

Effect of the Proposed Change in Control and Governance of
St. Joseph Health System and Providence Health & Services on
the Availability and Accessibility of Healthcare Services to the
Communities Served by St. Mary Medical Center

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TABLE OF CONTENTS

INTRODUCTION & PURPOSE	4
BACKGROUND & DESCRIPTION OF THE TRANSACTION	7
Reasons for the Health System Combination Agreement	7
Transaction Process & Timing	8
Health System Combination Agreement	10
Use of Net Sale Proceeds	15
PROFILE OF PROVIDENCE HEALTH & SERVICES	16
Key Statistics	20
Payer Mix	20
Quality & Awards	21
Financial Profile	22
PROFILE OF ST. JOSEPH HEALTH SYSTEM	24
Key Statistics	27
Payer Mix	28
Quality & Awards	28
Financial Profile	30
PROFILE OF ST. MARY MEDICAL CENTER	32
Overview of St. Mary Medical Center	32
Key Statistics	33
Programs & Services	34
Accreditations, Certifications, & Awards	35
Quality Measures	35
Seismic Issues	37
Patient Utilization Trends	38
Payer Mix	39
Medi-Cal Managed Care	40
Medical Staff	41
Unionized Employees	42
Financial Profile	42
Cost of Hospital Services	43
Charity Care	44
Community Benefit Services	46
ANALYSIS OF ST. MARY MEDICAL CENTER'S SERVICE AREA	50
Service Area Definition	50
Service Area Map	51
Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations	52
STEMI Receiving Centers in San Bernardino County	54
Demographic Profile	55
Medi-Cal Eligibility	57
Selected Health Indicators	57
2014 Community Health Needs Assessment	59
Hospital Supply, Demand & Market Share	60
Hospital Market Share	61
Market Share by Payer Type	62
Market Share by Service Line	63

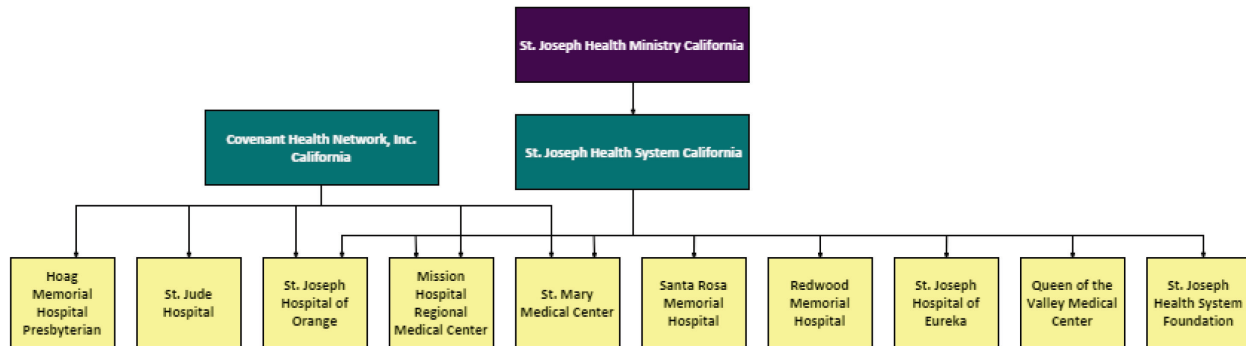
Market Share by ZIP Code.....	64
Service Availability by Bed Type.....	65
Medical/Surgical Capacity Analysis.....	65
Intensive Care Unit/Coronary Care Unit Capacity Analysis	66
Obstetrics Capacity Analysis	67
Neonatal Intensive Care Capacity Analysis	68
Pediatric Capacity Analysis.....	69
Emergency Department Volume at Hospitals in the Service Area	70
Emergency Department Capacity	71
SUMMARY OF INTERVIEWS	72
Reasons for the Proposed Transaction	72
Importance of St. Mary Medical Center to the Community	73
Selection of Providence Health & Services for the Proposed Combination	74
Impact on the Availability and Accessibility of Healthcare Services.....	74
Alternatives.....	74
Views of National and Regional Health Plan Representatives.....	75
Views of the Unions	75
ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES	77
Importance of St. Mary Medical Center to the Community	77
Continuation as a General Acute Care Hospital.....	77
Emergency Services.....	77
Medical/Surgical Services	78
Intensive Care/Critical Care Services	78
Obstetrics Services	78
Pediatric Services	78
Neonatal Intensive Care Services.....	79
Reproductive Health Services	79
Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients.....	80
Effects on the Level and Type of Charity Care Historically Provided	81
Effects on Community Benefit Programs.....	81
Effects on Staffing and Employee Rights	81
Effects on Medical Staff	82
Alternatives.....	82
CONCLUSIONS	83
Potential Conditions for Transaction Approval by the California Attorney General	83
APPENDIX	86
List of Interviewees	86
Hospital License	87

INTRODUCTION & PURPOSE

MDS Consulting, a Vizient, Inc. business (MDS) was retained to prepare healthcare impact statements for the Office of the California Attorney General to assess the potential impact of the proposed Health System Combination Agreement by and between St. Joseph Health System and Providence Health & Services on the availability and accessibility of healthcare services to the communities served by St. Mary Medical Center. St. Joseph Health System owns and operates St. Mary Medical Center, a general acute care hospital located in Apple Valley, California.

St. Joseph Health System and Providence Health & Services are multi-institutional, Catholic healthcare systems that are sponsored by a Public Juridic Person¹. St. Joseph Health Ministry is the sponsor and sole corporate member of St. Joseph Health System, a California nonprofit public benefit corporation. Providence Ministries is the sponsor and sole corporate member of Providence Health & Services, a Washington nonprofit corporation.

St. Joseph Health System is the sole corporate member of the following Northern California nonprofit hospitals: Queen of the Valley Medical Center, Redwood Memorial Hospital, Santa Rosa Memorial Hospital, and St. Joseph Hospital-Eureka. St. Joseph Health System is the co-member with Covenant Health Network, Inc.² of the following Southern California nonprofit hospitals: Hoag Memorial Hospital Presbyterian, Mission Hospital Regional Medical Center, St. Joseph Hospital of Orange, and St. Jude Medical Center. St. Joseph Health System also operates Petaluma Valley Hospital pursuant to a Lease Agreement and Transfer Agreement with Petaluma Health Care District³. Please refer to the summary organizational chart below:

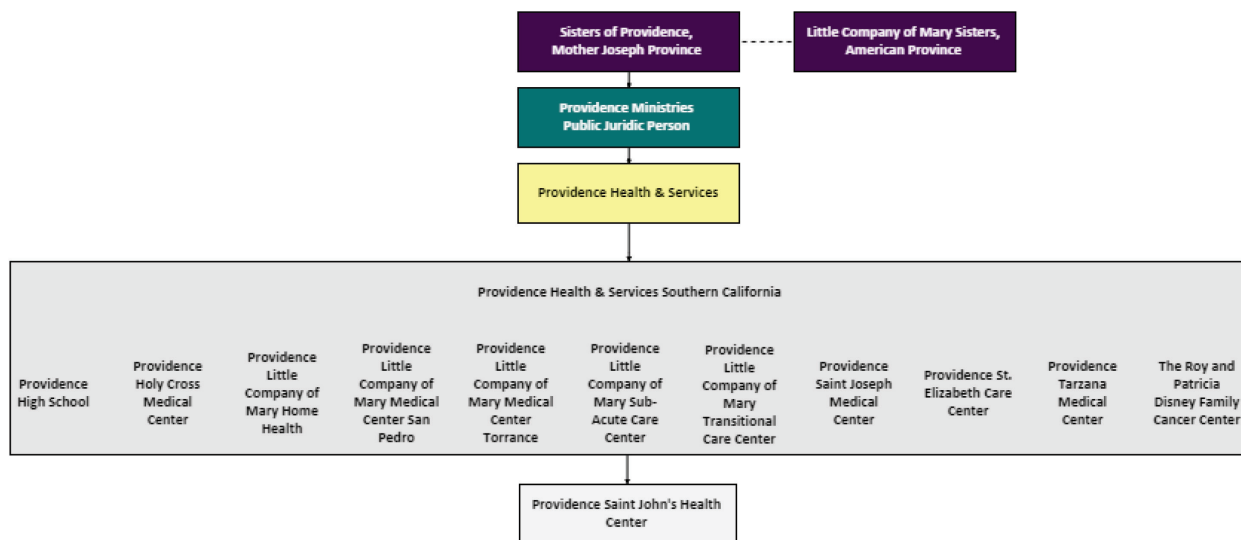


¹ A Public Juridic Person is a group of persons approved by the Roman Catholic Church to oversee and ensure that the mission of its healthcare organization is carried out according to Catholic principles.

² Covenant Health Network, Inc., established in 2013, is a nonprofit public benefit corporation created by Hoag Memorial Hospital Presbyterian and St. Joseph Health System.

³ In 1997, Petaluma Health Care District entered into a 20-year Lease Agreement with SRM Alliance Hospital Services, whose sole member is Santa Rosa Memorial Hospital, and a 20-year Transfer Agreement with SRM Alliance Hospital Services and Santa Rosa Memorial Hospital. Through these agreements, St. Joseph Health System currently operates Petaluma Valley Hospital. The Lease Agreement expires in January 2017. Petaluma Health Care District is conducting due diligence to determine options for the continued operations of Petaluma Valley Hospital.

Providence Health & Services-Southern California is the sole member of Providence Saint John’s Health Center. Providence Health & Services-Southern California also owns and operates the following California nonprofit hospitals that are not separately incorporated: Providence Holy Cross Medical Center, Providence Little Company of Mary Medical Center San Pedro, Providence Little Company of Mary Medical Center Torrance, Providence Saint Joseph Medical Center, and Providence Tarzana Medical Center. Please refer to the summary organizational chart below:



Together, St. Joseph Health System and Providence Health & Services operate 18 general acute care hospitals in California.

St. Joseph Health System and Providence Health & Services have requested the California Attorney General’s consent to enter into a Health System Combination Agreement to establish joint system-level governance control over their operations through the creation of a new Washington nonprofit parent corporation named, “Providence St. Joseph Health.” St. Joseph Health Ministry and Providence Ministries will establish co-sponsorship of Providence St. Joseph Health (the Co-Sponsors Council). The Co-Sponsors Council will be the sole corporate member of Providence St. Joseph Health.

In its preparation of this report, MDS performed the following:

- A review of the application submitted by St. Joseph Health System and Providence Health & Services to the California Attorney General on November 24, 2015, and supplemental information and documents subsequently provided by St. Joseph Health System and Providence Health & Services;
- A review of press releases and news articles related to the proposed combination and other hospital transactions;

- Interviews with community representatives, union representatives, health plan representatives, representatives of St. Mary Medical Center’s Board of Trustees, management, medical staff, and employees, members of St. Joseph Health System and Providence Health & Services’ corporate offices, St. Joseph Health System’s Board of Trustees, Providence Health & Services’ Board of Directors, St. Joseph Health Ministry, Providence Ministries, and others listed in the Appendix;
- An analysis of financial, utilization, and service information provided by the management of St. Mary Medical Center, St. Joseph Health System, Providence Health & Services, and the California Office of Statewide Health Planning and Development (OSHPD); and
- An analysis of publicly available data and reports regarding Providence Health & Services, St. Joseph Health System, and St. Mary Medical Center’s service areas including:
 - Demographic characteristics and trends;
 - Payer mix;
 - Hospital utilization rates and trends;
 - Health status indicators; and
 - Hospital market share.

BACKGROUND & DESCRIPTION OF THE TRANSACTION

Reasons for the Health System Combination Agreement

The primary objectives stated by Providence Health & Services' Board of Directors and St. Joseph Health System's Board of Trustees for the proposed transaction are to establish the best possible partnership in order to expand healthcare access, share clinical and administrative best practices, increase revenue streams, and drive efficiency due to the changing healthcare environment as a result of the 2010 Federal Patient Protection and Affordable Care Act (ACA) and various other market factors. Providence Health & Services' Board of Directors and St. Joseph Health System's Board of Trustees believe these goals will be accomplished more effectively with their proposed combination. In addition, Providence Health & Services' Board of Directors and St. Joseph Health System's Board of Trustees anticipate that their proposed combination will produce the following benefits:

- Continue the presence of Catholic healthcare in the United States;
- Create advocacy opportunities for social justice, with an emphasis on poor and vulnerable populations;
- Allow for closer integration and/or adoption of specific programs to address the healthcare needs of poor and vulnerable populations;
- Unite and strengthen the mission programs of Providence Health & Services and St. Joseph Health System;
- Honor current affiliations, partnerships, and other arrangements with organizations that have maintained their original faith tradition or secular status;
- Enhance the ability to establish new affiliations, partnerships, and other arrangements with like-minded, faith-based, and secular organizations;
- Strengthen the delivery of healthcare through a nonprofit, charitable model;
- Improve patient access, safety, and satisfaction, and the quality, continuity, and coordination of care;
- Establish stronger infrastructure to serve specific populations, including the Medi-Cal and uninsured patient population;
- Provide an enhanced ability to combine and coordinate the response to community needs across an increased scale and broader geography;

- Adopt and implement the Triple Aim⁴ for clinical expertise, growth, diversification, innovation, and shared services;
- Obtain financial benefits through access to capital through the creation of a single obligated group that will allow Providence Health & Services and St. Joseph Health System to become jointly and severally liable;
- Improve the work environment;
- Support the ability to attract and retain the talent and expertise required to best serve community healthcare needs;
- Share clinical and administrative best practices across regions; and
- Maintain and enhance medical group management infrastructure to improve clinical practices.

Transaction Process & Timing

St. Joseph Health System and Providence Health & Services stated that they engaged in a deliberate process to explore ways to most effectively serve their communities. As a result of their discussions, St. Joseph Health System and Providence Health & Services mutually desired to implement the Health System Combination Agreement.

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

- Early 2015 – Providence Ministries, St. Joseph Health Ministry, Providence Health & Services’ Board of Directors, St. Joseph Health System’s Board of Trustees, and the management of Providence Health & Services and St. Joseph Health System began to explore a potential partnership between the two organizations;
- April 7, 2015 – St. Joseph Health System’s Board of Trustees holds a special meeting with St. Joseph Health Ministry to discuss an overview of Providence Health & Services and to consider the potential partnership between the organizations;
- April 16, 2015 – St. Joseph Health Ministry and Providence Ministries meet to discuss the potential partnership between the two organizations;

⁴ The Triple Aim is a framework developed by the Institute for Healthcare Improvement, a 501(c)(3) with a mission to improve health and healthcare worldwide, for optimizing health system performance by simultaneously accomplishing three objectives: 1) improve the health of the population, 2) enhance the patient experience of care, and 3) reduce the per capital cost of healthcare.

- April 30, 2015 – Members of Providence Health & Services’ Board of Directors meet to discuss an overview of St. Joseph Health System and the potential partnership between the two organizations;
- May 6, 2015 – St. Joseph Health System’s Board of Trustees and St. Joseph Health Ministry meet to discuss the potential partnership with Providence Health & Services;
- May 21, 2015 – Members of Providence Health & Services’ Board of Directors hold a meeting to discuss the potential partnership and to share current management perspectives;
- June 5, 2015 – Providence Health & Services’ Board of Directors meets to provide an update on the transaction process and to share Providence Health & Services’ and St. Joseph Health System’s draft vision statement;
- June 17, 2015 – Providence Ministries and Providence Health & Services’ Board of Directors meet and agree to engage in discussions with St. Joseph Health System to prepare the Letter of Intent;
- June 25, 2015 – St. Joseph Health Ministry and St. Joseph Health System’s Board of Trustees pass a resolution authorizing the preparation of the Letter of Intent;
- July 27, 2015 – Providence Health & Services’ Board of Directors and St. Joseph Health System’s Board of Trustees hold a joint meeting to review the Letter of Intent and the Letter of Intent approval process;
- July 29, 2015 – Providence Health & Services’ Board of Directors and Providence Ministries pass a joint resolution authorizing the execution of the Letter of Intent and establishing a negotiating team and special committee to conduct negotiations on the terms and conditions of the transaction with St. Joseph Health System;
- July 29, 2015 – St. Joseph Health System’s Board of Trustees and St. Joseph Health Ministry pass a joint resolution authorizing the execution of the Letter of Intent and establishing a negotiating team and special committee to conduct negotiations on the terms and conditions of the transaction with Providence Health & Services;
- July 29, 2015 – St. Joseph Health System and Providence Health & Services enter into a Letter of Intent to unite St. Joseph Health System and Providence Health & Services as a fully integrated, Catholic-sponsored, nonprofit healthcare system;
- July 31, 2015 – Providence Health & Services and St. Joseph Health System issue a press release announcing their potential partnership;

- September 18, 2015 – Providence Health & Services’ Board of Directors approves and passes a resolution authorizing the execution of the Health System Combination Agreement;
- September 25, 2015 – St. Joseph Health System’s Board of Trustees approves and passes a resolution authorizing the execution of the Health System Combination Agreement and the Supplemental Agreement with Hoag Memorial Hospital Presbyterian;
- September 25, 2015 – Providence Health & Services’ Board of Directors approves and passes a resolution authorizing the execution of the Supplemental Agreement with Hoag Memorial Hospital Presbyterian;
- November 24, 2015 – “Notice of Submission and Request for Consent” is submitted by Providence Health & Services and St. Joseph Health System to the Office of the California Attorney General; and
- November 25, 2015 – Providence Health & Services and St. Joseph Health System issue a press release announcing that the California Attorney General is reviewing the proposed change in governance.

Health System Combination Agreement

The proposed Health System Combination Agreement, dated November 23, 2015, contains the following major provisions:

- Together, St. Joseph Health System and Providence Health & Services shall form Providence St. Joseph Health, a new Washington nonprofit corporation, to become the sole corporate member of Providence Health & Services and St. Joseph Health System effective upon closing;
 - Providence St. Joseph Health will serve as the parent corporation over Providence Health & Services and St. Joseph Health System;
 - Providence Health & Services and St. Joseph Health System shall continue to operate according to their respective governing documents, subject to the reserved powers of Providence St. Joseph Health;
 - The purpose and function of the subsidiary boards of Providence Health & Services and St. Joseph Health System shall not change and shall continue to operate according to their respective governing documents;

- Providence St. Joseph Health intends to form a single-obligated group that will allow both Providence Health & Services and St. Joseph Health System to:
 - Become jointly and severally liable for all organization tax-exempt debt; and
 - Allocate risk and optimize borrowing strategy.
- Providence St. Joseph Health intends to create a single-cash and integrated investment program.
- St. Joseph Health Ministry and Providence Ministries will enter into a separate co-sponsorship agreement establishing the Co-Sponsors Council through contractual obligations exercised by St. Joseph Health Ministry and Providence Ministry;
 - The Co-Sponsors Council will become the sole corporate member of Providence St. Joseph Health; and
 - Some of the reserved rights of the Co-Sponsors Council are:
 - Approve any change to mission, philosophy, vision, and values;
 - Adopt, amend, or repeal civil Articles of Incorporation or Bylaws of Providence St. Joseph Health, of any civil corporation of which Providence St. Joseph Health is a controlling member, to the extent permitted by applicable law;
 - Monitor the application of the Ethical and Religious Directives within Providence St. Joseph Health and its Catholic subsidiaries, and in the case of non-compliance, require the correction of any anomaly;
 - Fix the number and appoint and/or remove the trustees of Providence St. Joseph Health and of any corporation of which Providence St. Joseph Health is the controlling member;
 - Approve incurrences of indebtedness or the sale, transfer, assignment, or encumbering of the assets of Providence St. Joseph Health and any corporation of which Providence St. Joseph Health is the controlling member, pursuant to policies established from time to time by the Co-Sponsors Council;
 - Appoint the President/Chief Executive Officer of Providence St. Joseph Health, and to remove such President/Chief Executive Officer of Providence St. Joseph Health, with or without cause, after consideration of input from the Providence St. Joseph Health Board;
 - Approve, on a consolidated system-wide basis, the annual operating and capital budget of Providence St. Joseph Health, and approve of any deviations from such budgets in excess of an amount of percentage specified from time to time by resolution of the Co-Sponsors Council;

- Approve the merger, dissolution, or sale of substantially all Providence St. Joseph Health division or local ministry assets; and
 - Approve the initiation or closure of any major work of Providence St. Joseph Health and of any corporation of which Providence St. Joseph Health is the controlling member.
- St. Joseph Health System and Providence Health & Services shall establish the Providence St. Joseph Health Board as follows:
 - The Providence St. Joseph Health Board shall consist of fourteen elected members with equal voting rights;
 - The President and Chief Executive Officer of Providence St. Joseph Health shall serve as an ex-officio member, with voting privileges;
 - Seven members of the Providence St. Joseph Health Board shall be appointed by St. Joseph Health System and seven members shall be appointed by Providence Health & Services;
 - Each elected member shall serve an initial three-year term, subject to the reserved rights of their respective Sponsors during the initial term;
 - Following the initial three-year term, the elected members shall be self-perpetuating, with members serving staggered terms, without regard to representational requirements, and subject to the reserved rights of the Co-Sponsors Council;
 - No member of the Providence St. Joseph Health Board may serve more than nine consecutive years, excluding the President and Chief Executive Officer; and
 - Voting shall be decided by a simple majority, unless a greater majority is required by law.
- The restated bylaws of Providence Health & Services and the restated bylaws of St. Joseph Health System will reserve rights to Providence St. Joseph, such as the ability to:
 - Approve and recommend to Co-Sponsors Council the appointment and/or removal of the Providence St. Joseph Health Board of Directors;
 - Approve and recommend to Co-Sponsors Council the appointment and/or removal of Providence St. Joseph Health Board Chair;

- Approve and recommend to Co-Sponsors Council the amendment of articles, bylaws, or other governing documents of Providence St. Joseph Health, St. Joseph Health System, or Providence Health & Services;
- Approve and recommend to Co-Sponsors Council the affiliation or acquisition involving Providence St. Joseph Health, St. Joseph Health System or Providence Health & Services;
- Approve the strategic plan for all Catholic facilities, ministries and operations of Providence St. Joseph Health, Providence Health & Services, and St. Joseph Health System;
- Approve Providence St. Joseph Health’s goals and objectives;
- Approve and recommend to Co-Sponsors Council the initiation or closure of a major work of Providence St. Joseph Health, St. Joseph Health System, or Providence Health & Services;
- Approve initiation or closure of programs and services of St. Joseph Health System or Providence Health & Services;
- Approve and recommend to Co-Sponsors Council the dissolution, liquidation, consolidation, or merger of Providence St. Joseph Health, St. Joseph Health System or Providence Health & Services;
- Approve and recommend to Co-Sponsors Council the annual consolidated Providence St. Joseph Health’s budget;
- Approve debt authorization (including loan guarantees) up to an amount to be determined;
- Approve the long-range financial plan of Providence St. Joseph Health;
- Approve budgeted substitutions of Providence St. Joseph Health;
- Approve unbudgeted expenditures of Providence St. Joseph Health;
- Approve sale of non-church real and personal property/assets of Providence St. Joseph Health, St. Joseph Health System, or Providence Health & Services; and
- Approve system-wide Providence St. Joseph Health compliance program and policies.

- All employees shall remain employed by the entity that currently employs them with compensation and benefits established by their respective employers, and both St. Joseph Health System and Providence Health & Services will continue maintaining their respective employee benefit plans to be in material compliance with applicable laws;
- The medical staff shall not be adversely affected nor require a change to the medical staff privileges held by any member of the medical staff of the hospitals;
- Capital projects approved by either St. Joseph Health System or Providence Health & Services prior to closing shall not be subject to an additional review process;
- Divisional headquarters for St. Joseph Health System and Providence Health & Services' California operations shall be located in Irvine, California. System headquarters for Providence St. Joseph Health shall be located in Renton, Washington;
- St. Joseph Health System and Providence Health & Services have made the following commitments:
 - Maintain the hospitals as general acute care hospitals for a period of five years;
 - Maintain and provide 24-hour emergency department services as currently licensed for a period of five years;
 - Continue to participate in the Medicare program and have a Medicare provider number for a period of five years to provide the same types and levels of services as provided as of closing of the transaction;
 - Continue to participate in the Medi-Cal program for a period of five years, including maintaining Medi-Cal Managed Care contracts on competitive terms that provide the same types and levels of services as in the existing contracts;
 - Continue contracts with local government agencies on current terms for a period of five years, unless such contracts expire or are terminated for cause;
 - Provide an annual amount of charity care at each of the hospitals for a period of five years that is no less than the Fiscal Year (FY) 2014-2015 average of each of the hospitals;
 - Provide an annual amount of community benefit services at each of the hospitals for a period of five years that is no less than the four year (FY 2011-2014) average at each of the hospitals, subject to Consumer Price Index adjustments; and

- Continue key service lines at the hospitals, including women’s health services, for a period of five years as listed in the summary table below:

ST. JOSEPH HEALTH SYSTEM & PROVIDENCE HEALTH & SERVICES: SERVICE LINE COMMITMENT	
Hospital	Service Line
St. Joseph Health System	
Mission Hospital Regional Medical Center	Behavioral health, cardiology, diabetes, emergency, gastroenterology, imaging/radiology, intensive care, laboratory, neurosciences, obstetrics and neonatal intensive care, oncology, orthopedics, pediatrics, rehabilitation, respiratory, surgery, trauma, vascular, and women's services
Petaluma Valley Hospital	Emergency, imaging/radiology, intensive care, laboratory, obstetrics, oncology, orthopedics, palliative care, rehabilitation, vascular, and women's services
Queen of the Valley Medical Center	Cardiology, emergency, imaging/radiology, interventional radiology, intensive care, laboratory, neurosciences, obstetrics and neonatal intensive care, oncology, orthopedics, palliative care, rehabilitation, surgery, wellness, women's, and wound care services
Redwood Memorial Hospital	Cardiology, emergency, gastroenterology, imaging/radiology, intensive care, laboratory, neurosciences, obstetrics, oncology, orthopedics, palliative care, rehabilitation, and surgery services
Santa Rosa Memorial Hospital	Bariatric surgery, behavioral health, cardiology, emergency, imaging/radiology, interventional radiology, intensive care, laboratory, neurosciences, obstetrics, oncology, orthopedics, palliative care, rehabilitation, surgery, trauma, vascular, and women's services
St. Joseph Hospital-Eureka	Cardiology, emergency, gastroenterology, imaging/radiology, interventional radiology, intensive care, laboratory, neurosciences, obstetrics and neonatal intensive care, oncology, orthopedics, palliative care, rehabilitation, and surgery services
St. Joseph Hospital of Orange	Anesthesia, bariatric surgery, behavioral health, cardiology, emergency services, gastroenterology, imaging/radiology, interventional radiology, intensive care, kidney dialysis, laboratory, neurosciences, obstetrics oncology, ophthalmology, orthopedics, palliative care, rehabilitation, surgery, urology, women's, and wound care services
St. Jude Medical Center	Anesthesia, cardiology, emergency, gastroenterology, geriatric, imaging/radiology, interventional radiology, laboratory, neurosciences, obstetrics and neonatal intensive care, oncology, orthopedics, palliative care, pathology, rehabilitation, speech therapy, surgery, wellness and fitness, women's, and wound care services
St. Mary Medical Center	Cardiology, diabetes, emergency, imaging/radiology, intensive care, laboratory, obstetrics and neonatal intensive care, rehabilitation, surgery, women's, and wound care services
Providence Health & Services	
Providence Holy Cross Medical Center	Ambulatory surgery, cardiac catheterization, cardiology, emergency, endoscopy, imaging/radiology, intensive care, interventional radiology, laboratory, neurosciences, obstetrics and neonatal intensive care, oncology, orthopedics, palliative care, pulmonary, rehabilitation, sub-acute, telemetry, trauma, vascular, and women's services
Providence Little Company of Mary Medical Center-San Pedro	Acute psychiatry, center for optimal aging, chemical dependency, community outreach, diabetes, emergency, endocrinology, imaging/radiology, intensive care, internal medicine, laboratory, neurosciences, nutritional, obstetrics, oncology, palliative care, pathology, rehabilitation, respiratory, spiritual care, surgery, sub-acute, women's, and wound care services
Providence Little Company of Mary Medical Center-Torrance	Blood donor center, cardiovascular, community outreach, emergency, diabetes, endocrinology, imaging/radiology, intensive care, internal medicine, laboratory, neurosciences, nutritional, obstetrics and neonatal intensive care, orthopedics, oncology, palliative, pathology, pediatrics, respiratory, spiritual care, surgery, rehabilitation, urology, volunteer, women's, and wound care services
Providence Saint Joseph Medical Center	Ambulatory surgery, cardiac catheterization, cardiology, emergency, paramedic base station, endoscopy, imaging/radiology, intensive care, interventional radiology, laboratory, neurosciences, orthopedics, obstetrics and neonatal intensive care, oncology, palliative care, pulmonary, rehabilitation, surgery, telemetry, vascular, and women's services
Providence Tarzana Medical Center	Ambulatory surgery, cardiac catheterization, cardiology, emergency, endoscopy, imaging/radiology, intensive care, interventional radiology, laboratory, neurosciences, obstetrics and neonatal intensive care, oncology, orthopedics, palliative care, pulmonary, surgery, pediatric and pediatric intensive care, telemetry, vascular, and women's services

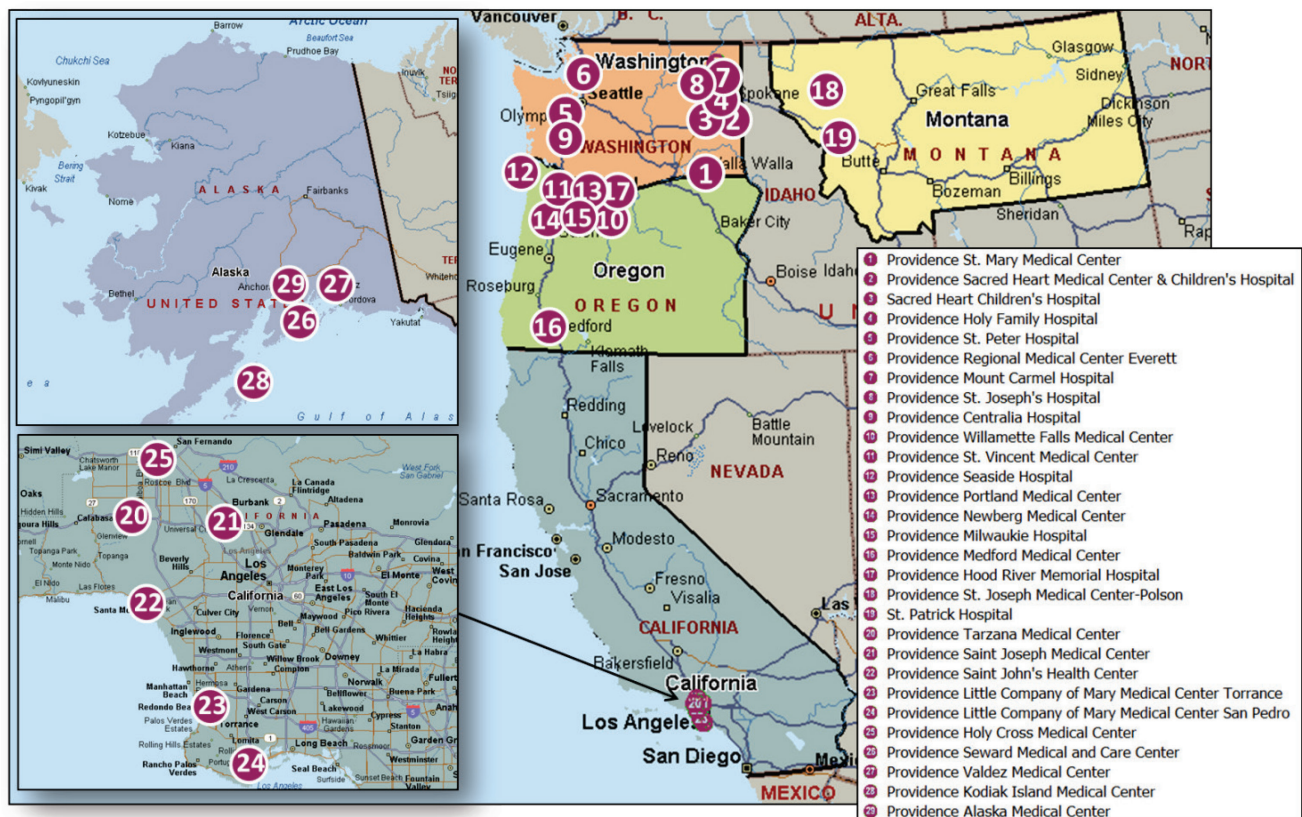
Use of Net Sale Proceeds

There will be no net proceeds as a result of the proposed transaction.

PROFILE OF PROVIDENCE HEALTH & SERVICES

Providence Health & Services is a nonprofit Catholic healthcare system that traces its beginnings back to 1843 when a religious community of Catholic women, later called the Sisters of Providence, was founded in Montreal, Canada. In 1856, Mother Joseph of the Sacred Heart led a group of four Sisters of Providence to the Washington Territory, where the pioneer sisters began caring for elderly women, orphaned children, and the sick in what was called the “Providence Enclosure.” In 1858, they opened St. Joseph Hospital, one of the first hospitals in the Northwest, and by 1859, the Sisters of Providence created the structure for the current network of healthcare services known as Providence Health & Services.

Providence Health & Services has grown to be one of the largest nonprofit health systems in the United States. Providence Ministries is the Catholic sponsor of Providence Health & Services. Today, Providence Health & Services, headquartered in Renton, Washington, employs 76,000 employees, who provide a diverse range of services across five states: Alaska, California, Montana, Oregon, and Washington. Providence Health & Services currently operates 34 hospitals, 475 physician clinics, 22 long-term care facilities, 19 hospice and home health programs, and 693 supportive housing units. Providence Health & Services operates Providence Health Plan, an Oregon nonprofit healthcare service contractor, that provides Medicare, Medicaid, and individual and family health insurance plans to 436,000 members.



Approximately 70 years ago, Providence Health & Services began its operations in Southern California, where it currently operates the following hospitals: Providence Holy Cross Medical Center, Providence Little Company of Mary Medical Center San Pedro, Providence Little Company of Mary Medical Center Torrance, Providence Saint John's Health Center, Providence Saint Joseph Medical Center, and Providence Tarzana Medical Center. Descriptions of Providence Health & Services-Southern California's hospitals are provided below:

Providence Holy Cross Medical Center is located in Mission Hills, was founded in 1961, and provides healthcare services to the San Fernando, Santa Clarita, and Simi Valley communities. It is a general acute care hospital that is currently licensed for 377 beds and has a medical staff consisting of over 600 physicians. The Medical Center offers both inpatient and outpatient health services, including oncology, cardiology, orthopedics, neurosciences, rehabilitation services, women's and children's services. The Medical Center is designated as a Level II Trauma Center and STEMI Receiving Center, and is certified as a Primary Stroke Center.

Providence Little Company of Mary Medical Center San Pedro is located in San Pedro, was founded in 1925, and provides healthcare services to the South Bay community. It is a general acute care hospital that is currently licensed for 356 beds and has a medical staff consisting of over 400 physicians. The hospital offers a variety of medical services, including emergency care, intensive care, medical and surgical services, obstetrics, and orthopedics. The hospital is also certified as a Primary Stroke Center.

Providence Little Company of Mary Medical Center Torrance is located in Torrance, was opened in 1960, and provides healthcare services to the South Bay Community. It is a general acute care hospital that is currently licensed for 442 beds, employs approximately 2,100 individuals, and has a medical staff consisting of approximately 900 physicians. The hospital offers general medical, surgical, and critical care services. The hospital also offers cardiovascular, oncology, emergency care, and women's and children's health services. The hospital is designated as Level III Neonatal Intensive Care Unit and a STEMI Receiving Center, and is certified as a Primary Stroke Center.

Providence Saint John's Health Center is located in Santa Monica, was founded in 1942, and provides healthcare services to communities in West Los Angeles. Today, the health center is a general acute care hospital that is currently licensed for 266 beds. The health center provides emergency, heart and vascular care, oncology, orthopedics, and women's health services. The health center is also designated as a STEMI Receiving Center. Providence Saint John's Health Center is the sole corporate member of the John Wayne Cancer Institute, an institute that conducts research to advance the treatment of complex cancers.

Providence Saint Joseph Medical Center is located in Burbank and was founded in 1943 by the Sisters of Providence. The Medical Center is a general acute care hospital that is currently licensed for 446 beds, has approximately 2,300 employees, over 700 physicians, and is the second-largest hospital serving the San Fernando and Santa Clarita Valleys. The Medical Center offers a variety of services and programs through its Roy & Patricia Disney Family Cancer

Center, heart and vascular center, The Hycy and Howard Hill Neuroscience Institute, breast health center, and Trinity Hospice. The Medical Center is also designated as a STEMI Receiving Center and certified as a Primary Stroke Center.

Providence Tarzana Medical Center is located in Tarzana, was founded in 1973, and provides healthcare services to the San Fernando Valley communities. It is a general acute care hospital that is licensed for 249 beds, has a medical staff consisting of nearly 800 physicians, and has over 1,300 employees. The Medical Center offers a comprehensive range of healthcare services that include cardiology, vascular, orthopedics, women’s services, pediatrics, neonatal, and emergency care. The Medical Center is designated as a STEMI Receiving Center and a Level III Neonatal Intensive Care Unit, and is certified as a Primary Stroke Center.

Providence Health & Services –Southern California also operates the following entities:

Providence Medical Institute

Providence Medical Institute operates as a nonprofit medical practice foundation⁵ and provides primary and specialty care services, including family and internal medicine, obstetrics and gynecology, pediatrics, cardiology, and dermatology services. Providence Medical Institute was founded in 1995, and is currently affiliated with the following medical groups: Providence Medical Group, Providence Care Network, Affiliates in Medical Specialties, and Axminster Medical Group. Together, they employ over 200 providers located at more than 30 medical offices throughout the Greater Los Angeles area.

Facey Medical Foundation

Facey Medical Foundation operates as a nonprofit medical practice foundation and manages Facey Medical Group. Facey Medical Group provides primary and specialty care services, including family and internal medicine, obstetrics and gynecology, pediatrics, behavioral health, ophthalmology, and gastroenterology services, to the residents of San Fernando Valley, Santa Clarita Valley, and Simi Valley. Facey Medical Group is currently comprised of over 200 healthcare providers in 12 locations.

Providence High School

Providence High School, located in Burbank, was founded in 1955 by the Sisters of Providence. It is a private, co-educational, independent, college preparatory Catholic high school, accredited by the Western Catholic Education Association and the Western Association of Schools and

⁵ Providence Medical Institute and Facey Medical Foundation operate under California Health and Safety Code section 1206(l). Under section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than ten board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

Colleges. It is also a member of the California Association of Independent Schools, and is nationally recognized as a Blue Ribbon High School.

Providence St. Elizabeth Care Center

Providence St. Elizabeth Care Center, located in North Hollywood, is a skilled nursing facility licensed for 52 skilled nursing beds. Healthcare services include skilled nursing care, geriatric services, intravenous medication therapy, and respiratory services.

Providence TrinityCare Hospice

Providence TrinityCare Hospice provides end-of-life services for patients in need of palliative and hospice care throughout Southern California. Providence TrinityCare Hospice, which is supported by Providence TrinityCare Hospice Foundation, provides care for patients in hospitals, nursing homes, rehabilitation facilities, and in the home.

Providence Little Company of Mary Home Health

Providence Little Company of Mary Home Health provides a range of home health and clinical specialty programs for patients receiving treatment for illness, hospitalization, or surgery. Healthcare services include patient assessment and monitoring, IV therapy, total parenteral nutrition, gastric feeding tube services, wound care treatment, and pain management services.

Providence Little Company of Mary Sub-Acute Care Center

Providence Little Company of Mary Sub-Acute Care Center, located in San Pedro, is an adult care facility that specializes in the treatment of ventilator and tracheostomy-dependent patients, including inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management care.

Providence Little Company of Mary Transitional Care Center

Providence Little Company of Mary Transitional Care Center, located in Torrance, provides skilled nursing care for patients transitioning from inpatient acute care to the home.

The Roy and Patricia Disney Family Cancer Center

The Roy and Patricia Disney Family Cancer Center, located in Burbank, provides prevention, detection, diagnosis, medical and surgical treatment, rehabilitation, and support services for patients with cancer, including the Providence Saint Joseph Breast Health Center.

Providence House

Providence House, founded in 1991 and located in Oakland, provides 40 apartments for individuals on fixed incomes living with HIV/AIDs and disabilities.

Key Statistics

Key statistics for the Providence Health & Services-Southern California hospitals include the following:

- In FY 2014, the hospitals operated a total of 2,116 licensed beds with an average occupancy rate of 56% and an average daily census of 1,171 patients;
- From FY 2013 to FY 2014, total inpatient discharges increased approximately 15% from 74,733 to 85,759; and
- Based on FY 2014 inpatient discharges, the percentages of Medicare and Medi-Cal were 45% and 20%, respectively.

Payer Mix

The following table illustrates the Providence Health & Services-Southern California hospitals' inpatient discharge payer mix compared to Los Angeles County and the State of California for FY 2014. The comparison shows that the six combined hospitals have higher percentages of Medicare Traditional, Medicare Managed Care, Third Party Traditional, and Third-Party Managed Care patients and lower percentages of Medi-Cal Traditional and Medi-Cal Managed Care patients relative to the average for all hospitals in Los Angeles County and the State of California.

PAYER MIX COMPARISON						
	Providence Health & Services (FY 2014)		Los Angeles County (FY 2014)		California (FY 2014)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	8,657	10.1%	157,394	18.5%	448,311	15.8%
Medi-Cal Managed Care	8,688	10.1%	135,429	16.0%	435,129	15.3%
Medi-Cal Total	17,345	20.2%	292,823	34.5%	883,440	31.1%
Medicare Traditional	27,855	32.5%	233,810	27.5%	805,912	28.4%
Medicare Managed Care	10,965	12.8%	85,330	10.1%	273,709	9.6%
Medicare Total	38,820	45.3%	319,140	37.6%	1,079,621	38.0%
Third-Party Managed Care	20,981	24.5%	158,487	18.7%	610,781	21.5%
Third-Party Managed Care Total	20,981	24.5%	158,487	18.7%	610,781	21.5%
Third-Party Traditional	6,937	8.1%	30,357	3.6%	121,054	4.3%
Other Payers	762	0.9%	22,969	2.7%	62,617	2.2%
Other Indigent	914	1.1%	7,231	0.9%	32,930	1.2%
County Indigent	0	0.0%	17,931	2.1%	51,759	1.8%
Other Total	8,613	10.0%	78,488	9.2%	268,360	9.4%
Total	85,759	100%	848,938	100%	2,842,202	100%

Source: OSHPD Disclosure Reports, FY 2014

Quality & Awards

All of the Providence Health & Services-Southern California hospitals have received accreditation from The Joint Commission as indicated below:

Hospital	Effective Date
Providence Holy Cross Medical Center	5/8/2015
Providence Little Company of Mary Medical Center-San Pedro	1/17/2015
Providence Little Company of Mary Medical Center-Torrance	9/25/2015
Providence Saint John's Health Center	9/12/2015
Providence Saint Joseph Medical Center	8/8/2015
Providence Tarzana Medical Center	8/9/2014

Source: The Joint Commission

The Centers for Medicare & Medicaid Services developed the online tool, Hospital Compare, as a part of its Hospital Quality Initiative. Hospital Compare is designed to help improve hospitals' quality of care by distributing objective, easy to understand data on hospital performance, and quality information from consumer perspectives. The following table shows the most recent quality scores for the Providence Health & Services-Southern California hospitals in California as reported by Hospital Compare for measures of overall recommended care, readmission rate, overall patient experience, and overall surgical care:

PROVIDENCE HEALTH & SERVICES: QUALITY SCORES				
Hospital	Overall Recommended Care	Readmission Rate	Overall Patient Experience	Overall Surgical Care
State of California Average	96.9%	19.4%	68.0%	97.9%
Providence Holy Cross Medical Center	96.2%	19.9%	74.0%	99.7%
Providence Little Company of Mary Medical Center San Pedro	95.3%	19.5%	68.0%	96.4%
Providence Little Company of Mary Medical Center Torrance	98.2%	19.9%	75.0%	99.8%
Providence Saint John's Health Center	96.3%	19.2%	73.0%	99.9%
Providence Saint Joseph Medical Center	97.6%	19.8%	75.0%	99.8%
Providence Tarzana Medical Center	95.3%	19.4%	59.0%	98.0%

Source: Medicare.gov Hospital Compare

- For measures of overall recommended care, four of the hospitals (Providence Holy Cross Medical Center, Providence Little Company of Mary Medical Center San Pedro, Providence Saint John's Health Center, and Providence Tarzana Medical Center) had slightly lower rates than the State of California average. However, two hospitals (Providence Little Company of Mary Medical Center Torrance and Providence Saint Joseph Medical Center) scored above the State of California average;
- Four of the six hospitals had slightly higher rates of readmission than the State of California Average. Providence Tarzana Medical Center's readmission rate was the same as the State of California average (19.4%), and Providence Saint John's Health Center's readmission rate was lower than the statewide average (19.2%);

- Five of the six hospitals' overall patient experience scores met or exceeded the State of California average. Providence Tarzana Medical Center's overall patient experience score was lower than the State of California average (59.0% and 68.0%, respectively); and
- For measures of overall surgical care, only Providence Little Company of Mary Medical Center San Pedro's score of 96.4% fell below the State of California average.

Financial Profile

Combined Statement of Operations

PROVIDENCE HEALTH & SERVICES COMBINED STATEMENT OF OPERATIONS: CALENDAR YEARS ENDED 2013 & 2014 (In Thousands of Dollars)				
	Providence Health & Services System-Wide		Providence Health & Services Southern California	
	2013	2014	2013	2014
Net Patient Service Revenue	\$9,357,529	\$10,294,637	\$1,647,280	\$1,840,535
Provision for Bad Debts	(\$299,791)	(\$193,018)	(\$48,600)	(\$71,899)
Net Patient Service Revenue Less Provision for Bad Debts	\$9,057,738	\$10,101,619	\$1,598,680	\$1,768,646
Premium and Capitation Revenues	\$1,445,107	\$1,682,968	\$198,965	\$243,103
Other Revenues	\$633,835	\$696,390	\$65,332	\$92,240
Total Operating Revenues	\$11,136,680	\$12,480,977	\$1,862,977	\$2,103,989
Salaries and Wages	\$4,748,873	\$5,248,196	\$695,251	\$792,798
Employee Benefits	\$1,161,130	\$1,220,078	\$184,509	\$86,796
Purchased Healthcare	\$767,161	\$909,154	\$47,886	\$79,462
Professional Fees	\$463,838	\$514,990	\$173,737	\$213,768
Supplies	\$1,533,092	\$1,792,707	\$226,875	\$284,480
Purchased Services	\$944,487	\$977,247	\$258,663	\$153,017
Depreciation	\$596,623	\$676,357	\$80,766	\$102,861
Interest and Amortization	\$134,489	\$161,014	\$37,853	\$38,187
Other Operating Expenses	\$749,316	\$762,082	\$184,422	\$78,346
Total Operating Expenses	\$11,099,009	\$12,261,825	\$1,889,962	\$1,829,715
Excess of Revenues Over Expenses from Operations	\$37,671	\$219,152	(\$26,985)	\$274,274
Gains from Affiliations	-	\$476,110	-	-
Loss on Extinguishment of Debt	(\$1,671)	(\$85,522)	-	-
Investment Income, Net	\$248,572	\$178,043	-	-
Pension Settlement Costs and Other	(\$30,302)	(\$16,361)	-	-
Total Net Nonoperating Gains	\$215,599	\$552,270	\$16,132	\$143,908
Excess of Revenues Over Expenses	\$253,270	\$771,422	(\$10,853)	\$418,182
Net Assets Released from Restriction for Capital	\$10,786	\$13,646	(\$594)	\$3,924
Change in Noncontrolling Interests in Consolidated Joint Ventures	(\$29,139)	\$584	(\$811)	\$553
Pension Related Changes	\$385,702	(\$249,011)	-	-
Interdivision Transfers	-	-	(\$29,915)	(\$414,211)
Contributions, Grants, and Other	(\$4,040)	(\$8,639)	\$4,077	(\$16,054)
Increase in Unrestricted Net Assets	\$616,579	\$528,002	(\$38,096)	(\$7,606)

Source: Providence Health & Services Combined Financial Statement, FY 2013 & 2014 (KPMG)

Providence Health & Services System-Wide Performance

Providence Health & Services' audited combined financial statements⁶ for FY 2013 and FY 2014 display the system-wide performance of the entity and its affiliates. The system displays increasing operating revenues and excess of revenues over expenses from operations.

⁶ Providence Health & Services' audited combined financial statements, prepared by KPMG, pertain to the entire Providence Health & Services system, including its operations outside of California.

- Net patient service revenue (less provision for bad debts) of \$10.1 billion in FY 2014 represents a net increase of \$1.0 billion (11.5%) as compared to FY 2013. Total operating revenues increased by \$1.3 billion (12%) to \$12.5 billion in FY 2014;
- Total operating expenses increased by 10.5% in FY 2014 to \$12.3 billion. Providence Health & Services' salaries and benefits expenses accounted for 42.8% of total expenses;
- In FY 2014, Providence Health & Services realized a net non-operating gain of \$552.3 million, representing a 156% increase from the net non-operating gain of \$215.6 million in FY 2013. This increase included investment income from trading securities, income from recipient organizations, pension settlement costs, and other income. Contributions from affiliations with Providence Saint John's Health Center, Pacific Medical Centers, and Kadlec Health System also are included in net non-operating gains in FY 2014; and
- Excess of revenues over expenses from operations increased from \$37.7 million in FY 2013 to \$219.2 million in FY 2014.

Providence Health & Services-Southern California Performance

Providence Health & Services-Southern California's combined financial statements for FY 2013 and FY 2014 display the performance of the Providence Health & Services-Southern California entities and affiliates. The region shows increasing operating revenues and excess of revenues over expenses from operations.

- Net patient service revenue (less provision for bad debts) of \$1.77 billion in FY 2014 represents a net increase of \$170 million (10.6%) as compared to FY 2013. Total operating revenues increased by \$241 million (13.0%) to \$2.1 billion in FY 2014;
- Total operating expenses decreased by 3.2% in FY 2014 to \$1.83 billion. The salaries and wages expenses accounted for approximately 43.3% of total expenses;
- In FY 2014, Providence Health & Services-Southern California realized a net non-operating gain of \$143.9 million, representing a significant increase from the net non-operating gain of \$16.1 million in FY 2013; and
- Excess of revenues over expenses from operations increased from a loss of \$27.0 million in FY 2013 to a gain of \$274.3 million in FY 2014.

PROFILE OF ST. JOSEPH HEALTH SYSTEM

St. Joseph Health System is a ministry of the Sisters of St. Joseph of Orange, whose origins can be traced back to the 17th Century. In 1650, Father Jean Pierre Medaille, a traveling Jesuit priest and missionary, encountered a group of women in Le Puy, France who were providing care to the homeless and sick members of their community. Father Madaille formally organized the group of women into a religious community named the “Sisters of Saint Joseph.” In 1912, at the invitation of the local bishop, a small contingent of the Sisters of St. Joseph traveled to establish a school in Eureka, California. A few years later in 1918, the great influenza epidemic broke out and caused the Sisters to temporarily give up their education efforts in order to provide care for the sick. The Sisters of St. Joseph determined that the community needed a hospital. In 1920, the Sisters opened St. Joseph Hospital-Eureka with 28 beds.

Today, St. Joseph Health System is organized into three regions: Northern California, Southern California, and West Texas/Eastern New Mexico. St. Joseph Health System employs 24,733 individuals who provide care across a full range of facilities including 14 acute care hospitals, home health agencies, hospice care, outpatient services, skilled nursing facilities, community clinics, and physician organizations.



St. Joseph Health System operates the following hospitals in Southern California: Hoag Memorial Hospital Presbyterian, Hoag Orthopedic Institute, St. Joseph Hospital-Eureka, Redwood Memorial Hospital, Santa Rosa Memorial Hospital, Petaluma Valley Hospital, Queen of the Valley Medical Center, St. Joseph Hospital of Orange, St. Jude Medical Center, St. Mary Medical Center, and Mission Hospital Regional Medical Center, which operates two general acute care hospitals under the same license. Descriptions of St. Joseph Health System's Southern California hospitals are provided below:

Hoag Memorial Hospital Presbyterian has campuses in Newport Beach and Irvine, was founded over 60 years ago, and provides healthcare services to the Orange County community. Both campuses are licensed as general acute care hospitals and are currently licensed for a combined total of 527 beds. The hospitals provide emergency, medical/surgical, cardiovascular, maternity, neonatal intensive care, critical care, and chemical dependency services. They are both designated as STEMI Receiving Centers, and the Newport Beach campus is designated as a Stroke Neurology Receiving Center.

Hoag Orthopedic Institute is an orthopedic specialty hospital in Irvine. The institute is licensed for 70 beds and has a medical staffing consisting of over 300 specialty physicians who provide a range of orthopedics services including spine care, joint care, sports medicine, trauma and fracture care, and sarcoma treatment services.

St. Mary Medical Center is located in Apple Valley and first opened in 1956 as a 29-bed acute and maternity care facility. Today, the hospital is a general acute care hospital that is currently licensed for 212 beds and has a medical staff consisting of over 300 physicians. It provides healthcare services to the Apple Valley community, including 24-hour emergency services, pediatric care, cardiology services, and wellness and prevention programs such as diabetes education. It is designated as a STEMI Receiving Center.

St. Jude Medical Center is located in Fullerton, has been in operation for over 50 years, and provides healthcare services to the Orange County community. The Medical Center is a general acute care hospital that is currently licensed for 351 beds and has a medical staff consisting of nearly 600 physicians. The Medical Center provides medical services across a wide range of specialties and subspecialties, including oncology, cardiology, maternity, orthopedics, and outpatient rehabilitation services. It is designated as a STEMI Receiving Center and is certified as a Comprehensive Stroke Center.

St. Joseph Hospital of Orange is located in Orange, opened in September of 1929, and provides healthcare services to the Orange County community. It is a general acute care hospital that is currently licensed for 463 beds, employs over 3,100 staff, and has a medical staff consisting of over 1,000 physicians. The hospital offers bariatric surgery, behavioral health, orthopedics, and kidney transplant services. The hospital has the Nasal and Sinus Center, the Heart and Vascular Center, the Center for Cancer Prevention and Treatment, and the Kidney Dialysis Center. It is designated as a STEMI Receiving Center and is certified as a Primary Stroke Center.

Mission Hospital Regional Medical Center has campuses in Mission Viejo and Laguna Beach. Both are general acute care hospitals that provide a wide range of patient services and are currently licensed for a combined total of 552 beds with a medical staff of over 750 physicians. The Medical Center has several specialty centers that include Heart Center, Spine Center, Women's Center, and the Imaging Center. The Mission Viejo campus is designated as a Level II Trauma Center and STEMI Receiving Center and is certified as a Primary Stroke Center.

St. Joseph Health System operates the following hospitals in Northern California: St. Joseph Hospital-Eureka, Redwood Memorial Hospital, Santa Rosa Memorial Hospital, Petaluma Valley Hospital, and Queen of the Valley Medical Center. Descriptions of St. Joseph Health System's Northern California hospitals are provided below:

St. Joseph Hospital-Eureka is located in Eureka, first opened in 1920, and provides healthcare services to the Eureka community. It is a general acute care hospital that is currently licensed for 153 beds with a medical staff of over 300 physicians. It provides emergency, cardiology, surgical, pediatric, maternity, and rehabilitation services. It also has a Sexual Assault Response Team and operates a Level II Neonatal Intensive Care Unit.

Redwood Memorial Hospital is located in Fortuna and provides healthcare services to the Fortuna community. It is a general acute care and critical care access hospital that is currently licensed for 35 beds with a medical staff of over 100 physicians. The hospital provides emergency, critical care, obstetric, surgical, outpatient rehabilitation, and radiology services, including ultrasound, digital mammography, and bone density services.

Santa Rosa Memorial Hospital is located in Santa Rosa and serves the communities of Sonoma County, Mendocino County, Napa County, and Lake County. The hospital is a general acute care hospital and is currently licensed for 278 beds with a medical staff of nearly 500 physicians. The hospital provides a range of specialty services, including emergency, pediatric, maternal and child health, joint replacement, and rehabilitation services. It is designated as a STEMI Receiving Center, certified as a Primary Stroke Center, and operates the region's only Level II Trauma Center.

Petaluma Valley Hospital is located in Petaluma in Sonoma County. It is a general acute care hospital that is currently licensed for 80 beds with a medical staff of over 250 physicians. The hospital offers 24-hour emergency, intensive care, and surgical services. It also operates a Family Birth Center.

Queen of the Valley Medical Center is located in Napa, was founded in 1958 by the Sisters of St. Joseph of Orange, and provides services to the Napa Valley community. The Medical Center is a general acute care hospital that is currently licensed for 208 beds with a medical staff of over 300 physicians. It provides oncology, orthopedics, imaging, cardiac, maternity and infant care, emergency, and wellness services. It is designated as a STEMI Receiving Center.

St. Joseph Health System also operates the following entities:

St. Joseph Heritage Healthcare

St. Joseph Heritage Healthcare operates as a nonprofit medical practice foundation⁷ and provides primary and specialty care services, including family and internal medicine, pediatrics, dermatology, cardiology, and obstetrics and gynecology services. St. Joseph Heritage Healthcare is comprised of eight medical groups, including St. Jude Heritage Medical Group, St. Joseph Heritage Medical Group, Mission Heritage Medical Group, Hoag Medical Group, St. Mary High Desert Medical Group, Annadel Medical Group, Queen of the Valley Medical Associates, and Humboldt Medical Specialists. St. Joseph Heritage Healthcare also has several contracted physician networks that include St. Jude Affiliated Physician Network, St. Joseph Hospital Affiliated Physician Network, Mission Hospital Affiliated Physician Network, Hoag Affiliated Physician Network, and Premier IPA. In total, St. Joseph Heritage Healthcare is comprised of over 400 healthcare providers.

St. Joseph Health System Foundation

The St. Joseph Health System Foundation, also known as the St. Joseph Health Community Partnership Fund, supports St. Joseph Health System's mission to improve the health and wellbeing of low-income individuals and families by raising and allocating funds and resources to various community programs.

Key Statistics

Key statistics for St. Joseph Health System's California hospitals include the following:

- In FY 2014, the hospitals operated a total of 2,357 licensed beds with an average occupancy rate of 48% and an average daily census of 1,183 patients;
- From FY 2013 to FY 2014, total inpatient discharges decreased 8%, from 129,967 to 119,420; and
- The percentage of Medicare and Medi-Cal inpatient discharges in FY 2014 were 44% and 21%, respectively.

⁷ The medical foundation operates under California Health and Safety Code section 1206(l). Under section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than ten board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

Payer Mix

The following table illustrates St. Joseph Health System's California hospitals' inpatient discharge payer mix compared to the State of California for FY 2014. The comparison shows that St. Joseph Health System's California hospitals have higher percentages of Medicare Traditional, Third Party Managed Care, and County Indigent patients and lower percentages of Medi-Cal Managed Care and Third-Party Traditional patients relative to all hospitals in California.

PAYER MIX COMPARISON: FY 2014				
	St. Joseph Health System		California	
	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	10,337	10.6%	448,311	15.8%
Medi-Cal Managed Care	9,761	10.0%	435,129	15.3%
Medi-Cal Total	20,098	20.6%	883,440	31.1%
Medicare Traditional	32,046	32.8%	805,912	28.4%
Medicare Managed Care	11,039	11.3%	273,709	9.6%
Medicare Total	43,085	44.1%	1,079,621	38.0%
Third-Party Managed Care	27,166	27.8%	610,781	21.5%
Third-Party Managed Care Total	27,166	27.8%	610,781	21.5%
Third-Party Traditional	3,000	3.1%	121,054	4.3%
Other Payers	2,007	2.1%	62,617	2.2%
Other Indigent	327	0.3%	32,930	1.2%
County Indigent	2,103	2.2%	51,759	1.8%
Other Total	7,437	7.6%	268,360	9.4%
Total	97,786	100%	2,842,202	100%

Source: OSHPD Disclosure Reports, FY 2014

Quality & Awards

St. Joseph Health System's California hospitals are accredited as shown below:

Hospital	Accreditation Organization	Effective Date
Hoag Memorial Hospital Presbyterian	Det Norske Veritas Healthcare, Inc.	1/21/2013
Hoag Orthopedic Institute	Det Norske Veritas Healthcare, Inc.	11/19/2013
Mission Hospital Regional Medical Center	The Joint Commission	5/9/2015
Petaluma Valley Hospital	The Joint Commission	4/26/2014
Queen of the Valley Hospital	The Joint Commission	10/11/2014
Redwood Memorial Hospital	Healthcare Facilities Accreditation Program	Current
Santa Rosa Memorial Hospital	The Joint Commission	5/16/2014
St. Joseph Hospital-Eureka	Healthcare Facilities Accreditation Program	Current
St. Joseph Hospital of Orange	The Joint Commission	1/7/2015
St. Jude Medical Center	The Joint Commission	4/11/2015
St. Mary Medical Center	The Joint Commission	5/8/2015

Source: Det Norske Veritas Healthcare, Inc., The Joint Commission, & Healthcare Facilities Accreditation Program

The following table reports the most recent quality scores for St. Joseph Health System’s California Hospitals as reported by Hospital Compare for measures of overall recommended care, readmission rate, overall patient experience, and overall surgical care:

ST. JOSEPH HEALTH SYSTEM: QUALITY SCORES				
Hospital	Overall Recommended Care	Readmission Rate	Overall Patient Experience	Overall Surgical Care
State of California Average	96.9%	19.4%	68.0%	97.9%
Hoag Memorial Hospital Presbyterian	95.9%	18.1%	84.0%	98.9%
Hoag Orthopedic Institute	100.0%	-	87.0%	100.0%
Mission Hospital Regional Medical Center	95.0%	18.5%	74.0%	97.8%
Petaluma Valley Hospital	95.7%	17.7%	69.0%	96.7%
Queen of the Valley Hospital	95.5%	18.2%	73.0%	99.2%
Redwood Memorial Hospital	96.4%	17.7%	-	-
Santa Rosa Memorial Hospital	95.5%	16.3%	69.0%	98.9%
St. Joseph Hospital-Eureka	96.1%	17.4%	57.0%	96.4%
St. Joseph Hospital of Orange	98.6%	18.0%	78.0%	100.0%
St. Jude Medical Center	97.5%	18.1%	74.0%	98.5%
St. Mary Medical Center	91.0%	20.4%	63.0%	95.0%

Source: Medicare.gov Hospital Compare

- For measures of overall recommended care, eight of the 11 hospitals’ rates were slightly below the State of California average of 96.9%;
- Overall, the hospitals’ readmission rates were lower than the State of California average of 19.4%, with only St. Mary Medical Center reporting a higher readmission rate of 20.4%;
- The majority of the hospitals reported higher overall patient experience scores than the State of California’s score of 68.0%, with the exception of St. Joseph Hospital-Eureka (57.0%) and St. Mary Medical Center (63.0%); and
- For measures of overall surgical care, six of the hospitals exceeded the State of California average of 97.9%, while the remaining four hospitals scored slightly below the State of California average.

Financial Profile

Combined Statement of Operations

ST. JOSEPH HEALTH CONSOLIDATED STATEMENT OF OPERATIONS: FY 2014 & 2015 (in Thousands of Dollars)				
	St. Joseph Health System System-Wide		St. Joseph Health System - California	
	FY 2014	FY 2015	FY 2014	FY 2015
Patient Service Revenue, Net of Contractual Allowances and Discounts	\$4,480,661	\$4,955,644	\$3,482,028	\$3,848,303
Provision for Doubtful Accounts	\$205,438	\$182,093	\$152,695	\$133,150
Net Patient Service Revenue, Net of Provision for Doubtful Accounts	\$4,275,223	\$4,773,551	\$3,329,333	\$3,715,153
Premium and Capitation Revenues	\$1,130,559	\$1,192,711	\$316,304	\$137,830
Other Revenues	\$225,884	\$272,254	\$66,751	\$69,744
Total Revenues	\$5,631,666	\$6,238,516	\$3,712,388	\$3,922,727
Compensation and Benefits	\$2,467,614	\$2,535,488	\$1,710,935	\$1,690,419
Supplies and Other	\$1,139,382	\$1,494,824	\$813,735	\$1,093,027
Professional Fees and Purchased Services	\$1,598,746	\$1,705,587	\$699,878	\$545,945
Depreciation and Amortization	\$303,521	\$343,777	\$237,237	\$243,515
Interest	\$110,737	\$103,460	\$84,235	\$79,014
Impairment of Goodwill	\$27,754	-	\$1,002	-
Total Expenses	\$5,647,754	\$6,183,136	\$3,547,022	\$3,651,920
Operating Income	(\$16,088)	\$55,380	\$165,366	\$270,807
Net Nonoperating Gains	\$324,875	\$4,899	\$297,152	\$39,652
Excess of Revenues Over Expenses	\$308,787	\$60,279	\$462,518	\$310,459
Less Excess of Revenues of Expenses Attributable to Noncontrolling Interests	\$15,985	\$17,192	\$17,443	\$20,106
Excess of Revenues Over Expenses Attributable to Controlling Interests	\$292,802	\$43,087	\$445,075	\$290,353
Excess of Revenues Over Expenses Attributable to Controlling Interests	\$292,802	\$43,087	-	-
Net Assets Related from Restrictions and Other Attributable to Controlling Interests	\$2,425	\$50,773	-	-
Increase in Unrestricted Net Assets Attributable to Controlling Interests	\$295,227	\$93,860	-	-
Excess of Revenues Over Expenses Attributable to Noncontrolling Interests	\$15,985	\$17,192	-	-
Net Assets Related from Restrictions and Other Attributable to Noncontrolling Interests	\$15,221	\$21,204	-	-
Increase in Unrestricted Net Assets Attributable to Noncontrolling Interests	\$31,206	\$38,396	-	-
Increase in Unrestricted Net Assets	\$326,433	\$132,256	-	-
Net Restricted Contributions and Other	\$60,205	\$83,073	-	-
Restricted Net Assets Released from Restrictions	(\$33,384)	(\$47,459)	-	-
Increase in Temporarily and Permanently Restricted Net Assets	\$26,821	\$35,614	-	-
Increase in Net Assets	\$353,254	\$167,870	-	-
Net Assets at Beginning of Period	\$4,963,861	\$5,317,115	-	-
Net Assets at End of Period	\$5,317,115	\$5,484,985	-	-

Source: St. Joseph Health Consolidated Financial Statements and Supplementary Information, FY 2014 and 2015 (Ernst & Young LLP)

Note: The increase in unrestricted net assets, the increase in net assets, the net assets at beginning of period, and the increase in temporarily and permanently restricted net assets are unavailable for St. Joseph Health System - California

St. Joseph Health System's System-Wide Performance

St. Joseph Health System's audited consolidated financial statements for FY 2014 and FY 2015 display the system-wide performance of the entity and its affiliates.

- Net patient service revenue (less provision for bad debts) of \$4.8 billion in FY 2015 represents a net increase of approximately \$500 million (11.7%) as compared to FY 2014. Total revenues increased by \$607 million (10.8%) to \$6.2 billion in FY 2015;
- Total expenses increased by 9.5% in FY 2015 to \$6.2 billion. St. Joseph Health System's salaries and benefits expense accounted for approximately 43.7% of total expenses;
- In FY 2015, St. Joseph Health System realized a net non-operating gain of \$4.9 million, representing a substantial decrease from the net non-operating gain of \$324.9 million in FY 2014. Included in non-operating gains is interest, dividends, and realized gains on sales of marketable securities of \$154.7 million and \$174.7, net of related fees, for the fiscal years ended June 30, 2015 and 2014, respectively. Also included in non-operating gains are unrealized losses of \$102.6 million and net unrealized gains of approximately

\$182 million for fiscal years 2015 and 2014 respectively; and

- Operating income increased from a loss of \$16.1 million in FY 2014 to a gain of \$55.4 million in FY 2015. Excess of revenues over expenses decreased from \$308.8 million in FY 2014 to \$60.3 million in FY 2015 in part due to a large decrease in the net non-operating gain.

St. Joseph Health System's California Performance

St Joseph Health System California's consolidated financial statements for FY 2014 and FY 2015 report the performance of St. Joseph Health System's Northern and Southern California entities and affiliates. St. Joseph Health System's Northern and Southern California performance displays increasing operating revenues and operating incomes year over year.

- Net patient service revenue (less provision for bad debts) of \$3.72 billion in FY 2015 represents a net increase of approximately \$385.8 million (11.6%) as compared to FY 2014. Total revenues increased by \$210.3 million (5.7%) to \$3.92 billion in FY 2015;
- Total expenses increased by approximately 3.0% in FY 2015 to \$3.7 billion. Compensation and benefits expense accounted for approximately 46.3% of total expenses in FY 2015;
- In FY 2015, St. Joseph Health System's Northern and Southern California entities realized a net non-operating gain of \$39.7 million, representing a substantial decrease from the net non-operating gain of \$297.2 million in FY 2014; and
- Operating income increased from \$165.4 million in FY 2014 to \$270.81 million in FY 2015. Excess of revenues over expenses decreased by 33% from \$462.52 million in FY 2014 to \$310.5 million in FY 2015.

PROFILE OF ST. MARY MEDICAL CENTER

Overview of St. Mary Medical Center

St. Joseph Health System operates St. Mary Medical Center, a 212 licensed-bed general acute care facility, located at 18300 Highway 18 in Apple Valley. St. Mary Medical Center has a “basic” emergency department⁸ with 34 licensed treatment stations. It also has 10 surgical operating rooms and two cardiac catheterization labs.

BED DISTRIBUTION 2016	
Bed Type	Number of Beds
General Acute Care	160
Intensive Care	20
Neonatal Intensive Care	8
Pediatric	8
Perinatal	16
Total General Acute Care Beds	212

Source: Hospital License 2016

St. Mary Medical Center Foundation

St. Mary Medical Center Foundation provides financial support through philanthropy for St. Mary Medical Center. St. Mary Medical Center Foundation raises funds through charitable donations, planned gifts, and appreciated securities in order to fund advances in medical technology and facilities. In recent years, the funds raised by St. Mary Medical Center Foundation have supported the purchasing of new fetal rate dopplers, cardiac heart monitors, a laboratory photo/video microscope, infant ventilators for respiratory therapy, and neonatal intensive care blanket warmers.

⁸ A “basic” emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

Key Statistics

KEY STATISTICS: FY 2012 - 2014			
	FY 2012	FY 2013	FY 2014
Inpatient Discharges	16,985	16,800	15,867
Licensed Beds	206	212	212
Patient Days	66,685	63,598	63,164
Average Daily Census	183	174	173
Occupancy	88.7%	82.2%	81.6%
Average Length of Stay	3.9	3.8	4.0
Emergency Services Visits	78,842	81,424	79,052
Cardiac Catheterization Procedures ¹	3,086	2,046	1,985
Coronary Artery Bypass Graft (CABG) Surgeries ¹	103	132	109
Total Live Births	2,784	2,495	2,479

Medical Staff	315
Employees (Full-Time Equivalents) ²	1,301

Sources: OSHPD Disclosure Reports, FY 2012-2014

¹ OSHPD Alerts Annual Utilization Reports

² St. Joseph Health System

For FY 2014, St. Mary Medical Center had a total of 15,867 inpatient discharges, 63,164 patient days, and an average daily census of 173 patients. In FY 2014, St. Mary Medical Center had an occupancy rate of approximately 82% on the total licensed beds.

- Since FY 2012, both inpatient discharges and patient days have decreased by approximately 7% and 5%, respectively;
- In FY 2014, St. Mary Medical Center reported 79,052 emergency department visits, a slight increase since FY 2012;
- St. Mary Medical Center reported approximately 1,985 cardiac catheterization procedures and 109 coronary artery bypass graft surgeries in FY 2014; and
- Between FY 2012 and FY 2014, total live births at St. Mary Medical Center have decreased by 11% from 2,784 to 2,479 births.

Programs & Services

St. Mary Medical Center offers a broad spectrum of medical services, including cardiology, emergency, rehabilitation, and women and children's services.

- Cardiovascular services include: Full-service diagnostic and treatment programs, cardiac catheterization, open heart and vascular surgery, cardiac rehabilitation, and STEMI Receiving Center services;
- Emergency services include: A 24-hour "basic" emergency department with 34 emergency treatment stations that provides medical examination and stabilization for patients in need of emergency care;
- Diabetes services include: The Diabetes Education Center, an American Diabetes Association Recognized Self-Management Education Program, provides 12-month outpatient diabetes education services;
- Imaging services include: Mammography, stereotactic breast biopsy, X-ray, CT, MRI, angiography, ultrasound, vascular ultrasound, and nuclear medicine;
- Rehabilitation services include: Speech therapy, physical therapy, and occupational therapy for orthopedic, sports injury, prosthetics, pediatric, neurological, lymphedema, pain management, geriatric, and wound care patients;
- Respiratory services include: Diagnostic evaluation, mechanical ventilation, physiotherapy, spirometry, intubation, respiratory therapy, asthma clinic, and pulmonary rehabilitation services;
- Surgery services include: General, urological, gynecological, orthopedic, ophthalmology, dental, plastic and cosmetic, vascular, ear, nose, and throat, neurology, cardiology, and robotic surgery services;
- Women and children's services include: Labor and delivery, childbirth preparation classes, mother-baby assessment, Healthy Beginnings/New Avenues prenatal education, pediatric, and other women's services. St. Mary Medical Center is designated as a "Baby Friendly Hospital"⁹; and
- Wound care and hyperbaric medicine services include: Outpatient treatment for chronic and non-healing wounds.

⁹ The Baby Friendly Hospital Initiative is a global program that was launched by the World Health Organization and the United Nations Children's Fund in 1991 to encourage and recognize hospitals and birthing centers that offer an optimal level of care for infant feeding and mother/baby bonding.

In addition to inpatient programs and services, St. Mary Medical Center also offers outpatient primary care, prenatal care, and lactation counseling services at the following community clinics: St. Mary Medical Center Community Health Center, St. Mary Medical Center Healthy Beginnings Adelanto Clinic, and St. Mary Community Health Center Hesperia Clinic.

Accreditations, Certifications, & Awards

St. Mary Medical Center is accredited by The Joint Commission, effective July 2014 through July 2017. In addition, St. Mary Medical Center’s laboratory and wound care clinic are currently accredited by the Health Facilities Accreditation Program.

Quality Measures

The Hospital Value-Based Purchasing Program, established by the ACA in 2012, encourages hospitals to improve the quality and safety of care. The Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on the following three sets of measures: timely and effective care, surveys of patient experience, and 30-day mortality rates for heart attack, heart failure, and pneumonia patients. In FY 2015, the Centers for Medicare & Medicaid Services reduced Medicare payments to St. Mary Medical Center by 0.27%. For FY 2016, the Centers for Medicare & Medicaid services will reduce payments to St. Mary Medical Center by 0.55%.

The following table reports St. Mary Medical Center’s most recent scores as reported by Hospital Compare for each of the measures within the four domains in comparison to the statewide and national averages:

QUALITY SCORES COMPARISON				
Domain	Measure	St. Mary Medical Center	California Average	National Average
Clinical Process of Care Domain	Average of Acute Myocardial Infarction, Heart Failure, Pneumonia, Surgical Care Improvement & Healthcare Associated Infection Measures	94.3%	97.6%	97.3%
Patient Experience of Care Domain	Average of Measures for the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) Survey	62.7%	67.0%	71.0%
Outcome Domain	Average of Outcome Measures for Acute Myocardial Infarction, Heart Failure & Pneumonia 30-Day Mortality Rates & Central-Line Bloodstream Infection Rates	11.5%	12.1%	12.4%
Efficiency Domain	Medicare Spending per Beneficiary Ratio	0.98	0.99	0.98

Source: Medicare.gov Hospital Compare, 2015

- For the clinical process of care domain, St. Mary Medical Center scored below (94.3%) both the California average (97.6%) and the national average (97.3%);
- St. Mary Medical Center scored below (62.7%) both the California average (67.0%) and national average (71.0%) for the patient experience of care domain;

- Within the outcome domain, St. Mary Medical Center has a superior average 30-day mortality rate and central-line bloodstream infection rate (11.5%) than the California and national averages (12.1% and 12.4%, respectively); and
- With a ratio of 0.98, St. Mary Medical Center spends approximately the same amount per patient for an episode of care initiated at its facility than California hospitals (0.99) and national hospitals (0.98).

The Hospital Readmissions Reduction Program¹⁰, implemented in 2012, penalizes hospitals for excess patient readmissions within 30 days of discharge for the following three applicable conditions: heart attack, heart failure, and pneumonia. In FY 2016, 224 California hospitals will be penalized at an average of 0.40%. The penalty is administered by reducing all of a hospital’s reimbursement payments under the Medicare program by a certain percentage for the entire year.

St. Mary Medical Center was penalized by a 0.61% reduction in reimbursement in FY 2014 and a 0.56% reduction in reimbursement in FY 2015. The following graph shows St. Mary Medical Center’s 30-day readmission rates for heart attack, heart failure, and pneumonia patients:

30-DAY READMISSION RATES			
Condition	St. Mary Medical Center	National Average	California Average
Heart Attack	19.4%	17.0%	17.0%
Heart Failure	23.6%	22.0%	22.1%
Pneumonia	17.5%	16.9%	16.9%
Average 30-Day Readmission Rate	20.2%	18.6%	18.6%

Source: IPRO & Medicare.gov Hospital Compare, 2015

- St. Mary Medical Center had higher 30-day readmissions (20.2%) than the national and statewide averages of 18.6%; and
- St. Mary Medical Center will be penalized with a 0.80% reduction in reimbursement in FY 2016.

¹⁰ The formula for determining hospital reimbursement payments under the Hospital Readmissions Reduction Program is complicated, varies by hospital and geographic location, and may not correspond directly to state and national hospital averages.

Seismic Issues

Using the HAZUS seismic criteria¹¹, St. Mary Medical Center’s structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC), as shown in the table below. These classifications require that St. Mary Medical Center’s structures undergo construction to comply with the California Office of Statewide Health Planning and Development’s seismic safety standards.

SEISMIC OVERVIEW		
Building	SPC Compliance Status	NPC Compliance Status
1) Original Hospital & ER	SPC-2	NPC-2
2) Transitional Care - CCU/ICU	SPC-2	NPC-2
3) Boiler Building	SPC-2	NPC-2
4) Chiller Building	SPC-4	NPC-2
5) Surgery Addition	SPC-4	NPC-2
6) West Addition	SPC-4	NPC-2
7) East Wing	SPC-4	NPC-2
8) Obstetrics/Prenatal/LDR Addition	SPC-4	NPC-2
9) Medical/Surgical	SPC-4	NPC-2
10) New Hospital Building	SPC-5	NPC-2
11) MRI Building	SPC-2	NPC-3

Source: OSHPD

- St. Mary Medical Center has four buildings that are rated as SPC-2. These buildings must be seismically retrofitted by January 1, 2030 in order to continue providing acute care services.

¹¹ OSHPD uses HAZARDS U.S. (HAZUS), a methodology used to assess the seismic risk of hospital buildings.

Patient Utilization Trends

The following table shows volume trends at St. Mary Medical Center from FY 2010 through FY 2014:

SERVICE VOLUMES: FY 2010-2014					
PATIENT DAYS	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Medical/Surgical	42,743	46,704	50,136	46,712	46,580
Neonatal Intensive Care	3,254	3,320	2,479	2,884	2,873
Intensive Care	7,099	7,212	6,719	6,856	6,820
Pediatric Acute	1,902	1,609	1,371	1,589	1,283
Obstetrics	6,360	5,955	5,980	5,557	5,608
Total	61,358	64,800	66,685	63,598	63,164
DISCHARGES					
Medical/Surgical	12,026	12,422	12,962	12,792	11,988
Neonatal Intensive Care	317	245	225	291	299
Intensive Care	507	425	420	463	493
Pediatric Acute	850	641	556	614	523
Obstetrics	2,731	2,770	2,822	2,640	2,564
Total	16,431	16,503	16,985	16,800	15,867
AVERAGE LENGTH OF STAY					
Medical/Surgical	3.6	3.8	3.9	3.7	3.9
Neonatal Intensive Care	10.3	13.6	11.0	9.9	9.6
Intensive Care	14.0	17.0	16.0	14.8	13.8
Pediatric Acute	2.2	2.5	2.5	2.6	2.5
Obstetrics	2.3	2.1	2.1	2.1	2.2
Total	3.7	3.9	3.9	3.8	4.0
AVERAGE DAILY CENSUS					
Medical/Surgical	117.1	128.0	137.4	128.0	127.6
Neonatal Intensive Care	8.9	9.1	6.8	7.9	7.9
Intensive Care	19.4	19.8	18.4	18.8	18.7
Pediatric Acute	5.2	4.4	3.8	4.4	3.5
Obstetrics	17.4	16.3	16.4	15.2	15.4
Total	168.1	177.5	182.7	174.2	173.1
OTHER SERVICES					
Inpatient Surgeries	3,631	4,434	4,672	3,365	3,489
Outpatient Surgeries	5,307	6,531	9,686	6,663	5,327
Emergency Services Visits	77,662	77,200	78,842	81,424	79,052
Cardiac Catheterization Procedures ¹	4,770	2,722	3,086	2,046	1,985
Obstetric Deliveries	2,881	2,713	2,784	2,495	2,479

Sources: OSHPD Disclosure Reports, FY 2010-2014

¹ OSHPD Alirts Annual Utilization Reports

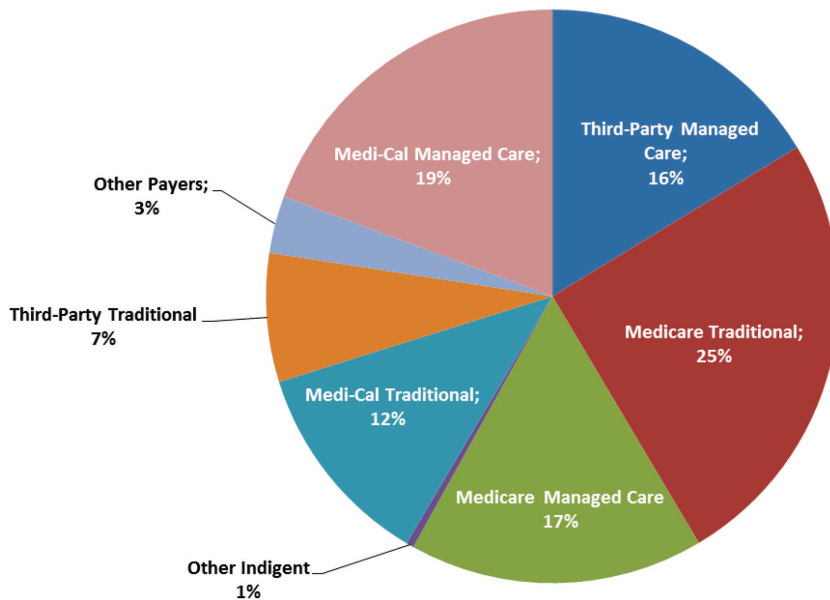
A review of historical utilization trends supports the following conclusions:

- Total patient days have increased by 3% over the five-year period;
- Inpatient discharges have decreased 3% from 16,431 in FY 2010 to 15,867 in FY 2014;
- The average daily census has increased slightly from 168 patients in FY 2010 to 173 patients in FY 2014; and
- Obstetric deliveries have decreased 14% from 2,881 in FY 2010 to 2,479 in FY 2014.

Payer Mix

In FY 2014, approximately 42% of St. Mary Medical Center’s inpatient payer mix consisted of Medicare Traditional (25%) and Medicare Managed Care (17%) patients. Approximately 31% of St. Mary Medical Center’s inpatient payer mix consisted of Medi-Cal Managed Care (19%) and Medi-Cal Traditional (12%) patients. In addition, approximately 23% of St. Mary Medical Center’s inpatient payer mix consisted of Third-Party Managed Care (16%) and Third-Party Traditional (7%) patients. The remaining 4% of the inpatient discharges consisted of Other Payers* (3%) and Other Indigent (1%) patients.

St. Mary Medical Center Payer Mix, FY 2014



Total Discharges = 15,867

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

The following table illustrates St. Mary Medical Center’s inpatient discharge payer mix compared to San Bernardino County and the State of California for FY 2014. The comparison shows that St. Mary Medical Center has higher percentages of Medi-Cal Managed Care, Medicare Managed Care, and Other Payers and lower percentages of Medi-Cal Traditional and Third-Party Managed Care patients relative to other hospitals in San Bernardino County and California.

PAYER MIX COMPARISON						
	St. Mary Medical Center (FY 2014)		San Bernardino County (FY 2014)		California (FY 2014)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	1,813	11.4%	28,181	17.6%	448,311	15.8%
Medi-Cal Managed Care	3,004	18.9%	29,189	18.2%	435,129	15.3%
Medi-Cal Total	4,817	30.4%	57,370	35.8%	883,440	31.1%
Medicare Traditional	3,908	24.6%	30,348	18.9%	805,912	28.4%
Medicare Managed Care	2,581	16.3%	21,601	13.5%	273,709	9.6%
Medicare Total	6,489	40.9%	51,949	32.4%	1,079,621	38.0%
Third-Party Managed Care	2,533	16.0%	25,919	16.2%	610,781	21.5%
Third-Party Managed Care Total	2,533	16.0%	25,919	16.2%	610,781	21.5%
Third-Party Traditional	1,127	7.1%	14,967	9.3%	121,054	4.3%
Other Payers	502	3.2%	2,143	1.3%	62,617	2.2%
Other Indigent	67	0.4%	4,218	2.6%	32,930	1.2%
County Indigent	332	2.1%	3,637	2.3%	51,759	1.8%
Other Total	2,028	12.8%	24,965	15.6%	268,360	9.4%
Total	15,867	100%	160,203	100%	2,842,202	100%

Source: OSHPD Disclosure Reports, FY 2014

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Over 12 million Medi-Cal beneficiaries in all 58 counties in California receive their healthcare through six models of managed care, including: County Organized Health Systems, the Two-Plan Model, Geographic Managed Care, the Regional Model, the Imperial Model, and the San Benito Model.

San Bernardino County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a Local Initiative Plan and a Commercial Plan. In FY 2014, San Bernardino County reported approximately 60,451 inpatient discharges from patients with either Medi-Cal Traditional (50%) or Medi-Cal Managed Care coverage (50%). The percentage of San Bernardino County residents with Medi-Cal Managed Care coverage is expected to increase significantly as a result of the ACA and California initiatives to expand managed care.

In San Bernardino County, the Local Initiative plan is provided by Inland Empire Health Plan and the Commercial Plan is provided by Molina Healthcare of California Partner Plan, Inc. Currently, St. Mary Medical Center is contracted with both the Local Initiative and Commercial Medi-Cal managed care plans.

Medical Staff

St. Mary Medical Center has 315 medical staff members representing multiple specialties. The five largest specialties comprising 43% of the medical staff include: internal medicine, teleradiology, pediatrics, family practice, and anesthesiology. Of the 315 members of the medical staff, 154 members are considered “active” users of St. Mary Medical Center (representing approximately 49% of the medical staff).

St. Mary Medical Center is affiliated with St. Mary High Desert Medical Group, a medical group that contracts exclusively with St. Joseph Heritage Healthcare. St. Mary Medical Center is also affiliated with Premier IPA, a contracted physician network of St. Joseph Heritage Healthcare.

MEDICAL STAFF PROFILE 2016					
Specialty	Count	% of Total	Specialty	Count	% of Total
Allergy & Immunology	1	0.3%	Obstetrics/Gynecology	15	4.8%
Anesthesiology	18	5.7%	Oncology	3	1.0%
Cardiology	16	5.1%	Ophthalmology	9	2.9%
Cardiothoracic Surgery	6	1.9%	Orthopedic Surgery	7	2.2%
Dentistry/Oral Surgery	2	0.6%	Pain Management	5	1.6%
Dermatology	2	0.6%	Pathology	4	1.3%
ENT/Otolaryngology	3	1.0%	Pediatrics	19	6.0%
Emergency Medicine	17	5.4%	Plastic & Reconstructive Surgery	4	1.3%
Endocrinology	2	0.6%	Podiatric Medicine	9	2.9%
Family Practice/Medicine	19	6.0%	Psychiatry	3	1.0%
Gastroenterology	7	2.2%	Pulmonary Disease	6	1.9%
General Surgery	10	3.2%	Radiation Oncology	3	1.0%
Infectious Disease	1	0.3%	Radiology	12	3.8%
Internal Medicine	56	17.8%	Teleradiology	22	7.0%
Neonatology	8	2.5%	Urology	5	1.6%
Nephrology	8	2.5%	Vascular Surgery	4	1.3%
Neurology	9	2.9%	-	-	-
Total Medical Staff	315				

Source: St. Mary Medical Center

Unionized Employees

St. Mary Medical Center has a Collective Bargaining Agreement (CBA)¹² with California Nurses Association through May 31, 2016 that represents 366 employees. St. Mary Medical Center also has a CBA with United Steelworkers Union through June 30, 2017 that covers 708 employees.

In total, approximately 86% of St. Mary Medical Center's employees are covered by CBAs.

EMPLOYEES REPRESENTED BY UNIONS	
Union	Total
California Nurses Association	675
United Steelworkers Union*	708
Total Employees Represented by Unions	1,383
Total Non-Union Employees	234
Total Employees	1,617
Total Percentage of Employees Represented by Unions	86%

Source: St. Joseph Health System

* Full name: United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union

Financial Profile

Over the five reported fiscal years, St. Mary Medical Center has maintained positive net income ranging from \$46.5 million in FY 2011 to \$16.2 million in FY 2014. Net patient revenue has increased by nearly 16% from \$237.1 million in FY 2010 to \$275.4 million in FY 2014. Over the same period, St. Mary Medical Center's total operating expenses have increased by 23% from \$217.7 million to \$268.2 million. Net non-operating revenue, totaling more than \$30.0 million over the five-year period, helped offset these decreases in net patient revenue and increases in operating expenses. Net non-operating revenue represents revenue received or recognized for services that are not directly related to the provision of healthcare services. Examples of non-operating revenue include unrestricted contributions, income and gains from investments, and various government assessments, taxes, and appropriations.

St. Mary Medical Center's current asset-to-liability ratio¹³ has increased over the last five years from 1.27 in FY 2010 to 2.70 in FY 2014 (the California average in 2014 was 1.72). St. Mary

¹² A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.

¹³ The current asset-to-liability ratio compares a company's total assets to its current liabilities to measure its ability to pay short-term and long-term debt obligations. A low current ratio of less than 1.0 could indicate that a company may have difficulty meeting its current obligations. The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of assets relative to its liabilities.

Medical Center's percentage of bad debt is approximately 1.1% and is lower than the statewide average of 1.3%.

FINANCIAL AND RATIO ANALYSIS: FY 2010-2014						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	-
Patient Days	61,358	64,800	66,685	63,598	63,164	-
Discharges	16,431	16,503	16,985	16,800	15,867	-
ALOS	3.7	3.9	3.9	3.8	4.0	-
Net Patient Revenue	\$237,078,206	\$276,813,993	\$298,138,878	\$273,571,111	\$275,419,254	-
Other Operating Revenue	\$1,747,060	\$1,510,945	\$4,032,753	\$5,343,576	\$2,671,408	-
Total Operating Revenue	\$238,825,266	\$278,324,938	\$302,171,631	\$278,914,687	\$278,090,662	-
Operating Expenses	\$217,703,148	\$241,215,202	\$260,574,178	\$265,717,619	\$268,163,775	-
Net from Operations	\$21,122,118	\$37,109,736	\$41,597,453	\$13,197,068	\$9,926,887	-
Net Non-Operating Revenue	\$5,183,022	\$10,228,459	\$652,845	\$5,720,327	\$7,938,619	-
Net Income	\$25,379,512	\$46,517,364	\$41,191,711	\$17,840,259	\$16,249,404	-
						2014 California Average
Current Ratio	1.27	1.54	2.23	1.96	2.70	1.72
Days in A/R	52.5	51.3	64.2	63.7	63.8	62.2
Bad Debt Rate	2.0%	0.9%	2.9%	2.6%	1.1%	1.3%
Operating Margin	8.84%	13.33%	13.77%	4.73%	3.57%	2.48%

Source: OSHPD Disclosure Reports, 2010-2014

Cost of Hospital Services

St. Mary Medical Center's operating cost of services includes both inpatient and outpatient care. In FY 2014, approximately 41% of total costs were associated with Medicare patients, 26% with Third Party payers, 25% with Medi-Cal patients, and 6% with Other Payers. The remaining 2% is attributed to County Indigent and Other Indigent. In FY 2014, 40% of the total costs for all of the hospitals in California were associated with Medicare patients, 26% with Medi-Cal patients, 2% with County Indigent, 29% with Third Party, 1% with Other Indigent, and 2% with Other Payers.

COST OF SERVICES BY PAYER CATEGORY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Expenses	\$217,703,148	\$241,215,202	\$260,574,178	\$265,717,619	\$268,163,775
Cost of Services By Payer:					
Medicare	\$91,110,692	\$106,388,803	\$117,730,891	\$117,251,904	\$108,969,000
Medi-Cal	\$46,235,304	\$52,259,745	\$57,728,834	\$60,464,079	\$68,153,739
County Indigent	\$2,592,848	\$1,898,932	\$5,119,830	\$3,248,120	\$4,403,707
Third Party	\$63,460,409	\$64,522,221	\$61,739,493	\$67,066,070	\$69,054,169
Other Indigent	\$2,705,329	\$4,243,014	\$3,278,999	\$6,984,148	\$1,262,259
Other Payers	\$11,598,565	\$11,902,486	\$14,976,131	\$10,703,298	\$16,320,901

Source: OSHPD Disclosure Reports, 2010-2014

Charity Care

According to OSHPD, St. Mary Medical Center's charity care charges have decreased from a high of \$43.6 million in FY 2011 to a low of approximately \$20.4 million in FY 2015. The five-year average for charity charges was approximately \$36.5 million.

CHARITY CARE	
TOTAL CHARGES: FY 2011-2015	
Year	OSHPD Disclosure Reports
2015	\$20,432,207
2014	\$39,218,330
2013	\$38,029,839
2012	\$41,133,103
2011	\$43,598,887
5-Year Average	\$36,482,473

Source: OSHPD Disclosure Reports, FY 2011-2015

The following table shows a comparison of charity care and bad debt for St. Mary Medical Center and all general acute care hospitals in the State of California. The five-year (FY 2011-2015) average of charity care and bad debt for St. Mary Medical Center, as a percentage of gross patient revenue, was 4.7%. This is higher than the four-year statewide average of 3.5%. According to OSHPD, "the determination of what is classified as...charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON											
CHARITY CARE - FY 2011 to FY 2015											
(Millions)											
	2011		2012		2013		2014		2015		
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	
Gross Patient Revenue	\$1,084.55	\$288,636.7	\$1,181.4	\$303,278.6	\$1,226.81	\$317,543.8	\$1,315.91	\$337,773.16	\$1,371.25	-	
Charity	\$43.60	\$6,171.5	\$41.13	\$6,251.0	\$38.03	\$6,209.9	\$39.22	\$4,571.00	\$20.43	-	
Bad Debt	\$9.79	\$4,815.5	\$33.96	\$5,007.6	\$32.29	\$5,549.5	\$14.61	\$4,420.44	\$15.59	-	
Total	\$53.39	\$10,987.0	\$75.09	\$11,258.6	\$70.32	\$11,759.4	\$53.83	\$8,991.45	\$36.02	-	
Charity as a % of Gross Rev.	4.0%	2.1%	3.5%	2.1%	3.1%	2.0%	3.0%	1.4%	1.5%	-	
Bad Debt as a % of Gross Rev.	0.9%	1.7%	2.9%	1.7%	2.6%	1.7%	1.1%	1.3%	1.1%	-	
Total as a % of Gross Rev.	4.9%	3.8%	6.4%	3.7%	5.7%	3.7%	4.1%	2.7%	2.6%	-	
Uncompensated Care											
Cost to Charge Ratio	22.1%	24.6%	21.7%	24.6%	21.2%	24.4%	20.2%	23.5%	21.1%	-	
Cost of Charity	\$9.6	\$1,520.9	\$8.9	\$1,539.1	\$8.1	\$1,514.6	\$7.91	\$1,074.19	\$4.3	-	
Cost of Bad Debt	\$2.2	\$1,186.8	\$7.4	\$1,232.9	\$6.9	\$1,353.5	\$2.95	\$1,038.80	\$3.3	-	
Total	\$11.8	\$2,707.7	\$16.3	\$2,772.0	\$14.92	\$2,868.1	\$10.86	\$2,112.99	\$7.6	-	

Source: OSHPD Disclosure Reports, 2011-2015

The table below shows St. Mary Medical Center’s historical costs for charity care as reported by OSHPD. St. Mary Medical Center’s charity care costs have decreased from approximately \$9.6 million in FY 2011 to \$4.3 million in FY 2015. The average cost of charity care for the last five-year period was approximately \$7.8 million.

COST OF CHARITY CARE				
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital	Percent of Total Costs Represented by Charity Care
FY 2015	\$20,432,207	21.1%	\$4,311,196	1.5%
FY 2014	\$39,218,330	20.2%	\$7,912,528	3.0%
FY 2013	\$38,029,839	21.2%	\$8,071,322	3.0%
FY 2012	\$41,133,103	21.7%	\$8,931,907	3.4%
FY 2011	\$43,598,887	22.1%	\$9,636,062	4.0%
5-Year Average	\$36,482,473		\$7,772,603	

Source: OSHPD Disclosure Reports, 2011-2015

St. Mary Medical Center reported the following combined distribution of charity care by inpatient, outpatient, and emergency room charges.

COST OF CHARITY CARE BY SERVICE				
	Inpatient	Outpatient	Emergency Room	Total Costs
2015:				
Cost of Charity	\$1,302,768	\$296,477	\$2,440,089	\$4,039,334
Visits/Discharges	1,197	2,688	5,735	
2014:				
Cost of Charity	\$2,799,632	\$368,659	\$4,587,311	\$7,755,602
Visits/Discharges	1,347	2,671	10,834	
2013:				
Cost of Charity	\$4,267,662	\$320,844	\$3,312,365	\$7,900,871
Visits/Discharges	1,372	2,013	9,760	
2012:				
Cost of Charity	\$3,543,969	\$425,881	\$4,713,461	\$8,683,311
Visits/Discharges	1,650	1,961	11,121	
2011:				
Cost of Charity	\$5,859,736	\$331,807	\$3,012,600	\$9,204,142
Visits/Discharges	1,681	1,692	9,619	

Source: St. Joseph Health

Community Benefit Services

St. Mary Medical Center has consistently provided a contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over the five years has been \$4,884,058 per year.

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	5-Year Average	Total
Benefits for Persons Living in Pove	\$3,001,358	\$5,030,517	\$3,819,796	\$5,141,006	\$5,052,141	\$4,408,963	\$22,044,817
Benefits for Broader Community	\$211,854	\$283,620	\$229,102	\$692,920	\$957,977	\$475,095	\$2,375,473
Total	\$3,213,212	\$5,314,137	\$4,048,898	\$5,833,926	\$6,010,118	\$4,884,058	\$24,420,291

Source: St. Mary Medical Center

Note: Community Benefit programs and services excludes Grants

- St. Mary Medical Center’s five-year average cost of community benefit services for persons living in poverty is approximately \$4.4 million per year;
- St. Mary Medical Center’s five-year average cost of community benefit services for the broader community is approximately \$475,000 per year; and
- Over the five-year period, St. Mary Medical Center’s combined total cost of community benefit services has increased from \$3.2 million in FY 2011 to \$6.0 million in FY 2015.

St. Mary Medical Center's community benefit services over the past five fiscal years included the following programs over \$10,000:

COST OF COMMUNITY BENEFIT SERVICES FY 2011-2015					
Services over \$10,000 in cost:	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Adelanto Clinic	\$475,889	\$482,955	\$412,148	\$303,745	\$336,610
Bridges for Families	\$236,737	\$150,925	\$181,850	\$188,518	\$187,323
Bright Futures Mobile Van	\$672,965	\$748,038	\$630,205	\$930,818	\$1,082,364
Care for the Poor	\$11,590	-	-	\$82,500	\$89,038
Capacity Building for Children's Health Insurance	\$28,564	-	-	-	-
Care Coordination	-	-	-	\$37,683	-
Care Management	-	-	-	\$43,784	-
Community Boards	\$45,274	\$28,642	-	-	-
Community Building: Mended Hearts Program	-	-	-	-	\$22,924
Community Collaborative on Childhood Obesity	\$68,659	-	-	-	-
Community of Excellence	-	-	-	\$21,158	\$145,589
Donations: Supplies: Living in Poverty	-	-	-	-	\$37,006
Enrollment Assistance: Covered CA and Medical	-	-	-	\$10,589	-
Equipment: Broader Community	-	-	-	\$19,000	\$2,460
Equipment: Living in Poverty	-	-	-	\$17,500	-
Family Resource Center	\$338,249	\$344,821	\$266,070	\$216,230	\$283,789
Health Professions: Nursing Students	-	-	-	\$417,809	\$304,582
Health Professions: Physical Therapy Students	-	-	-	-	\$12,804
Health Professions: Radiology Students	-	-	-	-	\$13,404
Health Professions: Respiratory Students	-	-	-	-	\$81,297
Healthy Beginnings	\$1,515,654	\$1,489,810	\$1,716,381	\$1,901,576	\$2,514,078
Healthy Cities	-	-	-	\$22,480	\$106,582
Health Screenings	-	-	-	\$21,877	\$32,835
Hesperia Clinic	\$417,562	\$367,225	\$285,675	\$263,845	-
Mentoring Programs	\$15,314	-	-	-	-
Mother/Baby Assessment Center	\$344,850	\$356,523	\$369,422	\$401,293	\$625,451
Nutrition Counseling	-	-	-	\$96,860	\$112,387
Nutrition Presentations	-	-	-	\$14,878	\$26,853
Senior Select	\$23,227	\$16,408	\$22,420	-	-
Student Internships	\$15,744	-	-	-	-
Support Services: Post-Acute Care for Homeless and Uninsured	-	-	-	-	\$263,251
Tele-Health Clinic	-	-	\$16,800	-	-
Transportation: Caravan Services	-	-	\$220,104	\$217,439	\$181,001
Various Activities Working with Children	\$32,452	\$19,603	-	-	-
Women's Health Clinics	\$11,381	-	-	-	-

Source: St. Mary Medical Center

Note: Includes only Community Benefit Expenses to St. Mary Medical Center & Excludes all Grant dollars provided to St. Mary Medical Center

St. Mary Medical Center's community benefit services have supported many programs for the community, including various counseling efforts, student internship opportunities, community health initiatives, and others as described below¹⁴:

- Adelanto Clinic: Provides primary care and midwifery services to impoverished individuals;

¹⁴ The following community benefit programs and services are no longer being provided: Care Management, Community Boards, Healthy Cities, Mentoring Programs, Nutrition Counseling, Senior Select, Student Internships, Tele-Health Clinic, Various Activities Working with Children, and Women's Health Clinics.

- Bridges for Families: Facilitates counseling services to parents of children ages 0-5;
- Bright Futures Mobile Van: Provides primary care and cancer screenings to uninsured, and/or low to moderate income families;
- Care for the Poor: Offers cash donations to local, nonprofit organizations serving the poor;
- Capacity Building for Children's Health Insurance: Collaborates with schools, churches, and agencies to identify children who do not have healthcare coverage to provide education to the community on children's health access needs;
- Care Coordination: Provides referrals to Breathmobile, Arrowhead Mobile Van, Catholic charities, Community Action Partnership, F-5 Dental of San Bernardino, Adelanto Community Resource Center, and La Salle Medical Center for respiratory issues, utility assistance, food and clothes, and yearly physicals;
- Community Building - Mended Hearts Program: Facilitates collaborations between volunteers and former heart patients, with the goal of providing education to current heart patients;
- Community Collaborative on Childhood Obesity: Implements childhood obesity prevention programs in schools;
- Community of Excellence - Coalition Building: Creates a collaborative partnership with community members to improve community health and address concerns of community residents;
- Donations: Supplies - Living in Poverty: Provides donations of medical supplies to local nonprofits;
- Enrollment Assistance - Covered CA and Medical: Facilitates the screening and completion of paperwork for both free and subsidized medical coverage;
- Equipment - Broader Community: Provides equipment donation to organizations serving the broader community;
- Equipment - Living in Poverty: Provides equipment donation to organizations serving the broader community;
- Family Resource Center: Facilitates education and counseling to young, at-risk mothers;

- Health Professions - Nursing Students: Facilitates a health career program for college and high school students;
- Health Professions - Physical Therapy Students: Provides a clinical setting for undergraduate training and internships for students interested in physical therapy;
- Health Professions - Radiology Students: Provides a clinical setting for undergraduate training and internships for students interested in a career in radiology;
- Health Professions - Respiratory Students: Provides a clinical setting for undergraduate training and internships for students interested in a career in respiratory health;
- Healthy Beginnings: Operates a midwifery program for low-income families;
- Health Screenings: Provides screenings for overweight and obese children and offers individual nutritional counseling with a registered dietician;
- Hesperia Clinic: Provides primary care to low income individuals;
- Mother/Baby Assessment Center: Provides evaluation and support for mothers during their first week out of the hospital;
- Nutrition Presentations: Offers nutrition education presentations by a registered dietician at partnering schools and community organizations;
- Support Services - Post-Acute Care for Homeless and Uninsured: Provides payments to a third party facility for care for the homeless and uninsured; and
- Transportation - Caravan Services: Coordinates caravan transportation to individuals living in poverty that have been recently discharged from hospital.

ANALYSIS OF ST. MARY MEDICAL CENTER'S SERVICE AREA

Service Area Definition

Based upon St. Mary Medical Center's 2014 inpatient discharges, St. Mary Medical Center's service area is comprised of 17 ZIP Codes from which 95% of its inpatient discharges originated. Approximately 45% of St. Mary Medical Center's discharges originated from the top three ZIP Codes that are located in Apple Valley and Hesperia. In 2014, St. Mary Medical Center's market share in the service area was approximately 31% based on total area discharges.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2014						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
92307	Apple Valley	2,629	16.4%	16.4%	5,246	50.1%
92308	Apple Valley	2,294	14.3%	30.7%	5,047	45.5%
92345	Hesperia	2,278	14.2%	44.9%	9,919	23.0%
92392	Victorville	1,846	11.5%	56.4%	6,910	26.7%
92395	Victorville	1,611	10.0%	66.4%	5,636	28.6%
92301	Adelanto	1,315	8.2%	74.6%	3,900	33.7%
92394	Victorville	1,061	6.6%	81.2%	3,281	32.3%
92311	Barstow	532	3.3%	84.5%	3,829	13.9%
92356	Lucerne Valle	383	2.4%	86.9%	827	46.3%
92344	Hesperia	338	2.1%	89.0%	1,626	20.8%
92342	Helendale	297	1.9%	90.9%	754	39.4%
92371	Phelan	245	1.5%	92.4%	1,154	21.2%
92329	Phelan	120	0.7%	93.1%	635	18.9%
92372	Pinon Hills	96	0.6%	93.7%	510	18.8%
92368	Oro Grande	62	0.4%	94.1%	140	44.3%
92340	Hesperia	47	0.3%	94.4%	160	29.4%
92393	Victorville	44	0.3%	94.7%	223	19.7%
Subtotal		15,198	94.7%	94.7%	49,797	30.5%
Other ZIPs		853	5.3%	100%		
Total		16,051	100%			

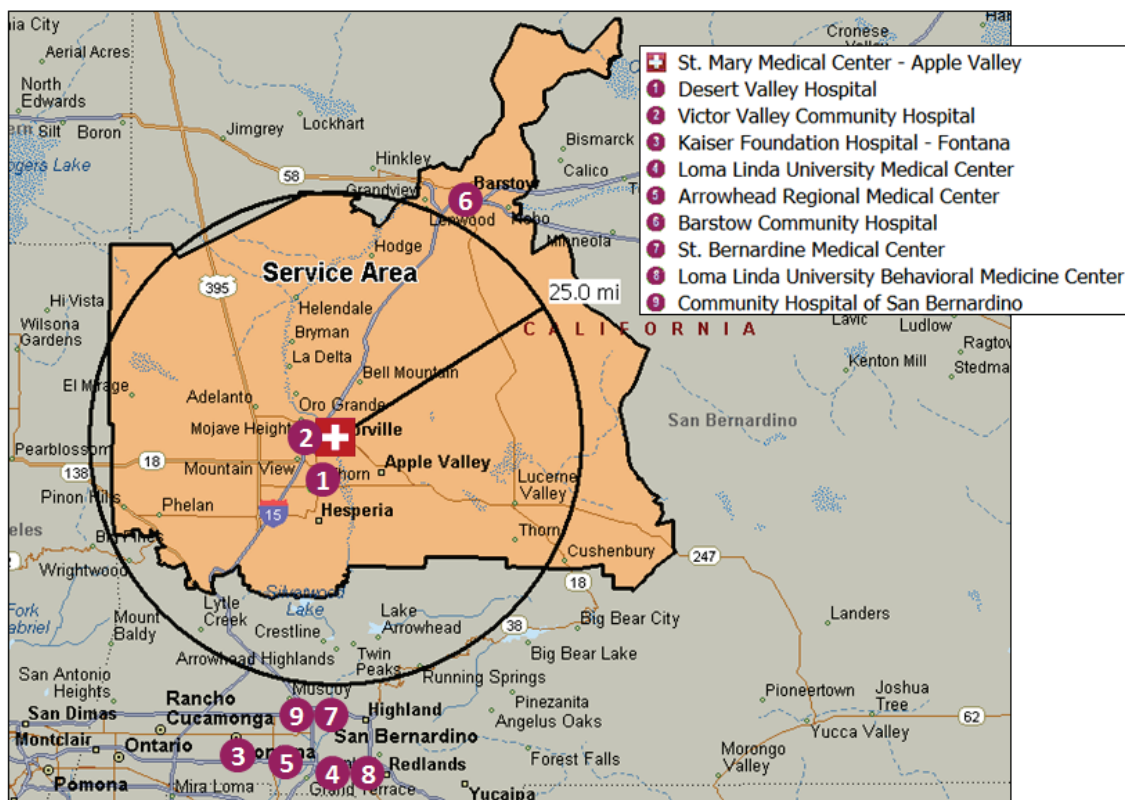
Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

Service Area Map

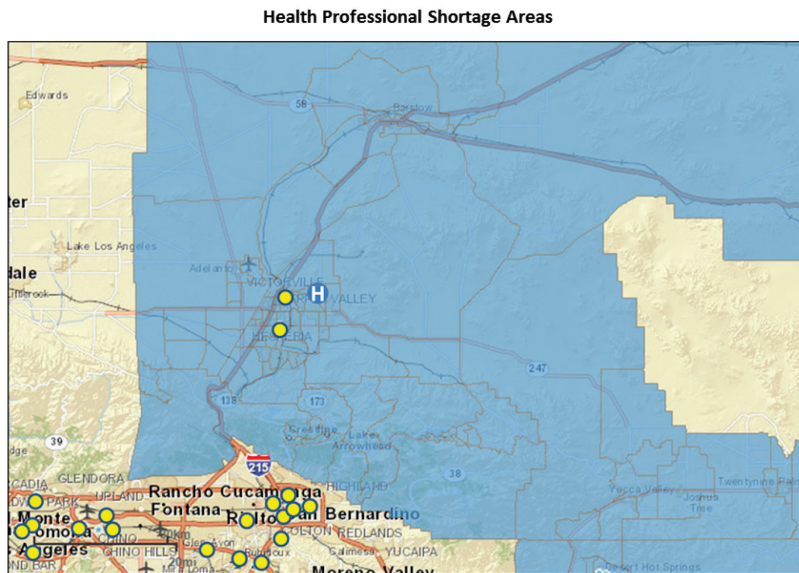
St. Mary Medical Center’s service area, with approximately 422,000 residents, includes the communities of Apple Valley, Hesperia, Victorville, Adelanto, Barstow, Lucerne Valley, Helendale, Phelan, Pinon Hills, and Oro Grande.

There are three other hospitals located within St. Mary Medical Center’s service area: Desert Valley Hospital, Victor Valley Community Hospital, and Barstow Community Hospital. St. Bernardine Medical Center and Loma Linda University Medical Center are both located outside of the service area and are within a 30-mile radius from St. Mary Medical Center. St. Mary Medical Center ranks first in inpatient market share in the service area.

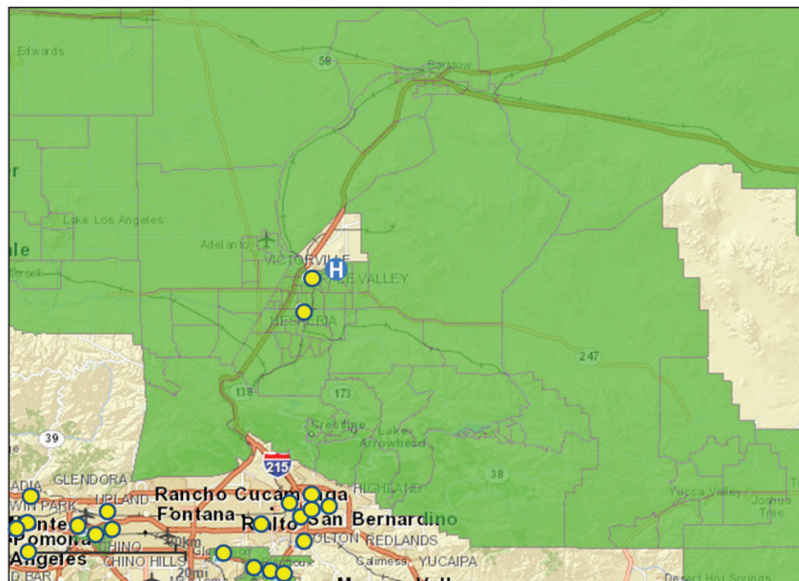


Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Both St. Mary Medical Center and its entire service area are located in designated shortage areas. The maps below depict these shortage areas relative to St. Mary Medical Center's location.



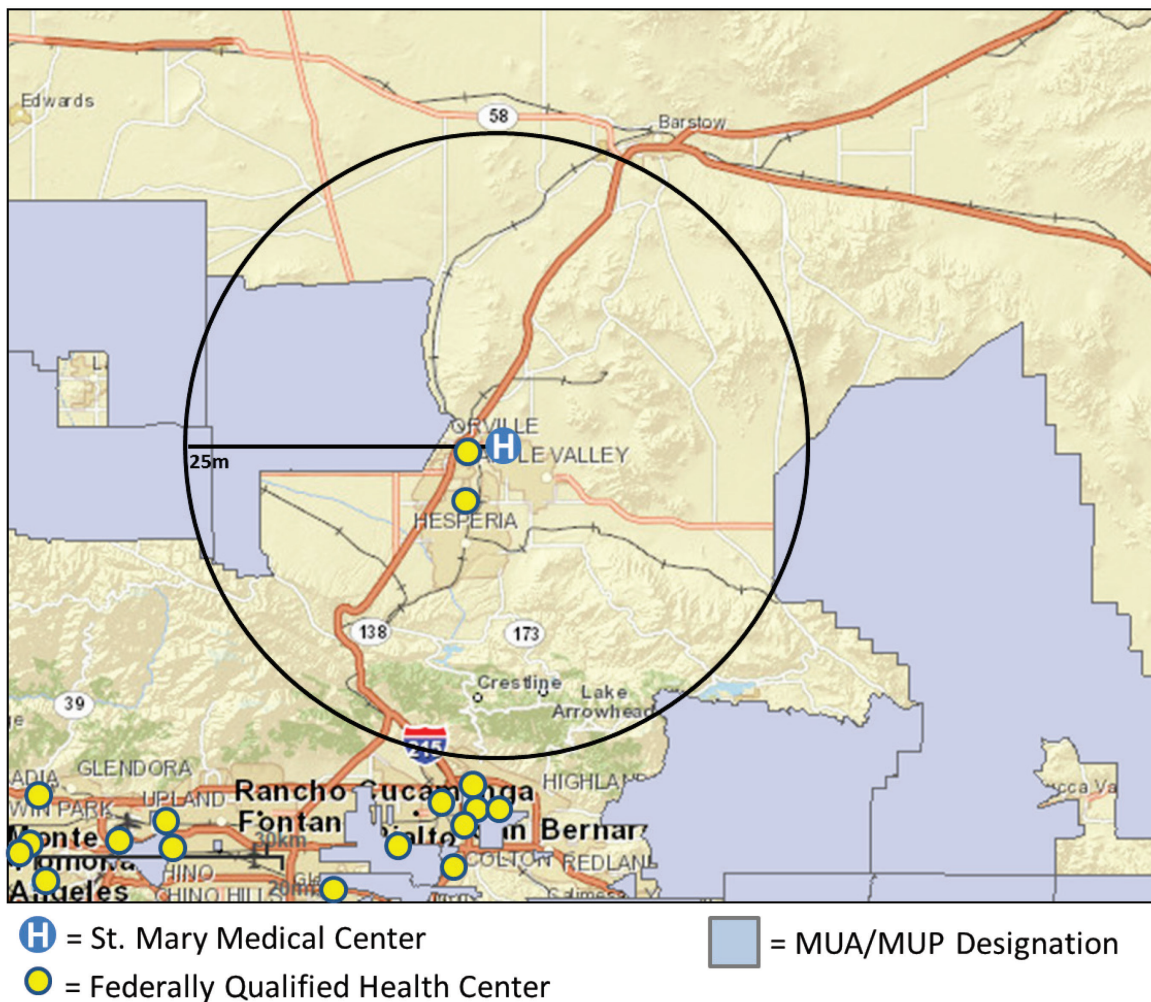
- H = St. Mary Medical Center
- = HPSA: Mental Care
- = Federally Qualified Health Center



- H = St. Mary Medical Center
- = HPSA: Primary Care
- = Federally Qualified Health Center

Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local conditions that result in access barriers to medical services. Medically Underserved Areas and Medically Underserved Populations are permanently set, and no renewal process is necessary. The map below depicts the Medically Underserved Areas/Medically Underserved Populations relative to St. Mary Medical Center's location.

Medically Underserved Areas/Medically Underserved Populations

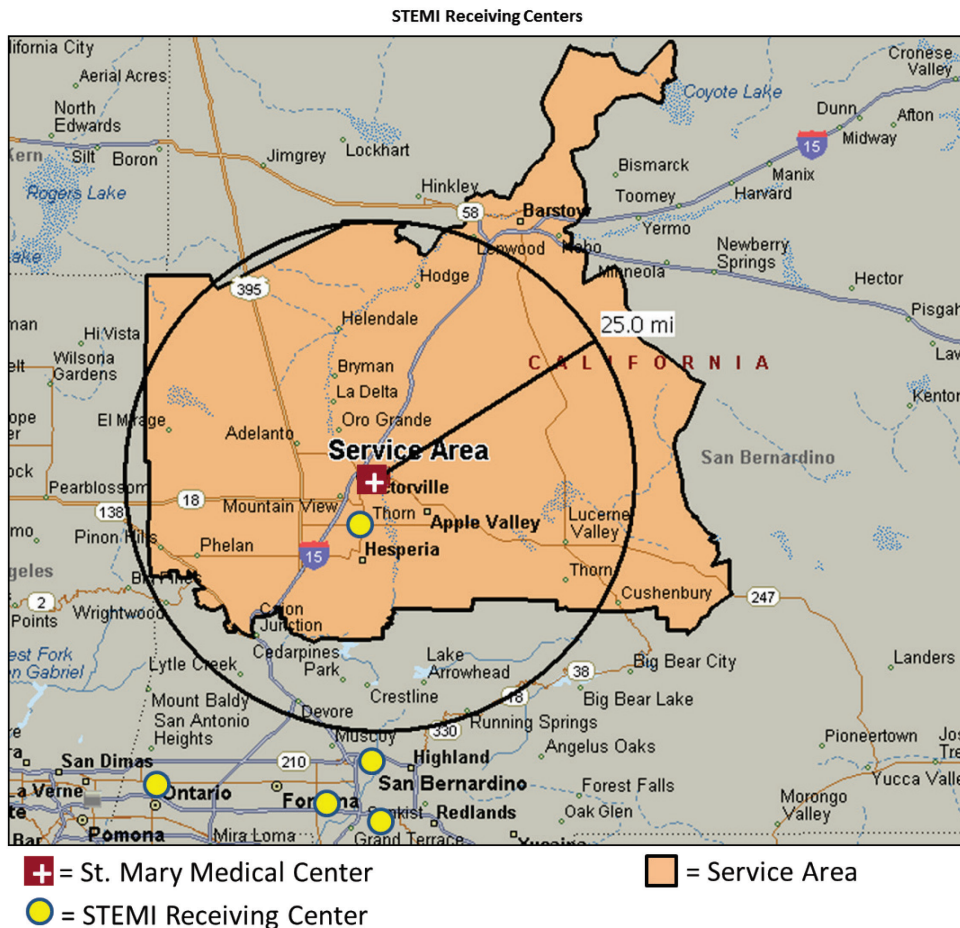


Although St. Mary Medical Center is not located in a Medically Underserved Area/Medically Underserved Populations area, large areas to the east and west of St. Mary Medical Center are designated as Medically Underserved Area/Medically Underserved Population areas.

There are also two Federally Qualified Health Centers within a 25-mile radius of St. Mary Medical Center. Federally Qualified Health Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. They must provide primary care services to an underserved area or population, offer a sliding fee scale, have an ongoing quality assurance program, and have a governing board of directors. The ACA includes provisions that increased federal funding for Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges. Many of the area Federally Qualified Health Centers' patients utilize the services of St. Mary Medical Center.

STEMI Receiving Centers in San Bernardino County

Within San Bernardino County, there are five STEMI Receiving Centers that administer percutaneous coronary intervention for patients experiencing an acute heart attack: St. Mary Medical Center, Desert Valley Hospital, Loma Linda University Medical Center, San Antonio Community Hospital, and St. Bernardine Medical Center. Within St. Mary Medical Center's service area, St. Mary Medical Center and Desert Valley Hospital provide STEMI Receiving Center services.



Demographic Profile

St. Mary Medical Center’s service area population is expected to grow by 3.5% over the next five years. This is greater than the expected growth rate for San Bernardino County (3.0%), but is lower than the expected growth rate for the State of California (3.7%).

SERVICE AREA POPULATION STATISTICS 2015-2020			
	2015 Estimate	2020 Projection	% Change
Total Population	422,297	437,008	3.5%
Households	128,880	132,691	3.0%
Percentage Female	49.9%	49.9%	-

Source: Esri

The median age of the population of St. Mary Medical Center’s service area is 32.4 years, which is lower than the statewide median age of 35.7 years. The percentage of adults over the age of 65 years old is the fastest growing age cohort and is forecasted to increase approximately 14% by 2020. The number of women of child-bearing age is expected to increase by 3% over the next five years.

SERVICE AREA POPULATION AGE DISTRIBUTION: 2015-2020				
	2015 Estimate		2020 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	98,420	23.3%	103,028	23.6%
Age 15-44	177,012	41.9%	183,690	42.0%
Age 45-64	97,558	23.1%	94,077	21.5%
Age 65+	49,307	11.7%	56,213	12.9%
Total	422,297	100%	437,008	100%
Female 15-44	86,894	20.6%	89,893	20.6%
Median Age	32.4	-	32.8	-

Source: Esri

The largest population cohorts in St. Mary Medical Center’s service area are White (57%), Two or More Races (21%), and Black (11%). Approximately 46% of the service area population is of Hispanic ethnicity. This is less than the San Bernardino Hispanic ethnic population of 52%, but is greater than the State of California Hispanic ethnic population of 39%.

SERVICE AREA POPULATION RACE/ETHNICITY: 2015-2020		
	2015	2020
White	57.3%	55.4%
Black	10.5%	10.3%
American Indian	1.3%	1.3%
Asian or Pacific Islander	3.6%	4.0%
Some Other Race	21.2%	22.8%
Two or More Races	6.0%	6.3%
Total	100%	100%
Hispanic Ethnicity	45.8%	50.0%
Non-Hispanic or Latino	54.2%	50.0%
Total	100%	100%

Source: Esri

The population in St. Mary Medical Center’s service area has a relatively high percentage of lower income households with an average annual household income of \$59,987. This is 19% below the average for San Bernardino County (\$71,226) and 45% below the State of California average (\$87,152). The percentage of higher-income households (\$150,000+) is growing at a faster rate (31%) than those for both San Bernardino County (25%) and the State of California (19%).

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2015-2020						
Annual Income	2015 Estimate			2020 Estimate		
	Service Area	San Bernardino County	California	Service Area	San Bernardino County	California
\$0 - \$15,000	13.7%	11.6%	11.1%	13.2%	11.1%	10.3%
\$15 - \$24,999	11.3%	9.9%	9.0%	8.6%	7.5%	6.6%
\$25 - \$34,999	11.9%	10.8%	9.3%	9.7%	8.9%	7.7%
\$35 - \$49,999	15.4%	14.2%	12.2%	14.5%	13.3%	11.3%
\$50 - \$74,999	18.9%	18.3%	16.5%	18.8%	18.0%	15.9%
\$75 - \$99,999	12.8%	12.7%	12.3%	16.2%	15.3%	14.2%
\$100 - \$149,999	11.3%	13.7%	14.9%	12.5%	14.9%	16.6%
\$150,000+	4.8%	8.7%	14.6%	6.3%	10.9%	17.4%
Total	100%	100%	100%	100%	100%	100%
Average Household Income	\$59,987	\$71,226	\$87,152	\$67,900	\$80,801	\$99,512

Source: Esri

Medi-Cal Eligibility

As of 2011, the California Department of Health Care Services reported that 29% of the population in St. Mary Medical Center’s service area was eligible for Medi-Cal coverage (compared to the State of California average of 21%). With the implementation of the ACA and the statewide expansion of Medi-Cal, the percentage of the State of California’s population that is currently eligible for Medi-Cal has greatly increased, reporting a historic increase to more than 12 million total enrollees in the Medi-Cal program in 2015. Based on the St. Mary Medical Center’s service area income demographics and San Bernardino County’s percentage of Medi-Cal eligible residents, a large percentage of the service area residents qualify for coverage under the ACA expansion.

Selected Health Indicators

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

- San Bernardino County’s rates of low birth weight infants and first trimester prenatal care are both inferior to the State of California rates, but is superior to the national goals. San Bernardino County’s adequate/adequate plus care rate is inferior to both the California rate and the national goal.

NATALITY STATISTICS: 2015			
Health Status Indicator	San Bernardino		
	County	California	National Goal
Low Birth Weight Infants	7.3%	6.8%	7.8%
First Trimester Prenatal Care	83.4%	83.6%	77.9%
Adequate/Adequate Plus Care	75.8%	79.2%	77.6%

Source: California Department of Public Health

- The overall age-adjusted mortality rate for San Bernardino County is higher than that of the State of California. San Bernardino County’s age-adjusted rates are only lower than the California state for four out of the 18 causes of mortality. San Bernardino County’s age-adjusted rates are higher than the statewide rates for all cancers, colorectal cancer, lung cancer, female breast cancer, prostate cancer, diabetes, coronary heart disease, cerebrovascular disease, chronic lower respiratory disease, chronic liver disease and cirrhosis, motor vehicle traffic crashes, suicide, homicide, and firearm-related deaths. Based on underlying and contributing cause of death statistics, San Bernardino County reported lower age-adjusted rates for five out of the 14 reported national goals.

MORTALITY STATISTICS: 2015 RATE PER 100,000 POPULATION				
Selected Cause	San Bernardino County		(Age Adjusted)	
	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	606.0	750.8	641.1	N/A
- All Cancers	136.5	165.0	151.0	161.4
- Colorectal Cancer	13.7	16.7	13.9	14.5
- Lung Cancer	30.2	37.4	33.6	45.5
- Female Breast Cancer	22.4	23.5	20.7	20.7
- Prostate Cancer	14.4	23.3	20.2	21.8
- Diabetes	26.9	33.0	20.8	N/A
- Alzheimer's Disease	21.1	29.8	30.8	N/A
- Coronary Heart Disease	92.6	120.9	103.8	103.4
- Cerebrovascular Disease (Stroke)	29.1	38.2	35.9	34.8
- Influenza/Pneumonia	10.9	14.1	16.3	N/A
- Chronic Lower Respiratory Disease	41.9	55.0	35.9	N/A
- Chronic Liver Disease And Cirrhosis	12.9	13.9	11.7	8.2
- Accidents (Unintentional Injuries)	23.7	25.0	27.9	36.4
- Motor Vehicle Traffic Crashes	10.3	10.4	7.6	12.4
- Suicide	10.0	10.4	10.2	10.2
- Homicide	6.3	6.4	5.1	5.5
- Firearm-Related Deaths	8.8	9.0	7.8	9.3
- Drug-Induced Deaths	9.5	9.5	11.1	11.3

Source: California Department of Public Health

- San Bernardino County has higher morbidity rates than the State of California for chlamydia and gonorrhea among females between 15 and 44 years of age, but it has lower morbidity rates for AIDS, gonorrhea among males between 15 and 44 years of age, and tuberculosis. The measured San Bernardino County rates for each of the health status indicators are lower than the national goals in all indicators except for tuberculosis.

MORBIDITY STATISTICS: 2015 RATE PER 100,000 POPULATION			
Health Status Indicator	San Bernardino		
	County	California	National Goal
AIDS	6.2	8.1	12.4
Chlamydia	543.7	442.6	N/A
Gonorrhea Female 15-44	203.7	152.8	251.9
Gonorrhea Male 15-44	169.2	213.1	194.8
Tuberculosis	2.7	5.9	1.0

Source: California Department of Public Health

2014 Community Health Needs Assessment

In order to determine the health priorities, emerging gaps, and ongoing needs of their community, St. Mary Medical Center conducts a Community Health Needs Assessment every three years. St. Mary Medical Center's most recent 2014 assessment involved the collection of primary data through surveys, meetings, and focus groups, as well as secondary data. St. Mary Medical Center's primary service area is comprised of the larger communities of Apple Valley, Hesperia and Victorville. St. Mary Medical Center's secondary service area includes the smaller communities of Adelanto, Barstow, Helendale, Lucerne Valley, Oro Grande, Phelan and Oak Hills and Wrightwood.

The most important healthcare needs in the community were identified as follows, in order of priority:

- Obesity;
- Diabetes;
- Mental health; and
- Access to primary care.

Hospital Supply, Demand & Market Share

There are four general acute care hospitals within the defined service area: St. Mary Medical Center, Victor Valley Global Medical Center, Desert Valley Hospital, and Barstow Community Hospital. In FY 2014, the service area hospitals had a combined total of 491 licensed beds and an aggregate occupancy rate of approximately 71%. In FY 2014, St. Mary Medical Center had 212 licensed beds that operated at an occupancy rate of nearly 82%. Furthermore, St. Mary Medical Center was responsible for nearly 46% of the service area discharges and approximately 49% of the patient days.

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

AREA HOSPITAL DATA FY 2014									
Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
St. Mary Medical Center	St. Joseph Health System	Apple Valley	X	212	15,867	63,164	173	81.6%	-
Victor Valley Global Medical Center	Dr. Kali P. Chaudhuri	Victorville	X	101	6,688	23,155	63	62.8%	1.8
Desert Valley Hospital	Dr. Prem N. Reddy	Victorville	X	148	9,758	34,891	96	64.6%	6.7
Barstow Community Hospital	Community Health Systems	Barstow	X	30	2,273	6,612	18	60.4%	32.6
SUB-TOTAL				491	34,586	127,822	350	71.3%	
Kaiser Foundation Hospitals - Fontana	Kaiser Foundation Hospitals	Fontana		529	28,249	105,592	289	54.7%	41.5
Loma Linda University Medical Center	Loma Linda Univ. Adventist Health Sciences Ctr	Loma Linda		533	18,008	115,404	316	59.3%	46.9
Arrowhead Regional Medical Center	San Bernardino County	Colton		456	22,381	117,090	321	70.3%	48.2
TOTAL				2,009	103,224	465,908	1,276	63.5%	

Source: OSHPD Disclosure Reports, FY 2014, Google Maps

Hospital Market Share

The table below illustrates service area hospital inpatient market share from 2012 to 2014:

HOSPITAL MARKET SHARE: 2012-2014				
Hospital	2012	2013	2014	Trend
St. Mary Medical Center	33.7%	32.0%	30.5%	↘
Desert Valley Hospital	17.0%	18.7%	20.1%	↗
Victor Valley Global Medical Center	11.1%	12.5%	13.0%	↗
Kaiser Foundation Hospital - Fontana	6.9%	7.0%	7.1%	↗
Loma Linda University Medical Center	7.1%	6.7%	5.9%	↘
Arrowhead Regional Medical Center	4.8%	4.3%	3.9%	↘
Barstow Community Hospital	3.9%	3.9%	3.7%	↔
St. Bernardine Medical Center	1.5%	1.3%	1.2%	↘
Loma Linda University Behavioral Medicine Center	1.1%	1.0%	1.2%	↔
Community Hospital of San Bernardino	1.3%	1.2%	1.1%	↘
Other Discharges	11.6%	11.5%	12.2%	↗
Total Percentage	100%	100%	100%	
Total Discharges	47,595	49,183	49,797	↗

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The number of discharges in St. Mary Medical Center's service area increased by nearly 5% between 2012 and 2014;
- St. Mary Medical Center has consistently been the market share leader for its service area based on discharges (approximately 31% in 2014). Desert Valley Hospital ranked second in inpatient discharges with 20% market share in 2014; and
- Victor Valley Global Medical Center increased its market share slightly to 13% in 2014.

Market Share by Payer Type

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

HOSPITAL MARKET SHARE BY PAYER: 2014											
Payer Type	Total Discharges	St. Mary Medical Center	Desert Valley Hospital	Victor Valley Hospital	Kaiser Foundation Global Medical Center	Loma Linda University Hospital - Fontana	Arrowhead Regional Medical Center	Barstow Community Hospital	St. Bernardine Medical Center	All Others	Total
Medi-Cal	19,212	27.6%	22.3%	17.2%	1.4%	7.6%	7.1%	3.8%	0.8%	12.5%	100%
Medicare	16,866	35.7%	24.4%	10.4%	7.0%	4.0%	1.3%	4.8%	1.2%	11.4%	100%
Private Coverage	11,181	28.2%	11.0%	10.0%	18.3%	5.3%	2.2%	2.3%	2.0%	20.6%	100%
All Other	1,483	20.7%	14.5%	15.8%	0.5%	10.0%	2.9%	2.7%	1.8%	31.2%	100%
Self Pay	1,055	40.6%	16.6%	8.4%	3.6%	8.4%	7.5%	0.6%	1.1%	13.2%	100%
Total Percentage		30.5%	20.1%	13.0%	7.1%	5.9%	3.9%	3.7%	1.2%	14.5%	100%
Total Discharges	49,797	15,198	10,007	6,484	3,538	2,956	1,943	1,841	608	7,222	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The largest categories of service area inpatient discharges are comprised of Medi-Cal at approximately 19,200 discharges (39%), Medicare at approximately 16,900 discharges (34%), and Private Coverage at nearly 11,200 discharges (23%);
- St. Mary Medical Center is the market share leader for Medi-Cal (28%), Medicare (36%), Private Coverage (28%), and Self-Pay (41%); and
- Desert Valley Hospital provides care to a large proportion of Medi-Cal (22%) and Medicare (24%) service area residents.

Market Share by Service Line

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

HOSPITAL MARKET SHARE: 2012-2014											
Service Line	Total Discharges	St. Mary	Victor Valley	Kaiser	Loma Linda	Arrowhead	Barstow	St.			Total
		Medical Center	Desert Valley Hospital	Global Medical Center	Foundation Hospital - Fontana	University Medical Center	Regional Medical Center	Community Hospital	Bernardine Medical Center	All Others	
General Medicine	15,276	31.1%	27.6%	13.1%	6.7%	5.3%	1.8%	4.8%	0.3%	9.2%	100%
Obstetrics	7,033	35.8%	14.7%	18.8%	11.6%	3.7%	1.4%	5.1%	0.8%	8.1%	100%
Cardiac Services	6,844	43.7%	24.4%	11.4%	4.1%	2.2%	1.4%	4.5%	2.0%	6.3%	100%
General Surgery	3,741	32.1%	13.0%	12.2%	7.7%	7.7%	3.6%	3.2%	4.6%	16.1%	100%
Behavioral Health	2,864	2.9%	3.3%	0.7%	1.6%	0.6%	22.7%	0.5%	0.0%	67.9%	100%
Neonatology	2,732	22.6%	29.4%	15.3%	10.6%	6.9%	1.5%	2.0%	0.5%	11.2%	100%
Neurology	2,538	27.1%	23.2%	12.0%	6.1%	8.5%	5.6%	4.2%	0.2%	13.0%	100%
Orthopedics	2,336	25.3%	12.2%	13.4%	11.0%	10.1%	5.5%	0.8%	3.0%	18.8%	100%
Oncology/Hematology (Medical)	1,221	24.1%	15.6%	11.3%	7.5%	13.4%	5.7%	4.2%	0.3%	17.9%	100%
Spine	946	29.2%	6.7%	8.8%	4.4%	11.1%	2.9%	0.6%	4.2%	32.1%	100%
Gynecology	933	19.6%	13.5%	37.8%	3.6%	7.2%	4.7%	2.9%	0.5%	10.1%	100%
Vascular Services	896	49.2%	12.4%	13.4%	4.4%	4.9%	2.2%	2.3%	1.3%	9.8%	100%
Urology	811	37.5%	24.9%	7.4%	8.0%	4.3%	3.2%	1.1%	4.4%	9.1%	100%
Other	539	15.8%	11.3%	6.1%	10.9%	15.4%	21.3%	0.0%	0.9%	18.2%	100%
ENT	486	23.9%	15.6%	13.6%	5.3%	19.5%	4.1%	1.6%	0.4%	15.8%	100%
Neurosurgery	293	5.1%	1.0%	1.4%	7.2%	24.2%	17.1%	0.0%	1.7%	42.3%	100%
Rehabilitation	183	0.0%	0.0%	0.0%	0.0%	59.0%	0.0%	0.0%	0.0%	41.0%	100%
<All others>	125	34.4%	2.4%	12.0%	2.4%	13.6%	5.6%	2.4%	0.8%	26.4%	100%
Total Percentage		30.5%	20.1%	13.0%	7.1%	5.9%	3.9%	3.7%	1.2%	14.5%	100%
Total Discharges	49,797	15,198	10,007	6,484	3,538	2,956	1,943	1,841	608	7,222	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- St. Mary Medical Center is the service line leader in 11 of 16 service lines: general medicine (31%), obstetrics (36%), cardiac services (44%), general surgery (32%), neurology (27%), orthopedics (25%), oncology/hematology (24%), spine (29%), vascular services (49%), urology (38%), and ear, nose, and throat (24%);
- St. Mary Medical Center also has a high percentage of the market share in neonatology (23%) and gynecology (20%);
- Desert Valley Hospital is the market share leader for neonatology (29%);
- Loma Linda University Medical Center is market share leader for neurosurgery (24%) and rehabilitation (59%); and
- Arrowhead Regional Medical Center has the highest market share in behavioral health with 23% market share.

Market Share by ZIP Code

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

HOSPITAL MARKET SHARE BY ZIP CODE: 2014												
ZIP Code	Community	Total Discharges	St. Mary Medical Center	Desert Valley Hospital	Victor Valley Global Medical Center	Kaiser Foundation Hospital - Fontana	Loma Linda University Medical Center	Arrowhead Regional Medical Center	Barstow Community Hospital	St. Bernardine Medical Center	All Others	Total
92345	Hesperia	9,919	23.0%	36.2%	9.0%	7.6%	5.7%	3.6%	0.1%	1.1%	13.8%	100%
92392	Victorville	6,910	26.7%	22.7%	14.2%	8.5%	6.4%	4.6%	0.1%	1.5%	15.3%	100%
92395	Victorville	5,636	28.6%	25.9%	17.4%	6.8%	5.3%	3.4%	0.0%	0.9%	11.8%	100%
92307	Apple Valley	5,246	50.1%	7.4%	12.5%	6.4%	5.3%	3.3%	0.2%	1.3%	13.4%	100%
92308	Apple Valley	5,047	45.5%	12.7%	11.9%	7.1%	4.9%	3.0%	0.0%	1.3%	13.7%	100%
92301	Adelanto	3,900	33.7%	15.0%	21.6%	3.3%	5.9%	4.6%	0.1%	1.2%	14.6%	100%
92311	Barstow	3,829	13.9%	2.7%	8.0%	0.6%	7.7%	5.5%	45.6%	0.8%	15.2%	100%
92394	Victorville	3,281	32.3%	13.1%	19.6%	9.3%	6.2%	3.4%	0.1%	1.7%	14.3%	100%
92344	Hesperia	1,626	20.8%	23.2%	6.7%	16.5%	6.9%	3.1%	0.0%	1.5%	21.2%	100%
92371	Phelan	1,154	21.2%	28.0%	8.9%	10.1%	6.3%	4.9%	0.1%	1.2%	19.3%	100%
92356	Lucerne Valley	827	46.3%	12.3%	11.7%	1.0%	7.5%	5.9%	1.5%	1.2%	12.6%	100%
92342	Helendale	754	39.4%	9.3%	15.8%	4.1%	5.8%	3.1%	6.6%	0.5%	15.4%	100%
92329	Phelan	635	18.9%	22.4%	7.9%	18.7%	6.1%	5.5%	0.0%	2.7%	17.8%	100%
92372	Pinon Hills	510	18.8%	27.5%	4.1%	14.5%	7.6%	3.1%	0.0%	1.4%	22.9%	100%
92393	Victorville	223	19.7%	21.5%	13.9%	13.5%	6.3%	5.4%	0.0%	2.7%	17.0%	100%
92340	Hesperia	160	29.4%	18.1%	4.4%	12.5%	8.8%	3.8%	0.6%	2.5%	20.0%	100%
92368	Oro Grande	140	44.3%	5.7%	23.6%	0.0%	2.9%	6.4%	0.0%	0.0%	17.1%	100%
Total Percentage			30.5%	20.1%	13.0%	7.1%	5.9%	3.9%	3.7%	1.2%	14.5%	100%
Total Discharges			49,797	15,198	10,007	6,484	3,538	2,956	1,943	1,841	608	7,222

Note: Excludes normal newborns
Source: OSHPD Patient Discharge Database

- St. Mary Medical Center is the market share leader in ten of the service area ZIP Codes. In four of these ZIP Codes, represented by these ZIP Codes include Apple Valley, Lucerne Valley, and Oro Grande; and
- Desert Valley Hospital is the market share leader in the communities of Hesperia, Phelan, Pinon Hills, and Victorville; and
- Barstow Community Hospital is the market share leader in one service area ZIP Code located in Barstow.

Service Availability by Bed Type

Using FY 2014 data, the tables on the following pages show St. Mary Medical Center's existing hospital bed capacity, occupancy, and availability for medical/surgical, intensive/coronary care, obstetrics, neonatal intensive care, pediatrics and emergency services.

Medical/Surgical Capacity Analysis

The medical/surgical beds within St. Mary Medical Center's service area operated at a relatively high overall occupancy rate of approximately 73% in FY 2014.

MEDICAL/SURGICAL BEDS FY 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Mary Medical Center	-	X	160	11,988	46,580	128	79.8%
Victor Valley Global Medical Center	1.8	X	61	4,788	17,286	47	77.6%
Desert Valley Hospital	6.7	X	112	8,286	25,866	71	63.3%
Barstow Community Hospital	32.6	X	20	1,704	4,415	12	60.5%
SUB-TOTAL			353	26,766	94,147	258	73.1%
Kaiser Foundation Hospitals - Fontana	41.5		305	19,570	66,868	183	60.1%
Loma Linda University Medical Center	46.9		370	13,187	67,717	186	50.1%
Arrowhead Regional Medical Center	48.2		227	13,367	72,469	199	87.5%
TOTAL			1,255	72,890	301,201	825	65.8%

Source: OSHPD Disclosure Reports, FY 2014, Google Maps

- St. Mary Medical Center reported 11,988 hospital discharges and 46,580 patient days, resulting in an occupancy rate of nearly 80% and an average daily census of 128 patients; and
- St. Mary Medical Center's 160 licensed medical/surgical beds represented approximately 45% of the beds in this category for the service area.

Intensive Care Unit/Coronary Care Unit Capacity Analysis

There were 52 intensive care unit/coronary care unit beds within the service area that operated at an overall occupancy rate of nearly 73%. St. Mary Medical Center had 20 licensed intensive care unit beds with a very high average occupancy rate of approximately 93% and an average daily census of 19 patients.

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS FY 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Mary Medical Center	-	X	20	493	6,820	19	93.4%
Victor Valley Global Medical Center	1.8	X	10	220	1,999	5	54.8%
Desert Valley Hospital	6.7	X	18	276	3,496	10	53.2%
Barstow Community Hospital	32.6	X	4	158	1,443	4	98.8%
SUB-TOTAL			52	1,147	13,758	38	72.5%
Kaiser Foundation Hospitals - Fontana	41.5		44	710	12,743	35	79.3%
Loma Linda University Medical Center	46.9		57	1,368	12,880	35	61.9%
Arrowhead Regional Medical Center	48.2		48	593	10,968	30	62.6%
TOTAL			201	3,818	50,349	138	68.6%

Source: OSHPD Disclosure Reports, FY 2014, Google Maps

- Among the service area hospitals, the average daily census was 38 patients based on 13,758 days; and
- St. Mary Medical Center provided nearly 39% of the service area’s intensive care/coronary care beds and 43% of the discharges.

Obstetrics Capacity Analysis

As shown below, there were 44 obstetric beds located in the service area with a relatively high aggregate occupancy rate of approximately 80%. St. Mary Medical Center reported 16 licensed obstetric beds with a very high occupancy rate of 96% and an average daily census of 15 patients.

OBSTETRICS BEDS FY 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Mary Medical Center	-	X	16	2,564	5,608	15	96.0%
Victor Valley Global Medical Center	1.8	X	12	1,236	2,786	8	63.6%
Desert Valley Hospital	6.7	X	10	879	3,762	10	103.1%
Barstow Community Hospital	32.6	X	6	411	754	2	34.4%
SUB-TOTAL			44	5,090	12,910	35	80.4%
Kaiser Foundation Hospitals - Fontana	41.5		66	5,805	10,077	28	41.8%
Loma Linda University Medical Center	46.9		-	-	-	-	-
Arrowhead Regional Medical Center	48.2		24	2,565	7,309	20	83.4%
TOTAL			134	13,460	30,296	83	61.9%

Source: OSHPD Disclosure Reports, FY 2014, Google Maps

Desert Valley Hospital and Kaiser Foundation Hospitals - Fontana have Alternative Birthing Centers.

- St. Mary Medical Center provided approximately 36% of licensed obstetrics beds within its service area, and reported nearly 50% of the service area's 5,090 discharges; and
- Hospitals within the service area had varying levels of available capacity, with occupancy rates ranging from approximately 34% at Barstow Community Hospital to approximately 103% at Desert Valley Hospital.

Neonatal Intensive Care Capacity Analysis

St. Mary Medical Center was one of only two hospitals within the service area to provide neonatal intensive care beds. There were ten neonatal beds within the service area that operated at an overall occupancy rate of nearly 85%. St. Mary Medical Center provided eight of these beds that operated at an average occupancy rate of approximately 98% and an average daily census of eight patients.

NEONATAL INTENSIVE CARE BEDS FY 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Mary Medical Center	-	X	8	299	2,873	8	98.4%
Victor Valley Global Medical Center	1.8	X	2	114	215	1	29.5%
Desert Valley Hospital	6.7	X	-	-	-	-	-
Barstow Community Hospital	32.6	X	-	-	-	-	-
SUB-TOTAL			10	413	3,088	8	84.6%
Kaiser Foundation Hospitals - Fontana	41.5		44	463	8,866	24	55.2%
Loma Linda University Medical Center	46.9		-	-	-	-	-
Arrowhead Regional Medical Center	48.2		30	257	3,894	11	35.6%
TOTAL			84	1,133	15,848	43	51.7%

Source: OSHPD Disclosure Reports, FY 2014, Google Maps

- Among the service area hospitals, the average daily census was eight patients based on 3,088 days; and
- St. Mary Medical Center provided 80% of the service area's neonatal intensive care beds, and accounted for approximately 72% of the service area's discharges.

Pediatric Capacity Analysis

St. Mary Medical Center was one of only two providers of pediatric acute care beds within the service area. The service area hospitals had 24 licensed pediatric beds that operated at an occupancy rate of nearly 25%. St. Mary Medical Center reported eight pediatric beds with 1,283 patient days and an occupancy rate of nearly 44%.

PEDIATRIC ACUTE CARE BEDS FY 2014							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
St. Mary Medical Center	-	X	8	523	1,283	4	43.9%
Victor Valley Global Medical Center	1.8	X	16	330	869	2	14.9%
Desert Valley Hospital	6.7	X	-	-	-	-	-
Barstow Community Hospital	32.6	X	-	-	-	-	-
SUB-TOTAL			24	853	2,152	6	24.6%
Kaiser Foundation Hospitals - Fontana	41.5		40	1,056	3,917	11	26.8%
Loma Linda University Medical Center	46.9		-	-	-	-	-
Arrowhead Regional Medical Center	48.2		23	1,019	1,646	5	19.6%
TOTAL			87	2,928	7,715	21	24.3%

Source: OSHPD Disclosure Reports, FY 2014, Google Maps

- Among the service area hospitals, the average daily census was six patients based on 2,152 days; and
- St. Mary Medical Center provided approximately 33% of the service area's pediatric beds, and they accounted for almost 61% of the service area's discharges.

Emergency Department Volume at Hospitals in the Service Area

St. Mary Medical Center had 34 emergency treatment stations and the most of any service area hospital. In total, there were 87 treatment stations among all service area hospitals. As shown below, St. Mary Medical Center reported 68,473 visits, totaling nearly 39% of all visits among the service area hospitals (177,791 visits).

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

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2014												
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Minor	Low/Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
St. Mary Medical Center	-	X	Basic	34	68,473	3,486	5,507	36,962	19,199	3,319	14.5%	-
Victor Valley Global Medical Center	1.8	X	Basic	16	40,316	1,858	9,662	26,451	1,933	412	4.3%	-
Desert Valley Hospital	6.7	X	Basic	21	43,311	-	-	-	-	-	19.4%	-
Barstow Community Hospital	32.6	X	Basic	16	25,691	2,025	3,833	16,636	3,091	106	6.9%	-
SUB-TOTAL				87	177,791	7,369	19,002	80,049	24,223	3,837	12.3%	-
Kaiser Foundation Hospitals - Fontana	41.5		Basic	52	89,205	389	13,221	57,153	16,239	2,203	10.4%	-
Loma Linda University Medical Center	46.9		Basic	77	36,852	466	3,295	12,287	8,527	12,277	24.5%	10
Arrowhead Regional Medical Center	48.2		Basic	43	100,296	15,236	17,578	33,548	19,911	14,023	16.8%	89
TOTAL				259	404,144	23,460	53,096	183,037	68,900	32,340	14.1%	99

Source: OSHPD Alerts Annual Utilization Reports, 2014

- Nearly 15% of St. Mary Medical Center’s 2014 emergency department visits resulted in admission to the hospital;
- While none of the service area hospitals went on diversion¹⁵ in 2014, the Inland Counties Emergency Medical Agency reports “bed delay” hours that are defined as the time between the arrival of an ambulance at the hospital and the hospital receiving the patient. Bed delay hours from January to November 2015 varied for service area hospitals, from just 274 hours at Barstow Community Hospital to 3,235 hours at St. Mary Medical Center; and
- Nearly 33% of St. Mary Medical Center’s emergency department visits were classified as severe with/without threat and were approximately twice the service area average of almost 16%.

¹⁵ A hospital goes on diversion when there are not enough beds or staff available in the emergency room or the hospital itself to adequately care for patients. When a hospital goes on diversion, it notifies the area Emergency Medical Services Agency so that patients can be transported to other area hospitals with sufficient capacity.

Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, St. Mary Medical Center’s emergency department was operating at nearly 101% of its 34-bed capacity in 2014.

EMERGENCY DEPARTMENT CAPACITY 2014							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
St. Mary Medical Center	-	X	Basic	34	68,473	68,000	(473)
Victor Valley Global Medical Center	1.8	X	Basic	16	40,316	32,000	(8,316)
Desert Valley Hospital	6.7	X	Basic	21	43,311	42,000	(1,311)
Barstow Community Hospital	32.6	X	Basic	16	25,691	32,000	6,309
SUB-TOTAL				87	177,791	174,000	(3,791)
Kaiser Foundation Hospitals - Fontana	41.5		Basic	52	89,205	104,000	14,795
Loma Linda University Medical Center	46.9		Basic	77	36,852	154,000	117,148
Arrowhead Regional Medical Center	48.2		Basic	43	100,296	86,000	(14,296)
TOTAL				259	404,144	518,000	113,856

Source: OSHPD Alerts Annual Utilization Reports, 2014

- Three out of the four service area hospitals operated at over 100% in 2014, while Barstow Community Hospital operated at the lowest level of capacity at approximately 80%; and
- Overall, the service area hospitals’ emergency departments were operating at approximately 102% capacity in 2014.

SUMMARY OF INTERVIEWS

Between December 2015 and February 2016, both in-person and telephone interviews were conducted with representatives of St. Mary Medical Center, St. Joseph Health System, High Desert Medical Group, Inland Empire Health Plan, and Providence Health & Services. Interviews were also conducted with physicians, San Bernardino County representatives, St. Mary Medical Center's employees, union representatives, and other community representatives. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability and accessibility as a result of the proposed combination of system level governance between St. Joseph Health System and Providence Health & Services to form Providence St. Joseph Health. The list of individuals who were interviewed is located in the Appendix of this report. The major findings of these interviews are summarized below.

Reasons for the Proposed Transaction

Members of St. Mary Medical Center's Board of Trustees, management team, and medical staff cited a number of reasons why the proposed combination would be beneficial, including the following:

- The opportunity to partner with a Catholic, faith-based health system with a similar heritage and values would help to ensure that the mission to serve uninsured and under-insured patient populations will be continued;
- Leveraging the different strengths of Providence Health & Services and St. Joseph Health System would create an opportunity for sharing and mutual learning regarding best clinical practices, data, community benefits and charity care;
- The proposed combination will put two already fiscally strong health systems in an even stronger financial position by increasing their bargaining power, allowing greater economies of scale, and providing greater access to capital at a lower cost; and
- The proposed combination has the potential to enable more collaboration between the hospitals and the sharing of best practices for development of programs for clinical services, mental health, telemedicine, and information technology.

Importance of St. Mary Medical Center to the Community

According to all who were interviewed, St. Mary Medical Center is a critically important safety net provider of healthcare services in the High Desert region and is known for providing essential services to the uninsured and under-served populations. While there are three other hospitals located in St. Mary Medical Center's service area, St. Mary Medical Center is the market share leader. Medi-Cal and Medicare payers represent 73% of St. Mary Medical Center's patient population. Some of the programs and services that were mentioned in the interviews as especially important include the following:

- Emergency services;
 - Many of those interviewed mentioned that there are only three emergency departments within the service area and that they frequently have bed capacity constraints and long waiting times to be seen, admitted, or discharged. These interviewees emphasized that if there were a decrease in the number of emergency department treatment stations in the service area, it would be very detrimental to the population's healthcare access.
- Pediatric services;
 - Because of limited alternatives and the distance for families to travel if a child needed to be admitted, it was important to have local pediatric services available for those patients that did not need tertiary care.
- Obstetrics and Level II Neonatal Intensive Care Unit services;
- Intensive care services;
- Community clinic services, including primary care, prenatal care, and lactation counseling services;
- Mobile clinic services, including primary care services for low-income and uninsured adults;
- Diabetes Education Program services.

Community representatives all believed that it was essential for St. Mary Medical Center to retain all the services that it currently offers, especially its emergency, pediatrics, and obstetrics services. If St. Mary Medical Center did not maintain its current level of healthcare services, accessibility and availability issues would be created for the underinsured and uninsured residents of the surrounding communities.

Selection of Providence Health & Services for the Proposed Combination

In addition to the reasons set forth in the Health System Combination Agreement, members of St. Mary Medical Center's Board of Trustees, management, and medical staff cited a number of reasons why the proposed combination with Providence Health & Services would be beneficial, including the opportunity to partner with an organization that is committed to the mission of serving the poor and underserved, share clinical best practices, especially in the areas of mental health, palliative care, and neurosciences, and unify the sponsorship of two Catholic organizations with similar cultures, heritage, and values. Many of those interviewed felt that Providence Health & Services and St. Joseph Health System lean heavily towards mission over margin and have complementary strengths. Providence Health & Services was seen by many of those interviewed as an innovator when it comes to community benefits.

Some of those interviewed also expressed concerns that bigger is not always better, and mentioned that an increase in size can cause an organization to be slow to react to industry changes and unable to maintain clinical excellence. However, many of those interviewed explained that they trust the decision by St. Joseph Health System's leadership to partner with Providence Health & Services.

Impact on the Availability and Accessibility of Healthcare Services

Almost all interviewed believed that the proposed combination would not impact access to and/or availability of current services. While most believed that the proposed combination would be beneficial, they also understood that there could be added bureaucracy and a consolidation or change in administrative processes, neither of which is expected to negatively impact patient care. Many also believed that the proposed combination would create the opportunity to expand existing programs and further regionalize program offerings with the potential to positively impact the patient populations currently being served.

Alternatives

Almost all believed that the proposed combination was not driven by financial necessity. Rather, they believed it was instead driven by a desire to create greater opportunity for improving operational, financial, and clinical performance. While some interviewed had no direct knowledge of Providence Health & Services or interactions with Providence Health & Services' staff, many individuals were confident that combining efforts with a financially strong, Catholic, faith-based health system would ensure that fulfilling the mission of caring for the poor would continue to remain a priority. The majority of the interviewees did not believe that a more suitable partner could have been found for this proposed combination.

Views of National and Regional Health Plan Representatives

The majority of health plan representatives expressed that they had enjoyed strong, long-lasting relationships with both St. Joseph Health System and Providence Health & Services. The views of these representatives can be divided into the following two categories: views from the larger, national health plans whose membership is primarily insured by commercial health products, and views from representatives of health plans that are regional, with a focus on lower income Medi-Cal and dual Medicare/Medi-Cal eligible patient populations.

The commercially focused health plans stated that their relationship with St. Joseph Health System and Providence Health & Services has always been strong. These plans view the proposed combination positively and did not express any concerns about the effects of the transaction on their membership. Despite some uncertainty regarding how the larger size of the new organization will impact contract negotiations, they believed they would be able to establish an acceptable contractual relationship with Providence St. Joseph Health.

The views of representatives from more locally-based health plans were similar in that they did not express any concerns surrounding the proposed combination. These organizations have had strong and longstanding relationships with St. Mary Medical Center since a large percentage of its patient population is comprised of low-income and Medi-Cal eligible individuals. These Medi-Cal payers view the proposed combination positively because of the potential to expand coverage to additional members for the patient populations they serve. In Southern California, payers indicated that there have been no member complaints regarding access to services, including women's reproductive services, at any of the Providence Health & Services or St. Joseph Health System facilities. All of those who were interviewed stated they were unaware of any plans to eliminate or change covered services as a result of the proposed combination.

Both regional and local health plan representatives cited the benefits of the proposed combination, including expansion of geographic coverage, greater access, and the opportunity to gain efficiencies and reduce costs. Some of the regional and local health plan representatives expressed hope that the larger size of the organization will increase physician specialty participation in Medi-Cal products due to economies of scale and the ability to offset the lower reimbursement from those plans. All of those interviewed spoke positively of the decision Providence Health & Services and St. Joseph Health System made in coming together to pursue opportunities to lower costs, expand physician networks, and offer patients greater service offerings.

Views of the Unions

Ten of the hospitals under consideration as part of the Health System Combination Agreement are represented by unions. These unions include: California Nurses Association, National Union of Healthcare Workers, International Union of Operating Engineers Local 39, Staff Nurses Association, United Steelworkers Union, Service Employees International Union Local 121 RN, and Service Employees International Union United Healthcare Workers West. Approximately

40% of the employees at the hospitals are represented by CBAs.

Approximately 42% of St. Mary Medical Center's employees are covered by a CBA with the California Nurses Association and 44% are covered by a CBA with the United Steelworker's Union.

Union members and representatives have voiced various concerns regarding St. Joseph Health System and the proposed combination's impact on St. Mary Medical Center, including the following:

- Inadequate registered nurse staffing ratios;
- The inability of nurses to gather on campus during break times to share information regarding union activity;
- The potential for reductions to existing benefits;
- The potential for elimination of patient services and especially pediatric services;
- How reductions in patient care quality, especially in the emergency room, will be addressed; and
- How the lack of resources for transporting patients between departments for ancillary testing services has been a longstanding concern and may become an even lower priority in a much larger health system.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES

Importance of St. Mary Medical Center to the Community

St. Mary Medical Center is an important provider of general healthcare services to the residents of the surrounding communities. St. Mary Medical Center is especially essential for its provision of emergency, obstetrics, pediatrics, and surgical services to residents within the service area, as well as for the broader community. Other key services offered at St. Mary Medical Center include cardiovascular, diabetes, imaging, rehabilitation, respiratory, women's health, and wound care and hyperbaric medicine services.

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

Continuation as a General Acute Care Hospital

The Health System Combination Agreement states that St. Mary Medical Center will continue to operate as a licensed general acute care facility for a minimum of five years.

Emergency Services

St. Mary Medical Center is an important provider of emergency services to the residents of Apple Valley, Victorville, and the surrounding communities. In 2014, St. Mary Medical Center reported nearly 80,000 visits on its 34 emergency treatment stations, operating at over 100% capacity based on a standard of 2,000 visits per station, per year. Tom Lynch, the Emergency Medical Services Administrator for San Bernardino County, stated that St. Mary Medical Center is critical to the provision of emergency medical services and that any loss or reduction of emergency services would have a catastrophic effect on the community as a whole.

The emergency department at Victor Valley Global Medical Center, a service area facility, is overburdened and functioned beyond desirable capacity (126%) in 2014. Emergency departments at other service area facilities are often overburdened as well, including Desert Valley Hospital (83%) and Barstow Community Hospital (80%). As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Because of this and the growing shortage of primary care physicians, emergency department utilization is expected to increase within the service area. Keeping St. Mary Medical Center's Emergency Department open is critical to ensuring continued access to emergency services within its service area.

Medical/Surgical Services

In FY 2014, St. Mary Medical Center operated 160 licensed medical/surgical beds and reported an average daily census of 128 patients (80% occupancy). Many of those interviewed cited St. Mary Medical Center as a critical provider of surgical services.

Intensive Care/Critical Care Services

In 2014, St. Mary Medical Center reported a high occupancy rate of approximately 93% on its 20 licensed intensive care beds. These services are an important resource for supporting St. Mary Medical Center's emergency department and other medical and surgical services. Excluding St. Mary Medical Center, the remaining service area hospitals are running at a combined occupancy rate of approximately 59% on 32 total intensive care beds. In FY 2014, nearby facilities had variable occupancy rates for intensive care beds: Victor Valley Global Medical Center (55%), Desert Valley (53%), and Barstow Community Hospital (99%). Maintaining intensive care services at St. Mary Medical Center is important in ensuring the accessibility and availability of intensive care/critical care services in the service area.

Obstetrics Services

St. Mary Medical Center has a very high occupancy rate of 96% on its 16 licensed obstetrics beds based on an average daily census of approximately 15 patients. With approximately 2,500 live births in FY 2014, St. Mary Medical Center is an important provider of obstetrics services. St. Mary Medical Center held the largest market share in 2014, with approximately 36% of inpatient obstetrics discharges within its service area. A reduction in the type and/or level of obstetrics services or number of licensed obstetrics beds provided at St. Mary Medical Center would have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities. St. Mary Medical Center is a very important provider of obstetrics services to low-income patients as shown by its high percentage of Medi-Cal obstetrics patients.

Pediatric Services

St. Mary Medical Center is licensed for eight pediatric beds (33% of the total service area beds) with an occupancy rate of 44% and average daily census of approximately four patients. Only one other hospital in the service area, Victor Valley Global Medical Center, offers inpatient pediatric services and reported an average daily census of only one patient (occupancy rate of 15%) in FY 2014. There are three children's hospitals within 100 miles of St. Mary Medical Center that receive patients from the service area: Loma Linda University Children's Hospital (49 miles), Children's Hospital of Orange County (83 miles), and Children's Hospital Los Angeles (91 miles). Approximately 28% of emergency services visits are pediatric patients, which makes St. Mary Medical Center's pediatric services important for pediatric patients when no referral to a tertiary or specialized children's healthcare facility is required.

Neonatal Intensive Care Services

St. Mary Medical Center operates eight licensed neonatal intensive care beds (80% of the combined area neonatal intensive care beds) and maintains a Level II Neonatal Intensive Care Unit with a very high occupancy rate of nearly 98%. The only other hospital offering neonatal intensive care services in the service area is Victor Valley Global Medical Center with an occupancy rate of 30%. Because St. Mary Medical Center has approximately 2,500 deliveries annually with a high percentage of patients designated as “high risk,” it is very important to continue operations of St. Mary Medical Center’s neonatal intensive care unit.

Reproductive Health Services

Providence Health & Services and St. Joseph Health System are subject to the Ethical and Religious Directives for Catholic Health Care Services (the Ethical and Religious Directives). The Ethical and Religious Directives is a document that offers moral guidance based on the Catholic Church’s teachings regarding various aspects of healthcare delivery. The Ethical and Religious Directives were created as a discernment tool to be used in the application of healthcare decisions regarding beginning-of-life and end-of life-issues, and to safeguard the sacredness of the physician-patient relationship.

Within each Catholic Diocese, the local Bishop has the authority to interpret the practical application of the Ethical and Religious Directives at area hospitals. Since the Catholic Church vests this authority to the Bishop in each Diocese, there may be slight variations in the application of the Ethical and Religious Directives among various Dioceses. St. Mary Medical Center is located within the Diocese of San Bernardino.

Under the Ethical and Religious Directives, some women’s reproductive health services, including elective abortions and tubal ligations, are prohibited. According to interviews with the ethicists of Providence Health & Services and St. Joseph Health System, each hospital facility has an Ethics Committee in place to provide timely review and consultation with physicians, as needed, to ensure the physicians are supported throughout the decision-making process regarding the application of the Ethical and Religious Directives. While the Ethical and Religious Directives prohibit tubal ligations and abortions, many of these procedures are performed at Providence Health & Services and St. Joseph Health System’s hospitals when the pathology is determined to present a medical need and/or a clear and present danger to the patient.

St. Mary Medical Center is an important provider of a range of women’s reproductive services and provides these services to a large underserved population that has low rates of prenatal care, resulting in an increased number of high risk births. This can increase instances of stillborn delivery, miscarriage, and fetal abnormalities.

Below is a table showing instances where St. Mary Medical Center, Providence Health & Services, and St. Joseph Health System recorded reproductive-related procedures in 2014 that were in accordance with the Ethical and Religious Directives because of their pathology.

REPRODUCTIVE HEALTH SERVICES BY DIAGNOSTIC RELATED GROUP			
Diagnostic Related Group	St. Mary Medical Center	Providence Health & Services	St. Joseph Health System
778-Threatened Abortion	41	183	239
779-Abortion w/o D&C	10	33	48
777-Ectopic Pregnancy	16	81	49
767-Vaginal Delivery w Sterilization &/or D&C	2	31	69
770-Abortion w D&C, Aspiration Curettage or Hysterectomy	8	61	32
Total 2014 Discharges:	77	389	437

Source: OSHPD 2014

Women’s reproductive services are available at other area providers, including, but not limited to, Victor Valley Global Medical Center, Desert Valley Hospital, Barstow Community Hospital, and Planned Parenthood.

Since both St. Joseph Health System and Providence Health & Services are Catholic-sponsored health systems, both adhere to the Ethical and Religious Directives, and no changes in reproductive health services are expected as a result of the Health System Combination Agreement.

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

Approximately 73% of St. Mary Medical Center’s inpatient discharges are reimbursed through Medicare (42%) and Medi-Cal (31%), and an additional 1% of inpatient discharges are classified as indigent. St. Mary Medical Center currently participates in the Medicare program and the Medi-Cal managed care program, and has managed care contracts for these types of patients.

The Health System Combination Agreement includes a commitment to keep St. Mary Medical Center’s emergency department open for at least five years in order to ensure access of services to Medicare and Medi-Cal patients. In order for Medicare and Medi-Cal patients to access other key services not provided through St. Mary Medical Center’s Emergency Department, St. Mary Medical Center must maintain its participation in both programs and maintain its managed care contractual agreements with payers.

If St. Mary Medical Center did not participate in the Medicare and Medi-Cal managed care programs, these classes of patients would be denied access to certain non-emergency healthcare services. A denial of access could negatively impact the availability or accessibility for these patient populations.

Effects on the Level and Type of Charity Care Historically Provided

Many uninsured and under-insured individuals in the community rely on St. Mary Medical Center for healthcare services. St. Mary Medical Center provides a similar percentage of charity care and bad debt to the statewide average (2.6% of gross patient revenue for St. Mary Medical Center, as compared to 2.7% for the State of California). St. Mary Medical Center has historically provided a significant amount of charity care costs that averaged approximately \$7.8 million per year over the last five years. Due to Medicaid expansion and expansion of coverage through Covered California, the provision of charity care at St. Mary Medical Center has diminished, particularly between FY 2013 and FY 2014 and is expected to continue to decrease. California's expansion of Medi-Cal coverage and coverage through Covered California has reduced the number of uninsured patients resulting in diminished charity care usage at St. Mary Medical Center.

Effects on Community Benefit Programs

St. Mary Medical Center supports a significant number of ongoing community benefit programs that serve lower income residents from the surrounding communities. In the Health System Combination Agreement, Providence St. Joseph Health has made a commitment for St. Mary Medical Center to maintain expenditures for community benefit services for a period of five years, based on the average expenditure for the years FY 2011-2014. This equates to a commitment of no less than \$3.3 million per year. However, the five-year average was \$4.9 million per year.

Ongoing community benefit programs at St. Mary Medical Center include: Community Clinics, Bright Futures Mobile Van, Family Resource Center, Healthy Beginnings, Health Professions for Nursing Students, and Mother/Baby Assessment Center. The Health System Combination Agreement includes a commitment to maintain some of these programs, including: Community Clinic programs, Health Career programs, and San Bernardino County Public Health Initiatives.

Effects on Staffing and Employee Rights

The Health System Combination Agreement states that all non-executive employees of St. Mary Medical Center shall remain employees of their current employer, with compensation and benefits established by their respective employer. The Health System Combination Agreement does not specify a time commitment for this intention.

Approximately 86% of St. Mary Medical Center's employees are covered by CBAs. Management has made no specific assurances to the unions.

Almost all who were interviewed indicated that some administrative functions may be regionalized and/or centralized over time in order to leverage the strength of the respective health systems, capitalize on best practices, or to achieve efficiencies. It is also expected that as

with past business practices, the number of patient care employees could change with fluctuations in patient volumes.

Effects on Medical Staff

The Health System Combination Agreement states that it is the intent of the parties not to adversely affect (or require a change to) the medical staff privileges held by any member of a medical staff of a health care facility owned or controlled by a party. The Health System Combination Agreement, however, does not contain any specific commitments to maintain physician contracts, including on-call services. Nor does it contain any specific commitments to maintain the medical staff officers, department or committee chairs/heads, or vice-chairs/heads of St. Mary Medical Center's medical staff.

Alternatives

If the proposed combination is not approved, neither the health systems, nor the communities they serve are expected to be negatively impacted. Community benefit programs and charity care provisions would be expected to continue at their present levels, due to the mission and commitment of the respective organizations' to serve the poor and underserved. However, due to the ACA and changes in the marketplace, Providence Health & Services and St. Joseph Health System may not realize the same anticipated benefits if they remained as independent organizations.

CONCLUSIONS

Potential Conditions for Transaction Approval by the California Attorney General

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

1. For at least ten years from closing, St. Mary Medical Center shall continue to operate as a general acute care hospital;
2. For at least five years from closing, St. Mary Medical Center shall maintain 24-hour emergency services at no less than current licensure and designation with the same types and/or levels of services, including a minimum of 34 emergency treatment stations;
3. For at least five years from closing, St. Mary Medical Center shall maintain the following services at current licensure, types, and/or levels of services:
 - a. Pediatric services, including a minimum of 8 licensed pediatric beds;
 - b. Cardiology services, including a minimum of 2 cardiac catheterization labs and the designation as a STEMI Receiving Center;
 - c. Critical care services, including a minimum of 20 intensive care beds;
 - d. Obstetrics services, including a minimum of 16 obstetrics beds; and
 - e. Neonatal intensive care services, including a minimum of 8 neonatal intensive care beds and designation as a Level II Neonatal Intensive Care Unit.
4. Additionally, for at least five years from closing, St. Mary Medical Center shall maintain the following services as committed to in Exhibit 8.13 of the Health System Combination Agreement:
 - a. Diabetes care services;
 - b. Imaging/radiology services;
 - c. Laboratory services;
 - d. Rehabilitation services;
 - e. Surgical services;
 - f. Women's services; and
 - g. Wound care services.
5. For at least five years from closing, St. Mary Medical Center shall retain the following community health clinics:
 - a. St. Mary Medical Center Community Health Center, located at 18077 Outer

- Highway 18, Suite 100 in Apple Valley;
- b. St. Mary Community Health Center Hesperia Clinic, located at 17071 Main Street in Hesperia; and
 - c. St. Mary Medical Center Healthy Beginnings Adelanto Clinic, located at 11424 Chamberlain Way, #9 in Adelanto.
6. For at least five years from closing, St. Mary Medical Center shall maintain a charity care policy that is no less favorable than St. Mary Medical Center’s current charity care policy and in compliance with California and Federal law, and St. Mary Medical Center shall provide an annual amount of Charity Care equal to or greater than \$7,772,603 (the “Minimum Charity Care Amount”). Alternatively, because of the impact of Medi-Cal expansion and the ACA, the California Attorney General could consider adjusting the required commitment to charity care based on available data from time periods after implementation of the ACA. For purposes herein, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by St. Mary Medical Center in connection with the operations and provision of services at St. Mary Medical Center. The definition and methodology for calculating “charity care” and the methodology for calculating “cost” shall be the same as that used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for Riverside-San Bernardino-Ontario, California;
7. For at least five years from closing, St. Mary Medical Center shall continue to expend an average of no less than \$4,884,058 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for Riverside-San Bernardino-Ontario, California. The following community benefit programs and services shall continue to be offered on an ongoing basis:
- a. Bright Futures Mobile Van;
 - b. Family Resource Center;
 - c. Healthy Beginnings;
 - d. Mother/Baby Assessment Center;
 - e. Health Career Program; and
 - f. San Bernardino County Public Health Initiatives.
8. For at least five years from closing, St. Mary Medical Center shall maintain its participation in the Medi-Cal managed care program through its contract with Inland Empire Health Plan or its successor, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease of quality, or gap in contracted hospital coverage;

9. For at least five years from closing, St. Mary Medical Center shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number;
10. Providence St. Joseph Health and St. Mary Medical Center shall commit the necessary investments required to maintain OSHPD seismic compliance requirements at St. Mary Medical Center through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070); and
11. Providence St. Joseph Health and St. Mary Medical Center shall complete any capital projects for equipment or improvements as committed to in the Health System Combination Agreement.

APPENDIX

List of Interviewees

Last Name	First Name	Position	Affiliation
Afable, MD	Rick	EVP, Southern California / President & CEO, St. Joseph Hoag Health	St. Joseph Health System
Bahn	MaryLou	Registered Nurse	California Nurses Association
Bevilacqua	Randy	Vice President, Strategic Services	St. Mary Medical Center
Brown, MD	Phil	Physician, Pediatrics	St. Mary Medical Center
Butler	Mike	President & Chief Operating Officer	Providence Health & Services
Carrier	Karl	Interim Chief Executive Officer	Providence Health & Services, Southern California
Davis	Siobhan	Regional Performance Manager	CareMore Health Plan
Drone	Marilyn	Chief Nursing Officer	St. Mary Medical Center
Eason, MD	Lanny	Chief Medical Officer	Providence Health & Services, Southern California
Ebrahim, MD	Ali	Medical Director, Emergency Department	St. Mary Medical Center
Escasa-Haigh	Jo Ann	Chief Financial Officer	St. Joseph Health System
Ester	Lesley	Registered Nurse	California Nurses Association
Fernandez	Tracey	Chief Financial Officer	St. Mary Medical Center
Forrester	Shawn	Vice President, Provider Solutions	Anthem Blue Cross of California
Garrett	Alan	Chief Executive Officer	St. Mary Medical Center
Gilbert	Brad	Chief Executive Officer	Inland Empire Health Plan
Gonzalez, MD	Henry	Chair, Board of Trustees	St. Mary Medical Center
Gray	Sr. Katherine	Chair	St. Joseph Health Ministry
Greiner	David	Chair, Foundation Board	St. Mary Medical Center
Haghighat, MD	Dennis	Chief Medical Officer	St. Mary Medical Center
Hubler	Kurt	Chief Network Officer	Inland Empire Health Plan
Igram	Rick	Senior Vice President, Network Development & Contracting	St. Joseph Health System
Jurecki	Sr. Nancy	Director, Mission Leadership & Spiritual Care	Providence Health & Services, Southern California
Kaminski	Paul	Vice President, Foundation	St. Mary Medical Center
Khurana	Prub (P.K.)	Chief Strategic Services Officer	Providence Health & Services, Southern California
Krishnan, MD	Ravi	Medical Director, Neonatal Intensive Care Unit	St. Mary Medical Center
LaMetterey	Sr. Theresa	Vice Chair, Board of Trustees	St. Mary Medical Center
Linden	Kelly	Chief Operating Officer	St. Mary Medical Center
Mahany	Kevin	Director, Advocacy and Healthy Communities	St. Mary Medical Center
Manemann	Kevin	Chief Executive Officer	St. Joseph Heritage Healthcare
Mast	Dave	Chief Integration Officer, Shared Services	Providence Health & Services, Southern California
McNair	Karen	Registered Nurse	California Nurses Association
Mohr	Steven	Vice President, Finance & Operations	Providence Health & Services, Southern California
Montalvo	Darrin	President, Integrated Services	St. Joseph Health System
Murphy	Kevin	Vice President, Theology & Ethics	St. Joseph Health System
Noce	Bill	Chair, Board of Trustees	St. Joseph Health System
Ortega	J. Rosa	Director, Women and Children's Services	St. Mary Medical Center
Papouchian	Arminé	Vice President, Contracting Relations & Analytics	Blue Shield
Pavic-Zabinski	Karen	Regional Director, Ethics	Providence Health & Services, Southern California
Ponce	Alicia	Regional Director, Network Management	SCAN Health Plan
Proctor	Deborah	President & Chief Executive Officer	St. Joseph Health System
Roberts, CNM	Laurie	Director, Community Health	St. Mary Medical Center
Saddiq, MD	Kaliq	Regional Medical Director	St. Joseph Heritage Healthcare
Sanders	Lois	Registered Nurse, Wound Care	St. Mary Medical Center
Schiele	Julie	Registered Nurse, Neonatal Intensive Care Unit	St. Mary Medical Center
Schubert	Sr. Marian	Executive Vice President, Mission Integration	St. Joseph Health System
Selden	Ian	Registered Nurse	California Nurses Association
Siebert	Greg	Senior Vice President, Network Management	UnitedHealthcare
Sloggett-O'Dell	Stephanie	Vice President, Labor & Employee Relations	St. Joseph Health System
Stahl	Pam	Chief Human Resources Officer	Providence Health & Services, Southern California
Stanislaw	Sherry	Senior Vice President & General Manager	SCAN Health Plan
Stuebe	Michelle	Registered Nurse	St. Mary Medical Center
Sweeney	Kerry	Registered Nurse	California Nurses Association
Treanor	Joline	Senior Vice President, Human Resources	St. Joseph Health System
Wagner	Judy	Vice President, Mission Integration	St. Mary Medical Center
Walker	Annette	Executive Vice President, Strategic Services / Newly Appointed President & CEO	St. Joseph Health System
Other Anonymous Nurses		Registered Nurses	St. Joseph Health System Hospitals

Hospital License

License: 240000207

Effective: 12/22/2015

Expires: 12/21/2016

Licensed Capacity: 212

State of California

Department of Public Health

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

this License to

St. Mary Medical Center

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

St. Mary Medical Center

18300 Us Highway 18

Apple Valley, CA 92307-2206

Bed Classifications/Services

212 General Acute Care
20 Intensive Care
16 Perinatal
8 Intensive Care Newborn Nursery
8 Pediatric
160 Unspecified General Acute Care

Other Approved Services

Basic Emergency Medical
Cardiac Catheterization Laboratory Services
Cardiovascular Surgery
Mobile Unit - Other
Mobile Unit - Prenatal Care
Nuclear Medicine
Outpatient Service - Outpatient Clinic - Family Practice at Healthy Beginnings Adelanto, 11424 Chamberlain, Suites 8&9, Adelanto
Outpatient Service - Outpatient Clinic - Family Practice at Healthy Beginnings Apple Valley, Family Resource Center, 18077 Highway 18, Apple Valley
Outpatient Service - Outpatient Clinic - Family Practice at Hesperia Community Health Center, 17071 Main Street, Suite 100, Hesperia
Outpatient Service - Outpatient Clinic - Perinatal Testing at Perinatal Testing, 16051 Kasota Road, Suite 800, Apple Valley
Outpatient Service - Outpatient Clinic - Surgery at Outpatient Surgery Pavillion, 18122 Outer Highway 18, Apple Valley
Outpatient Service - Outpatient Clinic - Wound Care at 16077 Kamana Rd Suite A, Apple Valley
Physical Therapy
Physical Therapy at 16051 Kasota Road Ste 600, Apple Valley

(Additional Information Listed on License Addendum)

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Bernardino District Office, 464 W. Fourth Street, Suite 529, San Bernardino, CA 92401, (909)383-4777

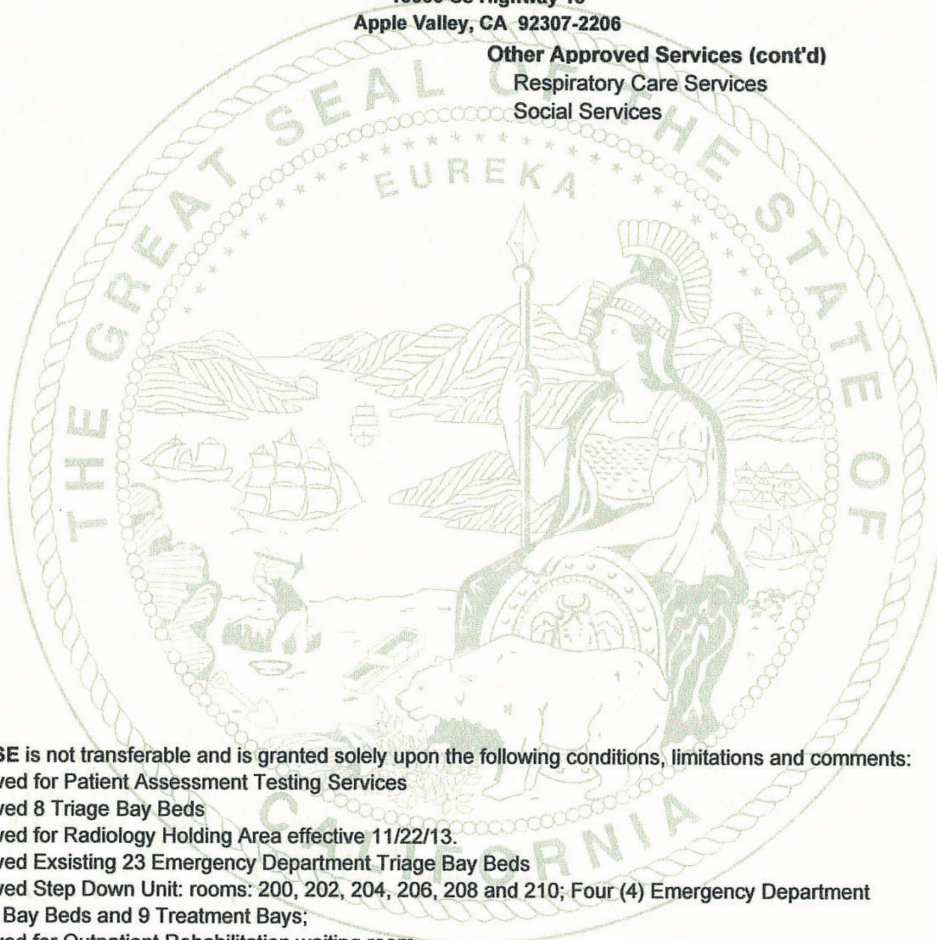
POST IN A PROMINENT PLACE

State of California
Department of Public Health
License Addendum

License: 240000207
Effective: 12/22/2015
Expires: 12/21/2016
Licensed Capacity: 212

St. Mary Medical Center (Continued)
18300 Us Highway 18
Apple Valley, CA 92307-2206

Other Approved Services (cont'd)
Respiratory Care Services
Social Services



This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:

- Approved for Patient Assessment Testing Services
- Approved 8 Triage Bay Beds
- Approved for Radiology Holding Area effective 11/22/13.
- Approved Existing 23 Emergency Department Triage Bay Beds
- Approved Step Down Unit: rooms: 200, 202, 204, 206, 208 and 210; Four (4) Emergency Department Triage Bay Beds and 9 Treatment Bays;
- Approved for Outpatient Rehabilitation waiting room.
- Approved 4 of 16 Perinatal beds (within single rooms 286, 287 and semi-private room 288) as ante-partum rooms for patients requiring observation for greater than twenty-four (24) hours.
- Approved for Cardiac Rehabilitation Outpatient Surgery and Mobile Lithotripsy. Approved for two outpatient mobile medical vans.
- Approved 4 Telemetry Beds (from Unspecified Gach Bed Count).

Karen L. Smith, MD, MPH

Director and State Public Health Officer

Lena Resurreccion, RN, BSN, District Manager

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