

Effect of the Acquisition by Victor Valley Hospital Acquisition, Inc. and  
Victor Valley Real Estate, LLC  
of Victor Valley Community Hospital on the  
Availability or Accessibility of Healthcare Services

**Prepared for the Office of the  
California Attorney General**

December 1, 2010

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## INTRODUCTION AND PURPOSE

Victor Valley Community Hospital (“VVCH”) is a California nonprofit public benefit corporation that owns and operates an acute care hospital licensed for 101 beds, located in Victorville, California (“the Hospital”). VVCH has requested the California Attorney General’s consent for the sale of substantially all of its assets, including the hospital and related assets, to Victor Valley Hospital Real Estate, LLC (“VVHRE”), a California limited liability corporation, and Victor Valley Hospital Acquisition, Inc. (“VVHA”), a California for-profit corporation (collectively referred to as “Purchasers”). Dr. Kali Chaudhuri is Victor Valley Hospital Acquisition, Inc.’s Chief Executive Officer and sole shareholder. Dr. Kali Chaudhuri is Victor Valley Hospital Real Estate, LLC’s Manager and currently holds 100% interest. VVCH assets include the Hospital, real property and personal property associated with its buildings (including equipment), associated intangible assets and accounts receivable, and the VVCH Women’s Health Center.

This report, prepared for the Office of the Attorney General, describes the possible effects that the proposed transaction may have on the delivery, accessibility, and availability of healthcare services in the service area.

Medical Development Specialists, Inc. (“MDS”), a healthcare planning and policy consulting firm, was retained to prepare this report. In its preparation, MDS has utilized the following:

- A review of the documents filed with the Attorney General by VVCH, dated November 19, 2010, in its request for consent to the transaction;
- A review of various press releases and news articles related to VVCH and other hospital sales transactions;
- Interviews with community members and representatives, the Hospital’s medical staff, the Hospital’s management, VVCH Board members, VVHRE and VVHA representatives, and others;
- An analysis of financial, utilization, and service information provided by VVCH’s management and the California Office of Statewide Health Planning and Development (“OSHPD”); and
- An analysis of publicly available data and reports regarding area healthcare services including:
  - Demographic characteristics and trends
  - Payer mix
  - Hospital utilization rates
  - Health status indicators, and
  - Hospital market share

## **BACKGROUND AND DESCRIPTION OF THE TRANSACTION**

### ***History of the Hospital***

Victor Valley Community Hospital, located at 15248 Eleventh Street, Victorville, California 92392, is currently licensed for 101 beds and offers services including emergency, obstetrics, neonatal intensive care, pediatrics, and cardiac catheterization, as well as other inpatient and outpatient services. It was opened in 1967 as an acute care hospital and operated with up to 115 beds before the behavioral health unit was closed in 2005. The property consists of a two-story acute care hospital and several out-buildings and structures located on approximately 12.2 acres of land. In addition to the facilities being used, there is a partially constructed section of the Hospital that was started in 2001 as a new maternal/obstetrical wing that has since been abandoned. Today, the Hospital's management estimates that with minor retrofits, the current plant could be in compliance with the seismic safety requirements until 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). However, the cost of seismic compliance and timing is uncertain and requires further evaluation.

VVCH established the Victor Valley Community Hospital Foundation ("Foundation"), which is not separately incorporated, to raise funds on behalf of the Hospital. As of September 30, 2010, the Hospital has a separate bank account in the name of the Foundation that contains unrestricted funds of approximately \$497,000 and restricted funds of \$1,094,000.

### ***Reasons for the Hospital Sale***

Due to a history of poor financial performance, and an inability to invest in capital improvements, the VVCH's Board of Directors ("VVCH Board") indicated that a sale or merger was necessary to avoid closing the Hospital. In its application to the Attorney General, VVCH states that this transaction is necessary because of the confluence of several factors that have affected financial performance including:

- The Hospital's poor payer mix which includes higher amounts of uncompensated care to uninsured and low income members of the community;
- A 45-year-old plant that is in need of repairs and upgrades and is costly to maintain;
- Actual and potential reductions in Medi-Cal and Medicare reimbursement rates;
- Delays and uncertainty in government support programs, including Disproportionate Share Hospital ("DSH") and Quality Assurance Fee ("QAF") payments; and
- An inability to achieve economies and benefits by virtue of being a stand-alone hospital.

In September 2010, the VVCH Board concluded that the Hospital could not survive given its cash flow requirements and would have to close absent bankruptcy protection that included an

auction strategy that sought to maximize the value of the Hospital. VVCH filed a petition under Chapter 11 for protection under bankruptcy laws on September 13, 2010.

VVCH's history before bankruptcy included many different actions and considerations to try and avoid insolvency and closure, including:

- A \$5,000,000 State of California insured line of credit for use between 1999 and 2005;
- A \$6,000,000 loan by its management company at the time, Physicians Hospital Management, LLC ("PHM"), whose members include area physicians. PHM served as the management company from 2005 until VVCH's bankruptcy filing in 2010; and
- An exploration of affiliations with other healthcare providers including a potential management relationship with, and investment in the facility by Prime Healthcare Services, Inc.

Despite these efforts, the VVCH Board concluded that the burden of debt, that includes an obligation to Medi-Cal of over \$6,000,000 and an additional \$10,000,000 plus of secured indebtedness, and the growing difficulty in meeting payroll expenses, was creating a fiscal crisis that necessitated filing for protection under the bankruptcy laws.

### ***Transaction Process and Timing***

The VVCH Board initiated bankruptcy proceedings in September 2010, with an intention to sell the Hospital's assets as a means to keep the Hospital open. Because of its cash flow requirements, and an interest in the facility by Prime Healthcare Services Foundation, Inc. ("Prime"), VVCH negotiated an Asset Sale Agreement with Prime in connection with the bankruptcy filing, and Prime took on the role as the "stalking horse" bidder. Prime also provided up to \$4.5 million in Debtor in Possession financing as a means to continue the operation of the Hospital through this transition period. As a result of proceedings before the United States Bankruptcy Court, an auction was held on November 5, 2010. VVHRE and VVHA were the highest bidders and subsequently approved by the VVCH Board, and accepted by the Court on November 9, 2010. On November 19, 2010, VVCH submitted to the Attorney General its application for approval of the transaction under Corporations Code section 5914 *et seq.*

### ***Summary of the Asset Sale Agreement***

The major provisions of the Asset Sale Agreement, dated October 29, 2010, include the following:

- Purchasers will acquire substantially all of the assets of VVCH. The assets include the Hospital, real property and personal property associated with its buildings (including equipment), associated intangible assets and accounts receivable, and the VVCH

Woman's Health Center. Purchasers will also receive any DSH and QAF payments received after December 29, 2010;

- Excluded assets include cash and investments held by VVCH including those held in a separate account by the Foundation;
- Upon closing, the purchase price of thirty seven million dollars (\$37,000,000) will consist of the following:
  - \$5 million that was placed in an escrow account on October 29, 2010;
  - \$16.5 million in cash minus (\$4.5 million less the outstanding amount under the DIP Loan Agreement);
  - Purchasers' assumed obligations of no more than \$15.5 million:
    - A Medi-Cal liability of \$6.1 million;
    - Accrued Payroll and Accrued Paid Time Off of Employees (approx. \$2.2 million);
    - The secured obligation of \$6 million, plus accrued interest, owed to PHM; and
    - The secured obligation of \$700,000, plus accrued interest, owed to the Corwin Medical Group, Inc.
- Purchasers agreed to employ substantially all current Hospital employees and shall offer benefit levels that are not less favorable than those provided to similarly-situated employees of Purchasers and their affiliates;
- Purchasers will maintain staff privileges for all current medical staff members in good standing;
- Purchasers will continue to provide care to indigent and low-income patients at levels similar to or more generous than those historically provided by VVCH;
- Purchasers will form a local governing Board at the Hospital composed of medical staff members, community leaders, and the Hospital's Chief Executive Officer. The Board will be an advisory committee to the Purchasers' Board of Directors;
- Purchasers will invest no less than twenty five million dollars (\$25,000,000) for capital improvements, equipment, information technology, infrastructure improvements, and/or working capital over five years. No less than fifteen million dollars (\$15,000,000) of said amount will be spent on capital improvements, equipment, information technology, and infrastructure improvements; and
- Purchasers agree to maintain the Hospital as a licensed acute-care hospital with services that include emergency, obstetrics, and pediatrics.

### *Use of Net Sale Proceeds*

VVCH expects that after the sale, net proceeds are estimated to be \$1.7 million. VVCH proposes to utilize the unrestricted funds of the Foundation and the net sale proceeds to continue as a grant-making organization funding local healthcare-related projects and programs. VVCH will transfer and utilize these funds as directed by the Attorney General.

## PROFILE OF VICTOR VALLEY COMMUNITY HOSPITAL

### General Information

The Hospital is a general acute care facility situated on approximately 12.2 acres of land and consists of about 105,000 square feet of hospital and modular office space. The Hospital has a total of 101 licensed beds distributed as shown below:

VICTOR VALLEY COMMUNITY HOSPITAL BED DISTRIBUTION		
Bed Type	Licensed Beds	
	Reported 2009	Hospital License 2011
Medical/Surgical Acute	63	64
Intensive Care	10	10
Intensive Care Newborn Nursery	2	2
Pediatric Acute	14	16
Obstetrics Acute	12	9
<b>Total</b>	<b>101</b>	<b>101</b>

Source: OSHPD Disclosure Report 2009, VVCH

The Hospital's emergency department is classified as basic level with 13 licensed emergency treatment stations. It also has 5 surgical operating rooms and one cardiac catheterization lab. The Hospital's license also recognizes that there are 4 labor-delivery-recovery beds and 16 beds are in suspense from the former Behavioral Health unit.

### Key Statistics

VICTOR VALLEY COMMUNITY HOSPITAL KEY STATISTICS		
	2008	2009
Inpatient Discharges	6,508	6,674
Patient Days	22,408	21,233
Average Daily Census	61.4	58.2
Average Length of Stay	3.4	3.2
Emergency Services Visits	30,631	29,389
Cardiac Catheterization Procedures	2,301	2,269
Total Live Births	1,667	1,697
Active Physicians on Medical Staff	111	111
Number of Employees (FTEs)	Approximately 550	

Sources: OSHPD Disclosure Reports, 2008-2009



- For Fiscal Year (FY) 2009, the Hospital had a total of 6,674 discharges, 21,233 patient days, and an average daily census of 58.2 (57.6% occupancy of licensed beds)
- For FY 2009, the Hospital had 29,389 emergency department visits and 1,697 babies delivered
- On average, the Hospital staffs 71 beds and has approximately 550 full-time equivalent employees (“FTEs”)
- On average, the Hospital performs approximately 2,300 diagnostic cardiac catheterization procedures per year but does not have an open heart surgery program

### *Programs and Services*

The Hospital offers a range of healthcare services common to a small community hospital. It also offers some specialized programs and services, including neonatal intensive care, pediatrics, a Woman’s Health Center, and cardiac catheterization. Services at the Hospital include the following:

- Acute medical/surgical services;
- Ambulatory surgery services;
- Cancer services;
- Cardiovascular services including a catheterization lab;
- Diagnostic imaging: x-ray, bone density scans, mammography, lithotripsy, CT (computed tomography), MRI (magnetic resonance imaging), and ultrasound;
- Emergency services: 24-hour basic emergency services including a separate Fast Track and heliport site;
- Intensive care unit (ICU);
- Neonatal intensive care unit (NICU);
- Laboratory and pathology services;
- Pediatrics;
- Physical therapy services (inpatient)
- Respiratory therapy services; and
- Social services.

The Hospital does not offer specialized programs such as cardiac surgery, neurosurgery, acute rehabilitation, trauma care, and other tertiary and quaternary services.

## ***Accreditations and Recognitions***

The Hospital is accredited by the Healthcare Facilities Accreditation Program (“HFAP”) of the American Osteopathic Association for 2009-2012.

## ***Seismic Issues***

The Hospital’s management estimates that necessary minor seismic improvements could be made in order to bring the Hospital into compliance with the seismic safety requirements until 2020 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).

## Patient Volume

The following table shows patient volume trends at the Hospital for FY 2004 through 2009.

VICTOR VALLEY COMMUNITY HOSPITAL SERVICE VOLUMES						
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
<b>PATIENT DAYS</b>						
Intensive Care (ICU)	1,375	1,752	1,776	1,959	2,452	1,920
Neonatal Intensive Care (NICU)	338	545	459	473	357	446
Med/Surg	13,346	14,348	13,909	13,492	13,795	12,822
Obstetrical	2,986	3,348	3,705	4,002	3,756	3,854
Pediatric	2,037	2,201	2,271	2,084	2,048	2,191
Psychiatric Acute	3,052	1,314	0	0	0	0
<b>Total</b>	<b>23,134</b>	<b>23,508</b>	<b>22,120</b>	<b>22,010</b>	<b>22,408</b>	<b>21,233</b>
<b>DISCHARGES</b>						
ICU	118	305	251	303	361	337
NICU	91	126	135	124	97	134
Med/Surg	3,574	3,599	3,753	3,498	3,600	3,722
Obstetrical	1,343	1,509	1,591	1,791	1,734	1,778
Pediatric	729	759	774	699	716	703
Psychiatric Acute	843	344	0	0	0	0
<b>Total</b>	<b>6,698</b>	<b>6,642</b>	<b>6,504</b>	<b>6,415</b>	<b>6,508</b>	<b>6,674</b>
<b>AVERAGE LENGTH OF STAY</b>						
ICU	11.7	5.7	7.1	6.5	6.8	5.7
NICU	3.7	4.3	3.4	3.8	3.7	3.3
Med/Surg	3.7	4.0	3.7	3.9	3.8	3.4
Obstetrical	2.2	2.2	2.3	2.2	2.2	2.2
Pediatric	2.8	2.9	2.9	3.0	2.9	3.1
Psychiatric Acute	3.6	3.8	n/a	n/a	n/a	n/a
<b>Total</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.2</b>
<b>AVERAGE DAILY CENSUS</b>						
ICU	3.8	4.8	4.9	5.4	6.7	5.3
NICU	0.9	1.5	1.3	1.3	1.0	1.2
Med/Surg	36.6	39.3	38.1	37.0	37.8	35.1
Obstetrical	8.2	9.2	10.2	11.0	10.3	10.6
Pediatric	5.6	6.0	6.2	5.7	5.6	6.0
Psychiatric Acute	8.4	3.6	n/a	n/a	n/a	n/a
<b>Total</b>	<b>63.4</b>	<b>64.4</b>	<b>60.6</b>	<b>60.3</b>	<b>61.4</b>	<b>58.2</b>
<b>OTHER SERVICES</b>						
Inpatient Surgeries	3,235	3,087	1,684	1,626	2,177	1,803
Outpatient Surgeries	9,988	9,522	3,254	3,020	2,696	3,002
Emergency Visits	26,663	30,447	30,807	30,502	30,631	29,389
Cardiac Cath Procedures	2,908	3,106	2,047	2,392	2,301	2,269
Obstetric Deliveries	1,245	1,375	1,545	1,707	1,667	1,697

Sources: OSHPD Disclosure Reports, 2004-2009

### *Patient Volume (continued)*

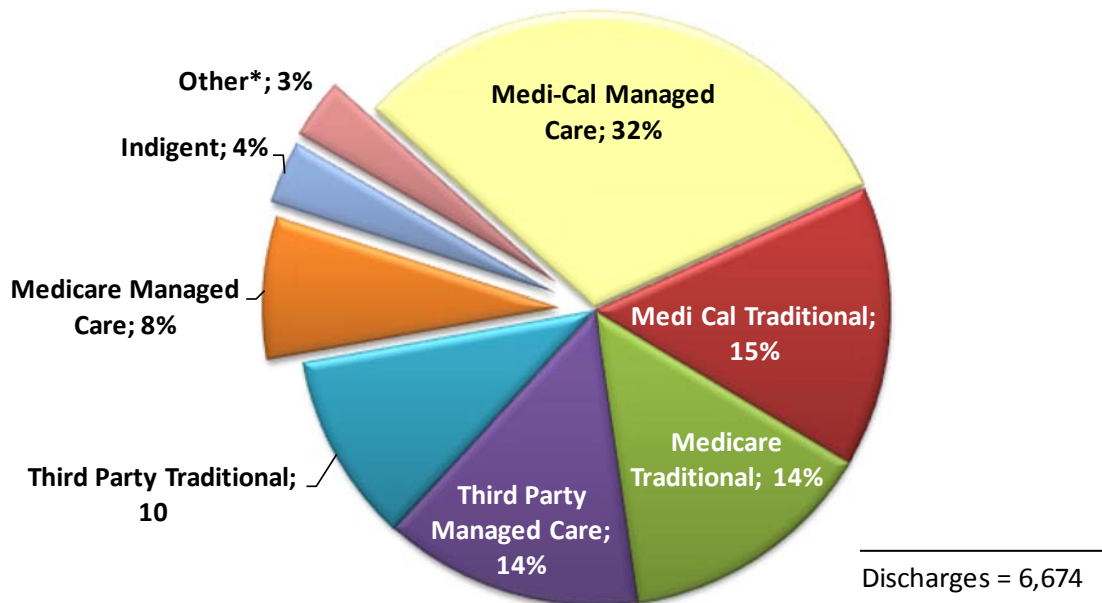
A review of historical utilization trends at the Hospital between FY 2004 and FY 2009 supports the following conclusions:

- Total patient days declined by nearly 10% with discharges remaining approximately the same. This decline is in spite of growth in the service area population by approximately 20% for the same period and a 25% increase in the service area discharges;
- The overall average length of stay has dropped from 3.5 to 3.2. Most of this decline is attributable to lower lengths of stay in the intensive care and medical/surgical units;
- Inpatient and outpatient surgeries at the Hospital have decreased dramatically, by 44% and 70% respectively;
- Cardiac catheterization volume is down approximately 20% from 2004 volumes;
- Emergency visits have remained constant since 2005, with on average, approximately 81 visits per day per station;
- The Behavioral Health unit was closed in 2005; and
- Overall, the average daily census at the Hospital has dropped from 63 patients to 58 patients.

## ***Payer Mix***

For FY 2009, the Hospital's payer mix consists of predominantly Medi-Cal patients who account for 47% of all inpatient hospital discharges with Traditional Medi-Cal making up 15% and Medi-Cal Managed Care comprising 32%. Medicare patients account for 22% of all inpatient hospital discharges with Traditional Medicare making up 14% and Medicare Managed Care comprising 8%. Additionally, 4% of all inpatient hospital discharges were indigent patients (uninsured/poor), which is a relatively high percentage compared to other hospitals in California (1.9%). Third-Party Managed Care, Third-Party Traditional, and Other\* make up the remaining 27% of payer discharges.

### **Victor Valley Community Hospital Payor Mix FY 2009 (Inpatient Discharges)**



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

Source: OSHPD Financial Disclosure Report, FY 2009 (based on inpatient discharges)

The Hospital is especially important to the Inland Empire Health Plan ("IEHP"). IEHP is a public entity, not-for-profit health plan that is organized as a Joint Powers agency between the Counties of Riverside and San Bernardino. IEHP is one of only two health plans authorized by the California Department of Health Care Services to enroll and provide healthcare services to Medi-Cal beneficiaries in Riverside and San Bernardino Counties. IEHP possesses the majority of Medi-Cal enrollment in the Hospital's service area. IEHP also serves low income families and children in the area through IEHP Healthy Families, Healthy Kids, and Medicare Special Needs Program. It is expected that healthcare reform will significantly increase the current number of IEHP enrollees (53,000) in the Hospital's service area.

IEHP currently contracts with St. Mary Medical Center (“SMMC”). However, due to SMMC’s limited patient capacity, it only handles overflow from the Hospital and elective admissions for specialty services not performed at the Hospital. The Hospital is very important for the provision of healthcare services to IEHP patients. SMMC executives have stated to IEHP that their hospital is especially impacted by the high volume of obstetric patients. The other area hospital, Desert Valley Hospital (“DVH”), does not contract with IEHP.

### *Comparative Payer Mix*

The following table illustrates the Hospital’s payer mix (discharges) compared to San Bernardino County and California. The comparison shows that the Hospital has a much higher percentage of Medi-Cal Managed Care patients and lower percentages of Medicare Traditional and Third-Party Managed Care patients relative to hospitals in San Bernardino County and California.

2009 PAYER MIX COMPARISON						
	VVCH		San Bernardino County		California	
	Discharges*	% of Total	Discharges*	% of Total	Discharges*	% of Total
Medi-Cal Managed Care	2,107	31.6%	15,693	9.1%	221,672	7.2%
Medi-Cal Traditional	1,026	15.4%	40,142	23.3%	601,557	19.5%
<b>Medi-Cal Subtotal</b>	<b>3,133</b>	<b>46.9%</b>	<b>55,835</b>	<b>32.4%</b>	<b>823,229</b>	<b>26.7%</b>
Medicare Traditional	940	14.1%	36,546	21.2%	890,450	28.8%
Medicare Managed Care	515	7.7%	16,868	9.8%	239,478	7.8%
<b>Medicare Subtotal</b>	<b>1,455</b>	<b>21.8%</b>	<b>53,414</b>	<b>31.0%</b>	<b>1,129,928</b>	<b>36.6%</b>
Third-Party Managed Care	945	14.2%	37,949	22.1%	770,863	25.0%
<b>Third-Party Managed Care Subtotal</b>	<b>945</b>	<b>14.2%</b>	<b>37,949</b>	<b>22.1%</b>	<b>770,863</b>	<b>25.0%</b>
Third Party Traditional	690	10.3%	10,567	6.1%	137,373	4.4%
Other Payers	220	3.3%	4,342	2.5%	91,440	3.0%
Other Indigent	125	1.9%	6,413	3.7%	54,402	1.8%
County Indigent	106	1.6%	3,555	2.1%	81,339	2.6%
<b>Other Subtotal</b>	<b>1,141</b>	<b>17.1%</b>	<b>24,877</b>	<b>14.5%</b>	<b>364,554</b>	<b>11.8%</b>
<b>Total</b>	<b>6,674</b>	<b>100.0%</b>	<b>172,075</b>	<b>100.0%</b>	<b>3,088,574</b>	<b>100.0%</b>

\*Excludes normal newborns

Source: OSHPD Financial Disclosure Report, FY 2009

## *Medical Staff*

The Hospital has approximately 198 physicians on the medical staff, with a large number of specialties represented. Of those 198 physicians, 111 physicians are considered “active” users of the Hospital (representing 56% of the medical staff).

<b>VICTOR VALLEY COMMUNITY HOSPITAL MEDICAL STAFF PROFILE 2009</b>	
<b>Specialty</b>	<b>Active 2009</b>
Anesthesiology	4
Cardiovascular Disease	7
Gastroenterology	4
General/Family Practice	3
General Surgery	7
Internal Medical	19
Neurology	4
Obstetrics and Gynecology	10
Oncology	4
Ophthalmology	2
Orthopaedic Surgery	4
Otolaryngology	3
Pathology	2
Pediatrics	15
Podiatry	2
Psychiatry	1
Pulmonary Disease	4
Radiology	3
Thoracic Surgery	1
Urology	2
Vascular Surgery	2
Other	8
<b>Total</b>	<b>111</b>

Source: OSHPD Disclosure Reports 2008-2009, VVCH

## Financial Profile

VVCH's net income improved slightly over the past five years, from a net loss of nearly \$2.5 million in 2004 to a gain of \$0.5 million in 2009. Both net operating revenue and operating expenses increased consistently over the five-year period, by 46% and 32% respectively. VVCH's current ratio has improved slightly over the last two reported years but still trails the average for the State (1.47) and other nonprofit DSH<sup>1</sup> hospitals (1.16). VVCH's percentage of bad debt (3.2%) is an improvement on prior years but still well above the state wide average of 1.8%.

VICTOR VALLEY COMMUNITY HOSPITAL FINANCIAL AND RATIO ANALYSIS: FY 2004 2009						
	2004	2005	2006	2007	2008	2009
Patient Days	23,134	23,508	22,120	22,010	22,408	21,233
Discharges	6,698	6,642	6,504	6,415	6,508	6,674
ALOS	3.5	3.5	3.4	3.4	3.4	3.2
Net Operating Revenue	\$38,810,152	\$45,952,142	\$50,413,529	\$54,896,552	\$55,526,992	\$56,561,319
Operating Expense	\$41,831,454	\$49,657,034	\$50,599,231	\$54,785,952	\$55,091,407	\$55,256,254
Net from Operations	(\$3,021,302)	(\$3,704,892)	(\$185,702)	\$110,600	\$435,585	\$1,305,065
Net Non-Operating Rev.	\$552,127	(\$68,708)	(\$46,490)	\$0	\$1,405	(\$247,209)
Extraordinary Items	\$0	\$0	\$0	\$0	\$0	\$550,000
Net Income	(\$2,469,175)	(\$3,773,600)	(\$232,192)	\$110,600	\$436,990	\$507,856
	<b>California Average</b>					
Current Ratio	1.47	0.44	0.57	0.46	0.47	0.74
Days in A/R	61.3	49.9	78.4	46.9	42.5	59.5
Bad Debt Rate	1.8%	7.8%	2.3%	4.5%	5.4%	3.3%
Operating Margin	0.4%	-7.8%	-8.1%	-0.4%	0.2%	0.8%

Source: OSHPD Disclosure Reports

<sup>1</sup> A facility that reported the receipt of Disproportionate Share Payments for Medi-Cal Patient Days (SB 855).



## Cost of Hospital Services

The Hospital's operating cost of services by payer category includes both inpatient and outpatient care. In 2009, approximately 41% of the Hospital's total costs were associated with Medi-Cal patients, 26.4% with third-party payers, and 24.9% with Medicare patients. The remaining 7.7% is attributed to indigent and other payers.

VICTOR VALLEY COMMUNITY HOSPITAL COST OF SERVICES						
BY PAYER CATEGORY 2004 - 2009						
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Operating Expenses	\$41,831,454	\$49,657,034	\$50,599,231	\$54,785,952	\$55,091,407	\$55,256,254
<b>Cost of Services By Payer:</b>						
Medicare	\$8,336,333	\$10,954,900	\$11,606,159	\$10,163,597	\$13,230,898	\$13,773,865
Medi-Cal	\$15,380,039	\$17,804,986	\$18,594,780	\$21,286,409	\$19,849,025	\$22,630,501
County Indigent	\$185,282	\$795,631	\$610,561	\$1,050,732	\$885,376	\$707,188
Third Party	\$14,397,812	\$16,632,080	\$16,042,343	\$18,183,614	\$16,418,884	\$14,608,453
Other Indigent	\$0	\$771,789	\$941,373	\$496,038	\$610,723	\$1,285,517

Source: OSHPD Disclosure Reports

## Charity Care

The Hospital provides charity care for uninsured and underinsured patients pursuant to policies that were last updated November 11, 2009. Reported charity care charges can vary depending on the source. MDS examined data from both OSHPD financial disclosure reports and VVCH's internal charity records, as shown below.

VICTOR VALLEY COMMUNITY HOSPITAL CHARITY CARE		
TOTAL CHARGES 2005-2010		
Year	OSHPD Disclosure Reports (FY)	VVCH AG Application
2010	n/a	\$7,454,279
2009	\$5,635,062	\$6,229,557
2008	\$8,221,971	\$4,117,729
2007	\$5,180,979	\$5,562,652
2006	\$6,130,358	\$1,061,353
2005	\$3,459,225	n/a
<b>Average 2007 - 2009</b>	<b>\$6,346,004</b>	<b>\$5,303,313</b>
<b>Average 2005 - 2009</b>	<b>\$5,725,519</b>	<b>-</b>

Source: OSHPD Disclosure Reports, VVCH

According to OSHPD reports, the Hospital's charity care charges have increased from roughly \$3.5 million in 2005 to \$5.6 million in 2009. Data reported separately by VVCH indicates

substantially higher figures, with the average for 2007 through 2009 approximately \$1,040,000 greater than reported in OSHPD data.

### Charity Care (continued)

The following table below shows a comparison of charity care and bad debt for the Hospital and all general acute care hospitals in the State of California. The five-year average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 6.1%. This is considerably higher than the five-year (2005-2009) statewide average of 3.4%. 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										
VICTOR VALLEY COMMUNITY HOSPITAL CHARITY CARE FY 2005 to 2009										
(Millions)										
	2005		2006		2007		2008		2009	
	VVCH	CA	VVCH	CA	VVCH	CA	VVCH	CA	VVCH	CA
Gross Pt Revenue	\$166.5	\$179,239.4	\$220.2	\$195,559.1	\$224.8	\$207,991.2	\$223.4	\$230,007.7	\$242.2	\$252,204.3
Charity	\$3.5	\$2,258.9	\$6.1	\$3,050.1	\$5.2	\$3,162.2	\$8.2	\$4,116.5	\$5.6	\$4,603.4
Bad Debt	\$3.5	\$3,277.1	\$9.9	\$3,465.8	\$9.0	\$3,943.6	\$7.5	\$3,761.9	\$7.8	\$4,293.4
<b>Total</b>	<b>\$7.0</b>	<b>\$5,536.0</b>	<b>\$16.0</b>	<b>\$6,515.9</b>	<b>\$14.2</b>	<b>\$7,105.8</b>	<b>\$15.7</b>	<b>\$7,878.4</b>	<b>\$13.4</b>	<b>\$8,896.8</b>
Charity as a % of Gross Rev.	2.1%	1.3%	2.8%	1.6%	0.9%	1.5%	1.1%	1.8%	2.3%	1.8%
Bad Debt as a % of Gross Rev.	2.1%	1.8%	4.5%	1.8%	5.4%	1.9%	3.3%	1.6%	3.2%	1.7%
Total as a % of Gross Rev.	4.2%	3.1%	7.3%	3.3%	6.3%	3.4%	4.5%	3.4%	5.6%	3.5%
<b>Uncompensated Care</b>										
Cost to Charge Ratio	29.6%	27.04%	22.4%	26.8%	23.8%	26.3%	24.1%	26.0%	22.5%	25.1%
Charity	\$1.0	\$610.8	\$1.4	\$816.1	\$1.2	\$833.0	\$2.0	\$1,069.4	\$1.3	\$1,153.4
Bad Debt	\$1.1	\$886.1	\$2.2	\$927.3	\$2.1	\$1,038.9	\$1.8	\$977.2	\$1.7	\$1,075.8
<b>Total</b>	<b>\$2.1</b>	<b>\$1,496.9</b>	<b>\$3.6</b>	<b>\$1,743.4</b>	<b>\$3.4</b>	<b>\$1,871.9</b>	<b>\$3.8</b>	<b>\$2,046.6</b>	<b>\$3.0</b>	<b>\$2,229.2</b>

Source: OSHPD Disclosure Reports

The table below shows the Hospital’s historical costs for charity care as reported by OSHPD. The Hospital’s charity care costs have been highly variable, increasing from a low of \$1 million in FY 2005 to a high of nearly \$2 million in FY 2008. The average cost of charity care for the last five-year period was approximately \$1,380,000.

VICTOR VALLEY COMMUNITY HOSPITAL COST OF CHARITY CARE				
Year	VVCH Charity Care Charges (1)	Cost to Charge Ratio	Cost of	Percent of Total
			Charity Care to VVCH	Costs Represented by Charity Care
FY 2009	\$5,635,062	22.5%	\$1,268,620	2.3%
FY 2008	\$8,221,971	24.1%	\$1,984,335	1.1%
FY 2007	\$5,180,979	23.8%	\$1,231,504	0.9%
FY 2006	\$6,130,358	22.4%	\$1,373,198	2.8%
FY 2005	\$3,459,225	29.6%	\$1,023,659	2.1%
<b>5 Year Average</b>	<b>\$5,725,519</b>		<b>\$1,376,263</b>	

Source: OSHPD Disclosure Reports

(1) Charity Care charges are based on final OSHPD figures.

## *Community Benefit Services*

The Hospital has provided minimal community benefit services because of their difficult financial situation. Community benefit services have historically included a combination of health events, preventative health services, and educational programs. The Hospital also provides educational opportunities for students from local colleges and community colleges. Due to financial issues, it discontinued Senior Health Fairs in 2009.

As shown in the table below, the average annual cost of community benefit services over five years was approximately \$27,700 per year.

VICTOR VALLEY COMMUNITY HOSPITAL COMMUNITY BENEFIT SERVICES							
Community Events - Health Events	2006	2007	2008	2009	2010	5 Year Average	Total
Kids Care Fair	\$11,968	\$10,184	\$15,077	\$14,724	\$12,883	\$12,967	\$64,836
Misc. Community Health Fairs	\$1,500	\$8,350	\$13,438	\$9,433	\$2,174	\$6,979	\$34,895
VVCH Senior Health Fairs	\$9,000	\$10,500	\$12,000	\$7,500	-	\$9,750	\$39,000
<b>Total</b>	<b>\$22,468</b>	<b>\$29,034</b>	<b>\$40,515</b>	<b>\$31,657</b>	<b>\$15,057</b>	<b>\$27,746</b>	<b>\$138,731</b>

Source: VVCH

## PROFILE OF PURCHASERS

### *Overview*

The Asset Sale Agreement stipulates the “Purchasers” of VVCH are Victor Valley Hospital Acquisition, Inc. a California for-profit corporation, and Victor Valley Hospital Real Estate, LLC, a California limited liability corporation. Dr. Kali Chaudhuri is Victor Valley Hospital Acquisition, Inc.’s Chief Executive Officer and sole shareholder. He is also Victor Valley Hospital Real Estate, LLC’s Manager and currently holds 100% interest. Dr. Chaudhuri is Chairman and CEO of another company, Strategic Global Management, headquartered in Riverside, California. Dr. Chaudhuri is also majority owner or shareholder of several other healthcare entities including:

- Integrated Healthcare Holdings, Inc. (“IHHI”), a publicly traded company listed on the Over-The-Counter Bulletin Board exchange (“OTCBB”), owns and operates four hospitals in Orange County; and
- Physicians for Healthy Hospitals (“PHH”) owns and operates two hospitals located in Hemet and Menifee. PHH completed a \$163 million transaction on October 13, 2010 to acquire the hospitals from bankruptcy. A corporation controlled by Dr. Chaudhuri had previously held a management contract for several years before bankruptcy.

Dr. Chaudhuri expressed a desire to buy the Hospital based upon the request of many area physicians. He plans to make capital investments to improve the physical plant, equipment, and infrastructure. He believes that the Hospital can become successful by involving the physicians and potentially offering them a real estate or other investment opportunities. Additionally, he believes that by renegotiating some of the insurance contracts, the Hospital can become profitable.

A detailed financial and operational profile of the hospitals currently within IHHI and PHH are provided in the tables on the following pages.

### ***IHHI Hospitals***

- IHHI consists of four hospitals with a total of 736 licensed beds
- Despite two of the four hospitals losing money in 2009, IHHI achieved a net income of almost \$14 million
- All of the hospitals serve a significant number of Medicare and Medi-Cal patients, totaling between 50% and 81% of discharges
- The proportions of uncompensated care charges (bad debt and charity care) provided by the hospitals were mostly higher than the statewide average of 3.5%
  - Chapman Medical Center: 2.7%
  - Coastal Communities Hospital: 4.1%
  - Western Medical Center-Anaheim: 3.8%
  - Western Medical Center-Santa Ana: 5.5%

### ***PHH Hospitals***

- PHH consists of two hospitals with a total of 517 licensed beds
- PHH acquired the hospitals out of bankruptcy in October 2010
- In 2009 the hospitals recorded an \$8 million loss, which was less than the \$16.4 million loss recorded in 2008
- Both facilities have much higher averages of Medicare and uncompensated care patients as compared to the State

## Hospitals Owned By IHHI

HOSPITALS OWNED BY IHHI								
	Chapman Medical Center (CMC)		Coastal Communities Hospital (CCH)		Western Medical Center Anaheim (WMCA)		Western Medical Center Santa Ana (WMCSA)	
	General Acute		General Acute		General Acute		General Acute	
	2008	2009	2008	2009 <sup>1</sup>	2008	2009 <sup>1</sup>	2008	2009
City	Orange		Santa Ana		Anaheim		Santa Ana	
Licensed Beds	114	114	178	178	188	188	282	256
Patient Days	24,522	22,863	38,032	38,209	48,312	50,189	53,783	45,794
Discharges <sup>1</sup>	2,636	2,321	4,932	5,014	8,270	10,723	11,317	10,752
ALOS	9.3	9.9	7.7	7.6	5.8	4.7	4.8	4.3
Average Daily Census	67	63	104	105	132	138	147	125
Occupancy	58.9%	54.9%	58.5%	58.8%	70.4%	73.1%	52.3%	49.0%
ED Visits	12,908	10,739	21,419	22,911	17,900	17,404	24,032	25,145
Inpatient Surgeries	1,615	1,358	1,908	1,884	1,404	1,453	2,885	3,089
Outpatient Surgeries	2,691	2,308	1,538	1,743	824	942	2,361	2,500
Births	0	0	2,204	2,194	2,780	2,571	3,131	2,920
<b>Payer Mix (Based on Discharges):</b>								
Traditional Medicare	27.7%	30.7%	23.9%	21.4%	12.8%	10.1%	16.8%	13.5%
Managed Medicare	13.4%	11.7%	2.8%	3.2%	10.1%	8.8%	8.2%	9.3%
Traditional Medi-Cal	2.4%	2.3%	39.8%	36.6%	41.8%	47.7%	27.1%	26.2%
Managed Medi-Cal	3.5%	6.4%	15.0%	19.8%	9.4%	11.4%	13.9%	16.4%
County Indigent	1.8%	1.4%	2.9%	3.9%	2.7%	3.6%	4.6%	3.7%
Traditional Third Party	1.5%	1.4%	0.3%	0.7%	7.1%	0.2%	0.0%	0.0%
Managed Third Party	44.0%	37.9%	8.6%	8.7%	5.2%	7.5%	20.6%	21.7%
Other Indigent	2.0%	1.7%	2.4%	2.8%	1.2%	0.9%	3.0%	3.7%
Other	3.8%	6.5%	4.3%	2.9%	9.8%	9.7%	5.8%	5.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Income Statement:</b>								
Gross Patient Revenue	196,678,276	180,859,653	291,204,126	297,468,518	315,794,914	309,736,411	766,741,747	753,133,319
Net Pt. Revenue	\$40,644,897	\$41,893,344	\$60,454,086	\$63,199,920	74,106,188	\$73,117,859	168,884,267	\$174,859,343
Other Operating Rev.	\$212,936	\$142,311	\$153,783	\$149,820	248,407	\$166,693	815,682	\$741,182
Total Operating Rev.	\$40,857,833	\$42,035,655	\$60,607,869	\$63,349,740	74,354,595	\$73,284,552	169,699,949	\$175,600,525
Total Operating Exp.	\$46,147,205	\$45,734,607	\$61,758,795	\$61,284,835	76,554,174	\$73,967,464	165,935,952	\$159,359,113
Net From Operations	(\$5,289,372)	(\$3,698,952)	(\$1,150,926)	\$2,064,905	(\$2,199,579)	(\$682,912)	\$3,763,997	\$16,241,412
Non-operating Rev.	\$0	\$0	\$0	\$0	0	\$0	40,128	\$45,401
Non-operating Exp.	\$0	\$0	\$0	\$0	\$0	\$0	\$12,745	\$14,436
Provision for Taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Income</b>	<b>(\$5,289,372)</b>	<b>(\$3,698,952)</b>	<b>(\$1,150,926)</b>	<b>\$2,064,905</b>	<b>(\$2,199,579)</b>	<b>(\$682,912)</b>	<b>\$3,791,380</b>	<b>\$16,272,377</b>
<b>Other Financial:</b>								
Charity Care Charges	\$1,888,160	\$1,621,516	\$6,169,542	\$6,640,403	\$4,367,621	\$4,510,198	\$25,469,604	\$22,984,251
Bad Debt Charges	\$5,443,914	\$3,317,956	\$6,447,142	\$5,616,212	\$6,489,970	\$7,177,882	\$21,302,818	\$18,424,569
<b>Total Uncompensated Care</b>	<b>\$7,332,074</b>	<b>\$4,939,472</b>	<b>\$12,616,684</b>	<b>\$12,256,615</b>	<b>\$10,857,591</b>	<b>\$11,688,080</b>	<b>\$46,772,422</b>	<b>\$41,408,820</b>
Cost to Charge Ratio	23.4%	25.2%	21.2%	20.6%	24.2%	23.8%	21.5%	21.1%
Cost of Charity	\$440,980	\$408,762	\$1,305,183	\$1,364,720	\$1,055,352	\$1,074,643	\$5,484,960	\$4,840,729
Uncompensated Care as % of Chgs.	3.7%	2.7%	4.3%	4.1%	3.4%	3.8%	6.1%	5.5%
State of Calif. Uncompensated Care <sup>2</sup>	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Fiscal Year Ending	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009	12/31/2008	12/31/2009

<sup>1</sup> Excludes normal newborns

<sup>2</sup> Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2008-2009

## Hospital Owned by PHH

HOSPITALS OWNED BY PHH				
	Hemet Valley Medical Center (HVMC) General Acute		Menifee Valley Medical Center (MVMC) General Acute	
	2008	2009	2008	2009
	Hemet		Sun City	
City	Hemet		Sun City	
Licensed Beds	433	433	84	84
Patient Days	94,816	71,523	19,595	18,171
Discharges <sup>1</sup>	15,482	13,094	4,566	4,127
ALOS	6.1	5.5	4.3	4.4
Average Daily Census	260	196	54	50
Occupancy	60.0%	45.3%	63.9%	59.3%
ED Visits	33,377	43,469	19,388	19,885
Inpatient Surgeries	3,030	2,544	788	683
Outpatient Surgeries	896	953	1,198	718
Births	1,621	1,175	0	0
<b>Payer Mix (Based on Discharges):</b>				
Traditional Medicare	30.9%	31.8%	37.1%	37.6%
Managed Medicare	28.2%	27.3%	38.3%	35.3%
Traditional Medi-Cal	16.6%	19.6%	6.1%	7.1%
Managed Medi-Cal	3.2%	0.0%	0.5%	0.0%
County Indigent	0.4%	1.0%	0.6%	1.0%
Traditional Third Party	5.0%	5.5%	4.9%	5.4%
Managed Third Party	11.4%	9.8%	7.8%	9.4%
Other Indigent	0.3%	0.1%	0.5%	0.4%
Other	4.0%	4.9%	4.2%	3.8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Income Statement:</b>				
Gross Patient Revenue	479,893,211	488,515,829	179,889,142	196,671,198
Net Pt. Revenue	147,155,628	\$121,684,327	40,498,761	\$44,822,404
Other Operating Rev.	960,255	\$970,354	280,725	\$225,190
Total Operating Rev.	148,115,883	\$122,654,681	40,779,486	\$45,047,594
Total Operating Exp.	158,040,993	\$127,698,473	46,904,232	\$48,330,416
Net From Operations	(\$9,925,110)	(\$5,043,792)	(\$6,124,746)	(\$3,282,822)
Non-operating Rev.	1,206,459	\$209,027	527,558	\$86,987
Non-operating Exp.	\$1,500,817	\$5,400	\$588,562	\$0
Provision for Taxes	\$0	\$0	\$0	\$0
<b>Net Income</b>	<b>(\$10,219,468)</b>	<b>(\$4,840,165)</b>	<b>(\$6,185,750)</b>	<b>(\$3,195,835)</b>
<b>Other Financial:</b>				
Charity Care Charges	\$1,406,200	\$730,951	\$806,408	\$848,342
Bad Debt Charges	\$30,670,100	\$34,730,071	\$13,553,691	\$14,518,672
<b>Total Uncompensated Care</b>	<b>\$32,076,300</b>	<b>\$35,461,022</b>	<b>\$14,360,099</b>	<b>\$15,367,014</b>
Cost to Charge Ratio	32.7%	25.9%	25.9%	24.5%
Cost of Charity	\$460,284	\$189,619	\$209,004	\$207,502
Uncompensated Care as % of Chgs.	6.7%	7.3%	8.0%	7.8%
State of Calif. Uncompensated Care <sup>2</sup>	3.5%	3.5%	3.5%	3.5%
Fiscal Year Ending	6/30/2008	6/30/2009	6/30/2008	6/30/2009

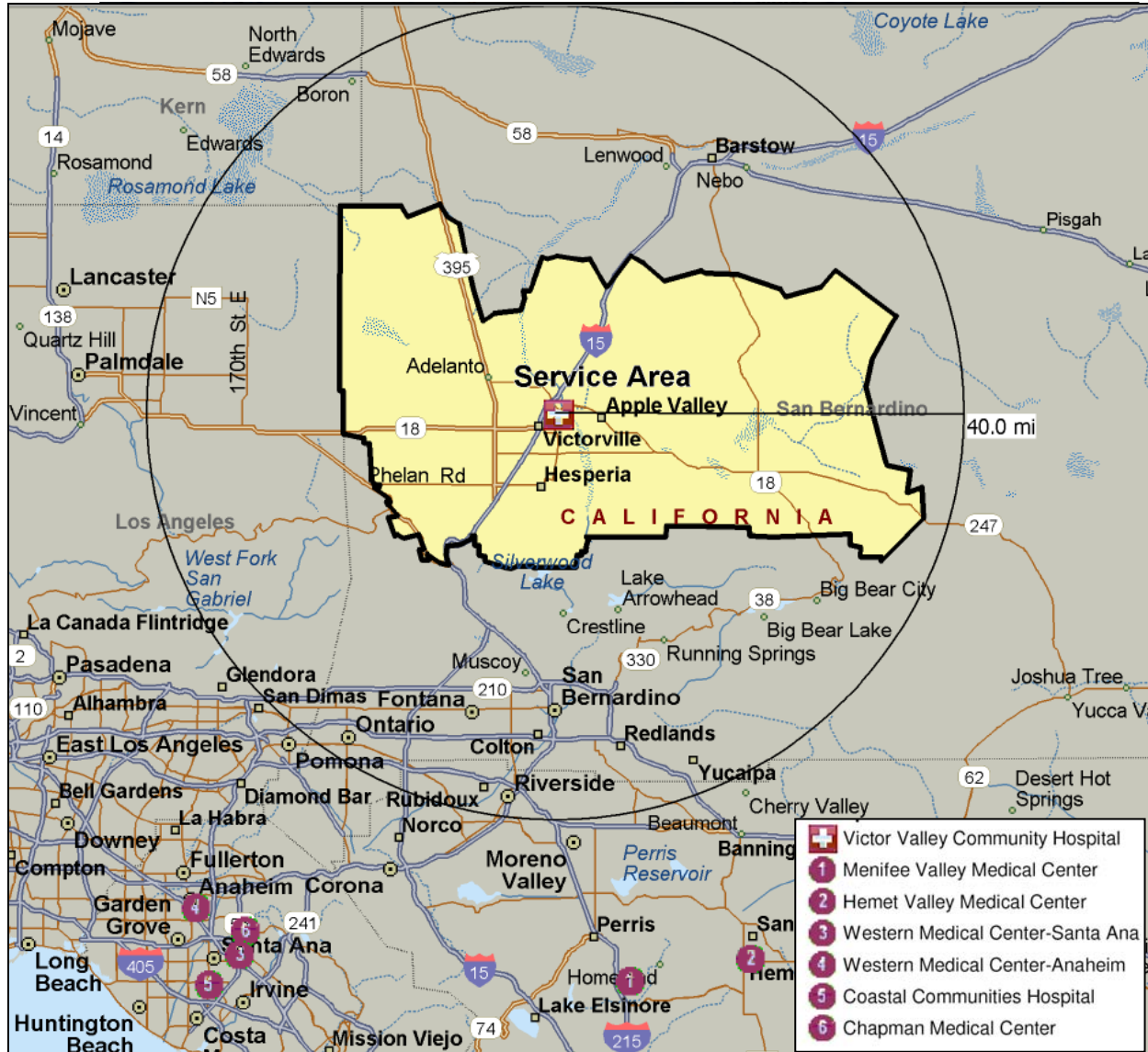
<sup>1</sup> Excludes normal newborns

<sup>2</sup> Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2008-2009

## *Locations of IHHI and PHH Hospitals and Victor Valley Community Hospital*

The locations of the six IHHI and PHH hospitals are shown on the map below. None of the six hospitals have overlapping service areas, nor lie in close proximity, with the Hospital.





## VICTOR VALLEY COMMUNITY HOSPITAL SERVICE AREA ANALYSIS

### *Victor Valley Community Hospital's Service Area Definition*

The Hospital's service area is composed of 11 ZIP Codes, from which approximately 86% of the Hospital's discharges originated in 2009. Almost 57% of the Hospital's discharges were from the top four ZIP Codes, located in Victorville, Hesperia, and Adelanto.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2009						
ZIP Codes	Community	VCH Discharges	% of Discharges	Cumulative % of Discharges	Total Discharges	Market Share
92345	Hesperia	1,270	17.9%	17.9%	9,193	14%
92392	Victorville	1,131	16.0%	33.9%	6,573	17%
92395	Victorville	843	11.9%	45.8%	4,409	19%
92301	Adelanto	778	11.0%	56.8%	3,174	25%
92307	Apple Valley	611	8.6%	65.4%	5,032	12%
92308	Apple Valley	547	7.7%	73.1%	4,904	11%
92394	Victorville	542	7.6%	80.8%	2,603	21%
92371	Phelan	138	1.9%	82.7%	1,025	13%
92356	Lucerne Valley	108	1.5%	84.2%	836	13%
92344	Hesperia	90	1.3%	85.5%	1,256	7%
92368	Oro Grande	23	0.3%	85.8%	103	22%
<b>Sub Total</b>		<b>6,160</b>	<b>85.8%</b>		<b>39,843</b>	<b>15.5%</b>
<b>Other ZIPs</b>		<b>177</b>	<b>14.2%</b>	<b>100%</b>		
<b>Total</b>		<b>7,085</b>	<b>100%</b>			

Source: OSHPD Patient Discharge Database

## *Victor Valley Community Hospital's Service Area Map*

The Hospital's service area includes the communities of Victorville, Apple Valley, Hesperia, and Adelanto. Approximately 339,000 people live within the Hospital's service area.

Two other hospitals are located within the Hospital's service area. St. Mary Medical Center has 186 licensed beds, and Desert Valley Hospital has 83 licensed beds.



## Demographic Profile

The Hospital's service area is projected to grow by approximately 7.4% over the next five years. This is significantly higher than the expected growth rate for California and San Bernardino County (4.3% and 4.1% respectively).

VVMC SERVICE AREA POPULATION STATISTICS: 2010 2015			
Hospital	2010	2015	% Change
Total Populations	339,258	364,275	7.4%
Households	106,942	117,975	10.3%
Percentage Female	50.3%	50.3%	

Source: AGS

The average age of the population in the Hospital's service area is 33.4 years. The State of California has a slightly higher average age of 35.3 years. The percentage of adults over the age of 65 is expected to grow at approximately 20% between 2010 and 2015. This is a larger percentage increase than any other age group. The population of children between the ages 0-14 and adults between the ages 15-44 is expected to increase overall but decrease slightly as a percentage of the total population.

VVMC SERVICE AREA POPULATION AGE DISTRIBUTION: 2010-2015				
	2010		2015	
	Population	% of Total	Population	% of Total
Age 0-14	79,809	23.5%	81,044	22.2%
Age 15-44	142,977	42.1%	149,943	41.2%
Age 45-64	78,753	23.2%	88,085	24.2%
Age 65+	37,719	11.1%	45,200	12.4%
<b>Total</b>	<b>339,258</b>	<b>100%</b>	<b>364,273</b>	<b>100%</b>
Female 15-44	70,937	20.9%	74,025	20.3%
Average Age	33.4		35.1	

Source: AGS

## Demographic Profile (continued)

Over 80% of the service area population is made up of Non-Hispanic Whites and Hispanics. The population of Non-Hispanic Whites is considerably higher than the rest of San Bernardino County. The Hispanic population is expected to grow by approximately 5% as a percentage of total population by 2015.

VVCH 2010 POPULATION ESTIMATES ETHNIC & RACIAL DISTRIBUTION COMPARISON				
Cohort	VVCH Service Area	San Bernardino County	California	U.S.
Non-Hispanic: White	42.0%	32.5%	39.4%	63.7%
Hispanic	38.4%	47.8%	36.7%	15.5%
Non-Hispanic: Black	3.4%	2.5%	2.7%	10.3%
Non-Hispanic: Multiple Races	3.0%	2.5%	3.2%	2.3%
Non-Hispanic: Asian	1.6%	2.5%	7.7%	3.4%
Non-Hispanic: American Indian or Alaska Native	0.5%	0.4%	0.4%	0.6%
Non-Hispanic: Hawaiian/Pacific Islander	0.1%	0.1%	0.2%	0.1%
Non-Hispanic: Other Race	10.9%	11.7%	9.6%	4.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: AGS

The Hospital's service area's average household income (aggregate household income divided by total households) is \$66,027. This is 9% lower than the County average of \$71,974, and 30% less than the statewide average of \$85,095.

	VVCH SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2010 2015											
	2010						2015					
	VVCH Service Area		San Bernardino County		California		VVCH Service Area		County		California	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
\$0 - \$15,000	12,051	11.3%	61,572	10.1%	1,322,266	10.6%	11,748	10.0%	57,015	8.8%	1,266,859	9.8%
\$15,000 - \$24,999	12,368	11.6%	63,123	10.4%	1,217,777	9.8%	12,798	10.8%	62,642	9.7%	1,205,056	9.3%
\$25,000 - \$34,999	12,332	11.5%	64,789	10.7%	1,180,386	9.5%	12,806	10.9%	64,752	10.0%	1,154,306	8.9%
\$35,000 - \$49,999	16,710	15.6%	88,617	14.6%	1,610,486	13.0%	17,836	15.1%	89,941	13.9%	1,585,821	12.3%
\$50,000 - \$74,999	23,727	22.2%	122,233	20.1%	2,234,766	18.0%	25,841	21.9%	127,832	19.7%	2,266,753	17.6%
\$75,000 - \$99,999	13,446	12.6%	85,007	14.0%	1,591,806	12.8%	15,983	13.6%	97,099	15.0%	1,704,499	13.2%
\$100,000 - \$149,999	10,793	10.1%	80,746	13.3%	1,805,116	14.5%	13,704	11.6%	97,779	15.1%	2,039,732	15.8%
\$150,000 +	5,514	5.2%	42,171	6.9%	1,453,432	11.7%	7,258	6.2%	51,424	7.9%	1,686,519	13.1%
<b>Total</b>	<b>106,941</b>	<b>100.0%</b>	<b>608,258</b>	<b>100.0%</b>	<b>12,416,035</b>	<b>100.0%</b>	<b>117,975</b>	<b>100.0%</b>	<b>648,484</b>	<b>100.0%</b>	<b>12,909,545</b>	<b>100.0%</b>
<b>Average Household Income</b>	<b>\$66,027</b>		<b>\$71,974</b>		<b>\$85,095</b>		<b>\$73,802</b>		<b>\$79,830</b>		<b>\$93,390</b>	

Source: AGS

### *Service Area Payer/Insurance Mix*

Approximately 22% of the Hospital’s service area population is eligible for Medi-Cal. The average percentage of Medi-Cal eligibles in its service area is higher than for San Bernardino County overall (19%) and the State of California (18%). Percentages of Medi-Cal eligibles for ZIP Codes within the Hospital’s service area range from 11% to over 35%. The number and percent of the population that is Medi-Cal eligible is expected to grow significantly as a result of healthcare reform.

<b>SERVICE AREA MEDI CAL ELIGIBLES</b>				
<b>ZIP Codes</b>	<b>City</b>	<b>Eligibles</b>	<b>Population</b>	<b>Percentage</b>
92301	Adelanto	10,197	29,869	34.1%
92307	Apple Valley	7,073	36,121	19.6%
92308	Apple Valley	7,549	37,813	20.0%
92344	Hesperia	2,517	18,744	13.4%
92345	Hesperia	17,687	72,462	24.4%
92356	Lucerne Valley	1,719	5,737	30.0%
92368	Oro Grande	365	1,036	35.2%
92371	Phelan	1,561	13,809	11.3%
92392	Victorville	9,656	51,465	18.8%
92394	Victorville	7,112	26,919	26.4%
92395	Victorville	10,394	45,283	23.0%
<b>Total</b>		<b>75,830</b>	<b>339,258</b>	<b>22.4%</b>

Source: California Department of Health Care Services, AGS

## Selected Health Indicators

Overall, health status in San Bernardino County is worse than the State of California as a whole, and is farther from meeting national goals. A review of health status indicators<sup>2</sup> for San Bernardino County (deaths, diseases, and births) supports the following conclusions:

- San Bernardino County's health status indicators are inferior to the State of California in the areas of obstetrics and prenatal care (refer to table below). Measures on low birth weight infants, late or no pre-natal care, and the infant mortality rate are also much worse than the national goal.

NATALITY STATISTICS: 2009			
Health Status Indicator	San Bernardino		
	County	California	National Goal
Low birth weight infants	7.2%	6.8%	5.0%
Late or no pre-natal care	17.5%	16.3%	10.0%
Infant mortality rate (per 1,000 births)	6.6%	5.3%	4.5%

Source: California Department of Health Care Services

- The overall age-adjusted mortality rate for San Bernardino County is higher than that of the State of California and the Nation. San Bernardino County's rates for most causes are higher than the State and Nation.

MORTALITY STATISTICS RATE PER 100,000 POPULATION					
Selected cause	San Bernardino County		(Age Adjusted)		National Goal
	Crude Death Rate	Age Adjusted Death Rate	California	National	
All Causes	588.9	795.0	666.4	760.3	—
- All Cancers	127.0	168.9	155.9	177.5	158.6
- Colorectal Cancer	11.8	16.0	14.7	16.7	13.7
- Lung Cancer	30.7	41.8	38.1	50.5	43.3
- Female Breast Cancer	20.7	23.8	21.2	23.5	21.3
- Prostate Cancer	15.4	28.3	21.8	23.5	28.2
- Diabetes	22.6	30.6	21.1	22.4	n/a
- Alzheimer's Disease	18.2	28.4	25.7	22.8	n/a
- Coronary Heart Disease	127.6	182.8	137.1	134.5	162.0
- Cerebrovascular Disease (Stroke)	30.9	44.4	40.8	41.6	50.0
- Influenza/Pneumonia	13.3	19.3	19.6	16.3	n/a
- Chronic Lower Respiratory Disease	39.3	57.1	37.8	41.2	n/a
- Chronic Liver Disease And Cirrhosis	11.0	12.8	10.7	8.9	3.2
- Accidents (Unintentional Injuries)	26.6	28.6	29.7	37.8	17.1
- Motor Vehicle Traffic Crashes	14.2	14.2	10.3	14.4	8.0
- Suicide	9.0	9.7	9.4	10.8	4.8
- Homicide	7.7	7.2	6.3	5.8	2.8
- Firearm-Related Deaths	10.1	10.1	8.5	10.1	3.6
- Drug-Induced Deaths	10.2	10.6	10.6	10.4	1.2

Source: California Department of Public Health, Center for Health Statistics. 2006-2008

<sup>2</sup> Source: California Department of Health Services County Health Status Profiles 2009

- Chlamydia has the highest incidence rate for San Bernardino County, and is well above the statewide rate. The rates of incidence of AIDS and tuberculosis are both lower than the statewide rates but higher than the National Goals (see table below).

<b>MORBIDITY STATISTICS: 2009</b>			
<b>RATE PER 100,000 POPULATION</b>			
<b>Health Status Indicator</b>	<b>San Bernardino County</b>	<b>California</b>	<b>National Goal</b>
AIDS	8.13	11.58	1.00
Chlamydia	407.74	377.74	n/a
Gonorrhea	84.76	79.74	19.00
Tuberculosis	3.10	7.23	1.00

Source: California Department of Health Care Services

## *2008 Community Health Needs Assessment*

In 2008, VVCH, in collaboration with St. Mary Medical Center and the High Desert Health Collaborative Council, prepared a community needs assessment. The assessment focused on the needs in the communities surrounding Victorville and encompassing all of the Hospital's service area. The study analyzed quantitative and qualitative data, including interviews of community leaders and members. The results included:

- Measures of access to care and insurance were below national goals;
- Heart disease and cancer were the top two leading causes of death in the service area;
- Measures of adolescent obesity were significantly above national goals (40% versus 10%);
- Measures for diabetes and high blood pressure were significantly above national goals; and
- The most important health issues in the community were viewed to be the following:
  - 1) The availability of health insurance and access to health and dental services;
  - 2) Childhood obesity;
  - 3) Diabetes;
  - 4) Barriers to healthcare services including language, communication, and transportation;
  - 5) Access to services for seniors; and
  - 6) Access to emergency care.



## Hospital Supply, Demand, and Market Share

There are two other general acute care hospitals within 5 miles of the Hospital that, together with the Hospital, have a combined total of 370 licensed beds with an aggregate occupancy rate of 76.3%. The other two area hospitals are St. Mary Medical Center (“SMMC”), operated by St. Joseph Health System, and Desert Valley Hospital (“DVH”), operated by Prime Healthcare Services. In general, this area is in very short supply of hospital beds. The average number of beds per thousand in California is about 2.0, whereas, the average number of beds per thousand in the Hospital’s service area is about 1.1. Both DVH and SMMC run at very high occupancy levels, 85% and 83% respectively. The Hospital’s licensed-bed capacity (101 beds) represents 27% of area beds, and the Hospital’s inpatient volume accounts for 22% of discharges and 20% of patient days.

An analysis of the services offered by the Hospital in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were the primary facilities analyzed to determine area hospital available bed capacity by service. Although some of these hospitals are located over 30 miles away, they still provide hospital care to 34% of the Hospital’s service area population.

AREA HOSPITAL DATA: 2009								
Hospital	Ownership/Affiliation	City	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from VVCH
<b>Victor Valley Community Hospital</b>	<b>Victor Valley Community Hospital</b>	<b>Victorville</b>	<b>101</b>	<b>6,674</b>	<b>21,233</b>	<b>58.2</b>	<b>57.6%</b>	<b>—</b>
St. Mary Medical Center	St. Joseph Health System	Apple Valley	186	15,649	56,190	154.0	82.8%	2.1
Desert Valley Hospital	Prime Health Services	Victorville	83	7,081	25,610	70.1	84.5%	4.5
<b>SUB-TOTAL</b>			<b>370</b>	<b>29,404</b>	<b>103,033</b>	<b>282.3</b>	<b>76.3%</b>	
<b>Other Hospitals:</b>								
Barstow Community Hospital	Community Health Systems	Barstow	56	2,734	7,725	21.2	37.8%	32.9
Community Hospital of San Bernardino	Catholic Healthcare West	San Bernardino	321	11,054	77,576	212.5	66.2%	36.9
St. Bernardine Medical Center	Catholic Healthcare West	San Bernardino	427	17,065	76,529	209.7	49.1%	39.0
Arrowhead Regional Medical Center	San Bernardino County	Colton	373	24,441	106,578	292.1	78.3%	43.3
Loma Linda University Medical Center	Loma Linda University Adventist Health Sciences Center	Loma Linda	850	31,103	199,933	547.4	64.4%	44.8
Kaiser - Fontana	Kaiser Permanente	Fontana	440	27,088	110,406	302.3	68.7%	48.5
Pomona Valley Hospital Medical Center	Pomona Valley Hospital Medical Center	Pomona	453	22,644	110,477	302.6	66.8%	54.5
Corona Regional Medical Center - Main	Universal Health Services Incorporated	Corona	240	9,404	50,979	139.7	58.2%	56.6
Antelope Valley Hospital Medical Center	Antelope Valley Hospital District	Lancaster	411	24,139	98,981	271.3	66.0%	59.8
<b>SUB-TOTAL</b>			<b>3,571</b>	<b>169,672</b>	<b>839,184</b>	<b>2,299.1</b>	<b>64.4%</b>	
<b>TOTAL</b>			<b>3,941</b>	<b>199,076</b>	<b>942,217</b>	<b>65.5%</b>	<b>65.5%</b>	

Source: OSHPD Annual Utilization Reports

## *Hospital Supply, Demand, and Market Share (continued)*

### **Hospital Market Share**

The table below illustrates market share by individual hospital within the Hospital's service area over the past four years.

SERVICE AREA HOSPITAL MARKET SHARE 2006 2009								
Hospital	2006		2007		2008		2009	
	Discharges	Mkt Share	Discharges	Mkt Share	Discharges	Mkt Share	Discharges	Mkt Share
St. Mary Medical Center	11,349	33.5%	12,118	33.7%	13,201	34.9%	14,275	36.5%
<b>Victor Valley Community Hospital</b>	<b>5,531</b>	<b>16.3%</b>	<b>5,646</b>	<b>15.7%</b>	<b>5,685</b>	<b>15.0%</b>	<b>6,081</b>	<b>15.5%</b>
Desert Valley Hospital	4,845	14.3%	5,258	14.6%	5,703	15.1%	5,475	14.0%
Kaiser - Fontana	2,714	8.0%	2,867	8.0%	3,022	8.0%	3,029	7.7%
Loma Linda University Medical Center	2,510	7.4%	2,702	7.5%	2,707	7.2%	2,743	7.0%
Arrowhead Regional Medical Center	1,457	4.3%	1,547	4.3%	1,756	4.6%	1,700	4.3%
St. Bernardine Medical Center	489	1.4%	470	1.3%	579	1.5%	624	1.6%
Loma Linda University Behavioral Medicine Center	408	1.2%	456	1.3%	409	1.1%	418	1.1%
Community Hospital of San Bernardino	251	0.7%	267	0.7%	303	0.8%	296	0.8%
San Antonio Community Hospital	223	0.7%	284	0.8%	271	0.7%	271	0.7%
Canyon Ridge Hospital	134	0.4%	226	0.6%	233	0.6%	279	0.7%
Pomona Valley Hospital Medical Center	183	0.5%	233	0.6%	233	0.6%	191	0.5%
Kaiser - Riverside	169	0.5%	175	0.5%	197	0.5%	165	0.4%
Redlands Community Hospital	183	0.5%	159	0.4%	144	0.4%	179	0.5%
All Others	3,430	10.1%	3,526	9.8%	3,368	8.9%	3,382	8.6%
<b>Total</b>	<b>33,876</b>	<b>100%</b>	<b>35,934</b>	<b>100%</b>	<b>37,811</b>	<b>100%</b>	<b>39,108</b>	<b>100%</b>

Source: OSHPD Patient Discharge Database

- The number of discharges in the Hospital's service area has grown by 15% over the four years.
- The Hospital ranks second in terms of overall market share for the Hospital's service area, based on discharges, with approximately 15.5% in FY 2009.
- The Hospital's service area market share has decreased slightly over the past four years. However, SMMC's market share over the same period has increased significantly from 33.5% in 2006 to 36.5% in 2009.
- SMMC provides care to more than twice as many hospital patients as the Hospital or DVH.
- Kaiser has approximately 8% market share of service area discharges.

## Hospital Supply, Demand, and Market Share (continued)

### Market Share by Payer

The following table illustrates hospital market share by payer category as reported to OSHPD for FY 2009.

Market Share by Payer 2009											
Hospital	Total Discharges	Commercial Managed Care	Traditional Medicare	Traditional Medi Cal	PPO EPO POS	Managed Medi Cal	Managed Medicare	Other	Private Insurance	County Indigent	Workers Comp.
St. Mary Medical Center	14,275	34.8%	43.4%	33.3%	63.2%	0.0%	22.6%	26.7%	51.9%	24.6%	20.6%
<b>Victor Valley Community Hospital</b>	<b>6,081</b>	<b>0.0%</b>	<b>10.9%</b>	<b>12.6%</b>	<b>13.5%</b>	<b>74.1%</b>	<b>12.3%</b>	<b>23.3%</b>	<b>20.4%</b>	<b>15.0%</b>	<b>6.8%</b>
Desert Valley Hospital	5,475	18.7%	23.5%	19.2%	0.1%	0.0%	0.0%	15.3%	11.8%	10.2%	6.8%
Kaiser - Fontana	3,029	22.9%	0.8%	0.1%	0.0%	2.8%	39.4%	1.1%	0.2%	0.0%	0.3%
Loma Linda University Medical Center	2,743	5.2%	5.9%	11.4%	8.4%	7.8%	6.0%	7.7%	0.6%	3.6%	4.1%
Arrowhead Regional Medical Center	1,700	0.1%	1.3%	11.0%	0.0%	4.3%	0.0%	12.2%	7.0%	35.3%	3.4%
St. Bernadine Medical Center	624	3.0%	0.8%	0.5%	1.2%	1.8%	5.2%	0.6%	0.6%	0.0%	5.4%
Loma Linda University Behavioral Medicine Center	418	1.0%	0.4%	0.8%	2.0%	2.2%	0.9%	2.6%	0.3%	0.0%	0.3%
Community Hospital Of San Bernardino	296	0.1%	0.6%	1.8%	0.4%	1.0%	0.4%	0.5%	0.2%	5.8%	0.0%
Canyon Ridge Hospital	279	1.0%	0.4%	1.1%	1.0%	0.1%	0.0%	0.2%	0.0%	3.5%	1.4%
San Antonio Community Hospital	271	1.0%	0.6%	0.1%	1.7%	0.2%	1.0%	0.5%	0.0%	0.0%	1.7%
All Others	3,917	12.2%	11.6%	8.1%	8.7%	5.8%	12.2%	9.4%	6.9%	2.0%	49.3%
<b>Total Discharges</b>	<b>39,108</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total Percentage</b>	<b>100%</b>	<b>20.8%</b>	<b>20.2%</b>	<b>18.8%</b>	<b>12.5%</b>	<b>7.8%</b>	<b>6.4%</b>	<b>5.6%</b>	<b>5.4%</b>	<b>1.7%</b>	<b>0.8%</b>
<b>Total Discharges</b>	<b>39,108</b>	<b>8,140</b>	<b>7,903</b>	<b>7,346</b>	<b>4,900</b>	<b>3,043</b>	<b>2,487</b>	<b>2,208</b>	<b>2,127</b>	<b>658</b>	<b>296</b>

Source: OSHPD Patient Discharge Database

- The Hospital has the highest percentage of Medi-Cal Managed Care (mostly IEHP) patients while SMMC leads in most other payer categories including Commercial Managed Care, Traditional Medicare, PPO-EPO-POS, and Medi-Cal Traditional.
- DVH is second in many payer categories including Traditional Medicare and Traditional Medi-Cal.
- Kaiser is first in Medicare Managed Care and second in Commercial Managed Care.

## Hospital Supply, Demand, and Market Share (continued)

### Market Share by Service Line

The following table illustrates hospital market share by service line for 2009.

Service Line Market Share by Hospital 2009										
Service Line	Total Discharges	St. Mary Medical Center	Victor Valley Community Hospital	Desert Valley Hospital	Kaiser Fontana	Loma Linda University Medical Center	Arrowhead Regional Medical Center	St. Bernardine Medical Center	Loma Linda University Behavioral Medicine Center	All Others
General Medicine	12,126	35.6%	17.3%	22.2%	8.3%	6.1%	2.1%	0.3%	0.0%	8.1%
Obstetrics	6,316	44.1%	25.8%	7.1%	7.3%	2.7%	2.7%	2.1%	0.1%	8.0%
Cardiac Services	5,546	52.6%	10.0%	14.9%	6.7%	3.2%	2.5%	2.8%	0.0%	7.2%
General Surgery	2,776	29.9%	12.9%	12.7%	8.1%	10.2%	4.3%	2.2%	0.0%	19.7%
Behavioral Health	1,827	3.1%	1.3%	1.8%	5.0%	0.8%	21.5%	0.0%	22.4%	44.2%
Orthopedics	1,752	24.8%	14.0%	9.5%	10.0%	11.2%	8.1%	4.4%	0.0%	17.9%
Neonatology	1,751	49.7%	17.8%	0.9%	10.3%	8.5%	3.7%	2.0%	0.0%	7.1%
Neurology	1,712	32.7%	11.9%	24.9%	8.1%	6.7%	4.1%	0.4%	0.1%	11.2%
Oncology/Hematology (Medical)	1,041	29.1%	11.6%	15.1%	8.2%	15.1%	4.4%	0.9%	0.0%	15.7%
Gynecology	884	25.8%	33.1%	8.3%	5.2%	12.2%	3.8%	1.6%	0.0%	10.0%
Spine	746	25.3%	6.7%	5.0%	6.0%	19.4%	3.1%	4.0%	0.0%	30.4%
Urology	659	45.8%	4.6%	14.9%	8.0%	7.7%	3.0%	4.9%	0.0%	11.1%
Vascular Services	621	42.0%	9.5%	9.5%	6.4%	11.8%	3.4%	3.5%	0.0%	13.8%
ENT	521	23.0%	12.7%	8.3%	9.2%	29.9%	5.8%	0.2%	0.0%	10.9%
Other	495	13.1%	6.1%	9.1%	6.7%	18.6%	26.1%	0.8%	0.0%	19.6%
Neurosurgery	215	11.6%	2.3%	0.9%	11.2%	35.3%	14.4%	0.5%	0.0%	23.7%
Rehabilitation	76	0.0%	0.0%	0.0%	9.2%	36.8%	0.0%	0.0%	0.0%	53.9%
Ophthalmology	44	18.2%	6.8%	11.4%	11.4%	29.5%	9.1%	0.0%	0.0%	13.6%
<b>Total Percentage</b>		<b>36.5%</b>	<b>15.5%</b>	<b>14.0%</b>	<b>7.7%</b>	<b>7.0%</b>	<b>4.3%</b>	<b>1.6%</b>	<b>1.1%</b>	<b>12.2%</b>
<b>Total Discharges</b>	<b>39,108</b>	<b>14,275</b>	<b>6,081</b>	<b>5,475</b>	<b>3,029</b>	<b>2,743</b>	<b>1,700</b>	<b>624</b>	<b>418</b>	<b>4,763</b>

Source: OSHPD Patient Discharge Database

- The Hospital ranks second in overall market share (all services) within the service area, albeit with less than half of the discharges of SMMC.
- The Hospital is the market share leader for only one of the eighteen service lines (gynecology) profiled. Its market share for that service line is 33.1%.
- The service line with the next highest market share for the Hospital is obstetrics (25.8%).
- Approximately 34% of patients received hospital care outside of the service area.
- The most frequently used hospitals outside the service area were Kaiser – Fontana (7.7%) and Loma Linda University Medical Center (7.0%).

## Comparative Service Matrix

The Hospital’s service area has a mostly full array of hospital programs and services. Service “gaps” within the region exist in substance abuse, bariatric surgery, psychiatric care, trauma care, and other quaternary services.

The following grid shows a comparison of local hospitals and the services they provide as compared to the services offered at the Hospital. The Hospital provides some services that are typical for a small community hospital and a few additional services that are not usually provided (e.g., neonatal intensive care and cardiac catheterization).

SERVICE COMPARISON								
Program/Service	Victor Valley Community Hospital	St. Mary Medical Center	Desert Valley Hospital	Kaiser Fontana	Loma Linda University Medical Center	Arrowhead Regional Medical Center	St. Bernardine Medical Center	Barstow Community Hospital
Adult Cardiac Surgery	✓	✓	✓		✓	✓	✓	
Adult Diagnostic Catheterization	✓	✓	✓	✓	✓	✓	✓	
Adult Cardiac Cathertization	✓	✓	✓		✓	✓	✓	
Alcoholism-Drug Abuse or Dependency Inpatient								
Bariatric/Weight Control Services						✓	✓	
Birthing Room-LDR Room-LDRP Room	✓	✓	✓	✓	✓	✓	✓	✓
Breast Cancer Screening-Mammograms	✓	✓		✓	✓	✓	✓	✓
Cardiac Rehabilitation		✓	✓	✓	✓	✓	✓	
Chemotherapy				✓	✓	✓	✓	
CT Scanner	✓	✓	✓	✓	✓		✓	✓
Emergency Department	✓	✓	✓	✓	✓	✓	✓	✓
Hemodialysis	✓	✓		✓	✓		✓	
Magnetic Resonance Imaging (MRI)	✓	✓	✓	✓	✓	✓	✓	✓
Medical/Surgical Intensive Care Services	✓	✓	✓	✓	✓	✓	✓	
Neonatal Intensive Care Services	✓	✓		✓	✓	✓	✓	
Obstetrics Services	✓	✓	✓	✓	✓	✓	✓	✓
Oncology Services	✓	✓		✓	✓	✓	✓	
Pediatrics	✓	✓		✓	✓	✓	✓	
Physical Rehabilitation Inpatient Services	✓			✓	✓			
Physical Rehabilitation Outpatient Services		✓	✓		✓	✓	✓	
Psychiatric Care						✓		
Trauma Center					✓	✓		
Women’s Health Center/Services	✓	✓			✓	✓	✓	

Source: American Hospital Association Guide 2008, OSHPD Disclosure Report 2009

## Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, and emergency services (FY 2009 data).

### Medical/Surgical Beds

Overall, there is little available hospital bed capacity in the area of medical/surgical services in the immediate service area (DVH occupancy in 2009 was approximately 93%). The next closest available hospitals are over 30 miles away.

MEDICAL/SURGICAL BEDS 2009							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Victor Valley Community Hospital	—	X	63	3,722	12,822	35.1	55.8%
St. Mary Medical Center	2.1	X	138	10,962	37,352	102.3	74.2%
Desert Valley Hospital*	4.5	X	59	6,327	20,045	54.9	93.1%
<b>Subtotal</b>			<b>260</b>	<b>21,011</b>	<b>70,219</b>	<b>192.4</b>	<b>74.0%</b>
Barstow Community Hospital*	32.9		44	1,967	5,620	15.4	35.0%
Community Hospital Of San Bernardino	36.9		119	4,847	21,852	59.9	50.3%
St. Bernardine Medical Center	39.0		249	6,377	28,920	79.2	31.8%
Arrowhead Regional Medical Center	43.3		144	12,196	50,246	137.7	95.6%
Loma Linda University Medical Center	44.8		394	12,314	71,902	197.0	50.0%
Kaiser - Fontana*	48.5		250	18,675	70,942	194.4	77.7%
Pomona Valley Hospital Medical Center	54.5		145	7,192	28,598	78.4	54.0%
Corona Regional Medical Center-Main*	56.6		101	4,489	20,579	56.4	55.8%
Antelope Valley Hospital Medical Center	59.8		251	15,045	60,014	164.4	65.5%
<b>Total</b>			<b>1,957</b>	<b>104,113</b>	<b>428,892</b>	<b>1,175.0</b>	<b>60.0%</b>

\*Unaudited

Source: OSHPD Annual Utilization Reports, MapPoint

## Service Availability by Bed Type (continued)

### Critical Care Beds (ICU/CCU)

There are 36 critical care beds within the service area with an overall occupancy rate of approximately 82.4%. The Hospital has 10 licensed critical care beds that were 52.6% occupied on average in 2009 (average daily census of 5.3). Both SMMC and DVH were running at full capacity in 2009 with occupancy rates of 92% and 101% respectively. There is very little extra capacity to adjust to seasonal variations in ICU needs.

ICU/CCU BEDS 2009							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
Victor Valley Community Hospital	—	X	10	337	1,920	5.3	52.6%
St. Mary Medical Center	2.1	X	20	558	6,701	18.4	91.8%
Desert Valley Hospital*	4.5	X	6	119	2,210	6.1	100.9%
<b>Subtotal</b>			<b>36</b>	<b>1,014</b>	<b>10,831</b>	<b>29.7</b>	<b>82.4%</b>
Barstow Community Hospital*	32.9		4	358	1,287	3.5	88.2%
Community Hospital Of San Bernardino	36.9		21	286	4,636	12.7	60.5%
St. Bernardine Medical Center	39.0		47	640	13,316	36.5	77.6%
Arrowhead Regional Medical Center	43.3		48	1,849	12,475	34.2	71.2%
Loma Linda University Medical Center	44.8		26	191	5,873	16.1	61.9%
Kaiser - Fontana*	48.5		34	1,162	12,235	33.5	98.6%
Pomona Valley Hospital Medical Center	54.5		22	529	7,377	20.2	91.9%
Corona Regional Medical Center-Main*	56.6		22	298	2,074	5.7	25.8%
Antelope Valley Hospital Medical Center	59.8		21	881	12,634	34.6	164.8%
<b>TOTAL</b>			<b>281</b>	<b>7,208</b>	<b>82,738</b>	<b>226.7</b>	<b>80.7%</b>

## Service Availability by Bed Type (continued)

### Obstetrical Beds

In 2009, there were 24 obstetrical beds located at the Hospital and SMMC with an aggregate occupancy rate of 116%. This indicates that there is a substantial shortage of obstetric beds in the region. The Hospital reported 12 licensed obstetrical beds with an 88% occupancy rate for 2009.<sup>3</sup> SMMC reported an occupancy rate of 144% on 12 licensed beds in 2009. Both facilities are essential for the region's obstetrical needs.

LICENSED OBSTETRICS BEDS 2009							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
<b>Victor Valley Community Hospital</b>	—	X	12	1,778	3,854	10.6	88.0%
St. Mary Medical Center	2.1	X	12	2,903	6,308	17.3	144.0%
Desert Valley Hospital*	4.5	X	—	—	—	—	—
<b>Subtotal</b>			<b>24</b>	<b>4,681</b>	<b>10,162</b>	<b>27.8</b>	<b>116.0%</b>
Barstow Community Hospital*	32.9		8	409	818	2.2	28.0%
Community Hospital Of San Bernardino	36.9		24	2,958	6,487	17.8	74.1%
St. Bernardine Medical Center	39.0		46	2,707	6,028	16.5	35.9%
Arrowhead Regional Medical Center	43.3		24	3,825	9,750	26.7	111.3%
Loma Linda University Medical Center	44.8		61	2,793	9,106	24.9	40.9%
Kaiser - Fontana*	48.5		44	3,854	9,054	24.8	56.4%
Pomona Valley Hospital Medical Center	54.5		—	—	—	—	—
Corona Regional Medical Center-Main*	56.6		12	1,712	3,731	10.2	85.2%
Antelope Valley Hospital Medical Center	59.8		39	5,697	14,687	40.2	103.2%
<b>Total</b>			<b>282</b>	<b>28,636</b>	<b>69,823</b>	<b>191.3</b>	<b>67.8%</b>

\*Unaudited

Source: OSHPD Annual Utilization Reports, MapPoint

<sup>3</sup> However, the Hospital's license showed 9 Perinatal (Obstetric) Service and 4 Labor, Deliver, & Recovery Beds.



## Service Availability by Bed Type (continued)

### Pediatric Beds

In 2009, there were a total of 22 pediatrics beds at the Hospital and SMMC with an aggregate occupancy rate of 57%. SMMC operated with an average daily census over 80%. The next closest beds are 37 miles away.

LICENSED PEDIATRIC BEDS 2009							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
<b>Victor Valley Community Hospital</b>	—	X	14	703	2,191	6.0	42.9%
St. Mary Medical Center	2.1	X	8	969	2,343	6.4	80.2%
Desert Valley Hospital*	4.5	X	—	—	—	—	—
<b>Subtotal</b>			<b>22</b>	<b>1,672</b>	<b>4,534</b>	<b>12.4</b>	<b>56.5%</b>
Barstow Community Hospital*	32.9		—	—	—	—	—
Community Hospital of San Bernardino	36.9		27	910	3,141	8.6	31.9%
St. Bernardine Medical Center	39.0		20	615	2,014	5.5	27.6%
Arrowhead Regional Medical Center	43.3		23	2,075	4,166	11.4	49.6%
Loma Linda University Medical Center	44.8		73	5,102	19,537	53.5	73.3%
Kaiser - Fontana*	48.5		40	1,802	5,691	15.6	39.0%
Pomona Valley Hospital Medical Center	54.5		34	1,766	4,305	11.8	34.7%
Corona Regional Medical Center-Main*	56.6		5	557	1,325	3.6	72.6%
Antelope Valley Hospital Medical Center	59.8		22	1,467	3,396	9.3	42.3%
<b>Total</b>			<b>266</b>	<b>15,966</b>	<b>48,109</b>	<b>131.8</b>	<b>49.6%</b>

\*Unaudited

Source: OSHPD Annual Utilization Reports, MapPoint

## Service Availability by Bed Type (continued)

### Neonatal Intensive Care Beds

Combined neonatal intensive care occupancy at VVCH and SMMC is running close to 108%. SMMC has 8 licensed neonatal intensive care beds with a reported occupancy rate of approximately 120% in 2009. The next closest beds are 37 miles away.

NEONATAL ICU SERVICES 2009							
Hospital	Miles from VVCH	Within Service Area	Licensed Beds	Discharges	Pt. Days	Average Daily Census	Occupancy
<b>Victor Valley Community Hospital</b>	—	X	2	134	446	1.2	61.1%
St. Mary Regional Medical Center	2.1	X	8	257	3,486	9.6	119.4%
Desert Valley Hospital*	4.5	X	—	—	—	—	—
<b>Subtotal</b>			<b>10</b>	<b>391</b>	<b>3,932</b>	<b>10.8</b>	<b>107.7%</b>
Barstow Community Hospital*	32.9		—	—	—	—	—
Community Hospital Of San Bernardino	36.9		5	262	1,854	5.1	101.6%
St. Bernardine Medical Center	39.0		20	256	5,032	13.8	68.9%
Arrowhead Regional Medical Center	43.3		30	374	6,966	19.1	63.6%
Loma Linda University Medical Center	44.8		84	1004	27,759	76.1	90.5%
Kaiser - Fontana*	48.5		36	478	7,871	21.6	59.9%
Pomona Valley Hospital Medical Center	54.5		53	975	18,981	52.0	98.1%
Corona Regional Medical Center-Main*	56.6		—	—	—	—	—
Antelope Valley Hospital Medical Center	59.8		48	358	5,475	15.0	31.3%
<b>Total</b>			<b>286</b>	<b>4,098</b>	<b>77,870</b>	<b>213.3</b>	<b>74.6%</b>

\*Unaudited

Source: OSHPD Annual Utilization Reports, MapPoint

## Service Availability by Bed Type (continued)

### Emergency Department Volume at Hospitals in the Service Area

The Hospital has 13 Emergency Department (“ED”) stations and had 28,595 visits in 2009, amounting to 25% of total visits among the three area hospitals (119,186 total visits). SMMC had the most emergency visits of area hospitals (53%). Approximately 17% of the regions ED visits resulted in admissions.

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2009												
Hospital	Miles from VVCH	Within Service Area	ER Level	Stations	Total	Minor	Low/Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
Victor Valley Community Hospital	—	X	Basic	13	28,595	4,353	15,570	6,877	1,434	361	10.0%	n/a
St. Mary Medical Center	2.1	X	Basic	26	63,868	1,031	10,537	30,010	15,318	6,972	18.2%	n/a
Desert Valley Hospital	4.5	X	Basic	18	26,723	2,184	4,794	9,843	8,057	1,845	22.8%	n/a
<b>Subtotal</b>				<b>57</b>	<b>119,186</b>	<b>7,568</b>	<b>30,901</b>	<b>46,730</b>	<b>24,809</b>	<b>9,178</b>	<b>17.3%</b>	<b>n/a</b>
Barstow Community Hospital	32.9		Basic	10	20,702	731	8,374	6,874	3,270	1,453	10.3%	n/a
Community Hospital Of San Bernardino	36.9		Basic	19	38,448	1,784	13,782	16,194	5,965	723	13.1%	n/a
St. Bernardine Medical Center	39.0		Basic	22	48,600	2,517	13,809	22,383	8,813	1,078	15.6%	12
Arrowhead Regional Medical Center	43.3		Basic	43	126,973	35,632	25,705	40,623	12,712	12,301	16.9%	n/a
Loma Linda University Medical Center	44.8		Basic	49	43,243	3,565	9,243	14,461	10,794	5,180	32.2%	3
Kaiser - Fontana	48.5		Basic	62	77,070	612	21,445	45,412	8,827	774	17.7%	n/a
Pomona Valley Hospital Medical Center	54.5		Basic	50	66,592	2,840	17,868	25,831	18,410	1,643	14.9%	1,111
Antelope Valley Hospital Medical Center	59.8		Basic	28	98,728	2,023	9,656	44,577	38,116	4,356	14.4%	1
<b>Total</b>				<b>340</b>	<b>639,542</b>	<b>57,272</b>	<b>150,783</b>	<b>263,085</b>	<b>131,716</b>	<b>36,686</b>	<b>17.0%</b>	<b>1,127</b>

Source: OSHPD Allirts Annual Utilization Reports, MapPoint

### Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians (“ACEP”), have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, the Hospital’s ED is operating at 111% of its 13-bed capacity. ED capacity at SMMC is also overburdened.

EMERGENCY DEPARTMENT CAPACITY 2009							
Hospital	Miles from VVCH	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
Victor Valley Community Hospital	—	X	Basic	13	28,595	26,000	(2,595)
St. Mary Medical Center	2.1	X	Basic	26	63,868	52,000	(11,868)
Desert Valley Hospital	4.5	X	Basic	18	26,723	36,000	9,277
<b>Subtotal</b>				<b>57</b>	<b>119,186</b>	<b>114,000</b>	<b>(5,186)</b>
Barstow Community Hospital	32.9		Basic	10	20,702	20,000	(702)
Community Hospital Of San Bernardino	36.9		Basic	19	38,448	38,000	(448)
St. Bernardine Medical Center	39.0		Basic	22	48,600	44,000	(4,600)
Arrowhead Regional Medical Center	43.3		Basic	43	126,973	86,000	(40,973)
Loma Linda University Medical Center	44.8		Basic	49	43,243	98,000	54,757
Kaiser - Fontana	48.5		Basic	62	77,070	124,000	46,930
Pomona Valley Hospital Medical Center	54.5		Basic	50	66,592	100,000	33,408
Antelope Valley Hospital Medical Center	59.8		Basic	28	98,728	56,000	(42,728)
<b>Total</b>				<b>340</b>	<b>639,542</b>	<b>680,000</b>	<b>40,458</b>

Source: OSHPD Allirts Annual Utilization Reports, MapPoint

## SUMMARY OF COMMUNITY INTERVIEWS

In November of 2010, both in-person and telephone interviews were conducted with numerous physicians, community members, and representatives from the Hospital and the Purchasers. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability or accessibility as a result of the proposed hospital transaction. The major findings from the interviews are summarized on the following pages.

### *Reasons for the Sale of VVCH*

Those interviewed generally cited the following as the major reasons for selling the Hospital:

- Poor financial performance and the risk of continuing financial losses;
- Large amount of outstanding debt;
- Inability to make appropriate capital investments in the facility in light of these financial losses;
- A challenging payer mix (large percentage of uninsured and Medi-Cal patients); and
- The declining reputation of the Hospital which has had an adverse effect on support from physicians and patients.

### *Acquisition Overview*

The majority of people interviewed expressed support for the proposed transaction of the VVCH to VVHRE and VVHA. The general consensus was that the Hospital has struggled for the last ten years and that a new owner would be welcomed, assuming services remain stable and the new buyer makes capital investments to upgrade facilities, information systems, and equipment.

Most interviewees were unfamiliar with and not informed about the Purchasers. It is generally understood that the Hospital's physicians approached Dr. Chaudhuri and asked him to buy the Hospital. It was reported that Dr. Chaudhuri, pending the auction of the Hospital, assured physicians that current insurance contracts would be honored. Most physicians and VVCH's Board members interviewed support the transaction but have a few concerns. These concerns include:

- The Purchasers may not be able to improve the financial performance of the Hospital, and it may again face bankruptcy and possible closure;
- Physicians would not support the Hospital and would continue to take patients elsewhere;
- Without local physician support, the Purchasers would not have enough capital to support long term operations and investment; and

- Physician participation and transparency is needed in making decisions about how the \$25 million commitment would be spent and over what time period.

Despite these concerns, most interviewees felt that the Purchasers would invest in the Hospital and attempt to enhance programs and services. Most believed that with investment, the Hospital could be successful. Many physicians believed that the Purchasers would offer physicians an investment opportunity in the real estate of the Hospital in order to help garner physician involvement.

### ***Importance of the Hospital to the Community***

The Hospital is viewed as very important to the local community for its provision of emergency, obstetrical and pediatric services. It is viewed as a community hospital with a significant depth of medical, surgical, and support services. Services frequently mentioned as important for healthcare access and availability include:

- Emergency;
- Obstetrical;
- Pediatric;
- Intensive care; and
- Woman's Health.

Because there is already a shortage of hospital beds and healthcare services in the area, the closure of the Hospital or discontinuance of its services would have a significant negative impact on the availability and accessibility of healthcare services. The Hospital is especially important to IEHP, that had an average daily census of about fourteen (14) patients for the twelve (12) month period ending May, 2010. Although IEHP currently contracts with SMMC, due to its limited patient capacity, SMMC only handles overflow from the Hospital and elective admissions for specialty services not performed at the Hospital. The Hospital is very important for the provision of healthcare services to IEHP patients. SMMC executives have stated to IEHP that their hospital is especially impacted by obstetric patients, and that it has no remaining capacity. The other area hospital, DVH, does not contract with IEHP, and has no obstetrical services.

The Hospital is also viewed as an important employer and contributor to overall community economic development and prosperity and is cited as one of Victorville's largest employers (unemployment in Victorville, according to the City of Victorville Economic Development Department, currently stands at 17.2%, up from 5.8% in 2000).

### ***Potential Closure of the Hospital***

Throughout the interview process, community stakeholders, physicians and VVCH Board members expressed relief that a buyer would keep the Hospital open and continue services in the community.

### ***Opposition to the Sale***

Interviewees almost unanimously indicated that they support the sale of the Hospital to the Purchasers, and no visible opposition to the acquisition was observed.

### ***Investment in the Hospital***

Representatives of the Purchasers agreed to make capital investments of at least \$15 million over five (5) years to improve the physical plant, equipment, and infrastructure of VVCH. Some of the capital could be used to accomplish seismic retrofits.

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

### ***Continuation of the Hospital as a General Acute Care Hospital***

The Purchasers agreed to maintain the Hospital as a licensed acute-care hospital with services including emergency, obstetrics and pediatrics. Continuation of those services as well as adult intensive care is critical to the community needs for healthcare services.

### ***Emergency Services***

With 13 emergency beds and over 28,500 visits in 2009, the Hospital has a high ED volume compared to other hospitals of its size. Based on a standard of 2,000 visits per station per year, the Hospital's ED was at 110% capacity in 2009. Additionally, SMMC also appears to be operating beyond its optimal capacity. Therefore, the Hospital's ED remaining open is critical to providing adequate emergency services in the community.

The Purchasers agreed to provide emergency services.

### ***Medical/Surgical Services***

An analysis of the current supply and demand of area hospital beds shows that there is a shortage of medical/surgical beds in the community based on current utilization patterns that include a large amount of patient out-migration. The combined medical/ surgical occupancy rate for the Hospital, SMMC and DVH was 74% in 2009. Due to seasonal and various health factors, occupancy of over 70% indicates the possibility of shortages in the community. SMMC has announced the future construction of a 120-bed hospital alongside Interstate 15; however neither a construction or completion date has been determined.

### ***Intensive Care Services***

The Hospital has a fairly low occupancy rate (approximately 53%) and patient census (average of five patients per day) within its intensive care unit in comparison with the other area hospitals. However, the intensive care units of both SMMC and DVH are near or at capacity, resulting in a combined occupancy of approximately 82% among the three hospitals.

### ***Obstetrical Services***

The Hospital's obstetric services were mentioned in the community interviews as being one of the most important services the Hospital provides. It has an occupancy rate of 88% for its 12 beds reported to OSHPD. Based on the current license reported to the Department of Health Services of 9 beds, the occupancy would be 117%. SMMC has an occupancy rate of nearly 145%, and DVH does not offer obstetrical services. Thus, the community is currently under-bedded for obstetrical services.

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

Approximately 70% of the Hospital's inpatients are insured through Traditional and Managed Care Medicare (22%) and Traditional and Managed Care Medi-Cal (47%). In the defined service area, approximately 74% of all Managed Care Medi-Cal inpatients get services at the Hospital. The Hospital is located in an "open" area. Thus, all three hospitals are non-contracted providers with Medi-Cal and are reimbursed based on the hospital's costs. The Hospital also treats a significant number of County indigent patients, primarily through the ED.

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

The Hospital provides a higher percentage of charity care than the statewide average. The Purchasers have agreed to provide charity and indigent care at levels no less than historically provided. The Hospital's five-year average for charity care is \$1,380,000.

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

Because of its poor financial performance, the Hospital has provided limited support to community benefit programs. Over the last five (5) fiscal years (2005-2009), the support to community education and prevention, health initiatives, health professionals training, etc. has averaged approximately \$27,500 per year.

### ***Effects on Staffing and Employee Rights***

The Purchasers agreed to employ substantially all active Hospital employees and will offer employee benefits, compensation and other employment terms and conditions provided to similarly situated employees of the Purchasers.

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

The Purchasers agreed to maintain privileges for current medical staff members in good standing.



### ***Effects on Patient Access***

The Purchasers have stated that no disruptions to patients and physicians are expected based on contract terminations. Purchasers expect to continue or renegotiate current contracts. Purchasers are currently conducting discussions with IEHP with the expectation of mutual agreement on reimbursement rates.

### ***Reproductive Health Services***

Tubal ligations and other reproductive health services are not prohibited at VVCH, and the sale is not expected to change or reduce the availability or accessibility of these services.

### ***Alternatives***

If the proposed transaction is not approved, the Hospital could again be offered to other interested buyers. While it is possible that another willing buyer could step forward, it would be a strain on the Hospital to financially sustain itself until a sale transaction could be accomplished and would therefore have to close.

## CONCLUSIONS

Overall, the Purchasers are likely to continue the availability and accessibility of healthcare services at the Hospital. In general, it is expected that access for Medicare, Traditional Medi-Cal, Third-Party Managed Care and other patients will remain unchanged. Furthermore, the Purchasers' capital investment over the next five (5) years should lead to substantial improvement to facilities, infrastructure and certain services at the Hospital.

The largest potential impact on accessibility and availability to the community results if the Purchasers do not enter into a contract with IEHP. If IEHP patients do not have access to the Hospital, healthcare services would be overwhelmed at SMMC creating access difficulties for all patients.

Additionally, because VVHRE and VVHA are new entities, without operating and financial history, some concern exists regarding the Purchasers ability to sustain and invest in the Hospital. While Dr. Chaudhuri owns or has controlling interests in other large healthcare corporations (IHHI and PHH), these assets are not themselves being pledged in support of the Hospital.

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

As a result of the analysis, if the Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the following conditions be required in order to minimize any potential negative health impact that might result from the transaction:

- 1) For at least five (5) years from the Closing Date, the Purchasers should continue to operate the Hospital as a licensed general acute care hospital;
- 2) Purchasers should make the Hospital, and any other required structures, to be in compliance with California law regarding seismic safety requirements that require retrofitting 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);
- 3) For at least five (5) years from the Closing Date, Purchasers should maintain 24-hour emergency medical services as currently licensed (minimum of 13 emergency stations/beds) with the same types and levels of services. For at least five (5) years from the Closing Date, Purchasers should also maintain the current licensure, types, and levels of services for the following:
  - a. ICU/CCU services, including a minimum of 10 beds
  - b. Obstetrical services, including a minimum of 9 perinatal and 4 Labor, Delivery and Recovery beds
  - c. Pediatric services, including a minimum of 16 beds
- 4) For at least five (5) years from the Closing Date, Purchasers should continue to operate the Victor Valley Community Hospital Women's Health Center.

- 5) Purchasers should maintain certification to participate in the Medi-Cal program for as long as Purchasers operate the Hospital and provide emergency medical services;
- 6) Purchasers should accept assignment of IEHP's contract at the time of the Closing Date and should not terminate the contract (expires December 31, 2011) until a new contract has been entered into with IEHP, on similar terms and conditions as other similarly-situated hospitals, for Medi-Cal, Healthy Families, Healthy Kids, and IEHP's Medicare Special Needs Plan;
- 7) For at least five (5) years from the Closing Date, Purchasers should continue to maintain a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.
- 8) For at least five (5) years from the Closing Date, Purchasers should expend a minimum of \$1,380,000 in annual charity costs<sup>4</sup> (not charges). This amount should be increased annually based on the regional Consumer Price Index. The amount of any annual shortfall in charity care should be contributed to a nonprofit public benefit corporation that provides medical care to residents in the Hospital's service area;
- 9) For at least five (5) years from the Closing Date, Purchasers should continue to expend at least \$27,500 annually in community benefits. This amount should be increased annually based on the regional Consumer Price Index;
- 10) Purchasers should agree to maintain an ongoing fund balance of at least \$5 million in an escrow account, available for emergency operating and capital needs, until the Hospital achieves operating self-sustainability, demonstrated by ongoing net income of at least 5% and related positive cash flows for three successive quarters, as reported to OSHPD;
- 11) Purchasers should agree to appoint a local governing Board comprised of physicians from the Hospital's medical staff, and community representatives. Purchasers should consult with the local governing Board regarding the use of the capital expenditure funds, withdrawals of the above referenced escrow account, the elimination of any medical services, any changes to community benefit programs, and any changes to the charity care and collection policies and services at the Hospital. Such consultation shall occur at least thirty (30) days prior to the effective date of such changes. The local governing Board shall approve any reports submitted to the Attorney General regarding compliance with these Conditions;
- 12) Annual amounts of expected capital expenditures including, equipment, information technology, infrastructure improvements, as required in section 5.9 of the Asset Sale Agreement, should not be less than \$4 million per year for the first three years; and
- 13) For at least five (5) years from the Closing Date, Purchaser shall maintain all current contracts with the County of San Bernardino, without interruption of service or quality, to provide the same services under the current contracts. These contracts include:
  - a. San Bernardino County Superintendant of Schools-Occupational Program

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<sup>4</sup> 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."

- b. San Bernardino County Department of Public Health-Birth Registration Program
- c. County of San Bernardino Agreement for Paternity Opportunity Program
- d. County of San Bernardino Agreement for Medi-Cal Eligibility Worker
- e. ICEMA-Hospital Disaster Preparedness Program
- f. Reddinet-Emergency Communications System
- g. Arrowhead Regional Medical Center-MIA Program

***Recommended Action***

If the Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends that the preceding conditions be required in order to minimize any potential negative health impact that might result from the transaction.

## APPENDICES

Interviews were conducted with the following people:

Last Name	First Name		Position	Affiliation
Arora	Vijay	MD	Former Board Member & Chief of Staff	VVCH Medical Staff
Bhutwala	Ashvin	MD	Internal Medicine	VVCH Medical Staff
Bhutwala	Ashvin	MD	Internal Medicine	VVCH Medical Staff
Brady	Joe		President, Bradco	Community Stakeholder
Brown	Tom		President/ Board Secretary	VVCH Foundation/ Board of Directors
Carrish	David		Director of Contracts	Inland Empire Health Plan
Channel	Sue		Treasurer	VVCH Foundation
Chaudhuri	Kali	MD	Chairman and CEO	Strategic Global Management, Inc.
Dann	Doreen		COO/CNO	VVCH Administration
Davis	Kathy		Chairman, Board of Directors	VVCH
Ganapavarapu	Sreekanth	MD	Internal Medicine	VVCH Medical Staff
Gilbert	Bradley	MD	CEO	Inland Empire Health Plan
Greiner	Alison		Secretary	VVCH Board of Trustees
Grover	Rajiv	MD	General Surgery	VVCH Medical Staff
Hardy	Doreen		CDO	VVCH Foundation
Henning	William	DO	Chief Medical Officer	Inland Empire Health Plan
Killion	Dennis		Vice Chairman	VVCH Board of Directors
Matthews	Ed		CFO	VVCH Administration
McEachron	Ryan		Victorville Councilman	Community Stakeholder
Menon	Radha	MD	Internal Medicine	VVCH Medical Staff
Menon	Radha	MD	Chief of Staff & MEC Executive	VVCH Medical Staff
Murthy	Nirmala	MD	Pediatrics	VVCH Medical Staff
Pelley	Cathy		CEO	VVCH Administration
Puri	Rajiv	MD	MEC Member/ Former Chief of Staff	VVCH Medical Staff
Sullivan	Lovella		Director, Marketing and Community Relations	VVCH Administration
Thomas	William		Executive Vice President/General Counsel	Strategic Global Management, Inc.
Velasquez	Joel	MD	Former Chief of Staff	VVCH Medical Staff
Villarosa	Daniel	MD	OB/GYN	VVCH Medical Staff
Wedeen	Glenn	MD	Director of Radiology	VVCH Medical Staff

A copy of VVCH's hospital license is below:

License: 240000218  
Effective: 11/01/2010  
Expires: 10/31/2011  
Licensed Capacity: 101

**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*

**Victor Valley Community Hospital**

to operate and maintain the following General Acute Care Hospital



**Bed Classifications/Services \***  
101 General Acute Care  
16 Pediatric Services  
10 Intensive Care  
9 Perinatal Services  
2 Intensive Care Newborn Nursery  
64 Unspecified General Acute Care

**Other Approved Services\***  
Basic Emergency  
Nuclear Medicine  
Outpatient Services  
Outpatient Services at MRI/Cardiac  
Catheterization Laboratory, 15237 11th  
Street, Victorville  
Physical Therapy  
Radiological Services  
Respiratory Care Services  
Social Services

This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:  
4 LDR beds approved effective 1/11/90.  
Voluntary suspension of 16 Beds from the Behavioral Health Unit.

Mark B. Horton, MD, MSPH

DIRECTOR

Lena Resurreccion, RN, BSN, District Manager

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