

Emanuel Medical Center's Request for
Amendment of Condition VII

Prepared for the Office of the California Attorney General

February 1, 2018

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Introduction & Purpose

On November 17, 2017, pursuant to Title 11, California Code of Regulations, Section 999.5, subdivision (h), Doctors Medical Center of Modesto, Inc.¹, doing business as Emanuel Medical Center, a 209 licensed bed general acute care hospital located in Turlock, California, submitted a request to amend Condition VII set forth in the California Attorney General's August 10, 2014 "Conditions to the Proposed Sale of Emanuel Medical Center and Approval of the Asset Purchase Agreement by and between Emanuel Medical Center, Inc. and Doctors Medical Center of Modesto, Inc." Condition VII requires Emanuel Medical Center to provide a certain level of charity care for six fiscal years beginning August 1, 2014 as set forth below:

VII.

For six fiscal years from the closing date of the Asset Purchase Agreement, Emanuel Medical Center shall provide an annual amount of Charity Care (as defined below) at Emanuel Medical Center equal to or greater than \$3,212,054 (the "Minimum Charity Care Amount"). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Emanuel Medical Center in connection with the operation and provision of services at Emanuel Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by the California Office of Statewide Health Planning and Development (OSHPD) for annual hospital reporting purposes.² Emanuel Medical Center shall use charity care and collection policies that comply with Federal and California law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Emanuel Medical Center shall require consultation with the Local Governing Board, referenced in section 13.2 of the Asset Purchase Agreement.

Emanuel Medical Center's obligation under this Condition shall be prorated on a daily basis if the closing date of the Asset Purchase Agreement is a date other than the first day of Emanuel Medical Center's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Consumer Price Index for the West Region of the United States, All items 1982-84=100 (as published by the U.S. Bureau of Labor Statistics).

If the actual amount of charity care provided at Emanuel Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for

¹ Doctors Medical Center of Modesto, Inc. also owns and operates Doctors Medical Center - Modesto, a 461-bed multispecialty hospital that is an ASC-certified Level II Trauma Center, designated as a Primary Stroke Center, accredited Chest Pain Center, and maintains a Level II Neonatal Intensive Care Unit

² Charity care is free or discounted care that hospitals provide to patients under the hospital's financial assistance policy. The Office of Statewide Health Planning and Development (OSHPD) defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as ... charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

such fiscal year, Emanuel Medical Center shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in Emanuel Medical Center's service area (19 ZIP codes), as defined on page 34 of the Health Care Impact Report, dated May 20, 2013. Such payment shall be made within four months following the end of such fiscal year.

JD Healthcare, Inc. (JD Healthcare) was retained by the Office of the California Attorney General to analyze Emanuel Medical Center's request to reduce its charity care obligation as set forth in Condition VII. In preparation of this report, JD Healthcare performed the following:

- A review of Emanuel Medical Center's request to Modify Condition VII dated November 17, 2017 submitted to the Office of the California Attorney General;
- Research on the effects of the ACA on the uninsured and their need for charity care, and the impact of the Emergency Medical Treatment and Active Labor Act (EMTALA) on access for the uninsured to emergency medical care and the subsequent cost of charity care; and
- An analysis of financial, utilization, and service information provided by the California Office of Statewide Health Planning and Development (OSHPD); and review of service area trends to determine if similar charity care and payer mix patterns are occurring at other area hospitals. Emanuel Medical Center's service area includes approximately 320,000 residents. Emanuel Medical Center is the only hospital located within its service area; however, there are five other area hospitals³ located within approximately 30 miles of Emanuel Medical Center:

³ Of the six area hospitals, data for four of the hospitals, including Emanuel Medical Center, Doctors Medical Center, Memorial Medical Center – Modesto, and Mercy Medical Center, was analyzed. Kaiser Foundation Hospital – Manteca and Kaiser Foundation Hospital – Modesto were excluded from the analysis due to limited availability of data from OSHPD.

[illegible]

Emanuel Medical Center was founded as a 34-bed hospital in 1917 by the Pacific-Southwest Conference of the Evangelical Covenant Church, an Illinois nonprofit corporation. In 1966, Emanuel Medical Center's original hospital building was closed, and a new 78-bed general acute care hospital was opened at its present location at 825 Delbon Avenue in Turlock. In 1976, the Pacific-Southwest Conference of the Evangelical Covenant Church transferred ownership of Emanuel Medical Center to Emanuel Medical Center, Inc., a California nonprofit religious corporation affiliated with Covenant Ministries of Benevolence, an Illinois nonprofit corporation. Covenant Ministries of Benevolence is a subordinate entity of the Evangelical Covenant Church.

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In early 2013, Medical Development Specialists, LLC, now Vizient, was retained by the Office of the California Attorney General to prepare a healthcare impact statement to describe the possible effects that Doctors Medical Center of Modesto, Inc.'s acquisition of Emanuel Medical Center could have on the availability and accessibility of healthcare services to the communities served by Emanuel Medical Center. On May 20, 2013, the healthcare impact statement was issued. On January 10, 2014, the California Attorney General issued her decision granting conditional consent to the proposed sale of Emanuel Medical Center. The Asset Purchase Agreement closed on July 31, 2014.

Today, Emanuel Medical Center is licensed for 209 beds and provides emergency, cardiovascular, oncology, obstetrics, women's health, and surgical services to the over 320,000 residents living in the service area.

A) Charity Care Costs

Emanuel Medical Center

From the day after the closing of the Asset Purchase Agreement (August 1, 2014) until the end of calendar year 2014⁴, Emanuel Medical Center provided nearly \$1.2 million in charity care costs, approximately \$149,000 less than the minimum amount required in Condition VII. In FY 2015⁵, Emanuel Medical Center provided \$2.0 million in charity care costs, approximately \$1.2 million less than the minimum amount required in Condition VII. And finally, In FY 2016, Emanuel Medical Center provided \$1.4 million in charity care costs, approximately \$1.9 million less than the minimum amount required in Condition VII.

CHARITY CARE COSTS, FY 2013-2016			
FY Year	Charity Care Costs	Charity Care Costs Requirement	Difference
2016	\$1,434,633	\$3,312,360	-\$1,877,727
2015	\$2,031,101	\$3,250,599	-\$1,219,498
2014 ¹	\$1,197,537	\$1,346,423	-\$148,885
2014 ²	\$2,700,190	-- No Obligation --	
2013 ³	\$6,773,958	-- No Obligation --	

Source: OSHPD Disclosure Reports, FY 2013-2016

¹ From the date after the closing of the Asset Purchase Agreement to calendar year end (August 1, 2014 to December 31, 2014)

² January 1, 2014 to July 31, 2014

³ Fiscal Year: February 1, 2012 through January 31, 2013

As a result of not meeting the required minimum charity care amount for FY 2016, Emanuel Medical Center is asking the Attorney General to modify the required charity care obligation as follows:

- A. Using Hospital Annual Financial Disclosure reports from the Office of Statewide Health Planning and Development (OSHPD) for fiscal years ended 2013 through 2016 (the latest information available), calculate the charity care costs for each fiscal year for the Hospital within the community it serves. Costs are determined by applying the charity care write-offs, multiplied by the hospital's cost-to-charge ratio.

⁴ The Asset Purchase Agreement closed on July 31, 2014. Emanuel Medical Center's fiscal year was from February 1 to January 31. The first time period subject to the Attorney General's Conditions was August 1, 2014 to December 31, 2014.

⁵ Beginning January 1, 2015, Emanuel Medical Center's fiscal year is the same as calendar year.

- B. Document the percentage change from 2013 to 2016 for these hospitals in the community served by Emanuel Medical Center and apply the percentage change to the Minimum Charity Care Amount to compute a community-wide reduction amount.
- C. Deduct the reduction amount from Emanuel Medical Center's Minimum Charity Care Amount to determine a modified Minimum Charity Care Amount.
- D. For ease of reference, the calculation⁶ described above is also depicted as follows:

Minimum Charity Care Amount (a)	Community-based Reduction Percentage	Reduction Amount (a * b = c)	Modified Minimum Charity Care Amount (a + c)
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- E. The modified Minimum Charity Care Amount would be applicable for Emanuel Medical Center's fiscal year ended in 2016. Future fiscal years would adhere to conditions pursuant to the Attorney General Consent Letter.
- F. Below is a table containing calculations for the proposed methodology provided by Emanuel Medical Center. For the FY 2016 Period, Emanuel Medical Center 's Minimum Charity Care Amount is \$3,348,377. The percentage change from FY 2013 to FY 2016 of charity care costs for the hospitals within the community served by Emanuel Medical Center is 79.2%⁷. By applying this community-based reduction percentage to Emanuel Medical Center 's Minimum Charity Care Amount, the modified Minimum Charity Care Amount for the FY 2016 Period under the Proposed Methodology would be \$689,937. For reporting periods subsequent to FY 2016, this modified Minimum Charity Care Amount would be subject to annual CPI adjustments in accordance with the terms of the Attorney General Consent Letter.

⁶ Emanuel Medical Center's formula for the modified minimum charity cost target should read "a-c" not "a+c".

⁷ When using the same methodology, OSHPD Audited Disclosure Reports show a reduction of 58% and not 79% as determined by Emanuel Medical Center.

<u>Charity Write-Offs</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Memorial Medical Center	\$75,569,313	\$28,887,578	\$13,324,431	\$14,066,568
Doctors Medical Center	\$219,893,770	\$176,950,204	\$36,356,240	\$28,459,023
Oak Valley	\$1,038,604	\$1,473,073	\$891,546	\$900,340
Emanuel Medical Center	\$63,376,160	\$24,260,513	\$15,157,469	\$12,106,611
Mercy Merced	\$30,955,273	\$27,708,684	\$21,301,927	\$17,471,304

<u>Cost/Charge Ratio</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Memorial Medical Center	21.45%	21.61%	23.10%	24.45%
Doctors Medical Center	12.44%	11.90%	11.96%	11.83%
Oak Valley	24.75%	29.45%	30.54%	33.79%
Emanuel Medical Center	15.77%	15.79%	13.40%	11.71%
Mercy Merced	24.32%	23.44%	25.77%	24.18%

<u>Cost of Charity Care</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Memorial Medical Center	16,209,618	6,242,606	3,077,944	3,439,276
Doctors Medical Center	27,354,785	21,057,074	4,348,206	3,366,702
Oak Valley	257,054	433,820	272,278	304,225
Emanuel Medical Center	9,994,420	3,831,924	2,031,101	1,417,684
Mercy Merced	7,528,322	6,494,916	5,489,507	4,224,561
Total	61,344,200	38,060,340	15,219,035	12,752,449

Note: All data using OSHPD reports

% Change vs '13	38.0%	75.2%	79.2%
Emanuel Charity Commitment	1,338,356	3,250,599	3,318,862
Emanuel's Updated Commitment with Community-Based Adjustment	830,368	806,449	689,937
Emanuel's 2016 Charity Care Variance			1,417,684 727,747

Emanuel Medical Center Compared to Other General Acute Care Hospitals Serving the Service Area

The table below compares charity care costs at service area general acute care hospitals between FY 2013 and FY 2016. Since FY 2013, charity care costs at Emanuel Medical Center have decreased 79% from \$6.8 million in FY 2013 to approximately \$1.4 million in FY 2016. This decrease in charity care costs is consistent across all area general acute care hospitals. Doctors Medical Center of Modesto is the second largest provider of inpatient services among the area general acute care hospitals, reported a 50% decrease between FY 2013 and FY 2016. Memorial Hospital Medical Center – Modesto, the third largest provider of inpatient services among the area general acute care hospitals, reported a 79% decrease in charity care costs between FY 2013 and FY 2016. Additionally, Mercy Medical Center – Merced, the fourth largest provider of inpatient services among the area general acute care hospitals, reported a 27% decrease in charity care costs between FY 2013 and FY 2016. Collectively, there has been a 58% decrease in charity care costs among area general acute care hospitals. The rate of decrease for area hospitals slowed dramatically from FY 2015 to FY 2016 when charity care collectively decreased by only 3%.

AREA HOSPITAL COST OF CHARITY CARE: FY 2013 & FY 2016						
Hospital	FY 2013	FY 2014	FY 2015	FY 2016	% Change FY 2013- 2016	% Change FY2015- 2016
Emanuel Medical Center¹	\$6,773,688	\$3,897,727	\$2,031,101	\$1,434,633	-79%	-29%
Doctors Medical Center	\$27,354,785	\$21,057,074	\$14,362,104	\$13,663,350	-50%	-5%
Memorial Medical Center - Modesto*	\$16,209,618	\$6,242,606	\$3,075,279	\$3,439,276	-79%	12%
Mercy Medical Center	\$7,528,322	\$6,494,916	\$5,247,371	\$5,489,507	-27%	5%
Total	\$57,866,413	\$37,692,323	\$24,715,855	\$24,026,766	-58%	-3%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2016

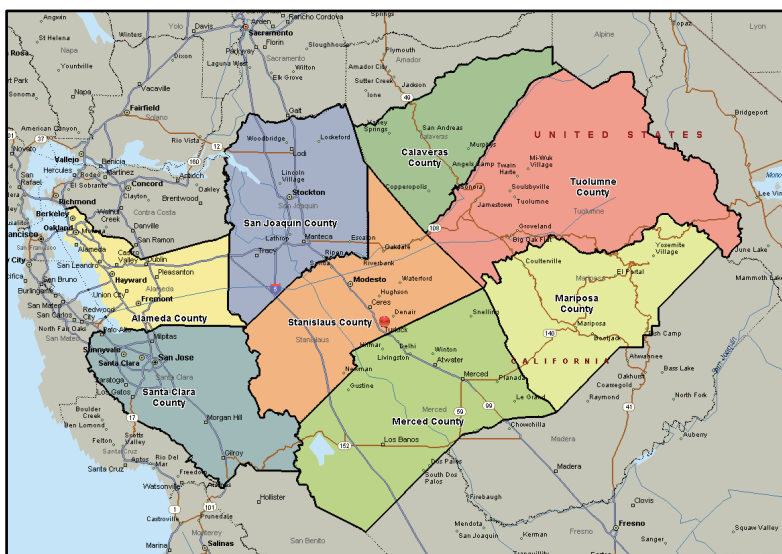
¹ FY 2014 includes combining cost of charity care data from January 1, 2014 to July 31, 2014 (time before the closing of the Asset Purchase Agreement) and the cost of charity care data from August 1, 2014 to December 31, 2014 (time after the closing of the

* Unaudited FY 2016 data

Stanislaus County Compared to Other Central California Counties

The table below compares charity care costs across eight counties in Central California from FY 2013-2016. Since FY 2013, charity care costs in Stanislaus County have decreased by 84% from \$55.3 million in FY 2013 to approximately \$8.6 million in FY 2016. Charity care costs have also decreased in Alameda County (-72%), Calaveras County (-31%), Merced County (-48%), Santa Clara County (-44%), San Joaquin County (-84%), and Tuolumne County (-42%). Mariposa County, located to the east of Stanislaus County, was the only county in Central California to increase charity care costs between FY 2013 and FY 2016 (increase of 27%).

Collectively, there has been a 64% decrease in charity care costs among the eight counties between FY 2013 and FY 2016. JD Healthcare also studied the trend in charity care costs across all California general acute care hospitals for the same period. Over this four-year period, California's charity care costs dropped by 57%, from \$1.6 billion in 2013 to \$675 million in 2016.



Between FY 2015 and FY 2016, the amount of charity care provided in California increased less than one percent.

COST OF CHARITY CARE BY COUNTY: FY 2013 FY 2016						
Hospital	FY 2013	FY 2014	FY 2015	FY 2016	% Change (FY 2013 2016)	% Change (FY 2015 2016)
Stanislaus County	\$55,316,770	\$42,157,534	\$10,353,782	\$8,624,974	-84%	-17%
Alameda County	\$70,764,467	\$30,907,981	\$16,395,782	\$19,486,607	-72%	19%
Calaveras County	\$349,990	\$227,585	\$217,586	\$242,906	-31%	12%
Mariposa County	\$46,484	\$88,754	\$79,317	\$59,237	27%	-25%
Merced County	\$10,138,948	\$7,941,038	\$6,085,816	\$5,236,565	-48%	-14%
Santa Clara County	\$97,047,166	\$71,531,989	\$33,087,672	\$54,806,983	-44%	66%
San Joaquin County	\$28,169,593	\$8,410,377	\$8,922,635	\$4,401,881	-84%	-51%
Tuolumne County	\$1,621,637	\$1,596,306	\$931,714	\$942,762	-42%	1%
Total	\$263,455,055	\$162,861,565	\$76,074,305	\$93,801,915	-64%	23%
California	\$1,581,373,002	\$1,178,736,904	\$672,722,034	\$675,766,726	-57%	0%

Source: OSHPD Disclosure Reports

Conclusion

Emanuel Medical Center's charity care costs decreased by 79% between FY 2013 and FY 2016. For the same period, all of the service area general acute care hospitals showed a significant decrease in charity care costs of between 27% and 79% with a collective decrease of 58%. Additionally, charity care costs across eight counties in Central California have collectively decreased by nearly 64%.

Of particular significance is the continued drop in charity care costs, as reported by two service area general acute care hospitals, in the time period from FY 2015 to FY 2016. In this period, Emanuel Medical Center's charity care costs dropped by 29% to nearly \$1.4 million while Doctor's Medical Center, the largest provider of charity care in the region, has seen a decrease of 5% for the same period.

B) Payer Mix Trends

Emanuel Medical Center

In support of its request, Emanuel Medical Center cited the January 1, 2014 commencement of the 2010 Federal Patient Protection and Affordable Care Act (the ACA) and Covered California as the reasons for the drop in charity care costs. The expansion of Medi-Cal under the ACA has resulted in a substantial increase in the number of Medi-Cal beneficiaries and a substantial reduction in the number of indigent patients without insurance. The table below compares the fiscal year prior to the implementation of the ACA (i.e., FY 2013) to FY 2016 after implementation of the ACA. Consistent with this trend, between FY 2013 and FY 2016, Emanuel Medical Center's indigent⁸ inpatient discharges decreased by 95% and indigent outpatient visits decreased by 29%.

EMANUEL MEDICAL CENTER: MEDI CAL AND INDIGENT PATIENT PAYER MIX					
Payer Type	FY 2013	FY 2014	FY 2015	FY 2016	% Change (FY 2013 2016)
Medi-Cal Inpatient Discharges	3,509	3,431	3,700	3,312	-6%
Medi-Cal Outpatient Visits	42,891	49,573	65,509	63,269	48%
Indigent Inpatient Discharges	489	538	57	24	-95%
Indigent Outpatient Visits	2,151	3,003	1,995	1,537	-29%

Source: OSHPD Disclosure Reports, FY 2013 - FY 2016

⁸ At Emanuel Medical Center, care provided to indigent patients is recorded as charity care.

Emanuel Medical Center Compared to Other General Acute Care Hospitals Serving the Service Area

The tables below compare payer mix trends for the area general acute care hospitals from FY 2013 – 2016 for Medi-Cal patients and indigent patients.

A. Medi-Cal:

Between FY 2013 and FY 2016, inpatient and outpatient Medi-Cal encounters⁹ increased at all area hospitals except for inpatient discharges at Emanuel Medical Center (6% decrease in Medi-Cal inpatient discharges between FY 2013 and FY 2016) and outpatient visits at Mercy Medical Center (10% decrease in Medi-Cal outpatient visits between FY 2013 and FY 2016). While Emanuel Medical Center's inpatient Medi-Cal discharges decreased by only 200 discharges between FY 2013 and FY 2016, Doctors Medical Center of Modesto, a hospital owned and managed by the same health system (Tenet Healthcare) as Emanuel Medical Center and with an overlapping service area, increased Medi-Cal inpatient volume by over 4,000 discharges for the same time period. For all of the area hospitals between FY 2013 and FY 2016, inpatient and outpatient Medi-Cal encounters increased by a combined 39% and 24%, respectively

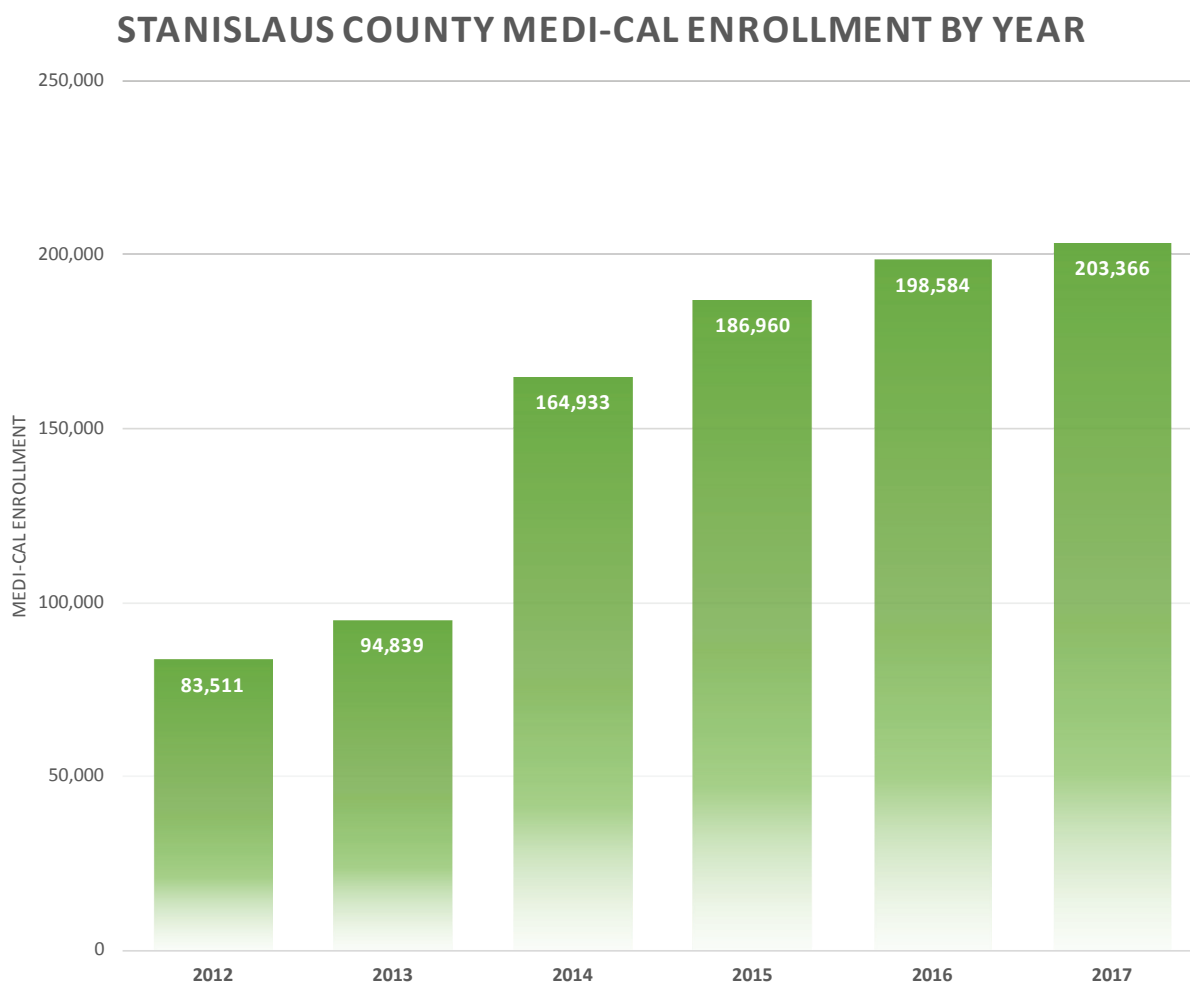
AREA HOSPITALS: MEDI CAL PAYER MIX FY 2013 FY 2016										
Medi Cal	FY 2013		FY 2014		FY 2015		FY 2016		% Change (FY 2013-2016)	
	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits
Emanuel Medical Center	3,509	42,891	3,431	49,573	3,700	65,509	3,312	63,269	-6%	48%
Doctors Medical Center	8,577	48,778	10,885	73,199	11,599	75,453	12,797	79,880	49%	64%
Memorial Medical Center - Modesto*	2,838	17,691	3,769	32,653	4,161	37,553	4,192	38,169	48%	116%
Mercy Medical Center	3,674	131,564	3,939	134,035	3,653	127,270	5,577	117,782	52%	-10%
Total	18,598	240,924	22,024	289,460	23,113	305,785	25,878	299,100	39%	24%

Source: OSHPD Disclosure Reports, FY 2013 - FY 2016

* 2016 Unaudited Information

⁹ "Encounters" are defined as inpatient discharges and outpatient visits.

The table below shows Medi-Cal managed care enrollment in Stanislaus County between Calendar Year (CY) 2012 and CY 2017:



Source: California Department of Health Care Services

Since CY 2012, Medi-Cal enrollment in Stanislaus County has more than doubled to over 200,000 enrollees.

Currently, Stanislaus County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a “Local Initiative” and a “commercial plan.” Health Plan of San Joaquin is the local initiative plan for Stanislaus County. It provides access to healthcare to nearly 350,000 people, serving families in Stanislaus and San Joaquin Counties. Emanuel Medical Center has a Medi-Cal contract with Health Plan of San Joaquin. The second health plan is a private commercial plan provided by Health Net Community Solutions, Inc., a subsidiary of Health Net, Inc. Emanuel Medical Center also contracts with Health Net Community Solutions, Inc.

B. Indigent Patients:

Between FY 2013 and FY 2016, area general acute care hospitals showed a significant decrease in inpatient and outpatient indigent encounters as seen on the table below. Between FY 2013 and FY 2016, inpatient and outpatient indigent encounters decreased by a combined 88% and 73%, respectively.

AREA HOSPITALS: INDIGENT PAYER MIX FY 2013 - FY 2016										
Indigent	FY 2013		FY 2014		FY 2015		FY 2016		% Change (FY 2013-2016)	
	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits
Emanuel Medical Center	489	2,151	538	3,003	57	1,995	24	1,537	-95%	-29%
Doctors Medical Center	380	4,484	424	2,707	162	1,256	115	746	-70%	-83%
Memorial Medical Center - Modesto*	650	3,324	62	1,124	55	1,033	48	595	-93%	-82%
Mercy Medical Center	265	10,569	142	10,085	32	1,508	21	2,582	-92%	-76%
Total	1,784	20,528	1,166	16,919	306	5,792	208	5,460	-88%	-73%

Source: OSHPD Disclosure Reports, FY 2013 - FY 2016

*2016 Unaudited Information

The Stanislaus County Health Services Agency was contacted to learn more about the need for indigent healthcare services in the county. Doctors Medical Center of Modesto has an agreement¹⁰ with Stanislaus County to receive compensation for inpatient services rendered to indigent patients. Since the commencement of the ACA, only one patient has qualified under the guidelines¹¹ of Stanislaus County's Medically Indigent Adult Program. Stanislaus County attributed the drop in indigent patients to the dedicated effort by local healthcare providers, including Emanuel Medical Center and Doctors Medical Center, in assisting previously indigent patients with Medi-Cal enrollment.

¹⁰ The 20-year agreement between Doctors Medical Center of Modesto and Stanislaus County to provide inpatient indigent care services is set to expire in November 2017.

¹¹ Qualification for the Medically Indigent Adult Program requires: applicants to be between the age of 21 and 65, be a verifiable resident of Stanislaus County, have no Medi-Cal or major healthcare coverage, able to meet other financial requirements, and be a non-disabled adult.

Conclusion

Between FY 2013 and FY 2016, Medi-Cal volume increased significantly at all service area general acute care hospitals except for small decreases in inpatient discharges at Emanuel Medical Center, and outpatient visits at Mercy Medical Center. The slight decrease in Medi-Cal inpatient discharges at Emanuel Medical Center occurred even though their overall Medi-Cal outpatient volume increased by 48% from 42,891 visits in FY 2013 to 65,509 visits in FY 2016, as seen on the table below. When analyzing the detail behind the significant increase in Medi-Cal outpatient visits at Emanuel Medical Center between FY 2013 and FY 2016, emergency services increased by 51% from 27,488 visits in FY 2013 to 41,552 visits in FY 2016 and private referred¹² visits increased by 173% from 6,071 visits in FY 2013 to 16,554 visits in FY 2016.

EMANUEL MEDICAL CENTER MEDI CAL OUTPATIENT VISITS BY TYPE: FY 2013 FY 2016						
Hospital	FY 2013	FY 2014	FY 2015	FY 2016	% Change (FY 2013 2016)	% Change (FY 2015 2016)
Emergency Svcs. (incl. Psych ER)	27,488	28,187	41,956	41,552	51%	-1%
Clinic (incl. Satellite Clinics)	8,866	12,885	8,052	3,699	-58%	-
Observation Care Days		357	796	811	-	-
Hospice Outpatient		580			-	-
Outpatient Surgeries	466	614	742	653	40%	-12%
Private Referred	6,071	6,947	13,963	16,554	173%	19%
Other*		3			-	-
Total	42,891	49,573	65,509	63,269	48%	-3%

Source: OSHPD Disclosure Reports

* Includes Chemical Dependency Services, Adult Day Health Care, & Renal Dialysis Visits

Between FY 2013 and FY 2016, Emanuel Medical Center lost inpatient market share¹³ of Medi-Cal patients, going from 19% market share in FY 2013 to 13% market share in FY 2016. For the same time period, Doctors Medical Center of Modesto, the closest general acute care hospital to Emanuel Medical Center and operating under common ownership and management by Tenet Healthcare and located 16 miles away, increased market share from 45% in FY 2013 to 49% in FY 2016. While Emanuel Medical Center's inpatient Medi-Cal volume decreased by approximately 200 discharges, Doctors Medical Center of Modesto's inpatient Medi-Cal volume increased by over 4,000 discharges over the same time period. Collectively, among the four area general acute care hospitals, Medi-Cal inpatient volume increased by 39% from 18,598 discharges in FY 2013 to 25,878 discharges in FY 2016.

¹² The patient is typically referred to a hospital by a private physician or another health care institution.

¹³ In this report, market share is defined by the distribution of volume shared between the four service area hospitals.

Between FY 2013 and FY 2016, inpatient indigent care volume decreased by 88%, among all general acute care hospitals, from 1,784 discharges in FY 2013 to 208 discharges in FY 2016. Between FY 2013 and FY 2016, the decrease in indigent inpatient discharges volume among all general acute care hospitals varied from a 70% decrease at Doctors Medical Center to a 95% decrease at Emanuel Medical Center. Overall, all area general acute care hospitals experienced a decrease in indigent outpatient visits between FY 2013 and FY 2016, with Emanuel Medical Center decreasing by 29% over this time. A drop in the volumes of these indigent care services is directly correlated to a drop in charity care costs – as occurred at Emanuel Medical Center and all area general acute care hospitals between FY 2013 and FY 2016.

C) Bad Debt

The table below shows bad debt¹⁴ at service area general acute care hospitals for FY 2013 and FY 2016. There has been an 89% decrease in bad debt at Emanuel Medical Center from \$38.4 million in FY 2013 to \$4.4 million in FY 2016.

AREA HOSPITAL BAD DEBT: FY 2013 FY 2016					
Hospital	FY 2013	FY 2014	FY 2015	FY 2016	% Change (FY 2013-2016)
Emanuel Medical Center	\$38,436,787	\$31,416,220	\$10,288,506	\$4,318,828	-89%
Doctors Medical Center	\$40,441,476	\$20,177,997	\$23,319,358	\$23,463,073	-42%
Memorial Medical Center - Modesto*	\$56,471,903	\$2,631,508	\$13,930,225	\$11,739,823	-79%
Mercy Medical Center	\$27,431,656	\$20,559,806	\$7,436,503	\$16,852,176	-39%
Total	\$162,781,822	\$74,785,531	\$54,974,592	\$56,373,900	-65%

Source: OSHPD Disclosure Reports, FY 2013 - FY 2016

* 2016 Unaudited Information

Doctors Medical Center - Modesto's bad debt decreased by 42% from \$40.4 million in FY 2013 to \$23.5 million in FY 2016. For the same period, Memorial Medical Center – Modesto's bad debt decreased by 79% from \$56.5 million in FY 2013 to \$11.7 million in FY 2016. Additionally, bad debt at Mercy Medical Center – Merced decreased by 39% from \$27.4 million in FY 2013 to \$16.9 million in FY 2016. Overall, the service area general acute care hospitals have seen a combined decrease in bad debt of 65%.

Conclusion

Between FY 2013 and FY 2016, bad debt decreased significantly at all area general acute care hospitals. For the same time period, bad debt at Emanuel Medical Center decreased by 89%, indicating that the decrease in charity care costs could not be explained by an increase in bad debt (e.g., did the newly insured, often enrolled in high deductible health plans, have difficulty paying co-pays leading to increased bad debt at Emanuel Medical Center).

¹⁴ The amount of accounts receivable that are determined to be uncollectible due to the patient's unwillingness to pay. This amount is charged as a credit loss against gross patient revenue. Bad debts are classified as deductions from revenue and not included in operating expenses.

Analysis of the Request by Emanuel Medical Center to Amend Condition VII

The methodology requested by Emanuel Medical Center to be used for a modification of charity care cost may not be a good predictor of future charity care needs in the specific community because of the following:

1. It assumes the changes to insurance coverage that have resulted in a decrease of charity care due to the ACA from FY 2013-2016 will continue in the future. Currently, proposed federal healthcare policy changes affecting the “individual mandate” and funding of health plans on the health insurance marketplace are likely to result in increases, instead of decreases, to the number of uninsured patients and thus increases in charity care;
2. It assumes the changes to insurance coverage that have resulted in a decrease of charity care due to the ACA from FY 2013-2016 will continue in future. Uncertain funding and federal policies regarding Medicaid may lead to decreases, instead of increases, in covered Medi-Cal lives and thus increases in charity care;
3. Emanuel Medical Center’s proposed community based calculation includes incorrect information that under reports charity care costs. When using the same area hospital’s audited OSHPD Financial Disclosure Reports, the proposed methodology yields a percentage drop in charity care costs of 58%, and not 79% as reported by Emanuel Medical Center.
4. Basing future charity obligations on the percent of charity care decreases for FY 2013-2016 does not accurately predict the future needs of the community;
5. Emanuel Medical Center requests calculating a modified minimum charity care target that would be applicable for its commitment that remains constant for future years. However, the community’s need for charity care has not been constant in the past and is unlikely to be in future; and
6. While there has been a significant decline in charity care, there is not a consistent percentage that can be applied to individual hospitals. A “community-based reduction percentage” that includes an entire region does not account for variations in the changing local community dynamics regarding demographics, payer mix, healthcare service availability, access, and competition. Not only is health care very local, but most charity care for a hospital is for patients that have presented at the emergency department and most patients utilize the emergency

department closest to their home. The Emergency Medical Treatment and Labor Act (EMTALA) is a federal law that requires Medicare participating hospitals to screen and provide stabilizing treatment to anyone coming to an emergency department regardless of their insurance status or ability to pay. Hospitals with specialized capabilities must also accept appropriate transfers to provide stabilizing treatment regardless of ability to pay. The law does not require hospitals to continue treating patients once they are stable. The law was enacted in 1986 in order to prevent improper care of patients, and avoid the “dumping”¹⁵ of Medicare, Medicaid, and uninsured patients. Since then it has remained an unfunded mandate thus resulting in charity care for those unable to pay and within federal poverty level policies. Hospitals found in violation of the law face a potential \$50,000 civil fine per incident and can be barred from the Medicare and Medicaid programs.

Summary

The ACA led to the expansion of Medi-Cal in California and the creation of a healthcare marketplace (Covered California) for individuals to be able to purchase subsidized health insurance plans. As a result of expanded health insurance coverage, the number of uninsured in California has decreased. According to the U.S. Department of Health and Human Services, the California uninsured rate has dropped from 17.2% in 2013 to 7.4% in 2016. This steep decline in the uninsured rate has resulted in a dramatic reduction of charity care across California. Charity care is free or discounted care that hospitals provide to patients under the hospital’s financial assistance policy. Most patients that are medically indigent access hospital care through the emergency room and the largest source of charity care cost is for those indigent patients that are admitted. The second largest charity care cost is for indigent patients that are seen in the emergency department and then released without being admitted. Prior to the implementation of the ACA, many patients who were categorized as indigent and needing charity care, now receive care supported by Medi-Cal or an insurance plan. As the number of patients that are medically indigent has gone down, so has the need for charity care.

The ACA led to the expansion of Medi-Cal and increased enrollment in subsidized health insurance plans. Between FY 2013 and FY 2016, Medi-Cal inpatient and outpatient encounters increased by a combined 39% and 24%, respectively for all general acute care hospitals in Emanuel Medical Center’s service area. Between FY 2013 and FY 2016, indigent inpatient and outpatient encounters decreased by a combined 88% and 73%, respectively, for all general acute care hospitals in Emanuel Medical Center’s

¹⁵ A statutorily imposed liability that occurs when a hospital capable of providing the necessary medical care transfers a patient to another facility or simply turns the patient away because of the patient's inability to pay for services. Hospitals that knowingly, willfully, or negligently fail to comply with legislation prohibiting this practice are subject to various monetary penalties as well as suspension of their Medicare provider agreements.

service area. As a result, the number of inpatient charity care patients across all service area general acute care hospital has decreased by 88%, resulting in a sharp decline in charity care costs.

JD Healthcare analyzed Emanuel Medical Center's request to amend Condition VII. While it is based on significant declines in the service area's charity care needs, the methodology suggested may lead to inaccurate predictions of the future charity care needs for patients utilizing Emanuel Medical Center.

If the California Attorney General approves a recalculation of the required minimum charity care amount, JD Healthcare recommends that the required amount be determined by a rolling average of charity care costs using available data for the time period after the implementation of the ACA. Because of the uncertainty regarding future healthcare reform and its effect on charity care, JD Healthcare recommends using three of the most recent fiscal years of data, if available. For example, for FY 2016, Emanuel Medical Center would be required to provide \$2,964,414 taking an average of its charity care costs for FY 2014 and FY 2015. Additionally, for FY 2017, Emanuel Medical Center would be required to provide \$2,454,487 taking an average of its charity care costs for FY 2014, FY 2015, and FY 2016. This methodology provides a more accurate representation of Emanuel Medical Center's community's current and near future needs for charity care. The condition's 5-year average was based upon Emanuel Medical Center's charity care costs for FY 2008-2012. Also, because it uses more recent data on a rolling average basis, the required amount of charity care will be adjusted as changes occur to the ACA and the healthcare marketplace.