

Effect of the Asset Purchase Agreement between Verity Health and Strategic Global Management on the Availability and Accessibility of Healthcare Services to the Communities Served by Seton Medical Center

Prepared for the Office of the California Attorney General

August 19, 2019



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Contents

Introduction & Purpose	4
Reasons for the Transaction as Stated in the Notice to the California Attorney General	5
Timeline of the Transaction	6
Summary of the Asset Purchase Agreement	11
Use of Net Sale Proceeds	19
Profile of Verity Health	20
Verity Health	20
Verity Health Inpatient Statistics	23
Statement of Operations	24
Net Patient Service Revenue	24
Operating Expenses	25
Financial Position and Debt Obligations	25
Credit Rating and Outlook	26
Verity Health Payer Mix	27
Unionized Employees	28
Profile of Purchaser	29
Overview	29
KPC Hospitals	30
PHH Hospitals	31
Victor Valley Hospital Acquisition, Inc. and Victor Valley Hospital Real Estate, LLC	31
Hospital Compare	34
Profile of Seton Medical Center	36
Seton Medical Center	36
Overview of the Hospital	37
Key Statistics	38
Programs and Services	38
Accreditation	40
Quality Measures	40
Seismic Issues	42
Payer Mix	44
Managed Medi-Cal Managed Care	45
Medical Staff	46
Patient Utilization Trends	47
Financial Profile	49
Cost of Hospital Services	50
Charity Care	50
Community Benefit Services	52
Analysis of the Hospital's Service Area	54
Service Area Definition	54
Service Area Map	55
Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations	56
STEMI Receiving Centers in San Mateo County	58
Certified Stroke Centers in San Mateo County	59
Demographic Profile	60

Medi-Cal Eligibility	62
Selected Health Indicators.....	62
2016 Community Health Needs Assessment.....	64
Hospital Supply, Demand & Market Share	66
Market Share by Payer Type.....	68
Market Share by Service Line	69
Seton Medical Center Analysis by Bed Type.....	71
Medical/Surgical Capacity Analysis.....	71
Intensive Care Capacity Analysis.....	72
Psychiatric Care Capacity Analysis	73
Subacute Care Capacity Analysis	74
Emergency Services Analysis	75
Emergency Services Capacity.....	76
Summary of Interviews	77
Reasons for the Proposed Transaction.....	77
Importance of the Hospital to the Community	78
Selection of Strategic Global Management for the Proposed Transaction	79
Views of the Health Plan of San Mateo and San Mateo County Health.....	81
Impact on the Availability and Accessibility of Healthcare Services.....	82
Alternatives.....	82
Assessment of Potential Issues Associated with the Availability or Accessibility of Healthcare Services	83
Importance of the Hospital and Seton Coastside to the Surrounding Communities	83
Continuation as a General Acute Care Hospital	83
Emergency Services	83
Medical/Surgical Services	84
Intensive Care/Coronary Care Services	84
Skilled Nursing/Sub-Acute Care Services	84
Psychiatric Care Beds.....	84
Skilled Nursing Care Beds at Seton Coastside.....	85
Oncology/Cancer Services	85
Reproductive Health Services	85
Effects on Services to Medi-Cal & Other Classes of Patients.....	85
Effects on the Level & Type of Charity Care Historically Provided	86
Effects on Community Benefit Programs.....	86
Effects on Staffing & Employee Rights.....	86
Effects on Medical Staff	87
Alternatives.....	87
Conclusions.....	88
Potential Conditions for Transaction Approval by the California Attorney General	88
Appendix	93
List of Interviewees.....	93
Purchaser Conditions from Schedule 8.6 of the Asset Purchase Agreement.....	94
Seton Medical Center License.....	104

Introduction & Purpose

JD Healthcare, Inc. was retained by the Office of the California Attorney General to assess the potential impact of the proposed Asset Purchase Agreement by and between the Verity Health System of California, Inc., a California nonprofit public benefit corporation, and Verity Holdings, LLC¹, a California limited liability company (collectively “Verity Health”), St. Francis Medical Center, a California nonprofit public benefit corporation, St. Vincent Medical Center, a California nonprofit public benefit corporation, St. Vincent Dialysis Center, Inc., a California nonprofit public benefit corporation, and Seton Medical Center, a California nonprofit public benefit corporation (collectively “Sellers”), and purchaser Strategic Global Management, Inc. a California for-profit corporation and one or more of its affiliates (“SGM”), on the availability and accessibility of healthcare services to the communities served by Seton Medical Center (“Hospital”).

The Sellers filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code with the United States Bankruptcy Court for the Central District of California, Los Angeles Division. The Sellers and SGM intend to effectuate the transaction through a sale of the assets approved by the Bankruptcy Court pursuant to Section 363 of Title 11 of the Bankruptcy Code.

Verity Health is the owner and operator of the Hospital, a general acute care hospital licensed for 478 beds, located in the city of Daly City, California. SGM is a health system serving communities in Los Angeles County, Orange County, Riverside County, and San Bernardino County.

The Asset Purchase Agreement, dated January 8, 2019, includes the sale of substantially all assets of the Verity Health Hospitals² and St. Vincent Dialysis Center. SGM recognizes that the transaction contemplated by the Asset Purchase Agreement may be subject to the review and approval of the California Attorney General. SGM agrees to close the transaction so long as any conditions imposed by the California Attorney General are substantially consistent with the Conditions³ as set forth in Schedule 8.6 of the Asset Purchase Agreement. These Conditions were imposed on December 3, 2015 when the California Attorney General conditionally approved a transaction, by and between the Daughters of Charity Ministry Services Corporation, the Daughters of Charity Health System, Center Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC.

¹ Verity Holdings, LLC is a direct subsidiary of its sole member Verity Health. It was created in 2016 to hold and finance Verity Health’s interests in six medical office buildings whose tenants are primarily physicians, medical groups, and healthcare providers.

² Verity Health Hospitals include St. Francis Medical Center, St. Vincent Medical Center, and Seton Medical Center (including the Seton Medical Center Coastside campus). Seton Medical Center and Seton Medical Center Coastside operate under one consolidated acute care license.

³ California Attorney General Required Conditions to approval of the Change in Control and Governance of St. Francis Medical Center and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC.

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

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

- A review of the written notice submitted to the Office of the California Attorney General on May 7, 2019 and supplemental information subsequently provided by Verity Health and the Hospital;
- A review of press releases and news articles related to the proposed Asset Purchase Agreement and other hospital transactions;
- Interviews with community representatives, representatives of Verity Health's Board, representatives of the Hospital's management, medical staff, and employees, representatives of SGM, and others as listed in the Appendix;
- An analysis of financial, utilization, and service information provided by the management of the Hospital, Verity Health, and the Office of Statewide Health Planning and Development (OSHDP); and
- An analysis of publicly available data and reports regarding the Hospital, SGM, and the service area, including demographic characteristics and trends, payer mix, hospital utilization rates and trends, health status indicators, and hospital market share.

Reasons for the Transaction as Stated in the Notice to the California Attorney General

Verity Health's Board believes the sale of Verity Health's assets is necessary due to the financial crisis facing Verity Health, including losses that amounted to approximately \$175 million annually on a cash flow basis. As of June 30, 2018, Verity Health's consolidated unaudited financial statements reflected total assets of approximately \$847 million and total liabilities of approximately \$1.278 billion. Despite past infusions of capital and new management, Verity Health's Board believes that the problems facing Verity Health are too large to solve without a formal court supervised restructuring. As such, Verity Health and Verity Health Hospitals and affiliated entities each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code.

Verity Health's Board provided the following additional reasons for Verity Health's poor financial condition that led to the formal court supervised restructuring:

- The legacy burden of more than a billion dollars of bond debt and unfunded pension liabilities;

- An inability to renegotiate collective bargaining agreements or payer contracts;
- The continued need for significant capital expenditures for seismic obligations and aging infrastructure, combined with the general financial and operational challenges facing the hospital industry; and
- The desire to protect the original legacy of the Daughters of Charity (Daughters) to the extent possible by retiring debt incurred over the past 18 years and freeing Verity Health Hospitals of financial burden so as to continue to operate the hospitals under new ownership and leadership without the accumulated debt.

Timeline of the Transaction

The events leading up to this transaction are described in filings with the Bankruptcy Court, and the Notice submitted to the California Attorney General, and chronologically ordered as follows:

- February 2005 – Bonds are issued in the amount of \$364 million to refinance existing debt and fund future capital expenditures⁴;
- November 2008 – Bonds⁵ are issued in the amount of \$143.7 million to refinance existing debt;
- February 24, 2012 – Daughters executes a memorandum of understanding with Ascension Health Alliance as a precursor to system integration discussions;
- June 20, 2012 – Daughters and Ascension Health Alliance effect an amendment to the memorandum of understanding;
- December 2012 – Daughters and Ascension Health Alliance execute an affiliation agreement that did not involve a transfer of assets or liabilities or a change of control. Rather, Daughters and its hospital corporations became participants in various purchasing programs of Ascension Health and obtained access to other Ascension Health support services;
- March 15, 2013 – Daughters solicits offers for O’Connor Hospital and Saint Louise Regional Hospital, and sends out a request for proposal and confidential descriptive memorandum to 15 potential partners, of which five submit indications of interest;

⁴ This amount is gross of an estimated \$26 million in the debt service reserved funds that were used to defease the 2005 Bonds.

⁵ The 2008 Bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2008A Bonds that include a debt service reserve fund of \$13.7 million.

- August 5, 2013 – Daughters solicits offers for Seton Medical Center and Seton Medical Center Coastside, and sends out a request for proposal and confidential descriptive memorandum to eight organizations, of which three submit indications of interest;
- October 2013 – The 2008 Bonds are retired⁶;
- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;
- January 2014 – Daughters announces the initiation of its process to evaluate strategic alternatives for the entire system;
- February 2014 – Request for Proposal process is initiated by contacting over 133 health systems and other buyers who could have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;
- February 2014 – Prime Healthcare, along with 71 other potential buyers, sign confidentiality agreements and receive a confidential information memorandum summarizing key facts about Daughters and its related entities;
- March 21, 2014 – Daughters receives 29 bids by the first-round deadline;
- May 30, 2014 – Daughters’ Board decides to focus efforts on full system bidders, concluding that no combination of proposals to purchase individual facilities would provide an adequate solution to Daughters’ pressing financial situation;
- July 30, 2014 – Daughters secures \$110 million in short-term “bridge financing” in order to access working capital to continue operations through the sale process (2014 Bonds, Series A & B);
- August 27, 2014 – Daughters secures an additional \$15 million under the 2014 Bonds (Series C);
- September 12, 2014 – Daughters receives four final proposals;
- October 3, 2014 – Daughters’ Board passes a resolution to authorize the execution of the Definitive Agreement between Daughters, Ministry, and Prime Healthcare, and recommends the approval of the transaction to Ministry’s Board of Directors (Ministry’s Board);

⁶ In October 2013, Daughters of Charity Foundation, an organization separate and independent from Daughters, made a restricted donation of \$130 million for the benefit of Daughters by depositing sufficient funds with the bond trustee to redeem the \$143.7 million principal amount of the 2008 Bonds.

- October 9, 2014 – St. Francis’s Board passes a resolution to authorize any necessary or advisable amendments to the Articles of Incorporation and Bylaws of St. Francis and St. Francis’s Foundation, and recommends approval of the transaction to Ministry’s Board;
- October 9, 2014 – Ministry’s Board passes a resolution to authorize the amendment of Daughters’ articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the Definitive Agreement between Daughters, Ministry, and Prime Healthcare;
- October 10, 2014 – Ministry and Daughters enter into the Definitive Agreement with Prime Healthcare;
- October 23, 2014 – Ministry and Daughters enter into Amendment No. 1 to Definitive Agreement with Prime Healthcare;
- October 24, 2014 – “Notice of Submission and Request for Consent” is submitted by Daughters to the California Attorney General;
- January 2015 – The California Attorney General holds six public meetings, two in Southern California and four in Northern California, to receive comments on the proposed change in governance and control of each of the Health Facilities;
- February 20, 2015 – The California Attorney General conditionally consents to the proposed change in governance and control of Daughters;
- March 9, 2015 – Prime Healthcare terminates its transaction agreement with Daughters;
- March 2015 – Request for Proposal process is initiated by contacting 86 potential buyers who could possibly have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;
- March 2015 – BlueMountain Capital Management, LLC, along with 75 other parties, sign confidentiality agreements and receive a confidential information memorandum supplemental update summarizing important information about Daughters and its related entities;
- April 15, 2015 – Daughters receives 14 first round bids, including one from BlueMountain Capital Management, LLC;

- April & May 2015 – Daughters’ Board reviews current active bids and determines that full system bids are the most viable option to address Daughters’ transaction objectives;
- May 2015 – Houlihan Lokey sends final bid letters to parties still pursuing full system offers;
- May 22, 2015 – BlueMountain Capital Management, LLC submits an amended first round bid to Daughters;
- May 29, 2015 – Loeb & Loeb, LLP, on behalf of Daughters, requests a determination letter from the IRS to recognize the Hospital Corporations, Caritas Business Services, DCHS Medical Foundation, and St. Vincent Dialysis Center, Inc. as 501(c)(3) tax-exempt entities;
- June 29, 2015 – Daughters receives four final proposals by the deadline, including one from BlueMountain Capital Management, LLC;
- July 14, 2015 – Daughters’ Board reviews the final proposals and passes a resolution to authorize the execution of the System Agreement between Daughters, Ministry, BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC (the management company responsible for operations), and recommends the approval of the transaction to Ministry’s Board;
- July 15, 2015 – St. Francis’s Board passes a resolution to authorize the execution of the System Agreement between Ministry, Daughters, BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC;
- July 15, 2015 – Ministry’s Board passes a resolution to authorize the amendment of Daughters’ articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the System Agreement between Ministry, Daughters, BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC;
- July 17, 2015 – Ministry and Daughters enter into the System Agreement with BlueMountain Capital Management, LLC and Integrity Healthcare, LLC;
- July 31, 2015 – “Notice of Submission and Request for Consent” is submitted by Daughters to the Office of the California Attorney General;
- September 2015 - Ministry and Daughters enter into Amendment No. 1 to System Restructuring and Support Agreement with BlueMountain Management, LLC and Integrity Healthcare, LLC;

- December 3, 2015 – California Attorney General conditionally approves the sale of Daughters to BlueMountain Capital Management, LLC;
- December 14, 2015 – Daughters and BlueMountain Capital Management, LLC closed the deal and renamed the health system to Verity Health System of California, Inc.;
- July 2017 – NantWorks acquires a controlling stake in Integrity Healthcare, LLC (the management company responsible for operating Verity Health);
- August 31, 2018 – Verity Health and each Verity Health Hospital (along with other Verity Health affiliated entities) each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code;
- December 4, 2018 – Verity Health Board met and discussed choosing the stalking horse⁷ bidder and reviewed the resolutions to approve SGM as the stalking horse bidder;
- February 7, 2019 – Verity Health Board passed the stalking horse resolution and ratified all actions;
- April 15, 2019 – The Verity Health Board met to review the final bids submitted and apply the requirements of the Bankruptcy Court approved bid procedures;
- April 15, 2019 – Verity Health Board approve SGM as the winning bidder; and
- May 7, 2019 – “Notice of Proposed Submission and Request for Consent” is submitted by Verity Health to the Office of the California Attorney General.

⁷ A stalking horse bidding process is where the debtor enters into the agreement with a bidder in advance of an auction for the sale of the debtor’s assets. This bid serves as what is referred to as the “stalking horse”, an initial bid which sets a baseline bid for the auction. The stalking horse agreement is then approved by the court and thereby made public together with open auction bidding procedures using the “stalking horse” as the base bid.

Summary of the Asset Purchase Agreement

The Asset Purchase Agreement was entered into on January 8, 2019 by and between the Sellers and SGM.

The major provisions of the Asset Purchase Agreement include the following:

On the Closing Date⁸ and subject to the terms and conditions of the Asset Purchase Agreement, SGM shall acquire, all of the Sellers' rights, title and interest in and to the assets and properties including, but not limited to, the following:

- All the tangible personal property owned by Verity Health Hospitals, or to the extent assignable or transferable by each Verity Health Hospital, leased, subleased or licensed and used in hospital operations, including equipment, furniture, fixtures, machinery, vehicles, office furnishings and leasehold improvements;
- All such Verity Health Hospitals' rights, to the extent assignable or transferable, including Medicare and Medi-Cal provider agreements, permits, approvals, certificates of exemption, franchises, accreditations and registrations and other governmental licenses, permits or approvals issued for use in the operation of Verity Health Hospitals, except to the extent SGM elects, in its discretion, not to take assignment of any such licenses;
- All of Verity Health Hospitals' interest in and to the Owned Real Property⁹ and all Verity Health Hospital's interest, to the extent assignable or transferable, in and to all Assumed Leases¹⁰;
- All of Verity Health Hospitals' Assumed Contracts¹¹;
- Other than the Excluded Settlements and Actions¹², all claims, rights, interests and proceeds (whether received in cash or by credit to amounts otherwise due to a third-party) with respect to amounts overpaid by Sellers to any third party

⁸ The day on which the consummation of the transactions contemplated by the Asset Purchase Agreement occurs.

⁹ Real property, together with all plant, buildings, structures, installments, improvements, fixtures, betterments, additions and constructions in progress situated thereon duly executed by Seller.

¹⁰ (1) Personal property leases with respect to the operation of Verity Health Hospitals, (2) the real property leases for all real property leased by Verity Health Hospitals, and (3) the real property leased or subleased by Verity Health Hospital's to a third party

¹¹ Interest, to the extent assignable or transferable, in and to all contracts and agreements (including, but not limited to, purchase orders) with respect to the operation of the Verity Health Hospitals that have been designated by SGM as a contract to be assumed

¹² All pre-Closing settlements or settlements pursuant to adversary proceedings in the Bankruptcy Cases.

health plans with respect to periods prior to the Effective Time¹³ except with respect to any causes of action or proceeds thereof arising under Chapter 5 of the Bankruptcy Code¹⁴ other than with respect to Assumed Contracts and Assumed Leases;

- To the extent assignable or transferable, all inventories of supplies, drugs, food, janitorial and office supplies and other disposables and consumables located or used in the operation of Sellers;
- Other than Utility Deposits¹⁵, all prepaid rentals, deposits, prepayments (excluding prepaid insurance and prepaid taxes) and similar amounts relating to the Assumed Contracts and/or the Assumed Leases, which were made with respect to the operation of Verity Health Hospitals;
- To the extent assignable or transferrable, all of the following that are not proprietary to Sellers; operating manuals, files and computer software with respect to the operation of the Verity Health Hospitals, including, without limitation, all patient records, medical records, employee records, financial records, equipment records, construction plans and specifications, and medical and administrative libraries; provided, however, that any patient records and medical records which are not required by law to be maintained by Seller's as of the Effective Time shall be an excluded;
- All Measure B¹⁶ trauma funding received after the Signing Date¹⁷ to be paid related to service periods ending on or after the Signing Date (pro-rated between SGM and Sellers for any such payments covering service periods which include days both before and after the Signing Date based upon the number of days in the relevant payment period);
- All accounts and interest, notes and interest and other receivables of Sellers, including, without limitation, disproportionate share payments¹⁸, all accounts and other receivables, Sellers' cost report settlements, products or supplies to inpatients and outpatients, billed and unbilled, recorded and unrecorded, for services, goods, products and supplies provided by Sellers' prior to the Effective Time whether payable by Medicare, Medicaid, or any other payor (collectively, "Accounts Receivable");

¹³ The Effective Time occurs at 12:00 am Pacific Time on the day immediately after the Closing Date.

¹⁴ Section 501 through 562 of the United States Bankruptcy Code that focuses on creditors, debtors and the estate.

¹⁵ All deposits made with any entity that provides utilities to the Verity Health Hospitals.

¹⁶ A Measure passed in 2002 that raised property taxes to help fund emergency departments and trauma centers operating in Los Angeles County.

¹⁷ The date the Asset Purchase Agreement was made and entered into (January 8, 2019).

¹⁸ Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid & Medicare Services to cover the costs of providing care to uninsured patients.

- Other than the Excluded Settlements and Actions, all regulatory settlements, rebates, adjustments, refunds or group appeals, including without limitation pursuant to all cost reports filed by Sellers for payment or reimbursement from government payment programs and other payors with respect to periods after the Signing Date;
- Other than the Excluded Settlements and Actions, all casualty insurance proceeds arising in respect of casualty losses occurring after the Signing Date in connection with the ownership or operation of the Sellers assets;
- Other than the Excluded Settlements and Actions, all surpluses arising out of any risk pools, shared savings program or accountable care organization arrangement to which any Seller is party on the Closing Date, in each case to the extent SGM assumes the underlying contract relating to such risk pools, shared savings program or accountable care organization arrangement;
- The right to use the names "St. Francis Medical Center", "St. Vincent Medical Center", "Seton Medical Center" and "Seton Medical Center Coastside", including any trademarks, service marks, trademark and service mark registrations and registration applications, trade names, trade name registrations, logos, domain names, trade dress, copyrights, copyright registrations, website content, know-how, trade secrets and the corporate or company names of Sellers and the names of the Verity Health Hospitals;
- Each such Hospital Seller's Medicare and Medi-Cal provider agreements and lockbox account(s) identified;
- All of Seton Medical Center's interest in and to the Property Assessed Clean Energy¹⁹ (PACE) Obligations; and
- All QAF Program²⁰ payments received after the Closing.
- Excluded assets, notwithstanding anything to the contrary listed above, pertaining to each Sellers includes, but is not limited to, the following:
 - Cash, cash equivalents and short-term investments;

¹⁹ Property Assessed Clean Energy (PACE) is a financing instrument for implementing energy efficiency or renewable energy projects. PACE enables property owners to finance up to 100% of the upfront cost of clean energy projects and is paid through a voluntary assessment on their property tax bill.

²⁰ Hospital Qualified Assurance Fee Program: This program uses fees assessed by the state on hospitals to draw down federal matching funds. These provider fees are then issued as supplemental payments to hospitals. These provider fees are an integral element to improving access to healthcare for some of California's most vulnerable residents.

- All Sellers' employee benefit plans any asset that would revert to the employer upon the termination of any employee benefit plans, including, without limitation, any assets representing a surplus or overfunding of any employee benefit plans;
- All contracts and leases that are not assumed;
- Assets owned and provided by vendors of services or goods to Sellers';
- All of Sellers' organizational and/or corporate record books, minute books, tax returns, tax records and reports, data, files and documents, including electronic data;
- All claims, counterclaims and causes of action of Sellers' bankruptcy estate including, without limitation, rights of recovery and character against third parties, causes of action arising out of any claims and causes of action under chapter 5 of the Bankruptcy Code and any related claims, counterclaims and causes of action under applicable non-bankruptcy law, and any rights to challenge liens asserted against property of such Sellers' bankruptcy estate, including, but not limited to, liens attaching to the Purchase Price paid to Sellers;
- All insurance policies and contracts, other than casualty insurance proceeds, and coverages obtained by Sellers, including prepaid insurance premiums, and all subrogation proceeds related to any insurance benefits arising from or relating to assets prior to the Closing Date;
- All deposits made with any entity that provides utilities to the Verity Health Hospitals;
- All rents, deposits, prepayments, and similar amounts relating to any contract or lease that is not an Assumed Contract or Assumed Lease;
- All non-transferrable unclaimed property of any third party as of the Effective Time, including, without limitation, property which is subject to applicable escheat laws;
- All writings and other items that are protected from discovery by the attorney-client privilege, the attorney work product doctrine, or any other cognizable privilege or protection;
- All tax refunds of such Seller;
- All patient records and medical records which are not required by law to be maintained by such Seller as of the Effective Time;

- All deposits or other prepaid charges and expenses paid in connection with or relating to any other excluded assets;
 - All pre-Closing settlements or settlements pursuant to adversary proceedings in the Bankruptcy Cases;
 - All QAF Payments received prior to the Signing Date; and
 - All assets of Verity Holdings, other than those part of the purchase price, and all assets of any of the tenants located in the leased premises of the purchased Verity Holdings properties.
- Subject to the terms and conditions of the Asset Purchase Agreement, the purchase price shall consist of the following:
 - Cash payment to Sellers of Six Hundred Ten Million Dollars (\$610,000,000.00), which shall be allocated as follows:
 - Four Hundred Twenty Million Dollars (\$420,000,000) to St. Francis Medical Center;
 - One Hundred Twenty Million Dollars (\$120,000,000) to St. Vincent Medical Center; and
 - Seventy Million Dollars (\$70,000,000) to Seton for Seton Medical Center and Seton Coastside Hospital, provided, that the California Attorney's conditional approval does not include a requirement that Seton Medical Center remain open as an acute care hospital or that Seton Coastside Hospital remain open as a skilled nursing facility, then an amount to be determined by SGM, in its sole discretion, of such shall be reallocated from St. Francis Medical Center to Seton Medical Center.
 - Assumption of Sellers' accrued vacation and other paid time off as of the Closing;
 - Assumption of all liabilities of Seton Medical Center for payments received associated with the PACE seismic and clean energy loans;
 - Payment of Cure Costs²¹ associated with any assumed leases and/or contracts and assumption of the other assumed obligations.

²¹ Cure Costs means all amounts that must be paid and all obligations that otherwise must be satisfied, including pursuant to Sections 365(b)(1)(A) and (B) of the Bankruptcy Code, in connection with the assumption and/or assignment of the assumed contracts and assumed leases to SGM as provided in the Asset Purchase Agreement.

- At Closing, SGM shall pay to Sellers an aggregate amount equal to the purchase price minus the Net QAF Reduction Amount²², if any, plus the Net QAF Increase Amount²³, if any, plus any amounts by the PACE Trustee, minus the deposit of Thirty Million Dollars (\$30,000,000).
- SGM shall, prior to Closing, be permitted to communicate with holders of secured debt of the Sellers regarding the possible assumption by SGM of all or a portion of such debt at the Closing. If SGM agrees to assume any such debt at the Closing, SGM and Sellers shall negotiate an appropriate credit to the purchase price for such assumption of debt.
- On the Closing Date, Sellers shall assign, and SGM shall assume, perform and satisfy fully, on and after the Effective Time, the following liabilities and obligations of Sellers':
 - Assumed contracts and liabilities;
 - Assumed leases and liabilities;
 - All liabilities and obligations arising out of or relating to any act, omission, event or occurrence connected with the use, ownership or operation by SGM of the Verity Health Hospitals or any of the assets on or after the Effective Time;
 - All accrued vacation and other paid time off;
 - All unpaid real and personal property taxes, if any, that are attributable to the assets after the Effective Time; and
 - Any obligations or liabilities SGM may desire or need to assume in order to have the certifications/licenses/permits reissued to SGM, as well as any liabilities or obligations associated with Sellers' Medicare and Medi-Cal provider agreements, and any Medi-Cal liabilities or obligations needed to support ongoing QAF Program payments.

²² At Closing, Sellers shall credit to the Purchase Price the amount by which payments received under QAF Program between the Signing Date and Closing exceed the sum of fees paid under QAF IV and QAF V during such period plus Fees which are unpaid and owing at Closing in respect of invoices received by Sellers prior to Closing.

²³ At Closing, SGM shall pay Sellers the amount by which the sum of fees paid under the QAF Program between the Signing Date and Closing and the amount of fees which are unpaid and owing at Closing in respect of invoices received by Sellers prior to Closing exceeds payments received under the QAF Program during such period.

- SGM shall not assume or become responsible for any duties, obligations or liabilities of Seller that are not assumed by SGM pursuant to the terms of the Asset Purchase Agreement, the Bill of Sale²⁴ or the Assumption Agreement²⁵;
- SGM and Sellers agree that because the change of ownership and regulatory approval process in connection with the transactions contemplated by the Asset Purchase Agreement may take an extended period of time, SGM and Sellers agree to an initial closing effective upon the approval of the Bankruptcy Court and upon the approval of the transaction by the California Attorney General, at which time the assets will be sold to SGM and immediately leased back to Sellers, with a concurrent management agreement entered into at that time upon terms mutually agreeable in their reasonable business judgment. The Sale Leaseback Agreement and Interim Management Agreement will terminate at Closing when SGM is issued the licenses necessary to operate the Verity Health Hospitals directly;
- SGM agrees to make offers of employment, as of the Effective Time, to substantially all persons (whether such persons are full time employees, part-time employees, on short-term or long-term disability or on leave of absence, military leave or workers compensation leave) who, immediately prior to the Effective Time, are employees of any Seller; employees of any affiliate of any Seller which employs individuals at the Verity Health Hospitals, or employed by an affiliate of any Seller;
- With respect to any collective bargaining agreements or labor contract with respect to any employees, SGM shall comply with the applicable laws and Bankruptcy Court orders relating to collective bargaining agreements or labor contracts;
- Representatives of Sellers, who are parties to collective bargaining agreements, and SGM shall meet and confer from time to time as reasonably requested by either party to discuss strategic business options and alternative approaches in negotiating each collective bargaining agreement. The Sellers and SGM shall each participate in all union negotiations related to any specific collective bargaining agreement. Promptly following the Signing Date, applicable Sellers shall use commercially reasonable efforts to initiate discussions with SGM and conduct discussions to renegotiate each collective bargaining agreement currently in effect with each applicable union. The applicable Sellers will not unreasonably withhold, condition or delay approval or implementation of any successfully renegotiated collective bargaining agreement to be assumed by SGM. The parties recognize that an applicable Seller's failure to secure a modification to any collective bargaining agreement, or to conclude a successor collective

²⁴ The Bill of Sale entered into among SGM and the Sellers that, in conjunction and subject to the terms of the Asset Purchase Agreement, binds the Sellers and SGM on or after the Effective Time, to the provisions set forth in Section 1.7 of the Asset Purchase Agreement.

²⁵ The agreement made and entered into, among SGM and the Sellers that, in conjunction and subject to the terms of the Asset Purchase Agreement, binds Sellers and SGM on or after the Effective Time, to the provisions set forth in Section 1.9 of the Asset Purchase Agreement.

bargaining agreement shall not be a breach of Sellers' obligation under the Asset Purchase Agreement. In addition, Sellers may, in their discretion, seek to reject any or all of the collective bargaining agreement;

- SGM agrees to close the transaction as long as the conditions imposed by the California Attorney General are substantially consistent with the conditions set forth in Schedule 8.6;
- SGM agrees that Verity Health Hospitals' medical staff members in good standing as of the Effective Time shall maintain medical staff privileges. On and after the Effective Time, the medical staff will be subject to the medical staff Bylaws then currently in effect, provided that such bylaws are in compliance with all applicable laws and regulations and contain customary obligations;
- If SGM commits any material default under the Asset Purchase Agreement, Sellers shall have the right to sue for damages not to exceed \$60,000,000; and
- If Sellers commit any material default under the Asset Purchase Agreement, SGM shall have the right to demand and receive a refund of the deposit, and SGM may pursue any rights or remedies that may have under applicable law.

California Attorney General Conditions from Schedule 8.6 of the Asset Purchase Agreement			
Prior Conditions Purchaser has/has not agreed upon	Purchaser Agrees to/ Opposes	Years Remaining of Condition	Year Condition Ends
• For fifteen (15) years, provide written notice to Office of the Attorney General sixty (60) days prior to entering into any sale or transfer agreement;	Yes	11	2030
• For ten years from the Closing Date, Seton Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain, provide, and expand the following healthcare services at current licensure and designation with the same types and/or levels of services:			
a. 24-hour emergency medical services, including a minimum of 18 emergency treatment stations;	Yes	6	2025
b. Cardiac services, including the 2 cardiac catheterization labs, including the designation as a STEMI Receiving Center;	Yes	6	2025
c. Intensive care and coronary care services, including a minimum of 20 intensive care and coronary care beds;	Yes	6	2025
d. Advanced certification as a Primary Stroke Center;	Yes	6	2025
e. Women's health services, Seton Breast Health Center, and women's imaging and mammography services; and	Yes	6	2025
f. Sub-acute services, including a minimum of 44 sub-acute beds and Medi-Cal Certification and Joint Commission Accreditation as a sub-acute unit.	Yes	6	2025
• If Seton Medical Center provides obstetrical services within ten years from the Closing Date, Seton Medical Center shall also provide reproductive health services including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops;	Yes	6	2025
• For at least five years from the Closing Date, Seton Medical Center shall maintain and provide the following services at current licensure, types, and/or levels of services:			
a. Gastroenterology services, including enteroscopy, endoscopy, and colonoscopy services;	Yes	1	2020
b. Cancer services, including inpatient oncology unit, interventional radiology, radiation therapy, and infusion services;	No	1	2020
c. Orthopedics and rehabilitation services, including joint replacement and spine care services;	Yes	1	2020
d. Diabetes services, including Northern California Diabetes Institute;	Yes	1	2020
e. Wound care services, including Seton Center for Advanced Wound Care; and	Yes	1	2020
f. Nephrology services.	Yes	1	2020
Seton Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services;	Yes	1	2020
• For at least ten years from the Closing Date, Seton Coastside shall maintain and provide the following services at current licensure, types, and/or levels of services at Seton Coastside:			
a. 24-hour "standby" emergency services, with a minimum of 7 treatment stations; and	Yes	6	2025
b. Skilled nursing services, including a minimum of 116 licensed skilled nursing beds.	Yes	6	2025
• For ten years from the Closing Date, Seton Medical Center and Seton Coastside shall:	Yes	6	2025
a. Be certified to participate in the Medi-Cal program;	Yes	6	2025
b. Maintain and have a Medi-Cal Managed Care contract with San Mateo Health Commission dba Health Plan of San Mateo or its successor to provide the same types and levels of emergency and non-emergency services at Seton Medical Center and Seton Coastside to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care) as required in these Conditions, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause; and	Yes	6	2025
c. Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at Seton Medical Center and Seton Coastside to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions.	Yes	6	2025

California Attorney General Conditions from Schedule 8.6 of the Asset Purchase Agreement			
Prior Conditions Purchaser has/has not agreed upon	Purchaser Agrees to/ Opposes	Years Remaining of Condition	Year Condition Ends
<ul style="list-style-type: none"> For six fiscal years from the Closing Date, Seton Medical Center, Seton Coastsides shall provide an annual amount of Charity Care (as defined below) at Seton Medical Center and Seton Coastsides equal to or greater than \$1,721,301 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Seton Medical Center and Seton Coastsides in connection with the operation and provision of services at Seton Medical Center and Seton Coastsides. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development (OSHPD) for annual hospital reporting purposes; 	Conditionally: Provide an annual amount of Charity Care equal to or greater than \$935,405. Purchaser will not make any deficiency payments related to Charity Care spending into pensions.	2	2021
<ul style="list-style-type: none"> For six fiscal years from the Closing Date, Seton Medical Center and Seton Coastsides shall provide an annual amount of Community Benefit Services at Seton Medical Center and Seton Coastsides equal to or greater than \$794,324 (the "Minimum Community Benefit Services Amount") exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered: <ul style="list-style-type: none"> a. Health Benefits Resource Center; and b. RotaCare Clinic. 	Yes	2	2021
	Yes	2	2021
8. For at least five years from the Closing Date, unless otherwise indicated, Seton Medical Center and Seton Coastsides shall maintain its contracts and any amendments and exhibits thereto with the County of San Mateo for services, including the following:	Yes	1	2020
a. Data Usage Agreements between San Mateo County and Seton Medical Center;	Yes	1	2020
b. Patient Transfer Agreement between San Mateo County Medical Center and Seton Medical Center;	Yes	1	2020
c. Agreement dated July 2013 (effective October 1, 2013) whereby the County of San Mateo agrees to provide financial support for Seton Medical Center in exchange for Seton Medical Center's agreement to maintain its role as a safety net provider in San Mateo County, unless otherwise terminated earlier by the County of San Mateo;	Yes	1	2020
d. San Mateo ACE Program Hospital Agreement; and	Yes	1	2020
e. Agreements with Local Hospitals and Healthcare Facilities Participating in the National Bioterrorism Hospital Preparedness Program Grant.	Yes	1	2020
<ul style="list-style-type: none"> Verity Health System of California, Inc. shall comply with the pension obligations set forth in section 7.3 of the System Restructuring and Support Agreement; 	No		
<ul style="list-style-type: none"> For ten years from the Closing Date, Seton Medical Center and Seton Coastsides shall have a Local Governing Board(s) of Directors. Seton Medical Center's and Seton Coastsides' Board(s) of Directors shall consult with the Local Governing Board(s) of Directors prior to making changes to medical services, community benefit programs, and making capital expenditures including the spending of the funds for the capital commitment; 	Yes	6	2025
<ul style="list-style-type: none"> Reserve or expend the \$180 million capital commitment. 	Conditionally ²	-	-
<ul style="list-style-type: none"> Seton Medical Center and Seton Coastsides shall maintain privileges for current medical staff who are in good standing as of the Closing Date; 	Yes	-	-
<ul style="list-style-type: none"> Verity Health System of California, Inc. shall commit the necessary investments required to meet and maintain OSHPD seismic compliance requirements at Seton Medical Center and Seton Coastsides through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070) including, but not limited to, a) construction of, completion of, and obtaining a Certificate of Occupancy by July 1, 2019 for a new Patient Tower at Seton Medical Center, with at least 104 beds for general acute care, perinatal care, and intensive care services, with at least 12 critical care beds and 8 perinatal beds, or b) retrofitting of and obtaining a Construction Final by July 1, 2019 for Seton Medical Center's current Patient Tower³; and 	No	-	-
<ul style="list-style-type: none"> There shall be no restriction or limitation on providing or making reproductive health services, including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops. 	Yes	-	-

directly supporting such services.

²Capital commitment will be adjusted as follows:

- Prorated to adjust commitment to reflect percentage of assets St. Francis Medical Center represents against the total value of all assets in the Verity Health System;
- The capital commitment will be reduced by the amount Seller has already expended for capital from the Closing of the Blue Mountain transaction through Closing under the Agreement.
- All to be paid or reserved over a five (5) year period after Closing of the Agreement.
- The total capital requirements for St. Francis Medical Center, Seton Medical Center / Coastsides, and St. Vincent Medical Center will not exceed Seventy-Five Million Dollars (\$75,000,000).

³ Purchaser does not agree to current AG conditions but will agree to:

- Promptly assess feasibility of retrofitting the Patient Tower;
- Operate current Patient Tower for up to five (5) years following Closing; and
- Retrofit the Patient Tower or build a new hospital facility.
- The preceding commitment and other operational conditions assume and are conditioned on the Hospital obtaining necessary waivers or other authority from OSHPD and the State to permit continued operation of the Hospital for a five (5) year period, pending replacement or retrofit of the current Patient Tower, and receipt by Purchaser of all PACE financing funds at currently accrued levels believed to total approximately \$40 million.

Use of Net Sale Proceeds

The money received from the sale will be distributed to creditors in conjunction with the Bankruptcy Court and there will be no net proceeds as a result of the transaction.

Profile of Verity Health

Verity Health

Verity Health is a nonprofit healthcare system headquartered in El Segundo, California. The healthcare system was originally established by the Daughters of Charity of St. Vincent de Paul, Province of the West to support the mission of the Catholic Church through a commitment to the sick and poor.

Daughters of Charity, a group of women dedicated to caring for the needs of the poor, was started in France by St. Vincent de Paul and St. Louise de Marillac in 1633. The Daughters of Charity continued its mission and opened its first hospital in Los Angeles in 1856. Daughters of Charity expanded its hospitals into San Jose in 1889 and San Francisco in 1893. These hospitals were the forerunners of St. Vincent Medical Center, O'Connor Hospital, and Seton Medical Center. During the 1980s, Daughters of Charity expanded to include Seton Medical Center Coastsides (1980), St. Francis Medical Center (1981), and Saint Louise Regional Hospital (1987). In 1986, the hospitals joined Daughters of Charity National Health System, based in St. Louis, Missouri. In 1995, the hospitals left Daughters of Charity National Health System and merged with Catholic Healthcare West. The hospitals withdrew from Catholic Healthcare West in 2001 and operated as Daughters of Charity until December 2015 when the transaction with BlueMountain Capital Management, LLC and Integrity Healthcare, LLC resulted in a renaming of the organization as Verity Health System.

Verity Health operated six hospitals until March 1, 2019, when Santa Clara County assumed responsibility for two Verity Health hospitals; O'Connor Hospital, in San José, California, and St. Louise Regional Hospital, in Gilroy, California. Today, the two hospitals are a part of the County of Santa Clara Health System. The remaining four Verity Health Hospitals that are a part of the Asset Purchase Agreement, include:

- **Seton Medical Center:** The Hospital was originally founded as Mary's Help Hospital by the Daughters of Charity of St. Vincent de Paul in 1893. The facility was destroyed in the San Francisco Earthquake of 1906, and by 1912, Mary's Help Hospital reopened a new facility in San Francisco. In 1965, the Hospital moved to its current location at 1900 Sullivan Avenue in Daly City. The Hospital, renamed Seton Medical Center in 1983, is currently licensed for 357 beds and serves residents from the San Francisco and San Mateo areas. The Hospital shares a consolidated license with Seton Coastsides located at 600 Marine Boulevard in Moss Beach.
- **Seton Coastsides:** The hospital was founded as Moss Beach Rehabilitation Hospital in 1970. In 1980, the City of Half Moon Bay acquired ownership of the hospital and signed an agreement for Daughters of Charity to head operations of the hospital and rename it St. Catherine's Hospital. In 1993, St. Catherine's Hospital became Seton Coastsides as it was integrated into one administrative entity with the Hospital. Today, Seton Coastsides is licensed for 116 skilled nursing beds and five general,

acute-care beds. Seton Coastside also operates the only 24-hour “standby” emergency department along the 55-mile stretch between Santa Cruz and Daly City. Under a consolidated license, the Hospital and Seton Coastside share the same Board of Directors, executive leadership team, charity care policies, and collective bargaining agreements;

- **St. Francis Medical Center:** The hospital was established in 1945 and gained sponsorship from Daughters of Charity, Province of the West, in 1981. The hospital, a 384-bed general acute care facility, provides comprehensive healthcare services and operates one of the busiest emergency trauma centers in Los Angeles County. The Hospital serves the nearly 1.7 million residents of Southeast Los Angeles, located in the communities of Lynwood, South Gate, Downey, Huntington Park, Bell Gardens, Maywood, and Compton; and
- **St. Vincent Medical Center:** The hospital was founded by the Daughters of Charity of St. Vincent De Paul as the first hospital in Los Angeles in 1856. In 1971, a new facility was constructed at the hospital’s current location at 2131 West Third Street, Los Angeles, CA 90057. The hospital has expanded to a 366 licensed bed, regional acute care, tertiary referral facility, specializing in cardiac care, cancer care, total joint and spine care, multi-organ transplant procedures, and emergency services. The hospital serves both local residents and residents from Los Angeles, San Bernardino, Riverside, and Orange Counties. As a provider of healthcare services for a high percentage of elderly patients, many of the hospital’s services and programs are focused on the treatment of various chronic diseases. As of April 1, 2015, the hospital’s emergency department became classified as “basic”²⁶ with eight treatment stations. Prior to receiving a “basic” designation, the Hospital’s Emergency Department was classified as “standby”²⁷ and could not receive patients via ambulance.

As of August 31, 2018, Verity Health had approximately 7,385 employees, of which 4,733 are full-time employees. Approximately 72%, or 5,300 employees, of Verity Health’s employees, are represented by California Nurses Associations (“CNA”), Service Employees International Union (“SEIU”), National Union Healthcare Workers (“NUHW”) and United Nurses Association of California Union of Health Care Professionals (“UNAC”).

Verity Health operates Verity Business Services, a nonprofit public benefit corporation. Verity Business Services provides support services to Verity Health and its affiliated hospitals including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

²⁶ A “basic” emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.
²⁷ A “standby” emergency department provides emergency medical care in a specially designed part of a hospital that is equipped and maintained at all times to receive patients with urgent medical problems and is capable of providing physician services within a reasonable time.

Verity Health's four hospital locations are shown on the map below:



Verity Health Inpatient Statistics

Between FY 2017 and FY 2018, the number of Verity Health inpatient discharges increased by 3% from approximately 50,300 discharges in FY 2017 to approximately 51,700 discharges in FY 2018. Over this same period, inpatient days increased by 2% resulting in an average daily census of 856 patients per day in FY 2018. The following table provides inpatient volume trends for FY 2017 and FY 2018:

VERITY HEALTH SYSTEM UTILIZATION STATISTICS ²										
FY 2017 & FY 2018										
	St. Francis Medical Center		St. Vincent Medical Center		Seton Medical Center*		Seton Medical Center - Coastside		Verity Health System Total ¹	
	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018
Total Licensed Beds	384	384	366	366	357	357	121	121	1,679	1,679
Total Discharges	21,049	22,687	11,088	11,289	5,695	5,263	121	76	50,308	51,745
Total Patient Days	103,599	105,438	64,539	65,289	45,242	44,359	39,889	41,503	306,831	312,583
Average Length of Stay	4.9	4.6	5.8	5.8	7.9*	8.4*	N/A	N/A	5.3**	5.2**
Average Daily Census	283.8	288.9	176.8	178.9	124.0	121.5	109.3	113.7	840.6	856.4
Outpatient Surgeries	2,310	2,774	3,186	3,322	2,721	2,900	-	-	12,849	12,878
Inpatient Surgeries	3,112	3,347	2,651	2,941	1,267	1,116	-	-	9,611	10,127
Outpatient ED Visits	64,480	61,831	23,231	22,684	23,478	22,984	2,635	2,631	186,342	182,705
Clinical Visits	-	-	-	-	93,720	99,162	3,071	5,394	203,469	170,236
Case Mix Index ³ Total	1.42	1.49	1.73	1.66	1.81	1.80	1.40	1.41	-	-

Source: Verity Health Audited Financials

Note: FY 2018 Unaudited

* Includes subacute patients.

**Excludes Seton Coastside

N/A: Patient level detail not available.

¹ Includes all other entities (System Office, System Elimination Obligated Group, Non-Obligated Group, and System Elimination Non-Obligated Group)

² The figures provided by Verity Health differs from information reported to OSHPD and found in subsequent sections of this report

³ The Case Mix Index (CMI) is the average relative DRG weight of a hospital's inpatient discharges, calculated by summing the Medicare Severity-Diagnosis Related Group (MS-DRG) weight for each discharge and dividing the total by the number of discharges. The CMI reflects the diversity, clinical complexity, and resource needs of

Internal utilization data for FY 2017 and FY 2018, reported by Verity Health, shows the following:

- Total discharges at St. Francis Medical Center and St. Vincent Medical Center have increased 8% and 2%, respectively;
- Outpatient emergency department visits have decreased slightly across all Verity Health Hospitals; and
- Seton Medical Center's Case Mix Index (CMI) is highest among the four reported hospitals with a CMI of 1.80 in FY 2018. A higher CMI indicates a more complex and resource-intensive cases are performed generally resulting in higher reimbursement.

Statement of Operations

VERITY HEALTH SYSTEM STATEMENT OF OPERATIONS ²									
FY 2017 & FY 2018 (thousands)									
	St. Francis Medical Center		St. Vincent Medical Center		Seton Medical Center		Seton Medical Center - Coastside		Verity Health System Total ¹
Unrestricted Revenues and Other Support:	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017 FY 2018
Net Patient Revenue	\$443,825	\$496,142	\$215,368	\$216,593	\$230,312	\$238,621	\$21,866	\$22,686	\$1,269,567 \$1,432,013
Provision for Doubtful Accounts	(\$12,742)	(\$23,483)	(\$7,104)	(\$12,283)	(\$3,212)	(\$6,512)	(\$314)	(\$616)	(\$33,318) (\$58,702)
Premium Revenue	\$80,039	\$100,579	\$18,312	\$31,091	-	-	-	-	\$98,607 \$151,915
Other Revenue	\$1,985	\$1,700	\$1,963	\$1,213	\$3,458	\$7,743	\$574	\$579	\$12,647 \$45,984
Contributions	\$2,755	\$4,184	\$1,218	\$1,021	\$223	\$352	-	-	\$4,288 \$31,244
Total unrestricted revenues and other support	\$515,862	\$579,122	\$229,757	\$237,635	\$230,781	\$240,204	\$22,126	\$22,649	\$1,351,791 \$1,602,454
Expenses:									
Salaries and Benefits	\$200,689	\$214,622	\$105,754	\$114,432	\$136,212	\$144,752	\$15,951	\$17,699	\$703,146 \$804,084
Supplies	\$147,515	\$42,452	\$99,643	\$52,176	\$82,303	\$31,826	\$4,132	\$1,954	\$424,462 \$198,516
Purchased Services, Medical Claims and Other	\$38,617	\$244,547	\$48,264	\$128,875	\$31,451	\$84,758	\$1,935	\$6,453	\$166,520 \$634,499
Goodwill and intangible Asset Impairment	\$45,508	-	\$9,848	-	-	-	-	-	\$55,534 \$7,218
Depreciation and amortization	\$10,048	\$9,201	\$6,037	\$5,800	\$6,019	\$5,525	\$161	\$132	\$32,123 \$32,624
Interest	\$4,284	\$3,951	\$3,075	\$2,751	\$3,440	\$5,339	(\$5)	(\$9)	\$27,641 \$36,887
Total Expenses	\$446,661	\$514,773	\$272,621	\$304,034	\$259,425	\$272,200	\$22,174	\$26,229	\$1,409,426 \$1,713,828
Operating Loss/Gain	\$69,201	\$64,349	(\$42,864)	(\$66,399)	(\$28,644)	(\$31,996)	(\$48)	(\$3,580)	(\$57,635) (\$111,374)
Investment Income	-	-	-	-	-	-	-	-	(\$7,545)
Excess (Deficit) of Revenue over Expenses	\$69,201	\$64,349	(\$42,864)	(\$66,399)	(\$28,644)	(\$31,996)	(\$48)	(\$3,580)	(\$57,635) (\$118,919)

Source: Verity Health Audited Financials

Note: FY 2018 Unaudited

¹ Includes all other entities (System Office, System Elimination Obligated Group, Non-Obligated Group, and System Elimination Non-Obligated Group)

² The figures provided by Verity Health differs from information reported to OSHPD and found in subsequent sections of this report

Verity Health's internal audited (FY 2017) and unaudited (FY 2018) statement of operations reports the individual performance of the Verity Health Hospitals in conjunction with Verity Health's system-wide performance²⁸. All the hospitals, with the exception of St. Francis Medical Center, show significant operating losses in FY 2018, ranging from a loss of \$3.6 million at Seton Coastside to a loss of \$66.4 million at St. Vincent Medical Center. The Hospital reported a loss of nearly \$32.0 million in FY 2018. For the twelve months ended June 30, 2018, Verity Health recorded an operating loss of \$111.4 million, equating to an operating margin of -7.0%. This compares to an operating loss of \$35.3 million and an operating margin of -2.4% for the same period of the prior year. The operating performance for the twelve months ended June 30, 2018 included \$171.8 million of net income generated from the QAF program.

Net Patient Service Revenue

Net patient service revenue, less provision for doubtful accounts, of \$1.4 billion for the twelve for FY 2018 represents a net increase of \$106.1 million or 8.4% as compared to FY 2017. The net overall change in net patient service revenue was impacted by an increase of \$129.2 million in QAF program revenue.

²⁸ Verity Health's FY 2017 and FY 2018 audited and unaudited financials include business entities no longer a part of Verity Health today. O'Connor Hospital and Saint Louise Regional Hospital, along with affiliated businesses, are excluded from the Asset Purchase Agreement since being acquired by Santa Clara County Health System in early 2019.

Operating Expenses

Total operating expenses of \$1.7 billion for FY 2018 include an increase in expenses of \$199 million, or 13.1%, as compared to FY 2017. The overall net change in operating expenses is due to an increase in salaries and benefits expense of \$73.8 million, an increase in supplies expense of \$26.1 million, an increase of \$95.6 million in purchased services, medical claims and other expense, and an increase of \$8.8 million in interest expense. This was partially offset by a decrease in depreciation expense of \$2.3 million and a decrease in goodwill and intangible asset impairment of \$3.0 million. The management agreement fee expense for the twelve months ended June 30, 2018 is \$60.3 million of which \$40.2 million was deferred and \$20.1 million was payable in cash.

Financial Position and Debt Obligations

As of June 30, 2018, Verity Health's unrestricted days cash on hand was 15.3 days. The average cash on hand average among hospitals nationally is 204.7 days. Verity Health's declining days cash on hand is one indicator of its liquidity challenges.

In order to address the lack of liquidity and outstanding obligations, Verity Health and its management company Integrity Healthcare, LLC, took out a series of secured note. On December 14, 2015, the California Public Finance Authority issued \$160 million revenue notes for the benefit of the Verity Health.

In September 2017, the California Public Finance Authority issued \$21 million of tax-exempt notes for the benefit of Verity Health. The notes were purchased by NantWorks, LLC (NantWorks), the former majority stake owner in Verity Health's management company, Integrity Healthcare, LLC. The notes have an interest rate of 7.25% and the principal is due at the maturity date in December 2020.

In October 2017, Verity MOB Financing, LLC, an affiliate of NantWorks, made a loan in the amount of \$46.2 million to Verity Holdings, LLC, which is an affiliated entity of Verity Health. The loan is secured by four medical office buildings and matures in October 2020.

In December 2017, the California Public Finance Authority issued \$21 million of tax-exempt notes for the benefit of Verity Health. These Notes were purchased by NantWorks. The Notes have a lien on property owned with an interest rate of 7.25% and a maturity date in December 2020.

Credit Rating and Outlook

When Verity Health took control of Daughter of Charity Health System, the health system had a credit rating from Standard & Poor' of "B-." The rating of "B-" represents less-than-investment grade status. Since 2014, Standard & Poor's has downgraded Verity Health's credit rating further and in September 2018, after receiving news of Verity Health's filing for Chapter 11 bankruptcy, downgraded Verity Health from "CCC" to "CC". Standard & Poor's defines "CC" as "highly vulnerable to nonpayment". The "CC" rating is used when a default has not yet occurred but "expects default to be a virtual certainty, regardless of the anticipated time to default".

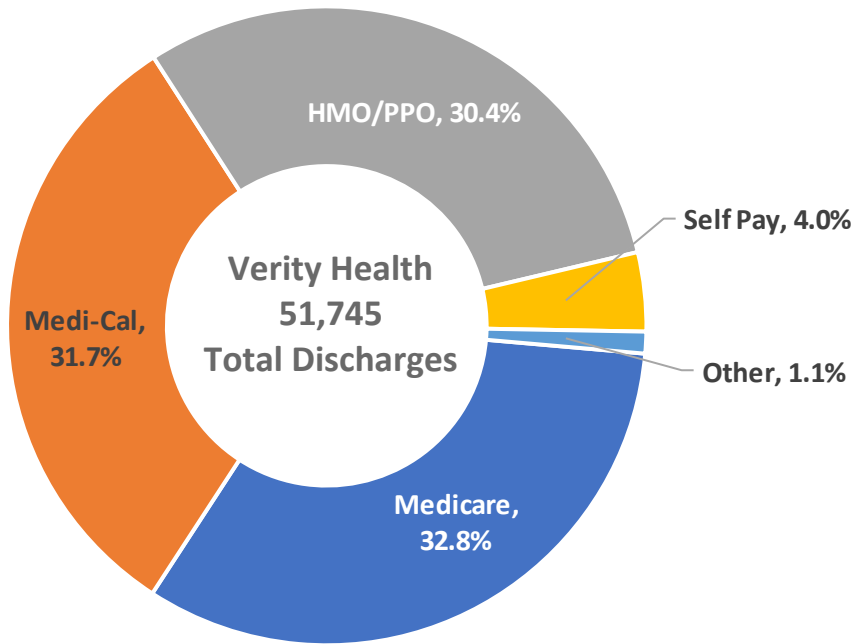
Category	Definition
AAA	An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments.
AA	An obligor rated 'AA' has very strong capacity to meet its financial commitments.
A	An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than
BBB	An obligor rated 'BBB' has adequate capacity to meet its financial commitments.
BB	An obligor rated 'BB' is less vulnerable in the near term than other lower-rated obligors.
B	An obligor rated 'B' is more vulnerable than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments.
CCC	An obligor rated 'CCC' is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.
CC	An obligor rated 'CC' is currently highly vulnerable and expects default to be a virtual certainty, regardless of the anticipated time to default.
R	An obligor rated 'R' is under regulatory supervision owing to its financial condition.
D	A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due.

Source: Standard & Poor's

An issuers' credit quality is generally reflective of its financial condition and ability to meet ongoing debt service obligations. A downgrade can pose future challenges for an issuer to raise capital in the debt markets as the cost of debt rises because buyers of lower rated bonds require higher rates of return to justify the greater relative risk incurred.

Verity Health Payer Mix

In FY 2018, 64% of Verity Health's inpatient payer mix consisted of Medicare (33%) and Medi-Cal (32%) patients. Approximately 30% of Verity Health's inpatient payer mix consisted of Private Pay (HMO/PPO) patients. The remaining 5% of Verity Health's inpatient discharges consisted of Self Pay (4%), and Other Payers* (1%).



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

Source: Verity Health Internal Unaudited Financial Statements, FY 2018 (based on inpatient discharges)

Unionized Employees

Verity Health has relationships with various unions across the State of California. In addition, each of the Verity Health Hospitals have collective bargaining agreements (CBAs) with unions, including with Service Employees International Union, National Union of Healthcare Workers, California Nurses Association, United Nurses Association of California, International Union of Operating Engineers, Local 39, and Engineering Scientists of California, Local 20. Approximately 77% of Verity Health's employees are covered under CBAs.

UNION PARTICIPATION AMONG VERITY HEALTH EMPLOYEES						
Union	Seton Medical Center & Seton Medical Center Coastside	St. Francis Medical Center	St. Vincent Medical Center	Verity Business Services	Verity Corporate	Total
National Union of Healthcare Workers	736					736
California Nurses Association	391		413			804
Engineering Scientists of California, Local 20	30					30
International Union of Operating Engineers, Local 39	26					26
Service Employees International Union		890	399			1,289
United Nurses Association of California		820				820
Total Represented by Unions	1,183	1,710	812	0	0	3,705
Total Non-Union Employees	216	298	193	219	207	1,133
Total Employees	1,399	2,008	1,005	219		4,838
Total Percentage of Employees Represented by Unions	85%	85%	81%	0%		77%

EXPIRATION DATES			
Union	Seton Medical Center & Seton Medical Center Coastside	St. Francis Medical Center	St. Vincent Medical Center
National Union of Healthcare Workers	11/1/2016-10/31/2019		
California Nurses Association	12/22/2016-12/21/2020		12/22/2016-12/21/2020
Service Employees International Union		11/1/2018-10/31/2021	11/1/2018-10/31/2021
United Nurses Association of California		12/29/2017-12/29/2021	

Source: Verity Health

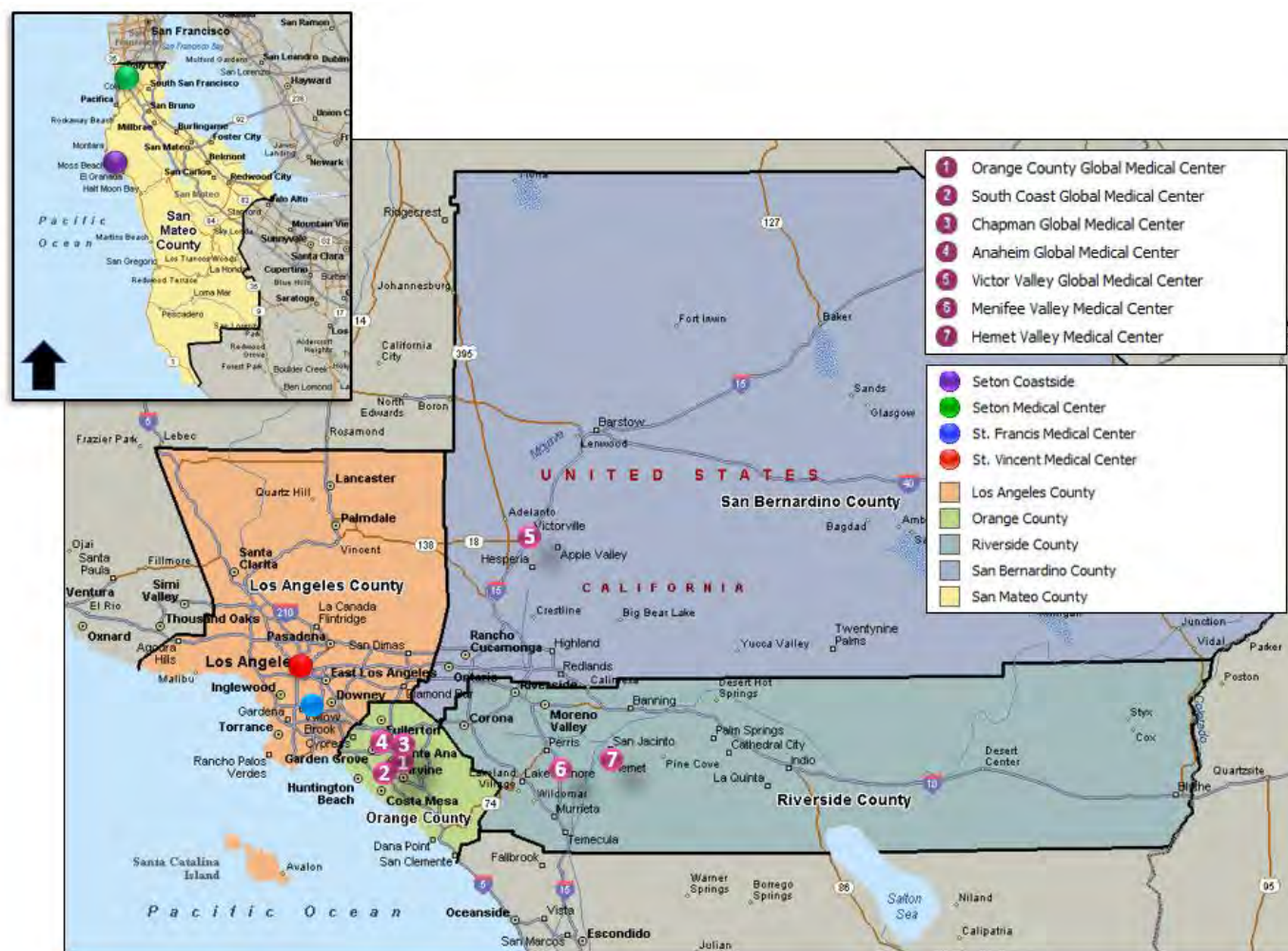
Profile of Purchaser

Overview

Dr. Kali Chaudhuri is the owner and CEO of SGM, headquartered in Riverside County, California. Dr. Chaudhuri is also majority owner or shareholder of several other healthcare entities including:

- KPC Healthcare, Inc. (“KPC”), a for-profit private health system that owns and operates four hospitals in Orange County;
- Physicians for Healthy Hospitals (“PHH”) owns and operates two hospitals located in Hemet and Menifee. PHH completed a \$163 million transaction on October 13, 2010 to acquire the hospitals from bankruptcy. A corporation controlled by Dr. Chaudhuri had previously held a management contract for several years before bankruptcy;
- Victor Valley Hospital Acquisition, Inc. a California for-profit corporation, and Victor Valley Hospital Real Estate, LLC, a California limited liability corporation operate Victor Valley Global Medical Center (formally Victor Valley Community Hospital). Dr. Chaudhuri is the Chief Executive Officer and sole shareholder of Victor Valley Hospital Acquisition, Inc. He is also the manager of Victor Valley Hospital Real Estate, LLC and currently holds 100% interest. The Victor Valley Community Hospital Board initiated bankruptcy proceedings in September 2010, with an intention to sell the hospital’s assets as a means to keep the hospital open. As a result of proceedings before the United States Bankruptcy Court, an auction was held on November 5, 2010. Victor Valley Hospital Acquisition, Inc. and Victor Valley Hospital Real Estate, LLC were the highest bidders and subsequently approved by the Victor Valley Community Hospital Board and accepted by the Court on November 9, 2010; and
- In April 2019, KPC acquired seven Promise Healthcare’s long-term acute care facilities, as well as two of its skilled nursing facilities. The facilities are located in Arizona, Kansas, Louisiana, Mississippi, Texas, and Utah. Long-term acute care facilities are for critically ill patients with major complications which require hospitalization for extended periods of time. A skilled nursing facility is a healthcare facility that provides medically necessary professional services from nurses, physical and occupational therapists, speech pathologists and audiologists to senior and other patients.

A map of the locations of hospitals in California that are related to SGM is shown below.



KPC Hospitals

- KPC consists of four hospitals with a total of 708 licensed beds;
- KPC realized \$19.6 million in net income FY 2016, however, lost \$6.8 million in net income in FY 2017. This was due to net patient revenue decreasing 1%, from \$381 million in FY 2016 to \$377.6 million in FY 2017, while total expenses increased nearly 6%, from \$365.2 million to \$386 million, over the same period;
- Orange County Global Medical Center was the only KPC hospital with a positive net income in the last two reported fiscal years. In FY 2017, losses at the remaining three KPC hospitals ranged from a loss of \$5.6 million at Anaheim Global Medical Center to a loss of \$9.4 million at South Coast Global Medical Center;

- All the hospitals serve a significant number of Medicare and Medi-Cal patients, ranging between 53% and 82% of total hospital discharges; and
- The proportion of uncompensated care charges (bad debt and charity care) provided by the hospitals is significantly higher than the statewide average of 1.4%.
 - Anaheim Global Medical Center: 4.0%;
 - Orange County Global Medical Center: 3.7%;
 - Chapman Global Medical Center: 1.8%; and
 - South Coast Global Medical Center: 2.4%.

PHH Hospitals

- PHH consists of two hospitals (Hemet Valley Medical Center and Menifee Valley Medical Center) with a total of 501 licensed beds;
- PHH acquired the hospitals out of bankruptcy in October 2010;
- In FY 2017 the hospitals recorded \$11.4 million in net income, down \$5.7 million from FY 2016;
- Both the hospitals serve a significant number of Medicare and Medi-Cal patients, ranging between 88% and 91% of total hospital discharges; and
- The proportion of uncompensated care charges (bad debt and charity care) provided by the hospitals is slightly higher than the statewide average of 1.4%.
 - Hemet Valley Medical Center: 1.5%; and
 - Menifee Valley Medical Center: 1.9%.

Victor Valley Hospital Acquisition, Inc. and Victor Valley Hospital Real Estate, LLC

- Victor Valley Hospital Acquisition, Inc. and Victor Valley Hospital Real Estate, LLC owns Victor Valley Global Medical Center, a 101 licensed bed general acute care hospital located in Victorville, California;
- Victor Valley Hospital Acquisition, Inc. and Victor Valley Hospital Real Estate, LLC acquired the hospital out of bankruptcy in November 2010;
- In 2017 the hospital recorded a net income of \$25.5 million, up \$7.8 million from FY 2016; and
- The proportion of uncompensated care charges provided by Victor Valley Global Medical Center, at 2.1%, is slightly higher than the statewide average of 1.4%.

A detailed profile of hospitals related to SGM are provided in the following tables.

HOSPITALS RELATED TO PURCHASER								
	Anaheim Global Medical Center General Acute		Orange County Global Medical Center General Acute		Chapman Global Medical Center General Acute		South Coast Global Medical Center General Acute	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
City	Anaheim		Santa Ana		Orange		Santa Ana	
Licensed Beds	188	188	228	228	114	114	178	178
Patient Days	43,004	41,691	38,322	40,218	20,191	18,884	32,680	33,160
Discharges	5,681	4,684	8,451	8,625	2,211	1,969	3,400	3,709
ALOS	7.6	8.9	4.5	4.7	9.1	9.6	9.6	8.9
Average Daily Census	118	114	105	110	55	52	90	91
Occupancy	62.7%	60.8%	46.0%	48.3%	48.5%	45.4%	50.3%	51.0%
ED Visits	34,459	17,340	36,122	31,903	8,323	7,946	20,364	20,223
Inpatient Surgeries	699	787	2,690	2,636	615	594	731	731
Outpatient Surgeries	1,045	941	1,373	1,334	1,144	890	743	637
Births	782	2,614	1,118	1,091	0	0	553	752
Payer Mix (Based on Discharges):								
Traditional Medicare	11.7%	13.7%	15.1%	15.3%	29.3%	26.4%	23.6%	17.2%
Managed Medicare	10.6%	10.8%	12.0%	12.6%	12.9%	14.4%	7.5%	6.4%
Traditional Medi-Cal	40.9%	41.0%	23.5%	21.4%	3.6%	4.4%	33.6%	20.7%
Managed Medi-Cal	19.2%	16.1%	27.9%	28.8%	12.1%	8.5%	23.8%	27.7%
County Indigent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Traditional Third Party	8.3%	4.9%	3.8%	2.3%	10.3%	14.1%	0.4%	0.6%
Managed Third Party	6.1%	1.4%	15.5%	14.9%	30.6%	30.6%	1.8%	5.4%
Other Indigent	0.2%	0.2%	0.4%	0.3%	0.1%	0.2%	0.1%	0.2%
Other	3.1%	12.0%	1.8%	4.5%	1.1%	1.5%	9.2%	21.8%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Income Statement:								
Net Pt. Revenue	\$74,704,903	\$77,965,172	\$204,090,801	\$202,881,568	\$45,665,642	\$40,215,421	\$56,493,466	\$56,576,936
Other Operating Rev.	\$864,309	\$214,528	\$1,471,897	\$874,554	\$608,196	\$258,847	\$955,083	\$238,730
Total Operating Rev.	\$75,569,212	\$78,179,700	\$205,562,698	\$203,756,122	\$46,273,838	\$40,474,268	\$57,448,549	\$56,815,666
Total Operating Exp.	\$77,726,028	\$83,832,665	\$175,330,427	\$188,905,628	\$49,593,277	\$47,117,192	\$62,579,872	\$66,186,376
Net From Operations	(\$2,156,816)	(\$5,652,965)	\$30,232,271	\$14,850,494	(\$3,319,439)	(\$6,642,924)	(\$5,131,323)	(\$9,370,710)
Non-operating Rev.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Non-operating Exp.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	(\$2,156,816)	(\$5,652,965)	\$30,232,271	\$14,850,494	(\$3,319,439)	(\$6,642,924)	(\$5,131,323)	(\$9,370,710)
Other Financial:								
Charity Care Charges	\$2,531,447	\$1,468,837	\$3,225,599	\$2,818,418	\$216,515	\$182,149	\$1,396,161	\$1,086,993
Bad Debt Charges	\$8,074,243	\$10,308,997	\$18,996,527	\$31,312,804	\$4,488,250	\$3,520,538	\$8,586,772	\$6,195,831
Total Uncompensated Care	\$10,605,690	\$11,777,834	\$22,222,126	\$34,131,222	\$4,704,765	\$3,702,687	\$9,982,933	\$7,282,824
Cost to Charge Ratio	27.9%	28.7%	18.5%	20.4%	22.8%	23.2%	19.7%	22.2%
Cost of Charity	\$705,527	\$421,188	\$596,917	\$573,936	\$49,389	\$42,231	\$275,175	\$241,050
Uncompensated Care as % of Chgs.	3.8%	4.0%	2.4%	3.7%	2.2%	1.8%	3.2%	2.4%
State of Calif. Uncompensated Care	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Disproportionate Share Hospital	YES		YES		NO		YES	
Fiscal Year Ending	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017

Source: OSHPD Pivot Profile, FY 2016 & 2017

HOSPITALS RELATED TO PURCHASER						
	Hemet Valley Medical Center General Acute		Menifee Valley Medical Center General Acute		Victor Valley Global Medical Center General Acute	
	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017
City	Hemet		Menifee		Victorville	
Licensed Beds	417	417	84	84	101	101
Patient Days	56,258	61,537	10,921	11,861	24,401	22,801
Discharges	10,254	10,659	2,677	2,900	5,500	5,687
ALOS	5.5	5.8	4.1	4.1	4.4	4.0
Average Daily Census	154	169	30	32	67	62
Occupancy	37.0%	40.4%	35.6%	38.7%	66.2%	61.8%
ED Visits	49,475	57,169	19,458	20,342	40,035	35,570
Inpatient Surgeries	2,101	2,024	589	758	2,089	1,838
Outpatient Surgeries	1,107	1,023	573	739	3,306	5,164
Births	660	650	0	0	749	713
Payer Mix (Based on Discharges):						
Traditional Medicare	26.3%	20.2%	23.3%	20.4%	18.5%	13.8%
Managed Medicare	15.6%	31.9%	42.6%	44.2%	17.7%	14.6%
Traditional Medi-Cal	6.1%	6.1%	12.3%	7.3%	8.3%	7.8%
Managed Medi-Cal	23.1%	29.4%	11.6%	19.4%	40.0%	45.0%
County Indigent	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Traditional Third Party	3.0%	3.1%	0.0%	3.0%	11.5%	12.2%
Managed Third Party	24.4%	8.2%	9.9%	5.2%	3.7%	5.5%
Other Indigent	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%
Other	1.5%	1.0%	0.4%	0.4%	0.0%	1.2%
Total	100%	100%	100%	100%	100%	100%
Income Statement:						
Net Pt. Revenue	\$153,709,097	\$184,562,541	\$40,599,832	\$41,131,995	\$100,967,017	\$111,154,734
Other Operating Rev.	\$490,718	\$155,714	\$2,809	\$1,539	\$1,434,955	\$2,445,163
Total Operating Rev.	\$154,199,815	\$184,718,255	\$40,602,641	\$41,133,534	\$102,401,972	\$113,599,897
Total Operating Exp.	\$156,409,865	\$164,696,724	\$42,104,657	\$50,965,685	\$84,722,939	\$88,071,613
Net From Operations	(\$2,210,050)	\$20,021,531	(\$1,502,016)	(\$9,832,151)	\$17,679,033	\$25,528,284
Non-operating Rev.	\$20,251,064	\$472,204	\$605,799	\$753,251	\$0	\$0
Non-operating Exp.	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$18,041,014	\$20,493,735	(\$896,217)	(\$9,078,900)	\$17,679,033	\$25,528,284
Other Financial:						
Charity Care Charges	\$3,068,877	\$0	\$0	\$0	\$1,503,364	\$144,275
Bad Debt Charges	\$10,926,096	\$12,415,197	\$4,447,829	\$4,834,124	\$4,380,945	\$7,363,001
Total Uncompensated Care	\$13,994,973	\$12,415,197	\$4,447,829	\$4,834,124	\$5,884,309	\$7,507,276
Cost to Charge Ratio	18.7%	19.8%	19.1%	19.7%	22.7%	23.4%
Cost of Charity	\$572,554	\$0	\$0	\$0	\$341,783	\$33,736
Uncompensated Care as % of Chgs.	1.7%	1.5%	2.0%	1.9%	1.6%	2.1%
State of Calif. Uncompensated Care	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Disproportionate Share Hospital	NO		NO		YES	
Fiscal Year Ending	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017

Source: OSHPD Pivot Profile, FY 2016 & 2017

Hospital Compare

U.S. Centers for Medicare & Medicaid Services' (CMS) Hospital Compare is a hospital rating system that summarizes 57 quality measures into a single quality Star Rating in order to rank and provide information about the quality of care at over 4,000 Medicare-certified hospitals, including over 130 Veterans Administration (VA) medical centers, across the country. The information assists the public in making decisions about where to get health care services and encourages hospitals to improve the quality of care they provide.

The 57 quality measures are summarized into seven cohorts. These include:

- **General information:** Name, address, telephone number, type of hospital, and other general information about the hospital;
- **Survey of patients' experiences:** How patients recently discharged from the hospital responded to a survey about their hospital experience. The survey asked questions such as how well a hospital's doctors and nurses communicated with the patient;
- **Timely and effective care:** How often or how quickly hospitals give recommended treatments known to get the best results for people with certain common conditions;
- **Complications and deaths:** How likely it is that patients will have complications while in the hospital or after certain inpatient surgical procedures, and how often patients died within 30 days of being in the hospital for a specific condition;
- **Unplanned hospital visits:** Whether patients return to a hospital after an initial hospital stay or outpatient procedure, and how much time they spend back in the hospital;
- **Use of medical imaging:** How a hospital uses outpatient medical imaging tests (like CT scans and MRIs); and
- **Payment and value of care:** How payments made by patients treated at individual hospitals compare to hospitals nationally.

CMS updated its overall hospital Quality Star Ratings in February 2019, recognizing 293 hospitals country-wide with 5-Star Ratings. Below is a breakdown of the Star Ratings:

- **1-Star:** 282 hospitals
- **2-Stars:** 800 hospitals
- **3-Stars:** 1,264 hospitals
- **4-Stars:** 1,086 hospitals
- **5-Stars:** 293 hospitals

SGM and Verity Health's hospitals Star Ratings are as follows:

Hospital Compare Star Ratings by Hospital						
	Hospital	One Star	Two Star	Three Star	Four Star	Five Star
Purchaser Hospitals	Orange County Global Medical Center		★★			
	Anaheim Global Medical Center		★★			
	South Coast Global Medical Center		★★			
	Victor Valley Global Medical Center	★				
	Chapman Global Medical Center		★★			
	Hemet Valley Medical Center	★				
	Menifee Valley Medical Center		★★			
Verity Health	St. Francis Medical Center		★★			
	St. Vincent Medical Center				★★★★	
	Seton Medical Center			★★★		

Source: Medicare.gov, February 28, 2019.

- Of SGM's seven general acute care hospitals, five achieved a 2-Star Rating (Orange County Global Medical Center, Anaheim Global Medical Center, South Coast Global Medical Center, Chapman Global Medical Center, and Menifee Valley Medical Center) and two hospitals achieved a 1-Star Rating (Victor Valley Global Medical Center and Hemet Valley Medical Center); and
- Of Verity Health's three general acute care hospitals, St. Francis Medical Center achieved a 2-Star Rating, Seton Medical Center achieved a 3-Star Rating, and St. Vincent Medical Center achieved a 4-Star Rating.

Profile of Seton Medical Center

Seton Medical Center

The Hospital was originally founded as Mary's Help Hospital by the Daughters of Charity of St. Vincent De Paul in 1893. The original facility was destroyed in the San Francisco Earthquake of 1906, and by 1912, Mary's Help Hospital reopened a new facility in San Francisco. In 1965, the hospital was moved to its current location at 1900 Sullivan Avenue in Daly City. The Hospital was renamed Seton Medical Center in 1983, is currently licensed for 357 beds, and serves residents from the South San Francisco and San Mateo areas. The Hospital has an emergency department with 19 licensed treatment stations. It also has 13 surgical operating rooms and three cardiac catheterization labs. The Hospital provides a broad range of medical services, including cancer, cardiac, emergency, surgical, rehabilitation, respiratory, orthopedic, and sub-acute care. The Hospital is accredited by The Joint Commission. The Hospital and Seton Coastsides share a consolidated license.

Seton Coastsides

Seton Coastsides was founded as Moss Beach Rehabilitation Hospital in 1970. In 1980, the City of Half Moon Bay acquired ownership of the hospital and signed an agreement for Daughters of Charity to manage operations of the hospital and rename it St. Catherine's Hospital. In 1993, St. Catherine's Hospital became Seton Coastsides when it became integrated with Seton Medical Center. Today, Seton Coastsides is licensed for 116 skilled nursing beds and five general acute care beds. Seton Coastsides also operates the only 24-hour "standby" Emergency Department along the 55-mile stretch between Santa Cruz and Daly City.

Under a consolidated license, the Hospital and Seton Coastsides share the same Board of Directors, executive leadership team, charity care policies, and union collective bargaining agreements.

Seton Foundation

Seton Foundation, governed by a Board of Trustees, raises funds through grants, special events, and individual donors. Charitable donations and endowments raised by Seton Foundation help fund the acquisition of new equipment and the expansion of the facilities at the Hospital and Seton Coastsides. Seton Medical Center is the sole corporate member of Seton Foundation.

As of May 31, 2018, Seton Foundation had a balance of \$2,693,778.66 in temporary restricted assets and a balance of \$ 2,717,591 million in permanently restricted assets. These assets are used for the purpose of funding programs such as oncology, the San Francisco Heart & Vascular Institute, and women and delivery services.

Overview of the Hospital

Verity Health owns and operates the Hospital, a general acute care facility, and Seton Coastside, a skilled nursing facility with licensed beds as shown below:

BED DISTRIBUTION 2019 SETON MEDICAL CENTER	
Bed Type	Number of Beds
General Acute Care	201
Intensive Care	14
Neonatal Intensive Care*	3
Coronary Care	14
Perinatal*	18
Total General Acute Care Beds	250
Acute Psychiatric (D/P)	24
Skilled Nursing (D/P) ¹	83
Total Beds	357

Source: Hospital License 2019

*These beds are suspended from 11/15/2018 to 11/14/2019.

¹ Of the 83 licensed skilled nursing beds, 39 are in suspense, and the remaining 44 licensed skilled nursing beds are utilized as sub-acute care beds.

BED DISTRIBUTION 2019 SETON COASTSIDE	
Bed Type	Number of Beds
General Acute Care	5
Skilled Nursing (D/P)	116
Total Beds	121

Source: Hospital License 2019

Bed Totals	Number of Beds
Seton Medical Center Beds	357
Seton Coastside Beds	121
Total Combined Beds	478

The Hospital has a “basic” emergency department²⁹ with 19 licensed treatment stations. It also has 13 surgical operating rooms and three cardiac catheterization labs.

Seton Coastside has a “standby” emergency department with seven treatment stations, and has ambulance receiving capabilities, and a heliport. The five general, acute-care beds are rarely used for inpatients.

²⁹ A “basic” emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

Key Statistics

For FY 2018, the Hospital and Seton Coastsides had a total of 5,359 inpatient discharges, 85,862 patient days, and an average daily census of 235 patients per day (approximately 49% occupancy on 478 total licensed beds).

SETON MEDICAL CENTER KEY STATISTICS FY 2016- FY 2018			
	FY 2016	FY 2017	FY 2018
Inpatient Discharges	5,449	5,816	5,359
Licensed Beds	478	478	478
Patient Days	80,369	85,132	85,862
Average Daily Census	220	233	235
Occupancy Rate	46.1%	48.8%	49.2%
Average Length of Stay ²	14.7	14.6	16.0
Cardiac Catheterization Procedures	2,920	4,012	3,735
Coronary Artery Bypass Graft (CABG)- Seton Medical Center ¹	40	55	n/a
Emergency Service Visits- Seton Medical Center ¹	25,881	27,489	29,972*
Emergency Service Visits- Seton - Coastsides ¹	2,712	2,644	

Sources: OSHPD Disclosure Reports, FY 2016 - FY 2018

Note: Includes the Hospital and Seton Coastsides

*Includes Seton Coastsides

¹ Alerts Annual Utilization Reports

² Includes subacute and skilled nursing volume.

- Inpatient discharges and patient days have declined 2% since FY 2016;
- For FY 2018, the Hospital and Seton Coastsides had a combined 29,972 emergency department visits;
- In FY 2018, the Hospital reported approximately 3,735 diagnostic cardiac catheterization procedures; and
- The Hospital performed 55 Coronary Artery Bypass Graft (CABG) surgeries in FY 2017. An increase of 15 surgeries from the previous year. However, this is significantly down from the 200+ CABG surgeries the Hospital was performing in the early 2000s.

Programs and Services

The Hospital offers a broad range of medical services, including cancer, cardiac, emergency, surgical, geropsychiatric, rehabilitation, respiratory, orthopedic, and sub-acute care.

- Cancer care services include: inpatient oncology unit and outpatient services that provide chemotherapy, radiation, support groups, nutrition counseling, and pain management;

- Cardiac services include: Echocardiography studies, pacemaker implantation, cardiac catheterization procedures, and complex heart surgeries including coronary artery bypass. The Hospital is a designated STEMI Receiving Center;
- Emergency services include: An emergency department with 19 treatment stations that has ambulance receiving capabilities and is certified by the Joint Commission as a Primary Stroke Center;
- Diabetes services include: pre-diabetes screening, gestational diabetes, heart failure, kidney disease, hyperlipidemia (high blood cholesterol) cancer care support, and wound healing;
- Gastroenterology services include: Inpatient and outpatient diagnostic and therapeutic services, including enteroscopy, endoscopy, and colonoscopy;
- Geriatric Behavioral Health include: A 20-bed licensed geriatric psychiatry unit that serves the needs of older individuals with acute psychiatric illnesses providing multi-disciplinary services for voluntary and involuntary patients;
- Imaging and lab services include: X-ray, interventional radiology, nuclear medicine, PET/CT scans, ultrasound, MRI, mammography, hematology, coagulation, chemistry, microbiology, and histology services;
- Orthopedics services include: Joint replacement, spine care, minimally invasive surgery, and physical therapy at the Seton Orthopedic Institute;
- Stroke care services include: diagnosis and treatment of stroke patients including stroke prevention, and stroke rehabilitation services (physical therapy, speech therapy, occupational therapy);
- Sub-acute services include: A 44-bed Medi-Cal certified unit that provides long-term care for patients 18 years and older who require the use of a tracheotomy, gastronomy tube, or ventilator;
- Wound care services include: Inpatient and outpatient treatment for chronic non-healing wounds:
 - Seton Center for Advanced Wound Care offers: Skin substitutes, skin grafting, debridement, revascularization, and compression therapy treatments for difficult-to-heal wounds.
- Ophthalmology services include: Treatment for cataracts and diabetic retinopathy.

Seton Coastside provides emergency services, skilled nursing care, and outpatient ancillary services:

- Emergency services include: 24-hour “standby” emergency department with four treatment stations. Seton Coastside is the only provider of emergency services along the Pacific Coastline from Santa Cruz to Daly City and has the capability to transfer critically ill patients to a tertiary facility if necessary;
- Skilled nursing services include: 116 licensed-bed unit that provides skilled nursing and specialty care in post-acute and geriatric services; and
- Outpatient ancillary services include: Physical, occupational, and speech therapies, radiology and mammography, and clinical laboratory services.

Accreditation

The Hospital is accredited by The Joint Commission for three years, effective August 2017. Over the years, the Hospital has received awards and accolades as a provider of quality care, some of which include the following:

- Primary Stroke Center certification by the Joint Commission, effective August 2017 through August 2019. The Joint Commission last conducted a survey at the Hospital on August 11, 2017;
- Designated STEMI Receiving Center by San Mateo County;
- Given the Stroke Gold Plus Quality Achievement Award in 2018 which recognizes the Hospital’s commitment to ensuring stroke patients receive the most appropriate treatment according to nationally recognized, research-based guidelines based on the latest scientific evidence; and
- Received the Patient Safety First Award for Achievements in Reducing Deaths from Sepsis in 2013 by the Hospital Council of Northern and Central California.

Quality Measures

The Value-Based Purchasing Program, established by the Federal Patient Protection and Affordable Care Act in 2012, encourages hospitals to improve the quality and safety of care. The Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on four domains that reflect hospital quality: the clinical process of care and outcomes domain, the patient and caregiver centered experience of care/care coordination domain, the safety domain, and the efficiency and cost reduction domain. In FY 2018, the Centers for Medicare & Medicaid Services decreased Medicare payments to the Hospital by 0.22%. For FY 2019, the Centers for Medicare & Medicaid Services is increasing payments to the Hospital by 0.34%.

The following table reports the Hospital's performance compared to all hospitals across the nation for the seven categories that comprise Hospital Compare's overall quality rating:

QUALITY MEASURES	
Category	The Hospital and Seton Coastside
Mortality	Same as the national average
Safety of Care	Above the national average
Readmission	Above the national average
Patient Experience	Below the national average
Effectiveness of Care	Same as the national average
Timeliness of Care	Same as the national average
Efficient Use of Medical Imaging	Below the national average

Source: Data.medicare.gov Hospital Compare, June 2019

The Federal Hospital Readmissions Reduction Program³⁰, implemented in 2012, penalizes hospitals for excess patient readmissions within 30 days of discharge for the following three applicable conditions: heart attack, heart failure, and pneumonia. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

In FY 2018, the Hospital was penalized with a 0.57% reduction in reimbursement. For FY 2019, the Hospital will be penalized with a 0.32% reduction in reimbursement. The following table shows the Hospital's 30-day readmission rates for chronic obstructive pulmonary disease, heart attack, heart failure, pneumonia, stroke, hip/knee replacement, and all causes hospital-wide. The Hospital's 30-day readmission rates for pneumonia is higher than the national average.

30-DAY READMISSION RATES		
Condition/Procedure	The Hospital and Seton Coastside	National Average
Chronic Obstructive Pulmonary Disease	16.1%	19.6%
Heart Failure	20.6%	21.7%
Pneumonia	20.1%	16.7%
Coronary Artery Bypass Graft (CABG)	Too few cases to determine	13.2%
Hip/Knee Replacement	Too few cases to determine	4.2%

Source: Medicare.gov Hospital Compare, June 2019

³⁰ The formula for determining hospital reimbursement payments under the Hospital Readmissions Reduction Program varies by hospital and geographic location and may not correspond directly to state and national hospital averages.

Seismic Issues

Using the HAZUS seismic criteria³¹, the Hospital's structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC), as seen in the table below. These classifications require that the Hospital structures undergo construction to comply with the California Office of Statewide Health Planning and Development's seismic safety standards.

SETON MEDICAL CENTER SEISMIC OVERVIEW		
	SPC Compliance	NPC Compliance
Building Name	Status	Status
1963 Tower	1	2
Front Wing	1	3
Area A & B	3	2
Area C	3	2
Area D	3	2
Center Pod	3	3
South Pod	3	3
Utilities Service Building	4	2

Source: OSHPD

- Two of the Hospital's buildings, the Front Wing and the 1963 Main Tower, both reported a compliance status SPC -1. These structures pose a risk of collapse and danger to the public. In order for these buildings to be seismically compliant, the structures require seismically compliant upgrades. The Hospital has developed a master plan to meet seismic compliance by building a new hospital tower to house all acute-care services. The Hospital has previously explored the possibility of retrofitting the existing facilities in order to comply with the necessary seismic safety standards through 2030 and beyond;
- The Hospital has five buildings rated as SPC -3. These buildings may experience structural damage which does not significantly jeopardize life but may not be repairable or functional following strong ground motion. Buildings in this category will have been constructed or reconstructed under a building permit obtained through OSHPD. These buildings may be used to January 1, 2030, and beyond;
- The Hospital has one building rated as SPC-4. This building is in compliance with the structural provisions of the Alquist Hospital Facilities Seismic Safety Act (SBC 1953). Buildings in this category will have been constructed, or reconstructed, under a building permit obtained through OSHPD and may be used for inpatient services through and beyond January 1, 2030;

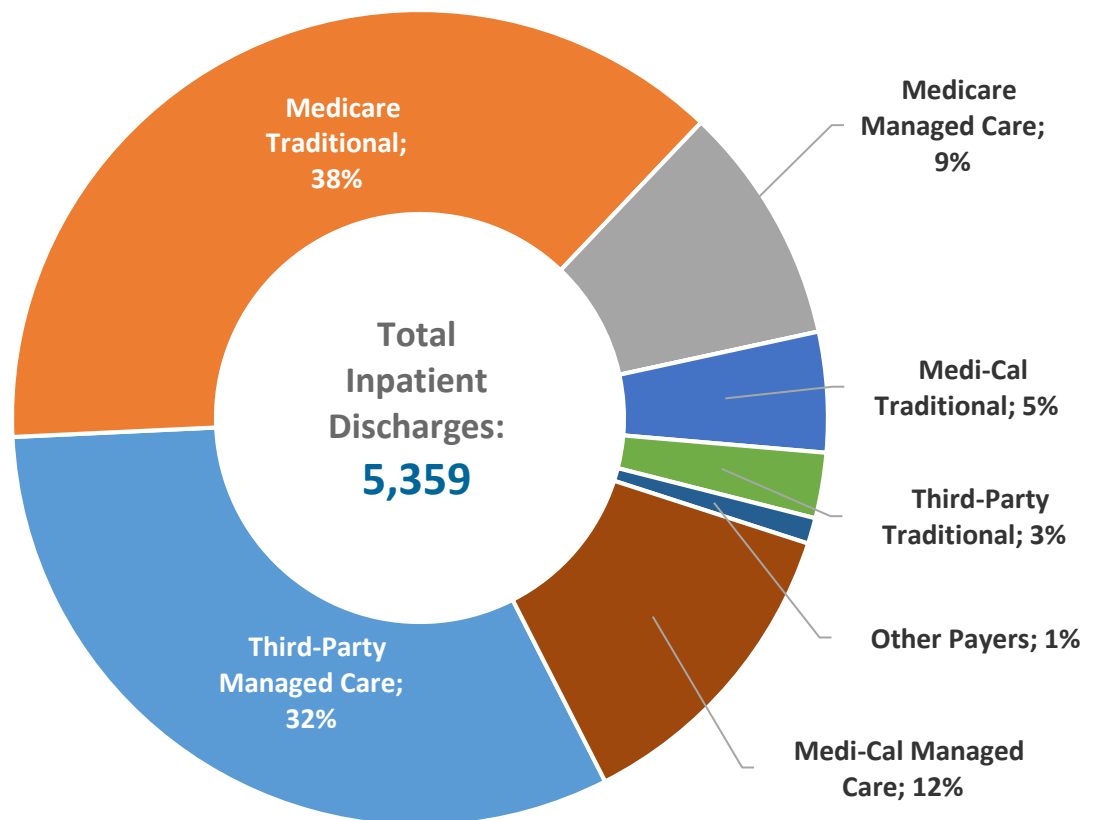
³¹ OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

- The Hospital has five buildings rated as NPC-2. The following systems including: communication systems, emergency power supply, bulk medical gas systems, fire alarm systems and emergency lighting equipment for the building are either anchored in accordance with the Part 2, Title 24 of the California Building Code⁶ or approved by the Department of General Services, Office of Architecture and Construction, Structural Safety Section; and
- The Hospital has three buildings rated as NPC-3. The buildings meet the criteria for NPC “2” and in critical care areas, clinical laboratory services spaces, pharmaceutical service spaces, radiological service spaces, and central and sterile supply areas, the following components meet the bracing and anchorage requirements of Part 2, Title 24.

Payer Mix

The Hospital's and Seton Coastsides' payer mix for FY 2018 consisted of a large proportion of Medicare patients that accounted for nearly 47% of all inpatient hospital discharges with Medicare Traditional at 38% and Medicare Managed Care at 9%. Medi-Cal patients accounted for 17% of all inpatient discharges. Third-Party Managed Care (32%) and Third-Party Traditional (3%) accounted for 35% of all inpatient hospital discharges.

Seton Medical Center Payer Mix, FY 2018



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

Source: OSHPD Financial Disclosure Report (unaudited), FY 2018 (based on inpatient discharges)

The following table illustrates the Hospital and Seton Coastsides FY 2018 inpatient discharge payer mix compared to San Mateo County and California for FY 2017. The comparison shows that the Hospital and Seton Coastsides have higher percentages of Medicare Traditional and lower percentages of Medi-Cal Traditional and Medicare managed Care relative to other hospitals in San Mateo County and statewide.

PAYER MIX COMPARISON						
	Hospital and Seton Coastsides (FY 2018)		San Mateo County (FY 2017)		California (FY 2017)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi - Cal Traditional	255	4.8%	2,038	7.2%	379,332	13.2%
Medi - Cal Managed Care	671	12.5%	2,891	10.2%	611,389	21.3%
Medi-Cal Total	926	17.3%	4,929	17.4%	990,721	34.6%
Medicare Traditional	2,028	37.8%	9,263	32.6%	821,181	28.7%
Medicare Managed Care	509	9.5%	3,521	12.4%	321,579	11.2%
Medicare Total	2,537	47.3%	12,784	45.0%	1,142,760	39.9%
Third - Party Traditional	139	2.6%	393	1.4%	95,981	3.3%
Third - Party Managed Care	1,702	31.8%	9,542	33.6%	574,058	20.0%
Third-Party Total	1,841	34.4%	9,935	35.0%	670,039	23.4%
Other Payers	55	1.0%	516	1.8%	40,046	1.4%
Other Indigent	0	0.0%	174	0.6%	14,881	0.5%
County Indigent	0	0.0%	69	0.2%	6,746	0.2%
Other Total	55	1.0%	759	2.7%	61,673	2.2%
Total	5,359	100%	28,407	100%	2,865,193	100%

Source: OSHPD Hospital Annual Financial Disclosure Reports, FY 2018

Managed Medi-Cal Managed Care

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

San Mateo County has a County Organized Health Systems model that offers one managed care plan. The San Mateo County Organized Health System model is provided by Health Plan of San Mateo. 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 San Mateo County residents with Medi-Cal Managed Care coverage has increased significantly as a result of the ACA and California initiatives to expand managed care. Currently, the Hospital is contracted with Health Plan of San Mateo to provide healthcare services for Medi-Cal Managed

Care patients. The percentage of San Mateo County residents with Medi-Cal Managed Care coverage has increased significantly as a result of the Affordable Care Act (ACA) and California initiatives to expand managed care. The Medi-Cal eligibles count in San Mateo County has increased marginally from 140,459 Medi-Cal eligibles in 2014 to 142,985 Medi-Cal eligibles in 2018.

Medical Staff

The Hospital and Seton Coastsides have a combined 481 physicians on the medical staff with various specialties represented. Radiology, internal medicine, and anesthesiology are the three largest specialties, comprising 47% of the active physicians.

The Hospital and Seton Coastsides have relations with various medical groups, including Brown and Toland and Hill Physicians.

MEDICAL STAFF PROFILE		
Specialty	Count	% of Total
Allergy and Immunology	1	0.2%
Anesthesiology	25	5.2%
Cardiovascular Diseases	24	5.0%
Dental	4	0.8%
Dermatology	3	0.6%
Gastroenterology	6	1.2%
General/Family Practice	15	3.1%
General Surgery	21	4.4%
Internal Medicine	129	26.8%
Neurological Surgery	2	0.4%
Neurology	23	4.8%
Obstetrics and Gynecology	16	3.3%
Oncology	5	1.0%
Ophthalmology	12	2.5%
Orthopedic Surgery	35	7.3%
Otolaryngology	6	1.2%
Pathology	7	1.5%
Pediatric Medicine	9	1.9%
Physical Medicine/Rehabilitation	11	2.3%
Plastic and Reconstructive Surgery	18	3.7%
Podiatry	15	3.1%
Psychiatry	2	0.4%
Pulmonary Disease	10	2.1%
Radiology	71	14.8%
Urology	5	1.0%
Vascular Surgery	6	1.2%
Total	481	100%

Source: OSHPD Disclosure Report, FY 2018

Patient Utilization Trends

The table below shows volume trends at the Hospital and Seton Coastside for FY 2014 through FY 2018:

SETON MEDICAL CENTER SERVICE VOLUMES FY 2014 - FY 2018*					
PATIENT DAYS	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Medical/Surgical ²	26,135	25,953	25,264	26,918	24,132
Neonatal Intensive Care	255	238	-	-	-
Intensive Care	4,774	3,785	3,234	3,352	2,822
Obstetrics	1,658	1,507	-	-	-
Skilled Nursing	37,382	36,511	36,680	39,889	41,519
Sub-Acute Care	13,766	14,851	15,191	14,973	15,641
Psychiatric	-	-	-	-	1,748
Total	83,970	82,845	80,369	85,132	85,862
DISCHARGES					
Medical/Surgical ²	5,122	5,093	4,716	5,040	4,645
Neonatal Intensive Care	50	47	-	-	-
Intensive Care	936	742	604	628	506
Obstetrics	609	526	-	-	-
Skilled Nursing	86	74	104	121	76
Sub-Acute Care	38	48	25	27	22
Psychiatric	-	-	-	-	110
Total	6,841	6,530	5,449	5,816	5,359
AVERAGE LENGTH OF STAY					
Medical/Surgical ²	5.1	5.1	5.4	5.3	5.2
Neonatal Intensive Care	5.1	5.1	-	-	-
Intensive Care	5.1	5.1	5.4	5.3	5.6
Obstetrics	2.7	2.9	-	-	-
Skilled Nursing	-	-	-	-	-
Sub-Acute Care ³	362.3	309.4	607.6	554.6	711
Psychiatric	-	-	-	-	15.9
Total¹	4.9	4.9	5.4	5.3	5.5
AVERAGE DAILY CENSUS					
Medical/Surgical ²	71.6	71.1	69.2	73.7	66.1
Neonatal Intensive Care	0.7	0.7	-	-	-
Intensive Care	13.1	10.4	8.9	9.2	7.7
Obstetrics	4.5	4.1	-	-	-
Skilled Nursing	102.4	100	100.5	109.3	113.8
Sub-Acute Care	37.7	40.7	41.6	41	42.9
Psychiatric	-	-	-	-	4.8
Total¹	89.9	86.3	78.1	82.9	73.8
OTHER SERVICES					
Inpatient Surgeries	1,925	1,651	1,100	1,267	1,116
Outpatient Surgeries	4,161	4,155	2,834	2,721	2,900
Emergency Service Visits- Seton Medical Center	27,928	28,994	25,881	27,489	29,972**
Emergency Service Visits- Seton Coastside	3,042	3,270	2,712	2,644	
Total Live Births	579	512	0	0	0

Sources: OSHPD Disclosure Reports, FY 2014 - FY 2018

Note: Includes the Hospital and Seton Coastside

* FY 2014 to FY 2017 data is from audited OSHPD Disclosure Reports whereas FY 2018 is from unaudited.

**Includes Seton Coastside.

¹ Excludes Skilled Nursing and Subacute Care Services

² Includes Definitive Observation Beds

³ Patients in the sub-acute unit are often longer term extending beyond one year.

A review of the Hospital and Seton Coastsides historical utilization trends, between FY 2014 and FY 2018, supports the following conclusions:

- Total patient days have increased by approximately 2% from 83,970 in FY 2014 to 85,862 in FY 2018. This slight growth can be attributed to increases in skilled nursing and sub-acute patient days over the 5-year period. Over the same period, medical/surgical and intensive care patient days have decreased 8% and 41%, respectively;
- The Hospital reopened its psychiatric services in FY 2018 for geropsychiatric patients;
- The Hospital closed its obstetrics unit and NICU in FY 2015, hence no volume in subsequent years;
- Both inpatient and outpatient surgeries have decreased significantly over the 5-year period (inpatient surgeries have decreased 42% while outpatient surgeries have decreased 30%);
- Inpatient discharges have decreased 22% from 6,841 in FY 2014 to 5,359 in FY 2018; and
- The average daily census, excluding the sub-acute and skilled nursing services, has decreased from 90 patients in FY 2014 to 74 patients in FY 2018.

Financial Profile

The Hospital and Seton Coastside reported net losses ranging between \$16.8 million in FY 2014 and over \$63.1 million in FY 2016. In total, the Hospital and Seton Coastside reported net losses of over \$166.5 million over the 5-year period. Much of the reported losses can be attributed to gradually increasing operating expenses and stagnant or declining operating revenue. A review of historical financial reports shows that the last time the Hospital and Seton Coastside were profitable was in FY 2008.

The current assets-to-liabilities ratio has decreased over the last five years from 0.99 in FY 2014 to 0.37 in FY 2018 (the California average in FY 2017 was 1.56). The average percentage of bad debt is approximately 0.5%, which is lower than the statewide average of 0.8%.

SETON MEDICAL CENTER						
FINANCIAL AND RATIO ANALYSIS FY 2014 - FY 2018 ¹						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	
Patient Days ³	83,970	82,845	80,369	85,132	85,862	
Discharges	6,841	6,530	5,449	5,816	5,359	
ALOS	12.3	12.7	14.7	14.6	16.0	
Net Patient Revenue	\$242,597,787	\$246,549,014	\$213,371,794	\$248,651,732	\$254,179,453	
Other Operating Revenue	\$4,605,511	\$3,325,342	\$1,437,348	\$4,026,522	\$8,265,149	
Total Operating Revenue	\$247,203,298	\$249,874,356	\$214,809,142	\$252,678,254	\$262,444,602	
Operating Expenses	\$278,796,889	\$286,362,023	\$277,839,919	\$280,575,067	\$296,633,104	
Net from Operations	(\$31,593,591)	(\$36,487,667)	(\$63,030,777)	(\$27,896,813)	(\$34,188,502)	
Net Non-Operating Revenues and Expenses	\$14,785,605	\$14,213,464	(\$97,188)	(\$795,061)	(\$1,388,513)	
Net Income	(\$16,807,986)	(\$22,274,203)	(\$63,127,965)	(\$28,691,874)	(\$35,577,015)	
						2017 California Data ²
Current Ratio	0.99	0.86	0.48	0.42	0.37	1.56
Days in A/R	51.1	46.8	52	64.4	79.3	54.6
Bad Debt Rate	0.70%	0.50%	0.40%	0.20%	0.50%	0.80%
Operating Margin	-12.78%	-14.60%	-29.34%	-11.04%	-13.03%	3.13%

Source: OSHPD Disclosure Reports, FY 2014 - FY 2018

Note: Includes the Hospital and Seton Coastside

¹ FY 2014 to FY 2017 data is from audited OSHPD Disclosure Reports whereas FY 2018 is from unaudited.

² FY 2018 California data was not available when the data was collected to prepare this report.

³ Includes acute psychiatric, skilled nursing, and subacute patient days.

Cost of Hospital Services

The Hospital and Seton Coastsides combined operating cost of services includes both inpatient and outpatient care. In FY 2018, approximately 41% of the total costs were associated with Medicare, 27% with Medi-Cal, and 31% with Third Party payers. The remaining 1% is attributed to Other Payers.

SETON MEDICAL CENTER					
OPERATING EXPENSES BY PAYER CATEGORY FY 2014 - FY 2018 ¹					
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Operating Expenses	\$278,796,889	\$286,362,023	\$277,839,919	\$280,575,067	\$296,633,104
Cost of Services By Payer:					
Medicare	\$136,877,349	\$117,061,410	\$104,968,223	\$115,101,486	\$120,670,641
Medi-Cal	\$71,243,789	\$83,136,292	\$79,990,971	\$72,969,522	\$81,044,346
County Indigent	\$0	\$0	\$0	\$0	\$0
Third-Party	\$65,638,938	\$83,673,422	\$90,676,146	\$90,310,554	\$91,665,480
Other Indigent	\$0	\$0	\$0	\$0	\$0
All Other Payers	\$5,036,813	\$2,490,899	\$2,204,579	\$2,193,505	\$3,252,637

Source: OSHPD Disclosure Reports, FY 2014 - FY 2018

Note: Includes the Hospital and Seton Coastsides

¹ FY 2014 to FY 2017 data is from audited OSHPD Disclosure Reports whereas FY 2018 is from unaudited.

Charity Care

The following table shows a comparison of charity care and bad debt for the Hospital and Seton Coastsides combined and all general acute care hospitals in the state. The five-year (FY 2014 - FY 2018) average of charity care and bad debt, as a percentage of gross patient revenue, was 0.8%. This is lower than the four-year statewide average of 1.9% (FY 2014 – FY 2017). 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.”

SETON MEDICAL CENTER										
CHARITY CARE COMPARISON FY 2014 - FY 2018 ¹ (In Thousands)										
	FY 2014		FY 2015		FY 2016		FY 2017		FY 2018	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA ²
Gross Patient Revenue	\$1,557,881	\$338,322,364	\$1,480,665	\$365,501,463	\$1,322,179	\$396,427,743	\$1,499,079	\$408,188,146	\$1,496,855	-
Charity	\$11,658	\$5,113,965	\$4,465	\$3,441,227	\$4,022	\$3,457,868	\$3,266	\$2,864,615	\$4,822	-
Bad Debt	\$10,536	\$4,365,936	\$6,844	\$3,262,642	\$4,923	\$3,108,971	\$3,526	\$2,762,692	\$7,128	-
Total Charity & Bad Debt	\$22,194	\$9,479,902	\$11,309	\$6,703,869	\$8,945	\$6,566,839	\$6,792	\$5,627	\$11,950	-
Charity Care as a % of Gross Patient Revenue	0.70%	1.50%	0.30%	0.90%	0.30%	0.90%	0.20%	0.70%	0.30%	-
Bad Debt as a % of Gross Patient Revenue	0.70%	1.30%	0.50%	0.90%	0.40%	0.80%	0.20%	0.70%	0.50%	-
Total as a % of Gross Patient Revenue	1.40%	2.80%	0.80%	1.80%	0.70%	1.70%	0.50%	1.40%	0.80%	-
Uncompensated Care										
Cost to Charge Ratio	17.60%	23.60%	19.10%	24.10%	20.90%	23.80%	18.40%	23.00%	19.30%	-
Charity	\$2,052	\$1,207,919	\$853	\$828,647	\$841	\$822,627	\$603	\$658,891	\$931	-
Bad Debt	\$1,854	\$1,031,234	\$1,308	\$785,644	\$1,029	\$739,624	\$650	\$635,448	\$1,373	-
Total	\$3,906	\$2,239,153	\$2,162	\$1,614,292	\$1,870	\$1,562,251	\$1,253	\$1,294,339	\$2,304	-

Source: OSHPD Disclosure Reports FY 2014 - FY 2018

Note: Includes the Hospital and Seton Coastsides

¹ FY 2014 to FY 2017 data is from audited OSHPD Disclosure Reports whereas FY 2018 is from unaudited.

² 2018 California data unavailable

The table below shows the Hospital’s and Seton Coastsides’s historical costs for charity care as reported to OSHPD. Charity care costs have decreased from \$2,051,846 in FY 2014 to \$930,583 in

FY 2018. The average cost of charity care for the last five-year period was \$1,055,863 while the three-year average cost of charity care was \$791,332.

SETON MEDICAL CENTER			
COST OF CHARITY CARE FY 2014 - FY 2018 ¹			
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital
FY 2018	\$4,821,676	19.30%	\$930,583
FY 2017	\$3,266,254	18.40%	\$602,555
FY 2016	\$4,022,268	20.90%	\$840,858
FY 2015	\$4,464,824	19.10%	\$853,474
FY 2014	\$11,658,028	17.60%	\$2,051,846
FY 2016 - FY 2018 Average			\$791,332
FY 2014 - FY 2018 Average			\$1,055,863

Source: OSHPD Disclosure Reports FY 2014 - FY 2018

Note: Includes the Hospital and Seton Coastsides

¹ FY 2014 to FY 2017 data is from audited OSHPD Disclosure Reports whereas FY 2018 is from unaudited.

In the written notice to the California Attorney General, the Hospital reported the following combined distribution of charity care costs by inpatient, outpatient, and emergency room visits. Note that these totals are different than what the Hospital reported to OSHPD. The Hospital's Charity Care and Discount Policy states that persons with family income at or below 200% of the federal policy level, and without other sources to pay for care received, qualify to receive free care. Persons with family income between 201% and 350% of the federal policy level, and without other sources to pay for care received, qualify to receive care at 12% of the amount generally billed for inpatient care and 11% of the amount generally billed for outpatient care where both are determined each fiscal year.

The Hospital and Seton Coastsides reported the following combined distribution of charity care by inpatient, outpatient, and emergency room charges:

SETON MEDICAL CENTER				
COST OF CHARITY CARE BY SERVICE FY 2014 - FY 2018				
	Inpatient	Emergency	Outpatient	Total Costs
FY 2018:				
Cost of Charity	\$549,222	\$346,075	\$40,108	\$935,405
Visits/Discharges	42	584	162	788
FY 2017:				
Cost of Charity	\$121,362	\$449,912	\$46,048	\$617,322
Visits/Discharges	27	723	105	855
FY 2016:				
Cost of Charity	\$324,901	\$475,286	\$36,445	\$836,632
Visits/Discharges	25	747	34	806
FY 2015:				
Cost of Charity	\$294,549	\$504,866	\$54,060	\$853,475
Visits/Discharges	34	819	109	962
FY 2014:				
Cost of Charity	\$1,121,779	\$831,471	\$98,577	\$2,051,827
Visits/Discharges	118	1,242	403	1,763

Source: Verity

Note: Includes the Hospital and Seton Coastside

Because of Medicaid expansion and increased access to healthcare insurance coverage under the ACA, the amount of charity care provided to uninsured patients has decreased significantly from FY 2014 levels.

Community Benefit Services

The Hospital and Seton Coastside have consistently provided community benefit services. As shown in the table below, the average annual cost of community benefit services over the five years has been approximately \$686,000 per year:

COMMUNITY BENEFIT SERVICES FY 2014-2018							
Community Benefit Programs	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year	
						Average	Total
Benefits for Persons Living in Poverty	\$387,651	\$469,629	\$520	\$11,850	\$267,799	\$227,490	\$1,137,449
Benefits for the Broader Community	\$168,655	\$23,367	\$392,967	\$1,147,968	\$558,945	\$458,380	\$2,291,902
Total	\$556,306	\$492,996	\$393,487	\$1,159,818	\$826,744	\$685,870	\$3,429,351

Source: Verity Health

(1) Includes the Hospital and Seton Coastside

- The Hospital's and Seton Coastside's five-year average cost of community benefit services for persons living in poverty is approximately \$227,500 per year. The services for persons living in poverty include community health improvement services, financial and in-kind contributions, and subsidized health services;
- The Hospital's and Seton Coastside's five-year average cost of community benefit services to the broader community is approximately \$458,400 per year. These services include community health improvement services, health professional education, subsidized health services, financial and in-kind contributions, community building activities, and community benefit operations; and

- Over the 5-year period, The Hospital's and Seton Coastsides combined total community benefits have increased from approximately \$560,000 in FY 2014 to nearly \$830,000 in FY 2018.

The Hospital's and Seton Coastsides cost of community benefit services over the past five fiscal years included the following program expenditures over \$10,000:

COST OF COMMUNITY BENEFIT SERVICES FY 2014-2018					
Services over \$10,000 in cost:	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Pulmonary Exercise Maintenance	\$26,818	\$11,070	-	-	-
Saint Elizabeth Ann Seton New Life Center	\$1,364,392	\$1,189,434	-	-	-
Rotacare Clinic - Seton	\$11,520	\$8,716	-	\$21,250	\$56,682
Rotacare Clinic - Seton Coastsides	-	-	-	-	-
Chamber of Commerce	\$20,157	-	-	-	-
Community Benefit Program Management	\$27,396	\$20,445	\$16,286	\$16,000	\$11,398
Better Breathers	-	-	-	-	-
Medical Mondays	-	-	-	-	-
Diabetes Support Group	-	-	\$102,566	-	-
Shuttle / Courier Services	-	-	\$69,879	\$122,914	\$110,506
Pastoral / Spiritual Care	-	-	-	\$51,257	\$80,776
RN Grad Program	-	-	-	\$691,252	-

Source: Verity Health

The Hospital and Seton Coastsides provide community benefit services that support many programs for the community including, but not limited to, the following:

- Health Benefits Resource Center: The program provides free assessments, referrals to community resources, and assistance completing applications for free and low-cost health insurance;
- Community Benefits Program Management: The program assists in organizing events and collaborating with other healthcare providers;
- RotaCare Clinic: Provides urgent care health services to uninsured patients. Services include diagnostic testing including CT, MRI, doppler vascular studies, ultrasound, clinical lab tests and radiology. The Hospital provides services to patients who would not otherwise have access to these diagnostic tests;
- Diabetes Support Group: Community event provided subsidized cholesterol and glucose screenings. Hospital clinical lab staff attended the event and provided glucose and cholesterol screenings; and
- Pastoral/Spiritual Care: Provides support to patients who request such services.

Analysis of the Hospital's Service Area

Service Area Definition

The Hospital's service area is comprised of 14 ZIP Codes, from which approximately 82% of its discharges originated in CY 2017. Approximately 55% of the Hospital's discharges came from the top three ZIP Codes, located in Daly City, and South San Francisco. In CY 2017, the Hospital's market share in the service area was 12.6% based on inpatient discharges.

PATIENT ORIGIN, CY 2017						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
94015	Daly City	1,347	25.5%	25.5%	4,640	29.0%
94014	Daly City	798	15.1%	40.6%	3,337	23.9%
94080	South San Francisco	732	13.8%	54.4%	5,074	14.4%
94044	Pacifica	533	10.1%	64.5%	2,972	17.9%
94112	San Francisco	263	5.0%	69.5%	6,620	4.0%
94066	San Bruno	216	4.1%	73.5%	3,515	6.1%
94134	San Francisco	130	2.5%	76.0%	3,795	3.4%
94132	San Francisco	114	2.2%	78.2%	1,908	6.0%
94019	Half Moon Bay	74	1.4%	79.6%	1,194	6.2%
94038	Moss Beach	46	0.9%	80.4%	249	18.5%
94005	Brisbane	21	0.4%	80.8%	369	5.7%
94037	Montara	14	0.3%	81.1%	183	7.7%
94018	El Granada	12	0.2%	81.3%	257	4.7%
94017	Daly City	11	0.2%	81.5%	33	33.3%
Subtotal		4,311	81.5%	81.5%	34,146	12.6%
Other ZIPs		977	18.5%	100%		
Total		5,288	100%			

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

The Hospital's service area, with approximately 451,000 residents, includes the communities of Daly City, South San Francisco, San Francisco, Pacifica, San Bruno, Half Moon Bay, Moss Beach, Brisbane, El Granada, and Montara.

Hospitals and Locations:

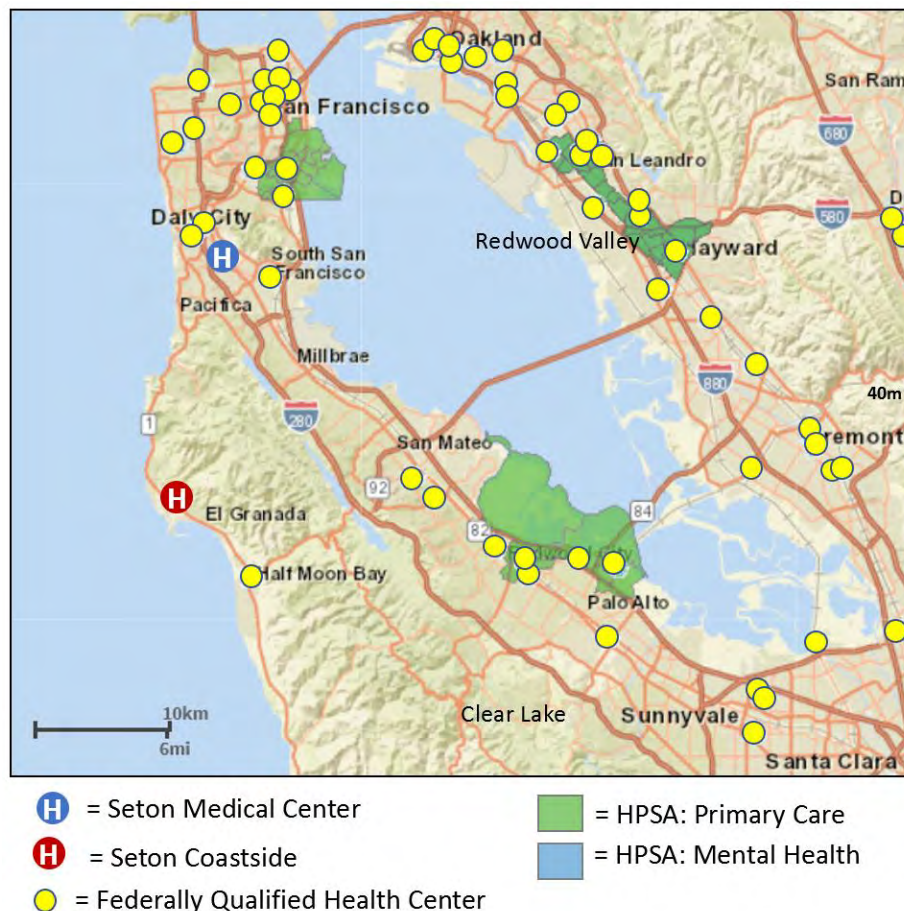
- 1 Seton Medical Center
- 2 Seton Coastside Hospital
- 3 Mills-Peninsula Medical Center
- 4 Kaiser Fnd Hosp - South San Francisco
- 5 San Francisco General Hospital
- 6 California Pacific Med Ctr-Pacific Campus
- 7 Kaiser Fnd Hosp - San Francisco
- 8 UCSF Medical Center
- 9 California Pacific Medical Center - St. Luke's Campus
- 10 San Mateo Medical Center
- 11 St. Mary's Medical Center, San Francisco
- 12 Kaiser Fnd Hosp - Redwood City
- 13 Stanford Hospital
- 14 Lucile Salter Packard Children's Hosp
- 15 St. Francis Memorial Hospital
- 16 Kaiser Fnd Hosp - Santa Clara
- 17 Chinese Hospital

Legend:

- Custom territories
- Service Area

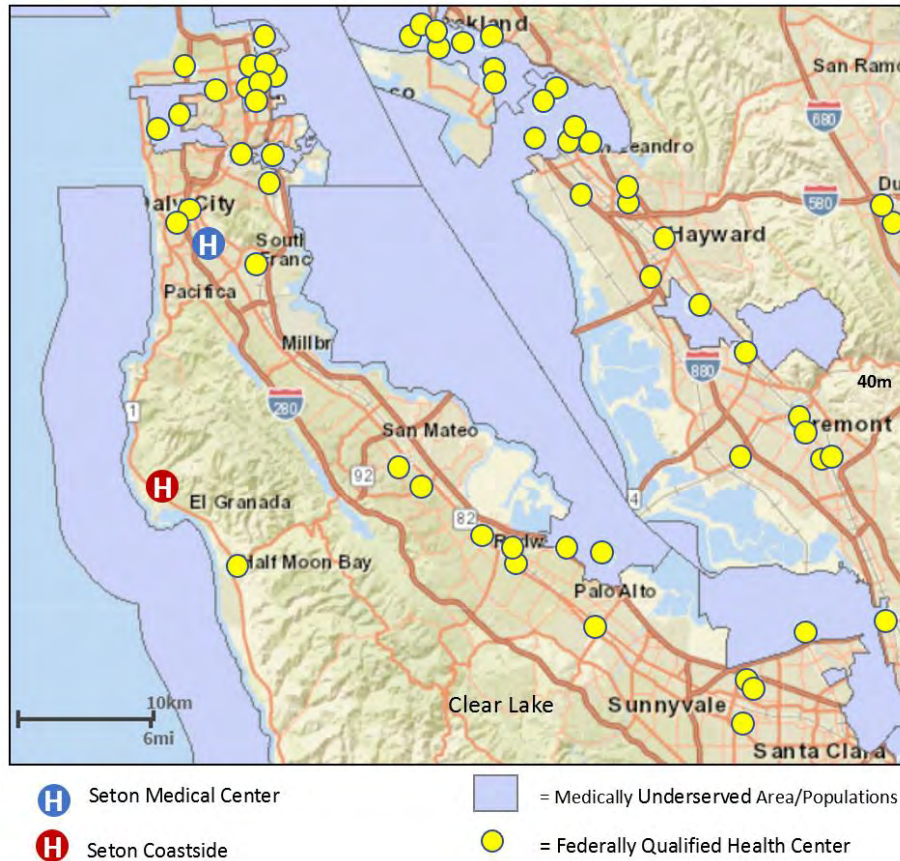
Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Neither the Hospital, nor any part of its service area, is designated as a Health Professional Shortage Area. The map below shows the closest shortage areas relative to the Hospital's location. The closest Health Professional Shortage Areas are located in and around Redwood City, approximately 10 miles from the Hospital, and across San Francisco Bay in Hayward and San Leandro.



Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local conditions that result in

access barriers to medical services. Medically Underserved Areas and Medically Underserved Populations are permanently set and no renewal process is necessary. The map below depicts the Medically Underserved Areas and Medically Underserved Populations relative to the Hospital's location.



Neither the Hospital, nor its service area, is designated as a Medically Underserved Area/Medically Underserved Population, suggesting there is sufficient access to healthcare services in the area. There are also four Federally Qualified Health Centers in the Hospital's service area. Federally Qualified Health Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. Federally Qualified Health Centers must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors. The ACA included provisions that increased federal funding to Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges.

There are four STEMI Receiving Centers in San Mateo County that provide percutaneous coronary intervention for patients experiencing an acute heart attack. In addition to the Hospital, Mills-Peninsula Hospital, Kaiser Foundation Hospital – Redwood City, and Sequoia Hospital are also designated STEMI Receiving Centers. Furthermore, the Hospital is the only STEMI Receiving Center within its service area. Stanford Hospital, a designated STEMI Receiving Center in Santa Clara County, also has an agreement with San Mateo County to provide percutaneous coronary intervention services.




Certified Stroke Centers in San Mateo County


The Hospital is a Certified Primary Stroke Center. In addition to the Hospital, there are four other Certified Stroke Centers in San Mateo County, including three Primary Stroke Centers (Kaiser Foundation Hospital – South San Francisco, Sequoia Hospital, and Mills-Peninsula Medical Center), and one Comprehensive Stroke Center (Kaiser Foundation Hospital – Redwood City). Stanford Hospital, a Comprehensive Stroke Center located in San Jose County, also has an agreement with San Mateo County to provide stroke care services.



 = Seton Medical Center

 = Primary Stroke Center

 = Service Area

 = Comprehensive Stroke Center

Demographic Profile

The Hospital's service area population is projected to grow 3.1% over the next five years. This is similar to the expected growth rate for San Mateo County but lower than the expected growth rate statewide (3.7%).

SERVICE AREA POPULATION STATISTICS			
	2018	2023	%
	Estimate	Estimate	Change
Total Population	450,588	464,606	3.1%
Total Households	143,735	147,723	2.8%
Percentage Female	50.9%	50.7%	-0.3%

Source: Esri

The median age of the population in the Hospital's service area is 44.3 years. This is considerably higher than the statewide median age of 36.2 years. The percentage of adults over the age of 65 is the fastest growing age cohort, increasing by approximately 16% between 2018 and 2023. The number of women of child-bearing age is expected to increase slightly over the next five years but decrease as a percentage of the population.

SERVICE AREA POPULATION AGE DISTRIBUTION				
	2018 Estimate		2023 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	70,382	15.6%	70,292	15.1%
Age 15-44	181,375	40.3%	184,198	39.6%
Age 45-64	121,718	27.0%	120,477	25.9%
Age 65+	77,113	17.1%	89,639	19.3%
Total	450,588	100%	464,606	100%
Female 15-44	89,154	19.8%	90,274	19.4%
Median Age	44.3		45.1	

Source: Esri

The largest population cohorts in the Hospital's service area are Asian (45%) and White (33%). Daly City, where the Hospital is located, has one of the highest concentrations of Filipino Americans of any municipality in the United States. Approximately 76% of the service area population is of non-Hispanic origin. This is comparable to San Mateo County (75%), but considerably higher than the California non-Hispanic population of 60%.

SERVICE AREA POPULATION RACE/ETHNICITY				
	2018 Estimate		2023 Projection	
	Population	% of Total	Population	% of Total
White	150,532	33.4%	145,520	31.3%
Black	14,360	3.2%	12,899	2.8%
Asian Indian Alone	2,079	0.5%	2,016	0.4%
Asian Alone	203,951	45.3%	222,648	47.9%
Pacific Islander Alone	4,609	1.0%	4,494	1.0%
Some Other Race Alone	50,074	11.1%	50,628	10.9%
Two or More Races	24,983	5.5%	26,401	5.7%
Total	450,588	100%	464,606	100%
Hispanic Origin	109,269	24.3%	110,010	23.7%
Non-Hispanic or Latino	341,319	75.7%	354,596	76.3%
Total	450,588	100%	464,606	100%

Source: Esri

The Hospital's service area households have an average household income of \$86,273. This is nearly 9% higher than the county average of \$78,863 and 32% higher than the state average of \$65,223. Projections anticipate that the number of higher income households (\$150,000+) in the Hospital's service area will represent a higher percentage of households than anticipated in the State of California, but a lower percentage of households than anticipated in San Mateo County.

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION						
Income	2018 Estimate			2023 Projection		
	Service Area	San Mateo County	California	Service Area	San Mateo County	California
\$0 - \$15,000	6.3%	5.2%	9.6%	4.9%	4.1%	8.0%
\$15 - \$24,999	5.8%	4.7%	8.3%	4.5%	3.6%	6.8%
\$25 - \$34,999	5.5%	4.8%	7.8%	4.4%	3.8%	6.5%
\$35 - \$49,999	8.9%	7.6%	11.1%	7.5%	6.3%	9.9%
\$50 - \$74,999	16.3%	14.0%	16.1%	14.6%	12.3%	15.2%
\$75 - \$99,999	13.8%	12.2%	12.2%	13.5%	11.6%	12.3%
\$100 - \$149,999	19.9%	18.7%	16.1%	21.6%	19.5%	17.7%
\$150,000 - \$199,999	10.6%	11.4%	8.1%	12.1%	12.5%	9.6%
\$200,000+	12.9%	21.3%	10.7%	16.9%	26.3%	14.0%
Total	100%	100%	100%	100%	100%	100%
Median Household Income	\$86,273	\$78,863	\$65,223	\$100,882	\$116,537	\$74,370

Source: Esri

Medi-Cal Eligibility

With the implementation of the ACA and the statewide expansion of Medi-Cal, 13.2 million of the State of California's population are eligible for Medi-Cal (33% of California's population). In San Mateo County, the California Department of Health Care Services estimated 142,985 people were eligible for Medi-Cal in August 2018 (32% of San Mateo County's population). Out of the total estimated population in San Mateo County, 23% of the population was enrolled for Medi-Cal Managed Care. Since the population in the Hospital's service area is wealthier than San Mateo County, it is expected that the percent eligible for Medi-Cal would not exceed 32%. Medi-Cal eligibility could be significantly affected in the coming years by the potential change or repeal of the ACA.

Selected Health Indicators

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

San Mateo County has lower morbidity rates for five indicators compared to California. The rate of incidence of tuberculosis is higher than both the statewide rate and national goal.

SAN MATEO COUNTY'S MORBIDITY STATISTICS: RATE PER 100,000 POPULATION HEALTH STATUS PROFILE FOR 2019			
Health Status Indicator	San Mateo County	California	National Objective
HIV/AIDS Incidence (Age 13 and Over) ¹	233.1	397.7	a
Chlamydia Incidence	339.7	514.6	c
Gonorrhea Incidence Female Age 15-44	99.4	252.4	251.9
Gonorrhea Incidence Male Age 15-44	288.3	444.8	194.8
Tuberculosis Incidence	7.1	5.3	1.0
Congenital Syphilis	M*	44.4	9.6
Primary Secondary Syphilis Female	M*	3.5	1.3
Primary Secondary Syphilis Male	14.9	26.2	6.7

Source: California Department of Public Health

* Rates are deemed unreliable based on fewer than 20 data elements.

¹California Department of Public Health, Office of AIDS, Surveillance Section reporting periods are: Current Period 2014-2016, Previous Period 2011-2013.

a: Healthy People 2020 (HP 2020) National Objective has not been established.

c: Prevalence data are not available in all California counties to evaluate the Healthy People 2020 National Objective STD-1, as the Healthy People objective is restricted to females who are 15-24 years old and identified at a family planning clinic, and males and females under 24 years old who participate in a national job-training program.

The overall age-adjusted mortality rate for San Mateo County is lower than that of the State of California. San Mateo County's rates for all 18 causes are lower than the statewide rates.

SAN MATEO COUNTY'S MORTALITY HEALTH STATUS PROFILE FOR 2019				
RATE PER 100,000 POPULATION				
Selected Cause	San Mateo County		(Age Adjusted)	
	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	620.5	477.9	610.3	a
- All Cancers	147.8	115.9	137.4	161.4
- Colorectal Cancer	13.1	10.3	12.5	14.5
- Lung Cancer	28.2	22.3	27.5	45.5
- Female Breast Cancer	20.7	15.0	18.9	20.7
- Prostate Cancer	17.0	15.7	19.4	21.8
- Diabetes	15.4	12.0	21.2	b
- Alzheimer's Disease	39.1	27.9	35.7	a
- Coronary Heart Disease	71.7	54.1	87.4	103.4
- Cerebrovascular Disease (Stroke)	38.9	28.9	36.3	34.8
- Influenza/Pneumonia	13.9	10.3	14.2	a
- Chronic Lower Respiratory Disease	26.5	20.2	32.0	a
- Chronic Liver Disease And Cirrhosis	9.5	7.6	12.2	8.2
- Accidents (Unintentional Injuries)	25.6	22.5	32.2	36.4
- Motor Vehicle Traffic Crashes	5.8	5.6	9.5	12.4
- Suicide	7.8	7.4	10.4	10.2
- Homicide	2.1*	2.3*	5.2	5.5
- Firearm-Related Deaths	4.4	4.4	7.9	9.3
- Drug-Induced Deaths	9.0	8.2	12.7	11.3

Source: California Department of Public Health

*Rates are deemed unreliable when based on 20 or fewer elements

a: Healthy People 2020 (HP 2020) National Objective has not been established.

b: National Objective is based on both underlying and contributing cause of death which requires use of multiple cause of death files. California's data exclude multiple/contributing causes of death.

Health indicators in San Mateo County are superior to health indicators statewide and nationally for low birth weight infants, first trimester prenatal care, and adequate/adequate plus care.

SAN MATEO COUNTY'S NATALITY HEALTH STATUS PROFILE FOR 2019			
Health Status Indicator	San Mateo County	California	National Goal
Low Birth Weight Infants	7.0%	6.9%	7.8%
First Trimester Prenatal Care	90.8%	83.5%	77.9%
Adequate/Adequate Plus Care	80.5%	77.9%	77.6%

Source: California Department of Public Health

2016 Community Health Needs Assessment

In an effort to identify the most critical healthcare needs in the Hospital's service area, a Community Health Needs Assessment (CHNA) is conducted every three years. The process is designed to identify the health needs and resources in the Hospital service area and inform the Hospital's community benefit investments. The Hospital conducted this CHNA in partnership with the Healthy Community Collaborative of San Mateo County (HCC), which consists of representatives from nonprofit hospitals, the County Health Department and Human Services, public agencies, and community-based organizations.

The Hospital's defined service area for purpose of the assessment (CHNA Service Area) includes but is not limited to: the cities of South San Francisco, Daly City, Brisbane, San Bruno, Pacifica, Montara, Moss Beach, and Half Moon Bay.

Based upon the CHNA Service Area, the study included a summary of population and household demographics measures related to access to healthcare, mortality, and findings from community interviews as provided. Thirteen healthcare needs were identified and prioritized through the CHNA process. The prioritized health needs are as follows:

1. Healthcare access & delivery: According to the San Mateo County Quality of Life survey, there was an increase in the percent of adults under age 65 that have been without health insurance coverage for more than five years (15% in 2001 to 30% in 2013). In addition, the proportion of county residents who report visiting a doctor for a routine checkup has been trending down (81% in 2004 to 72% in 2013);
2. Behavioral Health: Between 1998 and 2013, there was a rise from 5% to 8% in the percentage of self-reported mental and emotional problems among adults in the CHNA Service Area. Countywide, depression is more common among Latinos (34%), low-income residents (41%), and those who completed education with a high school diploma or less (33%);
3. Cancer: The mortality rates for most cancers in the CHNA Service Area are lower than the statewide and Healthy People 2020³² (HP2020) targets; however, breast cancer and prostate cancer incidence rates (136.8 and 152.8 per 100,000) in the North County/Coastal area are higher than the statewide incidence rates (122.4 and 136.4 per 100,000). In addition, the colorectal cancer incidence rate in the CHNA Service Area (42.5 per 100,000) is higher than the HP2020 target (38.7 per 100,000);
4. Obesity, diabetes, fitness and nutrition: There has been a rise in the percentage of adults who report having been diagnosed with diabetes, from 4% in 1998 to 10% in 2013. The overall adult rate in the county, based on self-reports, is higher than the

³² Healthy People provides science-based, 10-year national objectives for improving the health of all Americans. For 3 decades, Healthy People has established benchmarks and monitored progress over time in order to (1) Encourage collaborations across communities and sectors. (2) Empower individuals toward making informed health decisions and (3) Measure the impact of prevention activities.

HP2020 target (8%), with Blacks (16%) and low-income residents (18%) disproportionately reporting having been diagnosed with diabetes;

5. Heart disease and stroke: Mortality rates due to heart disease (156.7) and stroke (36.4) are higher in the North County/Coastal service area than HP2020 targets (100.8 and 34.8, respectively). Heart disease is the top leading cause of death in the county, with cerebrovascular diseases being the fourth leading;
6. Air quality/ climate change: The Hospital is among the top U.S. metropolitan areas with the highest short-term particle pollution and areas most polluted by ground-level ozone. Community input included apprehension that air pollution from increased traffic was negatively impacting health;
7. Alzheimer's disease: The disease is the third leading cause of death in the Hospital's CHNA Service Area. The mortality rate from Alzheimer's (29.7 per 100,000) is higher than the statewide rate (28.2 per 100,000);
8. Arthritis: Arthritis and related conditions are prevalent among adults aged 18 and older. The adult arthritis prevalence rate (21%) within the CHNA Service Area is slightly higher than the statewide average (20%). In addition, arthritis or rheumatism is more prevalent among adults aged 65 or older (38%) compared to adults 18-64 (12%);
9. Birth outcomes: The percentage of low birthweight infants in the North County/Coastal area (8%) is slightly higher than the statewide average (7%). However, Blacks (15%) and Asian/Pacific Islanders (9%) are disproportionately affected with higher rates of low birthweight infants;
10. Communicable diseases: The incidence rate of tuberculosis has been climbing (from 8.7 per 100,000 in 2000-04 to 10.0 per 100,000 in 2006-10), and the rate remains higher than the state average (6.8). Disparities by ethnicity in tuberculosis incidence occur among county Asian/Pacific Islanders. Pneumonia and influenza combined was the sixth leading cause of death in the county in 2013;
11. Oral/dental health: There has been a decrease in the percentage of surveyed adults who visited a dentist for a routine checkup in the past year (81% in 1998 to only 77% in 2013) and an increase in the percentage of surveyed adults who lack dental insurance (27% in 1998 to 32% in 2013). Low-income county residents more often lack dental insurance and are less likely to get a routine dental checkup; and
12. Respiratory conditions: From 1998 to 2013, there also was a substantial increase in the proportion of surveyed adults who reported being diagnosed with asthma (9% in 1998, 18% in 2013). A greater proportion of children were reported to have asthma in 2013 (14%) compared to 2001 (11%). Disparities exist among Blacks, younger adults, low-income residents, and those in the northern part of the county.

Hospital Supply, Demand & Market Share

There are only two general acute care hospitals within the Hospital's service area, Kaiser Foundation Hospital – South San Francisco and the Hospital³³. Together they have a combined total of 598 licensed beds and an aggregate occupancy rate of approximately 49%. The Hospital has an occupancy rate of approximately 49%. Kaiser Foundation Hospital – South San Francisco has 120 licensed beds and has an occupancy rate of 48%.

AREA HOSPITAL DATA								
Hospital	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
Seton Medical Center ¹	Daly City	X	478	5,359	85,862	235	49.2%	-
Kaiser - South San Francisco*	South San Francisco	X	120	6,012	21,003	58	48.0%	2.7
SUB-TOTAL			598	11,371	106,865	293	49.0%	
California Pacific Medical Center - St. Luke's	San Francisco		149	2,078	12,811	35	23.6%	6.2
UCSF Medical Center	San Francisco		782	36,415	167,931	460	58.8%	6.4
San Francisco General Hospital	San Francisco		397	16,541	105,139	288	72.6%	7.8
St. Mary's Medical Center - San Francisco	San Francisco		275	5,083	23,968	66	23.9%	7.8
Mills-Peninsula Medical Center*	Burlingame		301	13,287	54,795	150	49.9%	10.7
California Pacific Medical Center - Pacific*	San Francisco		831	23,696	125,579	344	41.4%	11.3
Saint Francis Memorial Hospital	San Francisco		288	5,348	33,324	91	31.7%	11.5
Chinese Hospital*	San Francisco		65	1,297	6,482	18	27.3%	11.6
Kaiser - San Francisco*	San Francisco		239	11,671	48,069	132	55.1%	11.6
San Mateo Medical Center	San Mateo		509	3,101	128,877	353	69.4%	17.9
TOTAL			4,434	129,888	813,840	2,230	50.3%	

Source: OSHPD Disclosure Reports

¹ Includes Seton Coastside

* FY 2017 data used, FY 2018 data unavailable

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

- The aggregate occupancy rate for all area hospitals is 50%. Only San Francisco General Hospital has an occupancy rate above 70%; and
- The four largest providers of inpatient services to service area residents, by market share, include UCSF Medical Center, San Francisco General Hospital, California Pacific Medical Center – Pacific and San Mateo Medical Center, all of which operate at a combined average occupancy rate of 65%.

³³ The Hospital and Seton Coastside share the same hospital license and therefore data on the two locations is aggregated.

Hospital Market Share

The table below illustrates market share discharges by individual hospital within the Hospital's service area over the past five years:

MARKET SHARE BY HOSPITAL, CY 2013 - CY 2017						
Hospital	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	Trend
Mills-Peninsula Medical Center	12.4%	12.6%	13.0%	12.6%	12.7%	→
Seton Medical Center¹	17.1%	16.3%	14.6%	13.3%	12.6%	↘
Kaiser Foundation Hospital - South San Francisco	10.8%	11.0%	11.6%	11.8%	12.6%	↗
UCSF Medical Center	7.8%	7.8%	8.5%	9.1%	9.5%	↗
Chan/Zuckerberg San Francisco General Hospital & Trauma Center	9.4%	9.8%	9.4%	9.3%	9.2%	→
California Pacific Med Ctr-Pacific Campus	9.0%	9.2%	8.8%	8.6%	8.1%	↘
Kaiser Foundation Hospital - San Francisco	7.8%	8.6%	7.8%	8.2%	7.8%	→
California Pacific Medical Center - St. Luke's Campus	4.2%	4.1%	4.4%	4.6%	4.1%	→
Kaiser Foundation Hospital - Redwood City	2.3%	2.6%	3.0%	3.1%	3.2%	↗
Stanford Health Care	1.9%	1.8%	2.3%	2.5%	2.8%	↗
Lucile Packard Children's Hospital Stanford	1.6%	1.8%	1.9%	2.0%	2.4%	↗
St. Mary's Medical Center, San Francisco	2.5%	2.0%	1.9%	2.1%	2.0%	→
San Mateo Medical Center	2.8%	2.6%	2.2%	2.2%	1.9%	↘
California Pacific Med Ctr-Davies Campus	1.1%	1.1%	1.3%	1.4%	1.3%	→
Jewish Home	0.6%	0.7%	0.8%	1.0%	1.0%	↗
St. Francis Memorial Hospital	1.1%	1.1%	1.1%	1.2%	1.0%	→
Chinese Hospital	1.2%	1.2%	1.0%	0.8%	0.8%	↘
Kaiser Foundation Hospital - Santa Clara	0.8%	0.7%	0.6%	0.6%	0.7%	→
Sequoia Hospital	0.6%	0.6%	0.6%	0.6%	0.6%	→
All Other	5.1%	4.6%	5.2%	5.3%	5.4%	↗
Total Percentage	100%	100%	100%	100%	100%	
Total Discharges	34,258	33,829	34,238	34,160	34,146	→

Source: OSHPD Discharge Database, CY 2017

Note: Excludes normal newborns

¹ Includes Seton Coastside

- The number of discharges in the Hospital's service area has remained relatively constant and averaged 34,100 per year between CY 2013 and CY 2017;
- From CY 2013 to CY 2017, the Hospital has lost service area inpatient market share from 17.1% in CY 2013 to 12.7% in CY 2017). Some of this decline in market share can be attributed to the Hospital closing its obstetrics unit in CY 2015;
- UCSF Medical Center and Kaiser Foundation Hospital – South San Francisco have both increased market share by two-percentage points between CY 2013 and CY 2017; and
- The Hospital's decline in inpatient volume/market share resulted in Mills-Peninsula Medical Center becoming the market share leader with 12.7% in CY 2017.

Market Share by Payer Type

The following table illustrates hospital market share by payer type as reported by OSHPD for 2017:

MARKET SHARE BY PAYER, CY 2107											
Payer Type	Total Discharges	Mills-Peninsula Medical Center	Seton Medical Center ¹	Kaiser - South San Francisco	UCSF Medical Center	San Francisco General Hospital & Trauma Center	California Pacific Med Ctr- Pacific Campus	Kaiser Foundation Hospital - San Francisco	California Pacific Medical Center St. Luke's Campus	All Others	Total
Medicare	13,870	12.5%	22.7%	20.1%	7.4%	6.3%	4.5%	5.0%	3.2%	18.3%	100%
Private Coverage	11,330	15.1%	3.0%	11.5%	12.1%	2.7%	10.8%	16.0%	2.6%	26.3%	100%
Medi-Cal	7,597	9.7%	7.4%	2.0%	11.1%	23.9%	10.5%	1.6%	8.4%	25.3%	100%
All Other	855	5.1%	22.9%	1.9%	0.8%	12.3%	9.8%	1.4%	1.3%	44.4%	100%
Self Pay	494	23.3%	12.3%	9.3%	2.8%	9.9%	9.7%	2.6%	4.5%	25.5%	100%
Total Percentage		12.7%	12.6%	12.6%	9.5%	9.2%	8.1%	7.8%	4.1%	23.2%	100%
Total Discharges	34,146	4,331	4,311	4,311	3,257	3,154	2,777	2,655	1,413	7,937	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

¹ Includes Seton Coastside

- For 2017, the largest payer types, based on service area inpatient discharges, are Medicare at 40% and Private Coverage at 33%;
- The Hospital is the market share leader for Medicare at 23% and All Other (23%);
- Mills-Peninsula Medical Center is the market share leader for Self Pay (23%);
- San Francisco General Hospital ranks first in Medi-Cal (24%); and
- Kaiser Foundation Hospital – San Francisco is the Private Coverage market share leader at 16%.

Market Share by Service Line

The following table shows service area inpatient market share by service line for CY 2017.

MARKET SHARE BY SERVICE LINE, CY 2017											
Service Line	Total Discharges	Mills-Peninsula Medical Center	Seton Medical Center ¹	Kaiser - South San Francisco	UCSF Medical Center	San Francisco General Hospital & Trauma Center	California Pacific Med Ctr- Pacific Campus	Kaiser Foundation Hospital - San Francisco	California Pacific Medical Center - St. Luke's Campus	All Others	Total
General Medicine	10,566	10.4%	19.1%	20.9%	8.8%	8.5%	5.8%	4.4%	4.2%	17.7%	100%
Obstetrics	4,918	15.2%	0.0%	0.1%	11.0%	8.0%	17.2%	19.1%	8.3%	21.1%	100%
Cardiac Services	3,713	10.4%	26.1%	15.4%	6.8%	8.6%	5.8%	7.7%	3.4%	15.7%	100%
Neonatology	2,518	15.3%	0.0%	0.0%	16.0%	9.9%	13.5%	17.9%	7.4%	20.1%	100%
Orthopedics	2,488	10.4%	12.1%	20.9%	5.8%	7.8%	6.6%	4.7%	1.6%	30.0%	100%
General Surgery	2,393	12.5%	13.2%	17.2%	9.3%	10.6%	6.6%	5.4%	2.8%	22.5%	100%
Behavioral Health	1,922	35.6%	0.9%	1.9%	1.5%	8.4%	3.0%	0.7%	0.6%	47.4%	100%
Neurology	1,678	7.8%	14.4%	13.9%	11.2%	8.3%	4.6%	3.0%	1.7%	35.2%	100%
Oncology/Hematology	1,078	9.1%	11.8%	9.7%	19.8%	7.9%	11.6%	3.2%	1.8%	25.2%	100%
Other	582	6.9%	11.3%	10.5%	9.1%	30.8%	3.4%	1.9%	0.9%	25.3%	100%
Spine	436	5.0%	14.2%	5.5%	9.4%	12.8%	6.0%	0.7%	0.7%	45.6%	100%
ENT	384	5.7%	12.0%	8.3%	18.0%	18.0%	6.0%	5.2%	3.6%	23.2%	100%
Vascular Services	369	14.9%	19.0%	7.0%	7.3%	7.6%	6.2%	16.3%	6.0%	15.7%	100%
Urology	355	11.5%	7.0%	12.1%	10.4%	8.2%	7.0%	6.5%	5.1%	32.1%	100%
Neurosurgery	338	3.6%	7.1%	0.6%	18.0%	17.8%	3.0%	0.3%	0.0%	49.7%	100%
Gynecology	290	12.8%	6.6%	7.2%	6.6%	8.6%	18.6%	14.1%	5.5%	20.0%	100%
No-match-found	56	10.7%	8.9%	1.8%	26.8%	5.4%	3.6%	3.6%	3.6%	35.7%	100%
Ophthalmology	50	6.0%	4.0%	10.0%	16.0%	16.0%	2.0%	10.0%	2.0%	34.0%	100%
Total Percentage		12.7%	12.6%	12.6%	9.5%	9.2%	8.1%	7.8%	4.1%	23.2%	100%
Total Discharges	34,134	4,331	4,311	4,311	3,257	3,152	2,777	2,655	1,413	7,927	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

¹ Includes Seton Coastside

- The Hospital is the service line leader in four out of 16 services lines: cardiac services (26%), neurology (14%), spine (14%) and vascular services (19%);
- The Hospital also has a notable market share in general medicine (19%), and general surgery (13%);
- Mills-Peninsula Medical Center holds 36% of the market share for behavioral health services and approximately 15% of market share for obstetrics services; and
- Kaiser Foundation Hospital – South San Francisco is the market share leader for general medicine (21%), orthopedics (21%), general surgery (17%), and urology (12%).

Market Share by ZIP Code

The following table shows service area inpatient market share by ZIP Code for CY 2017.

MARKET SHARE BY ZIP CODE, CY 2017												
ZIP Code	Community	Total Discharges	Mills-Peninsula Medical Center	Seton Medical Center ¹	Kaiser - South San Francisco	UCSF Medical Center	San Francisco General Hospital & Trauma Center	California Pacific Med Ctr- Pacific Campus	Kaiser Foundation Hospital - San Francisco	California Pacific Medical Center - St. Luke's Campus	All Others	Total
94112	San Francisco	6,620	1.0%	4.0%	6.3%	15.5%	21.9%	14.3%	10.6%	8.3%	18.1%	100%
94080	South San Francisco	5,074	23.2%	14.4%	19.6%	5.2%	1.9%	3.9%	5.6%	2.4%	23.8%	100%
94015	Daly City	4,640	10.1%	29.0%	16.5%	6.1%	1.8%	6.9%	7.4%	3.1%	19.1%	100%
94134	San Francisco	3,795	1.4%	3.4%	4.5%	14.4%	27.4%	14.3%	11.2%	7.9%	15.4%	100%
94066	San Bruno	3,515	31.8%	6.1%	17.2%	3.6%	1.5%	2.8%	5.0%	1.4%	30.7%	100%
94014	Daly City	3,337	9.3%	23.9%	16.6%	6.9%	4.3%	6.1%	7.4%	4.9%	20.6%	100%
94044	Pacifica	2,972	18.9%	17.9%	18.6%	6.7%	1.3%	5.1%	6.2%	1.2%	24.1%	100%
94132	San Francisco	1,908	1.5%	6.0%	4.4%	23.6%	12.2%	13.4%	12.2%	2.1%	24.6%	100%
94019	Half Moon Bay	1,194	25.9%	6.2%	2.4%	4.8%	0.4%	2.1%	0.8%	0.2%	57.2%	100%
94005	Brisbane	369	23.0%	5.7%	20.3%	10.6%	2.4%	4.6%	7.3%	1.4%	24.7%	100%
94018	El Granada	257	27.6%	4.7%	7.4%	5.1%	0.4%	1.6%	1.2%	0.0%	52.1%	100%
94038	Moss Beach	249	15.7%	18.5%	8.4%	2.0%	0.0%	2.0%	5.6%	0.0%	47.8%	100%
94037	Montara	183	19.7%	7.7%	13.7%	8.2%	1.6%	3.3%	1.6%	0.0%	44.3%	100%
94017	Daly City	33	21.2%	33.3%	6.1%	6.1%	0.0%	0.0%	3.0%	3.0%	27.3%	100%
Total Percentage			12.7%	12.6%	12.6%	9.5%	9.2%	8.1%	7.8%	4.1%	23.2%	100%
Total Discharges		34,146	4,331	4,310	4,311	3,257	3,154	2,777	2,655	1,413	7,938	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

¹ Includes Seton Coastside

- The Hospital is the market share leader in four of the ZIP Codes within its service area. In three of these ZIP Codes, the Hospital had over 20% of the market share in CY 2017. The communities represented by these ZIP Codes are all located in Daly City;
- Mills-Peninsula Medical Center is the market share leader in seven service area ZIP Codes, located in South San Francisco, San Bruno, Pacifica, Half Moon Bay, Brisbane, El Granada, and Montara; and
- San Francisco General Hospital & Trauma Center is the market share leader in two service area ZIP Codes both located in San Francisco.

Seton Medical Center Analysis by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, psychiatric acute, sub-acute, skilled nursing, and emergency services using FY 2017 and FY 2018 data. The Hospital license records that the 18 perinatal beds and the 3 neonatal intensive care beds are currently in suspense. This suspension began in CY 2015 when the Hospital closed the obstetrics and neonatal intensive care units.

Medical/Surgical Capacity Analysis

There are 306 licensed medical/surgical beds within the Hospital's service area that have an overall occupancy rate of 38%.

MEDICAL/SURGICAL BEDS FY 2018							
Hospital	Miles from Hospital	With Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Seton Medical Center	-	X	206	4,645	24,132	66.1	32.1%
Kaiser - South San Francisco*	2.7	X	105	5,810	18,693	51.2	48.8%
SUB-TOTAL			306	10,455	42,825	117.3	38.3%
California Pacific Medical Center - St. Luke's	6.2		51	645	4,186	11.5	22.5%
UCSF Medical Center	6.4		389	25,979	136,196	373.1	95.9%
San Francisco General Hospital	7.8		184	12,409	63,503	174.0	94.6%
St. Mary's Medical Center - San Francisco	7.8		135	2,177	8,377	23.0	17.0%
Mills-Peninsula Medical Center*	10.7		175	8,588	34,936	95.7	54.7%
California Pacific Medical Center - Pacific*	11.3		532	14,574	77,928	213.5	40.1%
Saint Francis Memorial Hospital	11.5		115	2,029	8,520	23.3	20.3%
Chinese Hospital*	11.6		59	1,181	5,609	15.4	26.0%
Kaiser - San Francisco*	11.6		150	7,644	34,775	95.3	63.5%
San Mateo Medical Center	17.9		93	2,136	12,490	34.2	36.8%
TOTAL			2,189	87,817	429,345	1176.3	53.7%

Source: OSHPD Disclosure Reports

Includes Seton Coastside

* FY 2017 data used, FY 2018 data unavailable

- The Hospital reported approximately 4,645 inpatient hospital discharges and 24,132 patient days resulting in an occupancy rate of 32% and an average daily census of 66 patients for FY 2018;
- The Hospital's 206 licensed medical/surgical beds represented approximately 67% of the beds in this category for the service area;
- UCSF Medical Center, located six miles from the Hospital, and San Francisco General Hospital, located 8 miles from the Hospital, both reported high occupancy rates of 96% and 95%, respectively; and

- Despite the low occupancy rate, the Hospital is an important provider of inpatient medical/surgical beds as the only non-Kaiser provider in the service area.

Intensive Care Capacity Analysis

There are 43 intensive care and coronary care beds within the service area, with an overall occupancy rate of nearly 32%. The Hospital has 28 licensed intensive care/coronary care beds with a combined 28% average occupancy rate in FY 2018 (average daily census of approximately 8 patients).

INTENSIVE CARE/CORONARY CARE BEDS FY 2018							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Seton Medical Center	-	X	28	506	2,822	7.7	27.6%
Kaiser - South San Francisco*	2.7	X	15	202	2,310	6.3	42.2%
SUB-TOTAL			43	708	5,132	14.1	32.7%
California Pacific Medical Center - St. Luke's	6.2		10	250	1,127	3.1	30.9%
UCSF Medical Center	6.4		72	351	14,439	39.6	54.9%
San Francisco General Hospital	7.8		58	747	9,992	27.4	47.2%
St. Mary's Medical Center - San Francisco	7.8		37	206	2,325	6.4	17.2%
Mills-Peninsula Medical Center*	10.7		24	321	4,509	12.4	51.5%
California Pacific Medical Center - Pacific*	11.3		45	301	10,356	28.4	63.1%
Saint Francis Memorial Hospital	11.5		18	171	2,257	6.2	34.4%
Chinese Hospital*	11.6		6	116	873	2.4	39.9%
Kaiser - San Francisco*	11.6		32	488	6,559	18.0	56.2%
San Mateo Medical Center	17.9		7	156	1,241	3.4	48.6%
TOTAL			352	3,815	58,810	161.1	45.8%

Source: OSHPD Disclosure Reports

Includes Seton Coastside

* FY 2017 data used, FY 2018 data unavailable

- The average daily census for hospitals within the service area was 14 patients based on 5,132 patient days for FY 2018;
- The closest non-Kaiser facility, California Pacific Medical Center – St. Luke's, is located six miles away and has an occupancy rate of approximately 31%;
- The Hospital provided 65% of the service area's intensive care/coronary care beds in FY 2018; and
- Overall, the area hospitals reported an occupancy rate of 46% on 352 intensive care/coronary care beds.

Psychiatric Care Capacity Analysis

The Hospital is licensed for 24 psychiatric care beds and is the sole provider of acute psychiatric care services in the service area. Psychiatric service were in suspense for many years and reopened in FY 2018 with an inpatient geriatric program.

GENERAL ACUTE CARE HOSPITALS WITH ACUTE PSYCHIATRIC CARE BEDS							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Seton Medical Center	-	X	24	110	1,748	4.8	20.0%
Kaiser - South San Francisco*	2.7	X	-	-	-	-	-
SUB-TOTAL			24	110	1,748	4.8	20.0%
California Pacific Medical Center - St. Luke's	6.2	-	-	-	-	-	-
UCSF Medical Center	6.4	-	-	-	-	-	-
San Francisco General Hospital	7.8	-	83	1,189	16,963	46.5	56.0%
St. Mary's Medical Center - San Francisco	7.8	-	-	-	-	-	-
Mills-Peninsula Medical Center*	10.7	-	52	1,468	9,468	25.9	49.9%
California Pacific Medical Center - Pacific*	11.3	-	18	458	5,013	13.7	76.3%
Saint Francis Memorial Hospital	11.5	-	35	1,021	7,931	21.7	62.1%
Chinese Hospital*	11.6	-	-	-	-	-	-
Kaiser - San Francisco*	11.6	-	-	-	-	-	-
San Mateo Medical Center	17.9	-	34	288	10,428	28.6	84.0%
TOTAL			246	4,534	51,551	141.2	57.4%

Source: OSHPD Disclosure Reports

* FY 2017 data used, FY 2018 data unavailable

- The Hospital's geropsychiatric inpatient unit provided 110 discharges and 1,748 patient days. This averaged to an occupancy rate of 20% and an average daily census of 5 patients. Since then the program has grown and frequently runs with a census of over 15 patients; and
- There are very few geropsychiatry units in the San Francisco Bay Area. The closest alternatives are at the San Francisco Campus for Jewish Living, over 6 miles away which operates a 12-bed licensed acute geriatric psychiatry program or Fremont Hospital (a psychiatric hospital) located 41 miles from the Hospital which operates 20 geriatric psychiatry beds with an average daily census of about 14 patients.

Subacute Care Capacity Analysis

The Hospital has 83 licensed skilled nursing beds, 44 of which are utilized for sub-acute services. These beds provide care for patients who require special services such as inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management. The Hospital is the only provider of sub-acute care services in the service area and has a high occupancy rate of over 97%.

SUB-ACUTE CARE BEDS FY 2018							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Seton Medical Center	-	X	44	22	15,641	42.9	97.4%
Kaiser - South San Francisco*	2.7	X	-	-	-	-	-
SUB-TOTAL			44	22	15,641	42.9	97.4%
California Pacific Medical Center - St. Luke's	6.2		40	20	3,513	9.6	24.1%
UCSF Medical Center	6.4		-	-	-	-	-
San Francisco General Hospital	7.8		-	-	-	-	-
St. Mary's Medical Center - San Francisco	7.8		-	-	-	-	-
Mills-Peninsula Medical Center*	10.7		-	-	-	-	-
California Pacific Medical Center - Pacific*	11.3		-	-	-	-	-
Saint Francis Memorial Hospital	11.5		-	-	-	-	-
Chinese Hospital*	11.6		-	-	-	-	-
Kaiser - San Francisco*	11.6		-	-	-	-	-
San Mateo Medical Center	17.9		-	-	-	-	-
TOTAL			84	42	19,154	52.5	62.5%

Source: OSHPD Disclosure Reports

* FY 2017 data used, FY 2018 data unavailable

- In FY 2018, the Hospital had 15,641 patient days and 22 discharges for an average daily census of 42.9 and an occupancy rate of 97%; and
- California Pacific Medical Center, located 6 miles from the Hospital, is the only other provider of inpatient sub-acute services in the San Francisco Bay area.

Emergency Services Analysis

The Hospital has 19 emergency treatment stations and Seton Coastside has seven emergency treatment stations. Kaiser Foundation Hospital – South San Francisco has 19 emergency stations, bringing the total number of service area treatment stations to 45. As shown below, the Hospital and Seton Coastside reported 27,489 emergency visits 2,644 emergency department visits, respectively.

The table below shows the visits by category for area emergency departments:

EMERGENCY DEPARTMENT VISITS BY CATEGORY CY 2017												
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Minor	Low/Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
Seton Medical Center	-	X	Basic	19	27,489	197	2,227	9,529	7,708	7,828	19.3%	156
Kaiser - South San Francisco	2.7	X	Basic	19	42,609	7,093	11,433	8,077	11,005	4,461	10.3%	1,384
Seton Medical Center - Coastside	13.3	X	Standby	7	2,644	45	467	1,724	331	77	-	0
SUB-TOTAL				45	72,742	7,335	14,127	19,330	19,044	12,366	13.3%	1,540
California Pacific Medical Center - St. Luke's	6.2		Basic	12	23,595	224	1,721	8,420	8,151	5,079	9.2%	662
UCSF Medical Center	6.4		Basic	33	40,396	8	1,932	9,318	9,763	19,375	23.5%	2,679
San Francisco General Hospital	7.8		Comprehensive	59	72,401	1,604	19,925	29,837	16,028	5,007	16.7%	3,188
St. Mary's Medical Center - San Francisco	7.8		Basic	17	28,148	395	3,178	9,498	7,321	7,756	13.7%	134
Mills-Peninsula Medical Center	10.7		Basic	23	45,425	8,107	10,465	14,863	10,891	1,099	18.7%	0
California Pacific Medical Center - Pacific	11.3		Basic	19	26,612	111	759	5,160	7,856	12,726	27.7%	998
Saint Francis Memorial Hospital	11.5		Basic	20	34,374	743	3,507	12,504	12,623	4,997	10.8%	118
Chinese Hospital	11.6		Standby	7	6,983	1,318	2,581	1,614	951	519	17.3%	0
Kaiser - San Francisco	11.6		Basic	24	39,775	4,348	10,178	8,812	11,969	4,468	11.8%	248
San Mateo Medical Center	17.9		Basic	15	43,489	6,207	15,680	10,149	9,041	2,412	6.7%	8
TOTAL				274	433,940	30,400	84,053	129,505	113,638	75,804	15.1%	9,575

Source: OSHPD Airlift Annual Utilization Reports

- Approximately 19% of the Hospital's Emergency Department visits resulted in admission. This is higher than the area hospital average of 15.1% admitted;
- The Hospital and Seton Coastside are the only "non-Kaiser" providers of emergency services in the service area; and
- As the only 24-hour standby emergency department along the 55-mile stretch between Santa Cruz and Daly City, Seton Coastside is an important provider of emergency services to residents of Moss Beach and its surrounding communities. Seton Coastside reports no patients admitted in CY 2017 to the hospital as patients requiring hospitalization are transferred via air or ground to a facility as necessary.

Emergency Services Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, in 2017, the Hospital's emergency department was operating at 72% of its 19-bed capacity. Emergency department capacity at Kaiser Foundation Hospital – South San Francisco is higher, operating well over capacity (112%). Seton Coastsides, despite its low occupancy rate of 19%, is an important provider of emergency services as the only provider of these types of services for residents of Moss Beach and surrounding communities.

EMERGENCY DEPARTMENT CAPACITY CY 2017						
Hospital	Miles from Hospital	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
Seton Medical Center	-	Basic	19	27,489	38,000	10,511
Kaiser - South San Francisco	2.7	Basic	19	42,609	38,000	(4,609)
Seton Medical Center - Coastsides	13.3	Standby	7	2,644	14,000	11,356
SUB-TOTAL			45	72,742	90,000	17,258
California Pacific Medical Center - St. Luke's	6.2	Basic	12	23,595	24,000	405
UCSF Medical Center	6.4	Basic	33	40,396	66,000	25,604
San Francisco General Hospital	7.8	Comprehensive	59	72,401	118,000	45,599
St. Mary's Medical Center - San Francisco	7.8	Basic	17	28,148	34,000	5,852
Mills-Peninsula Medical Center	10.7	Basic	23	45,425	46,000	575
California Pacific Medical Center - Pacific	11.3	Basic	19	26,612	38,000	11,388
Saint Francis Memorial Hospital	11.5	Basic	20	34,374	40,000	5,626
Chinese Hospital	11.6	Standby	7	6,983	14,000	7,017
Kaiser - San Francisco	11.6	Basic	24	39,775	48,000	8,225
San Mateo Medical Center	17.9	Basic	15	43,489	30,000	(13,489)
TOTAL			274	433,940	548,000	114,060

Source: OSHPD Alerts Annual Utilization Reports

- Service area hospital emergency departments are operating at approximately 81% of capacity; and
- Overall, the hospitals' emergency departments are at approximately 79% of their capacity.

Summary of Interviews

In June and July of 2019, both in-person and telephone interviews were conducted with representatives of the Hospital, Verity, and SGM, as well as physicians, San Mateo County representatives, the Hospital's employees, union representatives, and other community representatives. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability and accessibility as a result of the proposed transaction. The list of individuals who were interviewed is located in the Appendix of this report. The major findings of these interviews are summarized below.

Reasons for the Proposed Transaction

Members of Verity Health and the Hospital's management team, medical staff, and Board cited a number of reasons why a transaction was necessary, including the following:

- Verity Health does not have the financial resources required to repay outstanding debt. Additionally, Verity Health is unable to provide financial support for the underfunded pension plans, seismic related requirements, plant and equipment maintenance, and operational deficits. As such, Verity Health filed for relief under Chapter 11 of Title 11 of the United States Code. As a result of a facilitated process to find a buyer, through a sale of the assets approved by the United States Bankruptcy Court for the Central District of California, SGM was selected as the successful bidder. Almost all interviewees believe that the transaction with SGM provides the best opportunity to continue to operate the Hospital and serve the interests of patients, the community, physicians, and employees;
- Without the transaction, Verity Health would not be able to financially continue operation of the Verity Health Hospitals resulting in severely reduced health services, health system closure, or sale for other purposes. It would be likely that St. Vincent Medical Center and the Hospital would close and be converted to other uses. Without the transaction, the affected communities' access to services could be severely impacted and closure of the Hospital and its healthcare services would cause operational challenges for other area hospitals to meet the increased demand;
- Given the Hospital's important role in providing healthcare for the poor, without the transaction, the community could be at risk of losing key services that are essential for the uninsured and under-insured patient population;
- Almost all of those interviewed believed that the transaction is necessary to keep Verity Health Hospitals, including the Hospital, from eliminating services or closing;
- Some of those interviewed believed that the Verity Health Hospitals needed to be sold as a group rather than individually, because of the following:

- Individual sale of the Verity Health Hospitals may result in closure, reduced services, or repurposing;
- A commitment to Verity Health's services and patients is more likely to continue with a single buyer;
- Selling individual Verity Health Hospitals would be complicated and not result in the highest potential value; and
- The timeframe required to sell individual Verity Health Hospitals would extend beyond the time that Verity Health could financially sustain continuous losses on operations.

Importance of the Hospital to the Community

According to all those who were interviewed, the Hospital is an important safety-net provider to the local community and known for providing essential services to the uninsured, under-insured, and under-served populations of San Mateo County. The Hospital is also an important provider of services for Daly City's senior and large Filipino American population that has high rates of kidney disease, hypertension, diabetes, and stroke. The Hospital is also important for access due to difficulties for local community members to use alternative healthcare services because of distances and traffic congestion in San Francisco and the Bay area. Some of the programs and services at the Hospital that were mentioned in the interviews as especially important include the following:

- Emergency services;
- Sub-acute care services;
- General surgical services;
- Gastroenterology services;
- Geriatric psychiatry services;
- Cancer services, including interventional radiology, infusion and chemotherapy services;
- Nephrology services, including inpatient dialysis services;
- Stroke services, including certification as a Primary Stroke Center;

- Cardiac services, including cardiac catheterization services and designation as a STEMI Receiving Center;
- While some felt that the surgical volumes for a comprehensive cardiac program were too low to be sustained, others stated that the cardiac surgery program should be a required program because of the STEMI Receiving Center designation and the large number of cardiac catheterization procedures, further citing that many of the patients have comorbidities that further complicate cardiac procedures; and
- Many interviewed stated that the Hospital's STEMI Receiving Center is one of the busiest in San Mateo County and is especially important because Kaiser Foundation Hospital – South San Francisco does not have STEMI Receiving Center designation.

Some of those interviewed also mentioned the following services as important services provided by the Hospital:

- Wound care services, including the Seton Center for Advanced Wound Care; and
- Orthopedic services, including joint replacement and spine care services.

According to all who were interviewed, Seton Coastsides is an important provider to the local community and is known for providing skilled nursing and emergency services to the uninsured and under-served populations in San Mateo County. Some of the programs and services at Seton Coastsides that were mentioned in the interviews as especially important include the following:

- Emergency services;
- Skilled nursing services; and
- Physical therapy and speech therapy services.

If the Hospital and Seton Coastsides do not maintain their current level of healthcare services, accessibility and availability issues could be created for residents of the local community, especially for Medi-Cal patients.

Selection of Strategic Global Management for the Proposed Transaction

While other organizations submitted alternative proposals to Verity Health for consideration, representatives of Verity Health explained that a number of factors were involved in finalizing the selection of SGM including the following:

- SGM provided the largest bid (\$610 million) and a commitment to continue the operation of the hospitals and accept the majority of conditions required by the California Attorney General from the prior transaction between Daughters and Blue Mountain Capital Management, LLC Management, LLC and Integrity Healthcare, LLC that was approved on December 3, 2015;
- Willingness to purchase and operate all four Verity Health Hospitals;
- Enhanced financial support and access to capital;
- Plans to expand some services;
- Experience with safety net hospitals and distressed hospital turnarounds; and
- Experience operating community hospitals efficiently and profitably.

Almost all of those interviewed from Verity Health, the Hospital's management, medical staff, and Board, and the community were supportive of the proposed transaction and the selection of SGM and expressed a strong desire for the transaction to be finalized. Additionally, most people also conveyed an overall understanding and knowledge of the pressing financial issues and the necessity for a transaction to occur in order for Verity Health to become financially sustainable, and to ensure continued operation of the Verity Health Hospitals.

The majority of people interviewed were very concerned that if the California Attorney General required conditions for approval of the transaction that were not acceptable to SGM, then they would walk away from the transaction and, without a viable alternative immediately available, the Verity Health Hospitals would close. Many of those interviewed believed that if SGM did not have the ability to fundamentally change the way in which the Verity Health Hospitals operated, SGM would be unable to successfully improve the hospitals financial performance. Many believed that it would be necessary for SGM to change or eliminate services in order to make the hospitals financially viable.

While the majority of those interviewed expressed support for the transaction with SGM, some individuals also expressed concerns regarding the potential effects that the proposed transaction could have on the Hospital if the transaction were approved. Some of the concerns with the selection of SGM included the following:

- The motivations of SGM to make a profit may be in conflict with the interests of the community to operate the Hospital and all of its services. Some are concerned that SGM is interested in the Hospital and St. Vincent Medical Center for their real estate value and does not intend to operate the Hospital in the long term;

- The ability of SGM to raise sufficient capital to finance the acquisition and make capital investments;
- SGM's lack of history and experience operating general acute care facilities in Northern California;
- SGM may reduce or eliminate unprofitable services, and in doing so, negatively impact the accessibility and availability of healthcare services for the communities served by the Hospital;
- SGM may reduce staffing and other types of infrastructure, which in turn, could have a negative impact on the quality and delivery of patient care;
- SGM will not accept the underfunded pension liability;
- SGM may not provide all current services including oncology; and
- SGM may not negotiate market rate union contracts.

Most of the Hospital employees interviewed, some of whom were also members of unions, understood the reasons for the transaction, expressed cautious optimism towards SGM as a buyer as long as employees are treated well, union contracts are fairly negotiated and honored, and the surrounding communities continue to be served by the Hospital.

Representatives of SGM expressed their desire to continue operating and expanding the Hospital and its campus for medical uses that could include additional long-term care services, a medical school and a nursing school. SGM states its interest is in operating and expanding the services at Seton Coastside. They expressed concerns over the seismic and infrastructure improvements needed at the Hospital but emphasized their desire to continue and expand operations at these facilities, knowing that these improvements will require significant capital expenditures.

Views of the Health Plan of San Mateo and San Mateo County Health

San Mateo Health Plan and San Mateo County Health representatives stressed their strong relationship to the Hospital and Seton Coastside, as providers of services to many low-income patients and Medi-Cal beneficiaries. Despite some unfamiliarity with SGM, they believed they would be able to establish reasonable contractual relationships for services in future.

The San Mateo County representatives emphasized the importance of the Hospital's outpatient primary and specialty services and the Hospital's emergency department in providing access for members of the population who have high rates of chronic disease. Also mentioned as especially important were the Hospital's subacute beds and Seton Coastside's skilled nursing services due to a shortage of such services in San Mateo County.

Impact on the Availability and Accessibility of Healthcare Services

Almost all those interviewed believed that the proposed transaction would lead to some level of change in regard to access and/or the availability of certain services. While many believed that the transaction was necessary, they also believed there would be further reductions and elimination of some unprofitable services, resulting in a negative impact on the availability or accessibility of some healthcare services to lower-income and underserved populations historically served by the Hospital. Some of those interviewed expressed concerns about a possible reduction or elimination of the oncology services. While these services were recognized as being expensive to provide, they were also believed to be very important for access and availability for the local community. Without these services it was believed that uninsured, underinsured, and other local patients would not be able to access these services elsewhere because of a shortage of alternatives, a lack of insurance, or transportation difficulties. However, many also believed that SGM would develop new service lines based on community needs and/or grow profitable services as part of its turnaround strategy.

Alternatives

All of those interviewed believed that a transaction was necessary in order to avoid insolvency and the closure of services. Most believed that if a transaction were not to occur, services would be curtailed, and the Hospital could immediately close.

While many interviewed were not familiar with SGM, most were cautiously optimistic that SGM's ownership would ensure the future financial sustainability and operation of the Verity Health Hospitals as general acute care hospitals. Many individuals interviewed mentioned their belief that SGM's operational experience and ownership of other distressed hospitals in Southern California would be valuable for a turnaround of Verity Health.

A minority of those interviewed believed that if the Hospital closed, the other area acute-care hospitals could absorb the Hospital's inpatient volume without serious negative impacts to patient access. However, it was felt that if the Hospital closed, there would be a serious access issues for emergency, sub-acute care and geropsychiatric services in the area. In addition, it was felt that closure of Seton Coastside would have a severe negative impact on access to skilled nursing services and emergency services to the local community.

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

Importance of the Hospital and Seton Coastside to the Surrounding Communities

As the only “non-Kaiser” provider of inpatient general acute, sub-acute, psychiatric and skilled nursing, and emergency services in the service area, the Hospital is an important provider of inpatient and outpatient services to Medi-Cal and Medicare beneficiaries in San Mateo County. The Hospital’s STEMI and stroke receiving capabilities, cardiac services, vascular services, and nephrology services are viewed as very important for the community. The dialysis and stroke care services were cited as especially important to the disproportionately high Filipino population that have high rates of diabetes, kidney disease, and stroke.

Seton Coastside is an important provider of both long-term and skilled nursing services. Seton Coastside also operates the only “standby” emergency department along the 55-mile stretch between Santa Cruz and Daly City.

Continuation as a General Acute Care Hospital

SGM has agreed to complete the transaction agreement so long as any conditions imposed by the California Attorney General are substantially consistent with the conditions set forth in Schedule 8.6 of the Asset Purchase Agreement. Acceptance of these conditions includes operation of the Hospital for at least the six remaining years of the condition as a general acute care hospital.

Emergency Services

In 2017, the Hospital and Seton Coastside reported approximately 30,000 visits to its combined 26 emergency treatment stations, operating at 58% capacity (based on a standard of 2,000 visits per station, per year). As Seton Coastside is the only provider of 24-hour “standby” emergency services along the 55-mile stretch between Santa Cruz and Daly City, continuing the operation of Seton Coastside’s Emergency Department open is crucial for the availability and accessibility of emergency services to residents within the area. Both hospitals are an important ambulance receiving facility that gets a high volume of emergency transports from the San Francisco area when hospitals in San Francisco go on diversion³⁴. Kaiser Foundation Hospital – South San Francisco, located three miles away from the Hospital, also had a high capacity rate of 112% in FY 2017.

³⁴ A hospital goes on diversion when there are not enough beds or staff available in the emergency room or the hospital itself to adequately care for patients. When a hospital goes on diversion, it notifies area Emergency Medical Services units so that they can consider transporting patients to other hospitals that are not on diversion.

As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Because of this and the growing shortage of primary care physicians, emergency department utilization may be expected to increase within the service area. Keeping the Hospital's emergency department is critical to providing emergency services within the Hospital's service area.

Medical/Surgical Services

Despite a low occupancy rate of 32% on 206 licensed medical/surgical beds, and being the only "non-Kaiser" facility in the service area, the Hospital is an important provider of these services for the local community.

Intensive Care/Coronary Care Services

The Hospital has an occupancy rate of 28% on its 28 licensed intensive care and coronary care beds. The Hospital provided 65% of the service area's intensive care and coronary care beds in FY 2018. These services are an important resource for supporting the Emergency Department and other surgical and medical services. Kaiser – South San Francisco is the only other service area hospital, located nearly approximately three miles away that has intensive care and coronary care beds and an occupancy rate of 42%.

Skilled Nursing/Sub-Acute Care Services

The Hospital has 83 licensed skilled nursing care beds for medically fragile patients who require special services such as inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management. Of the Hospital's 83 licensed skilled nursing beds, 44 are utilized as sub-acute care beds, and the remaining 39 skilled nursing beds are in suspense. The Hospital is the only provider of ventilated dialysis services in San Mateo County and has a high occupancy rate of 97%.

Psychiatric Care Beds

In FY 2018, when the Hospital reopened its psychiatric unit, it reported a 20% occupancy rate with an average daily census of five patients. Currently, the Hospital's psychiatric unit has grown and often runs near capacity. The Hospital is licensed for 24 psychiatric beds where 20 of the beds are used for the geriatric psychiatry unit. These beds were previously in suspense for many years. Within the service area, the Hospital is the sole provider of geriatric psychiatric services.

Skilled Nursing Care Beds at Seton Coastside

Seton Coastside is licensed for 116 skilled nursing beds and is an important provider of these services for its mostly Medi-Cal patient population. Seton Coastside is the only provider of skilled nursing services in the greater Half Moon Bay area.

Oncology/Cancer Services

The Hospital serves over 120 inpatient oncology patients and over 2,000 outpatient oncology patients annually. Outpatient visits include approximately 5,000 radiation oncology visits and 3,000 – 4,000 medical oncology visits; making it an important provider of oncology services to community residents. In its Application to the California Attorney General, SGM did not agree to maintain or expand cancer care services for the term that coincides with the conditions set forth in Section VI of the California Attorney General’s Conditions³⁵. With a decreasing trend in volume for the past three fiscal years, increased drug prices, and changes in reimbursement, SGM believes that providing cancer services at the Hospital is financially unsustainable. However, the Hospital has the second highest market share in the service area for inpatient cancer services, after UCSF Medical Center, and cancer has been identified and prioritized as a health need in San Mateo County. Furthermore, most of the physicians interviewed believed that it was very important for the community to have these services available at the Hospital because of a shortage of locally available cancer services.

SETON MEDICAL CENTER CANCER SERVICES VOLUME			
	FY 2017	FY 2018	FY 2019
Radiation Oncology Patients	1,796	1,360	1,246
Radiation Oncology Patients Visits	7,185	5,443	4,986

Source: Verity Health

Reproductive Health Services

The Hospital does not provide obstetric services and related reproductive health services.

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

Approximately 64% of the Hospital’s inpatients are reimbursed through Medicare (47%) and Medi-Cal (17%). San Mateo County has a County Organized Health Systems (COHS) 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 San Mateo County residents with Medi-Cal Managed Care coverage has

³⁵ Conditions to Change in Control and Governance of Seton Medical Center and Seton Coastside and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC” dated December 3, 2015.

increased significantly as a result of the ACA and California initiatives to expand managed care. In San Mateo County, the County Organized Health Systems is provided by Health Plan of San Mateo. SGM has committed to maintaining the Hospital's Medicare and Medi-Cal managed care contracts through 2025. If the Hospital did not participate in the Medicare and Medi-Cal programs, eligible patients could be denied access to certain non-emergency healthcare services, thus creating a negative impact on the availability or accessibility for these patient populations.

Effects on the Level & Type of Charity Care Historically Provided

Many uninsured and under-insured individuals in the community rely on the Hospital for healthcare services. Between FY 2014 and FY 2018, the Hospital provided an average of approximately \$1,055,863 in charity care costs per year over the five-year period. Although Medicaid expansion and the ACA increased access to healthcare insurance coverage and therefore decreased the amount of charity care provided to uninsured patients at the Hospital in FY 2014 and FY 2015, the amount of charity care costs at the Hospital have risen in recent years. In the Asset Purchase Agreement, SGM has agreed to provide an annual amount of charity care of equal to or greater than \$935,405, not adjusting for inflation, through 2021.

Effects on Community Benefit Programs

The Hospital has historically provided a significant amount of community benefit services, averaging \$689,000 per year over the last five years (on a cost basis). Furthermore, in its Application to the California Attorney General, SGM committed to providing an annual amount of community benefit services equal to or greater than \$848,434, not adjusting for inflation, and committed to providing continued support for a number of community benefit programs, including the Health Benefits Resource Center and RotaCare Clinic, through 2021.

Effects on Staffing & Employee Rights

SGM agrees to make offers of employment, effective as of the Effective Time, to substantially all persons who, immediately prior to the Effective Time are employees of the Hospital. All employees who are hired shall cease to be employees of the Hospital as of the Effective Time and become employees of SGM. While SGM makes short-term commitments for employment, it is expected that SGM may lower labor costs by eliminating or reducing some positions within the Hospital.

Before Closing Date, SGM will participate with Sellers in union negotiations aimed at modifying the collective bargaining agreements to reduce the Sellers labor cost structure.

Effects on Medical Staff

The Asset Purchase Agreement states SGM has committed to retaining all current members of the Hospital's medical staff in good standing as of the Effective Date. As a result, no changes are expected.

Alternatives

If the proposed Asset Purchase Agreement is not approved, it is expected that Verity Health would evaluate alternative proposals for a transaction, however, no other offers were reviewed by the Bankruptcy Court to purchase and operate the Hospital. It is likely that absent this transaction, the Hospital may be closed and sold for other purposes.

Conclusions

Based on SGM's commitments outlined in the Asset Purchase Agreement regarding the Hospital, the proposed transaction is likely to continue the availability and accessibility of most healthcare services in the communities served for at least six years. It is anticipated that access for Medi-Cal, Medicare, uninsured and other classes of patients for most services will remain unchanged.

Potential Conditions for Transaction Approval by the California Attorney General

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

1. For the remainder of the term (approximately 6 years) stated in the approved Conditions³⁶, the Hospital shall continue to operate as a general acute care hospital until the term expires;
2. For the remainder of the term (approximately 6 years) stated in the approved Conditions, the Hospital shall maintain 24-hour emergency medical services at a minimum of 19 treatment stations with the same types and/or levels of services until the Conditions expires including:
 - a. Designation as a STEMI Receiving Center;
 - b. Advanced certification as a Primary Stroke Center;
3. For the remainder of the term (approximately 6 years) stated in the approved Conditions, the Hospital shall maintain the following services at current licensure, types, and/or levels of services until the term expires including:
 - a. Cardiac services, including the 3 cardiac catheterization labs and the
 - b. Critical care services, including a minimum of 20 intensive care/coronary care beds;
 - c. Psychiatric services, including a minimum of 24 distinct part beds with at least 20 beds available for the geriatric psychiatric unit;
 - d. Women's health services, including the Seton Breast Health Center and women's imaging and mammography services; and

³⁶ Conditions to Change in Control and Governance of Seton Medical Center and Seton Coastside and Approval of the System Restructuring and Support Agreement by and among Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Certain Funds Managed by BlueMountain Capital Management, LLC, and Integrity Healthcare, LLC" dated December 3, 2015.

- e. Sub-acute services, including a minimum of 44 sub-acute beds and Medi-Cal Certification as a sub-acute unit.
- 4. For at least five years from the Closing Date, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:
 - a. Gastroenterology services, including enteroscopy, endoscopy, and colonoscopy services;
 - b. Cancer services, including inpatient oncology services, interventional radiology, radiation therapy, and infusion services;
 - c. Orthopedics and rehabilitation services, including joint replacement and spine care services;
 - d. Diabetes services, including Northern California Diabetes Institute;
 - e. Wound care services, including Seton Center for Advanced Wound Care; and
 - f. Nephrology services.
- 5. For the remainder of the term (approximately 6 years) stated in the approved Conditions, the Hospital shall maintain the following services at current licensure, types, and/or levels of services at Seton Coastside until the Conditions expire (approximately 6 years) including:
 - a. 24-hour “standby” Emergency Department, with a minimum of 7 treatment stations; and
 - b. Skilled nursing services, including a minimum of 116 licensed skilled nursing beds.
- 6. For at least five years from the Closing Date of the Asset Purchase Agreement, the Hospital shall maintain the same types and/or levels of women’s healthcare services and mammography services, currently provided at the location below or an equivalent location:
 - a. Women’s Health Services, located at 1850 Sullivan Avenue, Suite 190, Daly City California.
- 7. For at least five years from the Closing Date, the Hospital shall maintain the same types and/or levels of outpatient services and mammography services, currently provided at the location below or an equivalent location:
 - a. Imaging Services located at 1850 Sullivan Avenue, Suite 100, Daly City California;
 - b. Joint Replacement Program, located at 1850 Sullivan Avenue, Suite 150, Daly City California; and
 - c. Wound Care Services, located at 1850 Sullivan Avenue, Suite 115, Daly City California.

8. For at least five years from the Closing Date, the Hospital shall maintain a charity care policy that is no less favorable than its current charity care policy and in compliance with California and Federal law and shall provide an annual amount of charity care equal to or greater than \$1,055,863 (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 2019, the Hospital’s required Minimum Charity Care amount using the three-year rolling average from FY 2016 to FY 2018 would be \$791,332. For purposes herein, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by the Hospital in connection with the operations and provision of services at the Hospital. The definition and methodology for calculating “Charity Care” and the methodology for calculating “cost” shall be the same as that used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for San Francisco-Oakland-San Jose, California Average Base Period: 1982-84=100 (as published by the U.S. Bureau of Labor Statistics). The Attorney General may consider imposing other charity care protections such as improving the charity care policy and disclosure requirements as he did in the Dignity transaction issued on November 21, 2018;
9. For at least five years from the Closing Date, the Hospital shall continue to expend an average of no less than \$685,870 annually in community benefit services (Minimum Community Benefits Amount). If the Hospital receives any grant funds for community benefit services, those grant funds may not be applied to the Minimum Community Benefits Amount. The Minimum Community Benefits Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for San Francisco-Oakland-San Jose, California Average Base Period: 1982-84=100 (as published by the U.S. Bureau of Labor Statistics). In addition, the following community benefit programs shall continue to be offered and/or supported for at least five years from the Closing Date:
 - a. Health Benefits Resource Center; and
 - b. RotaCare Clinic.
10. For the remainder of the term (approximately 6 years) stated in the approved Conditions, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease of quality, or gap in contracted hospital coverage, including continuation of the Health Plan of San Mateo contract or its successor;

11. For the remainder of the term (approximately 6 years) stated in the approved Conditions, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number until the term expires;
12. For at least five years from closing, the Hospital shall maintain its current contracts, subject to the request of the County of San Mateo, for services, including the following:
 - a. Participation in the Hospital Preparedness Program between the Hospital (jointly with Seton Coastside) and San Mateo County;
 - b. STEMI Receiving Center Designation between the Hospital and San Mateo County;
 - c. Financial Support for Seismic Upgrades between the Hospital and San Mateo County;
 - d. Information Sharing and Data Use Agreement between the Hospital and the County of San Mateo Health System;
 - e. Fee for Service Hospital Services Agreement between the Hospital (jointly with Seton Coastside) and San Francisco Health Plan;
 - f. Memorandum of Understanding between the Hospital and San Mateo County Behavioral Health and Recovery Services Division;
 - g. Affiliation Agreement for the Radiology Technology Program between the Hospital and San Mateo College District;
 - h. Affiliation Agreement for the Registered Nursing Program between the Hospital (jointly with Seton Coastside) and San Mateo College District;
 - i. Patient Transfer Agreement between the Hospital and San Mateo County Medical Center;
 - j. Rail Shuttle Bus Service Administration for Seton Shuttle Agreement between the Hospital and San Mateo County Transit District;
 - k. Medical Services Agreement between the Hospital and San Mateo Health Community Health Authority- Access and Care for Everyone (ACE) Program;
 - l. Hospital Medi-Cal Hospital Agreement between the Hospital and San Mateo Health Commission dba Health Plan of San Mateo;
 - m. Memorandum of Understanding for Long Term Care Partnership Program between the Hospital and San Mateo Health Commission dba Health Plan of San Mateo; and
 - n. Care Advantage Hospital Service Agreement between the Hospital and San Mateo Health Commission dba Health Plan of San Mateo.
13. The Hospital shall maintain written policies that prohibit discrimination against lesbian, gay, bisexual, or transgender individuals;
14. SGM and the Hospital shall commit the necessary investments required to maintain OSHPD seismic compliance requirements at the Hospital through 2030 under the Alfred

E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Safety. Code, § 129675-130070); and

15. SGM shall commit to reserve or expend capital for the Hospital, St. Francis Medical Center, and St. Vincent Medical Center for improvements to the hospitals over the five-year period from the Closing Date of the amount that remains unexpended from the \$180 million commitment required of BlueMountain Capital Management, LLC as part of the Attorney General Conditions approved on December 3, 2015.

Appendix

List of Interviewees

Last Name	First Name	Position	Affiliation
Adcock	Rich	Chief Executive Officer	Verity Health
Ahn	Tina	Director, Business Development	Seton Medical Center & Seton Coastside
Altman	Maya	Chief Executive Officer	Health Plan of San Mateo
Amour	Debra	Registered Nurse & Union Representative	California Nurses Association
Antonini, Jr., MD	Charles	Chief Medical Officer	Seton Medical Center & Seton Coastside
Arastu	Fatima	Registered Nurse & Nurse Manager, Oncology Services	Seton Medical Center
Ashford	Troy	Administrative Director, Imaging and Diagnostics	Seton Medical Center
Avalos	John	Union Representative & Coordinator	National Union of Healthcare Workers
Baronoff	Peter	Chief Executive Officer & Managing Director	SGM
Birk	Jerry	Interim Administrator, Post-Acute Services	Seton Coastside
Brown	Mark	Chief Nursing Officer	Seton Medical Center & Seton Coastside
Chaudhuri, MD	Kali	Chairman & Founder	SGM
Chausser, MD	Barry	Medical Director, Radiation Oncology	Seton Medical Center
Child, MD	Josiah	Medical Director, Emergency Services	Seton Medical Center
Chou	Anita	Acting Chief Financial Officer	Verity Health
Cisna	Debbie	Union Representative	Engineers and Scientists of California Local 20
Collins	John	Chief Financial Officer, Hospital Operations	SGM
Del Junco, Jr., MD	Tirso	Chief Medical Officer	Verity Health
Fanaika	Amiame	Certified Nursing Assistant & Union Representative	Seton Medical Center & National Union of Healthcare Workers
Feeney, MD	James	Chair, Cardiology	Seton Medical Center
Fratzke	Mark	President & Chief Executive Officer	Seton Medical Center & Seton Coastside
Gera, MD	Atul	Medical Director, Imaging and Diagnostics	Seton Medical Center
Grady, MD	Brian	Assistant, Chief of Medical Staff	Seton Medical Center
Hazlehurst, MD	Thomas	Medical Director, Skilled Nursing Services	Seton Medical Center
Jackson	James	Chief Operating Officer	Seton Medical Center & Seton Coastside
Kusman	Travis	Associate Director, Emergency Medical Services	San Mateo County Health
LaPolla	Nancy	Director, Emergency Medical Services	San Mateo County Health
Lim, MD	Eric	Physician Leader	Seton Medical Center
Morrow	Scott	Health Officer	San Mateo County
Mortensen	Shane	District Representative	International Union of Operating Engineers
Nuris	Tom	Board Chair	Seton Medical Center & Seton Coastside
Paul	Elspeth	General Counsel	Verity Health
Perez, MD	Robert	Chief of Medical Staff	Seton Medical Center
Rittenhouse, MD	Doug	Medical Director, Women's Services (Surgical Services)	Seton Medical Center
Rivera	Fred	Steward	Engineers and Scientists of California Local 20
Rogers	Louise	Chief Executive Officer	San Mateo County Health
Ruane	Jim	Mayor (Retired) & Board Member, Seton's Board	City of San Bruno
Schaaphok	Pete	Steward	International Union of Operating Engineers Local 39
Sharrer	Steven	Chief Human Resources Officer	Verity Health
So	Ivy	Interim Director, Perioperative Services	Seton Medical Center
Thomas	Michael	Registered Nurse & Director, Emergency and Specialty Services	Seton Medical Center
Thomas	William	Executive Vice President & General Counsel	SGM
Tia	Romeo	Steward	Engineers and Scientists of California Local 20
Tran	Julie	Union Representative	California Nurses Association
Valle, MD	Herm	Medical Doctor, Wound Care Clinic & Former Chief of Staff	Seton Medical Center
Wichelmann	Kyle	Chief Financial Officer	Seton Medical Center & Seton Coastside
Young	Crystal	Interim Administrative Director, Wound Care Clinic	Seton Medical Center

Purchaser Conditions from Schedule 8.6 of the Asset Purchase Agreement

III. Seton Medical Center

Seton Medical Center	AG Conditions	Purchaser Approved Conditions
Binding Power	<ul style="list-style-type: none">● Conditions shall be binding on entities enumerated in AG Conditions.	Purchaser accepts this condition with the following changes: <ul style="list-style-type: none">● Conform to the transaction described in the Agreement.● SGM entities who are involved in the purchase of assets pursuant to the Agreement would agree to be bound by the prospective AG conditions substantively conforming to all the provisions herein.

Applicable Agreements	<ul style="list-style-type: none"> ● Transaction consists of the following: <ul style="list-style-type: none"> - Transitional Consulting Services Agreement dated July 17, 2015; - Health System Management Agreement with Integrity Healthcare, LLC; - Debt Facility Commitment Letter dated July 17, 2015, signed by all the funds listed in footnote 2 and BlueMeridian Capital, LLC; - Operating Asset Purchase Option Agreement; - Operating Asset Purchase Agreement; - Real Estate Purchase Option Agreement; - Real Estate Purchase Agreement; - Information Technology Lease Agreement; and - Deposit Escrow Agreement dated July 17, 2015. 	Purchaser accepts this condition with the following changes: <ul style="list-style-type: none"> ● Transaction consists of the Agreement and any and all other agreements contemplated and delivered pursuant to the Agreement including, as may be applicable, financing, management services and similar agreements.
Notice of Sale or Transfer	<i>For fifteen (15) years:</i> <ul style="list-style-type: none"> ● Provide written notice to AG sixty (60) days prior to entering into any sale or transfer agreement. 	Purchaser accepts this condition if updated to reflect current transaction and parties.
Trauma Services	<i>For ten (10) years</i> <ul style="list-style-type: none"> ● Seton Medical Center shall remain licensed general acute care hospital and maintain current services at current levels: <ul style="list-style-type: none"> - 24-hour emergency medical services, including a minimum of 18 emergency treatment stations; - Cardiac services, including the 2 cardiac catheterization labs, including the designation as a STEMI 	Purchaser accepts this condition for a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.

	<p>Receiving Center;</p> <ul style="list-style-type: none"> - Intensive care and coronary care services, including a minimum of 20 intensive care and coronary care beds; - Advanced certification as a Primary Stroke Center; - Women's health services, Seton Breast Health Center, and women's imaging and mammography services; and - Sub-acute services, including a minimum of 44 sub-acute beds and Medi-Cal Certification and Joint Commission Accreditation as a sub-acute unit. <p>● Seton Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.</p>	
OB & Reproductive Services	<p><i>Within ten (10) years:</i></p> <p>If Seton Medical Center provides obstetrical services within ten years from the closing date of the System Restructuring and Support Agreement, Seton Medical Center shall also provide reproductive health services including such services prohibited by the "Ethical and Religious Directives for Catholic Health Care Services" as determined by the United States Conference of Catholic Bishops.</p>	Purchaser accepts this condition for a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.
Essential Medical Services	<p><i>For at least five (5) years:</i></p> <ul style="list-style-type: none"> ● Seton Medical Center shall maintain the following at current levels: - Gastroenterology services, including enteroscopy, endoscopy, and colonoscopy services; 	<p>Seton Medical Center:</p> <p>Purchaser accepts this condition with the following changes:</p> <ul style="list-style-type: none"> ● For a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.

	<ul style="list-style-type: none"> - Cancer services, including inpatient oncology unit, interventional radiology, radiation therapy, and infusion services; - Orthopedics and rehabilitation services, including joint replacement and spine care services; - Diabetes services, including Northern California Diabetes Institute; - Wound care services, including Seton Center for Advanced Wound Care; and - Nephrology services, including inpatient and outpatient dialysis services. <p>● Seton Medical Center shall not place all or any portion of its above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.</p> <p><i>For at least ten (10) years:</i></p> <p>●Seton Coastside shall maintain and provide the following services at current licensure, types, and/or levels of services at Seton Coastside:</p> <ul style="list-style-type: none"> - 24-hour “standby” emergency services, with a minimum of 7 treatment stations; and - Skilled nursing services, including a minimum of 116 licensed skilled nursing beds. 	<p>● Purchaser will not agree to maintain, provide and expand cancer care at either campus, including inpatient oncology unit, interventional radiology, radiation therapy, and infusion services or to not suspend or surrender any beds directly supporting such services.</p> <p>Seton Coastside: Purchaser accepts this condition for a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.</p>
Charity Care	<p><i>For six (6) fiscal years:</i></p> <ul style="list-style-type: none"> ● Seton Medical Center and Seton Coastside shall provide an annual amount of Charity Care at Seton Medical Center and Seton Coastside equal to or greater than \$1,721,301. ● For the second fiscal year and each subsequent fiscal year, the 	<p>Purchaser accepts this condition with the following changes:</p> <ul style="list-style-type: none"> ● For a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions. ● Seton Medical Center and Seton Coastside together shall provide an annual amount of Charity Care at

	<p>Minimum Charity Care Amount shall be increased (but not, decreased) by an amount equal to the Annual Percent increase.</p> <ul style="list-style-type: none"> • Deficiency payments if Minimum Charity Care Amount not met. 	<p>Seton Medical Center and Seton Coastsides total that is equal to or greater than Nine Hundred Thirty-Five Thousand and Four Hundred Five Dollars (\$935,405).</p> <ul style="list-style-type: none"> • Purchaser will not make any deficiency payments related to Charity Care spending into pensions.
Community Benefit Services	<p><i>For six (6) fiscal years:</i></p> <ul style="list-style-type: none"> • Seton Medical Center and Seton Coastsides shall provide an annual amount of Community Benefit Services equal to or greater than \$794,324 exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered: <ul style="list-style-type: none"> - Health Benefits Resource Center; and - RotaCare Clinic. • For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change. • Deficiency payments if Minimum Community Benefit Services Amount not met. 	<p>Purchaser accepts this condition with the following changes:</p> <ul style="list-style-type: none"> • For a term which coincides with the remaining term applicable to this provision, for this facility, in the Prior Conditions. • Seton Medical Center and Seton Coastsides together shall provide an annual total amount of Community Benefit Services equal to or greater than Eight Hundred Forty-Eight Thousand and Four Hundred Thirty-Four Dollars (\$848,434) exclusive of any funds from grants.
Medicare and Medi-Cal and Managed Care	<p><i>For ten (10) years:</i></p> <ul style="list-style-type: none"> • Both Seton Medical Center and Seton Coastsides shall: • Be certified to participate in the Medi-Cal program; • Maintain and have Medi-Cal Managed Care contracts with San Mateo Health Commission dba Health Plan of San Mateo or its successor to provide the same types and levels of emergency and non-emergency services at Seton 	<p>Purchaser accepts this condition for a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.</p>

	<p>Medical Center and Seton Coastsides to Medi-Cal beneficiaries (both Traditional Medi-Cal and Medi-Cal Managed Care), on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause</p> <ul style="list-style-type: none"> ● If SMC or Seton Coastsides questions whether it is being reimbursed on the same terms and conditions as other similarly situated hospitals offering substantially the same services, it shall notify the AG's Office with at least 120 days' notice prior to taking any action that would effectuate any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage or prior to giving any required notice of taking such action. ● Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services at SMC and Seton Coastsides to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care). 	
<p>San Mateo County Contracts / "Safety Net" Hospital Status</p>	<p><i>For at least five (5) years:</i></p> <ul style="list-style-type: none"> ● Maintain San Mateo County contracts, including: <ul style="list-style-type: none"> - Data Usage Agreements between San Mateo County and Seton Medical Center; - Patient Transfer Agreement between San Mateo County Medical Center and Seton Medical Center; 	<p>Purchaser accepts this condition for a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.</p>

	<ul style="list-style-type: none"> - Agreement dated July 2013 (effective October 1, 2013) whereby the County of San Mateo agrees to provide financial support for Seton Medical Center in exchange for Seton Medical Center's agreement to maintain its role as a safety net provider in San Mateo County, unless otherwise terminated earlier by the County of San Mateo; - San Mateo ACE Program Hospital Agreement; and - Agreements with Local Hospitals and Healthcare Facilities Participating in the National Bioterrorism Hospital Preparedness Program Grant. 	
Current Agreements (Medical Foundation)	<ul style="list-style-type: none"> ● Verity Medical Foundation will continue to fulfill the terms of the following agreements and amendments thereto: <ul style="list-style-type: none"> - Medi-Cal Medical Services Agreement Between San Mateo Health Commission and Referral Provider dated May 2014; - Care Advantage Medical Services Agreement Between San Mateo Health Commission and Primary Care Physician dated July 2014; - Medi-Cal Medical Services Agreement Between San Mateo Health Commission and Primary Care Physician dated July 2014; - Healthworx Medical Services Agreement Between San Mateo Community Health Authority and Primary Care Physician dated July 2014; - Healthworx Medical Services Agreement between San Mateo Community Health Authority and Referral Provider dated June 2014; and - Care Advantage Medical Services Agreement Between San 	Purchaser does not accept this condition because it is not relevant to the current transaction.

	Mateo Health Commission and Referral Provider dated August 2014.	
Local Governing Board of Directors	<p><i>For ten (10) years:</i></p> <ul style="list-style-type: none"> ● Seton Medical Center and Seton Coastsides shall have a Local Governing Board of Directors and consult with Board prior to changes. 	Purchaser accepts this condition for a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.
Capital Commitment	<ul style="list-style-type: none"> ● Reserve or expend the \$180 million capital commitment. 	<p>Purchaser accepts this condition with the following changes:</p> <ul style="list-style-type: none"> ● Capital commitment will be adjusted as follows: <ul style="list-style-type: none"> - Prorated to adjust commitment to reflect percentage of assets St. Francis Medical Center represents against the total value of all assets in the Verity Health System; - The capital commitment will be reduced by the amount Seller has already expended for capital from the Closing of the Blue Mountain transaction through Closing under the Agreement. - All to be paid or reserved over a five (5) year period after Closing of the Agreement. - The total capital requirements for St. Francis Medical Center, Seton Medical Center / Coastsides, and St. Vincent Medical Center will not exceed Seventy-Five Million Dollars (\$75,000,000).
Pension Obligations	<ul style="list-style-type: none"> ● Comply with pension obligations. 	Purchaser does not accept this condition.
Staff Privileges	<ul style="list-style-type: none"> ● Seton Medical Center and Seton Coastsides shall maintain privileges for current medical staff in good standing at Closing. ● Maintain medical staff officers, committee chairs, and independence of medical staff, and 	<ul style="list-style-type: none"> ● Purchaser accepts this condition consistent with Agreement. ● Agreed to the extent reasonably within SGM's control.

	such persons shall remain in good standing for the remainder of their tenure.	
Seismic Compliance	<ul style="list-style-type: none"> ● Commit necessary investments to maintain OSHPD seismic compliance requirements of hospital through 2030, including: <ul style="list-style-type: none"> ● Construction of, completion of, and obtaining a Certificate of Occupancy by July 1, 2019 for a new Patient Tower at Seton Medical Center, with at least 104 beds for general acute care, perinatal care, and intensive care services, with at least 12 critical care beds and 8 perinatal beds; OR ● retrofitting of and obtaining a Construction Final by July 1, 2019 for Seton Medical Center's current Patient Tower. (For building new Patient Tower, buyer shall submit Construction Documents to OSHPD by deadline provided for, and shall obtain a Certificate of Occupancy from OSHPD by deadline. For retrofitting Seton Medical Center's current Patient Tower, buyer shall submit Construction Documents to OSHPD by deadline, shall obtain a building permit for retrofitting Seton Medical Center's current Patient Tower from OSHPD and shall obtain a Construction Final from OSHPD by specified deadlines. 	<ul style="list-style-type: none"> ● Purchaser does not agree to current AG conditions but will agree to: <ul style="list-style-type: none"> -Promptly assess feasibility of retrofitting the Patient Tower; -Operate current Patient Tower for up to five (5) years following Closing; -Retrofit the Patient Tower or build a new hospital facility. ● The preceding commitment and other operational conditions for SMC assume and are conditioned on SMC obtaining necessary waivers or other authority from OSHPD and the State to permit continued operation of SMC through such five (5) year period, pending replacement or retrofit of the current Patient Tower, and receipt by Purchaser of all PACE financing funds at currently accrued levels (i.e. approximately \$40 million).
Update Bylaws and Conflict of Interest Policy	<ul style="list-style-type: none"> ● Within sixty (60) days, update Bylaws as specified and adopt same Conflict of Interest Policy as DCHS. ● Within ninety (90) days of closing, provide copies of amended and restated governing documents. 	Purchaser does not accept this condition because it is not applicable to a for-profit health system or consistent with this transaction.
Reproductive Health Services	<ul style="list-style-type: none"> ● There shall be no restriction or limitation on providing or making 	Purchaser accepts this condition.

	reproductive health services.	
Accounting of Charitable Assets	<ul style="list-style-type: none"> At least thirty (30) days prior to Closing, provide to the AG's Office an accounting of all charitable assets. [Have we verified whether this is still relevant?]	Purchaser does not accept this condition because it is not relevant to the current transaction.
Compliance Reports and Provision of Information	<i>For eleven (11) fiscal years:</i> <ul style="list-style-type: none"> Provide reports/information as required by AG. 	Purchaser accepts this condition for a term which coincides with the remaining term applicable to this condition, for this facility, in the Prior Conditions.
Consent to Conditions	<ul style="list-style-type: none"> Implicit/explicit consent to conditions and waiver of any right to seek judicial relief. 	Purchaser accepts this condition with the following changes: <ul style="list-style-type: none"> Implicit/explicit consent to conditions and waiver of any right to seek judicial relief as long as consistent with the Agreement.

License: 220000026
Effective: 01/01/2019
Expires: 12/31/2019
Licensed Capacity: 478

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

Seton Medical Center

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

Seton Medical Center

Seton Coastside

Seton Medical Center
1900 Sullivan Ave
Daly City, CA 94015-2200

Bed Classifications/Services

250 General Acute Care
18 Perinatal
14 Coronary Care
14 Intensive Care
3 Intensive Care Newborn Nursery
201 Unspecified General Acute Care
24 Acute Psychiatric (D/P)
83 Skilled Nursing (D/P)

Other Approved Services

Basic Emergency Medical
Cardiovascular Surgery
Mobile Unit - Other - CT/PET - Stereotactic
Biopsy
Nuclear Medicine
Occupational Therapy
Outpatient Services - Ambulatory Surgery at
Ambulatory Surgery Center, 1850 Sullivan
Avenue, Suite 400, Daly City
Outpatient Services - Imaging Services at NSI
Imaging Svcs & Block Suite, 1850 Sullivan
Avenue, Suite 100, Daly City
Outpatient Services - Joint Replacement
Program at Seton Orthopedic Institute
Outpatient Center, 1850 Sullivan Avenue,
Suite 150, Daly City
Outpatient Services - Women's Health
Services at Breast Health Center, 1850
Sullivan Avenue, Suite 190, Daly City
Outpatient Services - Wound Care Center at
Wound Care Center, 1500 South Gate
Avenue, Suite 115, Daly City
Physical Therapy
Podiatry Service

(Additional Information Listed on License Addendum)

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San
Francisco District Office, 150 North Hill Drive, Suite 22, Brisbane, CA 94005, (415)330-6353

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State of California
Department of Public Health
License Addendum

License: 220000026
Effective: 01/01/2019
Expires: 12/31/2019
Licensed Capacity: 478

Seton Medical Center (Continued)
1900 Sullivan Ave
Daly City, CA 94015-2200

Other Approved Services (cont'd)

Radiation Therapy
Respiratory Care Services
Social Services

Seton Coastside
600 Marine Blvd
Moss Beach, CA 94038-9641

Bed Classifications/Services
5 General Acute Care
116 Skilled Nursing (D/P)

Other Approved Services

Dental Services
Occupational Therapy
Outpatient Services
Physical Therapy
Podiatry Service
Respiratory Care Services
Social Services
Speech Pathology
Standby Emergency Medical Services

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

18 Perinatal beds suspended from 11/15/2018 to 11/14/2019 at 1900 Sullivan Ave.

3 Intensive Care Newborn Nursery beds suspended from 11/15/2018 to 11/14/2019 at 1900 Sullivan Ave.

CONSOLIDATED

Suspension of Outpatient Joint Replacement service located at Seton Orthopedic Institute Outpatient Center, 1850 Sullivan Avenue Suite 150, Daly City, 94015. Effective 11/15/18 to 11/14/19.

Karen L. Smith, MD, MPH

Director and State Public Health Officer

Stephanie Devlin, Staff Service Manager I

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Francisco District Office, 160 North Hill Drive, Suite 22, Brisbane, CA 94005, (415)330-6353

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