

Effects of the System Restructuring and Support Agreement by and among  
Daughters of Charity Ministry Services Corporation, Daughters  
of Charity Health System, Certain Funds Managed by BlueMountain Capital  
Management, LLC, and Integrity Healthcare, LLC on the Availability and  
Accessibility of Healthcare Services to the Communities Served by  
St. Francis Medical Center

Prepared for the Office of the California Attorney General

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## INTRODUCTION & PURPOSE

MDS Consulting, a VHA business (MDS) was retained to prepare reports for the Office of the California Attorney General on the Daughters of Charity Health System, including each of the system's five hospital corporations and their related health facilities. This report evaluates the potential impact of the proposed System Restructuring and Support Agreement (System Agreement) between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC, on the availability and accessibility of healthcare services to the communities served by 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 Medical Center, O'Connor Hospital, St. Vincent Medical Center, Saint Louise Regional Hospital, and Seton Medical Center (collectively, the Hospital Corporations).

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

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

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

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

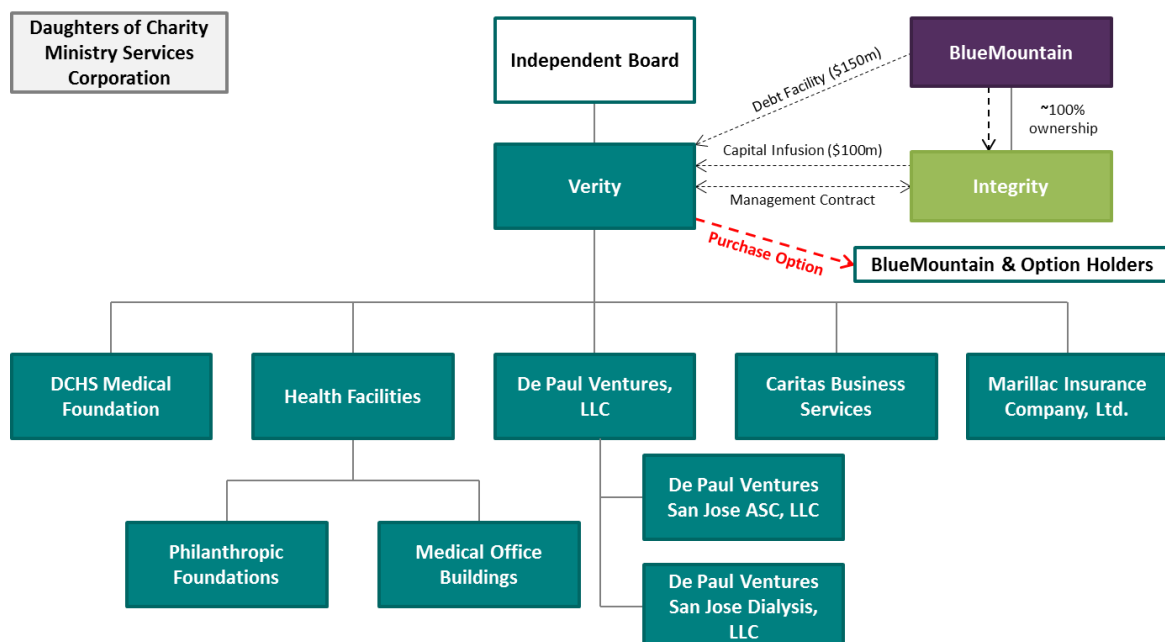
<sup>2</sup> Certain Funds Managed by BlueMountain involved in this transaction include the following entities: BlueMountain Guadalupe Peak Fund L.P., BlueMountain Summit Opportunities Fund II (US) L.P., BlueMountain Montrovers Master Fund SCA SICA V-SIF, BlueMountain Foinaven Master Fund L.P., BlueMountain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

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

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

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

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



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

MDS performed the following in its preparation:

- A review of the application submitted by Daughters to the California Attorney General on July 31, 2015, and supplemental information and documents subsequently provided by Daughters and the Health Facilities;
- A review of press releases and news articles related to this and other hospital transactions;
- Interviews with community representatives, representatives of the Hospital's medical staff, management, and employees, St. Francis's Board of Directors (St. Francis's Board), Daughters' Board of Directors (Daughters' Board), Daughters' representatives, and others listed in the Appendices;
- An analysis of financial, utilization, and service information provided by Daughters, the Hospital's management, and the California Office of Statewide Health Planning and Development (OSHPD); and
- An analysis of publicly available data and reports regarding the Hospital's service area including:
  - Demographic characteristics and trends;
  - Payer mix;
  - Hospital utilization rates and trends;
  - Health status indicators; and
  - Hospital market share.

## ***Reasons for the Transaction***

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

- The current structure and sponsorship of Daughters and the Health Facilities are no longer plausible as a result of cash flow projections and dire financial conditions;
- In July and August of 2014, Daughters obtained a short-term financing bridge loan in the amount of \$125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. Repayment of the funds is due on December 15, 2015, at which time if the full amount is not repaid, Daughters will be at risk of defaulting on both the 2014 and 2005 Revenue Bonds<sup>4</sup>; and
- Without bankruptcy protection or additional financial support, Daughters could not continue hospital operations if there is a default.

## ***Transaction Process and Objectives***

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

- Protect the pensions of current employees, retired employees, and their beneficiaries;
- Repay major business partners, such as bondholders and vendors;
- Honor and assume the Collective Bargaining Agreements (CBAs)<sup>6</sup> held by the Hospital Corporations; and
- Obtain commitments to capital investments in the Health Facilities, and commitments to the continued provision of acute care services and indigent care, as well as to the

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<sup>4</sup> 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).

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

<sup>6</sup> A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.



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

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

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

- None of the bidders interested in individual hospitals and/or groups of hospitals were prepared to assume Daughters' pension obligations;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- If there was any transaction failure, there would be a withdrawal liability on the Multiemployer Pension Plan<sup>7</sup> 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.

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

In September 2014, the final round of negotiations commenced and involved four offers for the full health system<sup>8</sup>.

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

SUMMARY OF BIDDING PROCESS: 2014				
		Bids for Daughters' Entities:		
		Full System	Individual (or groups of) Hospitals	Medical Office Buildings/ Facilities
<b>First Round</b> 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
	<b>Total:</b>	<b>11</b>	<b>14</b>	<b>4</b>
<b>Second Round</b> 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*	-	-	-
	<b>Total:</b>	<b>8</b>	<b>7</b>	<b>-</b>
<b>Final Round</b> 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*	-	-	-
	<b>Total:</b>	<b>6</b>	<b>-</b>	<b>-</b>

Source: Daughters

\* Includes skilled nursing facilities, real estate investment trusts, and others

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

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

<sup>8</sup> 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.

- Operational and transactional experience: Bidder's prior experience and success in turning around distressed hospitals and breadth of experience in owning and operating acute care facilities, particularly within California;
- Historical service quality: Evaluation of the bidder's relative performance on quality measures for its California-based operations (if applicable), including relative patient safety, practice of evidence-based care, readmission rates, mortality rates, and patient satisfaction scores in comparison to Daughters, the national average, and the other final bidders;
- Financial wherewithal: Bidder's financial strength, measured in terms of cash and other assets, and its potential access to additional capital for Daughters' cash requirements at closing and post-closing;
- Capital commitment: Bidder's willingness to invest in the Health Facilities following the closing of the transaction;
- Need for bankruptcy: The likelihood of the bidder to require bankruptcy proceedings in order to reduce liabilities as a condition of closing;
- Valuation: Distributable value of the offer, calculated as the sum of the estimated cash consideration paid at closing, plus the face value of the short- and long-term liabilities;
- Closing risk: Potential risk of not being willing or able to close due to financing contingencies, regulatory issues, or other barriers, including a strong consideration of the bidder's potential to fund a meaningful good-faith deposit; and
- Timeline: Bidder's ability to meet the necessary strict timeframe for closing in light of Daughters' deteriorating working capital.

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

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

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

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

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

- None of the bidders interested in individual hospitals or multiple hospitals were prepared to assume the pension obligations in full;
- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;
- Certain bidders would require a bankruptcy proceeding in order to move forward with the transaction; and
- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

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

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<sup>9</sup> Two additional parties submitted unsolicited indications of interest in late June 2015, neither of which referenced a capital commitment.

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

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

### ***Timeline of the Transaction***

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

- February 2005 – 2005 Bonds are issued in the amount of \$364 million to refinance existing debt and fund future capital expenditures<sup>10</sup>;
- November 2008 – 2008 Bonds<sup>11</sup> are issued in the amount of \$143.7 million to refinance existing debt;
- February 24, 2012 – Daughters executes a memorandum of understanding with Ascension Health Alliance as a precursor to system integration discussions;
- June 20, 2012 – Daughters and Ascension Health Alliance effect an amendment to the memorandum of understanding;
- December 2012 – Daughters and Ascension Health Alliance execute an affiliation agreement that did not involve a transfer of assets or liabilities or a change of control. Rather, Daughters and the Hospital Corporations became participants in various purchasing programs of Ascension Health and obtained access to other Ascension Health support services;
- March 15, 2013 – Daughters solicits offers for 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 Coastsides, and sends out a request for proposal and confidential descriptive memorandum to eight organizations, of which three submit indications of interest;
- October 2013 – 2008 Bonds retire<sup>12</sup>;

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<sup>10</sup> This amount is gross of an estimated \$26 million in the debt service reserved funds that will be used to defease the 2005 Bonds.

<sup>11</sup> 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.

- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;
- January 2014 – Daughters announces the initiation of its process to evaluate strategic alternatives for the entire system;
- February 2014 – Request for Proposal process is initiated by contacting over 133 health systems and other potential buyers who potentially could have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;
- February 2014 – Prime, along with 71 other potential buyers, sign confidentiality agreements and receive a confidential information memorandum summarizing key facts about Daughters and its related entities;
- March 21, 2014 – Daughters receives 29 bids by the first round deadline;
- May 30, 2014 – Daughters’ Board decides to focus efforts on full system bidders, as it had been determined that no combination of proposals to purchase individual facilities would provide an adequate solution to Daughters’ pressing financial situation;
- July 30, 2014 – Daughters secures \$110 million in short-term “bridge financing” in order to access working capital to continue operations through the sale process (2014 Bonds, Series A & B);
- August 27, 2014 – Daughters secures an additional \$15 million under the 2014 Bonds (Series C);
- September 12, 2014 – Daughters receives four final proposals;
- October 3, 2014 – Daughters’ Board passes a resolution to authorize the execution of the Definitive Agreement between Daughters, Ministry, and Prime, and recommends the approval of the transaction to Ministry’s Board of Directors (Ministry’s Board);
- October 9, 2014 – St. Francis’s Board passes a resolution to authorize any necessary or advisable amendments to the Articles of Incorporation and Bylaws of St. Francis and St. Francis’s 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

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<sup>12</sup> 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.

and authorizes the execution of the Definitive Agreement between Daughters, Ministry, and Prime;

- October 10, 2014 – Ministry and Daughters enter into the Definitive Agreement with Prime;
- October 23, 2014 – Ministry and Daughters enter into Amendment No. 1 to Definitive Agreement with Prime;
- October 24, 2014 – “Notice of Submission and Request for Consent” is submitted by Daughters to the California Attorney General;
- January 2015 – The California Attorney General holds six public meetings, two in Southern California and four in Northern California, to receive comments on the proposed change in governance and control of each of the Health Facilities;
- February 11, 2015 – RET Development Company, LLC is formed as a limited liability company and filed with the Secretary of State of the State of Delaware<sup>13</sup>;
- February 20, 2015 – The California Attorney General conditionally consents to the proposed change in governance and control of Daughters;
- March 9, 2015 – Prime terminates its transaction agreement with Daughters;
- March 2015 – Request for Proposal process is initiated by contacting 86 potential buyers who could possibly have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;
- March 2015 – BlueMountain, along with 75 other parties, sign confidentiality agreements and receive a confidential information memorandum supplemental update summarizing important information about Daughters and its related entities;
- April 15, 2015 – Daughters receives 14 first round bids, including one from BlueMountain;
- April & May 2015 – Daughters’ Board reviews current active bids and determines that full system bids are the most viable option to address Daughters’ transaction objectives;
- May 2015 – Houlihan Lokey sends final bid letters to parties still pursuing full system offers;

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<sup>13</sup> RET Development Company, LLC is the original name under which Integrity Healthcare, LLC was filed with the Secretary of State of the State of Delaware.

- May 22, 2015 – BlueMountain submits an amended first round bid to Daughters;
- May 29, 2015 – Loeb & Loeb, LLP, on behalf of Daughters, requests a determination letter from the IRS to recognize the Hospital Corporations, Caritas Business Services, DCHS Medical Foundation, and St. Vincent Dialysis Center, Inc. as 501(c)(3) tax-exempt entities<sup>14</sup>
- June 29, 2015 – Daughters receives four final proposals by the deadline, including one from BlueMountain;
- July 14, 2015 – Daughters’ Board reviews the final proposals and passes a resolution to authorize the execution of the System Agreement between Daughters, Ministry, BlueMountain, and Integrity, and recommends the approval of the transaction to Ministry’s Board of Directors (Ministry’s Board);
- July 15, 2015 – St. Francis’s Board passes a resolution to authorize the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;
- July 15, 2015 – Ministry’s Board passes a resolution to authorize the amendment of Daughters’ articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the System Agreement between Ministry, Daughters, BlueMountain, and Integrity;
- July 16, 2015 – Under the Amended and Restated Limited Liability Company Agreement of Integrity Healthcare, LLC, RET Development Company, LLC is renamed to Integrity Healthcare, LLC;
- July 17, 2015 – Ministry and Daughters enter into the System Agreement with BlueMountain and Integrity;
- July 31, 2015 – “Notice of Submission and Request for Consent” is submitted by Daughters to the Office of the California Attorney General; and
- September 2015 - Ministry and Daughters enter into Amendment No. 1 to System Restructuring and Support Agreement with BlueMountain and Integrity.

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



## ***Summary of Agreements***

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

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

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

## ***System Restructuring and Support Agreement***

The System Agreement contains the following major provisions:

- Ministry, as the sole corporate member of Daughters, shall cause Daughters to approve and adopt amended and restated articles of incorporation and bylaws, as may be necessary in order to implement the System Agreement, and to effectuate the following post-closing changes:
  - The name of Daughters shall change to Verity Health System of California, Inc.<sup>15</sup>; and
  - Daughters shall be converted from a nonprofit religious corporation to a non-member, nonprofit public benefit corporation.
- The amended and restated bylaws of Daughters shall reflect the terms and conditions of the Request for Group Exemption Letter directed to the Internal Revenue Service;
- Ministry shall cause the resignation or removal of the existing directors of Daughters, and appoint new directors who will assume office upon closing of the transaction;
  - Candidates may be recommended to Ministry by Integrity and the current directors of Daughters; however, Ministry has sole and exclusive discretion, in accordance with Daughters' current bylaws, and may or may not choose to follow the candidate recommendations for appointment.
- Following the closing of the transaction, Ministry shall resign as the sole member of Daughters;
- Daughters shall cause the resignation or removal of the existing members of the Boards of Directors of the Hospital Corporations and appoint, or cause the appointment of, replacement directors;
- Daughters' Board and the Boards of Directors of the Hospital Corporations and of Daughters' Affiliates shall cause the articles of incorporation and bylaws, and or other governing documents of the Hospital Corporations and other related entities, to be amended in order to:
  - Make the changes necessary to implement the System Agreement; and

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

- Reflect the terms and conditions, inclusive of the reserve powers, as stated in the Request for Group Exemption Letter that was directed to the Internal Revenue Service.
- Daughters and/or Daughters' Affiliates shall transfer the following retained assets to Ministry prior to closing:
  - Intellectual property;
  - Religious artifacts and donor-restricted assets;
  - Historical records and memorabilia;
  - Property located at 25 San Fernando in Daly City, California 94015;
  - Property located at 253 South Lake Street in Los Angeles, California 90057;
  - Lease agreement between Daughters of Charity of St. Vincent de Paul, Province of the West and Daughters, dated October 1, 2001, for the building located at 26000 Altamont Road in Los Altos Hills, California;
  - All furniture, fixtures, and equipment at Daughters' corporate office in Los Altos Hills, other than computer and IT equipment; and
  - Accounts receivable that are payable to Daughters by Ministry and any non-affiliated entities, including:
    - GRACE, Inc.<sup>16</sup>;
    - Daughters of Charity of St. Vincent de Paul, Province of the West; and
    - Owner of the Meals on Wheels program.
- BlueMountain and Integrity shall collectively make cash payments to Daughters at closing in the combined aggregate amount of \$100,000,000 (the Contribution Funding), as consideration for the Purchase Option Agreements and IT Agreement less Escrow Deposit;
- Concurrently with the execution of the System Agreement, Integrity shall deliver a deposit in the sum of \$40,000,000, as set forth under the terms within the Deposit Escrow Agreement;
  - Upon closing of the transaction, this deposit and any accrued earnings shall be applied to payment of the Contribution Funding; and
  - If the System Agreement is validly terminated due to the failure of BlueMountain or Integrity, for any reason other than a failure of Daughters to satisfy any of the considerations listed in the System Agreement, then Daughters shall be entitled to 100% of the deposit and any interest accrued in the account.
- Concurrently with the execution of the System Agreement, Daughters shall enter into a Transitional Consulting Services Agreement with Integrity in order to facilitate

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

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

- Transitional Consulting Services Agreement stipulates performance of the Mitigation Plans and the Performance Improvement Plan; and
  - All costs and expenses incurred by Daughters and Integrity in carrying out their respective obligations under the Performance Improvement Plan shall be paid out of the Escrow Deposit.
- In connection with the closing of the transactions contemplated under the System Agreement, Integrity and Daughters shall each execute and deliver the Management Agreement;
- Daughters, the Hospital Corporations, Daughters' Affiliates, and BlueMountain shall execute and deliver the Purchase Option Agreements;
- BlueMountain shall execute and deliver the Debt Facility Commitment Letter to Daughters, stating the commitment to provide a loan or line of credit available at closing, in the principal amount of no less than \$150,000,000 (the Debt Facility)<sup>17</sup>, to further support the financial and capital needs of Daughters;
- At closing, Daughters shall transfer funds from the Debt Facility proceeds to Ministry, that will be retained and controlled by Ministry in a separate deposit account, in the amount equal to \$11,500,000, less the amount of severance paid to Daughters' employees who cease employment following closing, and less the amount of severance pay that would have been owed to Daughters' corporate office employees who sign new written employment agreements under the new system (the Holdback Amount);
- Upon closing of the transaction, Daughters and Daughters' Affiliates shall lease, sublicense, and/or assign certain information technology infrastructure and equipment to Integrity, upon the terms and conditions stated within the IT Agreement;
  - Integrity will use the information technology infrastructure and equipment for the purpose of managing Daughters and Health Facilities after closing.
- Integrity acknowledges and agrees to the following pre-closing commitments made by Daughters under the terms of the System Agreement:
  - For at least five years following the closing, the Health Facilities shall continue to operate as general acute care hospitals, with open emergency departments,

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<sup>17</sup> Debt Facility of \$150 million excludes additional permitted draws (up to \$10 million) to cover potential buyer transaction expenses.

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

- For at least five years following the closing, the charity care policies for the treatment of indigent patients shall be maintained at the Health Facilities similar to the policies currently in effect, or these policies will be replaced with policies of either similar or greater benefit to the community;
  - For at least five years following the closing, the existing chapels at the Health Facilities shall continue to be used for the celebration of Catholic mass and other religious services, and provide an appropriately staffed and funded pastoral care service at the Health Facilities;
  - Employment shall continue, with comparable salaries, wages, job titles, and duties that were in place prior to closing, for substantially all employees who remain in good standing and employed by Daughters as of the closing date, including the following:
    - Unrepresented employees of the Daughters and Daughters Affiliates; and
    - Unionized employees working under CBAs.
  - Integrity agrees and acknowledges that it shall adhere to the severance obligations written in the employment agreements or in the absence of any such agreement, Integrity shall adhere to Daughters' severance pay obligations for a period of twelve months following the closing;
  - Verity shall reserve or expend at least \$180,000,000 over the first five years following the closing in capital expenditures at the Health Facilities. The specific allocation of the expenditures shall include:
    - \$40,000,000 per year in years one through three; and
    - \$30,000,000 per year in years four and five.
  - Verity shall ensure that the inpatient beds of Seton Medical Center will be seismically compliant as of January 1, 2020.
    - In addition, Verity will use commercially reasonable efforts to include Seton Medical Center in the Voluntary Seismic Incentive Program administered by OSHPD.<sup>18</sup>
- Integrity acknowledges and agrees to the following commitments regarding the pension liabilities:
    - As of the closing date, subject to necessary Daughters' Board direction and approval, Integrity shall cause Daughters to amend and convert the Defined Benefit Church Plan<sup>19</sup> and the Defined Contribution Church Plans<sup>20</sup> from non-

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

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

- electing church plans to employee pension benefit plans (ERISA<sup>21</sup>), covered by the Pension Benefit Guaranty Corporation insurance program<sup>22</sup>; and
- Integrity shall facilitate Daughters taking the following actions with respect to the Multiemployer Plans to which Daughters has made contributions prior to the closing date, pursuant to the CBAs;
  - Take any actions necessary with respect to the uninterrupted continuation of Daughters' obligations to the Multiemployer Plans as required under the CBAs; and
  - Provide funding for the Multiemployer Plans in accordance with the requirements of ERISA and the Internal Revenue Service Code of 1986.
- Ministry, Daughters, BlueMountain, and Integrity acknowledge and agree that following the closing of the transaction, Verity will continue to address funding shortfalls for Employee Pension Benefit Plans and Employee Welfare Benefit Plans;
- The System Agreement may be terminated prior to closing based upon, but not limited to, any of the following conditions:
  - Upon mutual written consent between Daughters, Integrity, and BlueMountain; and
  - If the closing has not occurred on or before the date which is nine months following the date the System Agreement was executed.

### ***Transitional Consulting Services Agreement***

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

- Integrity will provide general consulting services and operational advice to Daughters for the following purposes:
  - To assist in the implementation of the Performance Improvement Plan and Mitigation Plans; and
  - To facilitate the implementation of the Management Agreement.

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<sup>20</sup> Defined Contribution Church Plans means the Daughters of Charity Health System Retirement Plan Account, the Daughters of Charity Health System Supplemental Retirement Plan and the Daughters of Charity Health System Supplemental Retirement Plan.

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

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

- Daughters shall facilitate and accommodate the implementation of the Management Agreement by performing the following:
  - Providing assistance to Integrity as necessary;
  - Arrange, attending, and participating in meetings, negotiations, and planning discussions; and
  - Ensuring that Integrity has reasonable access to and ability to communicate and interact with Daughters.
- Daughters shall retain a Chief Restructuring Officer<sup>23</sup> who shall have the following responsibilities:
  - To direct and oversee the implementation of the Performance Improvement Plan and Mitigation Plans; and
  - To report to the Performance Improvement Steering Committee.
- A Performance Improvement Steering Committee shall be established, as of July 24, 2015, and will be comprised of six members of whom:
  - Three members shall be appointed by Integrity; and
  - Three members shall be appointed by Daughters' Board with input from Integrity.
- The Performance Improvement Steering Committee shall have the following responsibilities:
  - To meet on a biweekly basis;
  - To recommend capital and operating budgets for Daughters;
  - To support implementation of the Performance Improvement Plans and Mitigation Plans; and
  - To recommend performance improvement initiatives or actions proposed by the Chief Restructuring Officer to Daughters' Board.
- Daughters shall retain one or more strategic consulting firms proposed by Integrity that shall have the following duties and obligations:
  - Performing a Daughters-wide clinical, financial, and operational assessment; and
  - Recommending best practices for implementation of the Performance Improvement Plan initiatives.

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

## ***Debt Facility Commitment Letter***

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

- The Debt Facility shall consist of a loan in the principal amount of \$150,000,000 subject to the consent of the 2005 Bonds holders in numbers sufficient to support certain modifications to the master trust indenture;
  - If the holders of the 2005 bonds consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will have the following terms and conditions:
    - The Debt Facility will have a term of five years;
    - Interest will be payable on a monthly basis, and principal will be payable at maturity; and
    - The Debt Facility will be secured by the same collateral that secures the 2005 bonds, as well as a security position on accounts receivable and a first lien on certain real property.
  - If the holders of the 2005 bonds do not consent in numbers sufficient to support a modification of the master trust indenture, the Debt Facility will consist of revolving lines of credit; and
  - The Debt Facility funds have the following restricted uses: existing indebtedness of 2014 Bonds (currently estimated at \$62 million plus \$625,000 of interest); Daughters' closing and other transaction costs (estimated at \$15,000,000); closing costs of Integrity, BlueMountain, and the Certain Funds Managed by BlueMountain that do not exceed \$10,000,000; capital expenditures; the Holdback Amount (capped at \$11,500,000); and general corporation and working capital purposes.

## ***Deposit Escrow Agreement***

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

- Integrity and Daughters shall appoint and designate Citibank National Association as the escrow agent;
- In conjunction with the execution of the System Agreement, Integrity shall deposit the sum of \$40,000,000 with Citibank National Association;
- Citibank National Association shall invest and reinvest the \$40,000,000 in separate accounts in accordance with the joint written direction of Integrity and Daughters;



- The \$40,000,000 may be disbursed to Daughters by Citibank National Association under the following circumstances:
  - Upon closing of the transaction; and
  - If costs and expenses of Daughters arise under or in connection with the Transitional Consulting Services Agreement or the implementation of the Performance Improvement Plan prior to closing and in accordance with Article 2.5 of the System Agreement.

### ***Purchase Option Agreements***

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

- The Operating Asset Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the assets of Daughters, whether tangible or intangible, other than real property and related fixtures, whether tangible or intangible. Attached as Exhibit A is the Operating Asset Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;
- The Real Estate Purchase Option Agreement is an option to be granted by Daughters to Certain Funds Managed by BlueMountain to purchase substantially all of the real property and related fixtures of Daughters. Attached as Exhibit A is the Real Estate Purchase Agreement by and among Verity and its named affiliates and the purchaser that will be used if the option is exercised;
- The exercise of a purchase per either the Operating Asset Purchase Option Agreement or the Real Estate Purchase Option Agreement triggers the simultaneous required exercise of a purchase per the other one;
- The purchase price for the respective assets outlined in the Operating Asset Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Operating Asset Purchase Agreement by the operating asset allocation factor;
  - The underlying purchase price for the respective assets outlined in the Operating Asset Purchase Agreement is the sum of:
    - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
    - Cash payment in the amount of remaining bond obligations;

- A portion of all non-scheduled liabilities multiplied by the operating asset allocation factor; and
  - Cash payment for reasonable transaction costs up to 2% of the purchase price.
- The purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the product obtained by multiplying the total amount of outstanding liabilities of Daughters as of the date of the closing under the Real Estate Purchase Option Agreement by the real estate allocation factor;
  - The underlying purchase price for the respective assets outlined in the Real Estate Purchase Option Agreement is the sum of:
    - Assumed scheduled liabilities, inclusive of liabilities and obligations to any employee pension benefit plan or multiemployer plan;
    - Cash payment in the amount of remaining bond obligations;
    - A portion of all non-scheduled liabilities multiplied by the real estate allocation factor; and
    - Cash payment for reasonable transaction costs up to 2% of the purchase price.
- A purchase per the Operating Asset Purchase Option Agreement or the Real Estate Asset Purchase Option Agreement may be exercised beginning in year three following the closing of the transaction, and may be exercised through year 15 following the closing of the transaction; and
- The Management Agreement shall terminate upon exercise of a purchase per either the Operating Asset Purchase Option Agreement or Real Estate Asset Purchase Option Agreement.

## ***IT Agreement***

The IT Agreement outlines the following:

- Integrity will provide specific services related to transitioning, transforming, and realigning the Daughters' information technology strategy; and
- Integrity will provide a portion of the Contribution Funding amount to Daughters at closing in exchange for the rights and benefits associated with leasing certain technology of Daughters.

## Mitigation Plans

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

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

Source: Daughters

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

## ***Performance Improvement Plan***

- Implementation of the Performance Improvement Plan<sup>25</sup>, in conjunction with the implementation of the Mitigation Plans, from the effective date until closing;
- Performance Improvement Plan requirements include, but are not limited to, the following:
  - Establishment of a Performance Improvement Steering Committee comprised of six voting members for the purpose of recommending operating and capital budgets, supporting the implementation of the Performance Improvement Plan and Mitigation Plans, and recommending any improvement initiatives;
    - Retention of a Chief Restructuring Officer for the purpose of implementing the Performance Improvement Plan and Mitigation Plans under the direction of the Performance Improvement Steering Committee; and
    - Retention of a consulting firm experienced in healthcare operations and selected by Daughters from candidates proposed by Integrity.
  - Prior to closing, Daughters will continue to operate in good standing and not make any material change to the assets, interests or obligations, or any change in the governing documents of the Daughters Affiliates.

## ***Health System Management Agreement***

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

- Integrity acknowledges that management of Daughters will be in a manner consistent with the charitable purposes (as set forth in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended);
- Daughters designates and appoints Integrity as its sole exclusive agent to provide and assume responsibility for the management, administrative, and support services of Daughters and Daughters' Affiliates;
- Subject to budgetary limitations and personnel allocations, Integrity shall provide management services for the continuing operation of Daughters by, among other things, supervising, overseeing, and directing (including, but not limited to, the right to hire, discipline, suspend, lay off and/or terminate) Daughters' personnel;

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

- Integrity shall employ and provide a Chief Executive Officer, Chief Operating Officer, Director of Medical and Clinical Affairs, and a Chief Financial Officer for Daughters;
- Integrity has the exclusive right to provide such services as Daughters determines to be necessary or appropriate for the management, support, and administration of Daughters. Services include, but are not limited to, the following:
  - Financial management and accounting services;
  - Credentialing or certification activities on behalf of Daughters physicians and other licensed medical care professionals;
  - Contract negotiations with payers on behalf of Daughters;
  - Preparation of quarterly and annual operating and capital budgets for Daughters, to be reviewed and approved by the Daughters' Board;
  - Strategic planning activities of Daughters, including pursuit of joint venture partnerships, clinical affiliations, and co-management arrangements;
  - Provision of all patient care initiatives as required under regulations and standards; and
  - Timely payment and administration of all retirement plans, the multiemployer plans, and health and welfare plans.
- Integrity shall be entitled to receive fixed compensation for management services based on a fee percentage equal to 4.0% of the trailing 12 months of operating revenues<sup>26</sup> preceding either the Management Agreement Effective Date<sup>27</sup> or the System Agreement Effective Date, whichever is greater;
- The base monthly management fee increases annually based on the greater of the Consumer Price Index or zero;
- 25% of the monthly management fee is paid and the remainder is deferred if the number of days of cash on hand<sup>28</sup> does not exceed 15. If the number of days of cash on hand does exceed 15, 50% of the monthly management fee is paid and the remainder deferred. Management fee deferrals accrue interest at the annual rate of 2.82%;
- In year three and each year thereafter, an annual calculation is made to determine whether excess capital is present to pay previous deferrals of management fees after

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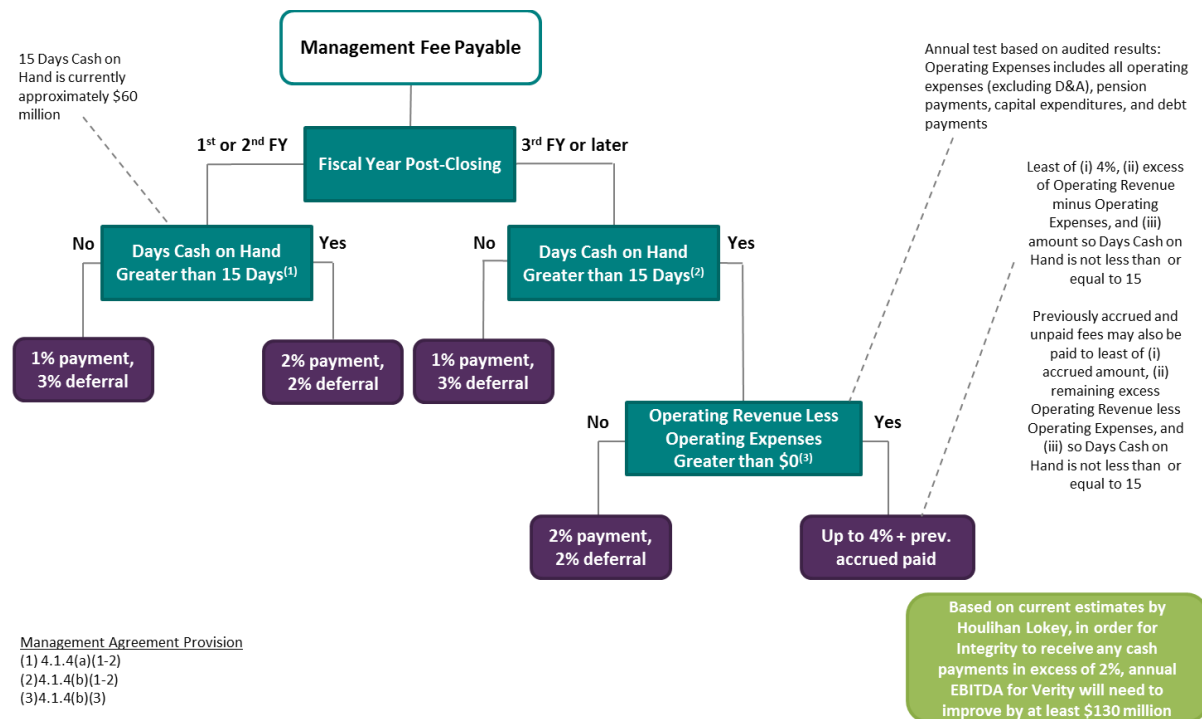
<sup>26</sup> Operating revenues include all net revenues recognized in Daughters' financial statements, in accordance with GAAP, including without duplication: revenues that are attributable to the rendering of hospital inpatient and outpatient services and relate to any and all presently existing and future DSH Payments, Stabilization Funds, QAF Payments, Governmental Receivables, and grants.

<sup>27</sup> The date the Management Agreement was entered into by and between Integrity and Daughters.

<sup>28</sup> Days of cash on hand measures the period of time in which the organization is able to meet cash requirements in the absence of outside funding.

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

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



## Use of Net Sale Proceeds

There will be no net proceeds from the proposed transaction.

## PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM

### *Daughters of Charity Health System*

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

Daughters of Charity, a group of women dedicated to caring for the needs of the poor, was established in France by St. Vincent de Paul and St. Louise de Marillac in 1633. 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 DCHS Medical Foundation was incorporated with Daughters as the sole corporate member. Under California Health and Safety Code section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than 10 board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

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

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

Source: Daughters

\* Excludes Independent Physician Associations

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

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



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

### **Caritas Business Services**

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

### **De Paul Ventures, LLC**

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

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

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

### **Marillac Insurance Company, Ltd.**

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

### **St. Vincent De Paul Ethics Corporation**

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

## Daughters' Inpatient Volume

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

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

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

Source: Daughters, 2014 Audited & 2015 Unaudited Internal Financials

<sup>1</sup> The figures provided by Daughters differ slightly from OSHPD data reported in subsequent volume tables, which is cited in the source

## Financial Profile

### Statement of Operations

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

Source: Daughters, 2014 Audited & 2015 Internal Unaudited Financials

Daughters' internal unaudited statement of operations for FY 2015 displays the individual performance of the Health Facilities in conjunction with Daughters' system-wide performance. The individual Health Facilities, excluding the Hospital, show operating losses, as well as deficits

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

### **Net Patient Service Revenue**

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

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

### **Operating Expenses**

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

### **Non-Recurring Items**

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

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<sup>29</sup> 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.

## Historic Comparison

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

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

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

Source: Daughters, 2015 Unaudited

<sup>1</sup> 2014 operating income excludes the favorable accounting treatment of the 2008 bond redemption

- Due to a \$54 million net benefit from the Quality Assurance Fee Program, the operating income improved slightly in FY 2011, before declining in FY 2012 – 2015;
- Labor costs as a percentage of net patient service revenues increased from 59.2% in FY 2011 to 73.6% in FY 2014 before dropping to 62.2% in FY 2015 (compared to Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 57.7%); and
- Liquidity levels are significantly lower than Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 204.6 days cash on hand.

## Cash Position and Debt Obligations

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

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

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

Source: Daughters, Unaudited Financials, 2015

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

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

### Credit Rating and Outlook

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

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

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

- Continued weakening of the balance sheet despite substantial debt refunding as a result of the restricted donation made by Daughters of Charity Foundation in the amount of \$130 million in October 2013;
- Eroding unrestricted reserves;
- Lack of a merging and/or acquiring entity (at the time of Standard & Poor's decision);
- Heavy reliance on hospital provider fee benefits and disproportionate share receipts<sup>31</sup> to help offset operating losses; and
- Substantially underfunded pension plans, with a 50% funded status based on projected benefit obligations at June 30, 2013.

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

### **Financial Distress and Divestiture Plans**

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

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

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

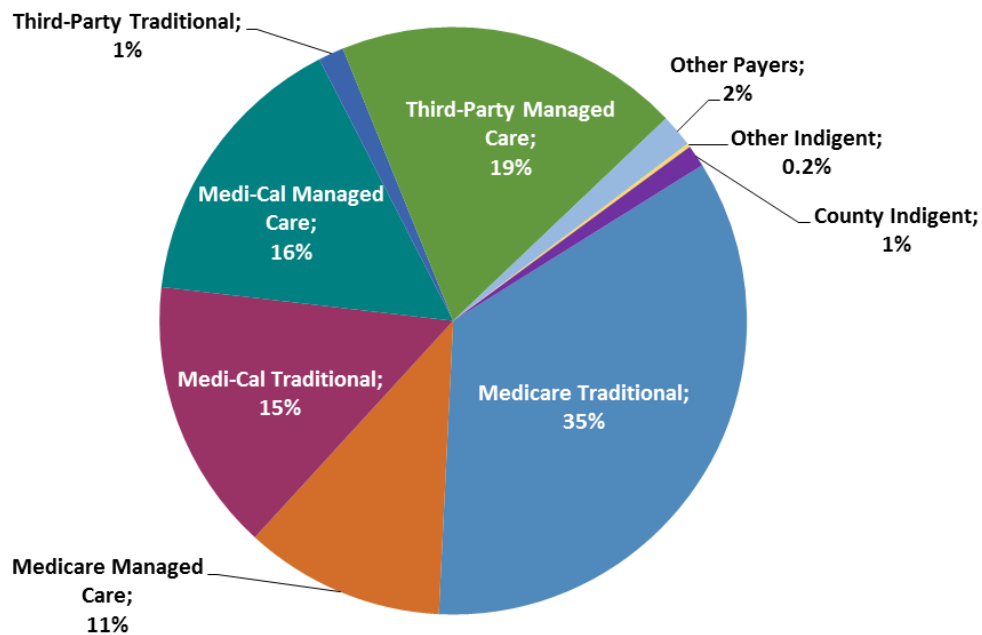
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<sup>31</sup> Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid & Medicare Services to cover the costs of providing care to uninsured patients.

## Daughters' Payer Mix

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

**Daughters' Payer Mix, FY 2014**



**Total Discharges: 47,959**

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

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

## Unionized Employees

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

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

Source: Daughters



## 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. The Hospital is expected to receive approximately \$12 million in supplemental payments, including hospital provider fee benefits and disproportionate share receipts, between July 2015 and December 2015.

### **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.

As of May 31, 2015, St. Francis Foundation had a balance of \$1.9 million in temporarily restricted assets for the purpose of funding programs such as the Children’s Counseling Center, nurse education, and the annual Women’s Luncheon in support of mammogram equipment and the STEMI Center.

## ***Overview of the Hospital***

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

<b>BED DISTRIBUTION 2015</b>	
<b>Bed Type</b>	<b>Number of Beds</b>
General Acute Care	164
Intensive Care	36
Neonatal Intensive Care	29
Pediatric	14
Perinatal	71
<b>Total General Acute Care Beds</b>	<b>314</b>
Acute Psychiatric (D/P)	40
Skilled Nursing (D/P)	30
<b>Total Licensed Beds</b>	<b>384</b>

Source: Hospital License 2015

The Hospital has a “basic” emergency department<sup>32</sup> with 46 licensed emergency treatment stations and a Level II Trauma Center<sup>33</sup>. It also has nine surgical operating rooms and three cardiac catheterization labs for inpatient and outpatient cardiac catheterization services.

<sup>32</sup> 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.

<sup>33</sup> A Level II Trauma Center is able to initiate definitive care for all injured patients.

## Key Statistics

KEY STATISTICS: FY 2012 - 2014			
	2012	2013	2014
Inpatient Discharges	19,383	18,957	18,857
Licensed Beds	384	384	384
Patient Days	97,682	87,944	87,693
Average Daily Census	267	240	240
Occupancy	69.5%	62.7%	62.6%
Average Length of Stay	5.0	4.6	4.7
Emergency Services Visits <sup>1</sup>	64,624	68,323	75,222
Cardiac Catheterization Procedures <sup>1</sup>	651	629	723
Coronary Artery Bypass Graft (CABG) Surgeries <sup>1</sup>	34	29	29
Total Live Births	5,186	5,186	5,103

Physicians on Medical Staff	387
Hospital Employees/Associates <sup>2</sup>	2,023

Sources: OSHPD Disclosure Reports, 2012-2014 and Daughters

<sup>1</sup> OSHPD Alerts Annual Utilization Reports

<sup>2</sup> Includes part-time employees

- In FY 2014, the Hospital had 18,857 total inpatient discharges, 87,693 patient days, and an average daily census of 240 patients (62.6% occupancy);
- Between FY 2012 and FY 2014, inpatient discharges and patient days have both declined by approximately 3% and 10%, respectively;
- In FY 2014, the Hospital had approximately 75,000 emergency department visits and more than 5,100 deliveries; and
- In FY 2014, the Hospital performed over 700 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 5150<sup>34</sup> 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:
  - Designated Level II Trauma Center that meets the essential criteria by providing the necessary resources and scope of specialty physician services in order to provide comprehensive trauma coverage, as verified by the American College of Surgeons;
  - Certified Primary Stroke Center;
  - Designated Emergency Department Approved for Pediatrics that is able to provide emergency pediatric medicine services;

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<sup>34</sup> 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.

- 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 certain diseases or health problems. The Hospital is designated as a “Welcome Baby” facility and has recently achieved designation as a “Baby Friendly Hospital<sup>35</sup>”; 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;

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<sup>35</sup> The Baby Friendly Hospital Initiative is a global program that was launched by the World Health Organization and the United Nations Children’s Fund in 1991 to encourage and recognize hospitals and birthing centers that offer an optimal level of care for infant feeding and mother/baby bonding.

- 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)<sup>36</sup> clinics<sup>37</sup>:

- 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;
- 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<sup>38</sup> provides: Pediatric and family practice services, including immunizations and treatment for chronic and episodic adult and pediatric illnesses.

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<sup>36</sup> A section 1206(d) clinic is exempt from licensure if it is conducted, operated, or maintained as an outpatient department of a hospital.

<sup>37</sup> The Hospital previously operated the Compton Clinic, a 1206(d) clinic that provided pediatric and family practice services. However, the Compton Clinic discontinued operations in June 2015 when its lease ended. Patients previously seen at the Compton Clinic were redirected to the Lynwood Clinic for healthcare services.

<sup>38</sup> The Huntington Park Clinic will close on October 9, 2015. The Hospital has filed a public notice with the California Department of Public Health.

## 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 2016;
- 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; and
- 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 FY 2014, the Centers for Medicare & Medicaid Services reduced Medicare payments to the Hospital by 0.29% and 0.18%, respectively. For FY 2015, the Centers for Medicare & Medicaid services will reduce payments to the Hospital by 0.51%.

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

QUALITY SCORES COMPARISON				
Domain	Measure	Hospital	California Average	National Average
Clinical Process of Care Domain	Average of Acute Myocardial Infarction, Heart Failure, Pneumonia, Surgical Care Improvement & Healthcare Associated Infection Measures	97.3%	97.3%	97.6%
Patient Experience of Care Domain	Average of Measures for the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) Survey	63.8%	67.2%	71.0%
Outcome Domain	Average of Outcome Measures for Acute Myocardial Infarction, Heart Failure & Pneumonia 30-Day Mortality Rates & Central-Line Bloodstream Infection Rates	10.8%	12.5%	12.9%
Efficiency Domain	Medicare Spending per Beneficiary Ratio	1.09	0.98	0.98

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

- For the clinical process of care domain, the Hospital scored within the same range (97.3%) as the California average (97.3%) and the national average (97.6%);
- The Hospital scored lower (63.8%) than both the California average (67.2%) and national average (71.0%) for the patient experience of care domain;
- Within the outcome domain, the Hospital has better 30-day mortality rates and central-line bloodstream infection rates (10.8%) than the California and national averages (12.5% and 12.9%, respectively); and
- With a ratio of 1.09, the Hospital spends more per patient for an episode of care initiated at the Hospital than California hospitals (0.98) and national hospitals (0.98).

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

In FY 2013, 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 30-day readmission rates for heart attack, heart failure, pneumonia, and surgical patients:

30-DAY READMISSION RATES			
Condition	Hospital	National Average	California Average
Heart Attack	17.7%	17.8%	17.8%
Heart Failure	20.7%	22.7%	22.7%
Pneumonia	16.1%	17.3%	17.3%
<b>Average 30-Day Readmission Rate</b>	<b>18.2%</b>	<b>19.3%</b>	<b>19.3%</b>

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

- The Hospital had fewer 30-day readmissions (18.2%) than the national average of 19.3%, and therefore, it will not be penalized in FY 2015.



## Seismic Issues

Under the HAZUS seismic criteria<sup>39</sup>, 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

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<sup>39</sup> OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

## Patient Utilization Trends

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

SERVICE VOLUMES: FY 2010-2014					
PATIENT DAYS	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Medical/Surgical	43,719	44,253	44,966	39,186	38,896
Neonatal Intensive Care	10,023	9,828	8,249	7,933	7,397
Intensive Care	10,276	10,437	10,269	9,820	9,214
Pediatric Acute	2,739	2,317	2,057	1,878	1,780
Psychiatric Acute	10,405	12,309	11,497	11,056	12,253
Obstetrics	15,718	15,048	13,103	11,256	12,395
Skilled Nursing	7,675	8,067	7,541	6,815	5,758
<b>Total</b>	<b>100,555</b>	<b>102,259</b>	<b>97,682</b>	<b>87,944</b>	<b>87,693</b>
DISCHARGES					
Medical/Surgical	9,743	9,435	9,631	9,495	9,099
Neonatal Intensive Care	693	586	564	517	528
Intensive Care	791	723	766	806	653
Pediatric Acute	901	746	708	691	623
Psychiatric Acute	1,526	1,805	1,763	1,831	2,225
Obstetrics	6,486	6,140	5,569	5,229	5,433
Skilled Nursing	372	420	382	388	296
<b>Total</b>	<b>20,512</b>	<b>19,855</b>	<b>19,383</b>	<b>18,957</b>	<b>18,857</b>
AVERAGE LENGTH OF STAY					
Medical/Surgical	4.5	4.7	4.7	4.1	4.3
Neonatal Intensive Care	14.5	16.8	14.6	15.3	14.0
Intensive Care	13.0	14.4	13.4	12.2	14.1
Pediatric Acute	3.0	3.1	2.9	2.7	2.9
Psychiatric Acute	6.8	6.8	6.5	6.0	5.5
Obstetrics	2.4	2.5	2.4	2.2	2.3
Skilled Nursing	20.6	19.2	19.7	17.6	19.5
<b>Total</b>	<b>4.9</b>	<b>5.2</b>	<b>5.0</b>	<b>4.6</b>	<b>4.7</b>
AVERAGE DAILY CENSUS					
Medical/Surgical	120	121	123	107	107
Neonatal Intensive Care	27	27	23	22	20
Intensive Care	28	29	28	27	25
Pediatric Acute	8	6	6	5	5
Psychiatric Acute	29	34	31	30	34
Obstetrics	43	41	36	31	34
Skilled Nursing	21	22	21	19	16
<b>Total</b>	<b>275</b>	<b>280</b>	<b>268</b>	<b>241</b>	<b>240</b>
OTHER SERVICES					
Inpatient Surgeries <sup>1</sup>	3,075	3,164	3,059	3,047	3,081
Outpatient Surgeries <sup>1</sup>	1,976	1,868	1,694	1,868	2,282
Emergency Visits <sup>2</sup>	59,402	60,324	64,624	68,323	75,222
Cardiac Catheterization Procedures <sup>2</sup>	958	710	651	629	723
Obstetric Deliveries	6,144	5,786	5,186	5,186	5,103

Sources: OSHPD Disclosure Reports, 2010-2014 & the Hospital

<sup>1</sup>The Hospital

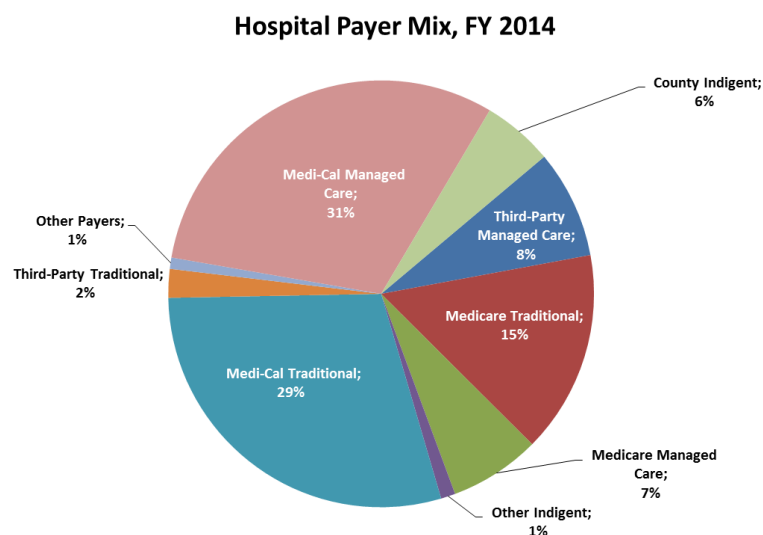
<sup>2</sup>OSHPD Alerts Annual Utilization Reports

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

- Total patient days decreased by approximately 13% from 100,555 in 2010 to 87,693 in 2014;
- Inpatient discharges decreased 8% from 20,512 in 2010 to 18,857 in 2014;
- The average daily census decreased from 275 to 240 patients per day;
- The overall average length of stay decreased from 4.9 days in 2011 to 4.7 days in 2014;
- Inpatient surgeries remained relatively stable during FY 2010 through FY 2014, while outpatient surgeries increased by approximately 15% over the same timeframe; and
- Obstetric deliveries decreased by 17% from approximately 6,100 deliveries in 2010 to 5,103 deliveries in 2014.

### ***Payer Mix***

In FY 2014, approximately 60% of the Hospital's inpatient payer mix consisted of Medi-Cal Managed Care (31%) and Medi-Cal Traditional (29%) patients. Approximately 22% of the Hospital's inpatient payer mix consisted of Medicare Traditional (15%) and Medicare Managed Care (7%). The remaining 18% of the Hospital's inpatient discharges consisted of Third-Party Managed Care (8%), Third-Party Traditional (2%), Indigent (7%), and Other Payers\* (1%).



### **Total Discharges: 18,857**

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

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

The following table illustrates the Hospital's inpatient discharge payer mix compared to Los Angeles County and California for FY 2014. 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 (FY 2014)		Los Angeles County (FY 2013)		California (FY 2013)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	5,516	29.3%	157,005	17.4%	444,932	15.0%
Medi-Cal Managed Care	5,808	30.8%	117,838	13.1%	354,720	12.0%
<b>Medi-Cal Total</b>	<b>11,324</b>	<b>60.1%</b>	<b>274,843</b>	<b>30.5%</b>	<b>799,652</b>	<b>27.0%</b>
Medicare Traditional	2,896	15.4%	252,268	28.0%	863,909	29.1%
Medicare Managed Care	1,302	6.9%	81,638	9.1%	265,857	9.0%
<b>Medicare Total</b>	<b>4,198</b>	<b>22.3%</b>	<b>333,906</b>	<b>37.1%</b>	<b>1,129,766</b>	<b>38.1%</b>
Third-Party Managed Care	1,546	8.2%	183,670	20.4%	657,290	22.2%
<b>Third-Party Managed Care Total</b>	<b>1,546</b>	<b>8.2%</b>	<b>183,670</b>	<b>20.4%</b>	<b>657,290</b>	<b>22.2%</b>
Third-Party Traditional	410	2.2%	33,081	3.7%	127,396	4.3%
Other Payers	161	0.9%	30,928	3.4%	87,399	2.9%
Other Indigent	207	1.1%	11,480	1.3%	50,699	1.7%
County Indigent	1,011	5.4%	33,290	3.7%	113,812	3.8%
<b>Other Total</b>	<b>1,789</b>	<b>9.5%</b>	<b>108,779</b>	<b>12.1%</b>	<b>379,306</b>	<b>12.8%</b>
<b>Total</b>	<b>18,857</b>	<b>100%</b>	<b>901,198</b>	<b>100%</b>	<b>2,966,014</b>	<b>100%</b>

Source: OSHPD Disclosure Reports, FY 2013-2014

## Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Over 11 million Medi-Cal beneficiaries in all 58 counties 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 1<sup>st</sup>, 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 387 physicians on the medical staff representing various specialties. Of the Hospital's physicians, 134 are considered "active" (representing approximately 35% of the medical staff). Emergency medicine, general surgery, and pediatrics are the three largest specialties, comprising 28% of the active physicians. The 253 "non-active" physicians of the Hospital include administrative, provisional, courtesy, temporary, and other medical staff.

MEDICAL STAFF PROFILE 2015					
Specialty	Count	% of Total	Specialty	Count	% of Total
Active Physicians					
Anesthesiology	10	7%	Ophthalmology	4	3%
Cardio/Thoracic Surgery	2	1%	Oral/Max Surgery	1	1%
Cardiovascular Disease	8	6%	Orthopedic Surgery	2	1%
Emergency Medicine	13	10%	Otolaryngology	2	1%
Family Practice	6	4%	Pain Medicine	1	0.7%
Gastroenterology	3	2%	Pathology	3	2%
General Practice	2	1%	Pediatric Dentistry	2	1%
General Surgery	12	9%	Pediatrics	12	9%
Infectious Diseases	1	1%	Podiatry	2	1%
Internal Medicine	7	5%	Psychiatry	3	2%
Maternal Fetal Medicine	4	3%	Pulmonary Diseases	1	1%
Neonatology	5	4%	Radiology	4	3%
Nephrology	7	5%	Thoracic Surgery	1	1%
Obstetrics	3	2%	Urology	2	1%
Obstetrics/Gynecology	11	8%	-	-	-
<b>Total Active</b>	<b>134</b>				
<b>Total Non-Active</b>	<b>253</b>				
<b>Total Physicians</b>	<b>387</b>				

Source: Daughters

## ***Unionized Employees/Associates***

The Hospital has 813 employees/associates represented by Service Employees International Union. Daughters' system-wide CBA with Service Employees International Union, United Healthcare Workers West, covers employees/associates that are members of technical, service, and maintenance bargaining units at the Health Facilities through October 31, 2015.

The Hospital also has a CBA with United Nurses Associations of California/Union of Health Care Professionals through December 19, 2017. This agreement covers 729 Registered Nurses that are involved in direct patient care.

In total, approximately 76% of the Hospital's employees/associates are covered by CBAs.

EMPLOYEES REPRESENTED BY UNIONS	
Union	Total
Service Employees International Union	813
United Nurses Association of California	729
<b>Total Employees Represented by Unions</b>	<b>1,542</b>
Total Non-Union Employees	481
<b>Total Employees</b>	<b>2,023</b>
<b>Total Percentage of Employees Represented by Unions</b>	<b>76%</b>

Source: Daughters

## ***Financial Profile***

Between FY 2010 and FY 2013, the Hospital recorded net income gains of between \$8.5 million and \$49.9 million. However, in FY 2014, the Hospital recorded a net income loss of approximately \$15.6 million. Many of these losses can be attributed to a drop in net patient revenue from the previous year of \$65.9 million. The losses totaling nearly \$14 million in FY 2014 would have been greater if not for the nearly \$14 million in non-operating revenue<sup>40</sup> over the same period.

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 0.8% in FY 2014, which is lower than the statewide average of 1.7% in 2013.

<sup>40</sup> 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 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Patient Days	100,555	102,259	97,682	87,944	87,693
Discharges	20,512	19,855	19,383	18,957	18,857
ALOS	4.9	5.2	5.0	4.6	4.7
Net Patient Revenue	\$290,727,637	\$383,148,390	\$371,143,436	\$404,819,633	\$338,899,064
Other Operating Revenue	\$6,198,700	\$5,412,734	\$4,279,291	\$2,456,176	\$2,534,246
Total Operating Revenue	\$296,926,337	\$388,561,124	\$375,422,727	\$407,275,809	\$341,433,310
Operating Expenses	\$302,794,734	\$355,925,881	\$363,455,627	\$378,087,533	\$369,587,775
Net from Operations	(\$5,868,397)	\$32,636,243	\$11,967,100	\$29,188,276	(\$28,154,465)
Net Non-Operating Revenue	\$14,354,499	\$17,301,430	\$5,431,025	\$15,385,860	\$13,817,345
Net Income	\$8,486,102	\$49,937,673	\$17,398,125	\$44,574,136	(\$15,595,928)
California Average 2013					
Current Ratio	1.76	1.15	1.47	0.96	1.27
Days in A/R	59.9	67.0	39.0	48.5	40.9
Bad Debt Rate	1.7%	0.8%	0.7%	1.7%	0.9%
Operating Margin	2.64%	-1.98%	8.40%	3.19%	7.17%

Source: OSHPD Disclosure Reports, 2010-2014

## Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In FY 2014, approximately 51.1% of the Hospital's total costs were associated with Medi-Cal and 27.6% with Medicare. Approximately 8.5% and 3.3% of the total costs were associated with Third-Party payers and other payers, respectively. The remaining 9.5% of total costs were associated with indigent patients.

COST OF SERVICES BY PAYER CATEGORY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Expenses	\$302,794,734	\$355,924,881	\$363,455,627	\$378,087,533	\$369,587,775
Cost of Services By Payer:					
Medicare	\$59,528,986	\$100,520,621	\$112,684,638	\$107,758,578	\$101,885,358
Medi-Cal	\$171,500,374	\$209,230,203	\$158,339,241	\$173,173,837	\$188,835,418
County Indigent	\$18,216,638	\$18,441,002	\$15,404,534	\$19,204,965	\$19,098,004
Third Party	\$40,021,639	\$15,651,733	\$32,286,700	\$32,853,520	\$31,259,378
Other Indigent	\$10,896,721	\$9,337,079	\$23,187,014	\$9,247,238	\$16,138,968
Other Payers	\$2,630,376	\$2,744,243	\$21,553,500	\$35,849,395	\$12,370,649

Source: OSHPD Disclosure Reports, 2010-2014

## Capital Expenditures

Between FY 2011 and FY 2015, the Hospital invested approximately \$55 million in capital expenditures, including building improvements and fixtures, new medical equipment, and software and IT hardware.

SUMMARY OF RECENT CAPITAL EXPENDITURES: FY 2011-2015 (in millions)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Building, Fixtures, and Leasehold</b>					
Building Fixtures	\$0.2	\$1.1	-	\$0.2	\$0.2
Building Improvements	\$1.3	\$5.2	\$1.5	\$0.1	\$0.4
Furniture and Fixtures	\$0.2	\$0.2	\$0.2	\$0.1	\$0.2
<b>Sub-Total</b>	<b>\$1.7</b>	<b>\$6.5</b>	<b>\$1.7</b>	<b>\$0.4</b>	<b>\$0.8</b>
<b>Software and IT</b>					
Software	\$1.5	\$11.2	\$8.6	\$3.4	\$0.3
Computer Equipment	\$0.6	\$0.5	\$0.1	\$0.5	\$0.4
Network Equipment	\$2.3	\$1.0	\$1.1	-	-
Telephone Equipment	-	\$0.1	\$0.5	-	-
<b>Sub-Total</b>	<b>\$4.4</b>	<b>\$12.7</b>	<b>\$10.2</b>	<b>\$3.9</b>	<b>\$0.7</b>
Medical Equipment	\$3.7	\$2.5	\$2.6	\$2.5	\$0.9
<b>Total</b>	<b>\$9.8</b>	<b>\$21.6</b>	<b>\$14.5</b>	<b>\$6.8</b>	<b>\$2.4</b>

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 \$63.4 million in FY 2014. The five-year average for charity care charges was \$67.8 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 2010 - FY 2014) 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 5.6%. According to OSHPD, "the determination of what is classified as...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON CHARITY CARE - FY 2010 to FY 2014 (Millions)										
	2010		2011		2012		2013		2014	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	\$1,136.4	\$270,511.0	\$1,209.9	\$288,636.7	\$1,253.4	\$303,278.6	\$1,311.9	\$317,543.8	\$1,452.92	N/A
Charity	\$78.0	\$5,587.1	\$64.7	\$6,171.5	\$64.8	\$6,251.0	\$68.3	\$6,209.9	\$63.45	N/A
Bad Debt	\$9.5	\$4,510.8	\$8.8	\$4,815.5	\$6.8	\$5,007.6	\$11.8	\$5,549.5	\$12.13	N/A
<b>Total</b>	<b>\$87.5</b>	<b>\$10,097.9</b>	<b>\$73.5</b>	<b>\$10,987.0</b>	<b>\$71.6</b>	<b>\$11,258.6</b>	<b>\$80.1</b>	<b>\$11,759.4</b>	<b>\$75.58</b>	<b>N/A</b>
Charity as a % of Gross Rev.	6.9%	2.1%	5.4%	2.1%	5.2%	2.1%	5.2%	2.0%	4.4%	N/A
Bad Debt as a % of Gross Rev.	0.8%	1.7%	0.7%	1.7%	0.5%	1.7%	0.9%	1.7%	0.8%	N/A
Total as a % of Gross Rev.	7.7%	3.7%	6.1%	3.8%	5.7%	3.7%	6.1%	3.7%	2.5%	N/A
<b>Uncompensated Care</b>										
Cost to Charge Ratio	26.1%	25.0%	29.0%	24.6%	28.7%	24.6%	28.6%	24.4%	25.3%	N/A
Cost of Charity	\$20.4	\$1,396.2	\$18.8	\$1,520.9	\$18.6	\$1,539.1	\$19.5	\$1,514.6	\$16.03	N/A
Cost of Bad Debt	\$2.5	\$1,127.3	\$2.6	\$1,186.8	\$2.0	\$1,232.9	\$3.4	\$1,353.5	\$3.06	N/A
<b>Total</b>	<b>\$22.8</b>	<b>\$2,523.5</b>	<b>\$21.3</b>	<b>\$2,707.7</b>	<b>\$20.5</b>	<b>\$2,772.0</b>	<b>\$22.9</b>	<b>\$2,868.1</b>	<b>\$19.09</b>	<b>N/A</b>

Source: OSHPD Disclosure Reports, 2010-2014

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 decreased from \$20.4 million in 2010 to \$16.1 million in 2014. The average cost of charity care over the last five-years was approximately \$18.7 million.

COST OF CHARITY CARE				
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital	Percent of Total Costs Represented by Charity Care
FY 2014	\$63,447,695	25.3%	\$16,052,267	4.3%
FY 2013	\$68,274,953	28.6%	\$19,526,637	5.2%
FY 2012	\$64,803,115	28.7%	\$18,598,494	5.1%
FY 2011	\$64,733,062	29.0%	\$18,772,588	5.3%
FY 2010	\$78,011,864	26.1%	\$20,361,097	6.7%
<b>5-Year Average</b>	<b>\$67,854,138</b>		<b>\$18,662,216</b>	

Source: OSHPD Disclosure Reports, 2010-2014

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

COST OF CHARITY CARE BY SERVICE				
	Inpatient	Outpatient	Emergency Room	Total Charges
<b>2015:</b>				
Cost of Charity	\$20,656,667	\$1,709,654	\$24,093,825	\$46,160,146
Visits/Discharges	703	1,637	11,303	
<b>2014:</b>				
Cost of Charity	\$29,546,910	\$2,443,090	\$31,457,695	\$63,447,695
Visits/Discharges	757	1,816	10,272	
<b>2013:</b>				
Cost of Charity	\$44,521,260	\$1,181,975	\$22,571,717	\$68,274,953
Visits/Discharges	1358	1,750	9,688	
<b>2012:</b>				
Cost of Charity	\$35,083,009	\$2,791,104	\$26,929,001	\$64,803,115
Visits/Discharges	1271	2,511	11,025	
<b>2011:</b>				
Cost of Charity	\$36,023,182	\$2,953,690	\$25,576,190	\$64,733,062
Visits/Discharges	1,560	2,909	10,947	
<b>2010:</b>				
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 insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

## Community Benefit Services

The Hospital has consistently provided a significant contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over the last five fiscal years has been approximately \$4,888,726 per year.

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	5-Year Average	Total
Benefits for Persons Living in Poverty	\$6,815,581	\$6,448,767	\$2,086,428	\$2,212,484	\$1,368,732	\$3,786,398	\$18,931,992
Benefits for Broader Community	\$262,141	\$882,495	\$1,216,895	\$1,766,943	\$1,383,163	\$1,102,327	\$5,511,637
Total*	\$7,077,722	\$7,331,262	\$3,303,323	\$3,979,427	\$2,751,895	\$4,888,726	\$24,443,629

Source: Daughters, FY 2011-2015

(1) Grant funds and grant supported programs not included

(2) Community benefit numbers exclude physician on-call trauma coverage, which was previously reported for years FY 2011 through FY 2014

- The Hospital's five-year average cost of community benefit services for persons living in poverty is approximately \$3.8 million per year. The services include health professions

education, community health improvement services, community building activities, and financial and in-kind contributions; and

- The Hospital's five-year average cost of community benefit services to the broader community is approximately \$1.1 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 2011-2015					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Services over \$10,000 in cost:					
Baby Friendly	-	-	\$169,303	\$135,928	\$43,673
Bet Tzedek Legal Services	\$82,995	\$83,017	\$87,083	\$87,397	\$104,876
Casa de Esperanza	\$49,404	\$32,118	\$22,277	\$16,861	-
Children's Counseling Center	\$112,656	\$144,010	\$50,519	\$100,000	\$112,932
Community Benefit Planning and Reporting	\$11,353	-	\$16,910	\$12,720	\$8,000
South Los Angeles Access to Care - SFMC Compton Clinic	\$184,051	\$442,841	\$386,439	\$202,241	\$224,000
COPE Clinical Health Extenders	\$78,000	\$83,620	\$91,120	\$119,377	\$93,986
Dental Grant	-	\$52,565	-	-	\$6,000
Diabetes Intervention Program	\$342,302	\$133,599	-	-	-
Footprints	\$40,515	\$49,007	\$43,292	\$32,944	\$15,906
Health Benefits Resource Center	\$1,394,506	\$1,014,221	\$1,092,531	\$1,972,411	\$1,172,733
Healthy Community Initiatives	\$431,308	\$436,771	\$406,429	\$812,067	\$900,511
Indigent Care	-	-	\$209,000	\$315,000	-
Naseau Reading Program	\$25,283	\$36,206	\$25,519	\$31,291	-
Paramedic Training and Education	\$96,851	\$117,909	\$168,897	\$261,476	\$62,065
Patient Transportation - SFMC Vehicles	\$88,500	\$95,101	\$38,410	-	\$1,587
Patient Transportation - Taxi Vouchers	\$37,551	\$40,041	\$50,356	\$45,169	\$44,950
Senior Wellness and Educational Program	-	-	-	\$18,883	\$22,389
Southern California Crossroads Program	-	-	-	\$73,711	\$95,655
St. Francis Career College	\$2,634,345	\$2,330,660	\$1,486,843	-	-
Support Groups	-	\$85,612	\$92,093	\$103,649	\$63,861
Trauma Injury Prevention Program	\$29,900	\$52,325	\$59,800	\$48,750	\$65,000
Welcome Baby	-	-	-	\$2,428,199	\$1,404,358
Vida Sana/Search Your Heart	\$82,729	\$148,164	\$299,218	-	-
Vincentian Service Corp	\$29,361	\$12,657	\$31,079	\$14,912	-

Source: Daughters

(1) Includes grant funds and grant support programs

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, Trauma & Injury Prevention Program, Children's Counseling Center, Welcome Baby, and others as described below<sup>41</sup>:

- **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;
- **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. The school-based counselor addresses emotional and behavioral distress, and helps reduce barriers to successful learning. The counselor is fully funded through a grant from the Daughters of Charity Foundation, which has committed grant-funding of the program through FY 2016;
- **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;
- **Health Benefits Resource Center (HBRC):** This grant funded program assists individuals and families to enroll in health insurance and social services programs to improve access to ongoing healthcare coverage. The HBRC also educates residents about the Covered California Medi-Cal program;
- **Healthy Community Initiatives (HCI):** The HCI program brings health screenings, immunizations, and health education directly to area schools, churches, businesses, and community organizations. The HCI program is fully grant funded;
- **Indigent Care:** The program provides healthcare services to patients who cannot afford services. The program is in addition to traditional charity care. In FY 2016, reimbursement through county contracts is anticipated to cover program costs;
- **Paramedic Training and Education:** The program provides paramedic training through the Hospital's emergency department;

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<sup>41</sup> Since the completion of MDS' analysis of the proposed transaction involving Prime Healthcare Services, Inc. in December 2014, the following community benefit programs and services are no longer being provided: Bet Tzedek Legal Services, Casa de Esperanza Transitioning Housing, South Los Angeles Access to Care – SFMC Compton Clinic, Dental Grant, Footprints, Patient Transportation – SFMC Vehicles, and Vida Sana/Healthy Life Community Wellness.

- Patient Transportation – Taxi Vouchers: The program provides taxi vouchers for individuals without any means for transportation in order to access outpatient care and treatment;
- St. Francis Career College: The St. Francis Career College prepared 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: The program, which is supported through grant funding, works with schools, hospitals, and other organizations to help prevent traumatic injury. The Hospital collaborates with organizations including Violence Prevention Coalition, HAVEN (Hospitals Against Violence-Empowering Neighborhoods, Every 15 Minutes drunk-driving prevention, ICAN (Inter-Agency Council on Child Abuse and Neglect), Walk This Way safe street crossing, Los Angeles Violence Intervention Training Academy, Urban Peace Academy, and local safety fairs; 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 BLUEMOUNTAIN & INTEGRITY

### ***BlueMountain Capital Management, LLC***

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

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

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

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

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

- Life Generations Skilled Nursing & Rehabilitation Facilities Portfolio: MedEquities entered into a \$95 million capital financing transaction related to the acquisition of six skilled nursing facilities in California.
- Capital Senior Ventures: BlueMountain and Capital Funding Inc. formed a joint venture to acquire undermanaged skilled nursing and rehabilitation facilities in order to increase profitability through operational overhaul. Capital Senior Ventures has acquired eight assets, including five skilled nursing facilities in California in partnership with Providence Healthcare Group;
- Legacy Sun West Senior Living Portfolio: BlueMountain, in partnership with Formation Capital and Safanad, acquired a \$400 million portfolio of assisted living facilities across 10 states;
- LifeCare Holdings: BlueMountain is an equity holder of LifeCare Holdings, the third largest operator of long-term acute care hospitals in the United States. In June 2013, BlueMountain, along with other investors, formed Hospital Acquisition LLC to bid on LifeCare Holdings; and
- Angiotech Pharmaceuticals, Inc.: BlueMountain is the largest shareholder in Angiotech Pharmaceuticals, a company that designs, manufactures, and sells wound care surgical products and kits.

### ***Integrity Healthcare, LLC***

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

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

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

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

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

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



## ANALYSIS OF THE HOSPITAL'S SERVICE AREA

### Service Area Definition

Based upon the Hospital's 2014 inpatient discharges, the Hospital's service area is comprised of 30 ZIP Codes from which 80% of the Hospital's inpatient discharges came from. Approximately 49% of the Hospital's discharges originated from the top seven ZIP Codes, located in Lynwood, South Gate, Los Angeles, Bell, Compton, and Bell Gardens. In 2014, 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: 2014						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
90262	Lynwood	2,372	11.9%	11.9%	6,570	36.1%
90280	South Gate	1,792	9.0%	21.0%	7,195	24.9%
90002	Los Angeles	1,328	6.7%	27.7%	5,649	23.5%
90201	Bell	1,189	6.0%	33.6%	7,683	15.5%
90221	Compton	1,152	5.8%	39.4%	5,456	21.1%
90059	Los Angeles	1,083	5.5%	44.9%	5,005	21.6%
90222	Compton	874	4.4%	49.3%	3,583	24.4%
90255	Huntington Park	873	4.4%	53.7%	6,027	14.5%
90001	Los Angeles	845	4.3%	57.9%	6,001	14.1%
90220	Compton	806	4.1%	62.0%	5,955	13.5%
90003	Los Angeles	555	2.8%	64.8%	7,920	7.0%
90044	Los Angeles	553	2.8%	67.6%	11,765	4.7%
90723	Paramount	385	1.9%	69.5%	5,023	7.7%
90061	Los Angeles	361	1.8%	71.3%	3,349	10.8%
90805	Long Beach	281	1.4%	72.8%	9,828	2.9%
90650	Norwalk	266	1.3%	74.1%	11,201	2.4%
90270	Maywood	234	1.2%	75.3%	2,349	10.0%
90242	Downey	234	1.2%	76.4%	4,034	5.8%
90706	Bellflower	226	1.1%	77.6%	7,311	3.1%
90241	Downey	186	0.9%	78.5%	4,135	4.5%
90660	Pico Rivera	83	0.4%	78.9%	6,985	1.2%
90240	Downey	76	0.4%	79.3%	1,920	4.0%
90701	Artesia	40	0.2%	79.5%	1,826	2.2%
90605	Whittier	31	0.2%	79.7%	4,007	0.8%
90670	Santa Fe Springs	27	0.1%	79.8%	1,620	1.7%
90604	Whittier	25	0.1%	79.9%	3,718	0.7%
90638	La Mirada	23	0.1%	80.1%	4,380	0.5%
90703	Cerritos	23	0.1%	80.2%	4,249	0.5%
90606	Whittier	22	0.1%	80.3%	3,470	0.6%
90603	Whittier	3	0.0%	80.3%	2,133	0.1%
<b>Subtotal</b>		<b>15,948</b>	<b>80.3%</b>	<b>80.3%</b>	<b>160,347</b>	<b>9.9%</b>
Other ZIPs		3,913	19.7%	100%		
<b>Total</b>		<b>19,861</b>	<b>100%</b>			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

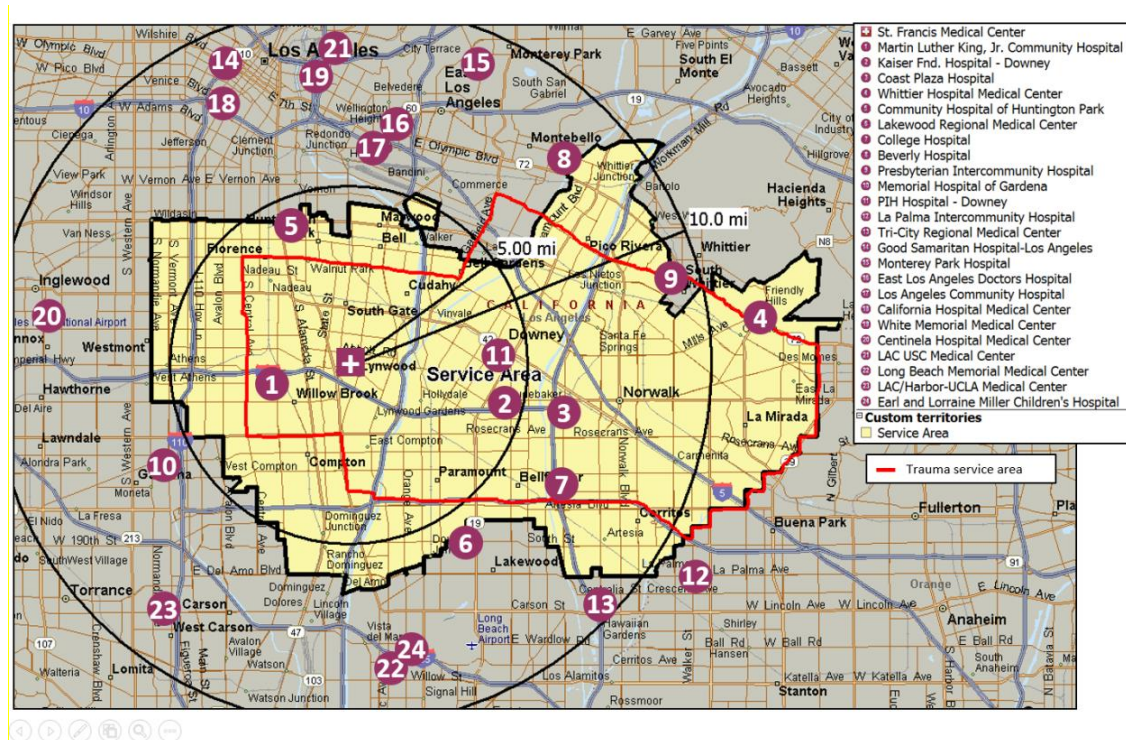
## Service Area Map

The Hospital's service area, with approximately 1.6 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 nine other hospitals located within the Hospital's service area, including Downey Regional Medical Center, Community Hospital of Huntington Park and the newly opened Martin Luther King, Jr. Community Hospital. 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.

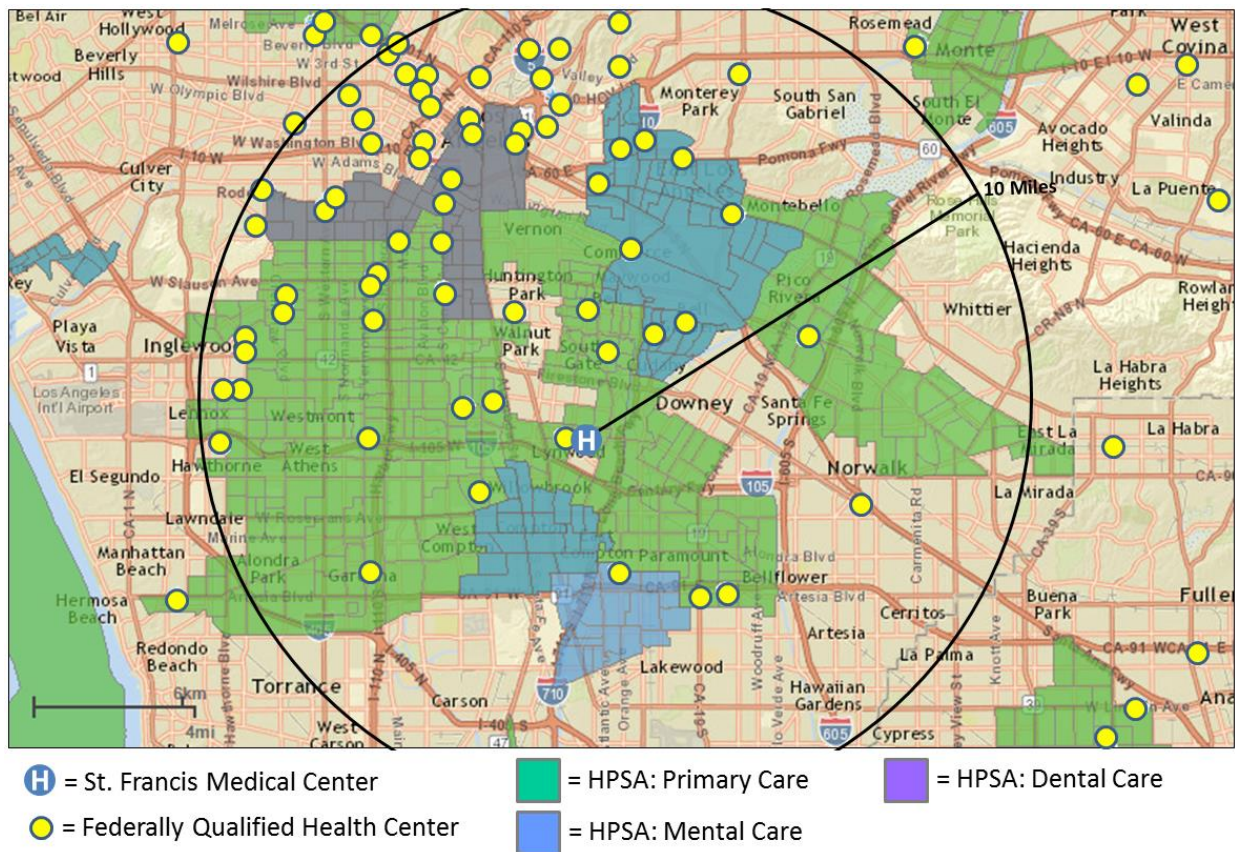
Martin Luther King, Jr. – Harbor Hospital, a general acute care hospital located within the service area and less than three miles away from the Hospital, closed in 2007, thus reducing the surrounding communities' access to medical and surgical care, as well as emergency services. Throughout its closure, local hospitals in the area, including the Hospital, absorbed Martin Luther King, Jr. – Harbor Hospital's inpatient population and received special funding from Los Angeles County to treat patients.

Martin Luther King, Jr. Community Hospital recently opened on July 7, 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 operates within the Hospital's service area as another safety-net provider for the surrounding communities.



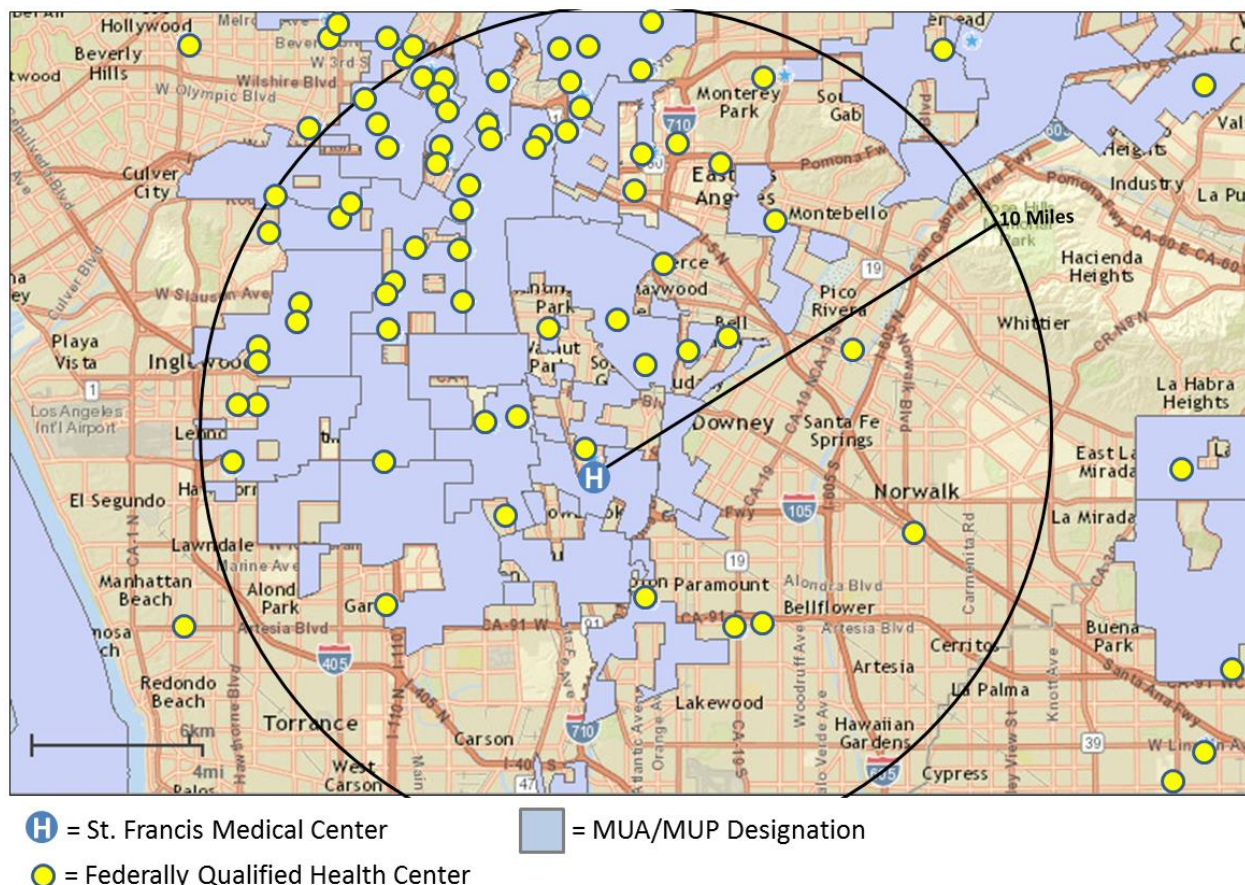
## Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

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, is designated as a Health Professional Shortage Area. 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.



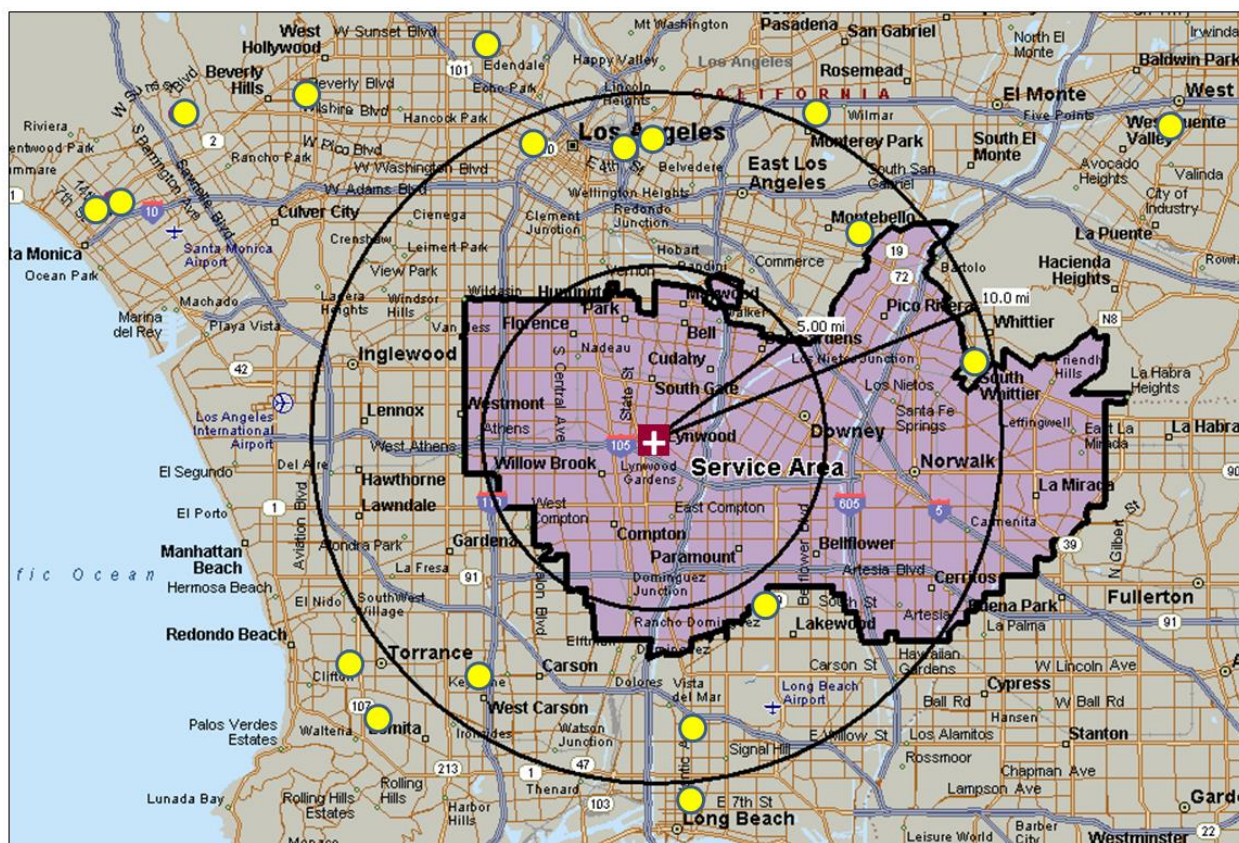
The census tract in which the Hospital is located is not designated as a Medically Underserved Areas/Medically Underserved Populations area. However, the majority of the surrounding areas to the north, south, and west of the Hospital are designated as Medically Underserved Area /Medically Underserved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

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.

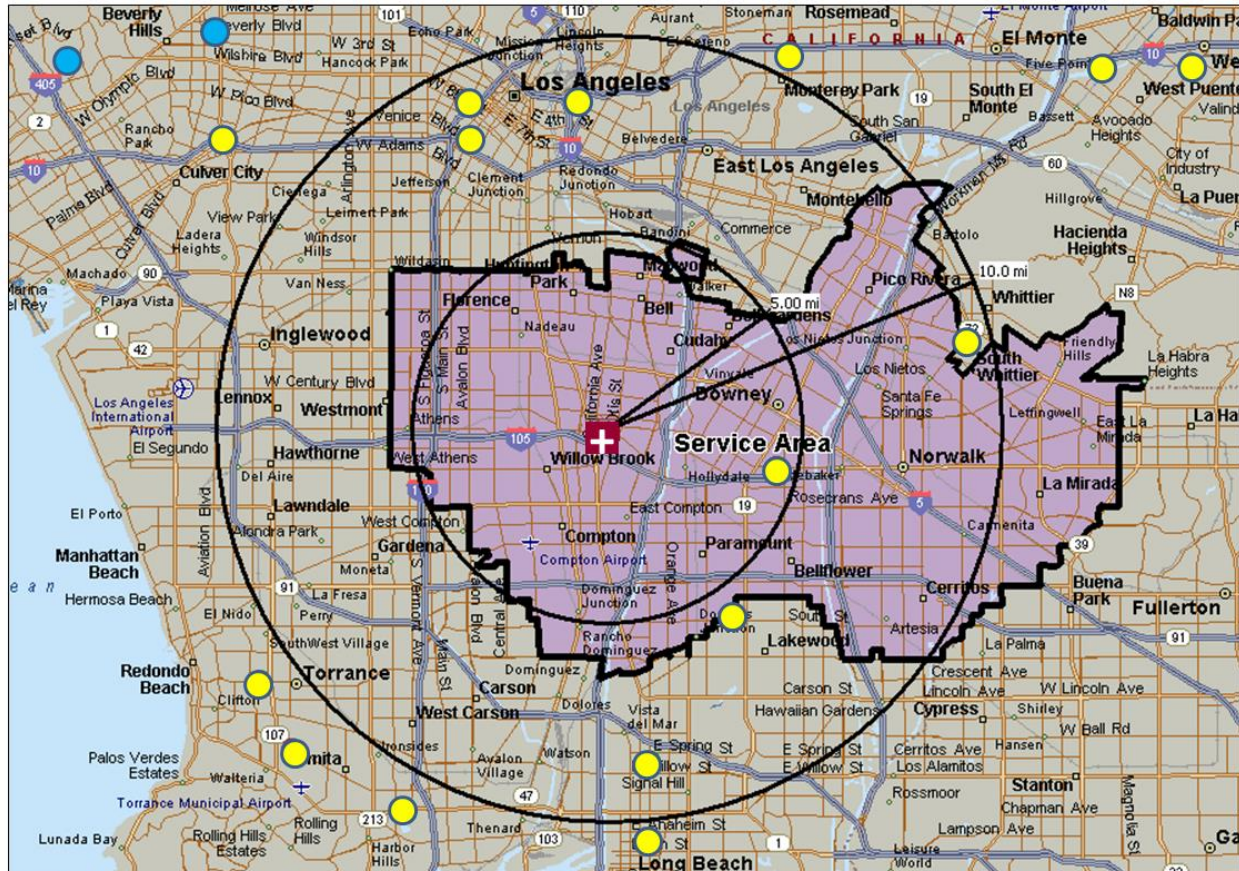


- + = St. Francis Medical Center
- = Service Area
- = STEMI Receiving Center




## Certified Stroke Centers in Los Angeles County


Within Los Angeles County, there are 35 stroke centers including two Comprehensive Stroke Centers and 33 Primary Stroke Centers, certified through the Joint Commission. The Hospital and Kaiser Foundation Hospital – Downey are the only certified Primary Stroke Centers within the Hospital's service area.



 = St. Francis Medical Center

 = Service Area

 = Primary Stroke Center

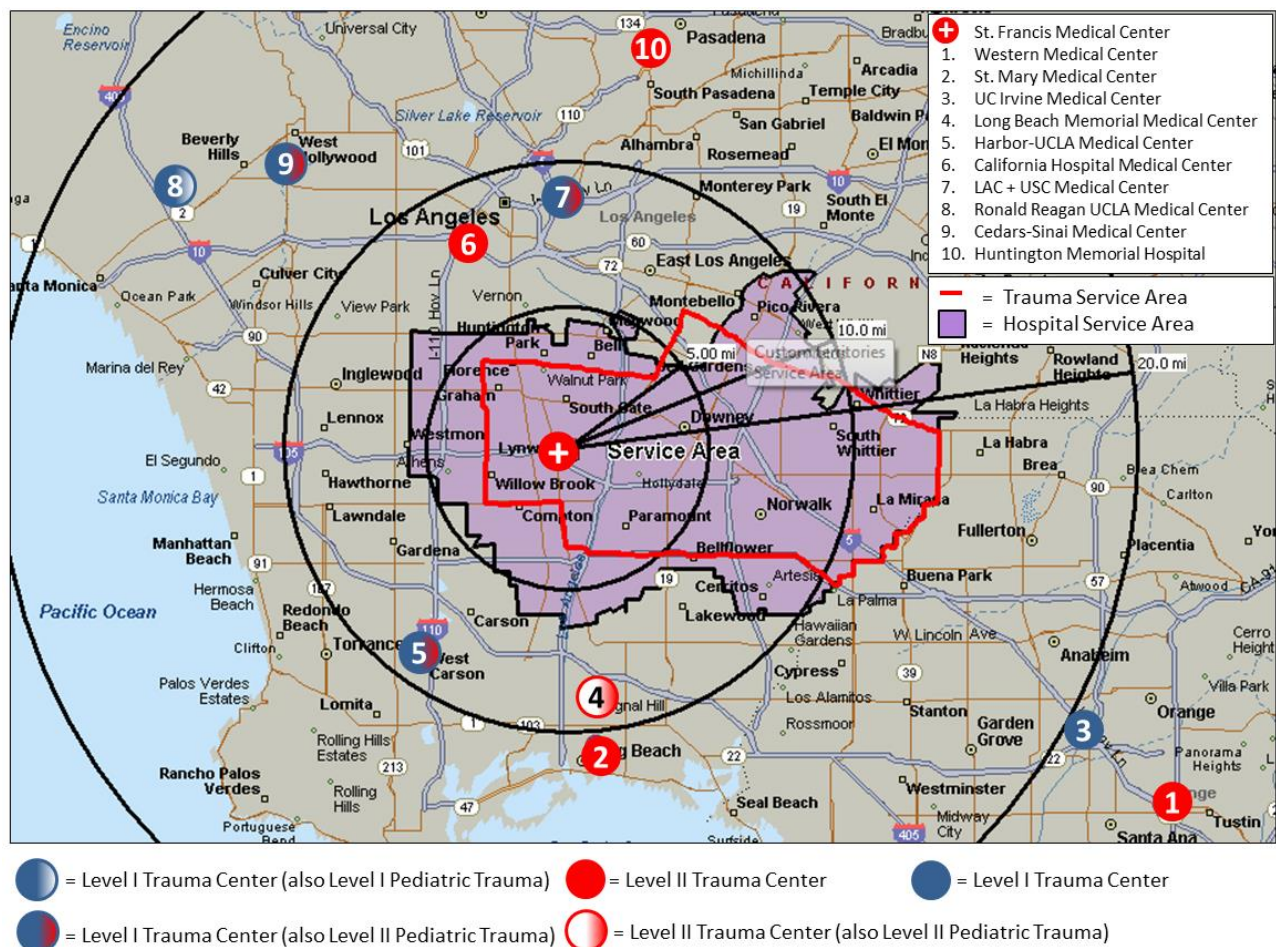
 = Comprehensive Stroke Center

## 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: 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 over 2,000 trauma patients per year.

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

MECHANISM OF INJURY BY TRAUMA CENTER, 2013					
	The Hospital	LAC+USC Medical Center	California Hospital Medical Center	Harbor-UCLA Medical Center	Los Angeles County
Gun Shot Wound	14%	4%	12%	10%	6%
Stabbing	9%	6%	7%	4%	5%
Fall	20%	27%	21%	25%	27%
Auto Accident	25%	23%	14%	25%	25%
Motorcycle	1%	2%	5%	2%	3%
Auto vs. Bike/Pedestrian	17%	22%	25%	16%	19%
Other <sup>1</sup>	15%	16%	16%	18%	15%
<b>Total Percentage</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total</b>	<b>2,046</b>	<b>6,367</b>	<b>2,318</b>	<b>3,851</b>	<b>25,758</b>

Source: Los Angeles County EMS Agency

<sup>1</sup>Other 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 2.2% over the next five years, which is lower than the expected growth rate for Los Angeles County (2.5%) and statewide (3.7%).

SERVICE AREA POPULATION STATISTICS 2015-2020			
	2015 Estimate	2020 Projection	% Change
Total Population	1,627,088	1,662,771	2.2%
Households	424,170	433,170	2.1%
Percentage Female	50.9%	50.8%	1.9%

Source: Esri

The median age of the population in the Hospital's service area is 30.6 years, lower than the statewide median age of 35.7 years. However, the percentage of adults over the age of 65 is the fastest growing age cohort and is forecasted to increase by approximately 18% by 2020. The number of women of child-bearing age is expected to decrease slightly over the next five years.

SERVICE AREA POPULATION AGE DISTRIBUTION: 2015-2020				
	2015 Estimate		2020 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	385,620	23.7%	379,112	22.8%
Age 15-44	743,579	45.7%	741,596	44.6%
Age 45-64	349,824	21.5%	364,147	21.9%
Age 65+	149,692	9.2%	176,254	10.6%
<b>Total</b>	<b>1,627,088</b>	<b>100%</b>	<b>1,662,771</b>	<b>100%</b>
Female 15-44	373,544	23.0%	369,175	22.2%
Median Age	30.6		32.4	

Source: Esri

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: 2015-2020		
	2015	2020
White	42.3%	42.6%
Black	11.8%	11.2%
American Indian or Alaska Native	0.9%	0.9%
Asian or Pacific Islander	6.6%	6.8%
Some Other Race	34.4%	34.6%
Two or More Races	4.0%	4.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Hispanic Ethnicity	73.2%	74.4%
Non-Hispanic or Latino	26.8%	25.6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Esri

The Hospital's service area has an average household income of \$61,147. 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 \$82,066, and nearly 43% lower than the statewide average of \$87,152. Projections anticipate that the number of higher income households (\$150,000+) in the Hospital's service area will represent a smaller percentage of households than in the State of California, but a higher percentage than anticipated in Los Angeles County.

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2015-2020						
	2015 Estimate			2020 Estimate		
	Service Area	Los Angeles County	California	Service Area	Los Angeles County	California
\$0 - \$15,000	14.4%	13.2%	11.1%	13.7%	12.2%	10.3%
\$15 - \$24,999	12.1%	10.2%	9.0%	9.3%	7.6%	6.6%
\$25 - \$34,999	11.7%	9.9%	9.3%	10.1%	8.4%	7.7%
\$35 - \$49,999	15.0%	12.5%	12.2%	14.1%	11.7%	11.3%
\$50 - \$74,999	17.8%	16.7%	16.5%	18.0%	16.3%	15.9%
\$75 - \$99,999	11.6%	11.3%	12.3%	13.8%	13.1%	14.2%
\$100 - \$149,999	12.0%	13.1%	14.9%	14.5%	15.0%	16.6%
\$150,000+	5.4%	13.3%	14.6%	6.5%	15.5%	17.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Average Household Income</b>	<b>\$61,147</b>	<b>\$82,066</b>	<b>\$87,152</b>	<b>\$69,114</b>	<b>\$94,026</b>	<b>\$99,512</b>

Source: Esri

## ***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 have greatly increased, reporting more than 2.7 million total enrollees in the Medi-Cal program in 2014. Currently, approximately 11 million individuals are covered by Medi-Cal in the State of California. Based on the Hospital's service area income demographics, and the Hospital's payer mix consisting of 60% 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:

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

NATALITY STATISTICS: 2015			
Health Status Indicator	Los Angeles County	California	National Goal
Low Birth Weight Infants	7.0%	6.8%	7.8%
First Trimester Prenatal Care	85.1%	83.6%	77.9%
Adequate/Adequate Plus Care	81.2%	79.2%	77.6%

Source: California Department of Public Health

- 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 ten out of the fourteen reported national goals.

MORTALITY STATISTICS: 2015 RATE PER 100,000 POPULATION				
Selected Cause	Los Angeles County		(Age Adjusted)	
	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	593.3	609.8	641.1	N/A
- All Cancers	141.2	146.2	151.0	161.4
- Colorectal Cancer	14.0	14.4	13.9	14.5
- Lung Cancer	28.3	29.8	33.6	45.5
- Female Breast Cancer	23.0	21.3	20.7	20.7
- Prostate Cancer	14.7	19.2	20.2	21.8
- Diabetes	22.1	23.0	20.8	N/A
- Alzheimer's Disease	24.9	25.7	30.8	N/A
- Coronary Heart Disease	119.3	122.3	103.8	103.4
- Cerebrovascular Disease (Stroke)	33.4	34.7	35.9	34.8
- Influenza/Pneumonia	21.4	22.3	16.3	N/A
- Chronic Lower Respiratory Disease	29.5	31.2	35.9	N/A
- Chronic Liver Disease And Cirrhosis	12.9	12.7	11.7	8.2
- Accidents (Unintentional Injuries)	20.5	20.3	27.9	36.4
- Motor Vehicle Traffic Crashes	6.7	6.5	7.6	12.4
- Suicide	7.8	7.6	10.2	10.2
- Homicide	6.0	5.8	5.1	5.5
- Firearm-Related Deaths	7.3	7.1	7.8	9.3
- Drug-Induced Deaths	7.3	7.0	11.1	11.3

Source: California Department of Public Health

- 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: 2015 RATE PER 100,000 POPULATION			
Health Status Indicator	Los Angeles		National Goal
	County	California	
AIDS	12.1	8.1	12.4
Chlamydia	514.5	442.6	N/A
Gonorrhea Female 15-44	169.9	152.8	251.9
Gonorrhea Male 15-44	305.7	213.1	194.8
Tuberculosis	7.0	5.9	1.0

Source: California Department of Public Health

## ***2013 Community Health Needs Assessment***

In an effort to identify the most critical healthcare needs in the Hospital's service area, a Community Health Needs Assessment is conducted every three years. The Hospital's most recent assessment was completed 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 above defined service area above, the study provided a summary of the below 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 medical 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 above 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 2,245 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 94% at College Hospital. Martin Luther King, Jr. Community Hospital, located within the Hospital's service area, recently opened on July 7, 2015. It will feature a 29-bed emergency department, a critical care unit, labor and delivery services, and additional hospital-based services.

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 2014									
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	18,857	87,693	240	62.6%	-
Kaiser - Downey*	Kaiser Foundation Hospitals	Downey	X	352	18,263	69,520	190	54.1%	4.8
PIH - Downey	PIH Health	Downey	X	199	9,085	34,853	95	48.0%	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 Company	Cerritos	X	187	6,490	64,282	176	93.9%	8.0
Lakewood Regional Medical Center	Tenet Healthcare Corporation	Lakewood	X	172	8,086	39,540	108	63.0%	9.1
PIH - Whittier	Interhealth Corporation	Whittier	X	548	20,583	90,084	246	44.9%	10.9
Whittier Hospital Medical Center	Whittier Hospital Medical Center	Whittier	X	178	8,273	33,062	90	50.7%	12.8
<b>SUB-TOTAL</b>				<b>2,245</b>	<b>96,970</b>	<b>447,198</b>	<b>1225</b>	<b>54.6%</b>	
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	9,133	53,153	146	80.9%	9.0
Centinel 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	15,922	69,390	190	51.0%	9.1
Long Beach Memorial Medical Center	Memorial Health Services	Long Beach		420	21,182	97,377	267	63.5%	9.2
Beverly Hospital*	Beverly Community Hospital Association	Montebello		214	9,423	35,777	98	45.8%	9.7
Monterey Park Hospital	Monterey Park Hospital	Monterey Park		101	4,595	15,614	43	42.4%	9.9
LAC/Harbor-UCLA Medical Center	Los Angeles County DHS	Torrance		453	19,436	118,625	325	71.7%	11.1
California Hospital Medical Center	Dignity Health	Los Angeles		318	16,148	66,484	182	57.3%	13.2
Tri City Regional Medical Center*	Tri City Regional Medical Center	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	13,003	56,625	155	38.0%	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	31,067	194,088	532	78.7%	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		568	14,601	100,954	277	48.7%	18.6
Cedars Sinai Medical Center	Cedars Sinai Medical Center	Los Angeles		886	45,343	234,271	642	72.4%	21.4
<b>TOTAL</b>				<b>8,253</b>	<b>359,649</b>	<b>1,787,549</b>	<b>4,897</b>	<b>59.3%</b>	

Source: OSHPD Disclosure Reports, 2014

\* 2013

Table excludes data for the recently opened Martin Luther King, Jr. Community Hospital, which is licensed for 131 beds

- 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 52%.

## Hospital Market Share

The table below illustrates service area hospital inpatient market share from 2010 to 2014:

HOSPITAL MARKETSHARE: 2010-2014						
Hospital	2010	2011	2012	2013	2014	Trend
St. Francis Medical Center	9.9%	9.8%	10.0%	9.8%	9.9%	↔
Kaiser Foundation Hospital - Downey	8.7%	8.9%	8.5%	8.4%	8.6%	↔
PIH Hospital - Whittier	6.7%	6.6%	6.2%	6.8%	7.1%	↗
PIH Hospital - Downey	5.8%	5.8%	5.6%	5.2%	4.7%	↘
Earl and Lorraine Miller Children's Hospital	3.5%	3.8%	4.0%	4.3%	4.3%	↗
LAC/Harbor-UCLA Medical Center	4.7%	4.4%	4.2%	4.2%	4.1%	↘
Lakewood Regional Medical Center	3.0%	3.0%	3.1%	3.3%	3.3%	↗
Long Beach Memorial Medical Center	3.5%	3.2%	3.2%	3.3%	3.1%	↘
LAC+USC Medical Center	3.1%	3.1%	3.1%	3.1%	3.2%	↔
Centinela Hospital Medical Center	3.2%	3.2%	3.3%	3.0%	3.2%	↔
Other Discharges	47.9%	48.3%	48.8%	48.6%	48.6%	↔
<b>Total Percentage</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
<b>Total Discharges</b>	<b>171,857</b>	<b>170,193</b>	<b>167,212</b>	<b>160,786</b>	<b>160,356</b>	↘

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database, 2010-2014

- The number of discharges in the Hospital's service area decreased by nearly 7% between 2010 and 2014;
- The Hospital has consistently been the market share leader for its service area based on discharges (approximately 10% in 2014). Kaiser Foundation Hospital – Downey ranked second in inpatient discharges with 9% market share in 2014; and
- PIH – Whittier increased its market share slightly to 7%.



## Market Share by Payer Type

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

HOSPITAL MARKET SHARE BY PAYER TYPE: 2014											
Payer Type	Total Discharges	St. Francis Medical Center	Kaiser Foundation Hospital - Downey	PIH Hospital - Whittier	PIH Hospital - Downey	Earl and Lorraine Miller Childrens Hospital?	LAC/Harbor-UCLA Medical Center	Lakewood Regional Medical Center	LAC+USC Medical Center	All Others	Total
Medi-Cal	69,185	13.7%	1.7%	2.8%	2.8%	7.4%	7.4%	1.8%	6.5%	55.9%	100%
Medicare	48,050	6.8%	9.2%	12.0%	7.6%	0.0%	1.2%	5.7%	0.7%	56.6%	100%
Private Coverage	33,874	5.1%	22.8%	9.1%	4.6%	4.4%	0.4%	2.9%	0.3%	50.4%	100%
Self Pay	5,021	28.3%	6.3%	8.5%	4.2%	3.7%	7.1%	1.1%	1.3%	39.4%	100%
All Other	4,226	0.5%	0.5%	3.3%	4.5%	1.7%	6.7%	7.2%	4.3%	71.4%	100%
<b>Grand Total</b>	<b>160,356</b>	<b>15,948</b>	<b>13,715</b>	<b>11,371</b>	<b>7,532</b>	<b>6,865</b>	<b>6,499</b>	<b>5,318</b>	<b>5,185</b>	<b>87,923</b>	<b>100%</b>

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The largest categories of service area inpatient discharges are comprised of Medi-Cal at approximately 69,200 discharges (43%), Medicare at approximately 48,000 discharges (30%), and Private Coverage at nearly 34,000 discharges (21%);
- The Hospital is the market share leader for Medi-Cal (14%) and Self-Pay (28%);
- 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 5% market share.

## Market Share by Service Line

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

HOSPITAL MARKET SHARE BY SERVICE LINE: 2014											
Service Line	Total Discharges	St. Francis Medical Center	Kaiser Foundation Hospital - Downey	PIH Hospital - Whittier	PIH Hospital - Downey	Earl and Lorraine Miller Childrens Hospital	LAC/Harbor-UCLA Medical Center	Lakewood Regional Medical Center	LAC+USC Medical Center	All Others	Total
General Medicine	50,241	7.0%	8.3%	7.4%	6.0%	3.4%	4.1%	4.5%	3.3%	55.9%	100%
Obstetrics	26,941	18.3%	11.2%	6.0%	3.7%	10.0%	1.5%	0.1%	1.3%	47.9%	100%
Cardiac Services	16,209	8.2%	6.8%	9.3%	7.4%	0.4%	3.5%	6.2%	2.5%	55.7%	100%
Behavioral Health	12,306	10.7%	0.8%	0.4%	0.2%	0.1%	2.1%	0.7%	1.9%	83.1%	100%
General Surgery	12,155	8.2%	9.0%	8.5%	4.1%	3.0%	7.4%	3.7%	5.2%	50.9%	100%
Neurology	7,221	8.4%	8.1%	8.8%	5.2%	2.6%	3.7%	6.1%	2.4%	54.6%	100%
Neonatology	7,027	14.4%	17.8%	5.7%	2.2%	13.3%	2.7%	0.0%	2.7%	41.1%	100%
Orthopedics	6,965	7.5%	12.7%	10.6%	5.9%	2.6%	6.4%	4.6%	4.3%	45.3%	100%
Oncology/Hematology (Medical)	5,319	6.1%	9.0%	6.0%	5.2%	4.5%	6.8%	4.1%	8.4%	49.9%	100%
Gynecology	2,618	6.7%	10.4%	6.6%	4.5%	1.2%	9.0%	3.0%	6.5%	52.0%	100%
Vascular Services	2,441	14.5%	7.7%	9.2%	4.0%	0.2%	5.7%	5.0%	2.8%	50.8%	100%
ENT	2,020	7.6%	4.3%	5.0%	4.1%	10.9%	8.3%	2.5%	6.6%	50.6%	100%
Other	1,988	12.0%	5.0%	6.4%	3.5%	5.5%	7.8%	3.5%	6.8%	49.5%	100%
Urology	1,952	8.3%	9.0%	7.1%	3.7%	1.6%	7.0%	3.9%	7.1%	52.3%	100%
Spine	1,860	4.2%	9.8%	8.9%	3.9%	1.0%	3.1%	3.5%	2.3%	63.4%	100%
Rehabilitation	1,504	7.0%	0.0%	20.4%	0.0%	0.1%	0.0%	0.0%	0.0%	72.5%	100%
Neurosurgery	1,065	5.4%	1.2%	8.4%	3.9%	5.3%	5.8%	4.0%	5.3%	60.8%	100%
All others	524	4.6%	4.8%	4.0%	2.9%	2.9%	13.4%	1.1%	10.3%	56.1%	100%
<b>Grand Total</b>	<b>160,356</b>	<b>15,948</b>	<b>13,715</b>	<b>11,371</b>	<b>7,532</b>	<b>6,865</b>	<b>6,499</b>	<b>5,318</b>	<b>5,185</b>	<b>87,923</b>	<b>100%</b>

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The Hospital is the service line leader in three of 16 service lines: obstetrics (18%), behavioral health (11%), and vascular services (15%);
- The Hospital also has a notable service line market share in rehabilitation (7%), general surgery (8%), ear, nose, and throat (8%), general medicine (7%), and orthopedics (8%);
- In 2014, Kaiser Foundation Hospital – Downey was the market share leader for eight service lines including general medicine (8%), general surgery (9%), neonatology (18%), orthopedics (13%), oncology/hematology (9%), gynecology (10%), urology (9%), and spine (10%);
- PIH – Whittier has the highest market share in cardiac services (9%), neurology (9%), rehabilitation (20%), and neurosurgery (8%); and
- Earl and Lorraine Miller Children's Hospital has the highest market share in ear, nose, and throat (11%).

## Market Share by ZIP Code

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

HOSPITAL MARKET SHARE BY ZIP CODE: 2014												
ZIP Code	Community	Total Discharges	St. Francis Medical Center	Kaiser Foundation Hospital - Downey	PIH Hospital - Whittier	PIH Hospital - Downey	Earl And Loraine Miller Childrens Hospital	LAC/Harbor-UCLA Medical Center	Lakewood Regional Medical Center	LAC+USC Medical Center	All Others	Total
90044	Los Angeles	11,765	4.7%	1.2%	0.1%	0.3%	1.3%	7.0%	0.2%	3.9%	81.4%	100%
90650	Norwalk	11,201	2.4%	12.1%	9.6%	7.7%	3.2%	1.6%	2.8%	2.3%	58.3%	100%
90805	Long Beach	9,828	2.9%	6.6%	0.2%	0.7%	16.0%	3.9%	11.1%	0.7%	57.9%	100%
90003	Los Angeles	7,920	7.0%	2.0%	0.2%	0.6%	1.3%	7.9%	0.3%	7.2%	73.5%	100%
90201	Bell	7,683	15.5%	8.0%	2.0%	8.9%	3.3%	2.2%	1.0%	7.6%	51.5%	100%
90706	Bellflower	7,311	3.1%	16.4%	1.5%	4.9%	8.0%	3.8%	15.4%	1.2%	45.7%	100%
90280	South Gate	7,195	24.9%	12.5%	1.2%	12.5%	4.2%	3.6%	1.6%	3.7%	35.8%	100%
90660	Pico Rivera	6,985	1.2%	9.5%	24.6%	2.3%	1.2%	0.5%	0.5%	3.7%	56.4%	100%
90262	Lynwood	6,570	36.1%	9.4%	0.6%	4.6%	4.8%	4.8%	1.5%	3.5%	34.8%	100%
90255	Huntington Park	6,027	14.5%	7.8%	1.0%	5.0%	2.2%	2.2%	0.5%	7.8%	59.0%	100%
90001	Los Angeles	6,001	14.1%	5.1%	0.2%	1.5%	1.9%	4.5%	0.4%	6.7%	65.5%	100%
90220	Compton	5,955	13.5%	5.6%	0.5%	0.8%	7.7%	8.4%	3.9%	1.5%	58.1%	100%
90002	Los Angeles	5,649	23.5%	5.2%	0.2%	1.5%	2.6%	7.6%	1.2%	4.0%	54.1%	100%
90221	Compton	5,456	21.1%	9.7%	0.5%	1.9%	10.1%	7.3%	8.7%	2.0%	38.6%	100%
90723	Paramount	5,023	7.7%	12.2%	0.8%	5.4%	8.3%	4.3%	12.9%	1.5%	46.9%	100%
90059	Los Angeles	5,005	21.6%	5.7%	0.3%	1.5%	3.7%	8.9%	1.1%	3.4%	53.8%	100%
90638	La Mirada	4,380	0.5%	7.8%	26.4%	1.4%	0.8%	0.5%	0.5%	0.5%	61.6%	100%
90703	Cerritos	4,249	0.5%	12.4%	1.5%	2.7%	2.8%	0.8%	6.8%	0.6%	71.9%	100%
90241	Downey	4,135	4.5%	16.3%	4.4%	29.3%	3.2%	1.9%	1.9%	1.5%	37.1%	100%
90242	Downey	4,034	5.8%	17.7%	2.2%	20.7%	4.6%	2.3%	2.2%	2.2%	41.8%	100%
90605	Whittier	4,007	0.8%	8.1%	41.4%	1.0%	1.2%	0.4%	0.3%	2.3%	44.4%	100%
90604	Whittier	3,718	0.7%	9.4%	37.6%	0.9%	1.1%	0.4%	0.3%	1.2%	48.3%	100%
90222	Compton	3,583	24.4%	8.5%	0.3%	1.8%	6.5%	8.7%	2.9%	1.7%	45.3%	100%
90606	Whittier	3,470	0.6%	9.2%	46.3%	0.9%	1.2%	0.4%	0.3%	2.4%	38.7%	100%
90061	Los Angeles	3,349	10.8%	2.2%	0.0%	0.5%	1.9%	8.9%	0.5%	2.7%	72.4%	100%
90270	Maywood	2,349	10.0%	7.6%	1.1%	4.9%	1.7%	1.7%	0.7%	8.5%	63.7%	100%
90603	Whittier	2,133	0.1%	6.8%	44.4%	0.7%	0.2%	0.4%	0.1%	1.1%	46.3%	100%
90240	Downey	1,920	4.0%	15.6%	7.8%	24.9%	3.9%	1.6%	2.7%	2.1%	37.6%	100%
90701	Artesia	1,826	2.2%	7.8%	1.5%	2.5%	3.5%	2.9%	7.5%	0.4%	71.6%	100%
90670	Santa Fe Springs	1,620	1.7%	12.3%	39.9%	5.3%	2.0%	1.0%	0.9%	1.7%	35.1%	100%
90639	La Mirada	9	0.0%	0.0%	22.2%	0.0%	0.0%	0.0%	0.0%	0.0%	77.8%	100%
Grand Total		160,356	15,948	13,715	11,371	7,532	6,865	6,499	5,318	5,185	87,923	100%

Note: Excludes normal newborns  
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 2014. The communities represented by these ZIP Codes include Bell, South Gate, Lynwood, Huntington Park, Los Angeles, Compton, and Maywood;
- PIH – Whittier is the market share leader in eight service area ZIP Codes, located in communities including Pico Rivera, La Mirada, Whittier, and Santa Fe Springs;
- PIH – Downey is the market share leader in three service area ZIP Codes located in Downey, 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 four service area ZIP Codes, located in the communities of Norwalk, Bellflower, Cerritos, and Artesia.

## 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 using FY 2014 data.

## Medical/Surgical Capacity Analysis

The medical/surgical beds within the service area run at an overall occupancy rate of approximately 47%.

MEDICAL/SURGICAL BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
<b>St. Francis Medical Center</b>	-	X	<b>185</b>	<b>9,099</b>	<b>38,896</b>	<b>106.6</b>	<b>57.4%</b>
Kaiser - Downey*	4.8	X	182	12,456	43,987	120.5	66.0%
PIH - Downey	5.0	X	96	2,744	11,988	32.8	34.1%
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	2,838	11,477	31.4	59.2%
PIH - Whittier	10.9	X	238	10,293	37,548	102.9	43.1%
Whittier Hospital Medical Center	12.8	X	63	2,671	7,901	21.6	34.3%
<b>SUB-TOTAL</b>			<b>996</b>	<b>45,699</b>	<b>171,142</b>	<b>469</b>	<b>47.1%</b>
Memorial Hospital of Gardena*	7.9		51	4,047	10,523	28.8	56.5%
Los Angeles Community Hospital	9.0		94	8,100	35,900	98.4	104.6%
Centinela 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	12,915	52,646	144.2	73.0%
Beverly Hospital*	9.7		131	6,701	30,389	83.3	63.6%
Monterey Park Hospital	9.9		85	3,036	10,021	27.5	32.2%
LAC/Harbor-UCLA Medical Center	11.1		266	14,274	76,148	208.6	78.2%
California Hospital Medical Center	13.2		132	7,225	25,624	70.2	53.0%
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	4,276	16,728	45.8	37.8%
White Memorial Medical Center*	14.1		78	4,607	17,318	47.4	60.7%
LAC+USC Medical Center	14.5		310	20,971	103,263	282.9	91.0%
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		383	26,437	119,302	326.9	85.1%
<b>TOTAL</b>			<b>3,422</b>	<b>186,355</b>	<b>775,897</b>	<b>2125.7</b>	<b>62.0%</b>

Source: OSHPD Disclosure Reports, 2014

\* 2013

Table excludes data for the recently opened Martin Luther King, Jr. Community Hospital, which is licensed for 93 general acute care beds

- The Hospital reported 9,099 inpatient hospital discharges and 38,896 patient days resulting in an occupancy rate of approximately 57% and an average daily census of 107 patients in 2014;
- The Hospital's 185 licensed medical/surgical beds represented approximately 19% of the beds in this category for the service area; and

- Between 2012 and 2013, Centinela Hospital Medical Center increased the number of licensed medical/surgical beds to 244 beds. In 2014, 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 247 intensive care unit/coronary care unit beds within the service area, with an overall occupancy rate of approximately 58%. The Hospital has 36 licensed intensive care beds with an average occupancy rate of 70% in 2014 (average daily census of 25).

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
<b>St. Francis Medical Center</b>	-	X	<b>36</b>	<b>653</b>	<b>9,214</b>	<b>25.2</b>	<b>70.1%</b>
Kaiser - Downey*	4.8	X	38	351	4,090	11.2	29.5%
PIH - Downey	5.0	X	18	405	4,620	12.7	70.3%
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	906	9,998	27.4	85.6%
PIH - Whittier	10.9	X	96	3,914	18,160	49.8	51.8%
Whittier Hospital Medical Center	12.8	X	16	256	2,883	7.9	49.4%
<b>SUB-TOTAL</b>			<b>247</b>	<b>6,756</b>	<b>52,144</b>	<b>142.9</b>	<b>57.7%</b>
Memorial Hospital of Gardena*	7.9		10	216	3,910	10.7	107.1%
Los Angeles Community Hospital	9.0		12	255	3,911	10.7	89.3%
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	751	13,756	37.7	61.8%
Beverly Hospital*	9.7		25	384	2,366	6.5	25.9%
Monterey Park Hospital	9.9		4	74	1,150	3.2	78.8%
LAC/Harbor-UCLA Medical Center	11.1		42	657	13,589	37.2	88.6%
California Hospital Medical Center	13.2		36	797	7,625	20.9	58.0%
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	651	8,162	22.4	32.9%
White Memorial Medical Center*	14.1		42	1,617	11,176	30.6	72.9%
LAC+USC Medical Center	14.5		120	2,246	32,131	88.0	73.4%
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	1,057	25,604	70.1	59.4%
<b>TOTAL</b>			<b>861</b>	<b>16,565</b>	<b>191,810</b>	<b>525.5</b>	<b>60.9%</b>

Source: OSHPD Disclosure Reports, 2014

\* 2013

Table excludes data for the recently opened Martin Luther King, Jr. Community Hospital, which is licensed for 20 intensive care beds

- Among the service area hospitals, the average daily census was 143 patients based on over 52,144 patient days;
- In addition to the 70% occupancy rate at the Hospital, Community Hospital of Huntington Park and Lakewood Regional Medical Center had higher occupancy rates of 92% and 86%, respectively; and

- Currently, the Hospital's intensive care unit has an occupancy rate of 70% that includes, on average, four to six patients that are awaiting transfer to a lower level of care, and could otherwise be appropriately placed in a definitive observation unit. Additionally, the average length of stay is 14 days, which is approximately twice as high as the service area average, and if reduced, would allow for additional patient volume.

## Obstetrics Capacity Analysis

In 2014, there were 230 obstetrics beds located in the service area with an aggregate occupancy rate of 54%. The Hospital reported 50 licensed obstetric beds with an occupancy rate of 67%.

OBSTETRICS BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
<b>St. Francis Medical Center</b>	-	X	<b>50</b>	<b>5,433</b>	<b>12,395</b>	<b>34.0</b>	<b>67.7%</b>
Kaiser - Downey*	4.8	X	66	4,018	7,831	21.5	32.4%
PIH - Downey	5.0	X	20	1,214	3,477	9.5	47.5%
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	4,298	15,247	41.8	63.1%
Whittier Hospital Medical Center	12.8	X	28	3,068	6,780	18.5	66.2%
<b>SUB-TOTAL</b>			<b>230</b>	<b>18,031</b>	<b>45,730</b>	<b>124.9</b>	<b>54.3%</b>
Memorial Hospital of Gardena*	7.9		23	1,302	3,389	9.3	40.4%
Los Angeles Community Hospital	9.0		16	98	266	0.7	4.5%
Centinela Hospital Medical Center*	9.0		29	845	2,355	6.5	22.2%
Earl and Lorraine Miller Childrens Hospital	9.1		59	4,862	12,445	34.0	57.6%
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	1,485	4,443	12.2	101.2%
LAC/Harbor-UCLA Medical Center	11.1		29	1,046	3,133	8.6	29.5%
California Hospital Medical Center	13.2		37	3,197	10,509	28.8	77.6%
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	3,974	10,749	29.4	42.6%
White Memorial Medical Center*	14.1		24	4,073	8,509	23.3	96.9%
LAC+USC Medical Center	14.5		12	1,272	4,097	11.2	93.3%
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		112	6,007	17,467	47.9	42.6%
<b>TOTAL</b>			<b>718</b>	<b>50,367</b>	<b>134,411</b>	<b>368.2</b>	<b>51.1%</b>

Source: OSHPD Disclosure Reports, 2014

\* 2013

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

(2) Table excludes data for the recently opened Martin Luther King, Jr. Community Hospital, which is licensed for 18 obstetrics beds

- The Hospital provides 22% of licensed obstetrics beds within its service area, and in 2014, reported approximately 30% of the service area's 18,031 discharges;
- 15 of the Hospital's obstetrics beds are used for labor, delivery, and recovery rooms;

- The hospitals within the service area have a combined occupancy rate of 54%. Community Hospital of Huntington Park does not have any licensed obstetric beds, and PIH – Downey had an occupancy rate of 48%;
- 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 (101%), California Hospital Medical Center – Los Angeles (78%), White Memorial Medical Center (97%), LAC+USC Medical Center (93%), and Pacific Alliance Medical Center (173%) are all limited in their ability to accommodate additional obstetrics volume; and
- The newly opened Martin Luther King, Jr. Community Hospital provides obstetrics services.

### ***Pediatric Capacity Analysis***

In 2014, there were 92 pediatric beds located within the service area with an aggregate occupancy rate of approximately 17%. The Hospital reported 14 licensed pediatric beds with an occupancy rate of 35%.

PEDIATRIC ACUTE / INTENSIVE CARE BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Francis Medical Center	-	X	14	623	1,780	4.9	34.7%
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	453	1,184	3.2	9.5%
Whittier Hospital Medical Center	12.8	X	-	-	-	-	-
<b>SUB-TOTAL</b>			<b>92</b>	<b>2,068</b>	<b>5,673</b>	<b>15.5</b>	<b>16.8%</b>
Memorial Hospital of Gardena*	7.9	-	-	-	-	-	-
Los Angeles Community Hospital	9.0	-	19	528	1,550	4.2	22.3%
Centinela Hospital Medical Center*	9.0	-	-	-	-	-	-
Earl and Lorraine Miller Childrens Hospital	9.1	-	172	7,143	26,270	71.8	41.7%
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	-	25	1,842	5,582	15.3	61.0%
California Hospital Medical Center	13.2	-	12	1,697	2,153	5.9	49.0%
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	-	42	1,995	6,714	18.4	43.7%
La Palma Intercommunity Hospital*	15.3	-	-	-	-	-	-
Pacific Alliance Medical Center, Inc.*	15.3	-	-	-	-	-	-
Children's Hospital Los Angeles	18.6	-	470	14,207	83,028	226.9	48.3%
Cedars Sinai Medical Center	21.4	-	39	4,183	1,497	4.1	10.5%
<b>TOTAL</b>			<b>919</b>	<b>36,180</b>	<b>138,025</b>	<b>378.2</b>	<b>41.0%</b>

Source: OSHPD Disclosure Reports, 2014

\* 2013

- The Hospital provides 16% of the occupied pediatric beds within the service area;
- There are two children's hospitals within 19 miles of the Hospital. Earl and Lorraine Miller Children's Hospital, located approximately 11 miles from the Hospital, is licensed for 172 pediatric beds and has an occupancy rate of approximately 42%. Additionally, Children's Hospital of Los Angeles, located 19 miles from the Hospital, is licensed for 470 licensed pediatrics beds and has an occupancy rate of 48%; and
- At current volumes, the Hospital's pediatric occupancy rate is approximately 35%. With eight beds, the occupancy rate would be approximately 60%. Therefore, a reduction to eight beds would adequately provide services to support existing pediatric volume.

### ***Neonatal Intensive Care Unit Capacity Analysis***

As shown below, the occupancy rate for neonatal intensive care services within the service area hospitals is approximately 61% based on 119 licensed beds.

NEONATAL INTENSIVE CARE BEDS 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
<b>St. Francis Medical Center</b>	-	X	<b>29</b>	<b>528</b>	<b>7,397</b>	<b>20.3</b>	<b>69.7%</b>
Kaiser - Downey*	4.8	X	49	625	11,411	31.3	63.6%
PIH - Downey	5.0	X	7	164	1,815	5.0	70.8%
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	34	446	5,849	16.0	47.0%
Whittier Hospital Medical Center	12.8	X	-	-	-	-	-
<b>SUB-TOTAL</b>			<b>119</b>	<b>1,763</b>	<b>26,472</b>	<b>72.3</b>	<b>60.9%</b>
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	1,271	21,092	57.6	53.9%
Long Beach Memorial Medical Center	9.2		-	-	-	-	-
Beverly Hospital*	9.7		-	-	-	-	-
Monterey Park Hospital	9.9		-	-	-	-	-
LAC/Harbor-UCLA Medical Center	11.1		27	64	3,428	9.4	34.7%
California Hospital Medical Center	13.2		26	491	7,805	21.4	82.0%
Tri City Regional Medical Center*	13.2		-	-	-	-	-
East Los Angeles Doctors Hospital*	13.5		-	-	-	-	-
Good Samaritan Hospital-Los Angeles	13.9		23	54	5,603	15.4	66.6%
White Memorial Medical Center*	14.1		28	592	7,038	19.3	68.7%
LAC+USC Medical Center	14.5		40	470	6,461	17.7	44.1%
La Palma Intercommunity Hospital*	15.3		-	-	-	-	-
Pacific Alliance Medical Center, Inc.*	15.3		-	-	-	-	-
Children's Hospital Los Angeles	18.6		98	394	17,926	49.0	50.0%
Cedars Sinai Medical Center	21.4		45	489	9,953	27.3	60.4%
<b>TOTAL</b>			<b>522</b>	<b>5,687</b>	<b>107,543</b>	<b>294.6</b>	<b>56.3%</b>

Source: OSHPD Disclosure Reports, 2014

\* 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 70%;

- The Hospital reported 528 inpatient hospital discharges and 7,397 patient days in 2014, resulting in an average daily census of approximately 20 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 52% and an average daily census of 16 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 5,331 skilled nursing beds. While the long-term care facilities have a high occupancy rate of 93%, there are almost 400 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 16 skilled nursing patients could adequately be accommodated elsewhere.

SKILLED NURSING BEDS 2014							
	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
<b>General Acute Care Hospitals</b>							
<b>St. Francis Medical Center</b>	-	X	30	296	5,758	15.8	52.4%
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	35	684	6,815	18.7	53.2%
Whittier Hospital Medical Center*	12.8	X	-	-	-	-	-
<b>SUB-TOTAL</b>			<b>65</b>	<b>980</b>	<b>12,573</b>	<b>34.4</b>	<b>53.0%</b>
<b>Long-Term Care Facilities</b>							
48 Long-Term Care Facilities	-	X	5,331	15,818	1,811,758	4,963.7	92.9%
<b>TOTAL</b>			<b>5,396</b>	<b>16,798</b>	<b>1,824,331</b>	<b>4,998.2</b>	<b>92.6%</b>

Source: OSHPD Disclosure Reports, 2014

\*2013

## Acute Psychiatric Capacity Analysis

There are 227 acute psychiatric beds within the Hospital's service area, with an overall occupancy rate of approximately 92%. The Hospital has 40 licensed acute psychiatric beds that were 84% occupied on average in 2014 (average daily census of 34 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 had an occupancy rate of 94% in 2014. 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 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
<b>St. Francis Medical Center</b>	-	X	<b>40</b>	<b>2,225</b>	<b>12,253</b>	<b>33.6</b>	<b>83.7%</b>
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	187	1,962	64,284	176.1	93.9%
Lakewood Regional Medical Center	9.1	X	-	-	-	-	-
PIH - Whittier	10.9	X	-	-	-	-	-
Whittier Hospital Medical Center	12.8	X	-	-	-	-	-
<b>SUB-TOTAL</b>			<b>227</b>	<b>4,187</b>	<b>76,537</b>	<b>210</b>	<b>92.4%</b>
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	919	12,910	35.4	92.8%
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		76	1,010	21,687	59.4	78.0%
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		-	-	-	-	-
<b>TOTAL</b>			<b>374</b>	<b>8,162</b>	<b>121,143</b>	<b>331.9</b>	<b>88.5%</b>

Source: OSHPD Disclosure Reports, 2014

\* 2013

- The average daily census for all hospitals in the service area was 210 based on 76,537 patient days;

- The Hospital provided 18% of the service area's acute psychiatric beds in 2014 and had a high occupancy rate of 84%; and
- Bellflower Medical Center closed in 2013, reducing the number of acute psychiatric beds within the service area to 227 licensed beds.

### ***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 System<sup>42</sup>.

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2014												
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Minor	Low/Moderate	Moderate	Severe w/o Threat	Severe w/Threat	Percentage Admitted	Hours of Diversion
<b>St. Francis Medical Center</b>	-	X	Basic	46	<b>75,222</b>	<b>5,106</b>	<b>8,284</b>	<b>26,139</b>	<b>21,023</b>	<b>14,670</b>	<b>12.8%</b>	<b>3,504</b>
Kaiser - Downey	4.8	X	Basic	63	95,144	1,731	9,486	64,529	17,172	2,226	10.7%	1,612
PIH - Downey	5.0	X	Basic	22	50,993	423	6,131	15,638	19,765	9,036	12.0%	879
Community Hospital of Huntington Park	5.4	X	Basic	14	37,015	18	412	14,506	13,949	8,130	8.9%	224
Coast Plaza Hospital	6.6	X	Basic	16	29,162	3,736	857	7,545	12,863	4,161	10.6%	471
College Hospital	8.0	X	-	-	-	-	-	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	Basic	14	51,643	4,189	4,387	14,218	15,647	13,022	13.4%	1,352
PIH - Whittier	10.9	X	Basic	61	76,411	1,108	6,001	25,385	33,348	10,569	15.4%	8
Whittier Hospital Medical Center	12.8	X	Basic	11	28,215	46	790	11,571	6,833	8,975	16.7%	24
<b>SUBTOTAL</b>				<b>247</b>	<b>443,805</b>	<b>16,357</b>	<b>36,348</b>	<b>179,531</b>	<b>140,600</b>	<b>70,789</b>	<b>12.6%</b>	<b>8,074</b>
Memorial Hospital of Gardena	7.9		Basic	10	36,479	46	2,262	14,598	12,256	7,317	12.7%	68
Los Angeles Community Hospital	9.0		Standby	3	8,492	1,433	2,553	1,663	1,191	1,652	28.8%	0
Centinela Hospital Medical Center	9.0		Basic	44	65,074	3,108	4,889	13,905	12,723	30,449	19.5%	1
Earl and Lorraine Miller Childrens Hospital	9.1		-	-	-	-	-	-	-	-	-	-
Long Beach Memorial Medical Center	9.2		Basic	53	98,421	192	263	41,783	46,319	9,864	16.0%	1,709
Beverly Hospital	9.7		Basic	16	29,162	3,736	857	7,545	12,863	4,161	10.6%	471
Monterey Park Hospital	9.9		Basic	6	15,849	44	2,412	5,601	4,758	3,034	13.0%	374
LAC/Harbor-UCLA Medical Center	11.1		Basic	84	73,516	1,849	18,597	37,095	7,648	5,327	18.0%	1,772
California Hospital Medical Center	13.2		Basic	35	75,846	5,151	10,531	39,134	14,735	6,295	10.5%	1,323
Tri City Regional Medical Center	13.2		Basic	8	12,952	468	3,852	2,210	5,851	571	21.2%	1,096
East Los Angeles Doctors Hospital	13.5		Basic	8	13,835	14	1,678	5,007	4,363	2,773	12.7%	2
Good Samaritan Hospital-Los Angeles	13.9		Basic	12	34,291	253	2,238	8,161	11,176	12,463	14.3%	1,614
White Memorial Medical Center	14.1		Basic	28	56,221	623	7,106	16,554	18,680	13,258	15.1%	22
LAC+USC Medical Center	14.5		Comprehensive	106	164,542	7,290	36,018	90,088	29,168	1,968	13.4%	0
La Palma Intercommunity Hospital	15.3		Basic	10	16,319	673	881	3,370	4,363	7,032	20.3%	0
Pacific Alliance Medical Center, Inc	15.3		-	-	-	-	-	-	-	-	-	-
Children's Hospital Los Angeles	18.6		Basic	39	74,195	13,812	21,953	25,518	12,165	747	9.2%	19
Cedars Sinai Medical Center	21.4		Basic	51	87,061	3,319	13,778	23,771	18,919	27,274	24.4%	97
<b>TOTAL</b>				<b>760</b>	<b>1,306,060</b>	<b>58,368</b>	<b>166,216</b>	<b>515,534</b>	<b>357,778</b>	<b>204,974</b>	<b>14.5%</b>	<b>16,642</b>

Source: OSHPD Alerts Annual Utilization Reports, 2014

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

- The Hospital has 46 emergency department stations and is classified as “basic.” In 2014, the Hospital reported over 75,200 visits, accounting for 17% of the total visits among area hospitals (over 443,000 total visits);
- In 2014, approximately 13% 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 diversion<sup>43</sup> for ambulance receiving.

<sup>42</sup> The Automated Licensing Information and Report Tracking System contains license and utilization data information of healthcare facilities in California.

## 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 2014, the Hospital's 46-bed emergency department was operating at 82% capacity. Emergency departments at other area facilities are extremely overburdened, including PIH – Downey (116%), Community Hospital of Huntington Park (132%), Lakewood Regional Medical Center (184%), and Whittier Hospital Medical Center (128%).

EMERGENCY DEPARTMENT CAPACITY 2014							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
<b>St. Francis Medical Center</b>	-	X	Basic	46	75,222	92,000	16,778
Kaiser - Downey	4.8	X	Basic	63	95,144	126,000	30,856
PIH - Downey	5.0	X	Basic	22	50,993	44,000	(6,993)
Community Hospital of Huntington Park	5.4	X	Basic	14	37,015	28,000	(9,015)
Coast Plaza Hospital	6.6	X	Basic	16	29,162	32,000	2,838
College Hospital	8.0	X	-	-	-	-	-
Lakewood Regional Medical Center	9.1	X	Basic	14	51,643	28,000	(23,643)
PIH - Whittier	10.9	X	Basic	61	76,411	122,000	45,589
Whittier Hospital Medical Center	12.8	X	Basic	11	28,215	22,000	(6,215)
<b>SUBTOTAL</b>				<b>247</b>	<b>443,805</b>	<b>494,000</b>	<b>50,195</b>
Memorial Hospital of Gardena	7.9		Basic	10	36,479	20,000	(16,479)
Los Angeles Community Hospital	9.0		Standby	3	8,492	6,000	(2,492)
Centinela Hospital Medical Center	9.0		Basic	44	65,074	88,000	22,926
Earl and Lorraine Miller Childrens Hospital	9.1		-	-	-	-	-
Long Beach Memorial Medical Center	9.2		Basic	53	98,421	106,000	7,579
Beverly Hospital	9.7		Basic	16	29,162	32,000	2,838
Monterey Park Hospital	9.9		Basic	6	15,849	12,000	(3,849)
LAC/Harbor-UCLA Medical Center	11.1		Basic	84	73,516	168,000	94,484
California Hospital Medical Center	13.2		Basic	35	75,846	70,000	(5,846)
Tri City Regional Medical Center	13.2		Basic	8	12,952	16,000	3,048
East Los Angeles Doctors Hospital	13.5		Basic	8	13,835	16,000	2,165
Good Samaritan Hospital-Los Angeles	13.9		Basic	12	34,291	24,000	(10,291)
White Memorial Medical Center	14.1		Basic	28	56,221	56,000	(221)
LAC+USC Medical Center	14.5		Comprehensive	106	164,542	212,000	47,458
La Palma Intercommunity Hospital	15.3		Basic	10	16,319	20,000	3,681
Pacific Alliance Medical Center, Inc.	15.3		-	-	-	-	-
Children's Hospital Los Angeles	18.6		Basic	39	74,195	78,000	3,805
Cedars Sinai Medical Center	21.4		Basic	51	87,061	102,000	14,939
<b>TOTAL</b>				<b>760</b>	<b>1,306,060</b>	<b>1,520,000</b>	<b>213,940</b>

Source: OSHPD Alirits Annual Utilization Reports, 2014

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

- Overall, service area hospitals' emergency departments are at approximately 90% 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.

<sup>43</sup> 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.

## SUMMARY OF INTERVIEWS

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

### ***Reasons for the Proposed Transaction***

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

- Without the transaction, Daughters and the Health Facilities, including the Hospital, would not be able to sustain their current operations and would likely be forced into insolvency and bankruptcy. Bankruptcy could lead to the reduction of services at the Hospital, thereby reducing community access to medical care and increasing demand on other area emergency rooms and hospitals;
- Given the Hospital's important role in providing healthcare for the poor, without the transaction, the community could be at risk of losing key services that are essential for the uninsured and under-insured patient population;
- Daughters does not have the financial resources required to repay outstanding debt, including the repayment of the 2005 Bonds and 2014 Bonds. Additionally, Daughters is unable to provide financial support for the protection of the underfunded pension plans, and is also unable to provide the necessary capital required at all of the Health Facilities. The interests of patients, the community, physicians, and employees are best met by finding a suitable health system to assume control of Daughters and the Health Facilities, including the Hospital;
- Almost all of those interviewed believed that a change in governance and operation is necessary to keep the Health Facilities, including the Hospital, from eliminating services or closing;
- Some of those 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 in 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 has additional complications and would not result in the highest potential value;
- The timeframe required to sell individual Health Facilities would extend beyond the time that Daughters could financially sustain continuous losses on 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;
- 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 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, especially obstetrics and emergency services.

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 BlueMountain and Integrity for the Proposed Transaction***

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

- Commitment to continue the operation of the Health Facilities, including the Hospital, as general acute care facilities;
- Continued operation of the Health Facilities as nonprofit, tax exempt hospitals;
- Enhanced financial support and access to capital to repay the bonds in full;
- Commitment to retain the CBAs of the employees at each of the Health Facilities;
- Experience with safety net hospitals and hospital turnarounds; and
- Ability to operate the Health Facilities efficiently and profitably.

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

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

- The motivations of BlueMountain to make a profit may be in conflict with the interests of the community to operate the Health Facilities and their services;
- The lack of history and experience of BlueMountain in operating general acute care facilities;
- The potential for BlueMountain to close the Health Facilities and use the properties for unrelated real estate value;
- The complicated structure of the transaction, including the uncertainty surrounding whether or not BlueMountain will carry out the purchase options between the third and fifteenth anniversary of closing;
- Integrity may reduce or eliminate unprofitable services negatively impacting the accessibility and availability of healthcare services for the communities served by the Hospital; and
- Integrity may reduce necessary staffing and other types of expenses, which in turn, could have a negative impact on the quality and delivery of patient care.

Most of the Hospital employees interviewed, many of whom were also members of unions, understood the reasons for the transaction, expressed being neither in favor nor opposed to BlueMountain and Integrity as long as employees are treated well, pensions are protected, and the surrounding communities continue to be served by the Health Facilities. However, some employees interviewed were opposed to the transaction because they believed BlueMountain was not the best option available to Daughters.

### ***Impact on the Availability and Accessibility of Healthcare Services***

Almost all interviewed believed that the proposed transaction would lead to some level of change in regard to access and/or availability of certain services. While many believed that the transaction was necessary, they also believed there would be further reductions and elimination of some unprofitable services, resulting in a negative impact on the availability or accessibility of some healthcare services to lower-income and underserved populations historically served by the Hospital. However, many also believed that Integrity would develop new service lines based on community needs and/or grow profitable services as part of its turnaround strategy.



## ***Alternatives***

The majority of those interviewed believed that a transaction was necessary in order to avoid insolvency and bankruptcy. Most believed that if Daughters went into bankruptcy, services would be curtailed, some of the Health Facilities could close, and some employee pension funds would be lost. However, many also expressed that in the case of bankruptcy, the Hospital would likely be acquired by another organization due its history of financial success.

While many interviewed were not familiar with BlueMountain, many other individuals were confident that BlueMountain and Integrity's offer would ensure the future financial sustainability and operations of the Health Facilities, and the continuation of the Health Facilities as general acute care hospitals. However, a few of those interviewed felt that a different bidder would have been a better alternative to BlueMountain and Integrity.

## **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 broader community. 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, 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***

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

### ***Emergency and Trauma Services***

The Hospital is an important provider of both emergency and trauma services to the residents of the surrounding communities. In 2014, the Hospital reported over 75,000 visits on its 46 emergency treatment stations, operating at a capacity of 82% based on a standard of 2,000 visits per station, per year. Additionally, the Level II Trauma Center is one of the busiest trauma centers in Los Angeles County with approximately 2,000 trauma cases per year.

Emergency departments at other area facilities are extremely overburdened and functioning beyond desirable capacity, including PIH-Downey (116%), Community Hospital of Huntington Park (132%), Lakewood Regional Medical Center (184%), and Whittier Hospital Medical Center (128%). 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.

## ***Intensive Care/Critical Care Services***

The Hospital reports an occupancy rate of approximately 70% 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 58% on their 247 total intensive care beds. In FY 2014, Community Hospital of Huntington Park and Lakewood Regional Medical Center had occupancy rates of approximately 92% and 86%, respectively. Maintaining intensive care services at the Hospital is important to ensure the accessibility and availability of ICU/CCU beds in the service area.

## ***Obstetrics Services***

The Hospital has an occupancy rate of 68% on its 50 licensed obstetrics beds based on an average daily census of approximately 34 patients. With approximately 5,100 reported deliveries in FY 2014, the Hospital is an important provider of obstetrics services, holding the largest market share in FY 2014, with approximately 18% 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 of its obstetrics patients are Medi-Cal beneficiaries.

## ***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 nearly 70%. Excluding Kaiser, which has a Level III NICU, only two other hospitals offer neonatal intensive care services in the service area, including PIH – Downey and PIH – Whittier, both of which have Level II NICUs. In FY 2014, PIH – Downey had an occupancy rate of approximately 71%, and PIH – Whittier had an occupancy rate of 47%. Because the Hospital has approximately 5,100 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 (35%) and average daily census (approximately 5 patients per day). Excluding Kaiser, two other hospitals offered pediatric services in the service area and had

a combined occupancy rate of 8% in FY 2014. Community Hospital of Huntington Park had an occupancy rate of approximately 7%, and PIH – Whittier had an occupancy rate of only 10%. 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 of five pediatric patients per day is relatively low, 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 52%, while PIH – Whittier reports an occupancy rate of 53% for FY 2014. 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 5,300 additional skilled nursing beds, having an occupancy rate of approximately 93%. 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 93%, there are almost 400 beds available and the average daily census of 16 skilled nursing patients from the Hospital could be adequately 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 84% in FY 2014. 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 18% 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 187 licensed acute psychiatric beds and a high occupancy rate of 94%.

A 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 create a disruption in the provision of these services for the community. Due to the severe shortage of available psychiatric beds in the community and in Los Angeles County as a whole, maintaining the number of psychiatric beds at the Hospital at current licensure and 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. Some women's reproductive health services are prohibited by the Ethical and Religious Directives of the Catholic Church, including elective abortions and tubal ligations. Since the Hospital will no longer be sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, the Hospital will no longer be required to adhere to the Ethical and Religious Directives. Therefore, it is expected that patients will not be referred elsewhere for any prohibited services.

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

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 FY 2014.

REPRODUCTIVE SERVICES BY DIAGNOSTIC RELATED GROUP	
Diagnostic Related Group	St. Francis Medical Center
770: Abortion D&C, Aspiration Curettage or Hysterectomy	41
778: Threatened Abortion	156
779: Abortion w/o D&C	18
777: Ectopic Pregnancy	45
767: Vaginal Delivery w Sterilization & /OR D&C	8
<b>Total 2014 Discharges:</b>	<b>268</b>

Source: OSHPD Inpatient 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 (22%) and Medi-Cal (60%). The Hospital currently participates in the Medicare program and the Medi-Cal managed care program, and also has managed care contracts for these types of patients.

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

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

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

Many uninsured and 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 (4.4% of gross patient revenue for the Hospital, as compared to 2.0% for the State of California). The Hospital has historically provided a significant amount of charity care costs, averaging approximately \$18.7 million per year over the last five years. Integrity has agreed to maintain and adhere to Daughters' current policy on charity care (or a comparable policy) for a minimum of five years, though no specific commitment has been made to maintain historical levels of financial support for charity care at the Hospital. Because of Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients is expected to decrease.

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

The Hospital has historically provided a significant amount of community benefit services with an average cost of \$4,888,726 per year over the last five years. 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, and Children's Counseling Center, among others. Integrity has not made any specific commitments in the System Agreement to maintain the Hospital's community benefit programs or historical levels of financial support for community benefit expenditures.

The majority of funding for the support of community benefit programs at the Hospital is provided through several grants with some based upon its nonprofit corporate status. While

likely to continue since Daughters will remain as a nonprofit entity, the loss of these grants could jeopardize the continuation of the community benefit projects unless alternative funding was obtained. 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***

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

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

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

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

### ***Alternatives***

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

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



## CONCLUSIONS

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

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

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

1. For at least ten years from closing, the Hospital shall continue to operate as a general acute care hospital;
2. For at least ten years from closing, the Hospital shall maintain 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 closing, 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). Alternatively, the Hospital can arrange and support access to similar services being provided at a different site within a three mile radius of the clinic's current location and/or utilizing an alternative structure (e.g., Federally Qualified Health Center, physician office practice, etc.):
  - 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; and
  - c. Orthopedics Clinic, located at 3628 E. Imperial Highway, #300, in Lynwood.
- 5. For at least ten years from closing, 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 or 24 intensive care beds and 12 definitive observation 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 8 pediatric beds;
  - h. Orthopedic and rehabilitation services;
  - i. Wound care and hyperbaric medicine or similar 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 closing, 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 \$18,662,216 (the "Minimum Charity Care Amount"). Alternatively, because of the impact of Medi-Cal expansion and the ACA, the California Attorney General could consider adjusting the required commitment to charity care based on available data from time periods after implementation of the ACA. 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 Index for Los Angeles-Riverside-Orange County, California;

7. For at least ten years from closing, the Hospital shall continue to expend an average of no less than \$4,888,726 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 and services shall continue to be offered:
  - a. Health Benefits Resource Center;
  - b. Welcome Baby Program;
  - c. Healthy Community Initiatives (HCI);
  - d. St. Francis Career College (SFCC) access for onsite training;
  - e. Paramedic Training and Education; and
  - f. Patient Transportation support.
8. For at least ten years from closing, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease of quality, or gap in contracted hospital coverage, including continuation of the following contracts or their successors :
  - a. L.A. Care Health Plan; and
  - b. Health Net.
9. For at least ten years from closing, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number;
10. For at least ten years from closing, the Hospital shall maintain its current contracts, subject to the request of 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 closing, the Hospital shall maintain its contracts and designations, subject to the request of 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. Paramedic Base Hospital Services Agreement, approving the Hospital as a County designated 911 receiving facility;
  - f. Designation as an Emergency Department Approved for Pediatrics (EDAP).
12. The Hospital shall maintain privileges for current medical staff members who are in good standing as of closing. Further, closing of the transaction shall not impact 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. BlueMountain, Integrity, Certain Funds Managed by BlueMountain, and Verity shall commit the necessary investments required to maintain OSHPD seismic compliance requirements at the Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070); and
14. BlueMountain, Integrity, Certain Funds Managed by BlueMountain, and Verity shall comply with the "Capital Commitment" set forth in section 7.7 of the System Agreement to reserve or expend \$180 million over five years for improvements at the Health Facilities.

## APPENDICES

### List of Interviewees

Last Name	First Name	Position	Affiliation
Aguilera	Alex	Coordinator	SEIU United Healthcare Workers West
Anderson, MD	Maxine	Chief of Surgery	St. Francis Medical Center
Baker	Dihann	Billir, Respiratory Department	SEIU United Healthcare Workers West
Bannerman	Chris	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, Obstetrics	St. Francis Medical Center
Byington	Scott	SFRNA President	United Nurses Association of California, Union of Health Care Professionals
Carcamo	Rosa	SFRNA Secretary	United Nurses Association of California, Union of Health Care Professionals
Careaga	Diana	Program Officer	First5 LA
Casillas-Sanchez	Leticia	Program Officer	First5 LA
Colman	George	Chair, St. Francis Foundation Board	St. Francis Medical Center
Creem	Mitch	Chief Executive Officer	Integrity Healthcare
Criscitiello	Ra	Research Analyst	SEIU United Healthcare Workers West
Drees	Dub	Vice President, Development & CEO, St. Francis Foundation	St. Francis Medical Center
Druno	Diana	Administrator, Maternal-Child Health	St. Francis Medical Center
Druten	Chad	Vice Chair, St. Francis's Board	St. Francis Medical Center
Farah, MD	Amin	Chief of Staff Elect	St. Francis Medical Center
Guardado	Edwin	SFRNA Vice President	United Nurses Association of California, Union of Health Care Professionals
Guzman	Noe	Representative & Nuclear Medicine Department	SEIU United Healthcare Workers West
Hill	Larry	Representative & Transport Department	SEIU United Healthcare Workers West
Hobson	Bill	President & Chief Executive Officer	Watts Healthcare
Ilhardt	Ben	Associate, Financial Restructuring	Foley & Lardner LLP
Issai	Robert	President & Chief Executive Officer	Daughters of Charity Health System
Jackson	Scott	Senior Vice President, Financial Restructuring	Houlihan Lokey
Knighten	Mary Lynne	Vice President, Patient Care Services & CNO	St. Francis Medical Center
Kozai	Gerald	President & Chief Executive Officer	St. Francis Medical Center
Laviolette	Sr. Jo-Anne	Board Secretary, St. Francis's Board	St. Francis Medical Center
Mahagra	Hammad	Director, Perioperative Services	St. Francis Medical Center
Mangia	Jim	President & Chief Executive Officer	St. John's Well Child & Family Center
Marques	Sandra	Representative	United Nurses Association of California, Union of Health Care Professionals
Melikian	Annie	Chief Financial Officer	Daughters of Charity Health System
Meyers	Mark	Chief Operating Officer	Integrity Healthcare
Miller	David	Research Director	SEIU United Healthcare Workers West
Morris	Lynn	Representative & Cardiology Department	SEIU United Healthcare Workers West
Pieri	James	Portfolio Manager	BlueMountain Capital Management
Plaza	Caroline	Representative & Trauma Department	SEIU United Healthcare Workers West
Rodriguez	Isaac	Emergency Medical Technician	SEIU United Healthcare Workers West
Rubino	Louis	Board Member, St. Francis's Board	St. Francis Medical Center
Schieble	Mark	Partner	Foley & Lardner LLP
Sheffler	Susan	Associate	Ropes and Gray
Stephen, MD	Michael	Medical Director, Emergency Department	St. Francis Medical Center
Turnbull	Andrew	Managing Director	Houlihan Lokey
Waxman	Mark	Partner	Foley & Lardner LLP
Wilson	Nancy	Chief Financial Officer	St. Francis Medical Center
Woo	Linda	Director, Public Relations	St. Francis Medical Center
Ynzunza	Sam	Board Member, St. Francis's Board	St. Francis Medical Center



## Hospital License

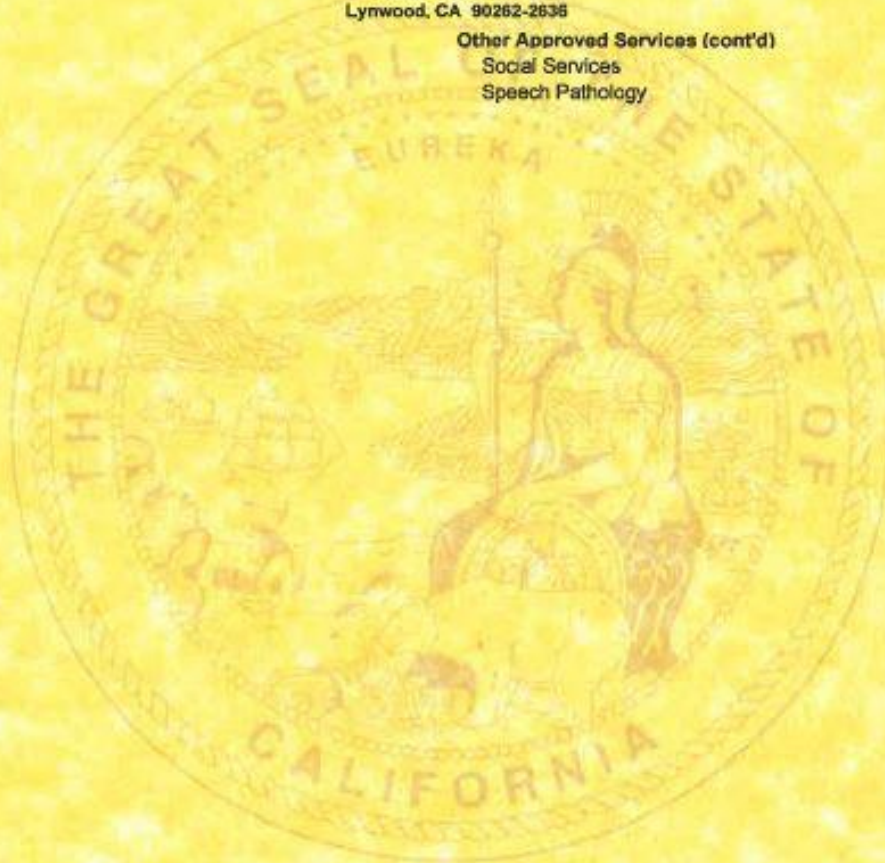
<b>License:</b> 930000157 <b>Effective:</b> 01/01/2015 <b>Expires:</b> 12/31/2015 <b>Licensed Capacity:</b> 384	
<b>State of California</b> <b>Department of Public Health</b>	
In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues	
<i>this License to</i>	
<b>St. Francis Medical Center</b>	
to operate and maintain the following <b>General Acute Care Hospital</b>	
<b>SAINT FRANCIS MEDICAL CENTER</b> 3630 E Imperial Hwy Lynwood, CA 90262-2636	
<b>Bed Classifications/Services</b> 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)	<b>Other Approved Services</b> Basic Emergency Medical 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 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 Outpatient Services - Diagnostic Testing at 3628 E. Imperial Highway, Suite 300, Lynwood Physical Therapy Radiation Therapy Respiratory Care Services
(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)569-3724	
POST IN A PROMINENT PLACE	

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

License: 930000167  
Effective: 01/01/2015  
Expires: 12/31/2015  
Licensed Capacity: 384

SAINT FRANCIS MEDICAL CENTER (Continued)  
3630 E Imperial Hwy  
Lynwood, CA 90262-2636

Other Approved Services (cont'd)  
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 #4BCB766. 15 Perinatal beds being utilized as LDRP rooms.

Ron Chapman, MD, MPH  
Director & State Health Officer

Shirley Singleton  
Shirley Singleton, 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)559-3724

POST IN A PROMINENT PLACE