

**Effect of University of Southern California's
Acquisition of Verdugo Hills Hospital on the
Availability or Accessibility of Health Care Services**

Prepared for:

Office of the California Attorney General

May 16, 2013

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Introduction and Purpose

Verdugo Hills Hospital (VHH), a California nonprofit public benefit corporation, owns and operates Verdugo Hills Hospital (Hospital), a general acute care hospital located in Glendale, California. VHH's sole corporate member is Verdugo Hills Health Services (Health Services), a California nonprofit public benefit corporation. In addition, Verdugo Hills Support Services (Support Services), a California nonprofit public benefit corporation, provides pharmacy services at Hospital. All three corporations (Sellers) have requested the California Attorney General's approval of the sale of all of their assets, including Hospital, to USC Verdugo Hills Hospital LLC (Buyer), a California limited liability company and wholly-owned subsidiary of University of Southern California (USC), a California nonprofit public benefit corporation.

This report describes the possible effects that the proposed sale may have on the accessibility or availability of health care services in the areas served by Hospital.

Verité Healthcare Consulting, LLC, a healthcare planning and policy consulting firm, was retained by the Attorney General's Office to prepare this report. The report was prepared based on the following data and documentation:

- Notice filed with the Attorney General on March 22, 2013 by Sellers and supplemental information and documents provided to the Attorney General's Office;
- Interviews with Hospital's administration and medical staff, VHH's board members, representatives of USC, representatives from the Los Angeles County Department of Mental Health, community members from areas served by Hospital, representatives of other area hospitals and nursing facilities that refer certain patients to Hospital, and others as set forth in the Appendix;
- Financial, utilization, and program information provided by Sellers;
- Publicly available information obtained from the California Office of Statewide Health Planning and Development (OSHPD);
- The contract currently in effect between VHH and Los Angeles County for mental health services provided to Medi-Cal recipients;
- VHH and USC charity care policies;
- Information regarding community benefit services provided by VHH; and
- Data and reports from various sources, including OSHPD, VHH, and Los Angeles County, regarding:
 - Demographic characteristics;
 - Hospital and skilled nursing facility utilization rates;
 - Payer mix;

- Hospital market share; and
- Health status and access indicators.

Background and Description of the Transaction

History of Hospital

Since its opening in 1972, Hospital has provided emergency services, an array of primary medical and surgical inpatient services, and diagnostic services. Hospital has a total of 158 licensed beds. The emergency department has 12 treatment stations.

In 1991, Hospital opened an 18-bed Transitional Care Unit that provides skilled nursing services. In 1994, Hospital opened a 24-bed, licensed, acute inpatient psychiatric program. All 24 beds are designated as geropsychiatric, are contained in a locked unit, and can care for involuntary patients under Welfare and Institutions Code sections 5150 and 5250. Hospital also operates a geropsychiatric program called “Stepping Stones at Verdugo Hills Hospital” that provides hospital-based intensive outpatient psychiatric services.

Reasons for the Transfer of Assets

The VHH Board of Directors (Board) has stated the following reasons why the proposed transaction is necessary and desirable:

- VHH estimates that Hospital has capital needs of approximately \$30 million; however, VHH has minimal financing capacity. Capital needs include at least \$7.5 million to fund upgrades necessary to comply with California seismic laws. VHH has also identified the need to renovate Hospital’s obstetrics unit, expand the emergency department and operating rooms, and replace several pieces of equipment.
- Hospital is competing with several full-service hospitals that have already established or are establishing strategic business relationships¹ with the physicians at Hospital. VHH lacks the capital needed to develop its own strategic business relationships with the physicians. Hospital has lost patient volume and market share during the last several years. Board believes the proposed transaction will help to address these market share and volume concerns.

Transaction Process and Timing

- From January to October 2010, the Strategic Planning Committee of the Board discussed the costs associated with upgrading facilities due to seismic concerns; various capital needs, including emergency department expansion; and the need to review options for establishing a more strategic business relationship with physicians.
- In April 2011, Board established an Options Committee to discuss opportunities and risks of affiliation and other options.
- In May 2011, VHH retained legal counsel and the services of a consulting firm to assist with the review process.

¹ For example, the medical foundations described in California Health and Safety Code section 1206(l).

- In November 2011, Board voted to enter into discussions with area hospitals and explore possible affiliation, merger, or other arrangements that would be compatible with the strategic priorities of VHH.
- In March and April 2012, Board established an Affiliation Oversight Committee and approved a process for considering affiliation and partner selection criteria.
- In June 2012, the Affiliation Oversight Committee reviewed and discussed the three proposals that had been received and recommended commencing negotiations with USC. Board approved the recommendation.
- In July 2012, Hospital's medical staff hired its own consultant to determine whether VHH needed to find a partner and whether VHH used an appropriate partner selection process. The consultant's conclusions are as follows:
 - VHH is in survival mode given the following: low cash position, low net income, inability to borrow sufficient funds to meet capital needs, lack of an aligned medical staff delivery network, and declining patient volume;
 - Hospital lacks certain core services needed to compete with other full-service hospitals, including a neonatal intensive care unit and full-service cancer programs, and has a small market share and declining volume in its service area;
 - VHH followed a fair and competitive process when considering affiliation partners; and
 - VHH selected "the best proposal submitted," namely USC.
- In August 2012, Board reviewed the Letter of Intent from USC and authorized its execution.
- In November 2012, Board established a Definitive Agreement Review Committee to work with VHH's legal counsel and consultant and to provide feedback on agreement provisions and drafts.
- In March 2013, the Asset Purchase Agreement was presented to Board and was approved.

Transaction Summary

The Asset Purchase Agreement for the transaction includes the following key terms:

- Buyer will assume certain specified liabilities (valued at approximately \$9 million), including Sellers' accounts payable as of the transaction closing date and all accrued but unused employee paid time off.
- Buyer will discharge VHH's long term debt in an amount not to exceed \$10 million. Buyer also will pay any unrepaid funds borrowed by Sellers to fund payment of one or more California Quality Assurance Fee Program² payments.
- Buyer will provide Sellers with certain covenants and commitments, including the following:
 - Buyer will invest at least \$30 million in equipment, services, and facilities (Capital Commitment Amount) at Hospital over the five-year period after the transaction closes (Closing). The Capital Commitment Amount is to be invested in three programmatic categories:
 - Capital projects related to Hospital's emergency department, women's services, and seismic upgrades;
 - A cardiac catheterization laboratory (Cath Lab) and neonatal intensive care unit if certain conditions are met (e.g., that these programs are financially feasible); and
 - Other items determined by Buyer in consultation with the Post-Closing Governing Board of Hospital.
 - Buyer will commit to investing at least \$500,000 over the twelve-month period after the Closing for branding and communication of the services and facilities offered at Hospital.
 - Any additional funds Sellers are required to borrow prior to the Closing will be paid by Buyer out of the \$30 million Capital Commitment Amount.
 - Buyer will:
 - Hire substantially all of Hospital's employees (subject to USC's hiring policies) and, for twelve months following the Closing, compensate them with wages and benefits commensurate with what they receive now;

² The Quality Assurance Fees program (Welfare & Institutions Code sections 14169.1-14169.19) provides funds to hospitals to additionally compensate them for the amount of care they provided to Medi-Cal beneficiaries during a specific period.

- Present a physician strategy annually for approval to the Post-Closing Governing Board;
- Maintain a separate, independent medical staff at Hospital and an administrative staff to support the medical staff;
- Maintain the overhead charge for administrative services at 0.9% of revenue for at least five years;
- Maintain Hospital as a general acute care hospital for ten years, with 158 licensed beds at the present location, subject to certain rights to reduce the number of beds to not less than 100 to accommodate new services or enhance or improve acute care services;
- Maintain or make available at Hospital the following services for at least five years:
 - Emergency medicine;
 - Inpatient and outpatient surgery;
 - Obstetrics; and
 - Laboratory, pathology, x-ray, physical therapy, and occupational therapy.
- Govern Hospital through a Post-Closing Governing Board comprised of fifteen members. Nine of these members will be selected by Buyer and will include “representatives from the community currently served by Hospital.”
- Form a new Community Advisory Board, initially with fifteen members, to be consulted on community relations, new programs, and strategic growth initiatives. Ten members (two-thirds of this Board) will be appointed by VHH and will include at least two representatives of the active medical staff.
- Maintain the Verdugo Hills Hospital Foundation (Foundation) as a separate corporation, of which Buyer will be the sole member, and whose assets “will continue to be impressed with a charitable trust for the purposes stated in the Foundation’s articles.”
- Provide the same general levels of charity care as provided by Hospital prior to the Closing and implement reasonable policies that are consistent with Hospital’s current charity care policies, for five years after the Closing.

- Provide annual expenditures to support community benefit services until December 31, 2017, that are “comparable to those of peer institutions” in an amount no less than VHH’s annual community benefit expenditures during the year ended December 31, 2011.
- Provide annual written reports to the Attorney General for ten years after the Closing documenting compliance with these commitments.

Profile of Verdugo Hills Hospital

General Information

Hospital is a 158-licensed-bed general acute care hospital, situated on approximately 9.5 acres and located at 1812 Verdugo Boulevard in Glendale, California. It provides inpatient, outpatient, and emergency services with the following bed distribution by type:

Bed Distribution by Type

Bed Type	Licensed Beds
Medical / Surgical	92
Perinatal	12
Intensive Care	6
Coronary Care	6
Acute Psychiatric	24
Skilled Nursing	18
Total	158

Source: VHH License, 2013.

In 1991, the skilled nursing beds opened and operate as a Transitional Care Unit. Opened in 1994, the 24-bed acute psychiatric unit serves geropsychiatric patients (60 years of age and older). The 24 acute psychiatric beds are in a locked unit that cares for patients brought to Hospital under Welfare and Institutions Code sections 5150 and 5250.

Hospital operates an emergency department classified as “basic level” with 12 treatment stations. Hospital has six surgical operating rooms.

Key Statistics

Key Statistics

Year Ended December 31, 2012	
Inpatient Discharges	
Medical / Surgical	3,882
Perinatal	707
Intensive Care	158
Coronary Care	0
Acute Psychiatric	618
Skilled Nursing	690
Total	6,055
Average Daily Census	
Medical / Surgical	33.0
Perinatal	4.8
Intensive Care	4.3
Coronary Care	0.0
Acute Psychiatric	21.7
Skilled Nursing	10.7
Total	74.5
Emergency Department Visits	18,586
Live Births	643
Admissions to Inpatient from ED	
Medical/Surgical	3,074
Acute Psychiatric	375
Total	3,449
Number of Hospital FTEs (2011)	552

Source: OSHPD ALIRTS Annual Utilization Reports, 2012.

- In 2012, Hospital had 6,055 discharges and 27,189 patient days.
- In 2012, Hospital's average daily census was 74.5 patients (for a licensed bed occupancy rate of 47%). The occupancy rate for the 116 medical/surgical, perinatal, and intensive care licensed beds was 36%.
- In 2012, Hospital had 18,586 emergency department visits. Over 3,000 of Hospital's emergency department visits resulted in admissions to inpatient medical/surgical, intensive care, or perinatal beds. Over one-half of Hospital's medical/surgical inpatients presented at the emergency department.
- Hospital reported 643 live births in 2012.
- Hospital had approximately 552 full-time-equivalent employees and 455 medical staff members.

Programs and Services

Hospital is a community hospital that offers an array of services, including emergency, diagnostic, surgical, obstetric, cardiac, transitional, telemetry, intensive care, and orthopedic care.

- Heart and Vascular Services include: pacemaker implantation, treatment of chest pain, heart attack, heart failure, thoracic surgery, and cardiac rehabilitation. Hospital is also designated as a Primary Stroke Center.
- Imaging Services include: diagnostic radiology, stereotactic breast biopsy, CT scans, whole body scans, nuclear medicine, MRI, ultrasound, digital mammography, and angiography.
- Gastroenterology Services include: colonoscopies, endoscopies, bronchoscopies, and transesophageal echocardiograms.
- Orthopedic Services include: knee replacement, hip replacement, and fracture repair.
- Geropsychiatric Services include: 24-bed inpatient locked unit that takes involuntary admissions under Welfare and Institutions Code sections 5150 and 5250, and intensive outpatient services that include a mobile crisis evaluation team available 24 hours per day.
- Women's Services include: labor and delivery, post-partum, nursery, and breast care, including stereotactic breast biopsy. Hospital also operates the Dixie Lee Ratliff Breast Healthcare Center that provides discounted breast cancer screenings.
- Bariatric Services include: The Lap Band®, Duodenal Switch, Sleeve Gastrectomy (Gastric Sleeve Surgery), and Roux-en-Y Gastric Bypass.
- Rehabilitation Services: physical and occupational therapy, respiratory therapy, and speech therapy.
- Emergency Services: 24-hour basic emergency department with 12 treatment stations.
- Minimally Invasive Sinus Surgery: Balloon Sinuplasty™ with Cyclops Technology.
- Laboratory Services include: tissue biopsies, bone marrow biopsies, needle aspirations, cancer screening, reproductive tests, and complex blood and urine analysis.
- Skilled Nursing Services: 18-bed unit that provides basic Transitional Care Unit services.
- Wound Care Program include: debridement, revascularization, growth factor therapy, skin grafting, and Hyperbaric Oxygen Therapy.

Geropsychiatric Program

Hospital operates an inpatient geropsychiatric program that is managed by Horizon Health Corporation. The inpatient beds are located on the 7th floor of Hospital in a distinct locked unit. Program clinical leadership indicates that the average age of inpatients is 80 to 85 years.

Most patients are diagnosed with depression and/or dementia and have medical needs in addition to psychiatric conditions. Hospital also indicates that the majority of patients are referred to Hospital from nearby nursing facilities. In addition, when called, members of Hospital's Psychiatric Emergency Team travel to nursing facilities to assess patients for admission to the program. Hospital has a contract with the Los Angeles County Department of Mental Health under which the County reimburses VHH for inpatient psychiatric services provided for Medi-Cal recipients.

The following table provides information regarding program admissions and inpatient characteristics over the five years ended December 31, 2012.

Inpatient Geropsychiatric Program Statistics, Years Ended December 31, 2008 through 2012

Geropsychiatric Program	Years Ended December 31,				
	2008	2009	2010	2011	2012
Inpatient Admissions					
Total	582	566	525	542	615
Involuntary	552	535	508	536	609
Voluntary	30	31	17	6	6
Involuntary	95%	95%	97%	99%	99%
Patient Days (Discharged Patients)					
Medicare	7,018	7,599	7,555	7,120	6,946
Medicaid	207	89	29	68	71
Commercial	566	488	519	806	875
Unknown	70	5	-	8	-
Total	7,861	8,181	8,103	8,002	7,892
Medicare	89%	93%	93%	89%	88%
Patient Days	7,938	8,183	8,064	7,963	7,912
Average Length of Stay	13.55	14.35	15.49	14.82	12.79
Average Daily Census	21.69	22.42	22.09	21.82	21.62

Source: VHH.

Hospital admitted an average of 566 patients annually to the inpatient psychiatric unit. Almost all of these patients were held involuntarily for 72 hours pursuant to California Welfare and Institutions Code section 5150, because a police officer, clinician, or professional person “has probable cause to believe that the person is, as a result of mental disorder, a danger to others, or to himself or herself, or gravely disabled.” Under California Welfare and Institutions Code section 5250, if the patient is brought to a facility under section 5150, the patient can be provided no more than 14 days of intensive treatment related to the mental disorder or impairment related to chronic alcoholism, under specific conditions.

The geropsychiatric inpatient beds have operated at approximately 90% occupancy during the last five years. Approximately 90% of the inpatient days in this unit are associated with Medicare patients. During the last three years, less than 1% of the inpatient days have been for Medi-Cal recipients. The Los Angeles County Department of Mental Health indicates that, in 2012, it reimbursed VHH for care provided to 22 Medi-Cal recipients (out of 23,873 cases County-wide).

Hospital also operates an intensive outpatient geropsychiatric program (known as “Stepping Stones at Verdugo Hills Hospital”) that is also managed by Horizon Health Corporation. During the last three years, an average of 25 patients has been admitted to this outpatient program. Over 95% of the patients in the program have Medicare coverage. The average daily census in the outpatient program ranges from five to seven patients.

Transitional Care Unit

In 1991, Hospital opened an 18-bed Transitional Care Unit that provides skilled nursing services. Six beds are reserved for patients insured by Health Care Partners, a private commercial insurer. In 2012, approximately 75% of patients admitted to the Transitional Care Unit had private, commercial insurance coverage. Almost all other admissions were reimbursed by Medicare. In 2012, the Transitional Care Unit operated at 60% occupancy.

During the last three years, Hospital discharged/transferred over 1,100 patients annually to facilities with skilled nursing beds. Fewer than 40% of these patients were admitted to Hospital’s Transitional Care Unit.

Accreditations and Recognitions

Hospital is accredited by Det Norske Veritas (DNV) Healthcare’s National Integrated Accreditation for Healthcare Organizations (NIAHO) program that uses ISO 9001 quality standards.³ Hospital last received accreditation from DNV Healthcare in December 2012.⁴ Hospital is also accredited by DNV as a primary stroke center. Hospital is licensed by the State of California as both an Acute Psychiatric Hospital and a General Acute Care Hospital.⁵

³ <http://www.verdugohillshospital.org/news/verdugo-hills-hospital-receives-dnv-accreditation>

⁴ <http://dnvaccreditation.com/pr/dnv/hospitals.aspx>

⁵ <http://hfcis.cdph.ca.gov/>

Seismic Compliance

Using the HAZUS⁶ seismic criteria, VHH has evaluated Hospital's buildings and has estimated that the costs of necessary seismic improvements to achieve SPC-2 compliance and to implement the first phase of NPC-3 projects will be \$2.2 million. VHH indicates that this project will commence before the Closing and will rely on borrowed funds that will be repaid by Buyer. VHH estimates that another \$5.3 million may be required to complete NPC-3 upgrades.

Patient Volume

The following table shows patient volume trends at Hospital from 2008 to 2012.

⁶ OSHPD is using HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to re-assess the seismic risk of SPC-1 buildings. Buildings that are determined to pose a low seismic risk may be reclassified to SPC-2

Service Volumes, 2008-2012

VHH Service Volume	Years Ended December 31,				
	2008	2009	2010	2011	2012
Patient Days					
Medical / Surgical (include GYN)	17,644	17,503	14,633	13,630	12,028
Perinatal	2,298	2,464	2,330	1,981	1,768
Intensive Care	1,686	1,739	1,662	1,678	1,564
Coronary Care	84	150	37	0	0
Acute Psychiatric	7,939	8,180	8,064	7,970	7,917
Skilled Nursing	4,179	4,726	5,151	4,371	3,912
Total	33,830	34,762	31,877	29,630	27,189
Discharges					
Medical / Surgical (include GYN)	4,336	4,245	4,066	3,953	3,882
Perinatal	876	938	880	742	707
Intensive Care	137	138	136	158	158
Coronary Care	7	8	6	0	0
Acute Psychiatric	581	571	522	538	618
Skilled Nursing	690	856	926	793	690
Total	6,627	6,756	6,536	6,184	6,055
Average Length of Stay (Days)					
Medical / Surgical (include GYN)	4.1	4.1	3.6	3.4	3.1
Perinatal	2.6	2.6	2.6	2.7	2.5
Intensive Care	12.3	12.6	12.2	10.6	9.9
Coronary Care	12.0	18.8	6.2	0.0	0.0
Acute Psychiatric	13.7	14.3	15.4	14.8	12.8
Skilled Nursing	6.1	5.5	5.6	5.5	5.7
Average	5.1	5.1	4.9	4.8	4.5
Average Daily Census					
Medical / Surgical (include GYN)	48.3	48.0	40.1	37.3	33.0
Perinatal	6.3	6.8	6.4	5.4	4.8
Intensive Care	4.6	4.8	4.6	4.6	4.3
Coronary Care	0.2	0.4	0.1	0.0	0.0
Acute Psychiatric	21.8	22.4	22.1	21.8	21.7
Skilled Nursing	11.4	12.9	14.1	12.0	10.7
Total	92.7	95.2	87.3	81.2	74.5
Other Services					
Total Emergency Dept. Visits	18,008	19,681	18,524	18,923	18,586
ED Visits without Admission	15,439	16,276	15,246	15,826	15,058
ED Visits with Admission	2,569	3,405	3,278	3,097	3,528
Total Surgeries	5,090	5,199	4,865	4,450	4,591
Inpatient Surgeries	1,461	1,608	1,404	1,177	1,126
Outpatient Surgeries	3,629	3,591	3,461	3,273	3,465
Total Live Births	779	760	715	638	643

Source: OSHPD ALIRTS Annual Utilization Reports, 2008-2012.

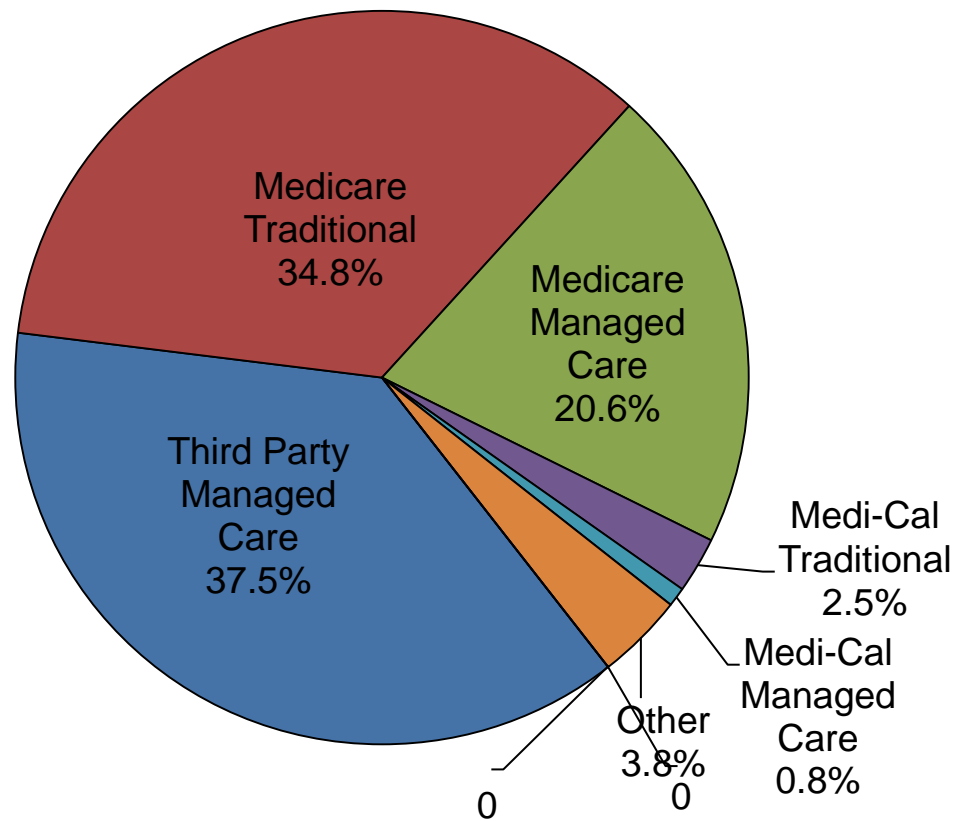
A review of the above historical utilization trends at Hospital between 2008 and 2012 supports the following conclusions:

- Patient days and average daily census at Hospital declined 20% between 2008 and 2012. Excluding psychiatric (geropsychiatric) and skilled nursing facility beds, medical/surgical, intensive care, and obstetrics patient days declined by 29%. As a consequence, there was an 11% decline in discharges and a 20% decline in average lengths of stay (from 4.1 days to 3.2 days);
- Annual emergency department visits at Hospital remained stable during the last three years at approximately 18,700 visits;
- Over time, emergency department patients have accounted for a growing percentage of inpatient admissions. In 2012, 58% of admissions were for patients who first visited Hospital's emergency department; and
- Between 2008 and 2012, the number of live births declined from 779 to 643 (17%).

Payer Mix

The following chart shows the distribution of Hospital's discharges by payer.

Mix of Discharges by Payer, 2011



Source: OSHPD Annual Financial Data, 2010-2011

In 2011, Medicare discharges comprised 55.4 % of Hospital's total discharges, while Medi-Cal represented only 3.3%.

The following table illustrates the distribution of Hospital's discharges by payer compared to the mix of discharges for hospitals in or near Hospital's service area, in the County of Los Angeles, and in California.

Payer Mix Comparison, 2011

Hospital's Discharges	Medicare	Third Party	Medi Cal	Other	Number of Discharges
Verdugo Hills Hospital	55.4%	37.5%	3.3%	3.8%	6,530
Service Area Hospitals	34.2%	21.8%	32.9%	11.1%	238,036
Los Angeles	36.0%	28.1%	28.0%	7.9%	1,059,200
California	37.2%	31.3%	24.2%	7.3%	3,523,320

Source: OSHPD Annual Financial Data, 2010-2011. "Service Area Hospitals" include those located in the 11 ZIP codes that comprise Hospital's service area, those located within a 10-mile radius of Hospital's location, and any other hospitals that have a market share of at least 3% within Hospital's service area.

Hospital has a significantly lower percentage of Medi-Cal and "Other" patient categories that include self-pay patients, relative to other hospitals in or near Hospital's service area, Los Angeles County, and statewide.

Medical Staff

Hospital has 455 staff physicians with a large number of specialties represented.

Medical Staff, 2011

Specialty	Board Certified	Board Eligible	Total Staff Physicians
Allergy and Immunology	1	-	1
Anesthesiology	5	7	12
Cardiovascular Diseases	29	6	35
Colon and Rectal Surgery	2	1	3
Dermatology	7	1	8
Diagnostic Radiology	5	-	5
Gastroenterology	7	2	9
General/Family Practice	26	4	30
General Surgery	19	2	21
Internal Medicine	40	6	46
Neurological Surgery	5	-	5
Neurology	7	1	8
Obstetrics and Gynecology	13	4	17
Oncology	21	2	23
Ophthalmology	10	2	12
Oral Surgery	2	-	2
Orthopedic Surgery	16	3	19
Otolaryngology	9	1	10
Pathology	4	-	4
Pediatrics	14	3	17
Physical	2	-	2
Plastic Surgery	10	3	13
Podiatry	4	4	8
Psychiatry	7	11	18
Pulmonary Disease	16	2	18
Urology	4	2	6
Vascular Surgery	2	-	2
Other Specialties	52	49	101
Total	339	116	455

Source: OSHPD Hospital Disclosure Report, 2011.

Financial Profile

The following table displays VHH financial data from 2010 through 2012.

Financial Data and Ratios, 2010-2012

Indicator	Years Ended December 31,			California Average, 2011
	2010	2011	2012	
Net Patient Service Revenue	\$ 83,157,000	\$ 77,489,000	\$ 79,189,000	
Other Operating Revenue	898,000	427,000	2,161,000	
Operating Revenue	84,055,000	77,916,000	81,350,000	
Operating Expense	83,617,000	77,198,000	81,108,000	
Operating Income (Loss)	438,000	718,000	242,000	
Non-Operating Income	1,026,000	524,000	16,000	
Net Income	\$ 1,464,000	\$ 1,242,000	\$ 258,000	
EBITDA	\$ 4,670,000	\$ 4,089,000	\$ 3,188,000	
Cash and Investments	\$ 1,785,000	\$ 3,535,000	\$ 5,225,000	
Short-Term and Long-Term Debt	\$ 9,273,000	\$ 8,131,000	\$ 8,800,000	
Net Assets	\$ 20,477,000	\$ 23,046,000	\$ 23,866,000	
Operating Margin	0.5%	0.9%	0.3%	5.89%
Current Ratio	1.74	2.20	2.22	1.81
Net Property and Equipment per	\$ 115,829	\$ 110,234	\$ 115,013	\$ 673,255
Days of Cash on Hand	8.0	17.2	24.3	75.2
Days in Accounts Receivable	51.1	50.0	45.3	53.5

Source: VHH audited financial statements. Values are reported for Hospital only and exclude the Verdugo Hills Hospital Foundation and Verdugo Hills Support Services. The “California Average” is for nonprofit hospitals only.

A review of the financial table shows the following:

- During the last three years, VHH has generated an operating margin of less than 1.0%. This level is well below the 2011 California average of 5.9%;
- VHH’s cash and investment balances have been below 25 days of non-cash operating expense, a level also well below the 2011 California average of 75.2 days; and
- The value of net property, plant, and equipment as of December 31, 2012, per licensed bed, was \$115,000. This value indicates a comparatively low level of investment in Hospital’s buildings and equipment over time compared to other California hospitals in 2011, which invested an average of \$673,255 per licensed bed. Hospital’s “average age of plant” as of December 31, 2012 was 28 years, well above the 2011 California nonprofit hospitals average of approximately 10 years.

Charity Care

Under VHH's charity care policy, patients identified as uninsured or underinsured with family incomes less than 350% of Federal Poverty Level (FPL) are eligible to receive discounts from gross charges. The policy is designed to comply with California Assembly Bill 774 and with Federal Medicare guidelines.

Patients with family incomes up to 200% of FPL are eligible for "full discounting as charity care;" that is, a 100% discount. Partial discounts are available for patients with incomes between 201% and 350% of FPL and are calibrated to anticipated Medicare reimbursement rates.

The following table portrays the amount of charges VHH has written off annually pursuant to the charity care policy in effect during 2008 through 2012.

Charity Care Charges and Transactions, 2008-2012

Department	Year Ended December 31,				
	2008	2009	2010	2011	2012
Charity Care Charges					
Emergency Department	\$3,125,187	\$3,717,531	\$4,209,850	\$3,790,478	\$4,228,837
Inpatient	3,583,541	4,015,715	4,346,742	3,510,942	3,823,388
Outpatient	517,612	906,040	664,299	564,431	710,313
Total	\$7,226,340	\$8,639,286	\$9,220,891	\$7,865,851	\$8,762,538
Charity Patient Accounts					
Emergency Department	1,964	2,009	1,996	1,891	1,868
Inpatient	151	144	155	130	139
Outpatient	758	913	732	487	423
Total	2,873	3,066	2,883	2,508	2,430

Source: VHH, 2012. The values submitted by Hospital to the Attorney General's Office vary from those submitted to OSHPD for relevant years. Values were updated by Hospital. Updated values were prepared based on OSHPD reporting guidelines.

The following table shows VHH's historical costs for charity care as reported by OSHPD (and as estimated for 2012 using the same calculation methodology applied by OSHPD⁷). The table also includes bad debt expenses.

⁷ According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

Charity Care Cost and Bad Debt Expense, 2008-2012

Cost of Charity Care and Bad Debt Expense	Years Ended December 31,				
	2008	2009	2010	2011	2012
Gross Charges	\$ 300,897,264	\$ 332,934,845	\$ 326,856,458	\$ 320,297,891	\$ 321,191,481
Total Expenses	72,282,785	74,507,802	82,798,043	76,643,810	77,198,000
Subtract: Other Operating Revenue	(936,364)	(495,244)	(1,083,983)	(624,971)	(427,000)
Net Expenses	\$ 71,346,421	\$ 74,012,558	\$ 81,714,060	\$ 76,018,839	\$ 76,771,000
Ratio of Cost (Net Expenses) to Charges	0.237	0.222	0.250	0.237	0.239
Charity Care Charges	\$ 7,226,340	\$ 8,639,286	\$ 9,220,891	\$ 7,865,851	\$ 8,762,538
Charity Care Cost	\$ 1,712,642	\$ 1,917,921	\$ 2,305,223	\$ 1,864,207	\$ 2,094,246
Bad Debt Charges	\$ 2,956,186	\$ 2,789,734	\$ 2,833,375	\$ 2,776,404	\$ 2,893,000
Charity Care % of Net Expense					
Verdugo Hills Hospital	2.4%	2.59%	2.82%	2.45%	2.72%
California Nonprofit Hospitals	1.69%	1.80%	1.93%	1.98%	NA
Bad Debt % of Gross Charges					
Verdugo Hills Hospital	0.98%	0.84%	0.87%	0.87%	0.90%
California Nonprofit Hospitals	1.38%	1.41%	1.40%	1.41%	NA

Sources: OSHPD Disclosure Reports, 2008-2011 and VHH audited financial statements, 2012.

Hospital's annual cost for providing charity care averaged \$1,978,848 during the five years ended December 31, 2012. Charity care costs have been above 2% of net expense (total expenses minus other operating revenue) during that time period. The average for California nonprofit hospitals generally has been below 2%.

Community Benefit Services

Community benefit services provided by Hospital between 2008 and 2012 with an annual cost of at least \$10,000 are listed below:

- Community Newsletter: Hospital mails the Verdugo Vision newsletter to the community, informing them of Hospital events, programs, services, and support group information.
- Community Health Outreach Activities: Hospital participates in community health fairs, lectures, and presentations to community organizations regarding various health topics.
- Community Health Education Center Support Groups: Hospital provides meeting room space for support group programs focused on a variety of health and wellness issues.

- Family Education Program/CPR Education: This program offers classes on all aspects of child development and care.
- A Balanced Life Program: This program helps older adults retain and regain independence through reduced risk of falls.

The following table portrays the annual cost for community benefit services provided by Hospital.

Cost of Community Benefit Programs

Community Benefit Services	Years Ended December 31,				
	2007	2008	2009	2010	2011
Community Newsletter	\$ 69,000	\$ 72,804	\$ 60,000	\$ 60,000	\$ 60,000
Glendale Healthy Kids	1,574	25,377	2,192	2,192	2,000
Physician Referral	5,400	4,243	5,904	5,904	5,832
Blood Pressure Screening	4,000	1,872	-	-	-
American Red Cross Blood Drive	500	500	500	500	500
Seniors' Flu Shot	3,330	13,000	13,800	13,800	4,825
TB Testing at Local Schools	-	2,760	3,880	3,880	2,646
Community Health Outreach Efforts	4,600	41,030	-	-	-
Community Health Education Center Support Groups	12,090	24,180	4,400	4,400	4,208
Family Education Program/CPR Education	13,308	48,162	40,200	40,200	40,200
Continued Aerobic Maintenance Program (CAMP)	46,492	80,228	88,000	88,000	88,000
A Balanced Life Program	25,144	58,353	61,199	61,199	79,173
Senior Fall Risk Reduction Outreach	-	2,000	1,800	1,800	5,900
Senior Wellness Program	-	6,500	9,375	9,375	12,631
Dixie Lee Ratliff Breast Healthcare Center	309,420	19,950	19,650	19,650	4,116
Transportation	51,343	7,236	6,140	6,140	10,431
Custody Patients	34,904	28,307	22,829	7,735	1,442
Total	\$ 582,679	\$ 461,879	\$ 342,061	\$ 326,967	\$ 323,904

Source: VHH.

The average annual cost for community benefit services over the five years ending December 31, 2011 was \$407,498.

Profile of USC Health System

The University of Southern California is a private university. The USC Health Sciences campus, northeast of downtown Los Angeles, is home to the Keck School of Medicine of USC (Keck School), the School of Pharmacy, three major teaching hospitals, and programs in Occupational Science, Occupational Therapy, Biokinesiology, and Physical Therapy. Children's Hospital Los Angeles is staffed by USC faculty from the Keck School. The Keck School is adjacent to Los Angeles County+USC Medical Center, one of the largest teaching hospitals in the United States. The school's faculty and residents serve more than 1.5 million patients each year at the Keck Medical Center of USC, Children's Hospital of Los Angeles, and LAC+USC Medical Center. Established in 1885, the Keck School is the oldest medical school in Southern California; it is home to 27 research-oriented basic and clinical academic departments.

The Keck Medical Center of USC is comprised of Keck Hospital of USC and USC Norris Cancer Hospital. It includes clinical centers of excellence in oncology, cardiovascular medicine and surgery, neurology and neurosurgery, urology, orthopedic surgery, thoracic and foregut surgery, transplant surgery, otology, and head and neck surgery. It also includes ambulatory care facilities in Los Angeles, Beverly Hills, La Cañada Flintridge, and Pasadena, and six USC Eye Centers throughout Los Angeles, Orange, and Riverside counties.

USC Norris Comprehensive Cancer Center is a 55-bed cancer research facility with 124 hospital-based physicians, according to its 2012 disclosure report. The Norris Center initially was funded in 1966 through a grant from the National Cancer Institute. Following the failure of a bond measure to found an expanded, county-owned cancer hospital, USC obtained private funding to expand the Norris Cancer Center into its current campus in 1983. The Norris Cancer Center was expanded in 1996 with the addition of a new tower and 25 laboratories. In 2003, the Norris Cancer Center was sold to Tenet Healthcare. Tenet Healthcare leased the hospital facility from USC upon purchase. In 2009, USC repurchased the Norris Cancer Center from Tenet Healthcare.

Keck Hospital of USC (previously USC University Hospital) was first opened in 1991 as a 275-bed teaching hospital. It was sold to Tenet Healthcare in 2003 and repurchased by USC in 2009. It has 411 beds (84 intensive care and 327 acute care).⁸ There are 125 hospital-based physicians and 150 full-time-equivalent medical residents and fellows at the Keck Hospital of USC.

⁸ <http://www.keckhospitalofusc.org/uscuh/about/press-room/item/view/226855>;
<http://news.usc.edu/#!/article/26506/USC-Celebrates-Purchase-of-Two-Hospitals>

Analysis of Hospital's Service Area

Definition of Hospital's Service Area

Hospital's service area is comprised of eleven ZIP codes that accounted for approximately 75% of Hospital's 2011 discharges. As shown in the following table, 60.5% of Hospital's discharges were from the top six service area ZIP codes, located in La Crescenta, Tujunga, Sunland, La Cañada Flintridge, Montrose, and Glendale.

Inpatient Discharges by ZIP Code, 2011

ZIP Code	Community	Discharges		VHH Market Share	Percent of VHH Discharges
		VHH	All Hospitals		
91214	La Crescenta	757	2,605	29.1%	14.6%
91042	Tujunga	687	3,034	22.6%	13.3%
91040	Sunland	544	2,547	21.4%	10.5%
91011	La Cañada Flintridge	422	1,537	27.5%	8.2%
91020	Montrose	368	1,253	29.4%	7.1%
91208	Glendale	353	1,597	22.1%	6.8%
91342	Sylmar	234	10,354	2.3%	4.5%
91206	Glendale	173	4,351	4.0%	3.3%
91001	Altadena	165	4,121	4.0%	3.2%
91103	Pasadena	96	4,796	2.0%	1.9%
91207	Glendale	89	1,065	8.4%	1.7%
Subtotal		3,888	37,260	10.4%	75.1%
Other		1,285	N/A	N/A	24.9%
Total		5,173	N/A	N/A	100.0%

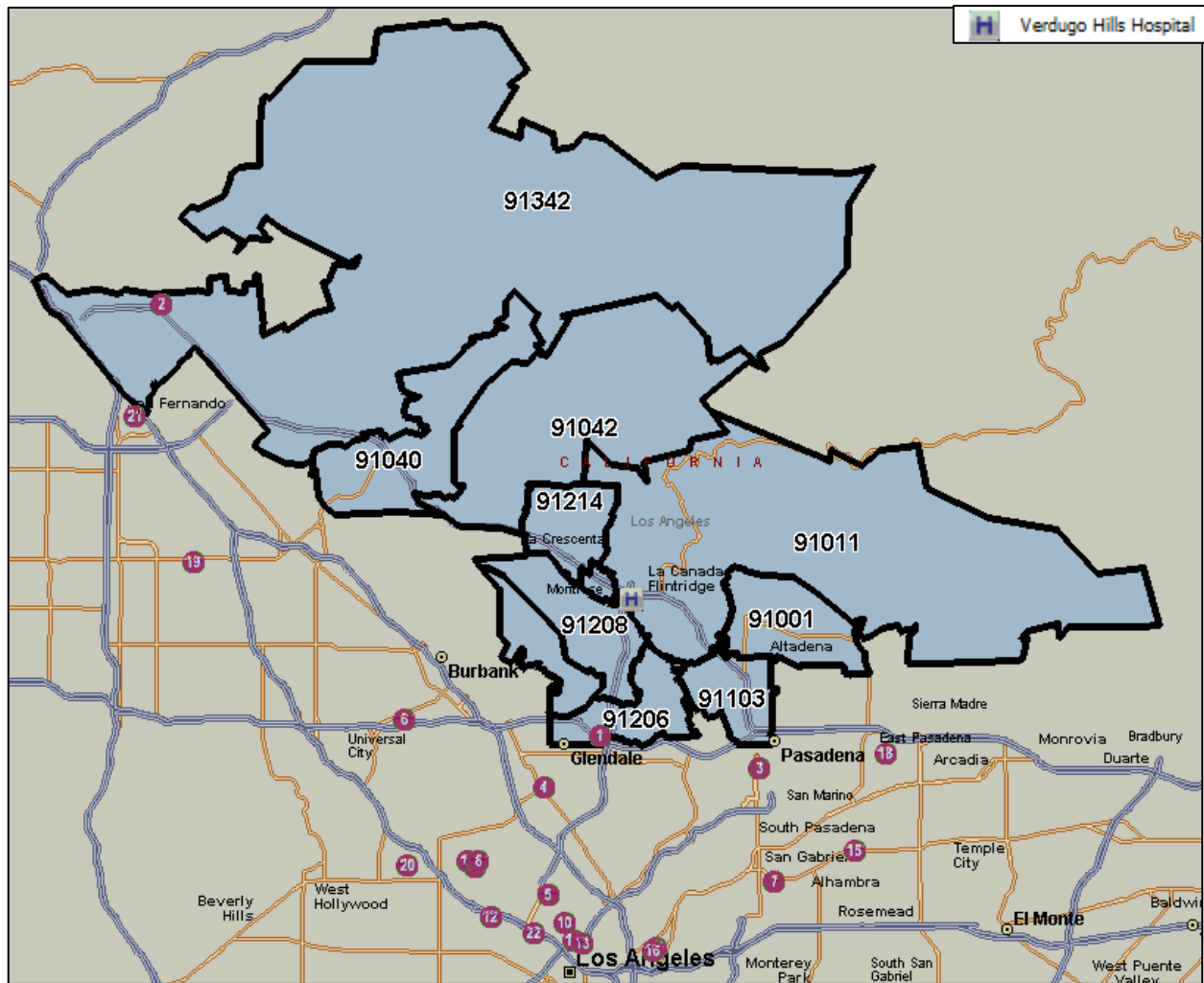
Source: OSHPD Patient Discharge Database, 2011.

Although the top six ZIP codes account for 60.5% of all Hospital inpatient discharges, they account for only 20% of discharges for Hospital's geropsychiatric program. One ZIP code that is not included in the above table, Studio City (91604), is among the top three ZIP codes for geropsychiatric inpatients. This reflects the impact of referrals from nursing facilities located in Studio City to the geropsychiatric unit at Hospital.

Service Area Map

Hospital's service area is portrayed on the following map:

Hospital's Service Area Map



- 1 Glendale Adventist Medical Center
- 2 LAC Olive View - UCLA Medical Center
- 3 Huntington Memorial Hospital
- 4 Glendale Memorial Hospital
- 5 Gateways Hospital
- 6 Providence St. Joseph Medical Center
- 7 Alhambra Hospital
- 8 Children's Hospital of LA
- 9 Hollywood Presbyterian Medical Center
- 10 Barlow Respiratory Hospital
- 11 Kaiser Foundation Hospital - LA
- 12 Temple Community Hospital
- 13 Pacific Alliance Medical Center
- 14 Kaiser Mental Health Center
- 15 San Gabriel Valley Medical Center
- 16 USC Norris Cancer Hospital
- 17 Keck Hospital of USC
- 18 Aurora Las Encinas Hospital
- 19 Kaiser Foundation Hospital - Panorama City
- 20 Hollywood Community Hospital - Hollywood
- 21 Providence Holy Cross Medical Center
- 22 Silver Lake Medical Center

Source: Microsoft MapPoint and OSHPD Patient Discharge Database, 2011.

Hospital's service area includes approximately 320,500 residents from the following communities: La Crescenta, Tujunga, Sunland, La Cañada Flintridge, Montrose, Glendale, Sylmar, Altadena, and Pasadena.

Demographic Profile

The following table indicates that approximately 13% of persons living in Hospital's service area are 65 years of age and older and 28% are 45 to 64 years of age. Both proportions are above Los Angeles County and California averages.

Service Area Population by Age, 2007-2011

Cohort	Hospital Service Area	Los Angeles County	California
0-19	26.5%	27.9%	28.2%
20-44	32.5%	37.5%	35.9%
45-64	28.3%	24.0%	24.7%
65+	12.6%	10.7%	11.3%
Total	320,519	9,787,747	36,969,200

Source: US Census ACS 5-Year Estimates, 2007-2011.

The following two tables indicate that Hospital's service area has proportionately more residents who identify as "White" and proportionately fewer Hispanic (or Latino) residents than elsewhere in Los Angeles County and California.

Service Area Population by Race, 2007-2011

Race	Hospital Service Area	Los Angeles County	California
White	64.4%	52.4%	61.8%
Black	6.8%	8.6%	6.1%
Asian	12.8%	13.8%	13.1%
Other	12.9%	21.8%	15.1%
Two or More	3.0%	3.4%	3.9%
Total	320,519	9,787,747	36,969,200

Source: US Census ACS 5-Year Estimates, 2007-2011.

Service Area Population by Ethnicity, 2007-2011

Ethnicity	Hospital Service Area	Los Angeles County	California
Hispanic (or Latino)	35.7%	47.5%	37.2%
Not Hispanic (or Latino)	64.3%	52.5%	62.8%
Total	320,519	9,787,747	36,969,200

Source: US Census ACS 5-Year Estimates, 2007-2011.

The following table provides information about household income and poverty rates in Hospital's service area.

Service Area Household Income, 2007-2011

Household Income	Top Six ZIP Codes in Service Area	Service Area	Los Angeles County	California
Less than \$25,000	13.9%	16.1%	22.4%	19.8%
\$25,000 - \$49,999	16.0%	18.2%	22.5%	21.5%
\$50,000 - \$99,999	29.2%	31.1%	29.4%	29.9%
More than \$100,000	41.0%	34.6%	25.7%	28.8%
Mean Income	\$113,691	\$99,882	\$81,636	\$85,148
Population in Poverty	7.9%	10.4%	16.3%	14.4%

Source: US Census ACS 5-Year Estimates, 2007-2011. The top six ZIP codes for inpatient discharges were: 91214, 91042, 91040, 91011, 91020, and 91208.

There is a lower proportion of households in poverty (10.4%) in Hospital's service area than Los Angeles County generally (16.3%). The rate in the top six service area ZIP codes is 7.9%. Similarly, average household income in Hospital's service area is higher than the Los Angeles County and California averages. Across Hospital's service area, household income averages about \$100,000. The average in the top six ZIP codes is approximately \$114,000 per household.

2010 Community Health Needs Assessment

In 2010, Hospital collaborated with Glendale Adventist Medical Center and Glendale Memorial Hospital in the preparation of community health needs assessments. Hospital's report assessed needs in La Cañada Flintridge, La Crescenta, Eagle Rock, Glendale, Montrose, Pasadena, and Sunland ZIP codes. The study analyzed quantitative and qualitative data, including input from community focus groups. Key results include the following:

- Community focus group respondents reported concerns involving health behaviors such as smoking, poor nutrition, and lack of physical activity. Childhood asthma and dental issues, low utilization of preventive care, and prevalent cardiovascular disease were cited as additional areas of concern. Respondents also identified mental health needs, including social isolation, and the need for additional funding for senior programs, as areas of need;
- Mental health hospitalizations for area residents were 430 per 100,000 persons, significantly higher than the state average of 333 per 100,000 persons. Depressive disorders also were identified as areas of concern for adults aged 21-64; and
- The report identified mental health, dental care, chronic disease management, and obesity as important health care needs for communities served by Hospital.

Comparative Service Matrix

There are 21 hospitals (not including Hospital) that are in Hospital's service area, are located within 10 miles of Hospital, or have at least a 3% market share in Hospital's service area ZIP codes. The following table compares the services provided by these hospitals that provide a wide range of programs and services to those services provided at Hospital.

2011 Hospital Services Comparison

Service	Verdugo Hills Hospital	Glendale Adventist	LAC Olive View	UCLA	Huntington Memorial	Glendale Memorial	Gateways Hospital	Providence St. Joseph	Alhambra Hospital	Children s of LA	Hollywood Presbyterian	Barlow Respiratory	Kaiser LA	Temple	Pacific Alliance	San Gabriel Valley	USC Norris	Keck of USC	Aurora Las Encinas	Hollywood	Silver Lake	Kaiser	Panorama City	Providence Holy Cross
Acute Care																								
Alternate Birthing Center (Licensed Beds)		◊			◊	◊		◊	◊		◊		◊	◊				◊		◊	◊	◊	◊	
Medical	◊	◊	◊		◊	◊		◊		◊	◊		◊		◊	◊						◊	◊	
Surgical	◊																							
Surgical/Therapeutic																								
General	◊	◊			◊	◊		◊		◊			◊					◊					◊	
Gynecological	◊	◊	◊	◊				◊		◊			◊	◊			◊	◊					◊	
Heart		◊			◊			◊	◊	◊	◊		◊					◊					◊	
Kidney		◊			◊	◊		◊		◊			◊					◊					◊	
Open Heart									◊	◊								◊						
Orthopedic	◊	◊	◊	◊	◊			◊		◊	◊		◊	◊								◊	◊	
Pediatric	◊	◊	◊	◊	◊			◊	◊		◊		◊	◊	◊			◊		◊	◊	◊	◊	
Intensive Care																								
Burn																								
Coronary	◊	◊	◊	◊				◊	◊	◊	◊		◊	◊	◊			◊		◊			◊	
Medical	◊	◊	◊	◊	◊			◊	◊	◊	◊	◊	◊	◊	◊	◊		◊		◊	◊	◊	◊	
Neonatal		◊	◊	◊	◊			◊		◊	◊		◊			◊						◊	◊	
Neurosurgical	◊	◊			◊			◊	◊	◊	◊		◊	◊				◊					◊	
Pediatric					◊					◊			◊											
Obstetric Services																								
Combined Labor/Delivery Birthing Room	◊	◊	◊	◊	◊			◊			◊		◊		◊	◊						◊	◊	
Delivery Room Services	◊		◊																					
Labor Room Services	◊																							
Psychiatric Services																								
Psychiatric Acute- Adult	◊		◊				◊												◊					
Psychiatric - Adolescent and Child		◊	◊	◊														◊						
Psychiatric Intensive (Isolation) Care																								
Psychiatric Long-Term Care																								
Long-Term Care																								
Transitional Inpatient Care (SNF Beds)	◊																							
Other Skilled Nursing Beds	◊								◊		◊			◊		◊							◊	
Diagnostic Imaging Services																								
Computed Tomography	◊	◊	◊					◊					◊										◊	
Magnetic Resonance Imaging	◊	◊	◊	◊	◊			◊	◊	◊	◊	◊	◊	◊	◊	◊	◊	◊		◊	◊	◊	◊	
Emergency Department																								
Emergency Communications Systems	◊	◊								◊														
Emergency Helicopter Service																								
Emergency Observation Service	◊	◊			◊	◊		◊	◊	◊	◊		◊									◊	◊	
Emergency Room Service	◊	◊	◊	◊	◊																◊	◊		

Source: OSHPD Hospital Disclosure Reports, 2011.

The hospitals in the above chart offer certain specialty services that are not provided at Hospital. Several other hospitals provide skilled nursing services; others have licensed skilled nursing facility beds in suspense (e.g., Glendale Adventist Hospital and Glendale Memorial Hospital). With approval from the California Department of Public Health, these beds could be placed back into service.

Hospital Supply, Demand, and Market Share

The hospitals located in Hospital's service area, within a 10 mile radius of Hospital, or with a service area market share greater than 3% collectively have 6,182 licensed beds and a 2011 aggregate occupancy rate of 57.1%.

Service Area Hospitals, 2011

Facility	Driving Distance from Hospital	Total Licensed Beds	Total Discharges	Patient Days	Occupied Beds	Percent Occupied
Hospitals in Hospital's Service Area						
Verdugo Hills Hospital	-	158	6,184	29,630	81	51.4%
Glendale Adventist Medical Center	4.5	457	19,372	110,240	302	66.1%
LAC Olive View - UCLA Medical Center	18.3	407	13,950	68,799	196	48.1%
Hospitals Within 10 Mile Radius						
Huntington Memorial Hospital	7.2	626	27,839	125,633	341	54.5%
Glendale Memorial Hospital	8.4	334	11,188	54,126	148	44.4%
Gateways Hospital	9.8	55	1,030	12,624	35	62.9%
Providence St. Joseph Medical Center	10.4	414	18,247	88,656	243	58.7%
Alhambra Hospital	10.7	144	4,267	31,709	87	60.3%
Children's Hospital of LA	10.8	603	11,865	88,854	333	55.3%
Hollywood Presbyterian Medical Center	10.9	434	15,484	94,183	258	59.5%
Barlow Respiratory Hospital	11.2	105	799	25,434	70	66.4%
Kaiser Foundation Hospital - LA	11.3	396	24,852	120,754	331	83.5%
Temple Community Hospital	11.5	170	2,754	17,986	49	29.0%
Pacific Alliance Medical Center	11.5	142	6,412	24,616	67	47.5%
Kaiser Mental Health Center	11.6	68	2,091	16,745	46	67.5%
San Gabriel Valley Medical Center	12.2	269	8,972	52,421	144	53.4%
USC Norris Cancer Hospital	12.8	60	2	3	0	0.0%
Keck Hospital of USC	12.9	411	10,301	78,348	215	52.2%
Aurora Las Encinas Hospital	13.0	118	2,474	18,542	51	43.1%
Hollywood Community Hospital - Hollywood	17.2	100	3,624	21,246	58	58.2%
Silver Lake Medical Center	18.9	116	3,147	25,262	69	59.7%
Other Hospitals Representing 3% Market Share						
Kaiser Foundation Hospital - Panorama City	13.8	218	12,688	43,430	119	54.6%
Providence Holy Cross Medical Center	17.3	377	13,176	87,707	290	76.9%
Total		6,182	220,718	1,236,948	3,533	57.1%

Source: OSHPD ALIRTS Annual Utilization Reports, 2011.

Hospital's 158 licensed beds represent about 2.6% of the beds shown in the above table. Hospital's discharges account for about 2.8% of the total for these hospitals.

Market Share by Major Diagnostic Category

The following table displays Hospital's service area market share by major diagnostic category for 2011. The categories represent unique service lines provided by the hospitals.

Service Area Market Share by Major Diagnostic Category, 2011

Major Diagnostic Category (MDC)	Discharges		Market Share	
	Verdugo Hills Hospital	Other Hospitals	Verdugo Hills Hospital	Other Hospitals
Nervous System	305	1,873	14.0%	86.0%
Eye	6	64	8.6%	91.4%
Ear, Nose, Mouth, and Throat	26	383	6.4%	93.6%
Respiratory System	488	2,808	14.8%	85.2%
Circulatory System	563	4,447	11.2%	88.8%
Digestive System	396	2,890	12.1%	87.9%
Hepatobiliary System and Pancreas	110	1,037	9.6%	90.4%
Musculoskeletal System and Connective Tissue	393	2,574	13.2%	86.8%
Skin, Subcutaneous Tissue and Breast	107	877	10.9%	89.1%
Endocrine, Nutritional and Metabolic System	142	1,103	11.4%	88.6%
Kidney and Urinary Tract	169	1,447	10.5%	89.5%
Male Reproductive System	31	208	13.0%	87.0%
Female Reproductive System	85	562	13.1%	86.9%
Pregnancy, Childbirth, and Puerperium	257	3,516	6.8%	93.2%
Newborn and Other Neonates (Perinatal Period)	229	3,283	6.5%	93.5%
Blood, Blood Forming Organs, and Immunological Disorders	38	451	7.8%	92.2%
Myeloproliferative DDs (Poorly Differentiated Neoplasms)	11	314	3.4%	96.6%
Infectious and Parasitic Diseases	222	1,634	12.0%	88.0%
Mental Diseases and Disorders	134	2,344	5.4%	94.6%
Alcohol/Drug Use or Induced Mental Disorders	22	424	4.9%	95.1%
Injuries, Poison, and Toxic Effect of Drugs	41	349	10.5%	89.5%
Burns	-	17	-	100.0%
Factors Influencing Health Status	111	691	13.8%	86.2%
Multiple Significant Trauma	1	53	1.9%	98.1%
Human Immunodeficiency Virus Infection	1	23	4.2%	95.8%
Total	3,888	33,372	10.4%	89.6%

Source: OSHPD Patient Discharge Database, 2011.

Hospital's market share was under 15% for all major diagnostic categories.

Inpatient (non-Psychiatric) Market Share

The following table shows historical market shares for Hospital's inpatient services compared to other hospitals in or near Hospital's service area. This table excludes discharges for MS-DRGs⁹ associated with Hospital's inpatient geropsychiatric program.

Service Area Market Share for Inpatient (Non-Psychiatric) Services, 2009-2011

Facility	2009		2010		2011	
	Discharges	Market Share	Discharges	Market Share	Discharges	Market Share
Hospitals in Hospital's Service Area						
Verdugo Hills Hospital	3,587	11.2%	3,523	10.9%	3,492	10.9%
Glendale Adventist Medical Center	4,636	14.4%	4,929	15.3%	4,805	14.9%
LAC Olive View - UCLA Medical Center	1,974	6.1%	1,806	5.6%	1,721	5.4%
Hospitals Within 10 Mile Radius						
Huntington Memorial Hospital	5,611	17.5%	5,460	17.0%	5,576	17.3%
Glendale Memorial Hospital	1,310	4.1%	1,373	4.3%	1,296	4.0%
Providence St. Joseph Medical Center	996	3.1%	985	3.1%	966	3.0%
Alhambra Hospital	36	0.1%	32	0.1%	36	0.1%
Children's Hospital of LA	357	1.1%	332	1.0%	416	1.3%
Hollywood Presbyterian Medical Center	193	0.6%	177	0.5%	154	0.5%
Barlow Respiratory Hospital	33	0.1%	25	0.1%	28	0.1%
Kaiser Foundation Hospital - Los Angeles	1,309	4.1%	1,240	3.9%	1,375	4.3%
Temple Community Hospital	92	0.3%	210	0.7%	260	0.8%
Pacific Alliance Medical Center	124	0.4%	152	0.5%	153	0.5%
San Gabriel Valley Medical Center	118	0.4%	114	0.3%	110	0.3%
USC Norris Cancer Hospital	92	0.3%	9	0.0%	-	0.0%
Keck Hospital of USC	264	0.8%	324	1.0%	351	1.1%
Aurora Las Encinas Hospital	53	0.1%	37	0.1%	17	0.1%
Hollywood Community Hospital of Hollywood	141	0.4%	182	0.6%	231	0.7%
Silver Lake Medical Center	62	0.2%	86	0.3%	131	0.4%
Other Hospitals Representing 3% Market Share						
Kaiser Foundation Hospital - Panorama City	1,563	4.9%	1,493	4.6%	1,465	4.6%
Providence Holy Cross Medical Center	2,726	8.5%	2,659	8.3%	2,900	9.0%
Other Hospitals						
Other Hospitals	6,844	21.3%	7,016	21.8%	6,672	20.7%
Total	32,121	100.0%	32,164	100.0%	32,155	100.0%

Source: OSHPD Patient Discharge Database, 2009-2011. Excludes discharges for the following MS-DRGs: 056, 057, 795, 880, 881, 882, 883, 884, 885, 886, and 887.

Hospital's share of inpatient medical/surgical (non-psychiatric) services has declined in the last three years from 11.2% in 2009 to 10.9% in 2011. In 2011, Hospital ranked third in terms of service area market share for these services. The total number of discharges for residents of the service area (approximately 32,000) remained stable during the three years presented.

⁹ Medicare Severity Diagnosis Related Groups (MS-DRG) is a system to classify hospital cases into one of over 500 groups expected to have similar hospital resource use and used by the Centers for Medicare and Medicaid Services.

The following table shows Hospital market share for non-psychiatric inpatient services by payer category in 2011.

Service Area Market Share by Payer, Inpatient (Non-Psychiatric) Services, 2011

Facility	Total	Medi Cal	Medicare	Private	Self Pay	Other
Hospitals in Hospital's Service Area						
Verdugo Hills Hospital	10.9%	1.8%	16.1%	11.6%	10.8%	1.3%
Glendale Adventist Medical Center	14.9%	17.6%	16.1%	11.9%	12.9%	12.2%
LAC Olive View - UCLA Medical Center	5.4%	10.7%	2.9%	0.3%	13.2%	36.1%
Hospitals Within 10 Mile Radius						
Huntington Memorial Hospital	17.3%	16.6%	18.2%	17.8%	22.7%	4.8%
Glendale Memorial Hospital	4.0%	5.9%	4.7%	2.3%	1.9%	0.7%
Providence St. Joseph Medical Center	3.0%	1.9%	2.9%	4.3%	1.2%	1.4%
Alhambra Hospital	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Children's Hospital of LA	1.3%	3.7%	0.0%	1.4%	1.0%	0.2%
Hollywood Presbyterian Medical Center	0.5%	0.9%	0.3%	0.1%	1.0%	3.5%
Barlow Respiratory Hospital	0.1%	0.0%	0.2%	0.0%	0.0%	0.0%
Kaiser Foundation Hospital - LA	4.3%	0.4%	3.5%	9.0%	1.0%	0.0%
Temple Community Hospital	0.8%	0.6%	1.6%	0.0%	0.0%	0.2%
Pacific Alliance Medical Center	0.5%	1.1%	0.4%	0.1%	0.1%	0.5%
San Gabriel Valley Medical Center	0.3%	0.7%	0.2%	0.3%	0.2%	0.0%
Keck Hospital of USC	1.1%	0.3%	1.0%	2.0%	0.2%	0.7%
Aurora Las Encinas Hospital	0.1%	0.0%	0.0%	0.1%	0.7%	0.1%
Hollywood Community Hospital of Hollywood	0.7%	1.1%	1.1%	0.0%	0.1%	0.0%
Silver Lake Medical Center	0.4%	0.8%	0.5%	0.0%	0.0%	0.8%
Other Hospitals Representing 3% Market Share						
Kaiser Foundation Hospital - Panorama City	4.6%	0.6%	4.5%	8.4%	1.1%	0.2%
Providence Holy Cross Medical Center	9.0%	12.3%	9.1%	7.0%	9.6%	4.9%
Other Hospitals						
Other Hospitals	20.7%	22.9%	16.6%	23.3%	22.3%	32.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Discharges						
Total Discharges	32,155	7,157	13,192	9,723	899	1,184
Percent of Total Discharges	100.0%	22.3%	41.0%	30.2%	2.8%	3.7%

Source: OSHPD Patient Discharge Database, 2009-2011. Excludes discharges for the following MS-DRGs: 056, 057, 795, 880, 881, 882, 883, 884, 885, 886, and 887.

While Hospital had an overall medical/surgical inpatient market share of 10.9%, its share of Medi-Cal discharges was under 2% and its share of Medicare discharges was over 16%. Glendale Adventist Medical Center and Huntington Memorial Hospital reported the highest market share for Medi-Cal patients.

Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy rates, bed availability, and emergency department capacity for medical/surgical, critical care, psychiatric services, and skilled nursing.

Medical/Surgical Beds

There are 3,234 licensed medical/surgical beds within or near Hospital's service area and with a 2011 occupancy rate of 57.8%. Overall, there is available hospital bed capacity for medical/surgical services in or near Hospital's service area.

Service Area Medical/Surgical Services, 2011

Facility	Driving Distance from Hospital	Total Licensed Beds	Total Discharges	Patient Days	Occupied Beds	Percent Occupied
Hospitals in Hospital's Service Area						
Verdugo Hills Hospital	-	92	3,953	13,630	37	40.6%
Glendale Adventist Medical Center	4.5	253	14,017	63,725	175	69.0%
LAC Olive View - UCLA Medical Center	18.3	200	11,649	46,514	138	68.8%
Hospitals Within 10 Mile Radius						
Huntington Memorial Hospital	7.2	390	21,191	82,561	223	57.2%
Glendale Memorial Hospital	8.4	180	8,221	35,353	97	53.8%
Gateways Hospital	9.8	-	-	-	-	-
Providence St. Joseph Medical Center	10.4	237	14,149	61,860	169	71.5%
Alhambra Hospital	10.7	88	3,736	15,101	41	47.0%
Children's Hospital of LA	10.8	26	-	-	-	-
Hollywood Presbyterian Medical Center	10.9	221	8,354	33,351	91	41.3%
Barlow Respiratory Hospital	11.2	99	757	24,030	66	66.5%
Kaiser Foundation Hospital - LA	11.3	176	14,962	62,681	172	97.6%
Temple Community Hospital	11.5	138	2,734	15,066	41	29.9%
Pacific Alliance Medical Center	11.5	100	3,793	13,337	37	36.5%
Kaiser Mental Health Center	11.6	-	-	-	-	-
San Gabriel Valley Medical Center	12.2	130	5,693	25,786	71	54.3%
USC Norris Cancer Hospital	12.8	47	2	3	0	0.0%
Keck Hospital of USC	12.9	317	9,671	57,410	157	49.6%
Aurora Las Encinas Hospital	13.0	-	-	-	-	-
Hollywood Community Hospital - Hollywood	17.2	92	3,487	19,382	53	57.7%
Silver Lake Medical Center	18.9	75	2,208	12,830	35	46.9%
Other Hospitals Representing 3% Market Share						
Kaiser Foundation Hospital - Panorama City	13.8	128	10,242	31,272	86	66.9%
Providence Holy Cross Medical Center	17.3	245	9,402	52,364	180	73.6%
Total		3,234	148,221	666,256	1,869	57.8%

Source: OSHPD ALIRTS Annual Utilization Reports, 2011; Google Maps.

In 2011, the average daily census of Hospital's medical/surgical beds was 37 (bed occupancy rate of 41%). This occupancy rate was among the lowest of all hospitals located in or near Hospital's service area.

Critical Care Beds (Intensive Care Unit/Coronary Care Unit)

There are 677 critical care beds within Hospital's service area, with an overall occupancy rate of 60.1%. Hospital has 12 licensed critical care beds that were at 41.7% occupancy, on average, in 2011.

Service Area Critical Care Services, 2011

Facility	Driving Distance from Hospital	Total Licensed Beds	Total Discharges	Patient Days	Occupied Beds	Percent Occupied
Hospitals in Hospital's Service Area						
Verdugo Hills Hospital	-	12	158	1,678	5	41.7%
Glendale Adventist Medical Center	4.5	32	409	8,790	24	75.0%
LAC Olive View - UCLA Medical Center	18.3	42	322	4,190	11	26.2%
Hospitals Within 10 Mile Radius						
Huntington Memorial Hospital	7.2	39	243	7,345	20	51.3%
Glendale Memorial Hospital	8.4	24	359	6,643	19	79.2%
Gateways Hospital	9.8	-	-	-	-	-
Providence St. Joseph Medical Center	10.4	54	658	10,542	29	53.7%
Alhambra Hospital	10.7	13	207	2,994	8	61.5%
Children's Hospital of LA	10.8	108	1,042	17,702	69	63.9%
Hollywood Presbyterian Medical Center	10.9	36	518	7,085	19	52.8%
Barlow Respiratory Hospital	11.2	-	-	-	-	-
Kaiser Foundation Hospital - LA	11.3	112	3,413	33,110	90	80.4%
Temple Community Hospital	11.5	12	7	35	0	0.0%
Pacific Alliance Medical Center	11.5	9	122	1,528	4	44.4%
Kaiser Mental Health Center	11.6	-	-	-	-	-
San Gabriel Valley Medical Center	12.2	19	347	4,596	13.0	68.4%
USC Norris Cancer Hospital	12.8	13	-	-	-	-
Keck Hospital of USC	12.9	84	435	19,420	53.0	63.1%
Aurora Las Encinas Hospital	13.0	-	-	-	-	-
Hollywood Community Hospital – Hollywood	17.2	8	137	1,864	5	62.5%
Silver Lake Medical Center	18.9	12	123	2,505	7	58.3%
Other Hospitals Representing 3% Market Share						
Kaiser Foundation Hospital - Panorama City	13.8	24	226	3,000	8	33.3%
Providence Holy Cross Medical Center	17.3	24	561	8,375	23	95.8%
Total		677	9,287	141,402	407	60.1%

Source: OSHPD ALIRTS Annual Utilization Reports, 2011; Google Maps.

Acute Geropsychiatric Beds

Hospital has 24 acute psychiatric licensed beds. All 24 beds are designated as geropsychiatric and are contained in a locked unit that can care for involuntary patients under Welfare and Institutions Code sections 5150 and 5250. Hospital's geropsychiatric unit had a 2011 occupancy rate of 91%. According to the Los Angeles Department of Mental Health, the facilities in the table below are located in Los Angeles County and accept involuntary geropsychiatric patients in locked inpatient units.

Lanterman-Petris-Short Geropsychiatric Beds in Los Angeles County

Facility	Driving Distance from Hospital	Geropsychiatric Beds	Licensure
Verdugo Hills Hospital	-	24	General Acute Care Hospital
Huntington Memorial Hospital	7.3	14	General Acute Care Hospital
San Gabriel Valley Medical Center	12.2	42	General Acute Care Hospital
Sherman Oaks Hospital	17.7	19	General Acute Care Hospital
Encino Hospital Medical Center	20.9	13	General Acute Care Hospital
Hollywood Community Hospital at Brotman	21.6	18	General Acute Care Hospital
East Valley Hospital Medical Center	24.0	21	General Acute Care Hospital
Los Angeles Jewish Home for the Aging	25.7	10	Acute Psychiatric Hospital
VA Greater Los Angeles Healthcare System	26.1	20	General Acute Care Hospital
Resnick Neuropsychiatric Hospital at UCLA	26.9	17	Acute Psychiatric Hospital
Pacific Hospital of Long Beach	32.2	17	General Acute Care Hospital
VA Long Beach Healthcare System	37.5	15	General Acute Care Hospital
Total		230	

Source: Los Angeles Department of Mental Health, 2013.

There are other hospitals in or near Hospital's service area with licensed acute psychiatric beds. These other hospitals admit adult patients. However, in the table that follows, only Hospital, Huntington Memorial Hospital, and San Gabriel Valley Medical Center operate locked geropsychiatric units that accept involuntary patients.

Acute Inpatient Psychiatric Services, 2011

Facility	Driving Distance from Hospital	Total Licensed Beds	Total Discharges	Patient Days	Occupied Beds	Percent Occupied
Hospitals in Hospital's Service Area						
Verdugo Hills Hospital	-	24	538	7,970	22	91.0%
Glendale Adventist Medical Center	4.5	60	1,722	19,133	52	87.4%
LAC Olive View - UCLA Medical Center	18.3	80	755	11,608	32	39.8%
Hospitals Within 10 Mile Radius						
Huntington Memorial Hospital	7.2	41	1,128	7,927	22	53.0%
Glendale Memorial Hospital	8.4	49	-	-	-	-
Gateways Hospital	9.8	55	1,030	12,624	35	62.9%
Kaiser Mental Health Center	11.6	68	2,091	16,745	46	67.5%
San Gabriel Valley Medical Center	12.2	38	137	2,612	7	18.8%
Keck Hospital of USC	12.9	10	195	1,518	4	41.6%
Aurora Las Encinas Hospital	13.0	118	2,474	18,542	51	43.1%
Silver Lake Medical Center	18.9	29	816	9,927	27	93.8%
Total		572	10,886	108,606	298	52.1%

Source: OSHPD ALIRTS Annual Utilization Reports, 2011; OSHPD Patient Discharge Database, 2011; Google Maps.

Glendale Memorial Hospital, located in Hospital's service area, is licensed for 49 acute psychiatric beds. These beds are not currently in operation, but Glendale Memorial Hospital plans to open a 24-bed unit within the next year that would serve adult patients.

The psychiatric programs at Glendale Adventist Medical Center and Huntington Memorial Hospital are considered "general adult programs" that do not currently focus on geriatric patients.

While other area hospitals have acute psychiatric beds that serve adults, interviewees emphasized that there are risks associated with mixing mentally ill geriatric patients with younger adults. Elderly patients generally are frail and have more extensive medical needs.

Skilled Nursing Facility Beds

There are numerous skilled nursing beds operating in Hospital's service area. Some of these beds are in hospital settings and others are in freestanding facilities. As shown in the following table, there are 2,640 beds in freestanding facilities present in the eleven ZIP codes that comprise Hospital's service area. In 2011, these beds operated at an average occupancy rate of 90%.

Freestanding Skilled Nursing Facility Capacity, 2011

Skilled Nursing Facility	Total Patient Days	Total Licensed Beds	Total Licensed Bed Days	Average Daily Census	Percent Occupied
Astoria Nursing And Rehab Center	68,450	218	79,570	187.5	86.0%
Autumn Hills Healthcare Center	35,287	99	36,135	96.7	97.7%
Brighton Convalescent Center	33,124	99	36,135	90.8	91.7%
Camellia Gardens Care Center	24,289	80	29,200	66.5	83.2%
Country Manor Healthcare	29,930	99	36,135	82.0	82.8%
Eisenhower Nursing	20,506	71	25,915	56.2	79.1%
Golden Cross Health Care	32,797	96	35,040	89.9	93.6%
High Valley Lodge	17,335	50	18,250	47.5	95.0%
Lakeview Terrace Special Care Center	31,978	89	32,485	87.6	98.4%
Maclay Healthcare Center	47,880	141	51,465	131.2	93.0%
Montrose Nursing Center	17,885	59	21,535	49.0	83.1%
Mountain View Convalescent Hospital	35,430	114	41,610	97.1	85.1%
New Vista Nursing	40,438	121	44,165	110.8	91.6%
North Valley Nursing Center	28,614	92	33,580	78.4	85.2%
Oakview Convalescent Hospital - Tujunga	16,068	49	17,885	44.0	89.8%
Pineridge Care Center	25,048	75	27,375	68.6	91.5%
Rose Garden Convalescent Center	31,540	95	34,675	86.4	91.0%
Royal Oaks Convalescent Hospital	42,697	136	49,640	117.0	86.0%
San Fernando Post Acute Hospital	63,755	204	74,460	174.7	85.6%
Shadow Hill Convalescent Hospital	23,879	67	24,455	65.4	97.6%
Sophia Lyn Convalescent Hospital	18,817	54	19,710	51.6	95.5%
St. Vincent Healthcare	27,116	78	28,470	74.3	95.2%
Sunrise Convalescent Hospital	32,595	99	36,135	89.3	90.2%
Sylmar Health And Rehabilitation Center	74,489	208	75,920	204.1	98.1%
The Bella Vita, CLHF	1,572	6	2,190	4.3	71.8%
Verdugo Vista Health Care Center	29,818	92	33,580	81.7	88.8%
Villa Oaks Convalescent Hospital	16,530	49	17,885	45.3	92.4%
Total	867,867	2,640	963,600	2,377.7	90.1%

Source: OSHPD Annual Long Term Care Utilization Database, 2011.

In addition, there are 366 licensed skilled nursing facility beds available in general acute care hospitals (including the 18 beds at Hospital) in the area.

Hospital-Based Skilled Nursing Facility Capacity, 2011

Facility	Driving Distance from Hospital	Total Licensed Beds	Total Discharges	Patient Days	Occupied Beds	Percent Occupied
Hospitals in Hospital's Service Area						
Verdugo Hills Hospital	-	18	793	4,371	12	66.5%
Glendale Adventist Medical Center	4.5	40	-	-	-	-
Hospitals Within 10 Mile Radius						
Glendale Memorial Hospital	8.4	30	-	-	-	-
Providence St. Joseph Medical Center	10.4	54	-	-	-	-
Alhambra Hospital	10.7	26	37	9,327	26	98.3%
Hollywood Presbyterian Medical Center	10.9	89	365	28,002	77	86.2%
Temple Community Hospital	11.5	20	13	2,885	8	39.5%
San Gabriel Valley Medical Center	12.2	41	279	10,549	29	70.5%
Other Hospitals Representing 3% Market Share						
Providence Holy Cross Medical Center	17.3	48	37	16,440	45	93.8%
Total		366	1,524	71,574	197	53.8%

Source: OSHPD Annual Long Term Care Utilization Database, 2011.

The 30 skilled nursing facility beds at Glendale Memorial Hospital and the 40 beds at Glendale Adventist Medical Center are currently in suspense.

Emergency Department Capacity

Hospital has 12 emergency department stations. In total, there are currently 371 emergency department stations among hospitals in or near Hospital's service area. As shown below, Hospital reported 18,923 visits in 2011, totaling 3.2% of the visits among area hospitals (592,930).

Emergency Department Visits by Category, 2011

Facility	Driving Distance from Hospital	ER Level	Stations	Visits						Admitted	Hours in Diversion per Month
				Total	Minor	Low/Moderate	Moderate	Severe without Threat	Severe with Threat		
Hospitals in Hospital's Service Area											
Verdugo Hills Hospital	-	Basic	12	18,923	4,277	2,892	3,796	2,630	2,231	3,097	717
Glendale Adventist Medical Center	4.5	Basic	36	41,989	143	3,697	10,422	12,315	15,412	12,734	615
LAC Olive View - UCLA Medical Center	18.3	Basic	51	50,403	1,460	20,700	27,028	923	292	7,972	3,553
Hospitals Within 10 Mile Radius											
Huntington Memorial Hospital	7.2	Basic	37	58,413	3,908	5,551	15,173	23,154	10,627	15,861	971
Glendale Memorial Hospital	8.4	Basic	15	28,038	583	3,680	11,386	8,839	3,550	5,654	1,148
Providence St. Joseph Medical Center	10.4	Basic	38	58,656	458	5,019	21,961	16,101	15,117	8,802	164
Alhambra Hospital	10.7	Basic	8	13,667	396	1,934	4,834	2,526	3,977	2,683	210
Children's Hospital of LA	10.8	Basic	39	60,481	24,603	23,660	7,569	2,741	1,908	3,242	14
Hollywood Presbyterian Medical Center	10.9	Basic	20	38,708	3,928	7,642	5,236	1,365	20,537	6,899	15
Kaiser Foundation Hospital - LA	11.3	Basic	45	72,101	1,066	9,946	49,443	9,980	1,666	10,184	4,909
San Gabriel Valley Medical Center	12.2	Basic	12	24,872	392	4,169	9,790	6,142	4,379	5,466	235
Other Hospitals Representing 3% Market Share											
Kaiser Foundation Hospital - Panorama City	13.8	Basic	34	51,966	406	1,569	34,233	12,138	3,620	7,469	1,912
Providence Holy Cross Medical Center	17.3	Basic	24	74,713	568	9,011	27,426	21,452	16,256	9,492	1,843
Total			371	592,930	42,188	99,470	228,297	120,306	99,572	99,555	16,306

Source: OSHPD ALIRTS Annual Utilization Reports, 2011; Google Maps.

The American College of Emergency Physicians assesses emergency department accessibility by using a capacity benchmark of 2,000 visits per treatment station per year. Using this benchmark, Hospital's emergency department operated at 78.8% capacity in 2011.¹⁰ Applying this same benchmark, the other hospitals located in or near Hospital's service area operated at 79.9% capacity in 2011.

Emergency Department Capacity, 2011

Facility	Driving Distance from Hospital	ER Level	Stations	Total	Approximate Capacity Visits	Operating Capacity	Remaining Capacity
Hospitals in Hospital's Service Area							
Verdugo Hills Hospital	-	Basic	12	18,923	24,000	78.8%	5,077
Glendale Adventist Medical Center	4.5	Basic	36	41,989	72,000	58.3%	30,011
LAC Olive View - UCLA Medical Center	18.3	Basic	51	50,403	102,000	49.4%	51,597
Hospitals Within 10 Mile Radius							
Huntington Memorial Hospital	7.2	Basic	37	58,413	74,000	78.9%	15,587
Glendale Memorial Hospital	8.4	Basic	15	28,038	30,000	93.5%	1,962
Providence St. Joseph Medical Center	10.4	Basic	38	58,656	76,000	77.2%	17,344
Alhambra Hospital	10.7	Basic	8	13,667	16,000	85.4%	2,333
Children's Hospital of LA	10.8	Basic	39	60,481	78,000	77.5%	17,519
Hollywood Presbyterian Medical Center	10.9	Basic	20	38,708	40,000	96.8%	1,292
Kaiser Foundation Hospital - LA	11.3	Basic	45	72,101	90,000	80.1%	17,899
San Gabriel Valley Medical Center	12.2	Basic	12	24,872	24,000	103.6%	(872)
Other Hospitals Representing 3% Market Share							
Kaiser Foundation Hospital - Panorama City	13.8	Basic	34	51,966	68,000	76.4%	16,034
Providence Holy Cross Medical Center	17.3	Basic	24	74,713	48,000	155.7%	(26,713)
Total			371	592,930	742,000	79.9%	149,070

Source: OSHPD ALIRTS Annual Utilization Reports, 2011; Google Maps.

¹⁰ In 2012, Hospital had 18,586 emergency department visits and operated at 77.4% capacity.

Summary of Community Interviews

In April and May 2013, in-person and telephone interviews were conducted with VHH's management, Hospital's Board members, representatives of USC, community members from areas served by Hospital, representatives of other area hospitals, representatives of nursing facilities that refer certain patients to Hospital, representatives from the Los Angeles County Department of Mental Health, and others. The purpose of the interviews was to gather information regarding potential impacts on health care availability or accessibility as a result of the proposed transaction. The major findings from the interviews are summarized below.

Characteristics of the Community

Interviewees described the area served by Hospital as "extremely local" and very affluent. The Medi-Cal population is comparatively small; most residents have commercial insurance or Medicare coverage. Residents perceive that the area has a good supply of skilled nursing resources but inadequate access to psychiatric services.

Characteristics of Hospital

Hospital was created by members of the community who were concerned about travel times to other facilities and wanted to enhance access to medical services. The community remains supportive and loyal to Hospital.

Community residents rely on Hospital for primary and secondary care, rather than more specialized and higher acuity tertiary services. The emergency department is viewed as efficient and capable. The obstetrics program is well regarded; however, high-risk mothers generally rely on hospitals with neonatal intensive care units (e.g., at nearby Huntington Memorial Hospital).

Reasons for the Transaction

Those interviewed endorsed Hospital's decision to seek an affiliation partner. The most frequently cited reasons for the transaction included:

- VHH's lack of access to financing that to fund identified capital needs (for buildings, equipment, and physician strategy development);
- Hospital's need to increase census through program development and to address volume and market share losses in recent years;
- Challenges associated with operating as a stand-alone hospital competing with larger, more specialized hospital facilities that are members of multi-hospital systems; and
- Various threats associated with health care reform, including reduction in Medicare and Medi-Cal reimbursement rates, upon which Hospital relies.

Acquisition by USC

Interviewees had several comments regarding the acquisition by USC. They indicated their concern that other partners would, after a few years, be more likely to want to convert Hospital to “something other than a general acute care hospital.” The community therefore might lose its current level of access to services such as the emergency department, obstetrics, and other inpatient medical/surgical care. Because USC currently does not operate an emergency department and provides highly specialized services, it would be less likely to want to consolidate services. USC’s commitment to operating Hospital as a general acute care facility for ten years was viewed very favorably.

Interviewees indicated that USC most likely would seek to enhance current services and develop new programs with the potential to benefit the community. Developing a neonatal intensive care unit at Hospital, for example, would help increase obstetrics volume. Because USC employees live in the community, they may also increase their use of Hospital, helping to stabilize and grow Hospital’s services.

Interviewees cited several reasons for USC’s interest in acquiring Hospital. Hospital provides USC with exposure to primary care provided in a community hospital setting. In the future, USC may develop medical education opportunities at Hospital (for medical students, interns, residents, and other health professionals). USC also has recognized that the community and Hospital are desirable in terms of payer mix and demographic characteristics.

Representatives of other nearby hospitals expressed the hope that, after the acquisition, patients with time-sensitive emergent specialty care needs that could not be met by Hospital would continue to be transported to the nearest capable facility. Some members of Hospital’s medical staff initially expressed concern about possible competition from USC specialists; however, these concerns have moderated over time as a result of ongoing communication between USC and community physicians.

Importance of Hospital to the Community

Interviewees, including representatives from facilities that refer patients to Hospital’s geropsychiatric program, stressed the importance of Hospital’s services in meeting both local and regional needs.

Maintaining the emergency department was stated as necessary to maintaining Hospital as a full service facility and to maintaining obstetric services.

Interviewees suggested that there are numerous alternatives available for patients who need skilled nursing services.

Regarding the geropsychiatric programs:

- Interviewees stressed that these programs are highly valued. Hospital is known for its ability to work effectively with geriatric patients, almost all of whom are involuntary 5150 and/or 5250 patients. Hospital is known to provide high quality care and customer

service, and is known for Hospital's Psychiatric Emergency Team that travels to nursing facilities upon request to assess patient needs on a 24/7 basis;

- Referring nursing facilities indicate that Hospital's program is a first choice for patients and families. When the program is operating at full capacity, patients are referred to San Gabriel Valley Medical Center, Sherman Oaks, Mission Community Hospital, Hollywood Community Hospital, or the UCLA Neuropsychiatric Institute. None of these facilities are located in Hospital's service area; and
- Interviewees also indicated that geropsychiatric capacity in the area is constantly changing. For example, Los Angeles Metropolitan Medical Center was closed in April 2013, and the program at Northridge Hospital Medical Center may also be closing. Glendale Memorial Hospital is about to reopen 24 psychiatric beds, some of which could be made available to geropsychiatric patients. Psychiatric beds at Glendale Adventist Medical Center and at Huntington Medical Center are not specifically designed to meet the needs of geriatric patients, but these services could, in theory, be more fully developed for senior patients.

Assessment of Potential Issues Associated with the Availability or Accessibility of Health Care Services

Continuation of Hospital as a General Acute Care Hospital

Under section 11.16 of the Asset Purchase Agreement, Buyer has indicated its commitment to maintain Hospital as a general acute care hospital for ten years, with 158 licensed beds at the present location, subject to certain rights to reduce the number of beds (to not fewer than 100 beds) to accommodate new services or enhance or improve acute care services.

Medical/Surgical Services

An analysis of the current supply and demand for area hospital medical/surgical beds indicates that there is an oversupply of licensed beds in the service area. The occupancy rate for medical/surgical beds ranges from 30% for Temple Community Hospital and 40% for Hospital to 98% for Kaiser Foundation Hospital of Los Angeles. Under section 11.17 of the Asset Purchase Agreement, Buyer has agreed to maintain inpatient and outpatient surgery for at least five years after the Closing. In addition, Buyer has agreed to maintain laboratory, pathology, x-ray, physical therapy, and occupational therapy during that period. These commitments indicate that medical/surgical services are to continue for at least five years.

Emergency Services

Emergency department visits at Hospital have remained stable during the last three years, at approximately 18,700 visits annually. Over time, emergency department patients have accounted for a growing percentage of inpatient admissions. In 2012, the emergency department accounted for 58% of Hospital's admissions. While the emergency departments in the area appear to have some excess capacity, the community proximate to Hospital relies on this resource for care.

Under section 11.17 of the Asset Purchase Agreement, Buyer has agreed to maintain emergency medicine for at least five years after the Closing.

Under section 11.14 of the Asset Purchase Agreement, Buyer is required to invest at least \$30 million in agreed-upon capital projects that include upgrades to the emergency department.

Intensive Care/Coronary Care Services

An analysis of the current supply and demand for area hospital intensive/coronary care beds indicates that there is an oversupply of licensed beds in the service area. The occupancy rate for hospitals located in the service area, within 10 miles of Hospital, or with service area market shares of 3% or higher, is approximately 60%.

Because intensive care beds are associated with providing emergency department services, Hospital is also likely to operate inpatient services for patients with intensive care needs.

Obstetric Services

Hospital's service area market share for obstetric services has been approximately 7%. Under section 11.17 of the Asset Purchase Agreement, Buyer has agreed to maintain obstetric services for at least five years after the Closing. Buyer has also had preliminary discussions with Hospital regarding the development of neonatal intensive care services at Hospital if certain conditions are met (e.g., that the services are financially feasible).

Under section 11.14 of the Asset Purchase Agreement, Buyer has agreed to invest at least \$30 million in certain specified care services, equipment, and facilities during the five years after the Closing, one of which is obstetric services.

Acute Psychiatric Services

Hospital's 24-bed inpatient geropsychiatric program has operated at 90% occupancy over the last five years. This program serves geriatric patients with Medicare and commercial coverage. Almost all of these patients have been held involuntarily pursuant to California Welfare and Institutions Code sections 5150 and 5250. Facilities and clinicians referring patients to Hospital's geropsychiatric program value its services and prefer the program to alternatives in the area. Interviewees indicated that there are risks associated with placing geriatric patients together with younger adults in acute psychiatric units. For these reasons, keeping Hospital's geropsychiatric unit available and accessible is important.

Reproductive Health Services

Hospital provides a range of services for women, including those related to reproductive health. Section 11.17 of the Asset Purchase Agreement states that the Buyer "expects that it will develop new, or enhance existing, programs at the Hospital to meet unmet community needs, which may include ... women's health" The transaction is not expected to reduce the availability or accessibility of reproductive health services.

Skilled Nursing Services

There are numerous skilled nursing beds in the service area, at both hospitals and freestanding facilities. Hospital refers less than one-half of patients who need skilled nursing care upon discharge to its own skilled nursing unit.

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

Hospital has an unusually low proportion of discharges reimbursed by Medi-Cal. In 2011, Medi-Cal comprised 2% of Hospital's inpatient discharges. Similarly, Hospital serves few county indigent patients.

Effects on the Level and Type of Charity Care Provided

Over the last five years, VHH has provided charity care averaging almost \$2 million per year. In section 11.22 of the Asset Purchase Agreement, Buyer has agreed to implement policies consistent with VHH's current charity care policies and practices and to provide the same general levels of charity care at Hospital.

Effects on Community Benefit Services

Over the last five years, VHH has provided community benefit services with an average annual cost of approximately \$407,498 per year. In section 11.23 of the Asset Purchase Agreement, Buyer has agreed to provide, until December 31, 2017, annual expenditures for community benefit services comparable to those of peer institutions and at least as much as VHH's community benefit expenditures during 2011 (\$323,904).

Effects on Staffing and Employee Rights

In Article 10 of the Asset Purchase Agreement, Buyer has committed to offering at-will employment to substantially all of Sellers' active employees, who are in good standing, in their existing job titles and at their existing base wage and salary levels. Members of VHH's management will be offered employment until December 31, 2013 or six months after the Closing, whichever is later.

Effects on the Medical Staff

Under section 11.18 of the Asset Purchase Agreement, Hospital will be governed by a Post-Closing Governing Board comprised of fifteen members. Nine of these members, selected by Buyer, will include "representatives from the community currently served by the Hospital."

Under section 11.13 of the Asset Purchase Agreement, Buyer is required to retain at Hospital a "separate, independent medical staff accountable to the Post-Closing Governing Body." The administrative staff (including medical staff coordinator) will remain at Hospital immediately after the transaction. The executive committee of the medical staff will continue to have the authority to spend medical staff dues.

Clinical privileges and medical staff membership of physicians on staff at the Closing will remain the same after closing. Buyer will also honor current physician contracts.

Under section 11.12 of the Asset Purchase Agreement, Buyer will develop and present a physician strategy to Hospital's Post-Closing Governing Body for approval.

Alternatives

Beginning in 2010, the Board considered whether Hospital should remain independent or seek affiliation with another healthcare organization. For a two-year period, VHH considered the necessity of affiliation and held discussions with potential partners. With the assistance of legal and consultant advice, the Board decided that affiliation would help Hospital address its capital needs and market share and volume losses. The Board established criteria and then applied them to assess the strengths and weaknesses of potential partners. Other alternatives, including remaining independent, were not believed to offer the same advantages as the proposed transaction with USC. If this transaction does not close, it is likely that the financial, capital, market share, and volume loss issues that led VHH to seek an affiliation would remain and that Hospital would need to establish an alternative arrangement. It is unlikely that such an alternative arrangement would be on terms as favorable as those provided by the proposed transaction.

Conclusions

Overall, the proposed transaction is likely to continue the availability and accessibility of health care services in the community served. It is anticipated that access for Medicare, Medi-Cal, and uninsured patients will remain unchanged. Furthermore, Buyer's required capital investment in Hospital could lead to an expansion and/or improvement of facilities, infrastructure, and services.

Potential Conditions for Transaction Approval by the Attorney General

The following recommended conditions for approval have been developed based on this analysis and the factors that the Attorney General must consider in determining whether to consent to a transaction as set forth in Corporations Code section 5923 and section 999.5 of Title 11 of the California Code of Regulations. If the Attorney General approves the proposed transaction, Verité Healthcare Consulting, LLC recommends that the following conditions be required in order to minimize any potential negative health care impacts that might result from the transaction:

- 1) For at least five years after the Closing, Buyer should operate Hospital as a general acute care hospital.
- 2) For at least five years after the Closing, Buyer should maintain 24-hour emergency medical services at no less than current licensure (12 treatment stations) and with no less than the same types and levels of services.
- 3) For at least five years after the Closing, Buyer should maintain the current licensure, types and levels of services for the following:
 - a. Intensive Care services, including a minimum of 6 beds.
 - b. Coronary Care services, including a minimum of 6 beds.

- c. Perinatal services, including a minimum of 12 beds.
 - d. Inpatient geropsychiatric services that accept involuntary (5150 and 5250) patients, including a minimum of 24 inpatient beds.
- 4) For at least five years after the Closing, Buyer should maintain the certification of Hospital's psychiatric program as a "LPS" (Lanterman-Petris-Short) facility so Hospital can admit patients with acute psychiatric needs on an involuntary basis, under the Welfare and Institutions Code sections 5150 and 5250.
 - 5) For at least five years after the Closing, Buyer should maintain a contract between Hospital and the Los Angeles County Department of Mental Health, under which the County would reimburse Hospital for psychiatric services provided for Medi-Cal patients.
 - 6) For at least five years after the Closing, Buyer should maintain charity care and collections policies that comply with California and federal laws and regulations, and provide an annual amount of charity care equal to or greater than \$1,978,848 (the "Minimum Charity Care Amount"). The Minimum Charity Care Amount shall be defined as the amount of charity care costs (not charges) incurred by Hospital in connection with health care services it provides.

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 shall 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 five years after the Closing, Buyer should continue to expend an average of no less than \$407,498 annually in community benefit services. This amount shall 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.

Recommended Action

If the Attorney General approves the proposed transaction, Verité Healthcare Consulting, LLC recommends that the preceding conditions be required in order to minimize any potential negative health care impacts that may result from the transaction.

APPENDIX

List of Interviewees

Last Name	First Name	Suffix	Position	Affiliation
Andrews	Todd		Board Member	Verdugo Hills Hospital
Barner	Wiley		Senior Vice President of Operations	Horizon Health Corporation
Bratcher	Stacy		Associate General Counsel for Health Sciences	University of Southern California
Cacciapuoti	Antonio	Msgr	Priest	St. Bede the Venerable Church
Capretta	Tammy		Integration Officer	University of Southern California
Cuzbiak	Marion		LPS Designation Coordinator	Los Angeles County Department of Mental Health
DeMarco	Joanne		Nurse Manager, Geropsychiatric Unit	Verdugo Hills Hospital
Develle	Bob		Board Member	Verdugo Hills Hospital
Hartford	Steven	MD	Physician, Board Member	Verdugo Hills Hospital
Ivie	Jack		President	Glendale Memorial Hospital
Karinski	Edna		Chief Executive Officer	Community Foundation of the Verdugos
LaBella	Leonard		Chief Executive Officer	Verdugo Hills Hospital
Lighty	Michael		Director of Public Policy	California Nurses Association
Martinez	Jorge		Administrator	Van Nuys Healthcare Center
Malik	Anupam		Clinical Director	Verdugo Hills Hospital
McCurdy	Judy		Chief Nursing Officer	Verdugo Hills Hospital
Mozaryn	Natalie		Management Assistant	Los Angeles County Department of Mental Health
Nanda	Nitin	MD	Medical Director, Geropsychiatric Unit	Retained by Horizon Health Corporation
Perry	Allan	MD	Physician, Board Member	Verdugo Hills Hospital
Ralph	Stephen		President and Chief Executive Officer	Huntington Memorial Hospital
Shouhed	Heather		Administrator	Studio City Rehabilitation Center
Tracy	Scott		Member	La Cañada United School District
Trousdale	Cindy		Chief Financial Officer	Verdugo Hills Hospital
Wang	Helen		Health Program Analyst	Los Angeles County Department of Mental Health

License: 930000173
Effective: 01/01/2013
Expires: 12/31/2013
Licensed Capacity: 158

State of California
Department of Public Health

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

this License to

Verdugo Hills Hospital

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

VERDUGO HILLS HOSPITAL

1812 Verdugo Blvd
Glendale, CA 91208-1407

Bed Classifications/Services

- 116 General Acute Care
- 12 Perinatal Services
- 6 Coronary Care
- 6 Intensive Care
- 92 Unspecified General Acute Care
- 24 Acute Psychiatric (D/P)
- 18 Skilled Nursing (D/P)

Other Approved Services

- Basic Emergency
- Nuclear Medicine
- Occupational Therapy
- Outpatient Services -
 - Cardiology/Pulmonology/Surgery
 - Outpatient Services - Geropsychiatric at 1808 VERDUGO BLVD., SUITE 420, GLENDALE
 - Outpatient Services - Lab & Medical Imaging at 1818 VERDUGO BLVD., #103, GLENDALE
 - Outpatient Services - Laboratory at 1808 VERDUGO BLVD., SUITE 109, GLENDALE
 - Outpatient Services - Radiology/Laboratory
 - Outpatient Services - Wound Care at 1818 VERDUGO BLVD., SUITE # 204, GLENDALE
- Physical Therapy
- Respiratory Care Services
- Social Services
- Speech Therapy

This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:
None

Ron Chapman, MD, MPH

Director & State Health Officer

Kannika Phinyo

Kannika Phinyo, RN, District Supervisor

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and
Certification, L.A. County Acute & Ancillary Unit, 3400 Aerojet Avenue, Suite 323, El Monte, CA 91731,
(626)569-3724

POST IN A PROMINENT PLACE