,641	21.7%	0
Pacific Alliance Medical Center, Inc	15.3		-	-	-	-	-	-	-	-	-	-
Children's Hospital Los Angeles	18.6		Basic	39	66,319	6,343	42,766	10,612	4,240	2,358	6.9%	101
Cedars Sinai Medical Center	21.4		Basic	51	83,860	4,275	13,084	22,821	17,660	26,020	30.9%	199
TOTAL				716	1,238,403	43,411	182,765	508,027	313,194	184,696	16.5%	12,415

Source: OSHPD ALIRTS Annual Utilization Reports, 2013

* 2012 Utilization Report

(1) The figures from OSHPD ALIRTS differ from the data provided by OSHPD Disclosure Reports and the Hospital

(2) Bellflower Medical Center closed in 2013

- The Hospital has 46 emergency department stations and is classified as “basic.” In 2013, the Hospital reported over 68,000 visits, accounting for 17% of the total visits among area hospitals (over 400,000 total visits);
- In 2013, approximately 14% of service area emergency department visits resulted in an inpatient admission; and
- Kaiser Foundation Hospital – Downey and Lakewood Regional Medical Center were the only two hospitals with significant hours of diversion²⁵ for ambulance receiving.

²⁴ The Automated Licensing Information and Report Tracking System contains license and utilization data information of healthcare facilities in California.

²⁵ 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.

Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed per annum to estimate the capacity of an emergency department. Based upon this benchmark, in 2013, the Hospital's 46-bed emergency department was operating at 74% of capacity. Emergency departments at other area facilities are extremely overburdened, including PIH – Downey (119%), Community Hospital of Huntington Park (133%), Lakewood Regional Medical Center (170%), and Whittier Hospital Medical Center (116%).

EMERGENCY DEPARTMENT CAPACITY 2013							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
St. Francis Medical Center	-	X	Basic	46	68,323	92,000	23,677
Kaiser - Downey	4.8	X	Basic	63	94,172	126,000	31,828
PIH - Downey	5.0	X	Basic	22	52,376	44,000	(8,376)
Community Hospital of Huntington Park	5.4	X	Basic	14	37,092	28,000	(9,092)
Coast Plaza Hospital	6.6	X	Basic	8	13,591	16,000	2,409
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	Basic	14	47,622	28,000	(19,622)
PIH - Whittier	10.9	X	Basic	61	70,719	122,000	51,281
Whittier Hospital Medical Center	12.8	X	Basic	11	25,522	22,000	(3,522)
SUBTOTAL				239	409,417	478,000	68,583
Memorial Hospital of Gardena	7.9		Basic	10	35,389	20,000	(15,389)
Los Angeles Community Hospital	9.0		Standby	3	8,641	6,000	(2,641)
Centinela Hospital Medical Center	9.0		Basic	44	63,772	88,000	24,228
Earl and Lorraine Miller Childrens Hospital	9.1		-	9	24,642	18,000	(6,642)
Long Beach Memorial Medical Center	9.2		Basic	53	64,895	106,000	41,105
Beverly Hospital	9.7		Basic	17	32,793	34,000	1,207
Monterey Park Hospital	9.9		Basic	6	14,506	12,000	(2,506)
LAC/Harbor-UCLA Medical Center	11.1		Basic	46	74,115	92,000	17,885
California Hospital Medical Center	13.2		Basic	27	66,348	54,000	(12,348)
Tri City Regional Medical Center	13.2		Basic	8	11,689	16,000	4,311
East Los Angeles Doctors Hospital	13.5		Basic	8	17,429	16,000	(1,429)
Good Samaritan Hospital-Los Angeles	13.9		Basic	12	30,425	24,000	(6,425)
White Memorial Medical Center	14.1		Basic	28	51,892	56,000	4,108
LAC+USC Medical Center	14.5		Comprehensive	106	167,052	212,000	44,948
La Palma Intercommunity Hospital	15.3		Basic	10	15,219	20,000	4,781
Pacific Alliance Medical Center, Inc.	15.3		-	-	-	-	-
Children's Hospital Los Angeles	18.6		Basic	39	66,319	78,000	11,681
Cedars Sinai Medical Center	21.4		Basic	51	83,860	102,000	18,140
TOTAL				716	1,238,403	1,432,000	193,597

Source: OSHPD Alerts Annual Utilization Reports, 2013

* 2012 Utilization Report

(1) The figures from OSHPD ALIRTS differ from the data provided by OSHPD Disclosure Reports and the Hospital

(1) Bellflower Medical Center closed in 2013

- Overall, service area hospitals' emergency departments are at approximately 86% capacity. Any reduction to the level of emergency services or the number of emergency treatment stations available in the service area or at the Hospital would significantly impact the availability and accessibility of emergency care.

SUMMARY OF INTERVIEWS

In August, November, and December of 2014, both in-person and telephone interviews were conducted with representatives of the Hospital, Daughters, DCHS Medical Foundation, and Prime, as well as physicians, Los Angeles County representatives, health plan representatives, hospital 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 of ownership and operations from Ministry and Daughters to Prime Inc. and Prime Foundation. 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

Those interviewed cited a number of reasons for 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 potentially 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 critical role in providing healthcare for the poor, without a transaction, the community could be at risk of losing key services that are essential for the uninsured and under-insured patient population;
- Daughters does not have the financial resources required to repay outstanding debt, including the repayment of the 2005 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;
- Almost all interviewed believed that a change in governance and operation is necessary to keep the Health Facilities, including the Hospital, from eliminating services or closing;
- Some interviewed believed that the Health Facilities needed to be sold as a group rather than individually, stating some of the following reasons:
 - Individual sale of the Health Facilities may result in the closure of some of Daughters' hospitals or reduced services;

- The Health Facilities are an obligated group for liabilities associated with the bonds and pension plans;
- Daughters' commitment to services and patients is more likely to continue with a single buyer;
- Selling individual Health Facilities is more complicated and would not result in the highest value;
- The timing required to sell individual Health Facilities would extend beyond the time that Daughters could financially sustain losing operations; and
- Many interviewed believed that the Hospital provided significant financial support to Daughters and could be sustainable on its own without Daughters or an alternative owner.

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 and under-served populations. The Hospital holds the largest market share of hospital inpatient discharges in its service area. Some of the programs and services that were mentioned in the interviews as especially important include the following:

- Emergency services and Level II Trauma Center designation;
- Behavioral health and psychiatric services;
- Obstetrics and Level II NICU;
- Cardiac services, including designation as a STEMI Receiving Center;
 - While some felt that the surgical volumes for a comprehensive cardiac program were too low to be sustained, others stated that the cardiac program should grow and be a required service because of the STEMI Receiving Center designation and cardiac catheterization procedures;
- Stroke services, including certification as a Primary Stroke Center;
- Health Benefits Resource Center;
- Women and children's services, including the Welcome Baby Program and women's diagnostic services;
- Orthopedic services; and

- Pediatric services;
 - Many believed that inpatient pediatric services were necessary to maintain at the Hospital because of the large pediatric patient volume seen in the Emergency Department (pediatric volume estimated at 30% of emergency visits).

Representatives of Federally Qualified Health Centers, Los Angeles County, and community representatives all believed that it was essential for the Hospital to retain all or most of the services that it currently offers.

If the Hospital does not maintain its current level of healthcare services, severe accessibility and availability issues would be created for residents of the communities served by the Hospital.

Selection of Prime for the Proposed Transaction

Members of the Hospital’s management team and of St. Francis’ Board who were interviewed explained that a number of factors were involved in finalizing the selection of Prime. While three other alternatives for a potential buyer were considered amongst the final bids, these offers were not believed to provide the same level of benefits and assurances as Prime. Some of the factors that resulted in the selection of Prime that were cited in the interviews include the following:

- Commitment to continue the operation of the Hospital and the other Daughters’ facilities as general acute care hospitals;
- Commitment to retain services at the Health Facilities;
- Commitment to \$150 million in capital investment;
- Ability to assume all debt and bond obligations;
- Ability to assume responsibility to fully fund the pension plans;
- Commitment to retain the CBAs of the employees at each of the Health Facilities;
- Ability of Prime Inc. to operate the Health Facilities efficiently and profitably;
- Prime’s enhanced financial support and access to capital; and
- Ability to negotiate better contracts.

The majority of those interviewed from the Hospital’s management and medical staff, as well as from St. Francis’ Board, were supportive of the proposed transaction and the selection of Prime. Additionally, most people also conveyed an overall understanding and knowledge of the pressing financial issues and the necessity for Daughters to engage in a transfer of ownership and operation for the system and its related facilities in order to become financially sustainable, fund the pension obligations, retire outstanding bond debt, avoid bankruptcy filings, and also to ensure

continued operations of the Health Facilities.

While many of those interviewed believed that Prime was the best selection and the organization most likely to meet the aforementioned factors, many of these 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 Prime included the following:

- Prime Inc. 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;
- Prime Inc. may reduce or eliminate unprofitable or unfavorable services that would negatively impact the accessibility and availability of essential healthcare services for the communities served by the Hospital;
- Prime Inc. may not have the same commitments as Daughters to Emergency Department on-call coverage, medical directorships, medical staff relations, employees, union contracts, charity care, community benefit programs, etc.; and
- Prime Inc. may not sustain the level of commitment, funding, or provider network breadth that is required to support the community's needs for healthcare;

Most of the Hospital employees interviewed, many of which were also members of unions, understood the reasons for the transaction, but believed that another buyer, Blue Wolf Capital Partners would be a better selection. Many employees viewed Prime Inc. negatively and believed Prime Inc. made operational decisions at its other facilities that:

- Restricted or eliminated unprofitable services, such as obstetrics and pediatrics;
- Discouraged community physicians from admitting patients to the hospital;
- Resulted in either no agreements or unfavorable union CBAs;
- Discouraged access for Medi-Cal and uninsured patients by not contracting with Medi-Cal managed care plans, or negotiating unrealistically high rates;
- Reduced hospital admissions and specialty admissions (such as urology) because on-call coverage relationships with physicians are discontinued and physicians move to other hospitals;
- Reduced or eliminated necessary staff positions and employees and hired unqualified replacements at lower cost;
- Restricted access for commercially insured patients as health plan contracts are cancelled; and

- Resulted in large copays for insured patients that are unnecessarily admitted to the hospital.

Many employees also believed that Prime's proposal did not protect the pension plans. Many of the employees interviewed believed that Blue Wolf Capital Partners would not have these same negative impacts.

Views of National & Regional Health Plan Representatives

The majority of health plan representatives expressed that they had enjoyed strong, long-lasting relationships with Daughters, especially at the Hospital. Their views are divided into two categories below: views from the larger, national health plans whose membership is primarily insured by commercial health products, and views from representatives of health plans that are regional, with a focus on lower income Medi-Cal and dual Medicare/Medi-Cal eligible patient populations.

The commercial-focused health plans stated that their relationships with Daughters have always been strong. These plans tend to believe that there are hospital alternatives to the Hospital, and therefore, are less concerned with the effects of the transaction on their membership. Despite some uncertainty regarding the reputation of Prime as being uncooperative in contract negotiations, they believed they would be able to establish a contractual relationship with Prime.

The views of representatives from more locally-based health plans and physician organizations were different as they expressed significant concern surrounding the selection of Prime. These payers have had very strong relationships with Daughters, and especially the Hospital, since the majority of the Hospital's patient population is comprised of low-income and Medi-Cal eligibles. In contrast to the commercial payers, these Medi-Cal payers do not believe there are any viable hospital alternatives to the Hospital for the patient population they serve.

Those interviewed from the smaller, lower-income plans stated that they are currently heavily invested and partnered with the Hospital in terms of community benefit programs, education, and grant funding. They emphasized that the lower-income population cannot access services outside of its own community, and any reduction or elimination of providers serving the local Medi-Cal or lower-income population, would create a high level of disruption, and severe access and availability problems.

They also expressed that any rate increases could impact managed care and integrated delivery models, reducing provider choice, patient access, and service availability.

Some health plan representatives cited the controversy surrounding Prime that has been reported in the press, including questions about its documentation and coding practices. Others expressed concern about whether Prime will accept reasonable capitation payments for hospital services as are currently in place. A number of those interviewed were concerned about Prime's reported history of alienating physicians that had privileges at the hospitals prior to Prime acquiring them. 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.

Views of County of Los Angeles Representatives

County of Los Angeles representatives expressed concerns about the Hospital's emergency and trauma services. The representatives stated that the Hospital's Emergency Department and Level II Trauma services are essential for the adult and pediatric patient populations located in the surrounding communities, and throughout Los Angeles County. The representatives believed that if the Hospital's emergency services were to close, other nearby hospitals would not be able to handle the influx of patients. Similarly, the representatives emphasized that the Hospital's Level II Trauma Center serves a very large catchment area²⁶ and other hospitals would not be able to absorb area patients if the Hospital no longer provided trauma services.

The representatives also expressed the need to maintain emergency and inpatient psychiatric services at the Hospital because of a severe shortage of these types of services in Los Angeles County. Furthermore, the representatives stated that the Hospital's STEMI Receiving Center and Primary Stroke Center are highly important to the residents of the surrounding communities because these populations typically report high incidences of hypertension, stroke, and cardiovascular illness. Prior to the Hospital receiving these designations and providing the related services, there was an insufficient supply of emergency stroke and cardiac services within the service area.

Views of Independent Physician Associations

IPAs provide coverage to a large portion of the service area population under Medi-Cal and Medicare/Medi-Cal programs in integrated delivery models that rely on cooperation between the health plans, the Hospital, and physicians. The IPA representatives interviewed expressed that their primary concern is whether Prime would continue these agreements. Those interviewed believed that if the pricing, management methods, or network were changed by Prime, it may impact the ability of the IPAs to continue to successfully perform under the existing contract structures with health plans and result in the movement of services, providers, and patients away from the Hospital.

Impact on the Availability and Accessibility of Healthcare Services

Almost all interviewed believed that the change of governance 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 open as general acute care hospitals, and that Prime was in fact the best selection among the final proposals, they also believed there would be reductions and even elimination of some unprofitable services. However, a number of those interviewed who supported the selection of Prime felt that the selection of Prime would have a negative impact on the availability or accessibility of some healthcare services to lower-income and poor populations historically served by the Hospital.

²⁶ The geographical area from which a Hospital draws its patient population.

Some of those interviewed also expressed concerns that the cost of healthcare may increase, quality may decrease, some services may be eliminated, and that community benefits and charity care contributions could be reduced.

Alternatives

The majority of those interviewed believed that the transaction and the selection of Prime was necessary and that there were no other alternatives for Daughters in order to avoid insolvency and bankruptcy and to ensure the full protection of the Church and Multi-Employers Plans for the non-union and unionized employees. 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. Additionally, many individuals believed Prime's offer was the strongest and provided the highest level of confidence in terms of the assumption and funding of the pension liabilities, continuation of the Health Facilities as general acute care hospitals, and future financial sustainability of the Health Facilities and their operations. In contrast, employees of the Hospital did not believe Prime was the best selection and stated that there were other alternatives that would provide greater benefits to the Hospital.

One of the alternatives that was discussed in a number of interviews was the offer submitted by Blue Wolf Capital Partners. Some expressed that they believed Blue Wolf Capital Partners was a better alternative to Prime for the following reasons:

- It was believed that Blue Wolf Capital Partners was better aligned with the historical mission and vision of the Hospital, serving the lower-income and poor populations with the surrounding communities;
- Blue Wolf Capital Partners' offer presented a clearer plan in regard to the pension plans; and
- It was believed that in contrast to Prime's offer, Blue Wolf Capital Partners guaranteed services would be maintained at the Hospital, provided a more significant commitment of capital, and greater transparency regarding future plans.

The other alternative offer that was mentioned in interviews was Strategic Global Management. Though few details pertaining to the specifics of the offer were known and/or stated, some believed that this proposal also provided a better alternative than Prime.

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, trauma, and mental health services to residents within the service area, as well as for the entire County of Los Angeles. Other key services offered at the Hospital include cardiac care, cancer services, imaging services, obstetrics and women's health services, the Family Life Center, which includes a Level II NICU, STEMI designation, certification as a Primary Stroke Receiving Center, rehabilitation services, surgical services, wound care services, industrial and occupational services, skilled nursing services, as well as other programs and services.

In addition to the provision of key medical services, the Hospital also has provided a historically significant level of charity care and community benefits for low-income, uninsured, and under-insured populations residing in the surrounding communities.

Continuation as a General Acute Care Hospital

In the Definitive Agreement, Prime states that it will continue to maintain the Hospital as a general acute care facility for a minimum of five years, subject to availability of physicians necessary to support these services. Additionally, Prime states this commitment shall also be subject to any changes that are deemed necessary, based on community needs, market demand, and the financial viability of such services.

The terms of the Definitive Agreement anticipate that there could be a reduction, or even elimination, of some programs and/or services that are currently offered at the Hospital. According to Prime, Prime will maintain the Hospital's services and provide the same levels of charity care and community benefit services.

Emergency and Trauma Services

The Hospital is an important provider of both emergency and trauma services to the residents of the surrounding communities. In FY 2013, the Hospital reported over 68,323 visits on its 46 emergency treatment stations, operating at a capacity of 74% based on a standard of 2,000 visits per station, per year. Additionally, the Level II Trauma Center reports volumes of approximately 2,000 trauma cases per year, making it one of the busiest trauma centers in Los Angeles County. Cathy Chidester, the Assistant Director of County of Los Angeles Emergency Medical Services, stated that the Hospital "is critical and integral to the emergency medical services system. Any loss of its provision and capacity to care for emergency, trauma, and psychiatric patients would have a significant detrimental effect, not just on the immediate community, but on the County as a whole."

Emergency departments at other area facilities are extremely overburdened and functioning beyond desirable capacity, including PIH-Downey (119%), Community Hospital of Huntington Park (133%), Lakewood Regional Medical Center (170%), and Whittier Hospital Medical Center (116%). As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Because of this and the growing shortage of primary care physicians, emergency department utilization is expected to increase within the service area. Keeping the Hospital's Emergency Department open, and maintaining its Level II Trauma Center, is critical to providing emergency services within the Hospital's service area.

Medical/Surgical Services

With 185 licensed medical/surgical beds and an average daily census of approximately 107 patients, the Hospital is an important provider of medical/surgical services. An analysis of the current supply and demand of area medical/surgical beds, based on current utilization patterns and an expected population growth of 1.0% over the next five years, indicates that there would be a shortage of medical/surgical services in the community if the Hospital reduced the number of licensed beds or eliminated medical/surgical services.

Intensive Care/Critical Care Services

The Hospital reports an occupancy rate of approximately 75% on its 36 licensed intensive care beds. These services are an important resource for supporting the emergency department and other medical and surgical services at the Hospital. Area hospitals are running at a combined occupancy rate of nearly 66% on their 211 total intensive care beds. In FY 2013, PIH – Downey and Community Hospital of Huntington Park ran at occupancy rates of nearly 80% and 92%, respectively. Any reduction or elimination in the number of intensive care beds at the Hospital would negatively impact these same services at both PIH – Downey and Community Hospital of Huntington Park. Maintaining the current licensure of 36 beds is important in ensuring the accessibility and availability of ICU/CCU beds in the service area.

Obstetrics Services

The Hospital has an occupancy rate of 62% on its 50 licensed obstetrics beds based on an average daily census of approximately 31 patients. With nearly 5,200 reported deliveries in FY 2013, the Hospital is an important provider of obstetrics services, holding the largest market share in FY 2013, with approximately 17% 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, would have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities. The Hospital is a very important provider of obstetrics services to low-income patients, as a high percentage (87%) of its obstetrics are Medi-Cal patients.

Neonatal Intensive Care Services

The Hospital operates 29 licensed neonatal intensive care beds (24% of the combined area neonatal intensive care beds) and maintains a Level II NICU with a relatively high occupancy rate of approximately 75%. Excluding Kaiser, only two other hospitals offer neonatal intensive care services in the service area and run at a combined occupancy rate of 52% during FY 2013. PIH – Downey ran at an occupancy rate of approximately 45%, and PIH – Whittier ran at an occupancy rate of 53%. Because the Hospital has nearly 5,200 deliveries with a high percentage of patients at high risk, it is important to continue operations of the NICU.

Pediatric Services

The Hospital is licensed for 14 pediatric beds (15% of the total service area beds) with a relatively low occupancy rate (37%) and average daily census (approximately 5 patients per day). Excluding Kaiser, only two other hospitals offer pediatric services in the service area and ran at a combined occupancy rate of 9% in FY 2013. Community Hospital of Huntington Park ran at an occupancy rate of approximately 7%, and PIH – Whittier ran at an occupancy rate of only 13%. Additionally, there are two Children’s Hospitals within 19 miles of the Hospital, including Earl and Lorraine Miller Children’s Hospital and Children’s Hospital of Los Angeles. While the Hospital’s average daily census for pediatric patients is relatively low (approximately 5 patients per day), one third of emergency services visits are pediatric patients, making the Hospital’s pediatric services important to the residents of the surrounding communities.

Skilled Nursing Services

The Hospital and PIH – Whittier are the only two hospital-based providers of skilled nursing services within the Hospital’s service area. The Hospital is licensed for 30 skilled nursing beds and runs at an occupancy rate of 62%, while PIH – Whittier reports an occupancy rate of 54% for FY 2013. In addition to the Hospital and PIH – Whittier’s combined total of 65 skilled nursing beds, there are numerous long-term care facilities within the Hospital’s service area that have a combined total of nearly 4,800 additional skilled nursing beds, running at an occupancy rate of approximately 91%. If there was any reduction to the number of skilled nursing beds available at the Hospital, it is expected that the availability or accessibility of these services would not be significantly impacted. There is a large supply of skilled nursing beds at other facilities within the service area to absorb the volume. While these facilities run at a high occupancy rate of 91%, there are almost 500 beds available and the average daily census of 19 skilled nursing patients from the Hospital could easily be accommodated elsewhere.

Behavioral Health Psychiatric Services

The Hospital contracts with the County of Los Angeles for inpatient psychiatric services, and the Hospital is a critical provider of mental health services to area residents. The Hospital provides 40 inpatient psychiatric beds, reporting an occupancy rate of 76% in FY 2013. There is a shortage of area beds designated for psychiatric and behavioral health services, making the Hospital an essential provider of these types of services for the residents within the service area, as well as for the county as a whole. The Hospital provides 22% of the total acute psychiatric

beds available in the service area, and is only one of two area hospitals offering inpatient behavioral health psychiatric services. College Hospital is the only other provider of these services in the Hospital's service area with 146 licensed acute psychiatric beds and a high occupancy rate of 91%.

Reduction in the number of licensed acute psychiatric beds available at the Hospital, or any reduction of these services currently provided through the Emergency Department, such as the availability of a Psychiatric Evaluation Team or designation as a 5150 Receiving Facility, would certainly create a disruption in the provision of these services for the community. Due to the severe shortage of available psychiatric beds in the community, as well as in Los Angeles County as a whole, maintaining the number of psychiatric beds at the Hospital at current licensure, as well as continuing the same type and/or level of these services is critical to ensuring access for residents both within the service area and Los Angeles County.

Reproductive Health Services

The Hospital is an important provider of a range of healthcare services for women including over 5,000 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. The Hospital currently has a transfer agreement with Long Beach Memorial Medical Center to treat patients seeking these health services. 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. Since Prime will not be subject to the Ethical and Religious Directives, it is expected that patients will not be transferred elsewhere for these services. It is expected that patients and physicians will seek elective reproductive services at the Hospital including tubal ligations. Prime has stated in its interview with MDS that it will not prohibit physicians from offering or performing reproductive procedures and at the request of community members and physicians, will support the addition of other reproductive procedures as may be needed in a high-risk delivery program (such as abortions for fetal anomaly). 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 should improve. According to Prime, the physicians at its hospitals provide services that include sterilizations, access to contraception, and other reproductive services. Prime cited that these services have been added at St. Mary's Regional Medical Center, a formerly Catholic hospital in Reno, Nevada, that was purchased by Prime in 2012.

The Hospital provides reproductive services to a large underserved population that has low rates of prenatal care resulting in an increased number of high risk births. This can increase instances of stillborn delivery, miscarriage, and fetal abnormalities. Below is a table showing instances where the Hospital recorded reproductive-related procedures that were in accordance with the Ethical and Religious Directives in 2013. The table shows Centinela Hospital Medical Center and Prime's combined California Hospitals, including Centinela Medical Center, also providing similar types and levels of services at the Hospital.

REPRODUCTIVE SERVICES BY DIAGNOSTIC RELATED GROUP			
Diagnostic Related Group	St. Francis Medical Center	Centinela Hospital Medical Center	Prime
770: Abortion W D&C, Aspiration Curettage or Hysterectomy	29	36	192
778: Threatened Abortion	83	7	81
779: Abortion w/o D&C	14	28	56
777: Ectopic Pregnancy	42	28	114
767: Vaginal Delivery W Sterilization &/OR D&C	3	21	180
Total 2013 Discharges	171	120	623

Source: OSHPD Patient Discharge Database

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

Approximately 82% of the Hospital's inpatient discharges are reimbursed through Medicare and Medi-Cal. The Hospital currently participates in the Medicare program and the Medi-Cal managed care program, and also has contracts for these types of patients.

Prime has made a commitment in the Definitive Agreement 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 Definitive Agreement, Prime has not made any specific commitments regarding continued participation in the Medicare and the Medi-Cal managed care programs, nor has Prime committed to maintain current contractual agreements.

However, Prime has stated in its interview with MDS that it would be willing to accept reasonable rates for Medi-Cal managed care that were comparable to other similarly situated hospitals, and Prime is also willing to accept the Medi-Cal default rate, which is likely to be higher, if it were to not contract for Medi-Cal managed care. Additionally, Prime will also commit to accepting Medi-Cal patients for elective medical procedures, and Prime stated that it currently contracts with Medi-Cal managed care plans in all of the California counties where Prime hospitals are located.

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 under-insured individuals in the community rely on the Hospital for healthcare services. The Hospital provides a higher percentage of charity care than the statewide average (6.2% of gross patient revenue for the Hospital, as compared to 3.5% for the State of

California). The Hospital has historically provided a significant amount of charity care, averaging approximately \$18.1 million per year over the last five years (on a cost basis). Prime has agreed to maintain and adhere to Daughters' current policy on charity care (or a comparable policy) for a minimum of five years. However, Prime has made no specific commitment to maintain historical levels of financial support for charity care at the Hospital.

Effects on Community Benefit Programs

The Hospital has historically provided a significant amount of community benefit services, averaging \$10,420,114 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 Welcome Baby, Health Benefits Resource Center, Healthy Community Initiatives, Vida Sana/Healthy Life Wellness Program, Children's Counseling Center, and Casa de Esperanza, among others. Prime has not made any specific commitments in the Definitive Agreement to maintain the Hospital's community benefit programs at historical levels of financial support for community benefit expenditures. In addition, the Hospital also provided community benefit services for subsidized health services, including medical fees for physician on-call coverage for trauma and obstetrics services. As an important provider of trauma and obstetrics services, any reduction to the amount provided for physician on-call coverage medical fees could impact the availability and accessibility of these types of services.

The majority of funding for the support of community benefit programs at the Hospital is provided through several grants. Without these grants, the community benefit programs would only be maintained if alternative funding was obtained. If the current grants were not continued, or additional funding was not secured, the loss of financial support for these valuable community benefit programs would likely have a negative impact on the residents of the surrounding communities that utilize these programs.

Effects on Staffing and Employee Rights

Prime has agreed to continue the employment at comparable salaries, job titles, and duties, for both the unrepresented employees and unionized employees at the Hospital, DCHS Medical Foundation, and Caritas Business Services, who remain in good standing and are still employed by Daughters as of the closing date. Prime has agreed to adhere to severance obligations as defined in the written employment agreements, or if no such agreement exists, Prime will adhere to Daughters' severance pay obligations for a period of twelve months following the closing date.

In addition to the Hospital's employees, Prime has agreed to make offers of employment to Daughters' system office employees, Daughters' executives, the Health Facilities' CEOs, the DCHS Medical Foundation President and CMO, and the Caritas Business Services' Senior Directors, who remain in good standing and are still employed by Daughters as of the closing date. Prime shall offer salaries, wages, job titles, and duties that are comparable to those in place prior to the closing.

While Prime makes short-term commitments for employment, it is expected that Prime will reduce labor costs by eliminating some management and other positions within the Hospital. It is also expected that the number of employees will be reduced unless the Hospital's patient volume increases. Additionally, Prime is viewed as a tough negotiator of union agreements and as a result, employees may experience changes to salaries, wages, and benefits when many of the union contracts expire in 2015.

Effects on Medical Staff

Prime has not made any specific commitments in the Definitive Agreement to maintain physician contracts, including contracts for on-call services, or the Hospital's medical staff. Additionally, Prime 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 four bids, the Daughters' Board, Ministry's Board, and St. Francis' Board did not believe that other alternatives offered the same advantages as Prime's offer in terms of ability to repay Daughters' outstanding bond debt, assume and fully fund the pensions, and financially sustain and operate the Health Facilities.

If the proposed transaction were not approved, Daughters would be forced to consider other options. It is possible that a previously submitted and negotiated Definitive Agreement could be entered into with one of the other final bidders; however, it may not meet the same terms and commitments currently proposed by Prime. 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.

As a result of Daughters' current pressing financial situation, the majority of those interviewed believed bankruptcy would occur, resulting in the possible reduction of services or closure of some of the Health Facilities. Bankruptcy could have a very negative impact on employees, employee pensions, creditors, and the services offered to the community.

CONCLUSIONS & RECOMMENDATIONS

Daughters contends the proposed Definitive Agreement and change in governance and control of Daughters and St. Francis 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, Medical Development Specialists, LLC, 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 the closing date of the transaction, the Hospital shall continue to operate as a general acute care hospital;
- 2) For at least ten years from the closing date of the transaction, the Hospital shall maintain 24-hour emergency and trauma medical services at no less than current licensure and designation with the same types and/or levels of services, including the following:
 - a. At a minimum, 46 emergency treatment stations;
 - b. Designation as a Level II Trauma Center;
 - c. Designation as a 5150 Receiving Facility, as defined by the Welfare and Institutions Code, Section 5150, for behavioral health patients under involuntary evaluation;
 - d. Psychiatric evaluation team;
 - e. Designation as an Emergency Department Approved for Pediatrics (EDAP); and
 - f. Designation as a Paramedic Base Station.
- 3) For at least ten years from the closing date of the transaction, the Hospital shall maintain on-call coverage contracts and/or comparable coverage arrangements with physicians at fair market value that are necessary to ensure trauma coverage, including the following specialty services:
 - a. General surgery;
 - b. Trauma surgery;
 - c. Neuro-trauma surgery;
 - d. Obstetrical/gynecological surgery;
 - e. Orthopedic surgery;
 - f. Trauma orthopedic surgery;
 - g. Vascular surgery;
 - h. Cardiothoracic surgery;
 - i. Plastic surgery;
 - j. Ophthalmology;
 - k. Otolaryngology;

- l. Anesthesia; and
 - m. Urology.
- 4) For at least five years, the Hospital shall retain the 1206(d) clinics (listed below) with the same number of physician and mid-level provider full-time equivalents in the same or similar alignment structures (e.g., 1206(l) Medical Foundation):
- a. Lynwood Clinic – Family Practice and Pediatrics, located at 3628 E. Imperial Highway, #303 in Lynwood;
 - b. Downey Clinic – Family Practice and Pediatrics, located at 7840 Imperial Highway, Unit B, in Downey;
 - c. Compton Clinic – Family Practice and Pediatrics, located at 457 S. Long Beach Boulevard in Compton;
 - d. Huntington Park Clinic – Family Practice and Pediatrics, located at 2700 Slauson Avenue in Huntington Park; and
 - e. Orthopedics Clinic, located at 3628 E. Imperial Highway, #300, in Lynwood.
- 5) For at least ten years from the closing date of the transaction, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:
- a. Cardiac services, including at a minimum, three cardiac catheterization labs and the designation as a STEMI Receiving Center;
 - b. Critical care services, including a minimum of 36 intensive care unit beds;
 - c. Advanced certification as a Primary Stroke Center;
 - d. Neonatal intensive care services, including a minimum of 29 neonatal intensive care beds, and at minimum, maintaining a Level II NICU;
 - e. Women’s health services, including women’s imaging services;
 - f. Cancer services, including radiation oncology;
 - g. Pediatric services, including a minimum of 14 pediatric beds;
 - h. Orthopedic and rehabilitation services;
 - i. Wound care and hyperbaric medicine services;
 - j. Behavioral health services, including a minimum of 40 inpatient acute psychiatric beds; and
 - k. Obstetric services, including a minimum of 50 obstetrics beds.
- 6) For at least ten years from the closing date of the transaction, the Hospital shall maintain a charity care policy that is no less favorable than the Hospital’s current charity care policy and in compliance with California and Federal law, and the Hospital shall provide an annual amount of Charity Care equal to or greater than \$18,056,084 (the “Minimum Charity Care Amount”). For 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 that 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

- 7) For at least ten years from the closing date of the transaction, the Hospital shall continue to expend an average of no less than \$10,420,114 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for Los Angeles-Riverside-Orange County, California. The following community benefit programs shall be maintained with the same or greater level of financial support and in-kind services currently being provided:
 - a. Health Benefits Resource Center;
 - b. Welcome Baby Program;
 - c. South Los Angeles Access to Care – SFMC Compton Clinic;
 - d. Healthy Community Initiatives (HCI);
 - e. Vida Sana/Healthy Life Wellness Program;
 - f. St. Francis Career College (SFCC);
 - g. Indigent care in addition to traditional charity care;
 - h. Paramedic Training and Education;
 - i. Patient Transportation;
 - j. Casa de Esperanza;
 - k. Trauma and Injury Prevention Program and Southern California Crossroads;
 - l. Footprints; and
 - m. Children’s Counseling Center.

- 8) For at least ten years from the closing date of the transaction, 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 of quality, or gap in contracted hospital coverage, including continuation of the following contracts:
 - a. L.A. Care Health Plan; and
 - b. Health Net.

- 9) For at least ten years from the closing date of the transaction, 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, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number;

- 10) For at least ten years from the closing date of the transaction, the Hospital shall maintain its contracts with the County of Los Angeles for services, including the following:
 - a. Radiation Therapy Services Agreement; and
 - b. Hospital Preparedness Program Agreement.

- 11) For at least ten years from the closing date of the transaction, the Hospital shall maintain its contracts and designations with the County of Los Angeles for emergency, trauma, and psychiatric services, including the following:

- 11) For at least ten years from the closing date of the transaction, the Hospital shall maintain its contracts and designations with the County of Los Angeles for emergency, trauma, and psychiatric services, including the following:
 - a. Inpatient psychiatric services, at a minimum of 40 acute psychiatric beds;
 - b. Psychiatric Designation Agreement pursuant to the California Welfare and Institutions Code, Section 5000, for inpatient psychiatric services;
 - c. Designation as a 5150 Receiving Facility, as defined by the Welfare and Institutions Code, Section 5150, for behavioral health patients under involuntary evaluation;
 - d. Trauma Center Services Agreement;
 - e. Trauma Center Services Augmentation Agreement;
 - f. Paramedic Base Hospital Services Agreement, approving the Hospital as a County designated 911 receiving facility; and
 - g. Designation as an Emergency Department Approved for Pediatrics (EDAP).
- 12) Prime shall maintain privileges for current medical staff members at the Hospital who are in good standing as of the closing date of the transaction. Further, the closing shall not change the medical staff officers, committee chairs or independence of the Hospital's medical staff and those such persons shall remain for the remainder of their tenure;
- 13) Prime 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
- 14) Prime shall comply with the \$150 million "Capital Commitment" set forth in section 7.9 of the Definitive Agreement.

APPENDICES

List of Interviewees

Last Name	First Name	Position	Affiliation
Anderson, MD	Maxine	Chief of Surgery, Trauma/MEC	St. Francis Medical Center
Azurin, MD	Narciso	President	Angeles IPA
Ballersteros	Alvaro	CEO	JCWH Institute
Bannerman	Christine	Service Line Director, Cardiovascular & Neuro-Cardiopulmonary	St. Francis Medical Center
Battles	Stephanie	Vice President, Human Resources	Daughters of Charity Health System
Bowens, MD	Karol	Chief of Staff elect, OB/MEC	St. Francis Medical Center
Brand, MD	Jonathan	Behavioral Health	St. Francis Medical Center
Bruno	Diana	Service Line Director, Maternal-Child Health	St. Francis Medical Center
Byington	Scott	Registered Nurse	United Nurses Associations of California, Union of Health Care Professionals
Carcamo	Rosa	Registered Nurse	United Nurses Associations of California, Union of Health Care Professionals
Casillas-Sanchez	Leticia	Program Officer	First 5 LA
Castanon	Marilen	Registered Nurse	United Nurses Associations of California, Union of Health Care Professionals
Chidester	Cathy	Assistant Director	County of Los Angeles Emergency Medical Services
Cota	Stephanie	ER Administrator	St. Francis Medical Center
Detrano	Denise	Attorney	State of California
Diedrich	Dee	Chief Medical Officer	Daughters of Charity Health System
Drees	Dub	St. Francis Medical Center Foundation CEO & President	St. Francis Medical Center
Enriquez	Manny	Field Vice President, Contracting	Humana
Farah, MD	Amin	Medical Director of Cardiology, MEC	St. Francis Medical Center
Ferrari	Lisa	Regional Vice President, Southern California	Anthem Blue Cross of California
Forrester	Shawn	Vice President, Network Management	Aetna
Frommer	Marcos	St. Francis Medical Center Foundation Board Member	St. Francis Medical Center
Grassman	Bryan	Director, Foundation and Corporate Relations	St. Francis Medical Center
Guardado	Edwin	Registered Nurse	United Nurses Associations of California, Union of Health Care Professionals
Heather	Mike	Chief Financial Officer	Prime Healthcare Services, Inc.
Hill	Lary	Chief Steward & Transport Department	SEIU
Hobson	Bill	President & CEO	Watts Health (FQHC)
Isaai	Robert	President & CEO	Daughters of Charity Health System
Javidi	Mitra	Regional Network Director	Health Net Community Solutions
Jivajka, MD	Vinod	President	AppleCare Medical Group
Kaslow	Vivian	Consultant	Kaslow Consulting Services, Inc.
Knighten	Mary Lynne	CNO & Vice President, Patient Care Services	St. Francis Medical Center
Kozai	Gerald	President & CEO	St. Francis Medical Center
Lavolette	Sr. Jo-Ann	St. Francis Medical Center Board Secretary	St. Francis Medical Center
Lee	Donzela	Policy Director	Community Health Councils
LoCurto	Donna	Director, Surgical Services	St. Francis Medical Center
Marques	Sandra	Registered Nurse	United Nurses Associations of California, Union of Health Care Professionals
Melikian	Annie	Chief Financial Officer	Daughters of Charity Health System
Morris	Lynn	Stewart & Cardiology Department	SEIU
Pakuckas	Paul	Regional Vice President, Solutions Medicaid California	Anthem Blue Cross of California
Papouchian	Arminé	Vice President, Network Management	Blue Shield of California
Patel	Mike	St. Francis Medical Center Foundation Board Member	St. Francis Medical Center
Patel	Paryus	Corporate Chief Medical Officer	Prime Healthcare Services, Inc.
Reddy, MD	Prem	Chairman, President, & CEO	Prime Healthcare Services, Inc.
Rubino	Louis	St. Francis Medical Center Board Member	St. Francis Medical Center
Schell	Troy	General Counsel	Prime Healthcare Services, Inc.
Schwefler	Ernie	Regional Vice President, California	Anthem Blue Cross of California
Scott	Steve	Vice President, Payor Solutions	Anthem Blue Cross of California
Shabanian	Tina	Director, Provider Contracting and Specialty Networks	Blue Shield of California
Shepherd, MD	Tchaka	Medical Director of Trauma	St. Francis Medical Center
Siebert	Greg	Vice President, Network Management	United HealthCare
Singh, MD	Anantijit	Medical Director of EPS & Past Chief of Staff	St. Francis Medical Center
Stephen, MD	Michael	Chief of Staff	St. Francis Medical Center
Thomas	Ta-Tanisha	Director, Managed Care and Provider Relations	St. Francis Medical Center
Van Duine, Sr.	Paul	Director, Provider Network Operations and Strategy	LA Care Health Plan
Wallace	John	Chief Operating Officer	LA Care Health Plan
Wallerstein	Ernie	President & CEO	DCHS Medical Foundation
Walters	Bob	Vice President, Facilities Planning & Development	Daughters of Charity Health System
Weinmeister	Kurt	Executive Vice President & COO	St. Francis Medical Center
Weinstein	Diane	Senior Associate, General Counsel	Anthem Blue Cross of California
Weller	Sr. Joyce	St. Francis Medical Center Board Chair	St. Francis Medical Center
White	Brendan	Legal Counsel	California National Nurses Association
Wilson	Nancy	Interim CFO	St. Francis Medical Center
Woo	Linda	Director, Public Relations & Community Affairs	St. Francis Medical Center
Ynzunza	Sam	St. Francis Medical Center Board Officer	St. Francis Medical Center

Hospital License

License: 93000167
Effective: 01/01/2014
Expires: 12/31/2014
Licensed Capacity: 384

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

St. Francis Medical Center

to operate and maintain the following General Acute Care Hospital

SAINT FRANCIS MEDICAL CENTER

3630 E Imperial Hwy
Lynwood, CA 90262-2636

Bed Classifications/Services

314 General Acute Care
71 Perinatal
36 Intensive Care
29 Intensive Care Newborn Nursery
14 Pediatric
164 Unspecified General Acute Care
40 Acute Psychiatric (D/P)
30 Skilled Nursing (D/P)

Other Approved Services

Basic Emergency
Cardiovascular Surgery
Nuclear Medicine
Occupational Therapy
Outpatient Clinics - Family Practice at SFMC
Compton Clinic, 457 S. Long Beach Blvd,
Compton
Outpatient Clinics - Family Practice at SFMC
Downey Clinic, 7840 Imperial Hwy #B,
Downey
Outpatient Clinics - Family Practice at SFMC
Huntington Park Clinic, 2700 E. Stauson
Ave, Huntington Park
Outpatient Clinics - PCC
Outpatient Clinics - PCC at SFMC Perinatal
Diagnostic Clinic, 3628 E. Imperial Hwy,
Suite 408, Lynwood
Outpatient Clinics - PCC at Wound Care
Center, 3628 E. Imperial Hwy., Ste. 103,
Lynwood
Outpatient Clinics - Pediatric at Leavey Peds
Clinic, 3628 E Imperial Highway, Suite 303,
Lynwood
Outpatient Clinics - Pediatrics at Children's
Counseling Center, 4390 Tweedy Ave.,
South Gate

(Additional Information Listed on License Addendum)

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, L.A. County Acute & Ancillary Unit, 3400 Aerojet Avenue, Suite 323, El Monte, CA 91731,
(626)869-3724

POST IN A PROMINENT PLACE

**State of California
Department of Public Health
License Addendum**

License: 830000167
Effective: 01/01/2014
Expires: 12/31/2014
Licensed Capacity: 384

SAINT FRANCIS MEDICAL CENTER (Continued)
3630 E Imperial Hwy
Lynwood, CA 90262-2638

Other Approved Services (cont'd)

Outpatient Services - Diagnostic Testing at
3628 E. Imperial Highway, Suite 300,
Lynwood

Outpatient Services - OB/GYN Clinic at 3628
E. Imperial Highway, Suite 301, Lynwood

Physical Therapy

Radiation Therapy

Respiratory Care Services

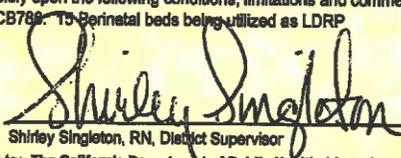
Social Services

Speech Pathology

This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:
Mobile Unit California Vehicle License Plate #4BCB789. 15 Perinatal beds being utilized as LDRP
rooms.

Ron Chapman, MD, MPH

Director & State Health Officer



Shirley Singleton, RN, District Supervisor

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and
Certification, L.A. County Acute & Ancillary Unit, 3400 Aerojet Avenue, Suite 323, El Monte, CA 91731,
(626)566-3724

POST IN A PROMINENT PLACE