

Effect of the Ministry Alignment Agreement
between Dignity Health and Catholic Health
Initiatives on the Availability and Accessibility of
Healthcare Services to the Communities Served by
Dignity Health’s Hospital Located in Santa Cruz
County

Prepared for the Office of the California Attorney General

September 10, 2018

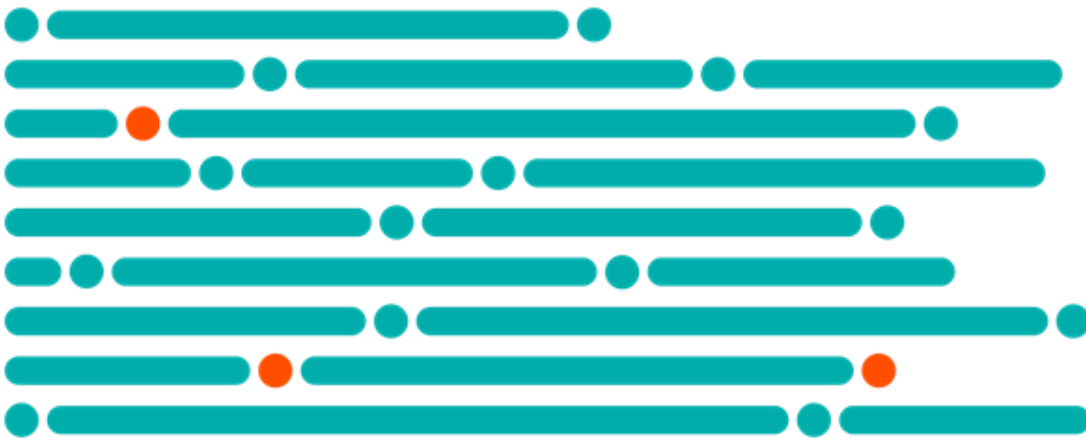


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Introduction & Purpose

JD Healthcare, Inc. and Vizient, Inc. were retained by the Office of the California Attorney General to prepare this healthcare impact statement to assess the potential impact of the proposed Ministry Alignment Agreement by and between Dignity Health, a California nonprofit public benefit corporation, and Catholic Health Initiatives, a Colorado nonprofit corporation (CHI), on the availability and accessibility of healthcare services to the communities served by Dignity Health's hospital located in Santa Cruz County. Dignity Health owns and operates 31 general acute care hospitals in California, including one in Santa Cruz County: Dominican Hospital located in located in Santa Cruz.

CHI is the parent organization of several nonprofit corporations that own and/or operate over 100 hospitals in 18 states. CHI neither owns, nor controls any general acute care hospitals or other facilities in California. CHI is a Catholic organization.

Introduction

Catholic Health Care Federation (CHCF) is a public juridic person¹ within the meaning of Canon Law and the canonical sponsor² of CHI.

While Dignity Health is not a Catholic organization, its Catholic hospitals are sponsored by six congregations of Women Religious³. Dignity Health owns and operates 31 general acute care hospitals in California⁴. Nineteen of the 31 California hospitals are Catholic and 12 are non-Catholic hospitals (also referred to as community hospitals). Four of the 12 non-Catholic general acute care hospitals are owned by separately incorporated California nonprofit public benefit corporations that have Dignity Health as their sole corporate member⁵. Dignity Health also owns and operates five hospitals in Arizona and three hospitals in Nevada.

The following summary chart is a list of Dignity Health owned and operated hospitals⁶.

¹A public juridic person is a group or persons approved by the Roman Catholic Church to oversee and ensure that the mission of its healthcare organization is carried out according to Catholic principles.

²The Catholic Health Association has defined canonical sponsorship of a healthcare ministry as a formal relationship between an authorized Catholic organization and a legally formed system, hospital, clinic, nursing home (or other institution) entered into for the sake of promoting and sustaining Christ's healing ministry to people in need.

³A group of Roman Catholic women who dedicate their lives to the Gospel of Jesus Christ and take vows of poverty, chastity, obedience and service. The six congregations are: Sisters of Mercy of the Americas, Sister of Charity of the Incarnate Word, Dominican Sisters of San Rafael, Sisters of St. Francis of Penance and Christian Charity, Adrian Dominican Sisters and the Congregation of Sisters of St. Dominic of St. Catherine of Siena. Dignity Health's sponsorship council is comprised of one sister from each congregation.

⁴The California Department of Public Health has issued twenty-eight general acute care hospital licenses with respect to these 31 facilities.

Marian Regional Medical Center, Arroyo Grande and Marian Regional Medical Center West operate under a consolidated license issued to Marian Regional Medical Center, and Mercy Southwest Hospital operates under a consolidated license issued to Mercy Hospital (in Bakersfield).

⁵The four facilities are Bakersfield Memorial Hospital, Community Hospital of San Bernardino, Saint Francis Memorial Hospital, and Sierra Nevada Memorial Hospital.

⁶St. Joseph's Medical Center of Stockton and St. Joseph's Behavioral Health Center are owned by Port City Operating Company, LLC, a joint venture between Kaiser Foundation Hospitals and Dignity Health. Dignity Health owns 80% of Port City Operating Company, LLC, and Kaiser Foundation Hospitals owns the remaining 20%.

Dignity Health

Arizona Hospitals

- Arizona General Hospital^{1*}
- Chandler Regional Medical Center*
- Mercy Gilbert Medical Center
- St. Joseph's Hospital and Medical Center
- St. Joseph's Westgate Medical Center

California Hospitals

Dignity Health Owned Hospitals

- Dominican Hospital
- Marian Regional Medical Center
- Marian Regional Medical Center, Arroyo Grande*
- Marian Regional Medical Center West
- Mercy General Hospital
- Mercy Hospital of Folsom
- Mercy Medical Center Merced
- Mercy Medical Center Mt. Shasta
- Mercy Medical Center Redding
- Mercy San Juan Medical Center
- Mercy Hospital
- Mercy Southwest Hospital
- St. Bernardine Medical Center
- St. Elizabeth Community Hospital
- St. John's Pleasant Valley Medical Center
- St. John's Regional Medical Center
- St. Joseph's Medical Center of Stockton
- St. Joseph's Behavioral Health Center
- St. Mary Medical Center
- St. Mary's Medical Center
- California Hospital Medical Center*
- French Hospital Medical Center*
- Glendale Memorial Hospital*
- Methodist Hospital of Sacramento*
- Northridge Hospital Medical Center*
- Sequoia Hospital*
- Woodland Memorial Hospital*

Subsidiary Hospitals

- Bakersfield Memorial Hospital*
- Community Hospital of San Bernardino*
- Saint Francis Memorial Hospital*
- Sierra Nevada Memorial Hospital*

Nevada Hospitals

- St. Rose Dominican, Rose de Lima Campus
- St. Rose Dominican, San Martin Campus
- St. Rose Dominican, Siena Campus

*Denotes non-Catholic hospitals. All other hospitals are ministries of the Catholic Church

¹Arizona General Hospital is owned by a separate limited liability company of which Dignity Health is the sole corporate member

In addition to the hospitals listed above, Dignity Health has a management agreement with Mark Twain Medical Center Corporation, a California nonprofit public benefit corporation, to operate Mark Twain Medical Center, a 25-bed critical access hospital⁷ located at 768 Mountain Ranch Road, San Andreas, California. Mark Twain Medical Center is leased by Mark Twain Medical Center Corporation from the Mark Twain Healthcare District. The current lease agreement with Mark Twain Healthcare District expires on December 31, 2019. On June 6, 2018, the voters in the Healthcare District approved Ballot Measure A to enter into a new 30-year lease for Mark Twain Medical Center.

⁷A critical access hospital is a designation given to eligible rural hospitals, or those grandfathered as rural, by the Centers for Medicare and Medicaid Services. Conditions to obtain a Critical Access Hospital designation include having less than or equal to 25 acute care beds, being located more than 35 miles from another hospital, maintaining an annual average length of stay of 96 hours or less for acute care patients and providing 24-hour emergency care services.

Purpose

This healthcare impact statement describes the potential effects that the proposed transaction may have on the availability and accessibility of healthcare services to the residents served by Dominican Hospital.

In preparation of this report, JD Healthcare, Inc. and Vizient, Inc. performed the following:

- A review of the written notice delivered to the California Attorney General on March 29, 2018 and supplemental information subsequently provided by Dignity Health;
- A review of press releases and articles related to this and other hospital transactions;
- Interviews with representatives of Dignity Health;
- An analysis of financial, utilization, and service information provided by Dignity Health and the California Office of Statewide Health Planning and Development (OSHPD); and
- An analysis of publicly available data related to service areas for Dominican Hospital including hospital utilization rates and trends and hospital inpatient market share.

Background & Description of the Transaction

Background

Dignity Health was formerly known as Catholic Healthcare West. Catholic Healthcare West was founded in 1986 when the Sisters of Mercy Burlingame Regional Community and the Sisters of Mercy Auburn Regional Community merged their healthcare ministries. In 2009, the United States Conference of Catholic Bishops changed the Ethical and Religious Directives⁸ (ERDs) regarding partnerships between community and Catholic organizations. As a result of the changes to the ERDs, Catholic Healthcare West went through a process, between 2009 and 2011, to review its governance structure and its relationship to its owned and controlled non-Catholic community hospitals. In 2012, as a result of this review and based on discussions with its canonical sponsors, Catholic Healthcare West reorganized its governance structure and changed its name to Dignity Health. Dignity Health was no longer recognized as a Catholic organization, although many of its hospitals are Catholic. The restructure was designed to satisfy the requirements of the United States Conference of Catholic Bishops regarding partnerships with non-Catholic community hospitals while allowing Dignity Health to maintain its Catholic and non-Catholic hospitals under a single organization.

Following the 2012 reorganization, the six congregations of Women Religious began the exploration of alternative models for sponsorship of Dignity Health's Catholic hospitals, including the possibility for Dignity Health being recognized as a Catholic ministry. To facilitate this process, the Sponsors engaged a canon lawyer⁹ to help explore all of the options, such as the creation of a new public juridic person or a merger with a Catholic healthcare system sponsored by an existing public juridic person. As further described below, the alignment discussions between Dignity Health and CHI revealed many significant potential strategic benefits for both organizations, including CHI's current sponsorship by a public juridic person known as Catholic Health Care Federation.

Strategic Rationale, Transaction Process & Timing

The leadership of Dignity Health and CHI had numerous partnership discussions over the previous ten years. In 2013, they explored potential affiliations between the two health systems. Dignity Health and CHI identified several opportunities to collaborate on programs and services, including telehealth, micro-hospitals, and precision medicine¹⁰. In September 2016, they formed a joint-venture named the Precision Medicine Alliance, LLC to create a large precision medicine program.

⁸The Ethical and Religious Directives for Catholic Healthcare Services is a national code that guides Catholic healthcare providers on conformance with Christian theology.

⁹A canon lawyer is a lawyer who is knowledgeable of the ordinances and regulations made by ecclesiastical authority.

¹⁰Precision medicine is an emerging approach for disease treatment and prevention that uses extensive databases and takes into account individual variability in genes, environment, and lifestyle for each person.

In the spring of 2016, the executive leadership of Dignity Health and CHI began jointly exploring the potential for an alignment of their ministries. In March 2016, an outside advisor prepared a white paper¹¹ that analyzed the potential for an affiliation between Dignity Health and CHI that was shared with the boards of directors of Dignity Health and CHI in June 2016. The boards of directors of Dignity Health and CHI concluded that they:

- Share a vision of transformation for themselves and for the industry;
- Have highly complementary organizational missions, visions, and values;
- Serve complementary communities;
- Share strategic objectives in areas such as population health, quality, consumer focus, growth, and others; and
- Have multiple key complementary strengths – for example, CHI’s clinical excellence and Dignity Health’s operating model.

As a result, the boards of directors of Dignity Health and CHI requested that a business analysis for the aligned ministry be developed. That analysis identified the following potential synergies of aligned ministries:

- Enhancing clinical excellence;
- Improving patient experience;
- Ensuring care for the vulnerable and underserved;
- Developing talent and creating a learning organization;
- Improving access to care;
- Accelerating innovation and research; and
- Expanding the capabilities that support the health system of the future.

In addition, the white paper identified high level economic implications and synergies of an alignment that have the potential to:

- Provide the financial resources and complementary strengths to support the capabilities needed for a changing health system;

¹¹ The white paper is entitled “Creating a Transformative Ministry in Response to the Signs of the Times, Cultural, Strategic, Business and Financial Planning for an Aligned Ministry.”

- Extend the mission of social justice through a national platform for care that is accessible and equitable to all people, with particular attention to the vulnerable and underserved; and
- Develop new models for integrated, community focused care that combine clinical excellence, health improvement and innovation.

On October 24, 2016, the boards of directors of Dignity Health and CHI announced the signing of a non-binding letter of intent to explore aligning the organizations. After the signing of the letter of intent, independent advisors from Kaufman Hall Associates, PricewaterhouseCoopers, McKinsey & Company, and Dentons US LLP provided analyses regarding the strategic, cultural, financial, legal, operational, and structural aspects of the alignment of the organizations. A steering committee, comprised of executives from both organizations, was formed to negotiate the terms of the Ministry Alignment Agreement. In March 2017, Dignity Health and CHI sought a moral analysis¹² from several Catholic theologians for the purposes of obtaining a *nihil obstat*¹³ from Archbishop Aquila of the Denver Archdiocese and Archbishop Cordileone of the San Francisco Archdiocese. On April 20, 2017, the boards of directors of Dignity Health passed a resolution authorizing and approving the execution of the Ministry Alignment Agreement subject to the moral analysis. The resolution cited the intention to combine Dignity Health and CHI into a new nationwide health system that would:

- Serve as an unprecedented platform to further Catholic identity and the Catholic health ministry;
- Provide an opportunity for Dignity Health and CHI’s employees, physicians, partners and people in the communities served by Dignity Health and CHI to experience and participate in the enhanced Catholic health ministry;
- Enhance and expand access to care and the healthcare services performed for the poor and underserved;
- Possess a strong voice for social justice and promote advocacy at local, state and national levels;
- Be a leader in healthcare’s transformation;
- Promote clinical efficiency and effectiveness in the delivery of healthcare and medical services; and
- Provide a platform to accomplish other goals, objectives, and benefits for the communities served by the CHI and Dignity Health.

¹²A formal report by a Catholic theologian on the appropriate application of Catholic moral teachings.

¹³A Roman Catholic Church certification by an official censor that something is not objectionable on doctrinal or moral grounds.

The *nihil obstats* were received in October 2017. The Ministry Alignment Agreement was signed by Dignity Health and CHI on December 6, 2017. On March 29, 2018, Dignity Health submitted the written notice to the California Attorney General's Office and requested the California Attorney General's consent to the Ministry Alignment Agreement.

Summary of the Ministry Alignment Agreement

The Ministry Alignment Agreement will be implemented primarily through the reorganization and renaming of CHI's current corporation. This reorganized entity will become the parent organization (henceforth referred to as "System Corporation") over the new health system and will be renamed before the Closing Date¹⁴ of the transaction. The governing board of the System Corporation will initially be comprised of six directors each from the legacy boards of directors of Dignity Health and CHI, and the Chief Executive Officers from each organization (i.e., a total of 14 directors).

As part of the transaction, Dignity Health formed a separate Colorado nonprofit corporation named Integrated Healthcare Operations (IHO). As of the Effective Date¹⁵ of the transaction, Dignity Health will transfer the assets of its eight non-Catholic owned hospitals (seven of which are in California and one in Arizona) to IHO. IHO will also become the sole corporate member of Dignity Health's four subsidiary hospitals in California for a total of 12 hospitals. The System Corporation is not a member of IHO. However, the System Corporation approves the majority of the IHO board from nominees selected by the IHO board and holds reserve powers over certain actions to be taken by IHO. IHO will not be Catholic, and the eleven California non-Catholic hospitals¹⁶ transferred to IHO from Dignity Health and one Arizona non-Catholic hospital will remain non-Catholic and not subject to the ERDs. The 12 non-Catholic Dignity Health hospitals are not obligated to alter, restrict, or terminate any clinical medical service or program that was permitted on the effective date of the transaction by reason of Catholic doctrine or theology or any amendments to the Statement of Common Values¹⁷ or Designated Procedures¹⁸ that increases or expands prohibited services. The 12 non-Catholic Dignity Health hospitals will be provided with the same benefits, systems, services, and programs, and on the same terms as all other hospitals in System Corporation. The 12 non-Catholic Dignity Health hospitals will retain or adopt Dignity Health's Statement of Common Values.

¹⁴The Closing Date is the date the parties exchange all signed documents pursuant to the conditions precedent set forth in the Ministry Alignment Agreement. One of those conditions precedent requires the Attorney General's consent.

¹⁵ As of 12:00:01am on the day immediately after the "Closing Date".

¹⁶Marian Regional Medical Center, Arroyo Grande is and will remain a non-Catholic general acute care hospital. It operates under a consolidated license issued to a Catholic general acute care hospital, Marian Regional Medical Center. Marian Regional Medical Center, Arroyo Grande will not be transferred to IHO.

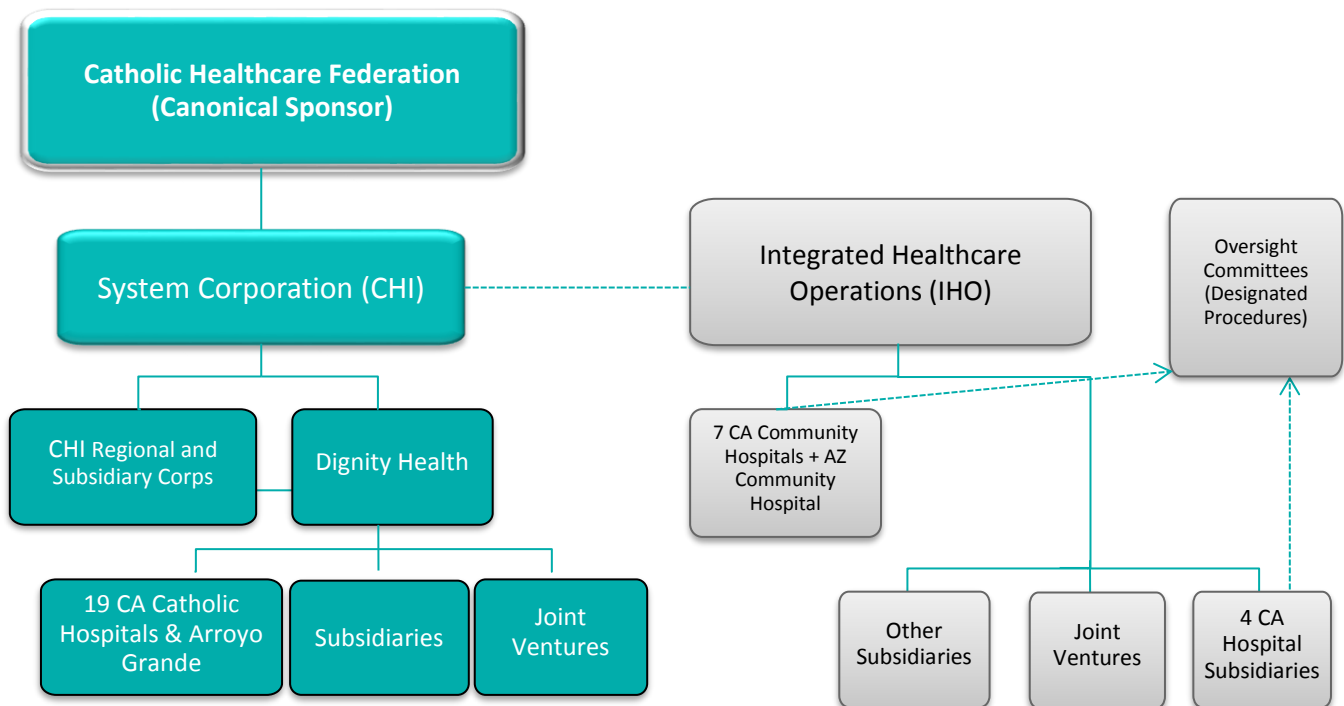
¹⁷Dignity Health's Statement of Common Values prohibits direct abortions, in-vitro fertilizations, and provider or physician-assisted suicide or aid in dying. The most common medical procedure performed in hospitals that is prohibited by the ERDs is tubal ligation (a surgical procedure for female sterilization that involves severing and tying the fallopian tubes). Tubal ligations are not prohibited by Dignity Health's Statement of Common Values.

¹⁸Designated Procedures means "direct sterilizations" that consist of an elective procedure, the primary purpose of which is to render the patient permanently incapable of reproducing; provided, however, that procedures that induce sterility do not constitute a "Designated Procedure" when their effect is the cure or alleviation of a present and serious pathology, and a simpler treatment is not available.

On the Effective Date, the System Corporation will become the sole corporate member of Dignity Health and the board of directors of Dignity Health will be comprised of the same persons who comprise the board of directors of the System Corporation. On the Closing Date, Catholic Healthcare Federation becomes the sponsor of all Catholic activities, including Dignity Health’s Catholic hospitals. The board members of System Corporation and Dignity Health will be identical. A single executive management team will manage the System Corporation, Dignity Health, and CHI Regional and Subsidiary Corporations¹⁹.

System Corporation Post the Effective Date of the Ministry Alignment Agreement

The following chart shows the organization of System Corporation after the Closing Date of the Ministry Alignment Agreement. System Corporation would be the sole member of Dignity Health and the CHI Regional and Subsidiary Corporations²⁰. System Corporation would not be a member of IHO, however, a majority of the nominees to IHO’s board of directors will be subject to approval by System Corporation and IHO’s hospitals will retain or adopt Dignity Health’s Statement of Common Values.

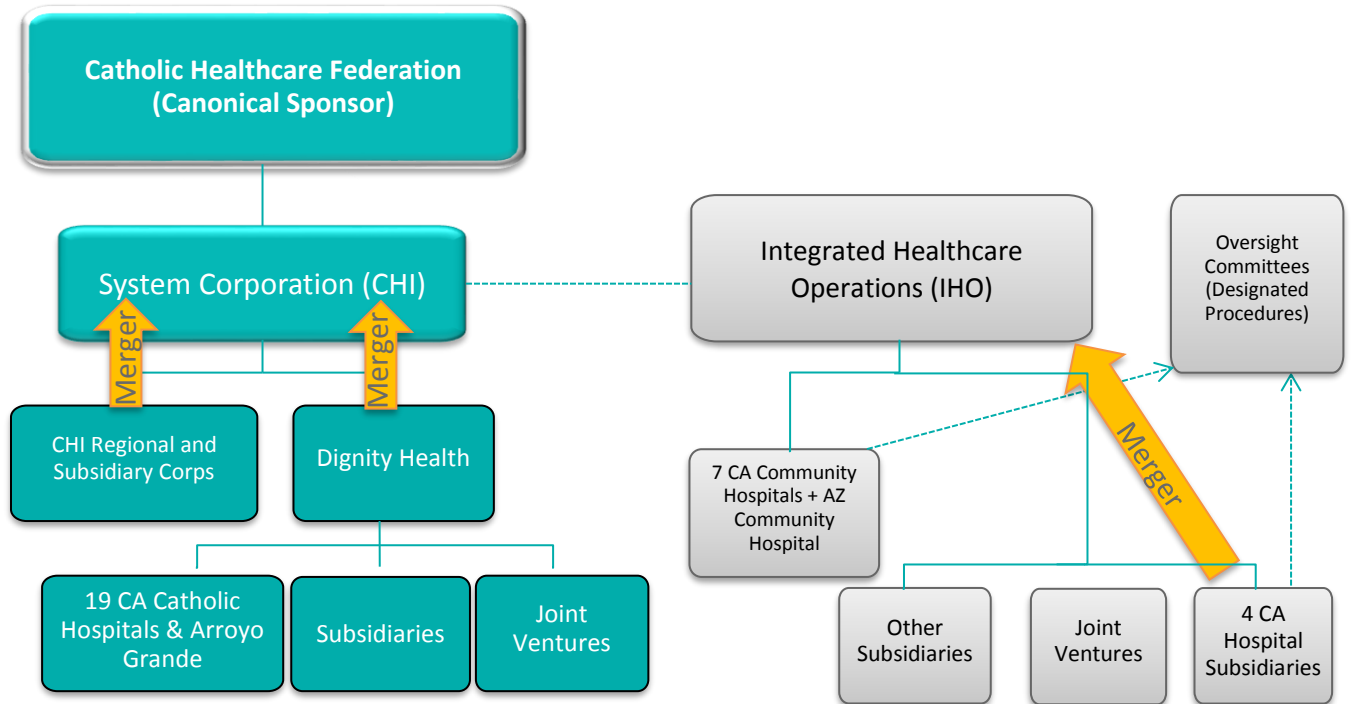


¹⁹Both Dignity Health’s and IHO’s local hospital community boards associated with each owned hospital, as well as the boards associated with the four subsidiary hospitals, will continue to exist.

²⁰The majority of CHI hospitals are organized into eight regional corporations.

System Corporation Post Debt Consolidation (Within 36 Months)

After the Closing Date and after the restructuring and consolidation of the existing tax-exempt bonds and other debt of CHI and Dignity Health, Dignity Health and the CHI Regional and Subsidiary Corporations will merge into System Corporation, and the four non-Catholic separately-incorporated hospitals will merge into IHO.



Major Provisions of the Ministry Alignment Agreement

The major provisions of the Ministry Alignment Agreement, dated December 6, 2017, include the following:

Structures and Responsibilities

- Catholic Health Care Federation (CHCF)
 - CHCF, as a public juridic person, shall be the Catholic canonical sponsor of System Corporation, and shall serve as the canonical sponsor of all of the Catholic ministries that are a part of the Ministry Alignment Agreement;
 - CHCF's governance composition will be reconstituted after the Effective Date of the Ministry Alignment Agreement:
 - Dignity Health and CHI shall each select six individuals from their existing governing bodies to serve as the initial CHCF members. In addition, the members of CHCF shall also include the current president and CEO of Dignity Health, and the current CEO of CHI, for a total of fourteen members. No later than twelve months after the Effective Date, CHCF shall approve and appoint one individual who was previously neither a member of CHCF, nor the board of directors of Dignity Health or CHI to serve as the fifteenth CHCF member;
 - CHCF shall continue to provide for the participation of its congregations, and shall admit the six congregations of Women's Religious as additional participating congregations; and
 - CHCF reserves the rights to approve or remove any member of the Board of Stewardship Trustees and veto any amendments or changes to Dignity Health's Statement of Common Values.
- System Corporation
 - System Corporation, formerly known as Catholic Health Initiatives, shall become the parent entity and the surviving corporation;
 - System Corporation shall be a ministry of the Catholic Church and shall be subject to the ERDs;
 - System Corporation shall be governed by a board called the Board of Stewardship Trustee that shall consist of the same persons who serve as the CHCF members; and

- Under the supervision of the CHCF, the Board of Stewardship Trustee reserves the rights to control or manage the property, affairs and activities of System Corporation. Responsibilities include approving the policies of System Corporation, developing System Corporation’s strategic plan, and approving the System Corporation’s articles of incorporation and bylaws.
- Dignity Health
 - Dignity Health shall continue to be a California nonprofit corporation with federal tax-exempt 501 (c)(3) status until after debt consolidation between Dignity Health and CHI, at which point Dignity Health will merge into System Corporation;
 - As of the Effective Date:
 - Dignity Health shall transfer all of the assets and liabilities associated with the Dignity Health businesses and operations of the following California non-Catholic hospitals to IHO:
 - California Hospital Medical Center;
 - French Hospital Medical Center;
 - Glendale Memorial Hospital and Health Center;
 - Methodist Hospital of Sacramento;
 - Northridge Hospital Medical Center;
 - Sequoia Hospital; and
 - Woodland Memorial Hospital.
 - Dignity Health shall cause the four subsidiary hospitals that are separately incorporated, Bakersfield Memorial Hospital, Community Hospital of San Bernardino, Saint Francis Memorial Hospital, and Sierra Nevada Memorial Hospital, to first substitute its membership from Dignity Health to IHO, until after debt consolidation between Dignity Health and CHI, at which point these four subsidiary hospitals will merge into IHO; and
 - Marian Regional Medical Center, Arroyo Grande, a non-Catholic hospital, will remain with Dignity Health under a consolidated license with Marian

Regional Medical Center, a Catholic hospital. Marian Regional Medical Center, Arroyo Grande will not adhere to the ERDs. It will adopt or retain Dignity Health’s Statement of Common Values. It does not offer obstetrics or women’s healthcare services.

- Dignity Health’s nineteen Catholic hospitals shall remain a ministry of the Catholic Church and subject to the ERDs;
 - System Corporation (after the transfers of the community hospitals to IHO) shall become the sole corporate member of Dignity Health; and
 - Dignity Health shall be governed by a board consisting of the same individuals who are serving as the board for System Corporation and are also the members of CHCF.
- Integrated Healthcare Operations
 - IHO was formed by Dignity Health prior to the signing date without involvement, input, or direction from CHI. IHO shall continue to be a Colorado nonprofit corporation;
 - IHO and its subsidiaries shall not become ministries of the Catholic Church, shall not use the name “Catholic” for their respective public businesses, shall not be subject to the ERDs, and shall operate consistent with Dignity Health’s Statement of Common Values;
 - IHO shall be governed by a board of directors consisting of individuals who shall:
 - Be initially appointed by Dignity Health and then nominated by the board of directors of IHO or a committee thereof;
 - Serve in their individual capacities and not in any manner as a representative of System Corporation; and
 - Not contemporaneously serve; as a CHCF Member, or on the board of System Corporation, Dignity Health, nor any other subsidiary of System Corporation.
 - After the Effective Date, a majority of the members of the IHO Board who are subject to nomination or re-appointment shall be nominated by the IHO Board then in effect, subject to the acceptance (or rejection) of a majority of such nominees by the board of System Corporation;

- IHO is anticipated to operate on a collaborative basis with System Corporation. Neither CHCF, System Corporation, Dignity Health, or any other subsidiary of System Corporation shall be the corporate member of IHO; and
 - Prior to the Effective Date of the contemplated merger, Dignity Health shall require IHO and each of its subsidiary operating hospitals to create a Community Hospital Oversight Committee for each hospital. These committees will act as a separate governance body to oversee the operations, management, and financial results related to the Designated Procedures performed in each community hospital.
 - With respect to the Designated Procedures performed at each community hospital:
 - Such community hospital shall separately account for and regularly report to the Community Hospital Oversight Committee on the net revenues and expenses reasonably allocated to such Designated Procedures together with the net financial results (i.e. either a net profit or net loss); and
 - The Community Hospital Oversight Committee shall donate any net profits to one or more healthcare related tax-exempt charities that provide or advocate for activities, services, or procedures benefitting the communities served by the hospital and that are not inconsistent with the ERDs.
 - On an annual basis, and not more than four months following the end of each fiscal year of IHO, each Community Hospital Oversight Committee shall prepare and deliver a written certification to the IHO Board and to the Local Hospital Community Board or the applicable board of one of the four subsidiaries:
 - The Community Hospital Oversight Committee has not amended its charter in any manner that violates or otherwise modifies the structure or authorities contained in the IHO bylaws;
 - The composition of the Community Hospital Oversight Committee complies with the requirements; and
 - All donations or grants (if any) of the net profits from the performance of the Designated Procedures were contributed to one or more healthcare related tax-exempt charities.

- IHO reserves the right to approve changes of non-Catholic hospitals, its subsidiaries and its joint ventures. Changes include changing the mission or philosophical direction of entities, and approval or removal of entities under IHO. Modifications to Dignity Health's Statement of Common Values must be approved by the board of System Corporation and can be vetoed by CHCF.
- Port City Operating Company, LLC
 - St. Joseph's Medical Center of Stockton and St. Joseph's Behavioral Health Center are owned by Port City Operating Company, LLC, a joint venture between Kaiser Foundation Hospitals and Dignity Health. Dignity Health owns 80% of Port City Operating Company, LLC and Kaiser Foundation Hospitals owns the remaining 20%. Dignity Health's continued ownership in Port City Operating Company, LLC after a change of control of Dignity Health will be subject to Kaiser Foundation Hospitals' consent; and
 - Dignity Health's ownership interest of Port City Operating Company, LLC will transfer to System Corporation.
- CHI Regional Corporations
 - Each of the CHI Regional Corporations shall continue to be nonprofit corporations organized in their respective states of incorporation until Dignity Health and CHI consolidate debt. Afterwards, the CHI Regional Corporations will merge into System Corporation.
- Mark Twain Medical Center
 - Dignity Health and CHI acknowledge that the continued management of Mark Twain Medical Center by Dignity Health after a change of control of Dignity Health may be subject to consent from outside parties.

Dignity Health Commitments

- Licensed Acute Care Hospital Commitments
 - For a period of five years from the Effective Date of the transaction:
 - The System Corporation and Dignity Health shall continue to operate and maintain each Dignity Health owned hospital as a licensed general acute care hospital;
 - IHO shall continue to operate and maintain each IHO owned hospital as a licensed general acute care hospital; and
 - IHO and each IHO subsidiary shall continue to operate and maintain the IHO subsidiary hospital as a licensed general acute care hospital.
- Licensed Specialty Service Commitments and Additional Specialty Services Commitments
 - For a period of five years from the Effective Date of the transaction:
 - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals shall continue to operate, provide and maintain the following services at each California hospital:
 - Twenty-four-hour emergency medical services at current licensure, with the current number of emergency treatment stations, the current types and levels of emergency medical services, and the current designations or certifications associated with such emergency medical services;
 - Core specialty and additional specialty healthcare services at current licensure and designation with current minimum types and/or levels of services²¹; and
 - Additional specialty healthcare services at current licensure and designation with current types and/or levels of services.

²¹ See the “Assessment of Potential Issues Associated with the Availability or Accessibility of Healthcare Services” for a complete listing of commitments made by Dignity Health for Dominican Hospital.

- Women's Healthcare Services Commitments
 - For a period of five years from the Effective Date:
 - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, shall continue to provide women's healthcare services; and
 - Those Dignity Health California hospitals that are non-Catholic shall retain their identity as community hospitals and shall not become ministries of the Catholic Church, nor be subject to the ERDs. In addition, they will retain or adopt Dignity Health's Statement of Common Values.

- Medicare & Medi-Cal Commitment
 - For a period of five years from the Effective Date of the transaction:
 - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, shall:
 - Continue to be certified to participate in the Medicare program;
 - Continue to be certified to participate in the Medi-Cal program; and
 - Continue to have and maintain their respective Medi-Cal Managed Care contracts in effect as of the signing date.

- City/County Contract Commitment:
 - For a period of five years from the Effective Date of the transaction:
 - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, shall maintain healthcare-related services contracts, with any city or county in the State of California as of the signing date.

- Charity Care Commitment
 - For the six fiscal years from the Effective Date, System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals, in California shall:

- Provide an annual amount of charity care at each hospital equal to or greater than the average annual amount of charity care provided by such hospital during the three fiscal years prior to the signing date and adjusted for cost-of-living-adjustments.
- Community Benefit Program Commitment
 - For a period of six fiscal years from the Effective Date, System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals in California, shall provide an annual amount of community benefit services at each such Dignity Health California Hospital equal to or greater than the average annual amount of community benefit services provided by hospital during the three fiscal years prior to the signing date and adjusted for cost-of-living adjustments.
- Medical Staff and Related Commitments
 - System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, IHO owned hospitals, and the IHO subsidiary hospitals in California, shall maintain privileges for the current medical staff members of each such hospital who are in good standing as of the Effective Date.
- LGBT Non-Discrimination Commitments
 - There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at any Dignity Health California hospitals. System Corporation and Dignity Health, with respect to the Dignity Health owned hospitals, and IHO with respect to the IHO owned hospitals and the IHO subsidiary hospitals, shall cause this prohibition to be explicitly set forth in the written policies applicable to such hospitals, adhered to and strictly enforced.
- Seismic Compliance Commitments
 - System Corporation, Dignity Health and IHO shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at each Dignity Health California hospital until January 1, 2030.
- Union Commitments
 - Dignity Health and CHI agree that the collective bargaining agreements in effect as of the Effective Date shall remain in full force and effect following the Effective Date in accordance with their respective terms.

- Hospital Quality Assurance Fee Program Participation
 - System Corporation, Dignity Health and IHO commit to continue participation in the California Department of Health Care Services' Hospital Quality Assurance Fee Program for five years for all California hospitals.

Use of Net Sale Proceeds

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

Profile of Catholic Health Initiatives

Overview

CHI is a nonprofit, faith-based health system that formed in 1996 through the consolidation of three Catholic health systems: Catholic Health Corporation, Franciscan Health System, and Sisters of Charity Health System.

CHI, headquartered in Englewood, Colorado, has a service area that covers approximately 54 million people and operates acute care facilities in 13 states. CHI’s network consists of 97 acute care facilities, academic health centers and major teaching hospitals, critical-access facilities, community health-service organizations, nursing colleges, and senior living communities. The health system has more than 95,000 employees, including approximately 4,700 employed physicians and advanced practice clinicians.

CHI Acute Care Facilities	
REGION	ACUTE CARE FACILITIES
Arkansas	4
Colorado and Kansas	12
Iowa and Nebraska	21
Kentucky	13
Minnesota	4
North Dakota	10
Ohio	5
Tennessee	2
Texas	16
Oregon and Washington	10

Source: 2017 CHI Annual Report

CHI OPERATIONS	
Acute Care Facilities	97
Home Services Location	52
Critical- Access Hospitals	30
Long-Term Facilities	16
Clinical Integrated Networks	11
Academic Medical Centers a Major Teaching Hospital	3
Community Health Services Organizations	2

Source: 2017 CHI Annual Report

Key Statistics

In Fiscal Year (FY) 2017, CHI reported growth in the number of admissions, outpatient emergency visits, outpatient non-emergency visits, physician office visits, the number of full-time equivalent employees, and total employees overall compared to FY 2016. CHI reported a decrease in acute patient days, average daily census, residential days, and long-term care days.

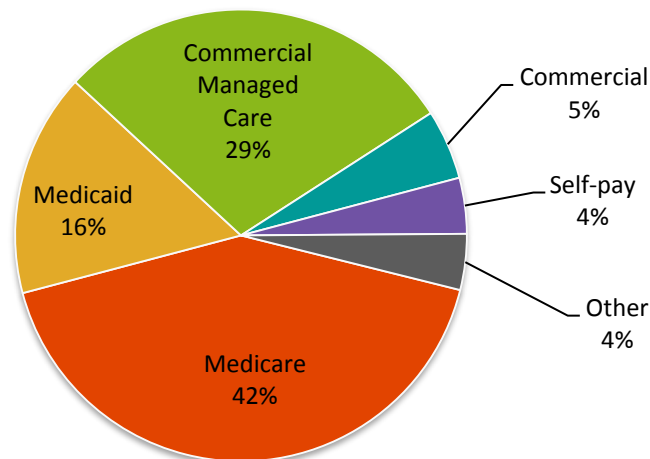
CHI STATISTICAL HIGHLIGHTS FY 2016 – FY 2017			
<i>Fiscal Year ended June 30, 2017</i>	FY 2016	FY 2017	Change
Acute Patient Days	2,382,402	2,366,980	-0.6%
Acute Average Daily Census	6,527	6,485	-0.6%
Acute Admissions	498,464	504,593	1.2%
Acute Average Length of Stay, in days	4.8	4.7	-2.1%
Outpatient emergency visits	1,951,714	1,966,342	0.7%
Outpatient non-emergency visits	5,557,647	5,804,586	4.4%
Physician office visits	9,635,875	10,540,482	9.4%
Residential days	751,072	665,885	-11.3%
Long-term care days	503,450	483,151	-4.0%
Full-time equivalent employees	79,194	84,463	6.7%
Employees	93,697	95,968	2.4%
Acute inpatient revenues as a percentage of total	44.70%	44.70%	-

Source: CHI 2017 Annual Report

Payer Mix

The following chart represents the gross revenue by payer for CHI's consolidated operations for the FY 2017.

Gross Revenue By Payer



Source: CHI Annual Report

Financial Profile

CHI's audited consolidated financial statements show the following system-wide performance of CHI and its affiliates:

CHI COMBINED STATEMENT OF OPERATIONS		
FY 2016 – FY 2017 (In Thousands)		
Unrestricted Revenues and Support	FY 2016	FY 2017
Net Patient Service Revenue Less Bad Debt Provision	\$13,847,027	\$14,450,868
Donations	\$36,983	\$30,954
Changes in Equity of Unconsolidated Organizations	\$133,375	\$48,404
Gains on Business Combinations	\$223,036	-
Hospital Ancillary Revenues	\$351,509	\$339,072
Other	\$597,657	\$678,166
Total Operating Revenues	\$15,189,587	\$15,547,464
Expenses		
Salaries and Wages	\$6,117,712	\$6,294,834
Employee Benefits	\$1,182,203	\$1,201,044
Purchased Services, Medical Professional Fees, Medical Claims and Consulting	\$2,232,689	\$2,402,478
Supplies	\$2,490,524	\$2,550,328
Utilities	\$212,732	\$210,285
Rentals, Leases, Maintenance and Insurance	\$898,020	\$901,272
Depreciation and Amortization	\$833,394	\$846,291
Interest	\$281,581	\$295,476
Other	\$1,019,385	\$1,056,536
Restructuring, Impairment and Other Losses	\$292,758	\$374,167
Total Expenses	\$15,560,998	\$16,132,711
Income From Operations	(\$371,411)	(\$585,247)
Non-operating Income (Loss)		
Investment Income (Loss), net	(\$3,384)	\$638,519
Loss on early extinguishment of debt	(\$29,469)	(\$19,586)
Realized and Unrealized Gains (Losses) on Interest Rate Swaps	(\$154,816)	\$92,698
Other Non-operating Gains (Losses)	(\$16,491)	\$2,006
Total Non-operating Income (Loss)	(\$204,160)	\$713,637
Excess of revenues over Expenses	(\$575,571)	\$128,390

Source: CHI Audited Financial Statements

- Net Patient Service Revenue (less provision for bad debts) of \$14.5 billion in FY 2017 represents a net increase of approximately \$600 million, or 4.4%, as compared to FY 2016. Total operating revenues increased by \$358 million, or 2.4%, from \$15.2 billion in FY 2016 to \$15.5 billion in FY 2017;

Total expenses increased by 3.7% from \$15.6 billion in FY 2016 to \$16.1 billion in FY 2017. CHI's salaries, wages and employee benefits expense accounted for 46% of total expenses;

- In FY 2017, CHI realized a non-operating gain of approximately \$714 million, a substantial increase from the non-operating loss of \$204 million loss in FY 2016; and
- Excess revenue over expenses increased from a loss of approximately \$576 million in FY 2016 to a gain of approximately \$128 million in FY 2017. This is mainly due to an increase in non-operating revenue.

Profile of Dignity Health

Dignity Health is a California nonprofit public benefit corporation that traces its history to the Sisters of Mercy, founded by Catherine McAuley in Dublin, Ireland in 1831. On December 8, 1854, eight Sisters of Mercy left Ireland and arrived in San Francisco, California to begin caring for residents struck by influenza, cholera and typhoid. The Sisters of Mercy opened St. Mary's Hospital, the oldest operating hospital in San Francisco, on July 27, 1857.

Today, Dignity Health has grown to be one of the largest health systems in the United States. Dignity Health provides healthcare services in California, Arizona and Nevada. In California, Dignity Health owns and operates 31 hospitals across 17 counties with an estimated 11,500 physicians on its hospitals' medical staff. Dignity Health also operates five general acute care hospitals in Arizona and three in Nevada.



Payer Mix

The following chart shows inpatient discharges by payer for Dignity Health’s consolidated California operations for FY 2016.

DIGNITY HEALTH TOTAL PAYER MIX COMPARISON FY 2016²²				
	Dignity Health FY 2016		California FY 2016 ¹	
	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	42,492	15.20%	441,300	14.70%
Medi-Cal Managed Care	65,590	23.40%	590,581	19.70%
Medi-Cal Total	108,082	38.60%	1,031,881	34.40%
Medicare Traditional	88,052	31.40%	829,621	27.60%
Medicare Managed Care	27,196	9.70%	315,579	10.50%
Medicare Total	115,248	41.10%	1,145,200	38.10%
Third-Party Managed Care	47,682	17.00%	648,533	21.60%
Third-Party Managed Care Total	47,682	17.00%	648,533	21.60%
Third-Party Traditional	5,245	1.90%	100,382	3.30%
Other Payers	2,495	0.90%	44,809	1.50%
Other Indigent	1,344	0.50%	17,246	0.60%
County Indigent	76	0.00%	15,160	0.50%
Other Total	9,160	3.30%	177,597	5.90%
Total	280,172	100%	3,003,211	100%

Source: OSHPD Disclosure Reports, FY 2016

¹ FY 2017 California data was not available when the data was collected to prepare this report.

- Dignity Health’s largest payer in California by percentage of inpatient discharges is Medicare (41.1%), followed by Medi-Cal (38.6%), and Third-Party Managed Care (17.0%);
- Dignity Health’s California hospitals care for 10.5% of all California Medi-Cal inpatient discharges;
- Dignity Health’s California hospitals had 10.1% of all California Medicare inpatient discharges; and
- In FY 2016, Dignity Health’s California hospitals cared for 9.3% of all inpatient discharges in California.

²² Fiscal Year from July 1 through June 30.

Financial Profile

Dignity Health’s audited consolidated financial statements show the following system-wide performance of Dignity Health and its affiliates.

DIGNITY HEALTH COMBINED STATEMENT OF OPERATIONS FY 2016 - FY 2017 (In Thousands)		
Unrestricted Revenues and Support	FY 2016	FY 2017
Net Patient Service Revenue Less Bad Debt Provision	\$11,542,262	\$11,572,387
Premium Revenue	\$633,395	\$755,427
Revenue from health-related activities, net	\$66,586	\$139,013
Other Revenue	\$376,580	\$364,631
Contributions	\$17,452	\$18,649
Total Unrestricted Revenues And Support	\$12,636,275	\$12,850,107
Expenses		
Salaries and Benefits	\$6,581,323	\$6,883,671
Supplies	\$1,769,212	\$1,850,519
Purchased Services and Other	\$3,497,502	\$3,454,313
Depreciation and Amortization	\$581,624	\$606,370
Interest Expense, net	\$270,034	\$122,018
Total Expenses	\$12,699,695	\$12,916,891
Income From Operations	(\$63,420)	(\$66,784)
Non-operating Income (Loss)		
Investment Income (Loss), net	(\$123,869)	\$555,538
Loss on early extinguishment of debt	-	(\$48,012)
Income Tax Expense	(\$14,189)	(\$15,024)
Total Non-operating Income (Loss)	(\$138,058)	\$492,502
Excess of Revenues over Expenses	(\$201,478)	\$425,718

Source: Dignity Health Audited Financial Statements

- Net patient service revenue, less bad debt provision, increased slightly to \$11.6 billion in FY 2017. Total unrestricted revenues and support increased by \$214 million from \$12.6 billion in FY 2016 to \$12.9 billion in FY 2017;
- Total expenses increased by 1.7% from \$12.7 billion in FY 2016 to \$12.9 billion in FY 2017. Dignity Health’s salaries, wages and benefits expense accounted for approximately 53% of total expenses;
- In FY 2017, Dignity Health realized a net non-operating gain of \$493 million, representing a substantial increase from the net non-operating loss of \$138 million in FY 2016; and
- Excess revenue over expenses increased from a loss of \$201 million in FY 2016 to a gain of \$426 million in FY 2017, mainly due to an increase in investment income in FY 2017.

Dignity Health's California Hospitals Overview

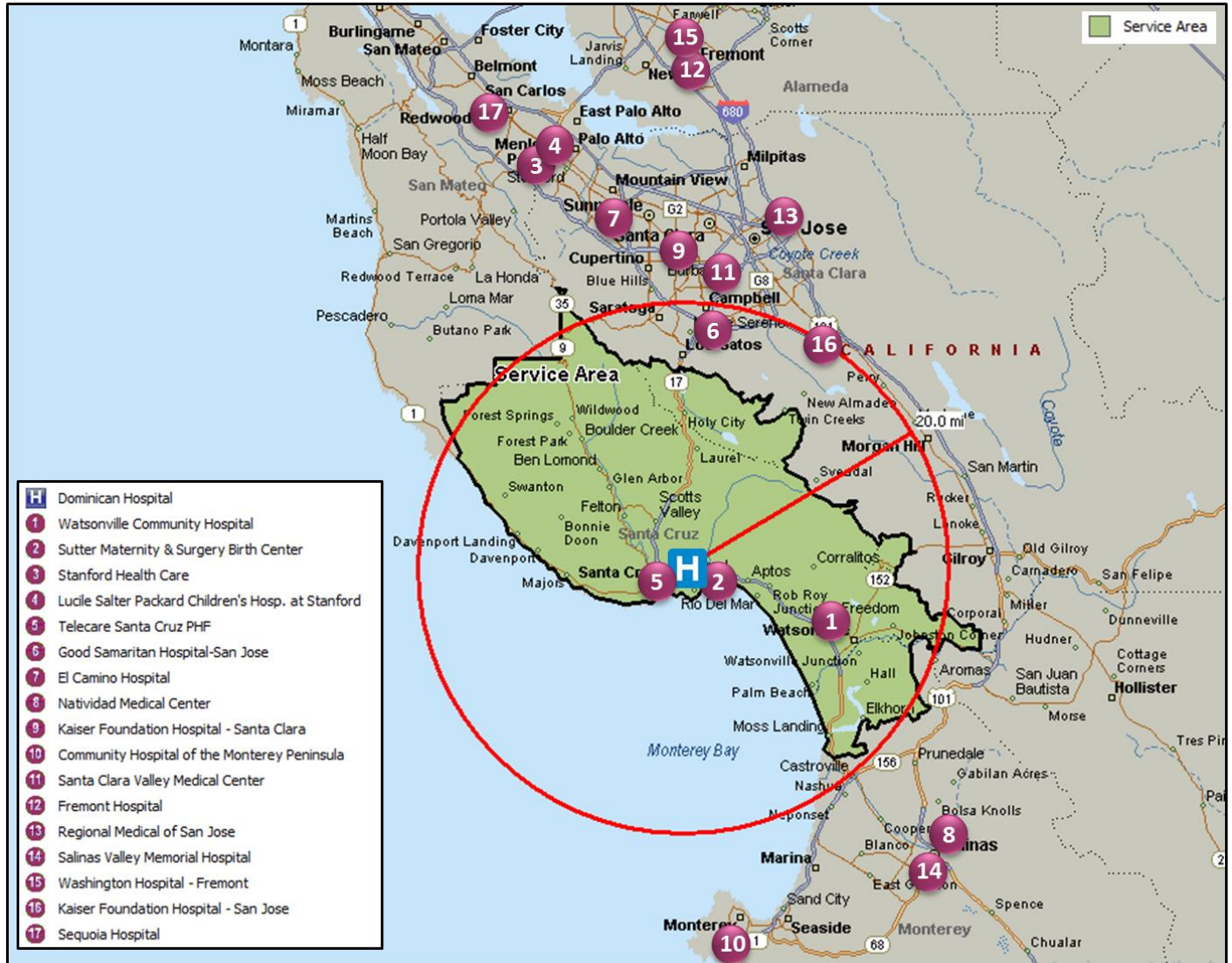
The following table lists the location of each Dignity Health owned and managed hospital in California.

DIGNITY HEALTH'S OWNED & OPERATED CALIFORNIA HOSPITALS		
Hospital	County	City
Bakersfield Memorial Hospital	Kern County	Bakersfield
Mercy Hospital	Kern County	Bakersfield
Mercy Southwest Hospital	Kern County	Bakersfield
California Hospital Medical Center	Los Angeles	Los Angeles
Glendale Memorial Hospital	Los Angeles	Glendale
Northridge Hospital Medical Center	Los Angeles	Northridge
St. Mary Medical Center	Los Angeles	Long Beach
Mercy Medical Center Merced	Merced County	Merced
Sierra Nevada Memorial Hospital	Nevada County	Grass Valley
Marian Regional Medical Center, Arroyo Grande	San Luis Obispo County	Arroyo Grande
French Hospital Medical Center	San Luis Obispo County	San Luis Obispo
Mercy General Hospital	Sacramento County	Sacramento
Mercy Hospital of Folsom	Sacramento County	Folsom
Mercy San Juan Medical Center	Sacramento County	Carmichael
Methodist Hospital of Sacramento	Sacramento County	Sacramento
Community Hospital of San Bernardino	San Bernardino	San Bernardino
St. Bernardine Medical Center	San Bernardino	San Bernardino
Saint Francis Memorial Hospital	San Francisco County	San Francisco
St. Mary's Medical Center	San Francisco County	San Francisco
St. Joseph's Behavioral Health Center	San Joaquin County	Stockton
Sequoia Hospital	San Mateo County	Redwood City
St. Joseph's Medical Center of Stockton	San Joaquin County	Stockton
Marian Regional Medical Center	Santa Barbara County	Santa Maria
Marian Regional Medical Center West	Santa Barbara County	Santa Maria
Dominican Hospital	Santa Cruz County	Santa Cruz
Mercy Medical Center Redding	Shasta County	Redding
Mercy Medical Center Mt Shasta	Siskiyou County	Mt. Shasta
St. Elizabeth Community Hospital	Tehama County	Red Bluff
St. John's Pleasant Valley Hospital	Ventura County	Camarillo
St. John's Regional Medical Center	Ventura County	Oxnard
Woodland Memorial Hospital	Yolo County	Woodland

Source: Dignity Health

Analysis of Dignity Health’s Hospital Market Share in Santa Cruz County

Santa Cruz County has more than 298,900 residents and encompasses over 600 square miles. The map below shows the location and the service area of the Dignity Health’s Dominican Hospital.



The following table lists hospitals where Santa Cruz County residents received inpatient care in calendar year (CY) 2016, the most recent data available from OSHPD, and their respective market share. Dominican Hospital has 45.4% market share of inpatient discharges in Santa Cruz County. A profile of Dominican Hospital is described in the following sections.

SANTA CRUZ COUNTY MARKET SHARE BY HOSPITAL CY 2016		
Hospital	CY 2016 Discharges	Market Share
Dominican Hospital¹	9,546	45.4%
Watsonville Community Hospital	4,293	20.4%
Sutter Maternity and Surgery Center Of Santa Cruz	1,619	7.7%
Stanford Hospital	1,145	5.4%
Lucile Salter Packard Children's Hosp. At Stanford	509	2.4%
Telecare Santa Cruz PHF	508	2.4%
Good Samaritan Hospital-San Jose	428	2.0%
El Camino Hospital	423	2.0%
All Other Hospitals	2,570	12.2%
All Non Dignity Health Discharges	11,346	53.9%
All Dignity Health of California Discharges	9,695	46.1%
Total Discharges	21,041	100.0%

Source: CY 2016 OSHPD Discharge Database

Note: Excludes normal newborns

¹Dignity Health hospital

- Watsonville Community Hospital has the second-largest inpatient market share (20.4%); and
- “All Other Dignity Health of California Discharges” includes residents of Santa Cruz County that received inpatient care at Dignity Health hospitals located outside of Santa Cruz County.

Profile of Dominican Hospital

Overview

Dominican Hospital, founded in 1941, is a nonprofit general acute care hospital located at 1555 Soquel Drive in Santa Cruz, California.

Today, Dominican Hospital offers a range of services including obstetrics, pediatrics, rehabilitation, and a Primary Stroke Center. The Hospital has eight surgical operating rooms and a “basic” emergency department²³ with 24 emergency treatment stations. According to Dominican Hospital’s current hospital license, it is licensed for 222 beds as shown below.

DOMINICAN HOSPITAL LICENSED BED DISTRIBUTION 2018	
Licensed Bed Type	Number of Beds ¹
General Acute Care Beds	
Rehabilitation	20
Neonatal Intensive Care	14
Perinatal	11
Intensive Care	10
Pediatric	8
Coronary Care	6
Unspecified General Acute Care	153
Total General Acute Care Beds	222
Total Licensed Beds	222

¹ 2018 Hospital License

²³ A “basic” emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

Key Statistics

Dominican Hospital reported 11,039 inpatient discharges, 51,684 patient days, and an average daily census of 142 patients (64% occupancy) for FY 2017.

DOMINICAN HOSPITAL KEY STATISTICS FY 2015 - FY 2017 ¹			
	FY 2015	FY 2016	FY 2017
Inpatient Discharges	10,404	11,333	11,039
Licensed Beds	223	223	222
Patient Days	48,982	54,333	51,684
Average Daily Census	134	149	142
Occupancy	60.2%	66.8%	63.8%
Average Length of Stay	4.7	4.8	4.7
Cardiac Catheterization Procedures	2,454	2,852	3,107
Emergency Service Visits	47,770	58,141	51,454
Total Live Births	839	900	828

Sources: OSHPD Disclosure Reports, FY 2015 - FY 2017

¹ FY 2015 and FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 data is from unaudited.

- Since FY 2015, inpatient discharges and patient days both increased by 6%;
- In FY 2017, 51,454 emergency service visits were reported, an 8% increase from FY 2015; and
- Between FY 2015 and FY 2017, total live births remained relatively stable, with an average of 856 live births annually.

Patient Utilization Trends

The following table shows FY 2013 - FY 2017 patient volume trends at Dominican Hospital.

DOMINICAN HOSPITAL SERVICE VOLUMES FY 2013 - FY 2017 ¹					
PATIENT DAYS	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Medical/Surgical ²	34,884	31,666	36,066	35,548	34,717
Neonatal Intensive Care	2,906	2,646	2,296	3,320	2,554
Intensive Care	4,812	4,446	4,742	4,942	5,035
Obstetrics ⁵	-	-	-	-	3,666
Physical Rehabilitation Care	5,143	5,521	5,878	5,868	5,712
Skilled Nursing ³	6,974	-	-	-	-
Psychiatric Acute - Adult ⁴	6,189	2,736	-	-	-
Total	60,908	47,015	48,982	54,333	51,684
DISCHARGES	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Medical/Surgical ²	9,803	8,865	9,362	8,348	8,608
Neonatal Intensive Care	348	284	239	317	312
Intensive Care	355	264	303	299	360
Obstetrics ⁵	-	-	-	1,915	1,306
Physical Rehabilitation Care	443	497	500	454	453
Skilled Nursing ³	544	-	-	-	-
Psychiatric Acute - Adult ⁴	851	408	-	-	-
Total	12,344	10,318	10,404	11,333	11,039
AVERAGE LENGTH OF STAY	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Medical/Surgical ²	3.6	3.6	3.9	4.3	4.0
Neonatal Intensive Care	8.4	9.3	9.6	10.5	8.2
Intensive Care	13.6	16.8	15.7	16.5	14.0
Obstetrics ⁵	-	-	-	2.4	2.8
Physical Rehabilitation Care	11.6	11.1	11.8	12.9	12.6
Skilled Nursing ³	12.8	-	-	-	-
Psychiatric Acute - Adult ⁴	7.3	6.7	-	-	-
Total	4.9	4.6	4.7	4.8	4.7
AVERAGE DAILY CENSUS	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Medical/Surgical ²	95.6	86.8	98.8	97.4	95.1
Neonatal Intensive Care	8.0	7.2	6.3	9.1	7.0
Intensive Care	13.2	12.2	13.0	13.5	13.8
Obstetrics ⁵	-	-	-	12.8	10.0
Physical Rehabilitation Care	14.1	15.1	16.1	16.1	15.6
Skilled Nursing ³	19.1	-	-	-	-
Psychiatric Acute – Adult ⁴	17.0	7.5	-	-	-
Total	167	129	134	149	142
OTHER SERVICES	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Inpatient Surgeries	2,826	2,375	2,466	2,880	2,784
Outpatient Surgeries	1,598	1,478	1,640	2,301	2,251
Emergency Service Visits	42,482	42,407	47,770	58,141	51,454
Total Live Births	858	859	839	900	828

Sources: OSHPD Disclosure Reports, FY 2013 - FY 2017

¹ FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

² Includes Definitive Observation Beds

³ Skilled Nursing services were discontinued after FY 2013

⁴ Psychiatric Acute- Adult services were discontinued after FY 2014.

⁵ Between FY 2013 and FY 2016, Obstetrics volumes were included in Medical/Surgical volumes.

- A review of Dominican Hospital’s historical utilization trends between FY 2013 and FY 2017 supports the conclusion that the average daily census decreased by 15% from 167 patients in FY 2013 to 142 patients in FY 2017.

Financial Profile

Over the last five fiscal years, Dominican Hospital’s net income has increased from \$51.6 million in FY 2013 to a gain of \$90.5 million in FY 2017. Between FY 2013 and FY 2017, net patient revenue and total operating revenue increased by 16% and 15% respectively. Over the same period, the Hospital’s operating expenses increased by 11% from \$341.4 million in FY 2013 to \$379.2 million in FY 2017. Other operating revenue²⁴ decreased by 38% over the five-year period from \$3.9 million in FY 2013 to \$2.5 million in FY 2017.

The Hospital’s current ratio²⁵ has increased over the last five years from 2.39 in FY 2013 to 4.65 in FY 2017. The California average in FY 2016 was 1.56. The Hospital’s FY 2017 percentage of bad debt is 1.0% and is higher than the state average (0.8%).

DOMINICAN HOSPITAL FINANCIAL AND RATIO ANALYSIS FY 2013 - FY 2017 ¹						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	
Patient Days	60,908	47,015	48,982	54,333	51,684	-
Discharges	12,344	10,318	10,404	11,333	11,039	-
ALOS	4.9	4.6	4.7	4.8	4.7	-
Net Patient Revenue	\$371,062,914	\$349,078,956	\$418,122,005	\$447,209,717	\$429,323,114	-
Other Operating Revenue	\$3,940,555	\$3,926,895	\$2,220,340	\$3,335,901	\$2,451,137	-
Total Operating Revenue	\$375,003,469	\$353,005,851	\$420,342,345	\$450,545,618	\$431,774,251	-
Operating Expenses	\$341,371,289	\$307,968,730	\$364,597,999	\$387,340,279	\$379,225,106	-
Net from Operations	\$33,632,180	\$45,037,121	\$55,744,346	\$63,205,339	\$52,549,145	-
Net Non-Operating Revenues and Expenses	\$17,985,697	\$33,612,271	\$13,660,600	(\$5,944,128)	\$37,983,112	-
Net Income	\$51,617,877	\$78,649,392	\$69,404,946	\$57,261,211	\$90,532,257	-
						2016 California Average ²
Current Ratio	2.39	3.27	4.09	3.60	4.65	1.56
Days in A/R	56.0	54.5	45.5	52.2	55.6	57.1
Bad Debt Rate	3.0%	2.8%	0.9%	0.9%	1.0%	0.8%
Operating Margin	8.97%	12.76%	13.26%	14.03%	12.17%	2.74%

Source: OSHPD Disclosure Reports, FY 2013 - FY 2017

¹ FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

² FY 2017 California data was not available when the data was collected to prepare this report.

²⁴ Other operating revenue represents amounts received for services that are central to the provision of healthcare services but are not directly related to patient care.

²⁵ The current ratio compares a company’s current assets to its current liabilities to measure its ability to pay short-term and long-term debt obligations. A low current ratio of less than 1.0 could indicate that a company may have difficulty meeting its current obligations. The higher the current ratio, the more capable the company is of paying its obligations as it has a larger proportion of assets relative to its liabilities.

Cost of Hospital Services

Dominican Hospital’s operating cost of services includes both inpatient and outpatient care. In FY 2017, 50% of total costs were associated with Medicare, followed by 22% with Medi-Cal, and 26% with Third-Party.

DOMINICAN HOSPITAL OPERATING EXPENSES BY PAYER CATEGORY FY 2013 - FY 2017 ¹					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Operating Expenses	\$341,371,289	\$307,968,730	\$364,597,999	\$387,340,279	\$379,225,106
Cost of Services By Payer:					
Medicare	\$163,245,309	\$146,291,422	\$173,738,041	\$187,213,307	\$190,814,745
Medi-Cal	\$51,688,950	\$52,749,667	\$83,707,351	\$86,653,289	\$83,882,770
County Indigent	\$13,772,961	\$5,898,882	\$273,007	\$293,177	\$489,792
Third-Party	\$96,125,996	\$88,026,209	\$98,659,372	\$107,423,544	\$99,275,512
Other Indigent	\$3,575,314	\$4,482,516	\$1,412,435	\$1,014,794	\$1,268,984
All Other Payers	\$12,962,760	\$10,520,034	\$6,807,792	\$4,742,167	\$3,493,303

Source: OSHPD Disclosure Reports, FY 2013 - FY 2017

¹ FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

Charity Care

The following table shows a comparison of charity care and bad debt for Dominican Hospital to all general acute care hospitals in the State of California. The five-year (FY 2013 – FY 2017) average of charity care and bad debt, as a percentage of gross patient revenue, was 3.0% and greater than the four-year statewide average of 2.5%. According to OSHPD, “...the determination of what is classified as charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.”

DOMINICAN HOSPITAL CHARITY CARE COMPARISON FY 2013 - FY 2017 ² (In Thousands)										
	FY 2013		FY 2014		FY 2015		FY 2016		FY 2017	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA ²
Gross Patient Revenue	\$1,407,324	\$320,382,471	\$1,402,166	\$338,322,364	\$1,539,673	\$365,501,463	\$1,730,222	\$396,427,743	\$1,807,797	-
Charity	\$30,682	\$6,563,487	\$22,065	\$5,113,965	\$7,475	\$3,441,227	\$5,713	\$3,457,868	\$8,031	-
Bad Debt	\$42,286	\$5,891,632	\$39,454	\$4,365,936	\$13,592	\$3,262,642	\$15,641	\$3,108,971	\$17,372	-
Total Charity & Bad Debt	\$72,968	\$12,455,119	\$61,519	\$9,479,902	\$21,066	\$6,703,869	\$21,354	\$6,566,839	\$25,404	-
Charity Care as a % of Gross Patient Revenue	2.2%	2.0%	1.6%	1.5%	0.5%	0.9%	0.3%	0.9%	0.4%	-
Bad Debt as a % of Gross Patient Revenue	3.0%	1.8%	2.8%	1.3%	0.9%	0.9%	0.9%	0.8%	1.0%	-
Total as a % of Gross Patient Revenue	5.2%	3.9%	4.4%	2.8%	1.4%	1.8%	1.2%	1.7%	1.4%	-
Uncompensated Care										
Cost to Charge Ratio	24.0%	24.5%	21.7%	23.6%	23.5%	24.1%	22.2%	23.8%	20.8%	-
Charity	\$7,357	\$1,608,711	\$4,785	\$1,207,919	\$1,759	\$828,647	\$1,268	\$822,627	\$1,674	-
Bad Debt	\$10,139	\$1,444,039	\$8,555	\$1,031,234	\$3,199	\$785,644	\$3,471	\$739,624	\$3,621	-
Total	\$17,495	\$3,052,750	\$13,340	\$2,239,153	\$4,958	\$1,614,292	\$4,739	\$1,562,251	\$5,295	-

Source: OSHPD Disclosure Reports FY 2013 - FY 2017

¹ FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

² FY 2017 California data was not available when the data was collected to prepare this report.

The table below shows the Hospital’s historical costs for charity care as reported to OSHPD. Charity care costs have decreased from \$7.4 million in FY 2013 to \$1.7 million in FY 2017. The average cost of charity care for the last five-year period was \$3.4 million, while the three-year average cost of charity care was \$1.6 million.

DOMINICAN HOSPITAL COST OF CHARITY CARE FY 2013 - FY 2017¹			
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital
FY 2017	\$8,031,326	20.8%	\$1,673,858
FY 2016	\$5,713,368	22.2%	\$1,268,021
FY 2015	\$7,474,602	23.5%	\$1,759,224
FY 2014	\$22,065,006	21.7%	\$4,784,516
FY 2013	\$30,682,013	24.0%	\$7,356,553
FY 2015 - FY 2017 Average			\$1,567,034
FY 2013 - FY 2017 Average			\$3,368,434

Source: OSHPD Disclosure Reports FY 2013 - FY 2017

¹ FY 2013 to FY 2016 data is from audited OSHPD Disclosure Reports whereas FY 2017 is from unaudited.

In the application to the California Attorney General, Dignity Health reported the following combined distribution of charity care costs by inpatient, outpatient, and emergency room costs.

DOMINICAN HOSPITAL COST OF CHARITY CARE BY SERVICE FY 2013 - FY 2017				
	Inpatient	Outpatient	Emergency Room	Total Costs
FY 2017:				
Cost of Charity	\$419,411	\$613,921	\$320,008	\$1,353,340
Visits/Discharges	18	311	368	
FY 2016:				
Cost of Charity	\$872,495	\$459,542	\$247,558	\$1,579,595
Visits/Discharges	41	281	327	
FY 2015:				
Cost of Charity	\$1,016,946	\$453,013	\$263,669	\$1,733,628
Visits/Discharges	52	299	331	
FY 2014:				
Cost of Charity	\$3,108,097	\$1,244,193	\$657,065	\$5,009,355
Visits/Discharges	166	969	821	
FY 2013:				
Cost of Charity	\$2,976,004	\$1,378,249	\$718,927	\$5,073,180
Visits/Discharges	177	1,475	897	

Source: Dignity Health

Note that these totals are different than what Dignity Health reported to OSHPD. However, after discussions with JD Healthcare, Inc. and Vizient, Inc., Dignity Health has acknowledged that an error was made in its calculation of charity care costs. Dignity Health has stated that it

accepts the calculations provided by JD Healthcare, Inc. and Vizient, Inc. for the purposes of determining their charity care commitment.

Community Benefit Services

In the last five years, Dominican Hospital has provided significant contributions for community benefit services. As shown in the table below, the adjusted average annual cost of the community benefit services over the last three fiscal years has been \$8.2 million. The adjusted average annual cost of the community benefit services over the last five fiscal years has been \$7.6 million.

DOMINICAN HOSPITAL COMMUNITY BENEFIT SERVICES FY 2013 - FY 2017							
Community Benefit Programs	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2015 - FY 2017 Average	FY 2013 - FY 2017 Average
Benefits for Living in Poverty	\$4,575,436	\$2,966,743	\$2,348,365	\$1,984,403	\$2,093,170	\$2,141,979	\$2,793,623
Benefits for Broader Community	\$2,165,483	\$3,611,916	\$6,029,649	\$6,034,359	\$7,179,681	\$6,414,563	\$5,004,218
Totals	\$6,740,919	\$6,578,659	\$8,378,014	\$8,018,762	\$9,272,851	\$8,556,542	\$7,797,841
Medi-Cal Provider Fee CHFT Grant Expense	(\$69,317)	-	(\$390,018)	(\$360,228)	(\$186,996)	-	-
Adjusted Totals	\$6,671,602	\$6,578,659	\$7,987,996	\$7,658,534	\$9,085,855	\$8,244,128	\$7,596,529

Source: Dignity Health, Dominican Hospital Community Benefit Reports and Plans

- The Hospital’s five-year average cost of community benefit services for persons living in poverty is \$2.8 million per year;
- The Hospital’s five-year average cost of community benefit services for the broader community is \$5.0 million per year; and
- Over the five-year period, the Hospital’s combined adjusted total cost of the community benefit services increased from \$6.7 million in FY 2013 to \$9.1 million in FY 2017.

The following table lists the Hospital’s community benefit services over the past five fiscal years that cost over \$10,000 in FY 2017, followed by descriptions of these community benefit services.

DOMINICAN HOSPITAL					
COST OF COMMUNITY BENEFIT SERVICES FY 2013 - FY 2017					
Community Benefit Services over \$10,000 in FY 2017:	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Community Benefit Operations	\$407,236	\$748,854	\$732,063	\$648,695	\$303,001
Community Organic Garden / Ecology	\$29,076	\$22,076	\$85,976	\$91,594	\$47,306
Donations - In-Kind: meals, surplus equipment and social services	\$142,416	\$52,169	\$85,633	\$87,219	\$63,136
Emergency Department Approved Pediatrics (EDAP)	\$67,787	\$39,392	\$36,059	\$44,003	\$70,963
Donation - Cash: Santa Cruz County SANE/SART	\$20,000	-	\$20,000	\$20,000	\$20,000
Katz Cancer Resource Center	\$714,729	\$975,140	\$1,236,081	\$1,409,362	\$2,035,815
Support Groups	\$20,724	\$11,261	\$20,358	\$247,131	\$70,735
Subsidy of Low-income Housing Units at Oaks	\$1,113,357	\$861,970	\$1,200,252	\$879,995	\$1,020,698
Dignity Health Community Grants	\$163,504	\$155,271	\$161,071	\$141,915	\$171,000
Community Social Services Consultation and Referral	\$33,522	\$64,250	\$51,394	\$211,374	\$1,025,276
Cash Donations to Community Organizations	\$117,435	\$1,246,342	\$1,648,594	\$1,347,108	\$117,350
Transportation: Ambulance	\$75,300	\$44,796	\$105,951	\$124,664	\$47,511
Health Educational Programs-Community based	\$67,648	\$17,133	\$57,517	\$68,669	\$78,548
John Nadherny-Calciano Memorial Youth Symposium	\$6,964	\$4,634	\$27,948	\$37,309	\$34,707
Athletic Training/Workplace Screenings/Sports Physicals	\$119,851	-	\$21,352	\$20,264	\$39,525
Research	-	-	-	-	\$11,166
Mobile Health Van	\$507,013	\$627,420	\$530,348	\$528,209	\$542,809
PEP (Personal Enrichment Programs) to Prevent Health Problems	\$329,956	\$854,060	\$1,202,727	\$1,334,804	\$1,206,293
SC Women's Health Center & Psychiatric Health Facility Grants	-	-	-	-	\$1,354,134
Donation - Homeless Service Center Recuperative Care	-	-	-	-	\$144,224
Psychiatric Resource Team	-	-	\$743,646	\$379,963	\$546,985
Dare to C.A.R.E. Vascular Screening	-	-	-	\$26,180	\$132,339

Source: Dignity Health

- Community Benefit Operations: Includes costs associated with assigned staff not allocated to specific programs, as well as other costs associated with community benefit strategy and operations;
- Community Organic Garden/Ecology: The Hospital grows organic produce that is donated to a senior residence facility;
- Donations - In-Kind: Meals, Surplus Equipment and Social Services: In-kind services donated to community organizations or to the community at large for a community building purpose. In-kind services include hours contributed by staff to the community while on health care organization work time, the cost of meeting space provide to community groups, and the donations of food, equipment, and supplies;

- Emergency Department Approved Pediatrics (EDAP): Provision and maintenance of services to be designated Emergency Department Approved Pediatrics, including monitoring and tracking pediatric outcomes and providing education;
- Donation - Cash: Santa Cruz County SANE/SART: The Hospital's annual contribution to Santa Cruz County's SANE/SART (Sexual Assault Response Team) program for forensic examinations of sexually-assaulted persons;
- Katz Cancer Resource Center: Provides access to information and services related to all aspects of cancer care, self-care, and prevention. A collaboration with health-related organizations to provide education, support, and resource information to patients and families;
- Support Groups: Postpartum support group for new moms at no charge. In addition, childbirth classes and car seat fitting classes are provided;
- Subsidy of Low-income Housing Units at Oaks: Provides apartments to low-income senior residents at a reduced market rate;
- Dignity Health Community Grants: The Hospital actively partners with nonprofit organizations working to improve health status and quality of life in the communities we serve. Grant funds are used to deliver services and strengthen service systems, to improve the health and well-being of vulnerable and underserved populations, and to help reduce disparities;
- Community Social Services Consultation and Referral: Case manager and social worker services offered to low-income and otherwise vulnerable patients who lack knowledge about and connection to resources to continue their healing and regain health upon conclusion of an acute care episode;
- Cash Donations to Community Organizations: Funds or grants donated to community organizations or to the community at large for community health improvement purposes;
- Transportation: Ambulance: Unreimbursed ambulance transportation home or to care facilities, including transport to and from Stanford for Neonatal Intensive Care Unit babies and others;

- Health Educational Programs-Community based: Staff time and supplies to provide services at a local health fair, senior fair, and women's expo;
- John Nadherny-Calciano Memorial Youth Symposium: Community symposium on youth anxiety disorders-recognition and recovery;
- Athletic Training/Workplace Screenings/Sports Physicals: Paying third-party to provide sports therapy coverage at sporting events at local high schools and college;
- Research: Dominican Hospital became the global center for a clinical trial of a treatment protocol for what typically would be deadly mushroom poisoning. The study is sanctioned by the FDA. Dominican receives no remuneration for the study and the costs to the Hospital are for the time of the Clinical Pharmacist;
- Mobile Health Van: Provides episodic health services throughout Santa Cruz and also offers preventive screenings;
- PEP (Personal Enrichment Programs) to Prevent Health Problems: Education programs provide a wide variety of health, wellness and rehabilitation classes for people of all ages and abilities;
- SC Women's Health Center and Psychiatric Health Facility Grants: Financially supports the psychiatric health facility run by the County and the Santa Cruz Women's Health Center;
- Donation - Homeless Service Center Recuperative Care: Grant to the Homeless Services Center for the Recuperative Care Center Program for beds for homeless patients discharged from Dominican Hospital requiring recuperative support in a non-hospital setting;
- Psychiatric Resource Team: Nurses monitor care and flow of behavioral health patients in their scope at the Emergency Department, as well as those admitted to the Hospital, including making referrals and managing transitions to the County government's behavioral health unit. It also provides community education on behavioral health issues, and collaborates with other providers and community partners on mental health and substance abuse issues, and planning and service coordination; and

- Dare to C.A.R.E. Vascular Screening: Free ultrasound vascular screenings provided to at risk community members. This program provides education on the screening results and referral to the participant’s primary care physician for review and decisions about any care.

Reproductive Health

For CY 2016, Dominican Hospital reported 37 inpatient discharges related to reproductive health services. The following table lists inpatient reproductive health services²⁶ by diagnostic related group discharges (DRG) for CY 2016.

DOMINICAN HOSPITAL CY 2016 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP	
	Discharges
778-Threatened Abortion	19
767-Vaginal Delivery W Sterilization &/Or D&C ¹	10
770-Abortion W D&C ¹ , Aspiration Curettage Or Hysterotomy	3
779-Abortion W/O D&C ¹	3
777-Ectopic Pregnancy	2
Total Discharges:	37

Source: CY 2016 OSHPD Patient Discharge Database
¹D&C is an abbreviation for Dilation and Curettage

- Out of the five diagnostic related groups, DRG 778-Threatened Abortions has the highest number of reproductive health service inpatient discharges.

²⁶ Dominican Hospital is a Catholic hospital and is subject to the ERDs that prohibit direct abortions. While the ERDs prohibit abortions, these procedures are performed at the Hospital when the pathology is determined to present a medical need and/or a clear and present danger to the patient.

According to Dignity Health representatives, the following table indicates whether the Hospital performs the listed women’s reproductive health services.

DOMINICAN HOSPITAL REPRODUCTIVE SERVICES		
Procedure	Currently Performed? (Y/N)	Comments
Caesarean delivery with sterilization	Y	On case by case basis with medical justification only
Terminate pregnancy when:		
A. Placenta previa	N	
B. Premature rupture of membranes	N	
C. Second trimester bleeding with previable fetus	N	
Placement of an IUD at time of other gynecological surgery	Y	For menorrhagia only, not for contraception
Postpartum placement of IUD	N	
Gender affirming surgery	N	
Emergency contraception as emergency room or inpatient service	N	
Ectopic pregnancy treatment with methotrexate (medication in lieu of surgery)	Y	

Source: Dignity Health

Analysis of Dominican Hospital

Service Area Definition

Dominican Hospital’s service area is comprised of 23 ZIP Codes from which 91% of its inpatient discharges originated in CY 2016. Approximately 56% of the Hospital’s discharges originated from the top four ZIP Codes, all of which are in the Cities of Santa Cruz, Watsonville, and Aptos. In CY 2016, the Hospital’s market share in the service area was 47.6%.

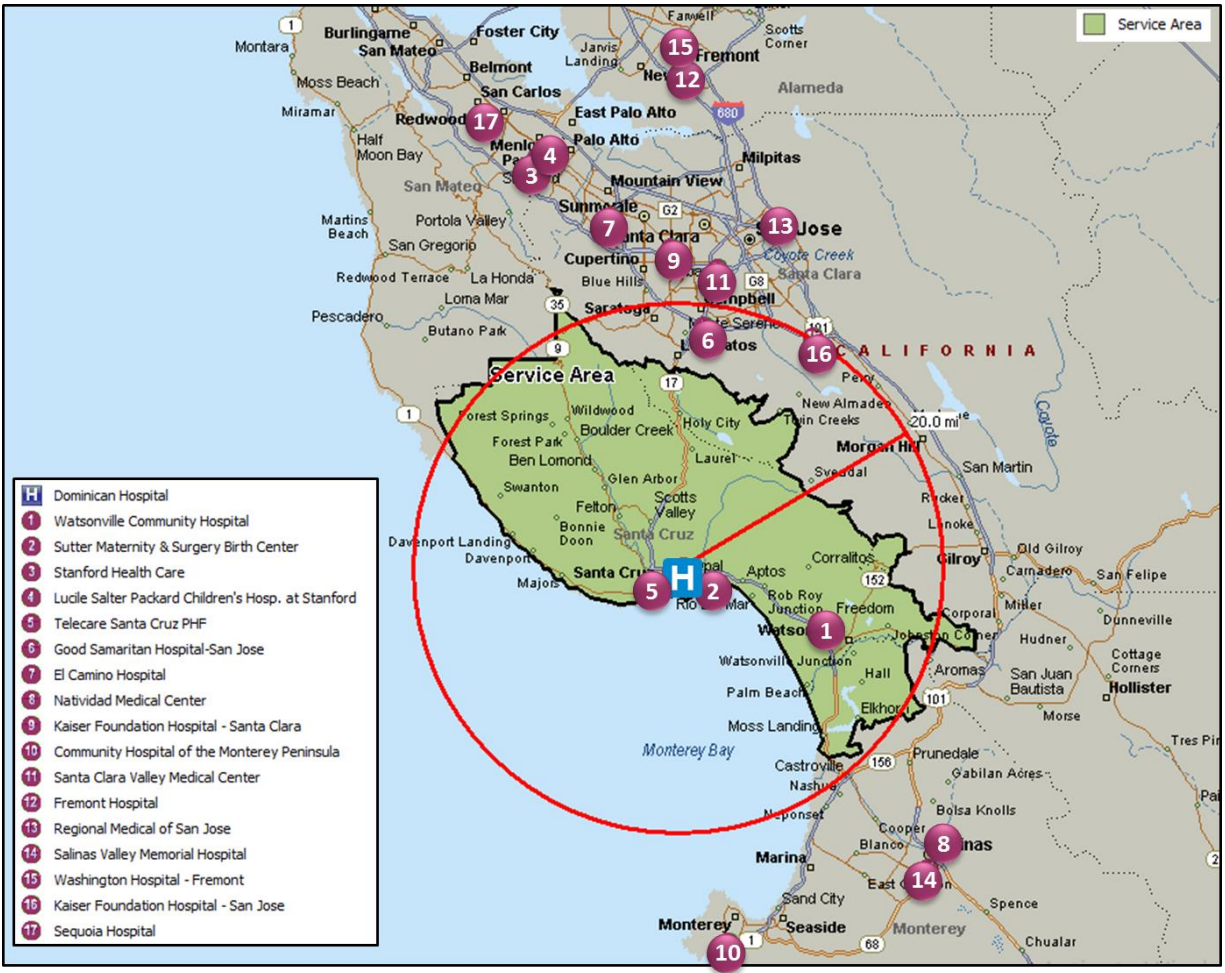
DOMINICAN HOSPITAL PATIENT ORIGIN CY 2016						
ZIP Code	Community	Total Discharges	% of Discharges	Cum % of Discharges	Total Area Discharges	Market Share
95060	Santa Cruz	1,816	16.7%	16.7%	2,937	61.8%
95062	Santa Cruz	1,667	15.4%	32.1%	2,602	64.1%
95076	Watsonville	1,651	15.2%	47.3%	6,340	26.0%
95003	Aptos	959	8.8%	56.1%	1,679	57.1%
95066	Scotts Valley	653	6.0%	62.1%	1,081	60.4%
95073	Soquel	567	5.2%	67.3%	841	67.4%
95010	Capitola	547	5.0%	72.4%	813	67.3%
95065	Santa Cruz	453	4.2%	76.6%	672	67.4%
95006	Boulder Creek	376	3.5%	80.0%	684	55.0%
95018	Felton	321	3.0%	83.0%	544	59.0%
95005	Ben Lomond	249	2.3%	85.3%	389	64.0%
95019	Freedom	196	1.8%	87.1%	709	27.6%
95001	Aptos	73	0.7%	87.7%	134	54.5%
95063	Santa Cruz	70	0.6%	88.4%	125	56.0%
95061	Santa Cruz	65	0.6%	89.0%	99	65.7%
95033	Los Gatos	52	0.5%	89.5%	525	9.9%
95067	Scotts Valley	39	0.4%	89.8%	70	55.7%
95017	Davenport	31	0.3%	90.1%	53	58.5%
95077	Watsonville	28	0.3%	90.4%	155	18.1%
95064	Santa Cruz	25	0.2%	90.6%	64	39.1%
95041	Mount Hermon	23	0.2%	90.8%	39	59.0%
95007	Brookdale	18	0.2%	91.0%	41	43.9%
95039	Moss Landing	6	0.1%	91.0%	160	3.8%
Subtotal		9,885	91.0%	91.0%	20,756	47.6%
Other ZIPs		974	9.0%	100%		
Total Discharges		10,859	100.0%			

Note: Excludes normal newborns

Source: CY 2016 OSHPD Patient Discharge Database

Service Area Map

Dominican Hospital’s service area has approximately 298,979 residents. There are three other hospitals located within Dominican Hospital’s service area including Watsonville Community Hospital, Sutter Maternity and Surgery Birth Center, and Telecare Santa Cruz Psychiatric Health Facility. There are two other hospitals located within 20 miles from Dominican Hospital. Dominican Hospital is the inpatient market share leader in the service area.



Hospital Market Share

The following table shows inpatient market share by hospital in Dominican Hospital’s service area.

DOMINICAN HOSPITAL MARKET SHARE BY HOSPITAL CY 2013 - CY 2016					
Hospital	CY 2013	CY 2014	CY 2015	CY 2016	Trend
Dominican Hospital	50.0%	45.1%	47.1%	47.6%	→
Watsonville Community Hospital	19.7%	20.5%	19.0%	16.4%	↘
Sutter Maternity and Surgery Center of Santa Cruz	7.0%	7.6%	7.1%	8.2%	↗
Stanford Health Care	5.1%	5.4%	4.6%	4.1%	↘
Lucile Salter Packard Children's Hosp. at Stanford	2.4%	2.4%	3.0%	2.6%	→
Telecare Santa Cruz PHF	0.1%	2.4%	2.1%	2.3%	→
Good Samaritan Hospital-San Jose	1.8%	2.0%	1.9%	2.1%	→
El Camino Hospital	1.8%	2.0%	1.8%	1.8%	→
Natividad Medical Center	0.7%	0.7%	1.1%	1.4%	↗
Kaiser Foundation Hospital - Santa Clara	1.1%	1.1%	1.0%	1.2%	→
Community Hospital of The Monterey Peninsula	1.1%	0.9%	1.2%	1.2%	→
Santa Clara Valley Medical Center	1.1%	1.2%	1.4%	1.2%	→
Fremont Hospital	0.6%	0.7%	1.0%	1.0%	↗
UCSF Medical Center	0.9%	1.1%	1.0%	1.0%	→
Regional Medical of San Jose	0.4%	0.5%	0.6%	0.9%	↗
Salinas Valley Memorial Hospital	0.8%	0.8%	0.8%	0.8%	→
Washington Hospital - Fremont	0.2%	0.4%	0.4%	0.6%	↗
Kaiser Foundation Hospital - San Jose	0.6%	0.5%	0.4%	0.5%	→
Sequoia Hospital	0.2%	0.3%	0.3%	0.5%	↗
California Pacific Med Ctr-Pacific Campus	0.3%	0.3%	0.2%	0.3%	→
Mills-Peninsula Medical Center	0.4%	0.3%	0.3%	0.3%	→
John Muir Behavioral Health Center	0.2%	0.3%	0.3%	0.2%	→
O'Connor Hospital	0.2%	0.3%	0.2%	0.2%	→
St. Mary's Medical Center	0.3%	0.2%	0.2%	0.2%	→
All Other	3.0%	3.0%	3.0%	3.3%	↗
Total Percentage	100%	100%	100%	100%	
Total Discharges	21,079	21,199	21,074	20,756	↘

Source: OSHPD Discharge Database, CY 2013 - CY 2016

Note: Excludes normal newborns

- The number of discharges in Dominican Hospital’s service area has decreased by 2%;
- From CY 2013 to CY 2016, Dominican Hospital consistently ranked first in terms of overall market share for its service area based on inpatient discharges (47.6% in CY 2016); and
- In CY 2016, Watsonville Community Hospital ranked second in market share (16.4%), followed by Sutter Maternity and Surgery Center of Santa Cruz (8.2%).

Market Share by Payer Type

The following table shows inpatient market share by hospital and payer type for Dominican Hospital’s service area for CY 2016.

DOMINICAN HOSPITAL HOSPITAL MARKET SHARE BY PAYER TYPE CY 2016											
Payer Type	Total Discharges	Dominican Hospital	Watsonville Community Hospital	Sutter Maternity and Surgery Center Of Santa Cruz	Stanford Health Care	Lucile Salter Packard Children's Hosp. At Stanford	Telecare Santa Cruz PHF	Good Samaritan Hospital-San Jose	El Camino Hospital	All Others	Total
Medicare	8,119	60.6%	14.4%	2.4%	4.4%	0.0%	1.4%	1.6%	2.2%	12.9%	100.0%
Private Coverage	6,034	42.1%	6.8%	16.8%	4.4%	3.6%	0.5%	3.5%	2.9%	19.4%	100.0%
Medi-Cal	5,606	38.4%	32.2%	7.2%	2.5%	1.7%	5.5%	0.7%	0.1%	11.8%	100.0%
All Other	748	23.3%	2.7%	2.4%	7.5%	30.9%	2.4%	6.6%	2.7%	21.7%	100.0%
Self-Pay	249	35.3%	4.0%	28.1%	14.1%	0.0%	3.6%	0.8%	0.8%	13.3%	100.0%
Total Percentage		47.6%	16.4%	8.2%	4.1%	2.6%	2.3%	2.1%	1.8%	14.8%	100.0%
Total Discharges	20,756	9,879	3,414	1,699	858	545	474	434	383	3,070	

Note: Excludes normal newborns

Source: CY 2016 OSHPD Patient Discharge Database

- The largest payer categories of service area inpatient discharges are Medicare with 8,119 inpatient discharges (39.1%), followed by Private Coverage with 6,034 inpatient discharges (29.1%), and Medi-Cal with 5,606 inpatient discharges (27.0%);
- Dominican Hospital is the inpatient market share leader for all payers;

Market Share by Service Line

The following table shows inpatient market share by hospital and service line for Dominican Hospital’s service area for CY 2016.

DOMINICAN HOSPITAL HOSPITAL MARKET SHARE BY SERVICE LINE CY 2016											
Service Line	Total Discharges	Dominican Hospital	Watsonville Community Hospital	Sutter Maternity and Surgery Center Of Santa Cruz	Stanford Health Care	Lucile Salter Packard Children's Hosp. At Stanford	Telecare Santa Cruz PHF	Good Samaritan Hospital-San Jose	El Camino Hospital	All Others	Total
General Medicine	5,489	60.6%	22.0%	0.1%	2.9%	2.6%	0.0%	1.3%	1.5%	9.0%	100.0%
Obstetrics	3,142	29.2%	28.7%	32.0%	0.1%	2.1%	0.0%	2.1%	0.7%	5.0%	100.0%
Orthopedics	2,026	39.5%	7.8%	11.2%	8.2%	1.0%	0.0%	2.7%	3.6%	25.9%	100.0%
General Surgery	1,807	45.2%	14.8%	6.2%	9.3%	2.3%	0.0%	2.3%	3.4%	16.5%	100.0%
Cardiac Services	1,801	70.7%	12.0%	0.0%	2.8%	0.9%	0.0%	2.0%	1.5%	10.1%	100.0%
Behavioral Health	1,602	15.0%	2.3%	0.0%	1.1%	1.8%	29.6%	4.7%	2.6%	42.9%	100.0%
Neonatology	1,234	40.0%	22.9%	24.3%	0.0%	4.9%	0.0%	2.0%	0.2%	5.6%	100.0%
Neurology	1,165	68.5%	11.7%	0.0%	2.0%	2.2%	0.0%	2.3%	0.3%	13.0%	100.0%
Oncology/Hematology (Medical)	581	58.9%	6.4%	0.0%	13.8%	10.0%	0.0%	0.7%	0.5%	9.8%	100.0%
Spine	468	50.6%	9.8%	0.0%	7.3%	3.4%	0.0%	1.5%	5.3%	22.0%	100.0%
Other	320	37.8%	5.0%	0.0%	6.9%	1.9%	0.0%	0.3%	1.3%	46.9%	100.0%
Urology	256	55.9%	7.4%	12.1%	7.4%	4.7%	0.0%	0.0%	2.0%	10.5%	100.0%
Vascular Services	211	42.7%	10.0%	0.0%	10.4%	0.5%	0.0%	1.4%	9.5%	25.6%	100.0%
Gynecology	192	36.5%	24.5%	7.8%	13.0%	0.0%	0.0%	5.2%	5.2%	7.8%	100.0%
ENT	190	42.6%	6.8%	0.5%	15.3%	19.5%	0.0%	1.6%	0.0%	13.7%	100.0%
Neurosurgery	186	47.8%	0.0%	0.0%	17.2%	3.8%	0.0%	3.2%	1.6%	26.3%	100.0%
No-match-found	41	31.7%	7.3%	7.3%	19.5%	4.9%	0.0%	0.0%	0.0%	29.3%	100.0%
Rehabilitation	32	87.5%	0.0%	0.0%	0.0%	0.0%	0.0%	9.4%	0.0%	3.1%	100.0%
Total Percentage		47.6%	16.4%	8.2%	4.1%	2.6%	2.3%	2.1%	1.8%	14.8%	100.0%
Total Discharges	20,756	9,885	3,414	1,699	858	545	474	434	383	3,064	

Note: Excludes normal newborns

Source: CY 2016 OSHPD Patient Discharge Database

- Dominican Hospital is the service line leader in 16 of 18 service lines;
- Sutter Maternity and Surgery Center of Santa Cruz is the service line leader in obstetrics (32.0%); and
- Telecare Santa Cruz Psychiatric Health Facility is a service line leader in behavioral health (29.6%).

Market Share by ZIP Code

The following table shows hospital market share by ZIP Code in Dominican Hospital’s service area for CY 2016.

DOMINICAN HOSPITAL HOSPITAL MARKET SHARE BY ZIP CODE CY 2016												
ZIP Code	Community	Total Discharges	Dominican Hospital	Watsonville Community Hospital	Sutter Maternity and Surgery Center Of Santa Cruz	Stanford Health Care	Lucile Salter Packard Children's Hosp. At Stanford	Telecare Santa Cruz PHF	Good Samaritan Hospital-San Jose	El Camino Hospital	All Others	Total
95076	Watsonville	6,340	26.0%	43.4%	6.2%	3.3%	3.6%	1.4%	0.8%	0.8%	14.4%	100.0%
95060	Santa Cruz	2,937	61.8%	1.3%	9.3%	4.7%	1.6%	5.0%	1.4%	1.6%	13.3%	100.0%
95062	Santa Cruz	2,602	64.0%	0.8%	9.7%	3.2%	2.0%	5.2%	1.6%	0.8%	12.6%	100.0%
95003	Aptos	1,679	57.1%	4.1%	10.0%	5.4%	2.4%	1.4%	2.0%	2.7%	14.9%	100.0%
95066	Scotts Valley	1,081	60.4%	0.8%	11.9%	4.3%	3.2%	1.1%	2.5%	2.8%	13.0%	100.0%
95073	Soquel	841	67.4%	1.5%	11.4%	4.4%	1.5%	0.7%	1.3%	2.0%	9.6%	100.0%
95010	Capitola	813	67.3%	1.7%	9.5%	4.6%	0.9%	1.0%	1.8%	2.0%	11.3%	100.0%
95019	Freedom	709	27.6%	47.4%	5.1%	3.5%	3.9%	0.4%	0.6%	0.1%	11.3%	100.0%
95006	Boulder Creek	684	54.8%	0.6%	6.7%	8.2%	4.4%	1.3%	3.7%	4.8%	15.5%	100.0%
95065	Santa Cruz	672	67.4%	0.9%	10.0%	2.7%	1.3%	2.5%	0.9%	1.3%	12.9%	100.0%
95018	Felton	544	59.0%	0.9%	8.6%	7.2%	2.6%	0.9%	0.9%	2.6%	17.3%	100.0%
95033	Los Gatos	525	9.9%	0.0%	2.3%	7.4%	2.3%	0.4%	29.1%	12.2%	36.4%	100.0%
95005	Ben Lomond	389	64.0%	1.0%	10.5%	1.8%	3.1%	0.3%	1.5%	2.8%	14.9%	100.0%
95039	Moss Landing	160	3.8%	22.5%	4.4%	1.3%	2.5%	0.0%	0.6%	0.0%	65.0%	100.0%
95077	Watsonville	155	18.1%	54.8%	3.9%	2.6%	2.6%	0.6%	0.6%	1.3%	15.5%	100.0%
95001	Aptos	134	54.5%	10.4%	3.0%	3.7%	2.2%	0.7%	1.5%	3.7%	20.1%	100.0%
95063	Santa Cruz	125	56.0%	0.8%	4.8%	5.6%	0.0%	4.8%	1.6%	4.8%	21.6%	100.0%
95061	Santa Cruz	99	65.7%	2.0%	8.1%	2.0%	1.0%	3.0%	1.0%	0.0%	17.2%	100.0%
95067	Scotts Valley	70	55.7%	0.0%	5.7%	2.9%	0.0%	1.4%	2.9%	8.6%	22.9%	100.0%
95064	Santa Cruz	64	39.1%	3.1%	17.2%	1.6%	7.8%	6.3%	1.6%	1.6%	21.9%	100.0%
95017	Davenport	53	58.5%	0.0%	9.4%	7.5%	0.0%	0.0%	3.8%	1.9%	18.9%	100.0%
95007	Brookdale	41	43.9%	0.0%	12.2%	4.9%	4.9%	2.4%	4.9%	2.4%	24.4%	100.0%
95041	Mount Hermon	39	59.0%	0.0%	7.7%	7.7%	0.0%	0.0%	5.1%	5.1%	15.4%	100.0%
Total Percentage			47.6%	16.4%	8.2%	4.1%	2.6%	2.3%	2.1%	1.8%	14.8%	100.0%
Total Discharges		20,756	9,883	3,414	1,699	858	545	474	434	383	3,066	

Note: Excludes normal newborns
Source: CY 2016 OSHPD Patient Discharge Database

- Dominican Hospital is the inpatient market share leader in 18 of the 23 service area ZIP Codes; and
- Watsonville Community Hospital is the inpatient market share leader in four service area ZIP Codes located within the Cities of Watsonville, Freedom, and Moss Landing.

Assessment of Potential Issues Associated with the Availability or Accessibility of Healthcare Services

In the Ministry Alignment Agreement, Dignity Health and CHI have made commitments to maintain all Dignity Health owned hospitals, IHO owned hospitals, and IHO subsidiary hospitals with their current levels of healthcare services and programs. An analysis of these commitments is provided in the following sections.

Continuation as a General Acute Care Hospital

In the Ministry Alignment Agreement, Dignity Health and CHI committed to maintaining Dominican Hospital as a licensed acute care hospital for five years after the Effective Date. The Hospital provides a significant amount of healthcare services to the communities served as shown by their inpatient volume and market share.

Dominican Hospital

In FY 2017, the hospitals located within Dominican Hospital’s service area had a combined total of 374 licensed beds with an aggregate average occupancy rate of approximately 56%. In FY 2017, Dominican Hospital had 222 licensed beds that operated at an occupancy rate of 64%. In CY 2016, Dominican Hospital was the market share leader with 47.6 % of the service area inpatient discharges. Furthermore, of the hospitals located within Dominican Hospital’s service area, Dominican Hospital had 65% of the total inpatient discharges, representing 68% of the patient days.

SERVICE AREA HOSPITAL DATA							
Hospital	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied	Miles From Hospital
Dominican Hospital	Santa Cruz	222	11,039	51,684	142	64%	
Watsonville Community Hospital	Watsonville	106	3,768	14,745	40	38%	12.7
Sutter Maternity and Surgery Center Of Santa Cruz	Santa Cruz	30	1,817	3,818	10	35%	0.3
Telecare Santa Cruz Psychiatric Health Facility	Santa Cruz	16	461	5,529	15	95%	0.7
Total		374	17,085	75,776	208	56%	

Source: OSHPD Disclosure Reports, Google Maps

Since Dominican Hospital has the highest number of inpatient discharges (11,039) and the largest market share (47.6%) of the hospitals located within the service area, it is a very important provider of healthcare services to the community.

Emergency Services

Dominican Hospital is an important provider of emergency services to the residents of its surrounding communities. In FY 2017, Dominican Hospital (a Primary Stroke Center) reported 51,454 emergency service visits to its 24 emergency treatment stations, operating at over 63.8% capacity²⁷.

²⁷ Industry sources, including the American College of Emergency Physicians, use a benchmark of 2,000 visits per emergency station, per year, to estimate the capacity.

As a result of the Affordable Care Act (ACA) and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. This influx of newly insured individuals, combined with the growing shortage of primary care physicians, is expected to increase emergency department utilization. Keeping Dominican Hospital's emergency department open is important for providing area residents access to emergency services.

In the Ministry Alignment Agreement, Dignity Health and CHI committed to maintaining the emergency services at all Dignity Health owned hospitals, IHO owned hospitals, and IHO subsidiary hospitals at current types and levels of services and current designations for five years after the Effective Date of the Ministry Alignment Agreement as shown below:

The five-year commitments to Dominican Hospital's existing emergency services include:

- 24 Treatment Stations;
- Paramedic Base Station; and
- STEMI Receiving Center²⁸;
- Certified Primary Stroke Center.

As a result of healthcare reform, aging demographics, and the growing shortage of primary care physicians, emergency service utilization is expected to continue to increase within the Hospital's service area. Maintaining Dominican Hospital's emergency department open with at least their current number of emergency department stations and current designations is critical to providing emergency services within the Hospital's service area.

Reproductive Health Services

Dominican Hospital is an important provider of healthcare services to women. The Hospital averaged 856 live births between FY 2015 and FY 2017.

Dominican Hospital is a Catholic hospital and currently subject to the ERDs and will continue to be subject to the ERDs after the Effective Date.

Under the ERDs, some women's reproductive health services, including direct abortions and tubal ligations, are prohibited. Although the ERDs prohibit tubal ligations and direct abortions, these procedures are performed at Dominican Hospital when the pathology is determined to present a medical need and/or a clear and present danger to the patient. Dominican Hospital is an important provider of a range of women's reproductive services and provides these services to a large underserved population that has lower rates of prenatal care, resulting in an

²⁸ Dignity Health committed to maintaining all current emergency department services. The Hospital is contracted with the County to serve as a STEMI Receiving Center; however in the Ministry Alignment Agreement, Exhibit L, Dignity Health erroneously did not list this as an emergency service.

increased number of high-risk births. This can increase instances of stillborn delivery, miscarriage, and fetal abnormalities.

No future reductions in the availability or accessibility of reproductive health services are expected at Dominican Hospital as a result of the Ministry Alignment Agreement.

The following table shows recorded inpatient reproductive service procedures in CY 2016 at Dominican Hospital.

DOMINICAN HOSPITAL CY 2016 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP	
	Discharges
778-Threatened Abortion	19
767-Vaginal Delivery W Sterilization &/Or D&C ¹	10
770-Abortion W D&C ¹ , Aspiration Curettage Or Hysterotomy	3
779-Abortion W/O D&C ¹	3
777-Ectopic Pregnancy	2
Total Discharges:	37

Source: CY 2016 OSHPD Patient Discharge Database

¹D&C is an abbreviation for Dilation and Curettage

Effects on the Level & Type of Charity Care Historically Provided

Dignity Health committed to providing an annual amount of charity care based on the three most recent fiscal years as shown in the following table. As noted previously, Dignity Health has acknowledged that an error was made in its calculation of its charity care costs. Dignity Health has stated that it accepts the calculations provided by JD Healthcare Inc. and Vizient, Inc. for the purposes of determining their charity care commitment.

CHARITY CARE COSTS				
	Dignity Health ¹		OSHPD Reported ²	
	FY 2015 - FY 2017 Average	FY 2013 - FY 2017 Average	FY 2015 - FY 2017 Average	FY 2013 - FY 2017 Average
Dominican Hospital	\$1,555,521	\$2,949,820	\$1,567,034	\$3,368,434

¹ Dignity Health charity care commitment as calculated by Dignity Health FY 2015 - FY 2017

² Charity care as reported in OSHPD Disclosure Reports FY 2013 - FY 2017.

Effects on Services to Medi-Cal, Medicare & Other Classes of Patients

Dominican Hospital participates in the Medicare and Medi-Cal programs contracts with Medi-Cal Managed Care plans, and provides services to other indigent, county indigent, and private pay patients.

As a result of the expansion of Medi-Cal and the ACA, fewer low-income individuals and families are uninsured and the number of county indigent and other indigent patients have decreased. While these patients can still access the emergency departments of Dignity Health hospitals, the number of patients served has decreased.

Commercially insured patients receive care at Dignity Health hospitals under negotiated contracts and are unlikely to be affected as result of the Dignity Health and CHI transaction.

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

Santa Cruz County has a County Organized Health Systems model that offers one managed care plan. In the County Organized Health Systems model, the Department of Health Care Services contracts with a health plan created by the County Board of Supervisors. The percentage of Santa Cruz County residents with Medi-Cal Managed Care coverage has increased significantly as a result of the ACA and California initiatives to expand managed care. In Santa Cruz County, the County Organized Health Systems model is provided by Central CA Health Alliance. Currently, Dignity Health is contracted with Central CA Health Alliance to provide healthcare services for Medi-Cal Managed Care patients.

In the Ministry Alignment Agreement Dignity Health and CHI commit to continued participation in the Medi-Cal and Medicare program for a period of five years after the Effective Date. The table shows the current Medi-Cal Managed Care contract that exists at Dominican Hospital.

DIGNITY HEALTH SANTA CRUZ COUNTY MEDI-CAL CONTRACT	
Dignity Health Hospital	Health Plan
Dominican Hospital	• Central CA Health Alliance

Source: Dignity Health

As Dignity Health committed to continued participation in the Medicare, Medi-Cal, and Medi-Cal Managed Care programs in the Ministry Alignment Agreement, no reductions in the availability or accessibility of non-emergency healthcare services are anticipated for

beneficiaries of Medicare, Medi-Cal, and Medi-Cal Managed Care programs for at least five years after the Effective Date.

Effects on Community Benefit Programs

Dominican Hospital supports a significant number of ongoing community benefit programs that serve the residents of the surrounding communities. In the Ministry Alignment Agreement, Dignity Health and CHI have made commitments to maintain expenditures for community benefit services based on an average of the expenditures for the years FY 2015 – FY 2017. The table below shows the annual average for both the three and five fiscal years at Dominican Hospital.

SANTA CRUZ COUNTY COMMUNITY BENEFIT		
	FY 2015 - FY 2017*	FY 2013 – FY 2017*
Dominican Hospital	\$8,244,128	\$7,596,529

*Less Medi-Cal Provider Fees and other non-community benefit costs as detailed in the profile sections.

While Dominican Hospital offers various community benefit programs, the Ministry Alignment Agreement includes commitments to maintain many of the current community benefit programs. The following table shows the service and program commitments made by Dignity Health and CHI.

COMMITTED COMMUNITY BENEFIT SERVICES AND PROGRAMS	
Hospital Name	Community Benefit Service and Program Name
Dominican Hospital	<ul style="list-style-type: none"> • Dignity Health Community Grants • Mobile Health Van • Psychiatric Resource Team

Effects on Hospital Licensed Services

Dominican Hospital is an important provider of inpatient services to the residents of its community. Dignity Health and CHI committed to maintaining all licensed services at current types and levels of services and current designations for five years after the Effective Date of the Ministry Alignment Agreement as follows:

Licensed Service Commitments for Dominican Hospital:

- Rehabilitation services, including a minimum of 20 licensed rehabilitation beds;
- Obstetrics services, including a minimum of 11 perinatal beds;
- Intensive Care Newborn Nursery services, including a minimum of 14 licensed Neonatal Intensive Care Unit beds;
- Intensive care services, including a minimum of 10 licensed intensive care beds;
- Pediatric services, including a minimum of 8 licensed pediatrics beds; and
- Coronary care, including a minimum of 6 licensed coronary beds.

Since Dignity Health and CHI make extensive five-year commitments to licensed inpatient services, no reductions in the availability or accessibility of healthcare services are expected for Dominican Hospital for at least five years.

Effects on Programs and Services

Dominican Hospital is an important provider of inpatient and outpatient programs and services to the residents of its surrounding communities. Dignity Health and CHI committed to maintaining additional licensed programs and services at current types and levels and current designations for five years after the Effective Date of the Ministry Alignment Agreement as follows:

Programs and Services Commitments for Dominican Hospital:

- Cardiology services, cardiac catheterization laboratory services and cardiovascular surgery;
- Neuroscience services, including neurosurgery (spine and cranial);
- Oncology services, including inpatient medical and surgical oncology services;
- Outpatient Infusion Clinic;
- Orthopedic surgery services;
- General surgery services;
- Nuclear medicine services;
- Physical therapy services;
- Outpatient Therapy Services at Dominican Outpatient Services;
- Imaging and radiology services (inpatient and outpatient)
 - Mobile Unit-CAT Scan
 - Mobile Unit-PET/Proton therapy;
- Mobile Unit – primary care services;
- Occupational therapy services;
- Respiratory care services;
- Social services;
- Speech pathology services; and
- Laboratory services.

Since Dignity Health and CHI have committed to maintaining these additional licensed services and programs for five years after the Effective Date at Dominican Hospital, no negative impacts on the accessibility and availability of healthcare services are expected for at least five years as a result of the Ministry Alignment Agreement.

Effects on Staffing & Employee Rights

Dignity Health states that the proposed transaction will not change the status of any of Dignity Health's non-executive employees.

Dignity Health and CHI in the Ministry Alignment Agreement also agree to maintain the respective terms of the collective bargaining agreements that are in effect as of the Effective Date as shown below.

Union Contracts for Dominican Hospital:

- California Nurses Association (CNA);
- Stationary Engineers, Local 39 (ENGR L39); and
- Service Employees International Union- United Healthcare Workers West (SEIU UHW).

It is anticipated that no reductions in the number of non-executive employees are expected at Dominican Hospital as a result of the Ministry Alignment Agreement.

Effects on Medical Staff

Dignity Health and CHI have committed to maintaining privileges for the current medical staff members of each Dignity Health California Hospital who are in good standing as of the Effective Date of the Ministry Alignment Agreement. Since Dignity Health committed to maintain the medical staffs' privileges, no reductions in the medical staff at Dominican Hospital are expected.

Effects on City and County Contracts

Dominican Hospital has a number of contracts with Santa Cruz County to provide and support specific services. According to the Ministry Alignment Agreement, these contracts will be maintained for a period of five years after the Effective Date, unless the contract is terminated for cause or expires in accordance with its current terms.

Alternatives

If the proposed Ministry Alignment Agreement is not approved, Dignity Health is expected to continue to operate as it has in the past. It may look for future partnerships; however, none are evident at this time.

Conclusions and Recommendations

Based on Dignity Health's and CHI's commitments contained in the Ministry Alignment Agreement, the proposed transaction is likely to preserve the accessibility and availability of healthcare services to the communities served for at least five years. If the transaction is not approved, Dignity Health will not have the obligation to maintain these commitments.

Potential Conditions for California Attorney General Approval of the Ministry Alignment Agreement

If the California Attorney General approves the proposed transaction, JD Healthcare Inc. and Vizient, Inc. recommend the following conditions be required to minimize any potential negative healthcare impact that might result from the transaction:

Dominican Hospital

1. For at least ten years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall continue to operate as a general acute care hospital;
2. For at least ten years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain 24-hour emergency services at no less than current licensure and designation with the same types and/or levels of services, including the following:
 - a. 24 Treatment Stations;
 - b. Paramedic Base Station;
 - c. STEMI Receiving Center; and
 - d. Certified Primary Stroke Center.
3. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain the following services at current licensure, types, and/or levels of services:
 - a. Rehabilitation services, including a minimum of 20 licensed rehabilitation beds;
 - b. Obstetrics services, including a minimum of 11 perinatal beds;
 - c. Neonatal Intensive Care Unit services, including a minimum of 14 licensed Neonatal Intensive Care Unit beds;
 - d. Critical care services, including a minimum of 10 licensed intensive care beds and a minimum of 6 licensed coronary beds; and
 - e. Pediatric services, including a minimum of 8 licensed pediatrics beds.

4. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain the following services as committed to Attachment D in Exhibit L of the Ministry Alignment Agreement:
 - a. Cardiology services, cardiac catheterization laboratory services and cardiovascular surgery;
 - b. Neuroscience services, including neurosurgery (spine and cranial);
 - c. Oncology services, including inpatient medical and surgical oncology services;
 - d. Outpatient Infusion Clinic;
 - e. Orthopedic surgery services;
 - f. General surgery services;
 - g. Nuclear medicine services;
 - h. Physical therapy services;
 - i. Outpatient Therapy Services at Dominican Outpatient Services;
 - j. Imaging and radiology services (inpatient and outpatient)
 - i. Mobile Unit-CAT Scan
 - ii. Mobile Unit-PET/Proton therapy;
 - k. Mobile Unit – primary care services;
 - l. Occupational therapy services;
 - m. Respiratory care services;
 - n. Social services;
 - o. Speech pathology services; and
 - p. Laboratory services.

5. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain currently provided women’s healthcare services;

6. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain a charity care policy that is no less favorable than its current charity care policy and in compliance with California and Federal law, and Dominican Hospital shall provide an annual amount of charity care equal to or greater than \$3,368,44 (the “Minimum Charity Care Amount”). Alternatively, because of the impact of Medi-Cal expansion and the ACA, the California Attorney General could consider adjusting the required commitment to charity care based on available data from time periods after implementation of the ACA. An example would be to require a commitment based on a three-year rolling average of the most recent available data. For FY 2018, Dominican Hospital’s required Minimum Charity Care amount using the three-year rolling average would be \$1,567,034. For purposes herein, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by Dominican Hospital in connection with the operations and provision of services at Dominican Hospital. The definition and methodology for calculating “Charity Care” and the methodology for calculating “cost” shall be the same as that used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an

annual basis by the rate of inflation as measured by the Consumer Price Index from the U.S. Bureau of Labor Statistics;

7. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall continue to expend no less than \$7,596,529 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index from the U.S. Bureau of Labor Statistics. In addition, the following community benefit programs shall continue to be offered for at least five years from closing;
 - a. Emergency Department Approved for Pediatrics;
 - b. Dignity Health Community Grants;
 - c. Mobile Health Van;
 - d. Psychiatric Resource Team; and
 - e. Donation - Cash: Santa Cruz County SANE/SART.

8. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number;

9. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall be certified to participate in the Medi-Cal program, providing the same type, and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries;

10. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain its participation in the Medi-Cal Managed Care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease of quality, or gap in contracted hospital coverage, including continuation of the following contracts:
 - a. County Organized Health Systems Plan: Central CA Health Alliance or its successor.

11. For at least five years from the Closing Date of the Ministry Alignment Agreement, Dominican Hospital shall maintain its current city/county contracts for the programs listed below:
 - a. Memorandum of Understanding – EMS System;
 - b. Voluntary Declaration of Paternity Collaborative Program;

- c. Memorandum of Understanding – Baby Gateway;
 - d. Agreement for Services STEMI Receiving Center Designation;
 - e. Hospital Base Station Agreement (EMS);
 - f. Hospital Services Agreement;
 - g. Sexual Assault Nurse Examiners Agreement;
 - h. Memorandum of Understanding – Drug Exposed Infants; and
 - i. Memorandum of Understanding – Emergency Medical Treatment.
12. Dignity Health and CHI shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Dominican Hospital until January 1, 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act (Health & Safety Code, § 129675-130070); and
13. Dominican Hospital shall maintain written policies that prohibit discrimination against lesbian, gay, bisexual, or transgender individuals.

Dominican Hospital License

License: 07000030
Effective: 11/01/2017
Expires: 10/31/2018
Licensed Capacity: 222

State of California
Department of Public Health

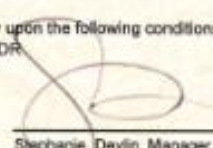
In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues

this License to
Dignity Health
to operate and maintain the following **General Acute Care Hospital**

Dominican Hospital
1558 Soquel Dr
Santa Cruz, CA 95065-1705

<p>Bed Classifications/Services</p> <ul style="list-style-type: none"> 222 General Acute Care 20 Rehabilitation 14 Intensive Care Newborn Nursery 11 Perinatal 10 Intensive Care 8 Pediatric 6 Coronary Care 153 Unspecified General Acute Care 	<p>Other Approved Services</p> <ul style="list-style-type: none"> Basic Emergency Medical Cardiac Catheterization Laboratory Services Cardiovascular Surgery Mobile Unit - CAT Scan Mobile Unit - PET/Proton Therapy Mobile Unit - Primary Care Nuclear Medicine Occupational Therapy Outpatient Clinics - Infusion at Outpatient Infusion Clinic, 3150 Mission Drive, Suite 201, Santa Cruz Outpatient Services - Therapy Services at Dominican Outpatient Services, 610 Frederick Street, Santa Cruz Physical Therapy Respiratory Care Services Social Services Speech Pathology
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This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:
Eleven (11) beds are LDRP; Four (4) beds are LDR.

<p><u>Karen L. Smith, MD, MPH</u> Director and State Public Health Officer</p>	<p> Stephanie Devlin, Manager</p>
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Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Jose District Office, 180 Paseo de San Antonio, Suite 235, San Jose, CA 95113, (408)277-1764

POST IN A PROMINENT PLACE