

PIH Health Hospital – Downey’s Request for Modification of Condition VII

November 4, 2016

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Introduction & Purpose

On August 10, 2016, pursuant to Title 11, California Code of Regulations, Section 999.5, subdivision (h), Downey Regional Medical Center – Hospital, Inc. doing business as PIH Health Hospital – Downey submitted a request to modify the charity care conditions set forth in the California Attorney General’s “Conditions to Change in Governance of Downey Regional Medical Center and Approval of the Member Substitution Agreement by and among Downey Regional Medical Center, Inc., Downey Regional Medical Center – Hospital, Inc., and InterHealth Corp.” Included in PIH Health Hospital – Downey’s application is a request for the Office of the California Attorney General to accept corrected Office of Statewide Health Planning and Development (OSHPD) Disclosure Reports for FY 2008-2012 and their resulting requested change to PIH Health Hospital – Downey’s minimum charity care cost requirement in Condition VII. In addition, PIH Health Hospital – Downey is requesting a reduction of the minimum charity care cost requirement for FY 2015 and subsequent years as a result of the effects of the January 1, 2014 commencement of the 2010 Federal Patient Protection and Affordable Care Act (the ACA) and Covered California. Condition VII requires PIH Health Hospital – Downey to provide a certain level of charity care for six fiscal years beginning in FY 2014 as follows:

VII.

For six fiscal years from the closing date of the Member Substitution Agreement, Downey Regional Medical Center shall provide an annual amount of Charity Care (as defined below) at Downey Regional Medical Center equal to or greater than \$3,988,626 (the “Minimum Charity Care Amount”). For purposes hereof, the term “charity care” shall mean the amount of charity care costs (not charges) incurred by Downey Regional Medical Center in connection with the operation and provision of services at Downey Regional Medical Center. The definition and methodology for calculating “charity care” and the methodology for calculating “costs” shall be the same as that used by the California office of Statewide Health Planning and Development (OSHPD) for annual hospital reporting purposes.¹ Downey Regional Medical Center shall use charity care and collection policies that comply with Federal and California law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Downey Regional Medical Center shall be decided upon by the Downey Regional Medical Center’s Board of Directors.

¹ OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, “the determination of what is classified as ... charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.”

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

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area Base Period: 1982-84=100" (CPI-LA, as published by the U.S. Bureau of Labor Statistics).

If the actual amount of charity care provided at Downey Regional Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Downey Regional Medical Center shall pay an amount equal to the deficiency to a tax-exempt entity that provides direct health care services to residents in Downey Regional Medical Center's service area (19 ZIP codes), as defined on page 20 of the Health Care Impact Report, dated July 8, 2013, and attached hereto as Exhibit 1. Such payment shall be made within four months following the end of such fiscal year.

Vizient, Inc. (Vizient) was retained to prepare this report for the Office of the California Attorney General to analyze PIH Health Hospital – Downey's request to reduce its charity care requirement as set forth in Condition VII. In preparation of this report, Vizient performed the following:

- A review of PIH Health Hospital – Downey's request to modify Condition VII dated August 10, 2016 and submitted to the Office of the California Attorney General;
- An analysis of financial, utilization, and service information provided by the California Office of Statewide Health Planning and Development (OSHPD); and
- A review of service area trends to determine if similar charity care and payer mix patterns are occurring at other area hospitals.

Background & History

PIH Health Hospital – Downey was opened in 1924 as Downey Community Hospital on Fifth Street in Downey, California. After numerous expansions, the Downey City Council, civic groups, and a joint powers agency that included the Los Angeles County Board of Supervisors made the decision in 1960 to move Downey Community Hospital to its current location at 11500 Brookshire Avenue in Downey. Currently, PIH Health Hospital – Downey is licensed for 199 beds and provides services that include emergency medicine, obstetrics, intensive care, and coronary care.

In September of 2009, Downey Regional Medical Center – Hospital, Inc., a California nonprofit public benefit corporation, filed Chapter 11 protection under the U.S. Bankruptcy Code. In March of 2012, Downey Regional Medical Center – Hospital, Inc. emerged from bankruptcy with a Chapter 11 Plan of Reorganization that included issuance of new taxable municipal bonds. The opportunity to affiliate with PIH Health presented itself in late 2012. Downey Regional Medical Center, Inc.’s² Board of Directors approved the PIH Health Letter of Intent in November 2012 and the transaction’s material terms in February 2013. Downey Regional Medical Center, Inc.’s Board of Directors determined that the transaction with PIH Health met the “principles of affiliation,” offered the best structure to meet the changing industry and governmental requirements, and offered significant financial support to minimize risk in the future.

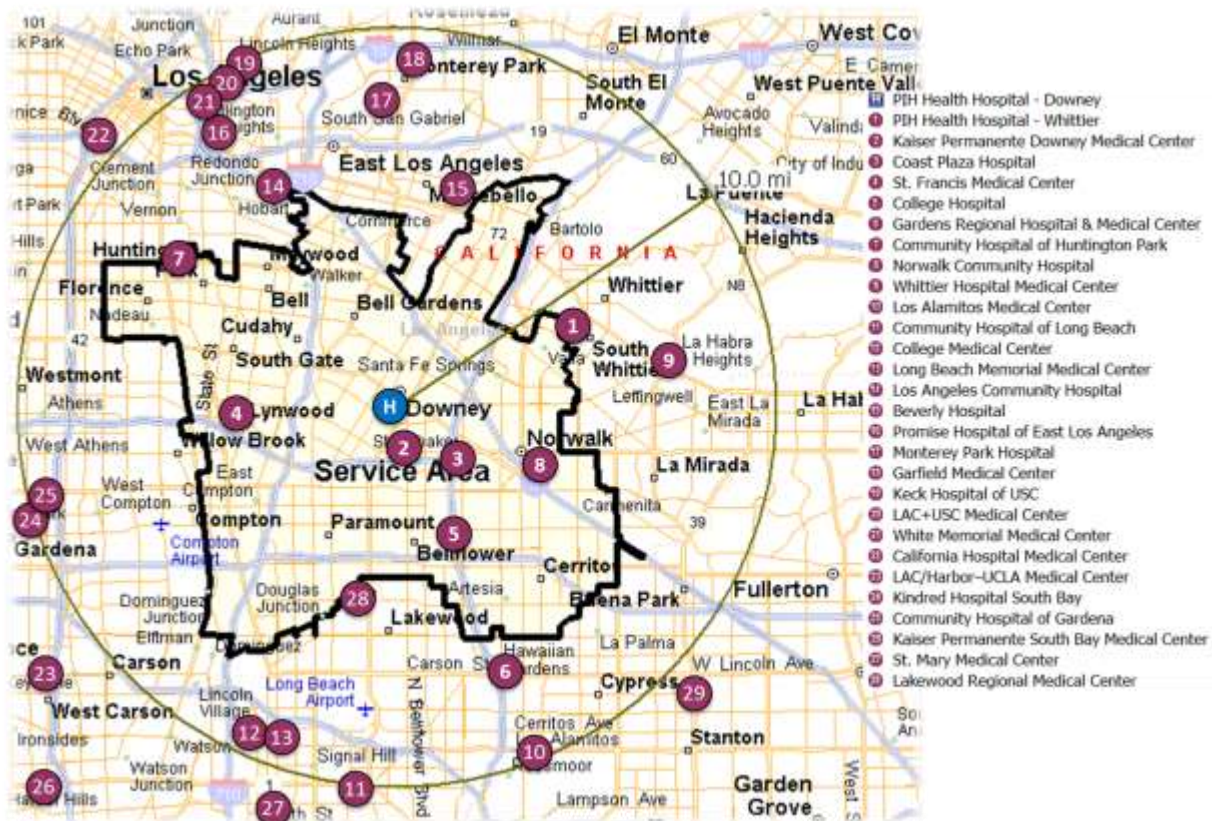
In early 2013, The Camden Group, now GE Healthcare Camden Group, was retained by the Office of the California Attorney General to prepare a healthcare impact statement to describe the possible effects that the proposed change in governance under PIH Health could have on the communities served by PIH Health Hospital – Downey. On July 8, 2013, the healthcare impact statement was issued. On August 15, 2013, the California Attorney General issued her decision granting conditional consent to the proposed change in governance and on October 1, 2013, the transaction closed. PIH Health Hospital – Downey’s Fiscal Year (FY) is from October 1 to September 30.

Today, PIH Health Hospital – Downey is owned and governed by PIH Health, a nonprofit regional healthcare network with two hospitals, several outpatient community medical offices, multispecialty physicians, home healthcare services, and hospice care. PIH Health serves more than 2.1 million residents in Los Angeles County, Orange County, and throughout the San Gabriel Valley.

² Downey Regional Medical Center, Inc., a California nonprofit public benefit corporation, was the sole member of Downey Regional Medical Center – Hospital, Inc. that owned and operated Downey Regional Medical Center.

Service Area Definition

PIH Health Hospital – Downey’s service area is comprised of 20 ZIP Codes and includes approximately 1.1 million residents. There are eight hospitals³ located within PIH Health Hospital – Downey’s service area, and 16 additional hospitals are located within a 10-mile radius.



³ Of the eight hospitals located in the service area, data for five of the hospitals, including PIH Health Hospital – Downey, St. Francis Medical Center, Lakewood Regional Medical Center, Coast Plaza Hospital, and Community Hospital of Huntington Park, was analyzed. Due to College Hospital’s status as a psychiatric hospital, and Norwalk Community Hospital’s consolidated licensure with other Los Angeles County facilities located outside of the service area, they were excluded from the analysis. Additionally, Kaiser Permanente Downey Medical Center was excluded from the analysis because FY 2015 OSHPD financial data is unavailable. Data for other hospitals located outside of the service area but within a 10-mile radius of PIH Health Hospital – Downey, including PIH Health Hospital – Whittier, Long Beach Memorial Medical Center, White Memorial Medical Center, and Beverly Hospital, was analyzed because they are market share leaders within the service area.

A) Charity Care Costs

PIH Health Hospital – Downey

PIH Health Hospital – Downey’s application requests that the California Attorney General accept corrected OSHPD Disclosure Reports for FY 2008-2012 and their resulting requested change to PIH Health Hospital – Downey’s obligated minimum charity care cost amount in Condition VII. In 2013, when the Office of the California Attorney General issued her decision requiring PIH Health Hospital – Downey to maintain a minimum annual charity care cost amount for six years from the closing of the transaction, the minimum charity care cost was based on the available OSHPD Disclosure Reports at the time. The five-year average (FY 2008-2012) minimum charity care cost amount required by the Office of the California Attorney General was \$3,988,626. PIH Health Hospital – Downey’s application states that “the Hospital’s former management reported gross charity care costs that were not net of payments received by the Hospital for preliminarily determined charity care patients who ultimately became eligible for Medi-Cal or other payer benefits.” The corrected OSHPD Disclosure Reports result in a new five-year average (FY 2008-2012) minimum charity care cost amount of \$1,254,498.

Assuming the Office of the California Attorney General accepts the corrected OSHPD Disclosure Reports, Vizient will utilize the corrected five-year charity care cost average of \$1,254,498 as the amount to be analyzed for the purposes of this report, as seen below.

CHARITY CARE: TOTAL CHARGES FY 2008-2012			
Year	Charity Care Charges	Cost to Charge Ratio	Charity Care Costs
FY 2012	\$8,433,400	16.1%	\$1,359,464
FY 2011	\$10,430,334	17.6%	\$1,834,696
FY 2010	\$11,825,471	17.4%	\$2,059,997
FY 2009	\$3,479,697	18.9%	\$657,315
FY 2008	\$1,535,587	23.5%	\$361,017
Five-Year Average			\$1,254,498

Source: OSHPD Disclosure Reports (some of the reports have been subsequently amended)

In FY 2014 and FY 2015, PIH Health Hospital – Downey reported a deficit in its minimum charity care costs, as required by Condition VII, of \$600,190, and \$1,031,545, respectively.

CHARITY CARE COSTS, FY 2013-2015			
Year	Charity Care Costs	Charity Care Costs Requirement	Difference
FY 2015 ¹	\$232,988	\$1,264,534	-\$1,031,545
FY 2014	\$654,307	\$1,254,498	-\$600,190
FY 2013	\$623,080	No Obligation ²	

Source: OSHPD Disclosure Reports

¹ Unaudited data

² The transaction closed at the end of FY 2013. As a result, there is no charity care cost obligation for FY 2013.

As a result of not meeting the minimum charity care requirement in FY 2015 due to the January 1, 2014 commencement of the ACA and Covered California, PIH Health Hospital – Downey is requesting a change to the charity care cost methodology⁴ that would result in a minimum charity care cost requirement of \$168,476 for FY 2015 and thereafter.

⁴ PIH Health Hospital – Downey’s proposed methodology can be found in Exhibit 2 of the Appendix of this report.

PIH Health Hospital – Downey Compared to Area General Acute Care Hospitals

The table below compares the charity care costs reported by PIH Health Hospital – Downey and other area general acute care hospitals for the fiscal year before the impact of the ACA (i.e., FY 2013) and the fiscal year after the ACA had effect (i.e., FY 2015). Since FY 2013, charity care costs at PIH Health Hospital – Downey, the third largest provider of inpatient services in the service area, have decreased by 63% from \$623,080 in FY 2013 to \$232,988 in FY 2015. St. Francis Medical Center, the largest provider of inpatient services in the service area, reported a 35% decrease between FY 2013 and FY 2015, and Lakewood Regional Medical Center, the third largest provider of inpatient services in the service area, reported an 83% decrease in charity care costs between FY 2013 and FY 2015. Collectively, there has been a 61% decrease in charity care costs among the major hospitals providing inpatient care to the service area residents.

AREA HOSPITAL COST OF CHARITY CARE: FY 2013 & FY 2015			
Hospital	FY 2013	FY 2015	% Change
PIH Hospital - Downey¹	\$623,080	\$232,988	-63%
St. Francis Medical Center	\$20,783,071	\$13,510,610	-35%
Lakewood Regional Medical Center ¹	\$1,049,745	\$175,162	-83%
PIH Hospital - Whittier ¹	\$2,256,791	\$851,351	-62%
Long Beach Memorial Medical Center	\$15,020,593	\$6,084,483	-59%
White Memorial Medical Center ¹	\$13,031,792	\$1,682,613	-87%
Coast Plaza Hospital ¹	\$1,641,125	\$153,087	-91%
Beverly Hospital ¹	\$6,716,321	\$1,625,056	-76%
Community Hospital of Huntington Park ¹	\$1,632,737	\$840,793	-49%
Gardens Regional Hospital and Medical Center ¹	\$2,981,199	\$544,859	-82%
Total	\$65,736,455	\$25,701,003	-61%

Source: OSHPD Disclosure Reports

¹ 2015 Unaudited data

Conclusion

Between FY 2013 and FY 2015, all of the major area general acute care hospital providers showed a significant decrease in charity care costs of between 35% and 91%. The combined decrease in charity care costs at area hospitals (61% decrease) is consistent with the decrease in charity care costs at PIH Health Hospital – Downey (63% decrease).

B) Payer Mix Trends

PIH Health Hospital – Downey

In support of its request, PIH Health Hospital – Downey cited the January 1, 2014 commencement of the ACA and Covered California as the reasons for the drop in charity care costs. In California, the impact of the ACA has resulted in a substantial increase in the number of Medi-Cal beneficiaries and a substantial reduction in the number of indigent patients without insurance.

Between FY 2013 and FY 2015, PIH Health Hospital – Downey experienced a decrease in total inpatient volume of 39%. PIH Health Hospital – Downey representatives attribute the decline to a loss of referrals from area Independent Practice Associations that chose to admit patients to alternative hospitals. Medi-Cal discharges during the same time period declined at a comparable amount of 34%. The table below compares Medi-Cal and indigent⁵ care for the fiscal year before the impact of the ACA (i.e., FY 2013) and the fiscal year after the ACA had effect (i.e., FY 2015).

PIH HEALTH HOSPITAL - DOWNEY: MEDI-CAL AND INDIGENT PATIENT PAYER MIX			
	FY 2013	FY 2015 ¹	% Change
Medi-Cal Inpatient Discharges	3,554	2,354	-34%
Medi-Cal Outpatient Visits	20,478	27,298	33%
Indigent Inpatient Discharges	45	6	-87%
Indigent Outpatient Visits	382	202	-47%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

¹ 2015 Unaudited Information

PIH Health Hospital – Downey Compared to Area General Acute Care Hospitals

The table on the following page shows area general acute care hospital payer mix trends for FY 2013 and FY 2015. Between FY 2013 and FY 2015, St. Francis Medical Center, the inpatient service area market share leader and a Disproportionate Share Hospital (DSH)⁶, had an increase of 5% for its Medi-Cal volume⁷. Between FY 2013 and FY 2015, inpatient and outpatient indigent volume at St. Francis Medical Center decreased by 23% and increased by 6%, respectively. At Lakewood Regional Medical Center, both inpatient and outpatient Medi-Cal volume between FY 2013 and FY 2015 increased by 26% and

⁵ At PIH Health Hospital – Downey, care provided to indigent patients is recorded as charity care.

⁶ A designation for hospitals that serve a high percentage of Medi-Cal and other low-income patients, as provided by SB 855 (Statutes of 1991).

⁷ "Volume" is defined as inpatient discharges and outpatient visits.

49%, respectively. Between FY 2013 and FY 2015, inpatient and outpatient indigent volume at Lakewood Regional Medical Center decreased by 56% and 46%, respectively.

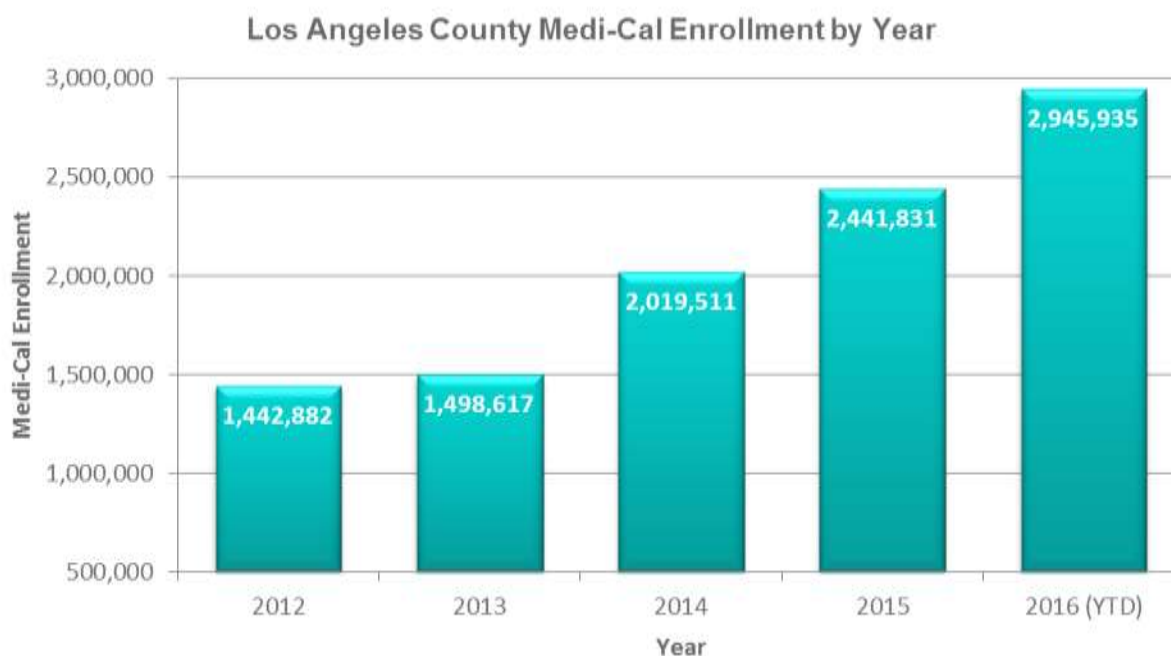
Overall, Medi-Cal inpatient and outpatient volume at area hospitals has increased by 24% and 87%, respectively. Additionally, between FY 2013 and FY 2015, inpatient and outpatient indigent volume at area hospitals decreased by 66% and 5%, respectively.

SERVICE AREA HOSPITALS: PAYER MIX FY 2013 & FY 2015						
Medi-Cal	FY 2013		FY 2015		% Change	
	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits	Inpatient Discharges	Outpatient Visits
PIH Health Hospital - Downey¹	3,554	20,478	2,354	27,298	-34%	33%
St. Francis Medical Center	12,132	96,365	12,685	101,495	5%	5%
Lakewood Regional Medical Center ¹	1,580	18,391	1,994	27,419	26%	49%
PIH Hospital - Whittier ¹	2,233	25,384	3,543	59,774	59%	135%
Long Beach Memorial Medical Center	3,715	22,213	5,384	71,931	45%	224%
LAC+USC Medical Center ¹	12,520	186,148	21,037	423,784	68%	128%
White Memorial Medical Center ¹	11,136	49,365	11,708	68,796	5%	39%
LAC/Harbor-UCLA Medical Center	9,475	96,353	12,942	210,624	37%	119%
Coast Plaza Hospital ¹	1,371	5,188	1,445	8,870	5%	71%
Beverly Hospital ¹	4,177	23,030	4,253	23,005	2%	0%
Community Hospital of Huntington Park ¹	1,706	20,239	1,938	30,487	14%	51%
Gardens Regional Hospital and Medical Center ¹	798	3,990	820	5,042	3%	26%
Total	64,397	567,144	80,103	1,058,525	24%	87%
Indigent						
PIH Hospital - Downey¹	45	382	6	202	-87%	-47%
St. Francis Medical Center	397	9,195	306	9,765	-23%	6%
Lakewood Regional Medical Center ¹	101	87	44	47	-56%	-46%
PIH Hospital - Whittier ¹	208	13,743	0	17,047	-100%	24%
Long Beach Memorial Medical Center	820	4,412	290	4,919	-65%	11%
LAC+USC Medical Center ¹	-	-	-	-	-	-
White Memorial Medical Center ¹	311	4,917	41	0	-87%	-100%
LAC/Harbor-UCLA Medical Center	-	-	-	-	-	-
Coast Plaza Hospital ¹	80	145	7	87	-91%	-40%
Beverly Hospital ¹	105	470	12	216	-89%	-54%
Community Hospital of Huntington Park ¹	76	271	16	40	-79%	-85%
Gardens Regional Hospital and Medical Center ¹	18	1,076	8	596	-56%	-45%
Total	2,161	34,698	730	32,919	-66%	-5%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

¹ 2015 Unaudited Information

The table below shows Medi-Cal enrollment in Los Angeles County between 2012 and 2016:



Source: California Department of Health Care Services

Since 2013, Medi-Cal enrollment in Los Angeles County has nearly doubled to almost 3 million enrollees.

Los Angeles County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a “Local Initiative” and a “commercial plan.” L.A. Care Health Plan is the Local Initiative plan for Los Angeles County. Medi-Cal beneficiaries can choose L.A. Care Health Plan or one of the contracting partners that includes Blue Cross of California, Care 1st, Community Health Plan, and Kaiser Permanente. The second Medi-Cal plan in Los Angeles County is a private commercial plan provided by Health Net Community Solutions, Inc. in partnership with Molina Healthcare. Currently, PIH Health Hospital – Downey is contracted with the commercial Medi-Cal managed care plan through Health Net Community Solutions.

JWCH Institute, Inc., a nonprofit provider of Federally Qualified Health Center⁸ services throughout Los Angeles County, operates a clinic near PIH Health Hospital – Downey, located less than half a mile away at 8530 Firestone Boulevard in Downey. Al Ballesteros, Chief Executive Officer of JWCH Institute, Inc., stated that since 2013, the payer mix volume at JWCH Institute’s Southeast Los Angeles clinics⁹ has

⁸ 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.

⁹ The Southeast Los Angeles clinics include five clinics located in Lynwood, Norwalk, Downey, Bellflower, and Bell Gardens.

seen a decrease in the percentage of uninsured patient encounters from 80% of total volume to 50% of total volume. Mr. Ballesteros attributed this to the ACA and the success of enrolling many previously uninsured patients into various Medi-Cal insurance plans. However, despite the shift in payer mix, total uninsured patient volume has increased significantly, from nearly 19,000 patient encounters in 2013 to approximately 35,000 patient encounters in 2015. Currently, PIH Health Hospital – Downey and the JWCH Institute have a strong relationship and collaborate to provide inpatient case management for patients who frequently utilize the emergency department for healthcare services. PIH Health Hospital – Downey also assists in providing funding to support renovation costs and subsidize lease payments at JWCH's clinic in Downey.

Conclusion

Between FY 2013 and FY 2015, Medi-Cal volume analyzed at all area general acute care hospitals increased except for the 34% decrease in inpatient discharges reported at PIH Health Hospital – Downey. An increase in Medi-Cal volume has a direct correlation to a drop in charity care. Between FY 2013 and FY 2015, indigent care volume decreased at the majority of the service area's general acute care hospitals including a drop at PIH Health Hospital – Downey. A decrease in indigent volume has a direct correlation to a decrease in charity care.

C) Bad Debt

The table below shows bad debt at area general acute care hospitals for FY 2013 and FY 2015. There has been a 100% decrease in bad debt¹⁰ at PIH Health Hospital – Downey from \$53.3 million to \$0.1 million.

AREA HOSPITAL BAD DEBT: FY 2013 & FY 2015			
Hospital	FY 2013	FY 2015	% Change
PIH Health Hospital - Downey ¹	\$53,333,333	\$123,496	-100%
St. Francis Medical Center	\$11,829,702	\$9,902,945	-16%
Lakewood Regional Medical Center ¹	\$13,922,721	\$8,949,756	-36%
PIH Hospital - Whittier ¹	\$12,133,568	\$10,890,800	-10%
Long Beach Memorial Medical Center	\$19,399,826	-\$784,797	-104%
LAC+USC Medical Center ¹	\$2,578,497	\$1,199,227	-53%
White Memorial Medical Center ¹	\$12,563,860	\$14,459,993	15%
LAC/Harbor-UCLA Medical Center	\$5,466,105	\$2,806,898	-49%
Coast Plaza Hospital ¹	\$12,629,052	\$6,114,012	-52%
Beverly Hospital ¹	\$13,677,382	\$9,808,935	-28%
Community Hospital of Huntington Park ¹	\$37,200,992	\$12,688,967	-66%
Gardens Regional Hospital and Medical Center ¹	\$424,428	\$1,084,235	155%
Total	\$195,159,466	\$77,244,467	-60%

Source: OSHPD Disclosure Reports, FY 2013 & FY 2015

¹ 2015 Unaudited Information

St. Francis Medical Center's bad debt decreased by 16% from \$11.8 million in FY 2013 to \$9.9 million in FY 2015, and Lakewood Regional Medical Center's bad debt decreased by 36% from \$13.9 million in FY 2013 to \$8.9 million FY 2015. Overall, the area general acute care hospitals have seen a combined decrease in bad debt of 60%.

Conclusion

Between FY 2013 and FY 2015, bad debt decreased significantly at all area general acute care hospitals except for White Memorial Medical Center and Gardens Regional Hospital and Medical Center. For the same time period, bad debt at PIH Health Hospital – Downey decreased by 100%, indicating that the decrease in charity care costs could not be explained by an increase in bad debt (e.g., did the newly insured, often enrolled in high deductible health plans, have difficulty paying co-pays leading to increased bad debt at PIH Health Hospital – Downey?).

¹⁰ The amount of accounts receivable that are determined to be uncollectible due to the patient's unwillingness to pay. This amount is charged as a credit loss against gross patient revenue. Bad debts are classified as deductions from revenue and not included in operating expenses.

Summary

In summary, the ACA has led to the expansion of Medi-Cal and increased enrollment in health insurance coverage. The overall number of Medi-Cal patients utilizing services at area general acute care hospitals has risen significantly since FY 2013 except for inpatient discharges at PIH Health Hospital – Downey that saw a decrease of 34%. Between FY 2013 and FY 2015, inpatient indigent care volume decreased at all area general acute care hospitals. As a result, the number of inpatient charity care patients served continues to decrease both at PIH Health Hospital – Downey and at the area general acute care hospitals overall, resulting in a sharp decline in charity care costs. This decline in charity care costs at PIH Health Hospital – Downey is consistent with the other area general acute care hospitals.

Vizient analyzed the proposed charity care modification included in PIH Health Hospital – Downey's request for modification of Condition VII (see Exhibit 2 of the Appendix). PIH Health Hospital – Downey proposes using FY 2013 as a baseline for uninsured inpatient and outpatient volume. However, the FY 2013 baseline represents only a one-year period of time. Applying the same methodology to different baseline years instead yields varying charity cost amounts. Thus, using only FY 2013 as a baseline is not an accurate predictor of what the future charity care needs are for the community. Additionally, the methodology does not take into account changes in patient case mix and the accompanying costs that could occur, as well as other marketplace dynamics.

PIH Health Hospital – Downey also proposed an alternative option for recalculating the minimum charity care amount. The alternative method calculates the average charity care cost per inpatient discharge and per outpatient visit between FY 2008 and FY 2012. The average of each is then multiplied with the corresponding FY 2015 inpatient discharges and outpatient visits, and then added together, resulting in a minimum charity care cost of \$144,452. Again, Vizient believes this the methodology does not take into account changes in patient case mix and the accompanying costs that could occur, as well as other marketplace dynamics, including the shift in care to the outpatient setting.

If the California Attorney General approves a recalculation of the Minimum Charity Care Amount, Vizient recommends that the required amount be determined by a rolling average of charity care costs using available data for the time period after the implementation of the ACA. This methodology would provide a more accurate representation of the community's need for charity healthcare.

Appendix

Exhibit 1

IV. The Hospital's Service Area Analysis

**Downey Regional Medical Center
Service Area Medi-Cal Eligibility
CY 2011**

ZIP Code	Community	Medi-Cal Eligibles	Population	Percent of Total
90241	Downey	8,730	43,810	19.9%
90850	Norwalk	27,715	106,468	26.0%
90280	South Gate	32,425	96,182	33.7%
90242	Downey	9,764	43,702	22.3%
90201	Bell	42,338	100,410	42.2%
90240	Downey	3,907	25,508	15.3%
90706	Bellflower	20,228	78,134	25.9%
90262	Lynwood	27,905	68,789	40.6%
90723	Paramount	19,654	54,534	36.0%
90255	Huntington Park	29,880	76,677	39.0%
90860	Pico Rivera	15,150	63,114	24.0%
90270	Maywood	10,751	26,965	39.9%
90001	Los Angeles	30,279	57,575	52.6%
90221	Compton	31,438	54,932	57.2%
90870	Santa Fe Springs	2,733	15,228	17.9%
90040	Los Angeles	3,693	14,251	25.9%
90703	Cerritos	3,993	49,367	8.1%
90701	Artesia	3,680	16,619	22.1%
TOTAL		324,281	992,265	32.7%

Source: California Department of Health Care Services, and Claritas, Inc.

*90202 is a P.O. Box ZIP Code and is therefore excluded from this analysis.

Client/California Attorney General/Downey_Regional_Medical_Center/Planning/DRMC_Pt_Orign.xlsx/Patient Origin Table

Exhibit 2

PIH Health Hospital – Downey’s Proposed Modification to Modify Minimum Charity Care Amount

Due to the impact of the Affordable Care Act on charity care costs, the Hospital proposes that the Minimum Charity Care Amount in Condition VI of the Attorney General’s Conditions of Approval Letter be modified for FY 2014 and thereafter. Specifically, the Hospital requests that the Minimum Charity Care Amount be recalculated by means of the following formula:

1. Using FY 2013 as a “baseline,” determine the number of FY 2013 Uninsured Inpatient Discharges, and also the number of FY 2013 Uninsured Outpatient Encounters.
2. Next calculate the FY 2013 Charity Cost per Inpatient Discharge, and the FY 2013 Charity Cost per Outpatient Encounter. (Note that this calculation would be according to the methodology used by OSHPD for annual hospital reporting purposes.)
3. Next, perform the following calculation:

$$\begin{array}{l} \text{FY 2013 Charity Cost per Inpatient Discharge} \\ \times \text{ FY 2014 Uninsured Inpatient Discharges } \\ \text{Charity Cost Target-Inpatient} \\ \\ \text{FY 2013 Charity Cost per Outpatient Encounter} \\ \times \text{ FY 2014 Uninsured Outpatient Encounters } \\ \text{Charity Cost Target-Outpatient} \end{array}$$

4. Last, add "Inpatient Charity Cost Target" and "Outpatient Charity Cost Target" to determine a "Minimum Charity Cost Target".

The recalculated Minimum Charity Care Amount should then be made applicable to the Hospital’s fiscal year 2015 and subsequent fiscal years pursuant to the then-modified Conditions of Approval, with implementation of the Consumer Price Index Escalator identified in the Conditions of Approval Letter. The Hospital’s recalculation of the Minimum Charity Care Amount and the average amount of minimum charity care for the FY 2015 and subsequent years are set forth on Schedule V-A to this application, which would result in a Minimum Charity Care Amount of \$168,476.53 for fiscal year 2014.¹¹ By way of illustration of the Affordable Care Act effect on Medi-Cal, the hospital submits Schedule VI which depicts the significant increase in Medi-Cal patients served by the Hospital, many of whom were previously uninsured but now qualify for Medi-Cal coverage arising from the implementation of the Affordable Care Act in 2014. The information in Schedule VI is derived from OSHPD quarterly reports submitted by the Hospital during the subject years.¹²

¹¹ Alternatively, the Hospital has also submitted as Schedule – B an alternative calculation of the new Minimum Charity Care Amount based upon the 2008-2012 charity care information reported to OSHPD which results in an annual Minimum Charity Care Amount of approximately \$145,000.00.

¹² Not only has the Hospital experience an increase in Medi-Cal but it has likewise also experience reduced reimbursement from many payors and a growth in bad debt due, in part, to non-payment of patient co-pays, all attributable in large part to the Affordable Care Act and Covered California.