

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 Hospitals Located in Shasta County

Prepared for the Office of the California Attorney General

September 5, 2018

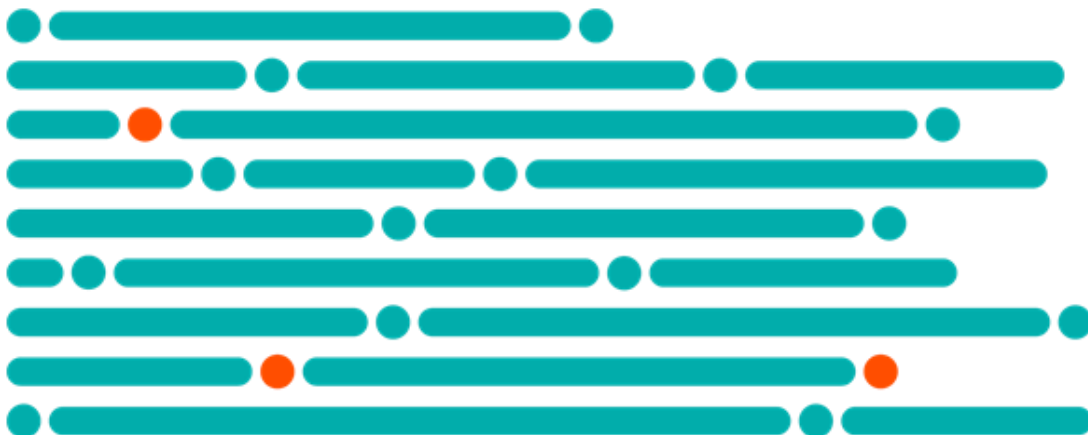


Table of Contents

| | |
|---|----|
| Introduction & Purpose | 4 |
| Introduction | 4 |
| Purpose | 6 |
| Background & Description of the Transaction..... | 7 |
| Background | 7 |
| Strategic Rationale, Transaction Process & Timing | 7 |
| Summary of the Ministry Alignment Agreement | 10 |
| System Corporation Post the Effective Date of the Ministry Alignment Agreement..... | 11 |
| System Corporation Post Debt Consolidation (Within 36 Months) | 12 |
| Major Provisions of the Ministry Alignment Agreement..... | 12 |
| Structures and Responsibilities..... | 13 |
| Dignity Health Commitments | 18 |
| Use of Net Sale Proceeds | 21 |
| Profile of Catholic Health Initiatives | 22 |
| Overview | 22 |
| Key Statistics | 23 |
| Payer Mix | 23 |
| Financial Profile..... | 24 |
| Profile of Dignity Health..... | 25 |
| Payer Mix | 26 |
| Financial Profile..... | 27 |
| Dignity Health’s California Hospitals Overview | 28 |
| Analysis of Dignity Health’s Hospital Market Share in Shasta County | 29 |
| Profile of Mercy Medical Center Redding..... | 31 |
| Overview | 31 |
| Key Statistics | 32 |
| Patient Utilization Trends | 33 |
| Financial Profile..... | 34 |
| Cost of Hospital Services..... | 35 |
| Charity Care..... | 35 |
| Community Benefit Services..... | 37 |
| Reproductive Health | 39 |
| Analysis of Mercy Medical Center Redding | 40 |
| Service Area Definition | 40 |
| Service Area Map | 41 |
| Hospital Market Share | 42 |
| Market Share by Payer Type..... | 43 |
| Market Share by Service Line..... | 44 |

Market Share by ZIP Code..... 45

Assessment of Potential Issues Associated with the Availability or Accessibility of Healthcare Services 46

 Continuation as a General Acute Care Hospital 46

 Emergency Services 47

 Reproductive Health Services 48

 Effects on the Level & Type of Charity Care Historically Provided 49

 Effects on Services to Medi-Cal, Medicare & Other Classes of Patients 49

 Effects on Community Benefit Programs..... 50

 Effects on Hospital Licensed Services 51

 Effects on Programs and Services 51

 Effects on Staffing & Employee Rights..... 52

 Effects on Medical Staff 53

 Effects on City and County Contracts 53

 Alternatives..... 53

Conclusions and Recommendations..... 54

Mercy Medical Center Redding License 58

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 Shasta County. Dignity Health owns and operates 31 general acute care hospitals in California, including one in Shasta County: Mercy Medical Center Redding, located in Redding.

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.

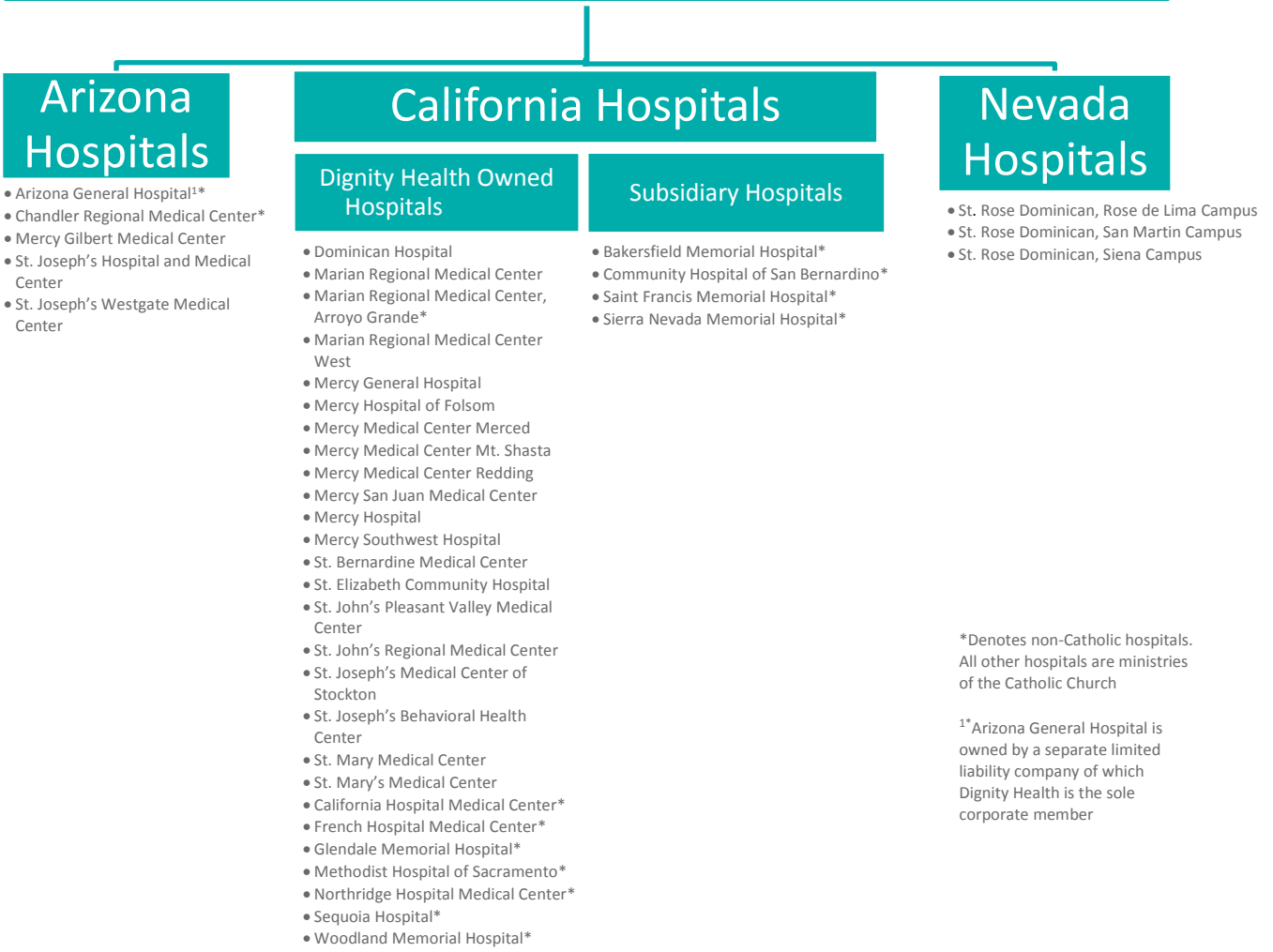
⁴The California Department of Public Health has issued twenty-eight general acute care hospital licenses with respect to these 31 facilities.

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



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 Mercy Medical Center Redding.

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 Mercy Medical Center Redding 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;

¹¹The 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 *nil obstat*s 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.

¹⁵As 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.

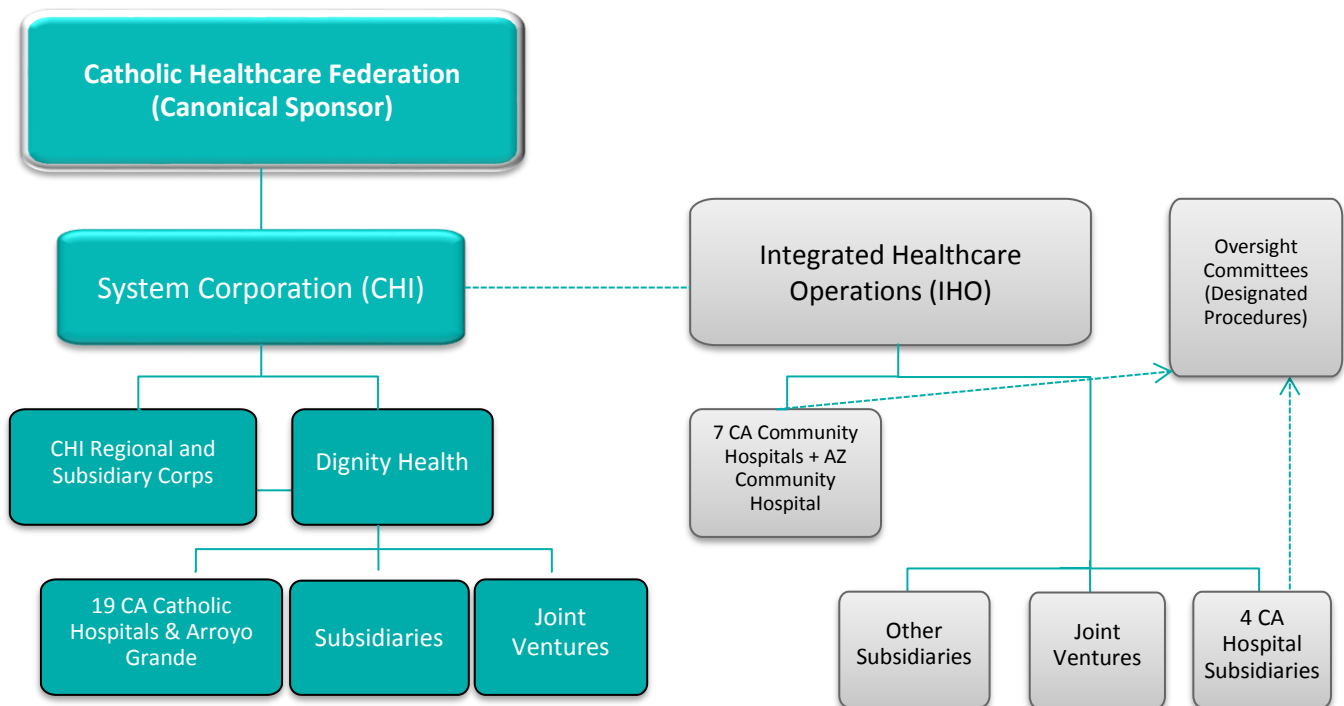
¹⁷Dignity Health's Statement of Common Values prohibits direct abortions, in-vitro fertilizations, and provider or physician-assisted suicide or aid in dying. The most common medical procedure performed in hospitals that is prohibited by the ERDs is tubal ligation (a surgical procedure for female sterilization 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.

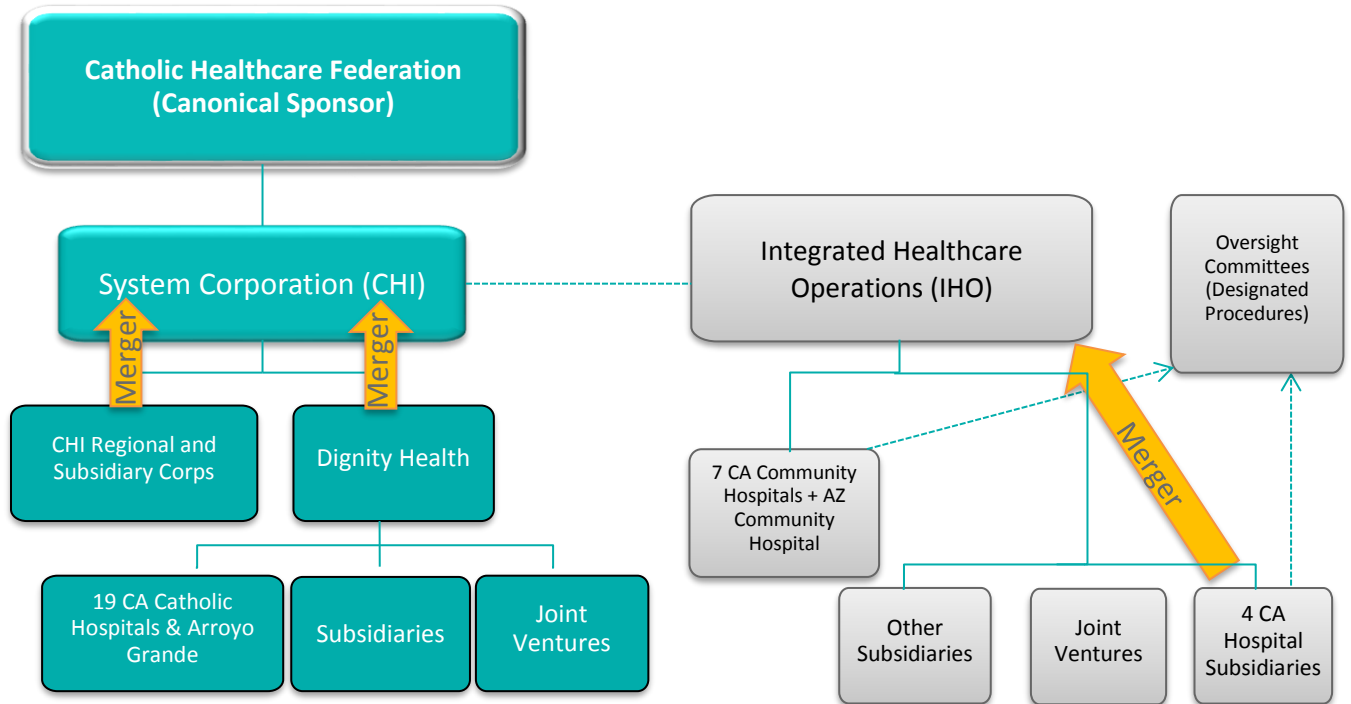


¹⁹Both Dignity Health’s and IHO’s local hospital community boards associated with each owned hospital, as well as the boards associated with the four subsidiary hospitals, will continue to exist.

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.

²¹See 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 Mercy Medical Center Redding.

- 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.

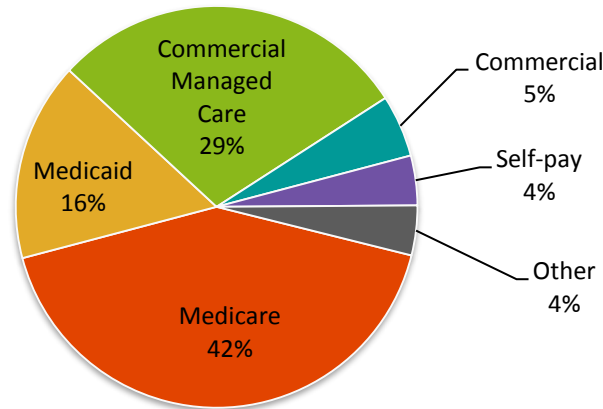
| CHI STATISTICAL HIGHLIGHTS FY 2016 – FY 2017 | | | |
|---|----------------|----------------|---------------|
| <i>Fiscal Year ended June 30, 2017</i> | FY 2016 | FY 2017 | Change |
| Acute Patient Days | 2,382,402 | 2,366,980 | -0.6% |
| Acute Average Daily Census | 6,527 | 6,485 | -0.6% |
| Acute 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.

²²Fiscal 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 | FY 2016 | FY 2017 |
| 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) | FY 2016 | FY 2017 |
| 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

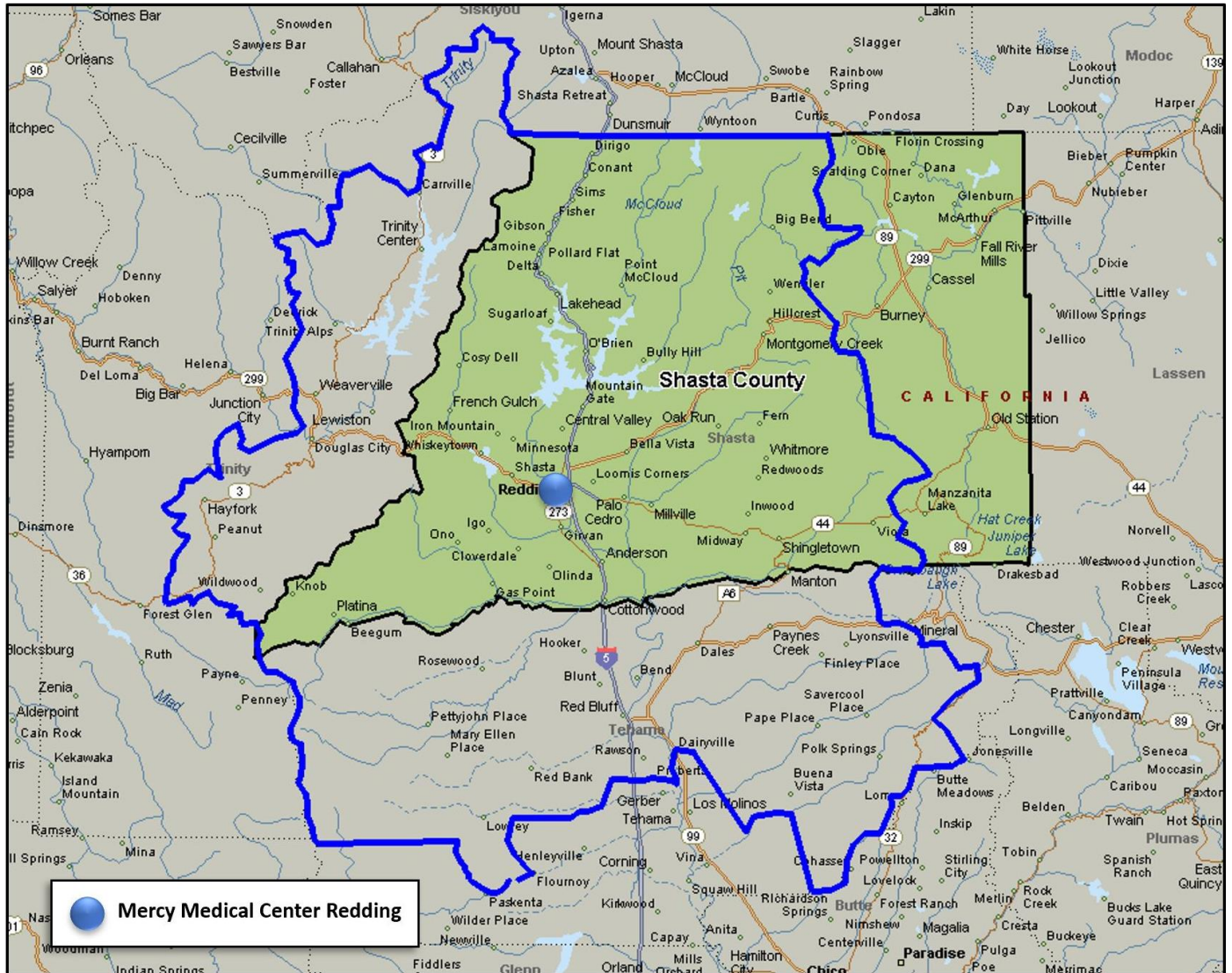
The following table lists the location of each Dignity Health owned and managed hospital in California.

| 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 Shasta County

Shasta County has more than 177,000 residents and encompasses over 3,800 square miles. The map below shows the location and the service area of Dignity Health’s Mercy Medical Center Redding.



The following table lists hospitals where Shasta County residents received inpatient care in calendar year (CY) 2016, the most recent data available from OSHPD, and their respective market share. Mercy Medical Center of Redding is the inpatient market share leader (50.3%) in Shasta County. A profile of Mercy Medical Center Redding is described in the following sections.

| SHASTA COUNTY MARKET SHARE BY HOSPITAL CY 2016 | | |
|---|--------------------|---------------|
| Hospital | CY 2016 Discharges | Market Share |
| Mercy Medical Center Redding¹ | 10,627 | 50.3% |
| Shasta Regional Medical Center | 6,091 | 28.8% |
| Vibra Hospital Of Northern California | 794 | 3.8% |
| University Of California Davis Medical Center | 471 | 2.2% |
| St. Elizabeth Community Hospital¹ | 425 | 2.0% |
| All Other Hospitals | 2,737 | 12.9% |
| All Other Discharges | 9,873 | 46.7% |
| All Dignity Health of California Discharges | 11,272 | 53.3% |
| Total Discharges | 21,145 | 100.0% |

Source: CY 2016 OSHPD Discharge Database

Note: Excludes normal newborns

¹Dignity Health hospital

- Shasta Regional Medical Center has the second-largest market share (28.8%).
- “All Dignity Health of California Discharges” includes residents of Shasta County who received inpatient care at Dignity Health hospitals located outside of Shasta County.

Profile of Mercy Medical Center Redding

Overview

Mercy Medical Center Redding is a general acute care hospital located at 2175 Rosaline Avenue in Redding, California. Mercy Medical Redding opened in 1940, when it was previously known as St. Caroline’s Hospital.

Today, Mercy Medical Center Redding offers a range of services including a Level II Trauma Center, a Primary Stroke Center, and pediatrics. The Hospital has 12 surgical operating rooms and a “basic” emergency department²³ with 30 emergency treatment stations. According to Mercy Medical Center Redding’s current hospital license, it is licensed for 267 beds as shown below.

| MERCY MEDICAL CENTER REDDING LICENSED BED DISTRIBUTION 2018 | |
|--|-----------------------------|
| Licensed Bed Type | Number of Beds ¹ |
| General Acute Care Beds | |
| Intensive Care | 34 |
| Perinatal | 31 |
| Pediatric | 19 |
| Neonatal Intensive Care | 16 |
| Coronary Care | 10 |
| Unspecified General Acute Care | 157 |
| Total General Acute Care Beds | 267 |
| Total Licensed Beds | 267 |

¹ 2018 Hospital License

²³A “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

Mercy Medical Center Redding reported 15,174 inpatient discharges, 62,775 patient days, and an average daily census of 172 patients (64.4% occupancy) for FY 2017.

| MERCY MEDICAL CENTER REDDING KEY STATISTICS FY 2015 - FY 2017 ¹ | | | |
|---|---------|---------|---------|
| | FY 2015 | FY 2016 | FY 2017 |
| Inpatient Discharges | 13,062 | 13,269 | 15,174 |
| Licensed Beds | 267 | 267 | 267 |
| Patient Days | 60,174 | 57,524 | 62,775 |
| Average Daily Census | 165 | 158 | 172 |
| Occupancy | 61.7% | 59.0% | 64.4% |
| Average Length of Stay | 4.6 | 4.3 | 4.1 |
| Cardiac Catheterization Procedures | 4,255 | 2,422 | 3,635 |
| Emergency Service Visits | 56,196 | 58,170 | 55,836 |
| Total Live Births | 2,045 | 2,020 | 2,048 |

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 have increased by 16%, while patient days increased by 4%;
- From FY 2015 to FY 2017, emergency service visits decreased by 6%; and
- From FY 2015 to FY 2017, total live births annually remained relatively constant, with an average of 2,038 live births.

Patient Utilization Trends

The following table shows FY 2013 - FY 2017 patient volume trends at Mercy Medical Center Redding.

| MERCY MEDICAL CENTER REDDING SERVICE VOLUMES FY 2013 - FY 2017 ¹ | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
| PATIENT DAYS | | | | | |
| Medical/Surgical ² | 37,845 | 39,474 | 39,664 | 40,459 | 42,337 |
| Neonatal Intensive Care* | 3,374 | 3,648 | 3,333 | 3,164 | 3,377 |
| Intensive Care* | 8,039 | 7,622 | 7,477 | 7,547 | 7,747 |
| Obstetrics* | 4,588 | 4,812 | 7,894 | 5,191 | 7,288 |
| Pediatrics Acute* | 1,736 | 1,421 | 1,806 | 1,163 | 2,026 |
| Total | 55,582 | 56,977 | 60,174 | 57,524 | 62,775 |
| DISCHARGES | | | | | |
| Medical/Surgical ² | 9,710 | 9,796 | 8,609 | 10,074 | 9,337 |
| Neonatal Intensive Care* | 240 | 258 | 723 | 252 | 479 |
| Intensive Care* | 530 | 609 | 1,623 | 535 | 881 |
| Obstetrics* | 2,018 | 2,081 | 1,715 | 2,067 | 3,200 |
| Pediatrics Acute* | 629 | 265 | 392 | 341 | 1,277 |
| Total | 13,127 | 13,009 | 13,062 | 13,269 | 15,174 |
| AVERAGE LENGTH OF STAY | | | | | |
| Medical/Surgical ² | 3.9 | 4.0 | 4.6 | 4.0 | 4.5 |
| Neonatal Intensive Care* | 14.1 | 14.1 | 4.6 | 12.6 | 7.1 |
| Intensive Care* | 15.2 | 12.5 | 4.6 | 14.1 | 8.8 |
| Obstetrics* | 2.3 | 2.3 | 4.6 | 2.5 | 2.3 |
| Pediatrics Acute* | 2.8 | 5.4 | 4.6 | 3.4 | 1.6 |
| Total | 4.2 | 4.4 | 4.6 | 4.3 | 4.1 |
| AVERAGE DAILY CENSUS | | | | | |
| Medical/Surgical ² | 103.7 | 108.1 | 108.7 | 110.8 | 116.0 |
| Neonatal Intensive Care* | 9.2 | 10.0 | 9.1 | 8.7 | 9.3 |
| Intensive Care* | 22.0 | 20.9 | 20.5 | 20.7 | 21.2 |
| Obstetrics* | 12.6 | 13.2 | 21.6 | 14.2 | 20.0 |
| Pediatrics Acute* | 4.8 | 3.9 | 4.9 | 3.2 | 5.6 |
| Total | 152 | 156 | 165 | 158 | 172 |
| OTHER SERVICES | | | | | |
| Inpatient Surgeries | 4,134 | 5,140 | 5,027 | 5,235 | 5,322 |
| Outpatient Surgeries | 3,160 | 3,880 | 4,297 | 5,100 | 5,584 |
| Emergency Service Visits | 48,774 | 50,716 | 56,196 | 58,170 | 55,836 |
| Total Live Births | 1,972 | 1,999 | 2,045 | 2,020 | 2,048 |

Sources: OSHPD Disclosure Reports, FY 2013 - FY 2017

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

²Includes Definitive Observation Beds

*Hospital management reported that during an audit of the data, it was found that the initially reported numbers were not an accurate reflection of the annual volumes for Neonatal Intensive Care, Intensive Care, Obstetrics and Pediatrics Acute.

A review of Mercy Medical Center Redding’s historical utilization trends between FY 2013 and FY 2017 supports the following conclusions:

- The average daily census increased by 13% from 152 patients in FY 2013 to 172 patients in FY 2017.
- The average daily census increased of Medical/Surgical patients by 12% from 104 patients in FY 2013 to 116 patient’s FY 2017.
- Outpatient surgeries increased (77%) from 3,160 surgeries in FY 2013 to 5,584 surgeries in FY 2017.

Financial Profile

Over the last five fiscal years, Mercy Medical Center Redding’s net income was \$67.1 million in FY 2013 and increased to \$86.3 million in FY 2017. Between FY 2013 and FY 2017, net patient revenue and total operating revenue increased by 18% and 19% respectively. Over the same period, the Hospital’s operating expenses increased by 21% from \$359.4 million in FY 2013 to \$434.8 million in FY 2017. Other operating revenue²⁴ decreased by 24% over the five-year period from \$2.7 million in FY 2013 to \$2.0 million in FY 2017.

The Hospital’s current ratio²⁵ increased over the last five years from 11.8 in FY 2013 to 12.59 in FY 2017. The California average in FY 2016 was 1.56. The Hospital’s FY 2017 percentage of bad debt is equal to that of the state average 0.8%.

| MERCY MEDICAL CENTER REDDING FINANCIAL AND RATIO ANALYSIS FY 2013 - FY 2017 ¹ | | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|--|
| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | |
| Patient Days | 55,582 | 56,977 | 60,174 | 57,524 | 62,775 | - |
| Discharges | 13,127 | 13,009 | 13,062 | 13,269 | 15,174 | - |
| ALOS | 4.2 | 4.4 | 4.6 | 4.3 | 4.1 | - |
| Net Patient Revenue | \$385,646,274 | \$361,528,532 | \$446,627,111 | \$455,875,923 | \$457,627,317 | - |
| Other Operating Revenue | \$2,685,523 | \$5,379,022 | \$3,118,974 | \$3,697,986 | \$2,033,753 | - |
| Total Operating Revenue | \$388,331,797 | \$366,907,554 | \$449,746,085 | \$459,573,909 | \$459,661,070 | - |
| Operating Expenses | \$359,383,427 | \$367,890,073 | \$417,394,543 | \$425,259,886 | \$434,803,151 | - |
| Net from Operations | \$28,948,370 | (\$982,519) | \$32,351,542 | \$34,314,023 | \$24,857,919 | - |
| Net Non-Operating Revenues and Expenses | \$38,112,659 | \$48,170,393 | \$21,677,488 | (\$5,670,641) | \$61,399,080 | - |
| Net Income | \$67,061,029 | \$47,187,874 | \$54,029,030 | \$28,643,382 | \$86,256,999 | - |
| | | | | | | 2016 California Average ² |
| Current Ratio | 11.80 | 12.75 | 11.60 | 10.50 | 12.59 | 1.56 |
| Days in A/R | 61.4 | 60.1 | 44.8 | 47.0 | 52.1 | 57.1 |
| Bad Debt Rate | 1.7% | 2.7% | 1.6% | 1.2% | 0.8% | 0.8% |
| Operating Margin | 7.45% | -0.27% | 7.19% | 7.47% | 5.41% | 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.

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

²⁵The 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

Mercy Medical Center Redding’s operating cost of services includes both inpatient and outpatient care. In FY 2017, 50% of total costs were associated with Medicare, followed by 27% with Medi-Cal, and 22% with Third-Party.

| MERCY MEDICAL CENTER REDDING OPERATING EXPENSES BY PAYER CATEGORY FY 2013 - FY 2017 ¹ | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
| Operating Expenses | \$359,383,427 | \$367,890,073 | \$417,394,543 | \$425,259,886 | \$434,803,151 |
| Cost of Services By Payer: | | | | | |
| Medicare | \$182,884,826 | \$183,368,228 | \$203,071,738 | \$213,956,756 | \$217,337,661 |
| Medi-Cal | \$59,544,112 | \$78,172,501 | \$112,859,825 | \$111,968,141 | \$115,597,869 |
| County Indigent | \$16,136,223 | \$9,818,000 | - | - | \$55,510 |
| Third-Party | \$83,646,030 | \$84,639,567 | \$94,655,764 | \$94,450,513 | \$97,370,118 |
| Other Indigent | \$4,545,987 | \$3,456,765 | \$1,721,999 | \$1,372,738 | \$1,905,312 |
| All Other Payers | \$12,626,249 | \$8,435,013 | \$5,085,217 | \$3,511,739 | \$2,536,680 |

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 Mercy Medical Center Redding 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 equal to that of 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.”

| MERCY MEDICAL CENTER REDDING CHARITY CARE COMPARISON FY 2013 - FY 2017 ¹ (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 | \$1,402,181 | \$320,382,471 | \$1,486,509 | \$338,322,364 | \$1,579,865 | \$365,501,463 | \$1,681,701 | \$396,427,743 | \$1,746,648 | - | |
| Charity | \$24,945 | \$6,563,487 | \$15,631 | \$5,113,965 | \$9,404 | \$3,441,227 | \$9,312 | \$3,457,868 | \$10,628 | - | |
| Bad Debt | \$23,619 | \$5,891,632 | \$40,843 | \$4,365,936 | \$26,030 | \$3,262,642 | \$20,540 | \$3,108,971 | \$14,018 | - | |
| Total Charity & Bad Debt | \$48,564 | \$12,455,119 | \$56,474 | \$9,479,902 | \$35,434 | \$6,703,869 | \$29,853 | \$6,566,839 | \$24,646 | - | |
| Charity Care as a % of Gross Patient Revenue | 1.8% | 2.0% | 1.1% | 1.5% | 0.6% | 0.9% | 0.6% | 0.9% | 0.6% | - | |
| Bad Debt as a % of Gross Patient Revenue | 1.7% | 1.8% | 2.7% | 1.3% | 1.6% | 0.9% | 1.2% | 0.8% | 0.8% | - | |
| Total as a % of Gross Patient Revenue | 3.5% | 3.9% | 3.8% | 2.8% | 2.2% | 1.8% | 1.8% | 1.7% | 1.4% | - | |
| Uncompensated Care | | | | | | | | | | | |
| Cost to Charge Ratio | 25.4% | 24.5% | 24.4% | 23.6% | 26.2% | 24.1% | 25.1% | 23.8% | 24.8% | - | |
| Charity | \$6,346 | \$1,608,711 | \$3,812 | \$1,207,919 | \$2,466 | \$828,647 | \$2,334 | \$822,627 | \$2,633 | - | |
| Bad Debt | \$6,008 | \$1,444,039 | \$9,960 | \$1,031,234 | \$6,826 | \$785,644 | \$5,149 | \$739,624 | \$3,473 | - | |
| Total | \$12,354 | \$3,052,750 | \$13,772 | \$2,239,153 | \$9,291 | \$1,614,292 | \$7,483 | \$1,562,251 | \$6,107 | - | |

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 \$6.3 million in FY 2013 to \$2.6 million in FY 2017. The average cost of charity care for the last five-year period was \$3.5 million, while the three-year average cost of charity care was \$2.5 million.

| MERCY MEDICAL CENTER REDDING COST OF CHARITY CARE FY 2013 - FY 2017 ¹ | | | | |
|---|----------------------|----------------------|--------------------------------------|--|
| Year | Charity Care Charges | Cost to Charge Ratio | Cost of Charity Care to the Hospital | |
| FY 2017 | \$10,627,940 | 24.8% | \$2,633,299 | |
| FY 2016 | \$9,312,478 | 25.1% | \$2,334,414 | |
| FY 2015 | \$9,404,008 | 26.2% | \$2,465,939 | |
| FY 2014 | \$15,631,493 | 24.4% | \$3,812,010 | |
| FY 2013 | \$24,944,871 | 25.4% | \$6,345,673 | |
| FY 2015 - FY 2017 Average | | | \$2,477,884 | |
| FY 2013 - FY 2017 Average | | | \$3,518,267 | |

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.

| MERCY MEDICAL CENTER REDDING COST OF CHARITY CARE BY SERVICE FY 2013 - FY 2017 | | | | |
|---|-------------|-------------|----------------|-------------|
| | Inpatient | Outpatient | Emergency Room | Total Costs |
| FY 2017: | | | | |
| Cost of Charity | \$1,265,279 | \$713,472 | \$276,668 | \$2,255,419 |
| Visits/Discharges | 74 | 481 | 345 | |
| FY 2016: | | | | |
| Cost of Charity | \$983,242 | \$842,825 | \$323,943 | \$2,150,010 |
| Visits/Discharges | 55 | 520 | 409 | |
| FY 2015: | | | | |
| Cost of Charity | \$2,539,617 | \$1,158,315 | \$411,708 | \$4,109,640 |
| Visits/Discharges | 156 | 940 | 597 | |
| FY 2014: | | | | |
| Cost of Charity | \$1,054,272 | \$775,412 | \$256,889 | \$2,086,573 |
| Visits/Discharges | 69 | 663 | 379 | |
| FY 2013: | | | | |
| Cost of Charity | \$2,935,623 | \$1,406,757 | \$464,338 | \$4,806,718 |
| Visits/Discharges | 201 | 1,389 | 644 | |

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, Mercy Medical Center Redding has provided 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 \$3.5 million. The adjusted average annual cost of the community benefit services over the last five fiscal years has been \$4.1 million.

| MERCY MEDICAL CENTER REDDING COMMUNITY BENEFIT SERVICES FY 2013 - FY 2017 | | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------------------|--------------------------------|
| Community Benefit Programs | 2013 | 2014 | 2015 | 2016 | 2017 | FY 2015- FY 2017 Average | FY 2013- FY 2017 Average |
| Benefits for Living in Poverty | \$1,529,143 | \$845,224 | \$1,557,134 | \$753,272 | \$613,465 | \$974,624 | \$1,059,648 |
| Benefits for Broader Community | \$4,723,063 | \$5,008,188 | \$3,550,720 | \$3,025,857 | \$3,232,888 | \$3,269,822 | \$3,908,143 |
| Totals | \$6,252,206 | \$5,853,412 | \$5,107,854 | \$3,779,129 | \$3,846,353 | \$4,244,445 | \$4,967,791 |
| Medi-Cal Provider Fee CHFT Grant Expense | (\$1,311,452) | (\$618,232) | (\$1,312,488) | (\$630,291) | (\$413,502) | - | - |
| Adjusted Totals | \$4,940,754 | \$5,235,180 | \$3,795,366 | \$3,148,838 | \$3,432,851 | \$3,459,018 | \$4,110,598 |

Source: Dignity Health

- The Hospital’s five-year average cost of community benefit services for persons living in poverty is \$1,059,648 per year;
- The Hospital’s five-year average cost of community benefit services for the broader community is \$3.9 million per year; and
- Over the five-year period, the Hospital’s combined adjusted total cost of the community benefit services decreased from \$4.9 million in FY 2013 to \$3.4 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.

| MERCY MEDICAL CENTER REDDING | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| 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 | \$86,977 | \$49,767 | \$107,843 | \$69,796 | \$73,887 |
| Community Health Education | \$9,756 | \$6,301 | \$3,449 | \$2,838 | \$34,377 |
| Community Grants Program ¹ | \$59,500 | \$225,707 | - | - | - |
| Donations-In Kind - Equipment/Medical Supplies ¹ | - | \$1,843 | \$15,332 | \$4,693 | \$6,101 |
| Hospitality House | \$40,620 | \$46,287 | \$37,030 | \$15,858 | \$55,878 |
| Medications provided to uninsured patients | \$22,978 | \$83,612 | \$36,442 | \$13,911 | \$17,620 |
| Residency Program | \$3,913,210 | \$3,956,645 | \$3,054,162 | \$3,010,052 | \$3,177,888 |
| Transportation for patients in need | - | \$38,407 | \$54,985 | \$22,978 | \$52,322 |

Source: Dignity Health

¹ Community Benefit program commitment under \$10,000 in cost in FY 2017

- **Community Benefit Operations:** Includes costs associated with assigned staff and community health needs assessment, as well as other costs associated with community benefit strategy and operations;
- **Community Health Education:** Includes lectures, presentations, and other group programs and activities on community health;
- **Community Grants Program:** The Hospital actively partners with nonprofit organizations working to improve health status and quality of life in the communities served. 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 reduce disparities;
- **Hospitality House:** Provides low-to no-cost lodging for poor/underserved patients families, outpatients, and discharges for individuals that live 55 miles out of the Redding area allowing them to be close to the hospital campus;
- **Medications provided to uninsured patients:** Includes medication(s) dispensed to outpatient/discharged inpatients who do not have financial means to pay for prescription at community pharmacy, or need a few days’ supply until the patient can pick up at a community pharmacy;
- **Residency Program:** Trains physicians, primarily through practice at the Mercy Family Health Center clinic where the majority of the population served is low-income and receiving Medi-Cal benefits; and

- Transportation for patients in need: Enhances patient access to care for low-income patients and families who have no form of transportation.

Reproductive Health

For CY 2016, Mercy Medical Center Redding reported 66 inpatient discharges related to reproductive health services. The following table lists inpatient reproductive health services²⁶ by diagnostic related group (DRG) for CY 2016.

| MERCY MEDICAL CENTER REDDING CY 2016 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP | |
|--|------------|
| | Discharges |
| 778-Threatened Abortion | 34 |
| 767-Vaginal Delivery W Sterilization &/Or D&C ¹ | 17 |
| 779-Abortion W/O D&C ¹ | 7 |
| 777-Ectopic Pregnancy | 5 |
| 770-Abortion W D&C ¹ , Aspiration Curettage Or Hysterotomy | 3 |
| Total Discharges: | 66 |

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 Abortion has the highest number of reproductive health service inpatient discharges.

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

| MERCY MEDICAL CENTER REDDING REPRODUCTIVE SERVICES | |
|---|---|
| Procedure | Currently Performed? (Y/N) |
| Caesarean delivery with sterilization | Yes, Only if approved by sterilization review committee per policy. |
| Terminate pregnancy when: | |
| A. Placenta previa | No, Unless life threatening hemorrhage. |
| B. Premature rupture of membranes | No, Unless severe, life threatening infection develops. |
| C. Second trimester bleeding with previable fetus | No, Unless life threatening hemorrhage. |
| Placement of an IUD at time of other gynecological surgery | No |
| Postpartum placement of IUD | No |
| Gender affirming surgery | No |
| Emergency contraception as emergency room or inpatient service | No |
| Ectopic pregnancy treatment with methotrexate (medication in lieu of surgery) | Yes |

Source: Dignity Health

²⁶Mercy Medical Center Redding is a Catholic hospital and is subject to the ERD’s that prohibits direct abortions. Although the ERD prohibits direct 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.

Analysis of Mercy Medical Center Redding

Service Area Definition

Mercy Medical Center Redding’s service area is comprised of 31 ZIP Codes from which 86% of its inpatient discharges originated in CY 2016. Approximately 50% of the Hospital’s discharges originated from the top three ZIP Codes in the City of Redding. In CY 2016, the Hospital’s market share in the service area was 46.5%.

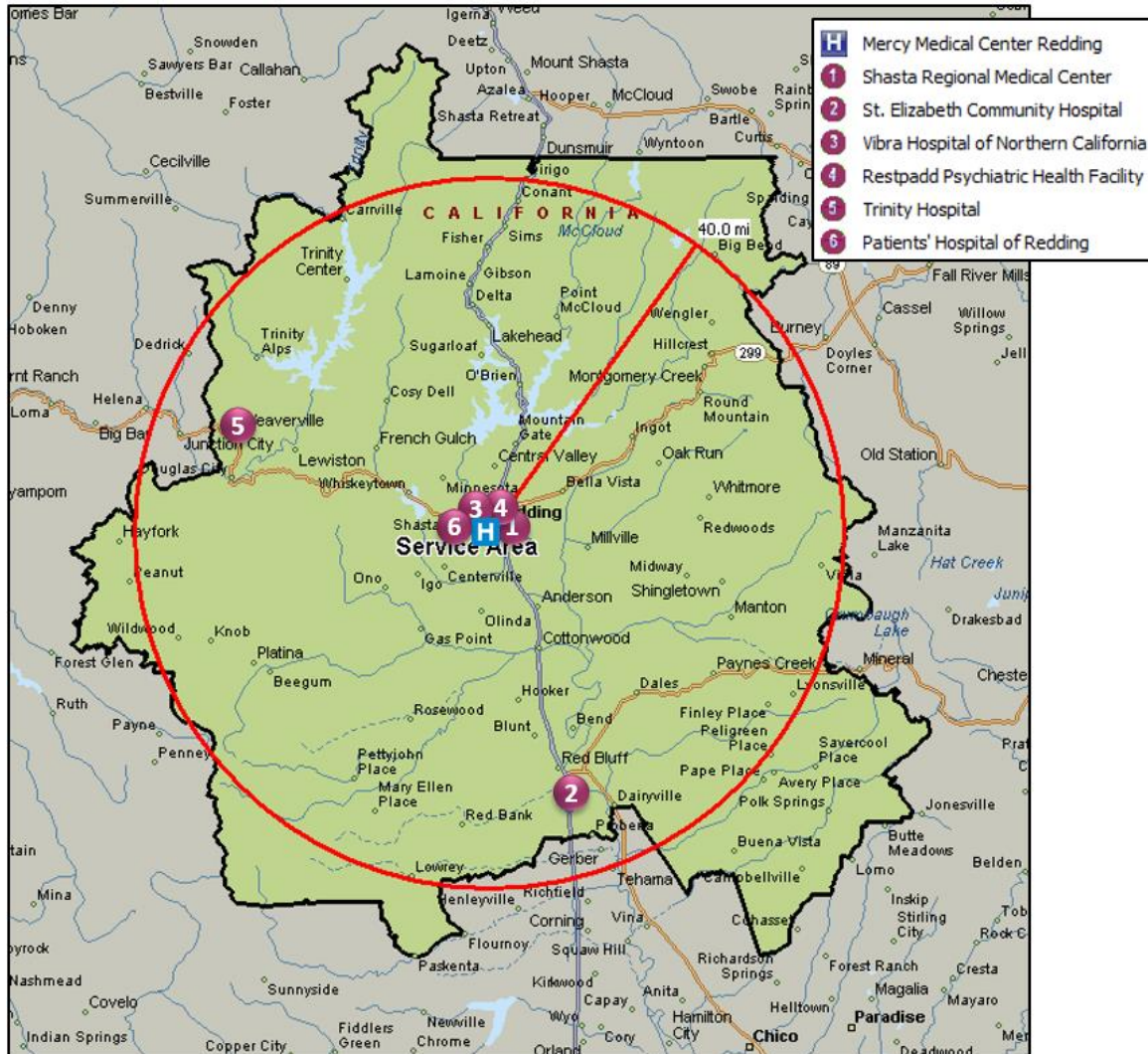
| MERCY MEDICAL CENTER REDDING PATIENT ORIGIN CY 2016 | | | | | | |
|--|------------------|------------------|-----------------|---------------------|-----------------------|--------------|
| ZIP Code | Community | Total Discharges | % of Discharges | Cum % of Discharges | Total Area Discharges | Market Share |
| 96003 | Redding | 2,302 | 17.1% | 17.1% | 4,539 | 50.7% |
| 96001 | Redding | 1,994 | 14.8% | 32.0% | 4,079 | 48.9% |
| 96002 | Redding | 1,977 | 14.7% | 46.7% | 3,806 | 51.9% |
| 96007 | Anderson | 1,617 | 12.0% | 58.8% | 2,884 | 56.1% |
| 96022 | Cottonwood | 759 | 5.7% | 64.4% | 1,563 | 48.6% |
| 96080 | Red Bluff | 686 | 5.1% | 69.5% | 3,215 | 21.3% |
| 96019 | Shasta Lake | 597 | 4.4% | 74.0% | 1,191 | 50.1% |
| 96088 | Shingletown | 253 | 1.9% | 75.8% | 540 | 46.9% |
| 96073 | Palo Cedro | 196 | 1.5% | 77.3% | 415 | 47.2% |
| 96093 | Weaverville | 179 | 1.3% | 78.6% | 501 | 35.7% |
| 96049 | Redding | 151 | 1.1% | 79.8% | 269 | 56.1% |
| 96041 | Hayfork | 126 | 0.9% | 80.7% | 298 | 42.3% |
| 96008 | Bella Vista | 102 | 0.8% | 81.5% | 211 | 48.3% |
| 96051 | Lakehead | 79 | 0.6% | 82.0% | 164 | 48.2% |
| 96087 | Shasta | 74 | 0.6% | 82.6% | 132 | 56.1% |
| 96052 | Lewiston | 62 | 0.5% | 83.1% | 153 | 40.5% |
| 96069 | Oak Run | 50 | 0.4% | 83.4% | 99 | 50.5% |
| 96089 | Shasta Lake | 49 | 0.4% | 83.8% | 81 | 60.5% |
| 96062 | Millville | 47 | 0.3% | 84.1% | 101 | 46.5% |
| 96024 | Douglas City | 40 | 0.3% | 84.4% | 93 | 43.0% |
| 96047 | Igo | 36 | 0.3% | 84.7% | 75 | 48.0% |
| 96059 | Manton | 35 | 0.3% | 85.0% | 66 | 53.0% |
| 96084 | Round Mountain | 33 | 0.2% | 85.2% | 66 | 50.0% |
| 96091 | Trinity Center | 29 | 0.2% | 85.4% | 76 | 38.2% |
| 96033 | French Gulch | 21 | 0.2% | 85.6% | 57 | 36.8% |
| 96096 | Whitmore | 17 | 0.1% | 85.7% | 58 | 29.3% |
| 96065 | Montgomery Creek | 13 | 0.1% | 85.8% | 46 | 28.3% |
| 96076 | Platina | 11 | 0.1% | 85.9% | 23 | 47.8% |
| 96011 | Big Bend | 10 | 0.1% | 86.0% | 31 | 32.3% |
| 96075 | Paynes Creek | 6 | 0.0% | 86.0% | 25 | 24.0% |
| 96079 | Shasta Lake | 6 | 0.0% | 86.1% | 12 | 50.0% |
| Subtotal | | 11,557 | 86.1% | 86.1% | 24,869 | 46.5% |
| Other ZIPs | | 1,872 | 13.9% | 100% | | |
| Total Discharges | | 13,429 | 100.0% | | | |

Note: Excludes normal newborns

Source: CY 2016 OSHPD Patient Discharge Database

Service Area Map

Mercy Medical Center Redding's service area has approximately 223,000 residents. There are six other hospitals located within the Hospital's service area. Mercy Medical Center Redding is the inpatient market share leader in the service area.



Hospital Market Share

The table below provides the inpatient market share for Mercy Medical Center Redding’s service area.

| MERCY MEDICAL CENTER REDDING | | | | | |
|---|---------------|---------------|---------------|---------------|-------|
| SERVICE AREA MARKET SHARE BY HOSPITAL CY 2013 – CY 2016 | | | | | |
| Hospital | CY 2013 | CY 2014 | CY 2015 | CY 2016 | Trend |
| Mercy Medical Center Redding | 47.5% | 46.6% | 47.3% | 46.5% | → |
| Shasta Regional Medical Center | 25.8% | 25.4% | 24.5% | 25.6% | → |
| St. Elizabeth Community Hospital | 8.5% | 9.0% | 8.7% | 7.9% | ↘ |
| Vibra Hospital of Northern California | 3.8% | 3.5% | 3.1% | 3.2% | ↘ |
| University of California Davis Medical Center | 2.2% | 2.3% | 2.9% | 3.0% | ↗ |
| Enloe Medical Center- Esplanade | 1.5% | 1.8% | 1.9% | 2.0% | ↘ |
| UCSF Medical Center | 0.9% | 1.1% | 1.3% | 1.5% | ↗ |
| Restpadd Psychiatric Health Facility | 0.0% | 1.3% | 1.5% | 1.5% | ↗ |
| Trinity Hospital | 1.5% | 1.4% | 1.3% | 1.3% | ↘ |
| California Pacific Med Ctr-Pacific Campus | 0.5% | 0.6% | 0.6% | 0.6% | → |
| Aurora Behavioral Healthcare-Santa Rosa, LLC | 0.0% | 0.1% | 0.3% | 0.5% | ↗ |
| Patients' Hospital of Redding | 0.7% | 0.7% | 0.4% | 0.5% | ↘ |
| Sutter Medical Center, Sacramento | 0.6% | 0.4% | 0.2% | 0.5% | → |
| Adventist Health St. Helena | 0.4% | 0.3% | 0.3% | 0.4% | → |
| Stanford Health Care | 0.4% | 0.4% | 0.4% | 0.3% | → |
| Heritage Oaks Hospital | 0.5% | 0.6% | 0.4% | 0.3% | ↘ |
| Mercy San Juan Medical Center | 0.3% | 0.3% | 0.3% | 0.3% | → |
| Sierra Vista Hospital | 0.5% | 0.2% | 0.2% | 0.2% | ↘ |
| North Valley Behavioral Health | 0.3% | 0.1% | 0.1% | 0.2% | → |
| Lucile Salter Packard Children's Hosp. at Stanford | 0.2% | 0.2% | 0.1% | 0.2% | → |
| Mayers Memorial Hospital | 0.1% | 0.1% | 0.1% | 0.1% | → |
| Mercy General Hospital | 0.1% | 0.1% | 0.2% | 0.1% | → |
| Shriners Hospitals for Children Northern Calif. | 0.1% | 0.1% | 0.1% | 0.1% | → |
| Oroville Hospital | 0.1% | 0.0% | 0.1% | 0.1% | → |
| All Other | 3.5% | 3.2% | 3.6% | 3.2% | ↘ |
| Total Percentage | 100% | 100% | 100% | 100% | |
| Total Discharges | 24,294 | 24,377 | 24,197 | 24,869 | ↗ |

Source: OSHPD Discharge Database CY 2013 - CY 2016

Note: Excludes normal newborns

- The number of discharges in Mercy Medical Center Redding’s service area has increased by 2.4% from 24,294 in CY 2013 to 24,869 in CY 2016;
- Mercy Medical Center Redding consistently ranked first in overall market share for its service area based on inpatient discharges (46.5% in CY 2016); and
- In CY 2016, Shasta Regional Medical Center ranked second in market share (25.6%).

Market Share by Payer Type

The following table shows inpatient market share by hospital and payer type for Mercy Medical Center Redding’s service area for CY 2016.

| MERCY MEDICAL CENTER REDDING HOSPITAL MARKET SHARE BY PAYER TYPE CY 2016 | | | | | | | | | | | |
|---|------------------|--------------------------------|--------------------------------|----------------------------------|---------------------------------------|---|---------------------------------|---------------------|--------------------------------------|--------------|---------------|
| Payer Type | Total Discharges | Mercy Medical Center – Redding | Shasta Regional Medical Center | St. Elizabeth Community Hospital | Vibra Hospital Of Northern California | University Of California Davis Medical Center | Enloe Medical Center- Esplanade | UCSF Medical Center | Restpadd Psychiatric Health Facility | All Others | Total |
| Medicare | 12,723 | 42.1% | 34.2% | 7.2% | 5.3% | 1.2% | 1.4% | 1.1% | 0.0% | 7.5% | 100.0% |
| Medi-Cal | 6,609 | 51.8% | 21.2% | 9.9% | 1.5% | 5.9% | 1.6% | 1.4% | 0.0% | 6.6% | 100.0% |
| Private Coverage | 4,212 | 54.5% | 11.9% | 8.4% | 0.5% | 4.1% | 4.7% | 3.3% | 0.0% | 12.7% | 100.0% |
| All Other | 1,102 | 34.8% | 6.7% | 3.6% | 0.3% | 1.4% | 0.8% | 0.2% | 32.8% | 19.4% | 100.0% |
| Self-Pay | 223 | 43.0% | 12.1% | 5.8% | 1.3% | 0.0% | 1.3% | 4.9% | 0.0% | 31.4% | 100.0% |
| Total Percentage | | 46.5% | 25.6% | 7.9% | 3.2% | 3.0% | 2.0% | 1.5% | 1.5% | 8.9% | 100.0% |
| Total Discharges | 24,869 | 11,557 | 6,355 | 1,977 | 801 | 738 | 491 | 375 | 361 | 2,214 | |

Note: Excludes normal newborns

Source: CY 2016 OSHPD Patient Discharge Database

- The largest payer categories of service area inpatient discharges are Medicare with 12,723 inpatient discharges (51%), followed by Medi-Cal with 6,609 inpatient discharges (27%), and Private Coverage with 4,212 inpatient discharges (17%); and
- Mercy Medical Center Redding 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 Mercy Medical Center Redding’s service area for CY 2016.

| MERCY MEDICAL CENTER REDDING MARKET SHARE BY SERVICE LINE CY 2016 | | | | | | | | | | | |
|--|------------------|--------------------------------|--------------------------------|----------------------------------|---------------------------------------|---|---------------------------------|---------------------|--------------------------------------|--------------|---------------|
| Service Line | Total Discharges | Mercy Medical Center - Redding | Shasta Regional Medical Center | St. Elizabeth Community Hospital | Vibra Hospital Of Northern California | University Of California Davis Medical Center | Enloe Medical Center- Esplanade | UCSF Medical Center | Restpadd Psychiatric Health Facility | All Others | Total |
| General Medicine | 8,449 | 41.5% | 33.7% | 10.0% | 5.2% | 2.2% | 1.1% | 0.6% | 0.0% | 5.8% | 100.0% |
| Cardiac Services | 2,758 | 40.4% | 43.7% | 4.0% | 1.7% | 1.8% | 1.1% | 0.6% | 0.0% | 6.7% | 100.0% |
| Orthopedics | 2,684 | 46.5% | 29.0% | 5.6% | 5.6% | 1.2% | 1.2% | 0.9% | 0.0% | 10.0% | 100.0% |
| Obstetrics | 2,509 | 80.0% | 0.1% | 14.7% | 0.0% | 1.8% | 1.5% | 0.3% | 0.0% | 1.4% | 100.0% |
| General Surgery | 2,118 | 41.5% | 23.7% | 7.0% | 3.1% | 4.2% | 6.5% | 3.0% | 0.0% | 11.1% | 100.0% |
| Behavioral Health | 1,255 | 5.5% | 15.8% | 1.9% | 0.0% | 0.4% | 7.8% | 0.2% | 28.8% | 39.7% | 100.0% |
| Neurology | 1,157 | 42.7% | 30.9% | 6.5% | 5.3% | 4.1% | 0.8% | 2.1% | 0.0% | 7.7% | 100.0% |
| Neonatology | 841 | 73.5% | 0.0% | 16.6% | 0.0% | 4.5% | 1.9% | 0.6% | 0.0% | 2.9% | 100.0% |
| Oncology/Hematology (Medical) | 635 | 45.4% | 15.3% | 3.9% | 0.3% | 13.7% | 1.9% | 10.6% | 0.0% | 9.0% | 100.0% |
| Spine | 577 | 68.1% | 4.0% | 0.3% | 0.5% | 2.9% | 1.0% | 5.4% | 0.0% | 17.7% | 100.0% |
| Vascular Services | 412 | 50.0% | 38.6% | 1.9% | 0.7% | 0.5% | 0.5% | 1.9% | 0.0% | 5.8% | 100.0% |
| Other | 387 | 63.3% | 14.7% | 1.8% | 4.9% | 6.5% | 1.0% | 1.8% | 0.0% | 5.9% | 100.0% |
| Gynecology | 316 | 39.9% | 9.2% | 19.3% | 0.3% | 1.9% | 0.3% | 1.6% | 0.0% | 27.5% | 100.0% |
| Urology | 272 | 55.1% | 20.2% | 0.7% | 1.1% | 8.1% | 1.1% | 3.7% | 0.0% | 9.9% | 100.0% |
| ENT | 230 | 45.7% | 12.2% | 3.5% | 0.0% | 20.0% | 3.0% | 8.3% | 0.0% | 7.4% | 100.0% |
| Neurosurgery | 179 | 48.6% | 2.8% | 0.6% | 0.0% | 13.4% | 0.0% | 15.1% | 0.0% | 19.6% | 100.0% |
| No-match-found | 49 | 18.4% | 28.6% | 4.1% | 20.4% | 16.3% | 0.0% | 6.1% | 0.0% | 6.1% | 100.0% |
| Ophthalmology | 25 | 40.0% | 8.0% | 4.0% | 0.0% | 24.0% | 4.0% | 12.0% | 0.0% | 8.0% | 100.0% |
| Total Percentage | | 46.5% | 25.6% | 7.9% | 3.2% | 3.0% | 2.0% | 1.5% | 1.5% | 8.9% | 100.0% |
| Total Discharges | 24,869 | 11,557 | 6,355 | 1,977 | 801 | 738 | 491 | 375 | 361 | 2,214 | |

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

- Mercy Medical Center Redding is the service line leader in 14 of 18 service lines: general medicine (41.5%), orthopedics (46.5%), obstetrics (80%); general surgery (41.5%), neurology (42.7%), neonatology (73.5%), oncology/hematology (45.4%), spine (68.1%), vascular services (50%), gynecology (39.9%), urology (55.1%), ENT (45.7%), neurosurgery (48.6%), and ophthalmology (40%); and
- Shasta Regional Medical Center is the service line market share leader in cardiac services (43.7%).

Market Share by ZIP Code

The following table shows hospital market share by ZIP Code in Mercy Medical Center Redding’s service area for CY 2016.

| MERCY MEDICAL CENTER REDDING MARKET SHARE BY ZIP CODE CY 2016 | | | | | | | | | | | | |
|--|------------------|------------------|--------------------------------|--------------------------------|----------------------------------|---------------------------------------|---|---------------------------------|---------------------|--------------------------------------|-------------|---------------|
| ZIP Code | Community | Total Discharges | Mercy Medical Center – Redding | Shasta Regional Medical Center | St. Elizabeth Community Hospital | Vibra Hospital Of Northern California | University Of California Davis Medical Center | Enloe Medical Center- Esplanade | UCSF Medical Center | Resppard Psychiatric Health Facility | All Others | Total |
| 96003 | Redding | 4,539 | 50.7% | 31.2% | 0.9% | 3.7% | 3.2% | 1.1% | 1.0% | 0.9% | 7.4% | 100.0% |
| 96001 | Redding | 4,079 | 48.9% | 27.8% | 0.7% | 4.3% | 2.2% | 1.3% | 1.2% | 4.4% | 9.2% | 100.0% |
| 96002 | Redding | 3,806 | 51.9% | 31.3% | 0.7% | 3.3% | 2.5% | 0.7% | 1.6% | 1.4% | 6.6% | 100.0% |
| 96080 | Red Bluff | 3,215 | 21.3% | 3.9% | 51.3% | 1.2% | 4.2% | 8.1% | 1.8% | 0.8% | 7.4% | 100.0% |
| 96007 | Anderson | 2,884 | 56.1% | 27.3% | 1.0% | 2.6% | 3.5% | 0.9% | 1.1% | 0.8% | 6.7% | 100.0% |
| 96022 | Cottonwood | 1,563 | 48.5% | 23.0% | 8.6% | 2.8% | 3.3% | 1.9% | 3.9% | 0.8% | 7.3% | 100.0% |
| 96019 | Shasta Lake | 1,191 | 50.1% | 33.4% | 1.0% | 3.6% | 2.6% | 0.8% | 1.2% | 0.8% | 6.5% | 100.0% |
| 96088 | Shingletown | 540 | 46.9% | 36.5% | 1.1% | 4.4% | 1.9% | 0.6% | 1.5% | 0.6% | 6.7% | 100.0% |
| 96093 | Weaverville | 501 | 35.7% | 13.4% | 1.6% | 2.6% | 2.8% | 1.0% | 1.0% | 0.2% | 41.7% | 100.0% |
| 96073 | Palo Cedro | 415 | 47.2% | 32.3% | 0.5% | 4.1% | 2.7% | 1.4% | 3.4% | 0.5% | 8.0% | 100.0% |
| 96041 | Hayfork | 298 | 42.3% | 18.5% | 1.3% | 4.7% | 3.4% | 0.7% | 0.0% | 0.3% | 28.9% | 100.0% |
| 96049 | Redding | 269 | 56.1% | 27.9% | 0.4% | 2.2% | 3.3% | 0.4% | 0.7% | 0.0% | 8.9% | 100.0% |
| 96008 | Bella Vista | 211 | 48.3% | 35.5% | 0.5% | 3.3% | 2.8% | 1.4% | 0.9% | 0.9% | 6.2% | 100.0% |
| 96051 | Lakehead | 164 | 48.2% | 34.1% | 1.2% | 3.0% | 3.0% | 1.2% | 0.6% | 1.2% | 7.3% | 100.0% |
| 96052 | Lewiston | 153 | 40.5% | 14.4% | 0.0% | 5.2% | 1.3% | 1.3% | 0.0% | 0.0% | 37.3% | 100.0% |
| 96087 | Shasta | 132 | 56.1% | 23.5% | 0.8% | 4.5% | 2.3% | 0.0% | 1.5% | 1.5% | 9.8% | 100.0% |
| 96062 | Millville | 101 | 46.5% | 29.7% | 2.0% | 4.0% | 5.0% | 1.0% | 3.0% | 1.0% | 7.9% | 100.0% |
| 96069 | Oak Run | 99 | 50.5% | 22.2% | 5.1% | 2.0% | 1.0% | 1.0% | 5.1% | 1.0% | 12.1% | 100.0% |
| 96024 | Douglas City | 93 | 43.0% | 15.1% | 1.1% | 4.3% | 0.0% | 1.1% | 0.0% | 0.0% | 35.5% | 100.0% |
| 96089 | Shasta Lake | 81 | 60.5% | 29.6% | 1.2% | 2.5% | 2.5% | 2.5% | 0.0% | 0.0% | 1.2% | 100.0% |
| 96091 | Trinity Center | 76 | 38.2% | 18.4% | 0.0% | 3.9% | 2.6% | 0.0% | 3.9% | 0.0% | 32.9% | 100.0% |
| 96047 | Igo | 75 | 48.0% | 32.0% | 0.0% | 2.7% | 1.3% | 2.7% | 4.0% | 0.0% | 9.3% | 100.0% |
| 96059 | Manton | 66 | 53.0% | 4.5% | 19.7% | 1.5% | 1.5% | 1.5% | 6.1% | 0.0% | 12.1% | 100.0% |
| 96084 | Round Mountain | 66 | 50.0% | 34.8% | 0.0% | 1.5% | 3.0% | 0.0% | 0.0% | 0.0% | 10.6% | 100.0% |
| 96096 | Whitmore | 58 | 29.3% | 41.4% | 0.0% | 12.1% | 3.4% | 0.0% | 3.4% | 3.4% | 6.9% | 100.0% |
| 96033 | French Gulch | 57 | 36.8% | 29.8% | 0.0% | 5.3% | 1.8% | 0.0% | 1.8% | 3.5% | 21.1% | 100.0% |
| 96065 | Montgomery Creek | 46 | 28.3% | 37.0% | 0.0% | 6.5% | 2.2% | 0.0% | 0.0% | 0.0% | 26.1% | 100.0% |
| 96011 | Big Bend | 31 | 32.3% | 22.6% | 0.0% | 6.5% | 0.0% | 0.0% | 0.0% | 0.0% | 38.7% | 100.0% |
| 96075 | Paynes Creek | 25 | 24.0% | 12.0% | 28.0% | 0.0% | 0.0% | 20.0% | 4.0% | 0.0% | 12.0% | 100.0% |
| 96076 | Platina | 23 | 47.8% | 34.8% | 8.7% | 0.0% | 4.3% | 0.0% | 0.0% | 0.0% | 4.3% | 100.0% |
| 96079 | Shasta Lake | 12 | 50.0% | 33.3% | 0.0% | 8.3% | 0.0% | 0.0% | 0.0% | 0.0% | 8.3% | 100.0% |
| Total Percentage | | | 46.5% | 25.6% | 7.9% | 3.2% | 3.0% | 2.0% | 1.5% | 1.5% | 8.9% | 100.0% |
| Total Discharges | | | 24,869 | 11,556 | 6,355 | 1,977 | 801 | 738 | 491 | 375 | 361 | 2,215 |

Note: Excludes normal newborns

Source: CY 2016 OSHPD Patient Discharge Database

- Mercy Medical Center Redding is the inpatient market share leader in 27 of the 31 service area ZIP Codes;
- Shasta Regional Medical Center is the inpatient market share leader in two service area ZIP Codes also located within Cities of Whitmore and Montgomery Park; and
- St. Elizabeth Community Hospital is the inpatient market share leader in two service area ZIP Codes located within the Cities of Red Bluff and Paynes Creek.

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 Mercy Medical Center Redding as 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.

Mercy Medical Center Redding

In FY 2017, the hospitals located within Mercy Medical Center Redding’s service area had a combined total of 733 licensed beds with an aggregate average occupancy rate of 53%. In FY 2017, Mercy Medical Center Redding had 267 licensed beds that operated at an occupancy rate of 64%. In CY 2016, Mercy Medical Center Redding had 46% market share of the service area inpatient discharges. Furthermore, of the hospitals located within Mercy Medical Center Redding’s service area, Mercy Medical Center Redding had 55% of the total inpatient discharges, representing 44% of the patient days.

| SERVICE AREA HOSPITAL DATA | | | | | | | |
|--|----------------|---------------|----------------------|----------------|----------------------|------------------|---------------------|
| Hospital | City | Licensed Beds | Inpatient Discharges | Patient Days | Average Daily Census | Percent Occupied | Miles From Hospital |
| Mercy Medical Center Redding | Redding | 267 | 15,174 | 62,775 | 172 | 64% | - |
| Shasta Regional Medical Center ¹ | Redding | 226 | 7,338 | 33,263 | 91 | 40% | 1.6 |
| St. Elizabeth Community Hospital | Red Bluff | 76 | 2,679 | 8,582 | 24 | 31% | 35.2 |
| Vibra Hospital Of Northern California ¹ | Redding | 88 | 1,108 | 27,612 | 76 | 86% | 2.0 |
| Restpadd Psychiatric Health Facility | Redding | 16 | 557 | 5,148 | 14 | 88% | 1.9 |
| Trinity Hospital ¹ | Weaverville | 50 | 372 | 4,100 | 11 | 22% | 44.4 |
| Patients' Hospital Of Redding ¹ | Redding | 10 | 199 | 407 | 1 | 11% | 22.0 |
| Total | | 733 | 27,427 | 141,887 | 389 | 53% | |

Source: OSHPD Disclosure Reports, Google Maps

¹FY2017 OSHPD Discharges not reported. Audited FY 2016 is shown

Since Mercy Medical Center Redding has the highest number of inpatient discharges (15,174) and the largest market share (46%) of the hospitals within its service area, it is a very important provider of healthcare services to the community.

Emergency Services

Mercy Medical Center Redding is an important provider of emergency services to the residents of its surrounding communities. In FY 2017, Mercy Medical Center Redding (a Level II Trauma Center and Primary Stroke Center) reported 55,836 emergency service visits to its 30 emergency treatment stations, operating at 93% capacity²⁷.

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. Therefore, keeping Mercy Medical Center Redding'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 Mercy Medical Center Redding's existing emergency services include:

- 30 Treatment Stations;
- Paramedic Base Station;
- STEMI Receiving Center;
- Certified Primary Stroke Center; and
- Level II Trauma 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 Mercy Medical Center Redding'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.

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

Reproductive Health Services

Mercy Medical Center Redding is an important provider of reproductive healthcare services to women. The Hospital averaged 2,038 live births between FY 2015 and FY 2017.

Mercy Medical Center Redding 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 Mercy Medical Center Redding when the pathology is determined to present a medical need and/or a clear and present danger to the patient. Mercy Medical Center Redding 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 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 Mercy Medical Center Redding as a result of the Ministry Alignment Agreement.

The following table shows recorded inpatient reproductive service procedures in CY 2016 at Mercy Medical Center Redding.

| CY 2016 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP | |
|---|-------------------------------------|
| Diagnostic Related Group | Mercy Medical Center Redding |
| 778-Threatened Abortion | 34 |
| 767-Vaginal Delivery W Sterilization &/Or D&C ¹ | 17 |
| 779-Abortion W/O D&C ¹ | 7 |
| 777-Ectopic Pregnancy | 5 |
| 770-Abortion W D&C ¹ , Aspiration Curettage Or Hysterotomy | 3 |
| Total Discharges: | 66 |

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 |
| | Mercy Medical Center Redding | \$2,838,353 | \$3,081,672 | \$2,477,884 |

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

Mercy Medical Center Redding participates in the Medicare and Medi-Cal programs, and 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 Managed Care 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.

Shasta 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 Shasta 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 Shasta County, the County Organized Health Systems is provided by Partnership Health Plan. Currently, Dignity Health is contracted with Partnership Health Plan 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 Mercy Medical Center Redding.

| DIGNITY HEALTH SHASTA COUNTY MEDI-CAL CONTRACT | |
|---|-------------------------|
| Dignity Health Hospital | Health Plan |
| Mercy Medical Center Redding | Partnership Health Plan |

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

Mercy Medical Center Redding 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 following table shows the annual average for both the three and five fiscal years at Mercy Medical Center Redding.

| SHASTA COUNTY COMMUNITY BENEFIT | | |
|---------------------------------|--------------------|--------------------|
| | FY 2015 - FY 2017* | FY 2013 – FY 2017* |
| Mercy Medical Center Redding | \$3,459,018 | \$4,110,598 |

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

While the Hospital offers various community benefit programs, the Ministry Alignment Agreement includes commitments to maintain many of the current community benefit programs. The table below 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 |
| Mercy Medical Center Redding | <ul style="list-style-type: none"> • Community Health Education¹ • Community Grants Program • Hospitality House • Residency Program • Transportation for patients in need |

¹ Community Benefit program commitment under \$10,000 in cost in CY 2017

Effects on Hospital Licensed Services

Mercy Medical Center Redding 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 Mercy Medical Center Redding:

- Intensive care services, including a minimum of 34 intensive care beds;
- Obstetrics services, including a minimum of 31 perinatal beds;
- Pediatric services, including a minimum of 19 pediatric beds;
- Intensive Care Newborn Nursery services, including a minimum of 16 Neonatal Intensive Care Unit beds; and
- Coronary care, including a minimum of 10 licensed coronary care beds.

Since Dignity Health and CHI make five-year commitments to licensed inpatient services, no reductions in the availability or accessibility of healthcare services are expected for Mercy Medical Center Redding for at least five years as a result of the Ministry Alignment Agreement.

Effects on Programs and Services

Mercy Medical Center Redding 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 Mercy Medical Center Redding:

- Cardiovascular services, cardiac catheterization laboratory services, cardiovascular surgery, interventional cardiology, electrophysiology, general cardiology Outpatient services-cardiac rehabilitation;
- Neuroscience services, including neurosurgery services;
- Oncology services, including inpatient medical and surgical oncology services;
 - Outpatient services – Oncology;
- Outpatient services –Oncology at Dignity Health Mercy Oncology Center;
- Orthopedic surgery services, including total joint replacements;
- General surgery services;
- Nuclear medicine services;
- Outpatient services – Endoscopy;
- Outpatient services – Pulmonary;
- Imaging and radiology services (inpatient and outpatient)
 - Outpatient services – MRI;

- Laboratory services;
- Outpatient Clinics – Mercy Family Health Center;
- Outpatient Clinics - Mercy Wound Care Clinic;
- Outpatient Clinics – Mercy Maternity Clinic²⁸;
- Audiology services;
- Occupational therapy services;
- Physical therapy services;
- Respiratory care services;
- Social services; and
- Speech pathology services.

Since Dignity Health and CHI have committed to maintaining these additional licensed services and programs for five years after the Effective Date at Mercy Medical Center Redding, 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 Mercy Medical Center Redding:

- California Nurses Association (CNA); 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 Mercy Medical Center Redding as a result of the Ministry Alignment Agreement.

²⁸While Dignity Health committed Mercy Medical Center Redding to the Mercy Maternity Clinic, Hospital management noted that beginning January 2019, the Maternity Clinic will no longer be owned and operated by Mercy Medical Center Redding. The operational oversight of the Maternity Clinic will be transitioned to a local Federally Qualified Health Center.

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 staff's privileges, no reductions in the medical staff at Mercy Medical Center Redding are expected.

Effects on City and County Contracts

Mercy Medical Center Redding has a number of contracts with Shasta 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:

Mercy Medical Center Redding

1. For at least ten years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Redding 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, Mercy Medical Center Redding 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:
 - 30 Treatment Stations;
 - Paramedic Base Station;
 - STEMI Receiving Center;
 - Certified Primary Stroke Center; and
 - Level II Trauma Center.
3. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Redding shall maintain the following services at current licensure, types, and/or levels of services:
 - Critical care services, including a minimum of 34 intensive care beds and a minimum of 10 licensed coronary care beds;
 - Obstetrics services, including a minimum of 31 perinatal beds;
 - Pediatric services, including a minimum of 19 pediatric beds; and
 - Intensive Care Newborn Nursery services, including a minimum of 16 Neonatal Intensive Care Unit beds.

4. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Redding shall maintain the following services as committed to Attachment D in Exhibit L of the Ministry Alignment Agreement:
 - Cardiovascular services, cardiac catheterization laboratory services, cardiovascular surgery, interventional cardiology, electrophysiology, general cardiology Outpatient services -cardiac rehabilitation;
 - Neuroscience services, including neurosurgery services;
 - Oncology services, including inpatient medical and surgical oncology;
 - i. Outpatient services – Oncology;
 - Outpatient services –Oncology at Dignity Health Mercy Oncology Center;
 - Orthopedic surgery services, including total joint replacements;
 - General surgery services;
 - Nuclear medicine services;
 - Outpatient services – Endoscopy;
 - Outpatient services – Pulmonary;
 - Imaging and radiology services (inpatient and outpatient)
 - Outpatient services – MRI;
 - Laboratory services;
 - Outpatient Clinics – Mercy Family Health Center;
 - Outpatient Clinics - Mercy Wound Care Clinic;
 - Audiology services;
 - Occupational therapy services;
 - Physical therapy services;
 - Respiratory care services;
 - Social services; and
 - Speech pathology services.

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

6. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Redding 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 Mercy Medical Center Redding shall provide an annual amount of charity care equal to or greater than \$3,518,267 (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, Mercy Medical Center Redding’s required Minimum Charity Care amount using the three-year rolling average from FY 2015 to FY 2017

would be \$2,477,884. For purposes herein, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by Mercy Medical Center Redding in connection with the operations and provision of services at Mercy Medical Center Redding. 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 a 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, Mercy Medical Center Redding shall continue to expend no less than \$4,110,598 million 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 Date;
 - Community Health Education;
 - Community Grants Program;
 - Hospitality House;
 - Residency Program; and
 - Transportation for patients in need.
8. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Redding 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, Mercy Medical Center Redding 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, Mercy Medical Center Redding 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 contract:
 - County Organized Health Systems plan: Partnership Health Plan, or its successor.

11. For at least five years from the Closing Date of the Ministry Alignment Agreement, Mercy Medical Center Redding shall maintain its current city/county contracts for the programs listed below:
 - Facility Services Agreement;
 - Agreement for Combi-tube and Automated External Defibrillation Services;
 - Modification to Approval to Provide for Combi-tube and Automated External Defibrillation Services;
 - Personal Services Agreement (CAPR System Kits);
 - Paternity Opportunity Program Agreement;
 - Personal Services Agreement (Lab Testing);
 - Personal Services Agreement (Decontamination Equipment);
 - Services Agreement (Blood Draws and Expert Testimony);
 - Thermal Energy Storage Agreement; and
 - Domestic Violence/Sexual Assault Victim Services Agreement.

12. Dignity Health and CHI shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Mercy Medical Center Redding 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. Mercy Medical Center Redding shall maintain written policies that prohibit discrimination against lesbian, gay, bisexual, or transgender individuals.

Mercy Medical Center Redding License

License: 230000024
 Effective: 11/02/2017
 Expires: 11/01/2018
 Licensed Capacity: 267

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**

Mercy Medical Center Redding

2175 Rosaline Ave
 Redding, CA 96001-2509

Bed Classifications/Services

- 267 General Acute Care
- 34 Intensive Care
- 31 Perinatal
- 19 Pediatric
- 16 Intensive Care Newborn Nursery
- 10 Coronary Care
- 157 Unspecified General Acute Care

Other Approved Services

- Audiology
- Basic Emergency Medical
- Cardiac Catheterization Laboratory Services
- Cardiovascular Surgery
- Nuclear Medicine
- Occupational Therapy
- Outpatient Clinics - PCC at Mercy Family Health Center, 2480 Sonoma St., Redding
- Outpatient Clinics - PCC at Mercy Maternity Clinic, 1900 Railroad Ave, Redding
- Outpatient Clinics - PCC at Mercy Woundcare Clinic, 1950 Rosaline Avenue, Suites A & B, Redding
- Outpatient Services - Cardiac Rehab
- Outpatient Services - Endoscopy
- Outpatient Services - MRI
- Outpatient Services - Oncology
- Outpatient Services - Oncology at Dignity Health Mercy Oncology Center, 310 Hartnell Ave Suites A & C, Redding
- Outpatient Services - Pre-operative Clinic at Patient Service Center, 2656 Edith Ave, Suite A, Redding
- Outpatient Services - Pulmonary
- Physical Therapy
- Respiratory Care Services
- Social Services
- Speech Pathology

(Additional Information Listed on License Addendum)

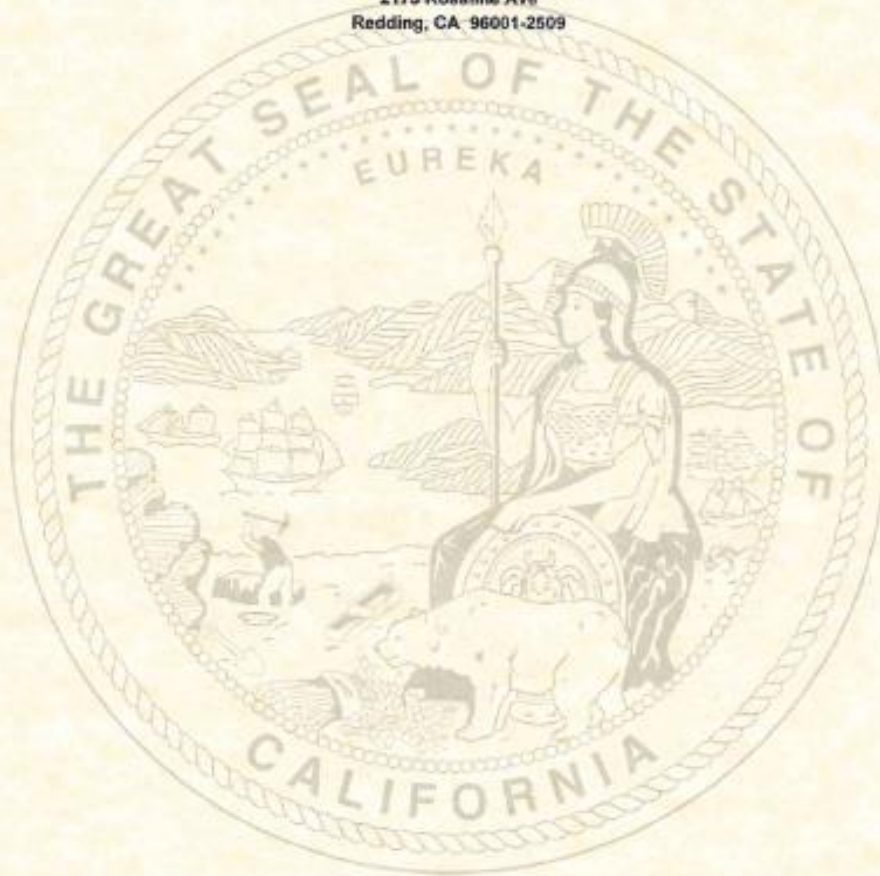
Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, Chico District Office, 126 Mission Ranch Blvd, Chico, CA 95926, (530)895-6711

POST IN A PROMINENT PLACE

**State of California
Department of Public Health
License Addendum**

License: 23000024
Effective: 11/02/2017
Expires: 11/01/2018
Licensed Capacity: 267

Mercy Medical Center Redding (Continued)
2175 Rosaline Ave
Redding, CA 96001-2509



This LICENSE is not transferable and is granted solely upon the following conditions, limitations and comments:
None

Karen L. Smith, MD, MPH

Director and State Public Health Officer

Stephanie Devlin, Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, Chico
District Office, 126 Mission Ranch Blvd, Chico, CA 95926, (530)895-6711

POST IN A PROMINENT PLACE