

State of California Department of Justice

Effect of the Sale of St. Francis Medical Center to Cottage Health
System on the Accessibility and Availability of Health Care
Services

**Prepared For The Office Of The California
Attorney General**

April 30, 2003

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INTRODUCTION AND PURPOSE

Catholic Healthcare West, a California non-profit public benefit corporation (“CHW” or “Applicant”), has requested the Attorney General’s consent to the transfer of a material amount of Applicant’s assets in Saint Francis Medical Center (“SFMC”) to Cottage Health System (“CHS”) pursuant to California Corporations Code Section 5920.

This report on the “Impacts on Health Care Services” is prepared for the Office of the Attorney General. The report describes the effects that the proposed agreement may have on the delivery of health care services and how accessibility and availability may be affected.

The agreement between CHW and CHS involves the sale of substantially all assets, properties, rights and interests of SFMC and related properties to CHS. Cottage Health System desires to cease and terminate substantially all of the operations and activities associated with the Business, other than Villa Riviera, an assisted living facility, as soon as possible following the closing of the transaction. Currently, CHW is in the process of closing SFMC with an anticipated date of closure on or before June 30, 2003. Subsequently, CHS intends to utilize the assets for workforce and other housing purposes.

Medical Development Specialists has analyzed the health impacts of this proposed transaction based upon the following:

- A review of the documents filed with the Attorney General by Applicant on March 21, 2003 in its provision of notice and requests for consent to the transfer of Applicant’s assets.
- Interviews with community members and representatives, SFMC medical staff, management and employees, management of CHS, representatives of the Santa Barbara County Public Health Department, and others potentially knowledgeable of healthcare impacts.
- An analysis of financial, utilization and service data provided by SFMC management.
- An analysis of area health care services using Office of Statewide Health Planning and Development (“OSHPD”) data, Santa Barbara Department of Emergency Medical Services data, the Community Health Assessment Task Force report regarding community health, findings from the 2001 California Health Interview Survey, and other various sources.
- A review of related newspaper articles.
- Additional Data obtained through requests to Applicant.

BACKGROUND AND DESCRIPTION OF THE TRANSACTION

Catholic Healthcare West owns and operates St. Francis Medical Center, an acute care facility, Villa Riviera, an assisted living facility with 20 residents, a convent adjacent to the Hospital and other related properties.

Catholic Healthcare West also owns and is the sole corporate member of St. Francis Hospital Support Corporation (“SFHSC”), a California non-profit public benefit corporation that owns real property and holds real property leases associated with the operation of the Hospital.

Cottage Health System, a California non-profit benefit corporation, desires to purchase and acquire substantially all assets, properties, rights and assets of SFHSC and SFMC.

The Attorney General’s consent to the transfer of SFHSC and related assets to CHS is required pursuant to California Corporation’s Code Section 5920.

History of St. Francis Medical Center

The Hospital was originally established by three physicians in 1905 and had a capacity for thirty-five patients. The Franciscan Sisters of the Sacred Heart acquired the Hospital in 1908 and renamed it St. Francis Hospital. A new four story hospital building was built on the property in 1923. It was in operation for only eighteen months when the Hospital was destroyed by the earthquake of June 29, 1925. It was razed in October 1925 and then rebuilt in 1927 with a capacity of 100 beds. Over time the services of St. Francis Hospital grew adding a new convent in 1927, a clinic for the poor in 1928, a Hospital Foundation in 1954 and a new wing addition in 1956. By 1960 the Hospital had a capacity of one hundred seventeen beds and twenty four bassinets. Because of growing demand and increases in service capacity the Hospital added another wing and outpatient diagnostic center which were completed by 1976. St. Francis Hospital was especially known for its eye center and eye care unit. In 1984 the Hospital built a new three story surgery wing which featured laser surgery. In 1991 a cardiac Catheterization laboratory and magnetic resonance imager were added. In 1991 St. Francis Hospital was renamed St. Francis Medical Center. In 1992 the transitional care unit (TCU) opened, which was the first in the county. In 1992 the Hospital opened the residential care facility, Villa Riviera, providing assisted living for seniors.

The Congregational Healthcare/Parish Nurse Program started in 1995. The program consists of partnerships created with local churches and faith communities that provide a nurse at the congregation on a part-time basis and sponsor health education and screenings. By 1998, there were twenty six congregations being served by eleven parish nurses. In June 1998, the Hospital opened the Senior Mental Health services unit, which was the first in the county. In 1997 the Hospital transitioned from a stand-alone hospital to become a member of Catholic Healthcare West.

Reasons for the Sale

Since its acquisition by CHW in 1997, SFMC has suffered significant and increasing losses from operations. Operating losses were approximately \$12 million (as reported by OSHPD) for fiscal years 1998-2002, including a net loss of \$3.6 million in the fiscal year ending 2002. Losses have accelerated during 2003 to approximately \$600,000 per month currently. Of additional concern to the CHW Board of Directors were seismic retrofit expenditures, required by California Senate Bill 1953 to be completed by 2013, of approximately \$19 million (1999 dollars). After substantial deliberation, and with advice from its financial consultants, CHW determined that it could no longer afford the losses from operating SFMC. Senior management felt that the best interests of CHW, its charitable mission and its remaining charitable assets were served by proceeding with the sale or closure of SFMC. In 2001, CHW initiated a request for proposal process. The offer received by CHS was determined to be the most financially advantageous and most consistent with CHW's charitable mission. Subsequent to the selection of CHS as the proposed purchaser of SFMC, CHS determined that it desires to cease substantially all of the operations and activities associated with the business of SFMC other than Villa Riviera, as soon as possible following the closing of the transaction. CHS subsequently intends to use the acquired assets for workforce and other housing purposes.

Summary of the Asset Purchase Agreement

The major points of the Asset Purchase Agreement (APA) dated March 12, 2003 include the following:

- Purchase price is \$18 million subject to adjustments set forth in the Asset Purchase Agreement.
- The assets purchased by CHS are those used by the sellers in the operation of the Business including SFMC, Villa Riviera, the convent, related properties and the property leases and other assets of SFHSC.
- The assets retained by CHW/SFHSC include cash, records, name, religious symbols, membership in the St. Francis Hospital Foundation ("Foundation") and the Foundation's assets, pre-closing accounts receivable, employee plan assets, and other designated assets.
- CHS, in its discretion will offer employment to some, but not all employees, with comparable compensation and employee benefits. CHW and CHS will offer employee retention incentives through the closing date. CHW has in place an employee severance plan to provide certain benefits to employees who are terminated on or before the closing date.
- The APA states that with regard to Charity Care, "Each year, commencing as of the Closing Date and continuing thereafter, CHS and its affiliates (including Santa Barbara Cottage Hospital and Cottage Goleta Valley Hospital) shall provide, in the aggregate, an average amount of charity care determined over a rolling three year period that is not less than the Average Annual Hospital Charity Care Amount. The Average Annual Hospital

Charity Care Amount is defined in the APA as the annual amount of charity care provided in connection with the operation of the Business (including the Hospital) during each of Sellers' three (3) full prior fiscal years based upon Sellers' charity care policies in effect with respect to the Business during such period of time together with the annual average thereof based on OSHPD data."

"The average annual amount of charity care to be provided by CHS and its affiliates pursuant to the APA shall be based upon the charity care policies and procedures of CHS and its affiliates existing from time to time and shall be in addition to the aggregate average annual amount of charity care based on OSHPD data regularly provided by CHS and its affiliates prior to the Closing Date, also calculated on a rolling three year period."

- Non-Competition – the seller shall not offer or provide health care services through any facility (including ambulatory surgery centers and mobile facilities) located in Southern Santa Barbara County for a period of three years after the Closing Date. The non-competition agreement is stated to in no way restrict "the development and grant making activities or operations of the St. Francis Hospital Foundation."
- As long as CHS conducts any healthcare operations on the property such operations will be conducted in a manner consistent with CHW's statement of Common Values by not providing or performing any abortion, physician assisted suicide or in-vitro fertilization services on the property.
- If Villa Riviera is closed or ceases to operate as an assisted living facility, CHS will use best efforts to make reasonable accommodations to assist its residents to relocate to other comparable facilities or living quarters.
- At least one former member of the Board of Directors of the St. Francis Hospital Foundation will be submitted and elected to the Board of Directors of CHS.

Use of Sale Proceeds

Catholic Healthcare West has stated its intention to use all of the net proceeds from the transaction "to carry out the historical purpose of providing non-profit Catholic acute care hospital and related services under the control of CHW and its religious sponsors at Marian Medical Center, which is the only other such facility in Santa Barbara County."

Marian Medical Center is a 227 bed acute care hospital located in Santa Maria in Northern Santa Barbara County.

The sale does not involve any charitable endowment funds or assets related to SFMC which will continue to be held and maintained by the St. Francis Hospital Foundation, a non-profit public benefit corporation of which CHW is the sole corporate member. According to CHW, "the Foundation will remain in place as currently organized and will retain all of its funds and assets on the same terms and subject to the same conditions and restrictions as are currently the case."

ST. FRANCIS MEDICAL CENTER'S SERVICES AND PROGRAMS

Profile and Key Statistics

St. Francis Medical Center is an 85 licensed bed general acute care hospital located at 301 East Micheltorena Street, Santa Barbara, California 93103. Its facilities are comprised of approximately 150,000 square feet located on approximately 7.39 acres of land in a mostly residential area. Related assets include the following (see Appendix for further details):

- St. Francis Medical Center (Land and buildings owned by St. Francis Medical Center.)
- Villa Riviera Convalescent Hospital, an assisted living facility for 20 residents, located at 1621 Grand Avenue, Santa Barbara, California (land and building owned by St. Francis Medical Center)
- Sisters Convent located at 601 East Micheltorena Street, Santa Barbara, California (land and building owned by St. Francis Medical Center)
- Medical Office building located at 533 East Micheltorena Street, Santa Barbara, California. (Fee interest in land is owned by St. Francis Medical Center; Leasehold interest in land is owned by Micheltorena Medical Partners, an unrelated third party; Suites 101, 102 and 204 are owned by St. Francis Hospital Support Corporation.)
- Medical Office building located at 536 East Arrellaga Street, Santa Barbara, California. (Fee interest in land is owned by St. Francis Medical Center; Leasehold interest in land is owned by St. Francis Hospital Support Corporation; Individual office suites are owned by unrelated third parties; and Suites 101, 102, 104, 201 and 203 are owned by St. Francis Hospital Support Corporation.)
- Parking Lot.

St. Francis Medical Center's 85 beds are licensed as follows:

| | |
|----|--|
| 40 | Unspecified general acute care |
| 8 | Intensive care |
| 23 | Skilled nursing (Transitional Care Unit) |
| 14 | Acute psychiatric (Senior Mental Health) |

For the fiscal year 2002 the average daily census of 41.2 patients consisted of the following:

| | |
|------|---------------------|
| 15.6 | General acute |
| 2.5 | Intensive care |
| 12.9 | Skilled nursing/TCU |
| 10.2 | Acute psychiatric |

Census has continued to diminish in 2003 with current average daily census of around 34 patients. When the Senior Mental Health Program closes, as planned by CHW, by May 12, 2003 the census will drop by at least another 10 patients.

Additional summary statistics are presented below. The Hospital has a large number of active medical staff (172) for the volume of 2,667 admissions and 23,238 patient days, indicating that the majority of physicians admit most of their patients at other hospitals.

| St. Francis Medical Center Fiscal Year 2002 Key Statistics | |
|---|--------|
| Total Licensed Beds | 85 |
| Inpatient Discharges | 2,667 |
| Average Daily Census | 41.2 |
| Outpatient Visits | 23,238 |
| Emergency Visits | 9,947 |
| Active Physicians on Medical Staff | 172 |
| Number of Employees | 395 |
| Sources: FY '02 OSHPD Disclosure Report, Hospital License, SFMC | |

Programs and Services

St Francis Medical Center is a community hospital that offers the following primary and secondary services:

- 24 hour emergency services (basic level)
- Inpatient and outpatient surgery
- Medical, surgical and intensive care/critical care services
- Cardiac catheterization
- Diagnostic imaging (including MRI, CT, diagnostic radiology, nuclear medicine, and ultrasound)
- Skilled nursing/transitional care
- Senior mental health services

Over the last few years a few service changes have occurred, such as:

- Senior Mental Health Services were added in 1998
- The Family Birth Center (obstetrics service) was closed in December 2000
- The mammography service was discontinued in fiscal year 2001
- The transportation van was discontinued in fiscal year 2001

The acute care census at SFMC is low and has dropped over the last few years. In 2002 the average daily census was approximately 2.5 patients per day in the ICU (8 bed unit) and 15.6 patients per day in the medical/surgical unit (40 beds). The census has continued to drop slightly in 2003.

The gero-psychiatric unit (senior mental health services) has grown since its inception with an average daily census of over 10 patients per day (14 bed unit) in 2002. The patient day volume has been increasing in the gero-psychiatric unit every year since 1998. The skilled nursing/transitional care unit volume has been declining, with an average daily a census of nearly 13 patients (23 bed unit) in 2002.

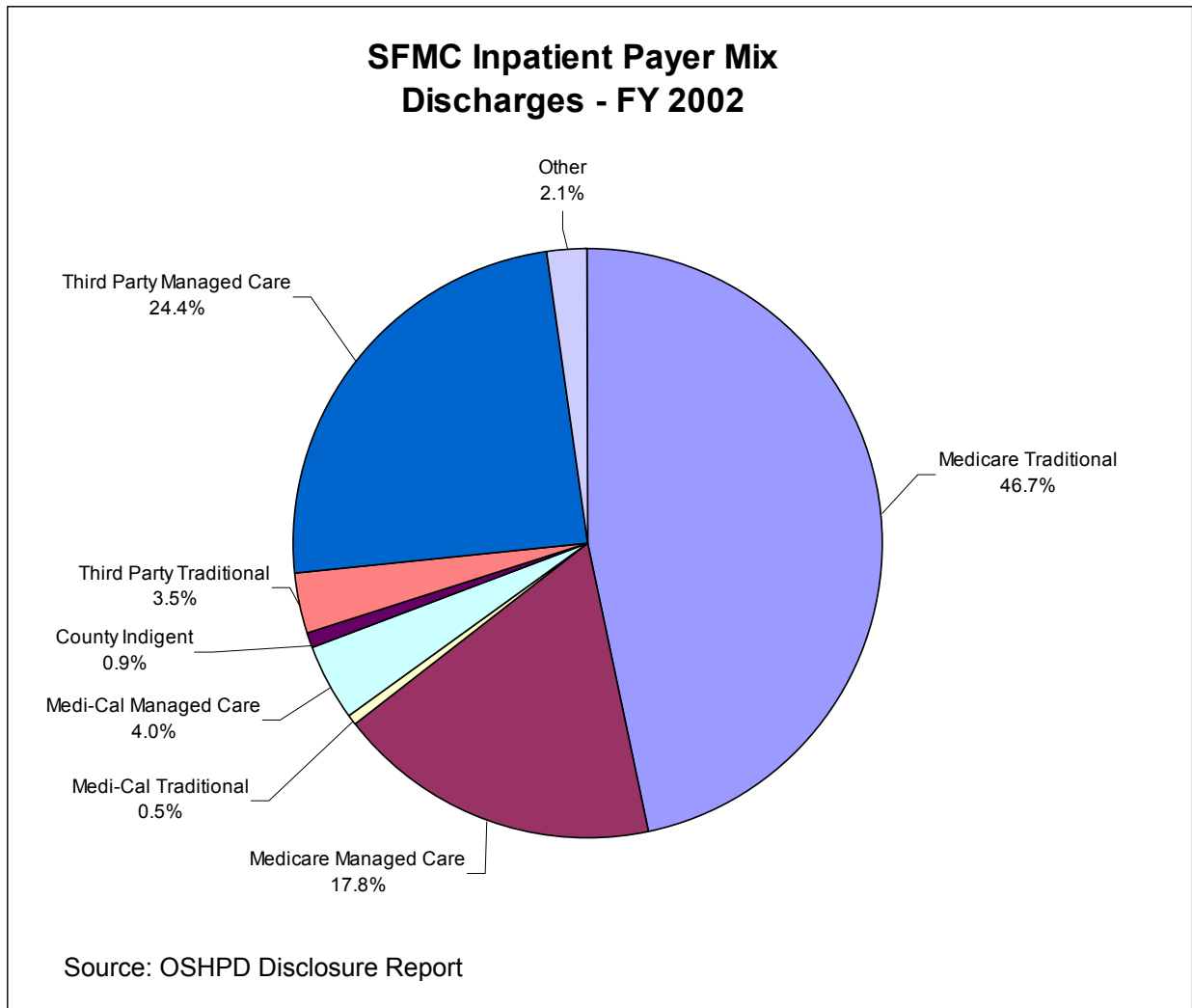
Although the outpatient visit volumes were increasing through 2002, the outpatient surgical volume has declined from 3,465 surgeries in FY 2000 to 1,842 in FY 2002. Emergency room visits have shown a moderate upward trend to 9,967 visits in FY 2002 from 8,564 in FY 1998.

The table on the next page shows patient volumes over the last five years.

| SFMC - Service Volumes | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| | 2002 | 2001 | 2000 | 1999 | 1998 |
| PATIENT DAYS | | | | | |
| Medical ICU/CCU | 900 | 947 | 1,209 | 1,180 | 950 |
| Med/Surg | 5,702 | 7,107 | 6,967 | 6,348 | 6,216 |
| Psychiatric Adult | 3,704 | 3,547 | 2,646 | 2,289 | 12 |
| Birthing Center | - | 467 | 735 | 887 | 766 |
| Skilled Nursing | 4,722 | 5,093 | 5,860 | 5,469 | 5,746 |
| Total * | 15,028 | 17,161 | 17,417 | 16,173 | 13,690 |
| DISCHARGES | | | | | |
| Medical ICU/CCU | 158 | 162 | 156 | 175 | 128 |
| Med/Surg | 1,874 | 2,261 | 2,114 | 1,988 | 1,917 |
| Psychiatric Adult | 295 | 257 | 203 | 155 | 17 |
| Birthing Center | - | 183 | 296 | 333 | 344 |
| Skilled Nursing | 340 | 434 | 481 | 395 | 528 |
| Total * | 2,667 | 3,297 | 3,250 | 3,046 | 2,934 |
| AVERAGE DAILY CENSUS | | | | | |
| Medical ICU/CCU | 2.47 | 2.59 | 3.31 | 3.23 | 2.60 |
| Med/Surg | 15.62 | 19.42 | 19.09 | 17.39 | 16.98 |
| Psychiatric Adult | 10.15 | 7.25 | 6.27 | 6.27 | - |
| Birthing Center | - | 1.28 | 2.01 | 2.43 | 2.09 |
| Skilled Nursing | 12.94 | 13.92 | 16.05 | 14.98 | 15.70 |
| Total * | 41.17 | 46.89 | 47.72 | 44.31 | 37.40 |
| Outpatient Visits (1) | 31,932 | 23,149 | 33,469 | 21,225 | 17,005 |
| I/P Surgeries | 1,088 | 1,049 | 1,068 | 985 | 901 |
| O/P Surgeries | 1,842 | 2,874 | 3,465 | 3,034 | 3,477 |
| Heart Caths | 249 | 281 | 335 | 301 | 253 |
| ER Visits | 9,947 | 10,167 | 9,698 | 8,697 | 8,564 |
| Source: OSHPD Disclosure Report (fiscal years ending 6/30), SFMC (O/P Surg., Caths) (1) Includes non-admitted ER visits. | | | | | |

Payer Mix

SFMC has a very large percentage of traditional Medicare patients, representing 46.7% of the total patient discharges. This is partially because the gero-psychiatric unit attracts senior patients on a regional basis. Medicare managed care also comprises 17.8% of the hospital's discharges. The Hospital has a 4.0% managed Medi-Cal payer mix, which is low compared to discharges in the marketplace which are 12.0% managed Medi-Cal. Third party managed care is also a significant portion of the SFMC payer mix at 24.4%.



Medical Staff

There are 172 active physicians on the medical staff, which includes 153 board certified physicians and 18 board eligible. Eighty nine percent (89%) of St. Francis Medical Center's active physicians are board certified which is a high percentage by industry standards.

| SFMC Active Medical Staff - 2002 | | | |
|---|------------------------|-----------------------|--------------|
| Specialty | Board Certified | Board Eligible | Other |
| Allergy and Immunology | | | |
| Anesthesiology | 11 | 1 | |
| Cardiovascular Disease | 8 | | |
| Colorectal Surgery | 1 | | |
| Dermatology | 1 | | |
| Emergency Medicine* | | | |
| Gastroenterology | 4 | | |
| General/Family Practice | 4 | 3 | |
| General Surgery | 3 | 1 | |
| Internal Medicine | 25 | 1 | |
| Neurological Surgery | 2 | | |
| Neurology | 4 | 1 | |
| OB/Gyn | 3 | | |
| Oncology | 1 | | |
| Ophthalmology | 16 | 1 | |
| Orthopedic Surgery | 18 | 1 | |
| Otolaryngology | 8 | | |
| Pathology | 1 | | |
| Pediatrics | 2 | | |
| Physical Medicine/Rehab | 1 | | |
| Plastic Surgery | 6 | | |
| Psychiatry | 4 | | |
| Pulmonary Disease | 4 | | |
| Radiology | 10 | | |
| Thoracic Surgery | 1 | | |
| Urology | 8 | | |
| Other | 7 | 9 | 1 |
| Total | 153 | 18 | 1 |
| * included in internal medicine and family practice Source: OSHPD Disclosure Report, SFM | | | |

Charity Care

The trend of charity care charges over five years was researched and analyzed from various sources. SFMC does not have audited financial statements but reported as part of consolidated audited financial statements for the Central Coast division of Catholic Healthcare West (CHW). The regional division of CHW includes St. Francis Medical Center, Marian Medical Center and St. John’s Regional Medical Center, and St. John’s Pleasant Valley Hospital. The SFMC financial statements that were used to examine the charity care charges were used for the consolidated audit.

Hospital reports of charity care charges often differ depending on the source. However, the SFMC financial statements, the final OSHPD reports and the OSHPD website all stated the same figures for all five years with one very minor exception. In 2001, the financial statements reflected \$24 additional dollars as compared to the OSHPD figures. The five years of charity care as defined by the final OSHPD figures represent an average of \$1,079,691 of charges.

| CHARITY CARE - TOTAL CHARGES | | | |
|---|------------------------------|------------------------|----------------------|
| St. Francis Hospital - Fiscal Years 1998 to 2002 | | | |
| | Financials Statements | Final OSHPD (1) | OSHPD Website |
| 2002 | \$1,159,977 | \$1,159,977 | Not Avail |
| 2001 | \$793,331 | \$793,307 | \$793,307 |
| 2000 | \$546,327 | \$546,327 | \$546,327 |
| 1999 | \$1,876,085 | \$1,876,085 | \$1,876,085 |
| 1998 | \$1,022,761 | \$1,022,760 | \$1,022,760 |
| (1) The OSHPD source is the Individual Hospital Disclosure Reports (Fiscal Year Ending 6/30). Final as of April 7, 2003. There are no pending revisions submitted to OSHPD. | | | |

In fiscal year 2002, the cost of charity care, estimated by applying the cost to charges ratio was nearly \$413,000. This represents 1.3% of total SFMC costs. The cost to charges ratio has stayed relatively constant, but the charity care charges that have been written off have varied from a low of \$546,327 in fiscal year 2000 to a high of \$1,876,085 in fiscal year 1999. Corresponding to this fluctuation are the estimated costs of charity care which had a low of \$191,761 in 2000 and a high of \$686,647 in 1999.

The average cost for the five year period was \$389,015.

| Cost of Charity Care to SFMC | | | | |
|-------------------------------------|--------------------------------------|----------------------------------|-------------------------------------|---|
| | SFMC Charity Care Charges (1) | Cost to Charges Ratio (2) | Cost of Charity Care to SFMC | Percent of Total Costs Represented by Charity Care |
| 2002 | \$1,159,977 | 35.6% | \$412,952 | 1.3% |
| 2001 | \$793,307 | 33.8% | \$268,138 | 0.9% |
| 2000 | \$546,327 | 35.1% | \$191,761 | 0.6% |
| 1999 | \$1,876,085 | 36.6% | \$686,647 | 2.5% |
| 1998 | \$1,022,760 | 37.7% | \$385,581 | 1.5% |

(1) Charity Care charges are based on final OSHPD figures.
(2) Based OSHPD Disclosure Report (Total Operating Expenses divided by Total Operating Charges).

A five year trend of charity care by type of service was provided by SFMC. The majority of charity care was provided to inpatients. The aggregate charity care for FY 2002 totaled \$1,158,537 while the balance of reporting mechanisms (financial reports, OSHPD Disclosure Reports, and OSHPD website) all recognize \$1,159,977 as the actual charity care figure for FY 2002. The SFMC Chief Financial Officer reported that the \$1,159,977 was the correct figure and the \$1,158,537 was believed to be a calculation error.

| CHARITY CARE BY SERVICE | | | | |
|--|----------------------|-------------------|-----------------------|----------------------|
| St. Francis Medical Center - 1998 to 2002 | | | | |
| | By Department | | | |
| | Inpatient | Outpatient | Emergency Room | Total Charges |
| 2002: | | | | |
| Charges | \$698,488 | \$177,053 | \$282,996 | \$1,158,537 |
| Cases/Visits | 35 | 301 | 346 | |
| 2001: | | | | |
| Charges | \$499,701 | \$141,256 | \$152,350 | \$793,307 |
| Cases/Visits | 32 | 435 | 201 | |
| 2000: | | | | |
| Charges | \$241,343 | \$164,077 | \$140,907 | \$546,327 |
| Cases/Visits | 35 | 404 | 216 | |
| 1999: | | | | |
| Charges | \$1,228,835 | \$405,602 | \$241,648 | \$1,876,085 |
| Cases/Visits | 47 | 443 | 252 | |
| 1998: | | | | |
| Charges | \$670,824 | \$114,439 | \$237,497 | \$1,022,760 |
| Cases/Visits | 50 | 162 | 280 | |
| Source: St. Francis Medical Center | | | | |

Community Benefit Services

In response to California Senate Bill 697 requirements to assess community needs and develop a community benefit plan, SFMC completed community benefit plans or updates for fiscal years 2002, 2001, 2000 and 1999. The Community Benefit Plans reflected priorities determined from the Santa Barbara County Department of Health's 1999 Community Health Assessment Survey and the Community Health Assessment Task Force, which is comprised of area community organizations' representatives. The priorities, for improvement identified were:

- Access to health care
- Dental care
- Health insurance
- Lifestyle practices and health education
- Mental health counseling

The Community Benefit Plans report a number of programs and activities with an economic value of over \$10,000 per year including the following:

- Parish Nursing Program – SFMC's Congregational Healthcare/Parish Nursing Program is a health care ministry which provides physical, emotional and spiritual care for individuals and families served by local faith communities. The stated goal is "to empower men, women and children to seek health in mind, body and spirit by expanding their knowledge about whole-person wellness, assisting to identify methods of disease prevention and increasing access to health resources." Parish nurses provide counseling, services and education at homeless shelters, local parishes, homes and other sites. Screenings, health fairs volunteer training, and other services are also provided on an outreach basis to the community.
- Liberty Program – SFMC sponsors a program whereby people with anti-social or gang tattoos undergo laser treatments to remove their tattoos and begin a new lifestyle. The program includes educational components on anger management, conflict resolution and decision making skills.¹
- Sponsorships – SFMC sponsors nursing education to assist with nursing instructor salaries, student church rotations and other community programs. In FY 2002 the St. Francis Hospital Foundation donated \$50,000 to the Santa Barbara City College Nursing Program.¹
- Low Cost Mammography – low cost mammograms are provided to asymptomatic women.

¹ The St. Francis Hospital Foundation reimbursed SFMC for the costs incurred.

- Adult and Pediatric CPR Classes – low cost adult and pediatric heart saver classes are provided for the general public and professional health care providers.¹
- Direct Relief International – Donations of medical supplies and equipment to Direct Relief International.¹
- Health Information Line – SFMC provided health information by telephone on health topics.
- Room Usage – SFMC provides meeting space for community organizations free of charge.¹
- Student Education Programs – educational training for physical therapy, nursing and radiology students.¹
- Student Loans for RN/LVN Programs – loans were given to student nurses and forgiven after working at SFMC for one year.
- Van Transportation – patient transportation provided for the community to outpatient services. The van was designed to aid seniors and the disabled.¹
- Arthritis Hot Pool Program – SFMC rehabilitation staff provide classes three times per week for people suffering from arthritis.
- Bus Pass Distribution – Provides bus passes to employees at discounted rates.

¹ The St. Francis Hospital Foundation reimbursed SFMC for the costs incurred.

| Community Benefit Program/Service | FY 2002 | FY 2001 | FY 2000 | FY 1999 |
|---|------------------|------------------|--------------------|------------------|
| Parish Nursing Program | | | | |
| • Health Education | \$125,011 | \$142,382 | \$206,101 | \$13,819 |
| • Support Services | \$67,935 | \$71,899 | \$100,086 | — |
| • Volunteer Training | \$24,110 | \$25,599 | \$36,571 | — |
| • Health Fairs | \$22,200 | \$14,298 | \$66,853 | \$12,530 |
| • Outreach | \$16,888 | \$17,022 | \$30,586 | \$253 |
| Room Usage | \$206,260 | \$13,439 | \$31,992 | \$12,896 |
| Liberty Program | \$109,481 | \$20,511 | \$64,248 | \$13,914 |
| Sponsorships | \$58,091 | \$11,986 | \$39,084 | \$17,098 |
| Low Cost Mammography | \$43,811 | \$74,032 | \$76,306 | \$1,193 |
| Adult and Pediatric CPR Classes | \$20,804 | \$3,505 | \$2,667 | \$3,366 |
| Health Information Line | — | \$5,861 | \$23,460 | \$5,586 |
| Student Education Programs | \$20,598 | \$11,798 | \$149,067 | \$37,716 |
| Van Transportation | — | \$24,399 | \$43,071 | \$48,044 |
| Student Loans for RN/LVN Program | \$16,800 | \$7,946 | \$3,826 | \$4,885 |
| Bus Pass Distribution | \$13,457 | \$5,913 | \$6,648 | \$5,931 |
| Recycling | — | — | \$11,670 | \$15,243 |
| Arthritis Hot Pool Program | \$11,543 | \$7,334 | \$8,122 | \$7,919 |
| Direct Relief International: Supplies and Equipment | — | — | \$82,995 | \$30,061 |
| Miscellaneous Programs Less than \$10,000 per year each | \$33,288 | \$14,556 | \$110,551 | \$103,308 |
| Total: | \$790,277 | \$472,480 | \$1,093,904 | \$331,762 |
| Source: SFMC Community Benefit Plans | | | | |

Cost of Services

The cost of services for both inpatients and outpatients was calculated for the past five years. In fiscal year 2002 more than half of the cost of services was for Medicare patients. The cost of services to Medi-Cal patients was approximately 4.0% of all hospital costs or a total of \$1,278,712. Patients from third party payers had the second highest amount of cost at \$12,397,446.

| SFMC COST OF SERVICES - BY PAYER CATEGORY | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|
| | FY 2002 | FY 2001 | FY 2000 | FY 1999 | FY 1998 |
| Operating Expenses | \$32,269,782 | \$31,143,049 | \$30,550,978 | \$27,366,010 | \$25,757,325 |
| Cost of Services By Category | | | | | |
| Medicare | \$16,745,176 | \$17,484,753 | \$15,290,096 | \$11,954,051 | \$10,452,892 |
| Medi-Cal | \$1,278,712 | \$1,106,289 | \$1,285,182 | \$1,019,949 | \$1,156,899 |
| County Indigent | \$182,319 | \$202,707 | \$142,065 | \$151,225 | \$144,430 |
| Third Party | \$12,397,446 | \$10,765,206 | \$12,309,058 | \$12,706,401 | \$12,619,227 |
| Other | \$1,666,129 | \$1,584,094 | \$1,524,577 | \$1,534,385 | \$1,383,878 |

Source: OSHPD Disclosure Reports, SFMC's fiscal years ends 6/30.

Financial Profile

| SFMC Financial and Ratio Analysis | | | | | | |
|---------------------------------------|-------------------|--------------|--------------|--------------|--------------|-------|
| | 2002 | 2001 | 2000 | 1999 | 1998 | |
| Patient Days | 15,028 | 17,161 | 17,417 | 16,173 | 13,690 | |
| In patient Discharges | 2,667 | 3,297 | 3,250 | 3,046 | 2,934 | |
| Average Length of Stay (ALOS) in days | 5.6 | 5.2 | 5.4 | 5.3 | 4.7 | |
| Net Operating Revenue | \$28,730,515 | \$27,794,643 | \$27,211,053 | \$26,254,409 | \$25,125,146 | |
| Operating Expense | \$32,269,782 | \$31,143,049 | \$30,550,978 | \$27,366,010 | \$25,757,325 | |
| Net from Operations | -\$3,539,267 | -\$3,348,406 | -\$3,339,925 | -\$1,111,601 | -\$632,179 | |
| Net Non-Operating Rev. | -\$50,843 | -\$822,026 | \$648,821 | \$2,883,743 | -\$5,725 | |
| Net Income | -\$3,590,110 | -\$4,170,432 | -\$2,691,104 | \$1,772,142 | -\$637,904 | |
| | California Median | | | | | |
| Current Ratio | 1.57 | 1.16 | 1.26 | 1.75 | 2.10 | 2.15 |
| Days in A/R | 57.8 | 76.5 | 61.4 | 70.0 | 76.8 | 63.3 |
| Bad Debt Rate | 5.2% | 1.1% | 3.0% | 1.2% | 1.4% | 1.1% |
| Operating Margin | 4.3% | -12.3% | -12.1% | -13.0% | -4.2% | -2.5% |

Source: OSHPD Disclosure Reports (fiscal years ending 6/30)

SFMC has lost approximately \$12 million on operations during the past five fiscal years. The current ratio (current assets divided by current debts) has dropped each of the previous four years. At the end of FY 2002 it was 1.16. The current ratio reflects SFMC's ability to cover debts that are due and payable. This ratio has been declining and is well below the California average of 1.57, reflecting less ability to cover debts.

SFMC has been losing significant amounts over the last three years with a negative operating margin of 12 to 13 percent. Days in accounts receivable have risen to 76.5 days which is nearly 20 days higher than the California average.

Profile of Cottage Health System

Cottage Health System, a non-profit public benefit corporation, was formed in 1996 as the parent organization of Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and Santa Ynez Valley Cottage Hospital. Cottage Health System's Mission and Vision statements are as follows:

Mission Statement

The Mission of Cottage Health System is to provide the highest standard of healthcare services through a commitment to continuous improvements in quality, safety, patient satisfaction, health education, research, efficiency and community health.

Vision Statement

Cottage Health System, while maintaining independent, community-based hospitals, will be the leader in providing a broad spectrum of healthcare services to residents of the South Coast and beyond. By utilizing the latest advances in medical research and technology with the highest level of personal patient care, it will be the health system of choice. The Cottage Health System will provide leadership to establish mutually supportive relationships among health professionals and organizations to achieve the most comprehensive, safe and effective continuum of care.

The Chairman of the Board for CHS has said that SFMC "has served the community for many years, and shares a non-profit mission similar to Cottage's. We do believe that combining services at locations throughout the greater Santa Barbara area we can continue and enhance that mission. Moreover, by stemming the financial losses at St. Francis, we can safeguard community resources, and at the same time examine alternative uses for the facility which could benefit the community."

Santa Barbara Cottage Hospital is a 436 bed acute teaching facility that was founded in 1888. It is known for its comprehensive maternal-child and pediatric services, cardiac, neurosurgical, and oncology programs, emergency services and Level II trauma center and psychiatric and chemical dependency services. It offers residency programs in internal medicine, general surgery and radiology.

Goleta Valley Cottage Hospital was founded in 1966 to serve the growing community of Goleta. It is licensed for 122 acute care beds. The hospital joined Cottage Health System in 1996. Services include emergency care, obstetrics, a breast care center and an occupational health center.

Santa Ynez Valley Cottage Hospital was founded in 1964 and has 22 beds. It offers 24-hour emergency services and outpatient surgery. The Hospital became affiliated with CHS in 1995.

The following table provides summary statistics on each of the three hospitals for calendar year 2001.

| Profile of Cottage Hospitals 2001 | | | |
|--|----------------------------------|--------------------------------------|--|
| | Santa Barbara Cottage | Goleta Valley Cottage | Santa Ynez Valley Cottage |
| Patient Days | 77,343 | 16,578 | 869 |
| Inpatient Discharges | 18,158 | 1,630 | 316 |
| ALOS (days) | 4.26 | 10.2 | 2.8 |
| Licensed Beds | 436 | 122 | 22 |
| Average Daily Census | 211.9 | 45.4 | 2.4 |
| Occupancy | 48.6% | 37.2% | 10.8% |
| Outpatient Visits | 135,798 | 37,654 | 26,502 |
| Inpatient Surgeries | 6,820 | 721 | 11 |
| Outpatient Surgeries | 751 | 990 | 150 |
| ER Visits | 30,328 | 14,200 | 5,715 |
| Net Operating Revenue | \$196,373,277 | \$23,240,786 | \$5,266,151 |
| Operating Expense | \$179,682,572 | \$24,182,354 | \$5,471,063 |
| Net from Operations | \$16,690,705 | -\$941,568 | -\$204,912 |
| Net Non Operating Revenue | \$1,163,167 | \$220,610 | \$390,981 |
| Net Income | \$17,853,872 | -\$720,958 | \$186,069 |
| Source: OSHPD Disclosure Reports | | | |

The following table provides the amount of charity care reported to OSHPD by CHS hospitals:

| Cottage Hospitals Charity Comparison | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| SANTA BARBARA COTTAGE | \$6,157,072 | \$6,154,456 | \$7,627,211 | \$5,822,103 | \$6,033,215 |
| GOLETA VALLEY COTTAGE | \$510,391 | \$519,962 | \$696,884 | \$273,890 | \$285,731 |
| SANTA YNEZ VALLEY COTTAGE | \$179,026 | \$149,866 | \$149,501 | \$198,436 | \$58,286 |
| TOTAL | \$6,846,489 | \$6,824,284 | \$8,473,596 | \$6,294,429 | \$6,377,232 |
| Source: OSHPD Website (files: HAFD_YEAR_PROFILE) | | | | | |

HEALTHCARE SERVICE AREA DESCRIPTION

Service Area Definition

A standard service area definition is normally those ZIP codes from which a hospital receives 80% of its discharges. Approximately 78% of St. Francis Medical Center's inpatient discharges are from the 12 ZIP code service area. This represents a large geographical area, although the majority of the discharges are from the city of Santa Barbara.

SFMC only has 20.3% market share in their home ZIP code (93103). Although they received 112 discharges from the Lompoc ZIP of 93436, this is only a 2.3% market share of that ZIP code. Although the Lompoc ZIP is included in the service area definition, SFMC does not draw many general acute care patients from beyond a 10 mile radius.

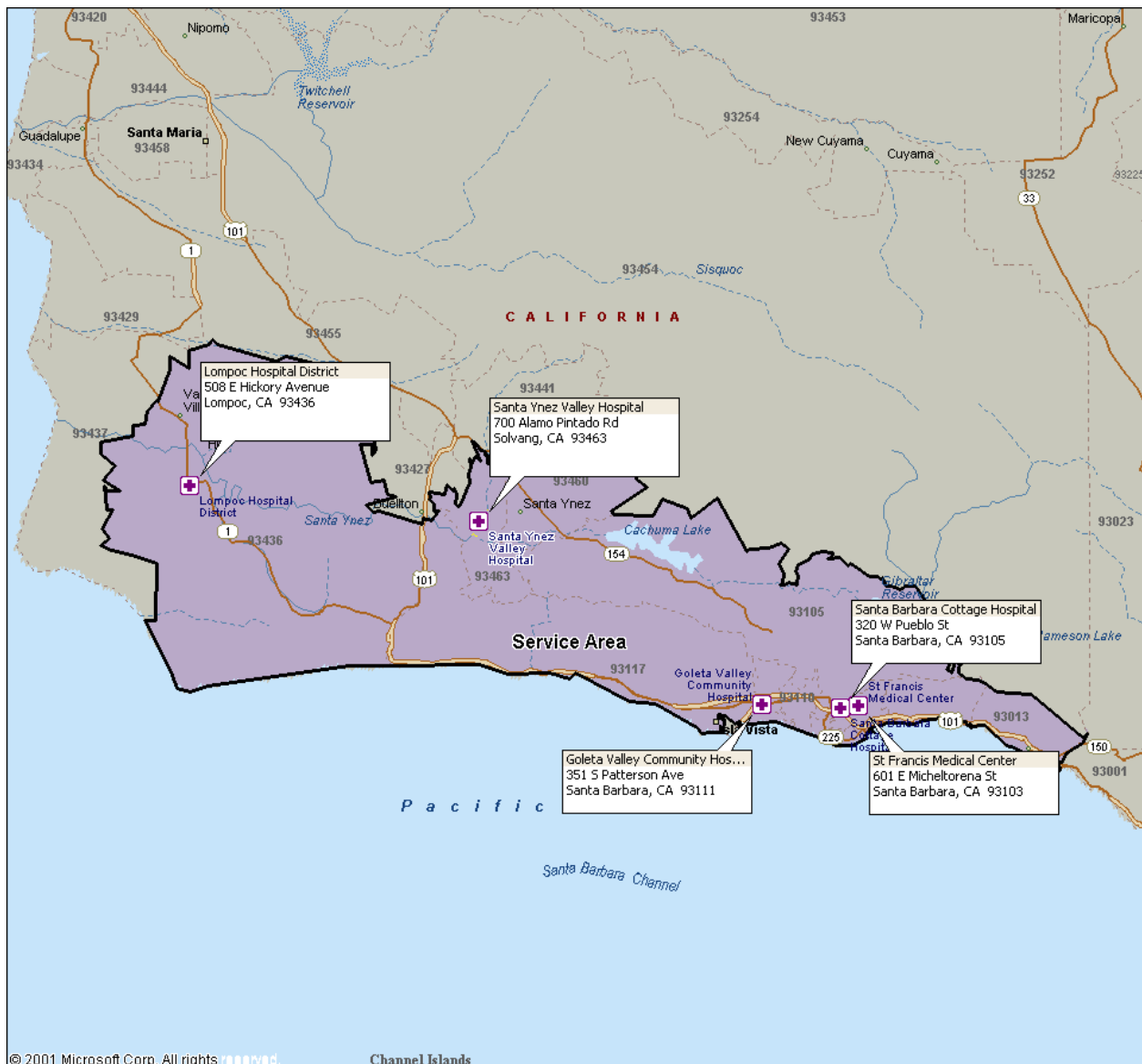
| St. Francis Medical Center | | | | | | |
|--|---------------|-----------------|----------------|---------------------------|---------------------------|----------------|
| Service Area Patient Origin, Market Share - 2001 | | | | | | |
| ZIP | Community | SFMC Discharges | Patient Origin | Cumulative Patient Origin | Total Discharges From ZIP | SFMC Mkt Share |
| 93101 | Santa Barbara | 363 | 12.6% | 12.6% | 2,923 | 12.4% |
| 93103 | Santa Barbara | 363 | 12.6% | 25.3% | 1,786 | 20.3% |
| 93105 | Santa Barbara | 305 | 10.6% | 35.9% | 2,605 | 11.7% |
| 93108 | Santa Barbara | 213 | 7.4% | 43.3% | 1,133 | 18.8% |
| 93117 | Goleta | 195 | 6.8% | 50.1% | 2,761 | 7.1% |
| 93013 | Carpinteria | 165 | 5.7% | 55.9% | 1,408 | 11.7% |
| 93110 | Santa Barbara | 139 | 4.8% | 60.7% | 1,456 | 9.5% |
| 93109 | Santa Barbara | 133 | 4.6% | 65.3% | 883 | 15.1% |
| 93111 | Santa Barbara | 117 | 4.1% | 69.4% | 1,354 | 8.6% |
| 93436 | Lompoc | 112 | 3.9% | 73.3% | 4,811 | 2.3% |
| 93463 | Solvang | 83 | 2.9% | 76.2% | 741 | 11.2% |
| 93460 | Santa Ynez | 49 | 1.7% | 77.9% | 536 | 9.1% |
| ALL OTHER | | 634 | 22.1% | | | |
| TOTAL DISCHARGES | | 2,871 | 100.0% | | | |

Source: OSHPD, 2001 (excludes normal newborn DRG 391)

Service Area Map

Although the map shows a larger geographic area, the majority of SFMC's patients come from the city of Santa Barbara.

The service area map shows five hospitals within the service area, two of which are in excess of 25 miles from SFMC. It is a large geographic area due to the inclusion of the Lompoc and Solvang ZIP codes.



Area hospitals are shown on the table below. The table reflects those hospitals that are either within 35 miles of SFMC, are in the service area or have a material market share position in the SFMC service area.

This table indicates that once beyond the Santa Barbara city limits, “area” hospitals are long travel distances from SFMC. UCLA is 88 miles from SFMC, but had 277 cases (1.2% market share) from the SFMC service area. This is likely due to UCLA’s provision of tertiary services. Marian Medical Center, similarly, is 74 miles from SFMC but had 232 discharges from the SFMC service area.

| Area Hospitals | | | | | | |
|--------------------------------|---------------------------|---------------|------------------|---------|-----------|-----------------------|
| Facility | Affiliation/ Ownership | City | Licensed Beds | Days | Occupancy | Miles from SFMC |
| ST FRANCIS MEDICAL CENTER | CHW | Santa Barbara | 85 | 15,028 | 48.4% | - |
| SANTA BARBARA COTTAGE | CHS | Santa Barbara | 436 | 77,343 | 48.6% | 1.2 |
| SANTA BARBARA CNTY - PHF | SB County | Santa Barbara | 16 | 5,421 | 92.8% | 5.5 |
| GOLETA VALLEY COTTAGE | CHS | Santa Barbara | 122 | 16,578 | 37.2% | 6.1 |
| OJAI VALLEY COMMUNITY HOSPITAL | Independent/NFP | Ojai | 110 | 26,156 | 65.1% | 24.8 |
| SANTA YNEZ VALLEY COTTAGE | CHS | Solvang | 22 | 869 | 10.8% | 26.9 |
| COMMUNITY MEMORIAL HOSPITAL | Independent/NFP | Ventura | 240 | 57,910 | 66.1% | 31.2 |
| VENTURA COUNTY MEDICAL CENTER | Ventura County | Ventura | 223 | 45,769 | 56.2% | 31.5 |
| LOMPOC HEALTHCARE DISTRICT | District | Lompoc | 170 | 46,453 | 74.9% | 53.8 |
| MARIAN MEDICAL CENTER | CHS | Santa Maria | 227 | 68,184 | 82.3% | 74 |
| UCLA MEDICAL CENTER | UC | Los Angeles | 670 | 167,171 | 68.4% | 88 |

Source: OSHPD Disclosure Reports (most recent closed fiscal year), OSHPD Website File: AURH_2001_PROFILE), NFP = not-for-profit.

SFMC has most of the basic services that are available at non tertiary community hospitals. Other hospitals in the area and region have a similar or greater complement of services available. The only unique services at SFMC are the gero-psychiatric program and the swimming pool for arthritic patients.

| Service Comparison | | | | | | | |
|--|---------------------------|--------------------------------|--------------------------------|----------------------------|---------------------|----------------------------|--|
| Program/Service | ST FRANCIS MEDICAL CENTER | SANTA BARBARA COTTAGE HOSPITAL | GOLETA VALLEY COTTAGE HOSPITAL | LOMPOC HEALTHCARE DISTRICT | UCLA MEDICAL CENTER | SANTA BARBARA COUNTY - PHF | MARIAN MEDICAL CENTER SNATA YNEZ VALLEY COTTAGE |
| Adult Day Care Program | | | | | | | |
| Alcohol-Drug Abuse or Dependency Inpatient | | √ | | | | | |
| Angioplasty | √ | √ | | | √ | | √ |
| Birthing Room-LDR Room-LDRP Room | | | √ | | √ | | √ |
| Breast Cancer Screening-Mammography | | √ | √ | √ | √ | | √ |
| Burn Care Services | | | | | | | |
| Cardiac Catheterization Laboratory | √ | √ | | | √ | | √ |
| Emergency Department | √ | √ | √ | √ | √ | | √ |
| Extracorporeal Shock Wave Lithotripter (ESWL) | | √ | | √ | √ | | |
| Hemodialysis | | | | √ | | | √ |
| HIV-AIDS Services | | | | √ | | | √ |
| Home Health | | | | | √ | | √ |
| Magnetic Resonance Imaging (MRI) | √ | √ | | √ | √ | | √ |
| Medical Surgical Intensive Care Services | √ | √ | | √ | √ | | |
| Neonatal Intensive Care Services | | √ | | | √ | | |
| Obstetrics Services | | √ | √ | √ | √ | | √ |
| Occupational Health Services | √ | √ | | | √ | | √ |
| Oncology Services | | √ | | | √ | | √ |
| Open Heart Surgery | | √ | | | √ | | √ |
| Outpatient Surgery | √ | √ | √ | | √ | | √ |
| Pain Management | | √ | | √ | | | √ |
| Pediatric Intensive Care Services | | √ | | | √ | | |
| Physical Rehabilitation Inpatient Services | | | | | √ | | |
| Physical Rehabilitation Outpatient Services | √ | √ | | √ | √ | | √ |
| Positron emission tomography scanner (PET) | | √ | | | √ | | |
| Psychiatric Care | √ | √ | | √ | | √ | |
| Radiation Therapy | | | | | √ | | |
| Single Photon Emiss. Computerized Tomog. | | | | | √ | | |
| Skilled Nursing | √ | √ | | √ | √ | | √ |
| Transplant Services | | | | | √ | | |
| Trauma Center (Certified) | | | √ | √ | √ | | √ |
| Source: American Hospital Association Guide - 2002/2003, Individual Disclosure Reports | | | | | | | |

Demographic Profile

The Service Area Demographics Population table indicates that there are 274,366 people in the SFMC service area. The population is projected to grow by 6.1% over the next five years. Slightly more than 50% of the population is female.

| Service Area Demographics 2002 & 2007 | | | |
|--|-------------|-------------|-----------------|
| | 2002 | 2007 | % Change |
| Population | | | |
| Total Population | 274,366 | 291,028 | 6.1% |
| Households | 98,606 | 104,048 | 5.5% |
| Ave Household Size | 2.78 | 2.80 | 0.5% |
| % Female Population | 50.2% | 50.2% | 0.0% |
| Source: Claritas | | | |

The average age of the service area population is 35.1 years and is projected to increase slightly in the next five years. The proportion of the population of females in the “birthing category” (age 15 to 44) is projected to decline significantly, dropping from 22.6% of the population in 2002 to 21.8% of the population in 2007. The percentage of the pediatric population (age 0-14) is also projected to decline, while seniors are projected to maintain the same proportion to the total population (12.9%).

| Service Area Demographics 2002 & 2007 | | | |
|--|-------------|-------------|-----------------|
| | 2002 | 2007 | % Change |
| Age Distribution | | | |
| Age 0-14 | 18.2% | 17.6% | -3.3% |
| Age 15-64 | 68.9% | 69.5% | 0.9% |
| Age 65 + | 12.9% | 12.9% | 0.0% |
| Female 15 - 44 | 22.6% | 21.8% | -3.2% |
| Average Age | 35.1 | 35.7 | 1.7% |
| Source: Claritas | | | |

The service area has a very high percentage of Whites, which is expected to decline as a percentage of the total population. The percentages of the Hispanic and Asian population are both growing.

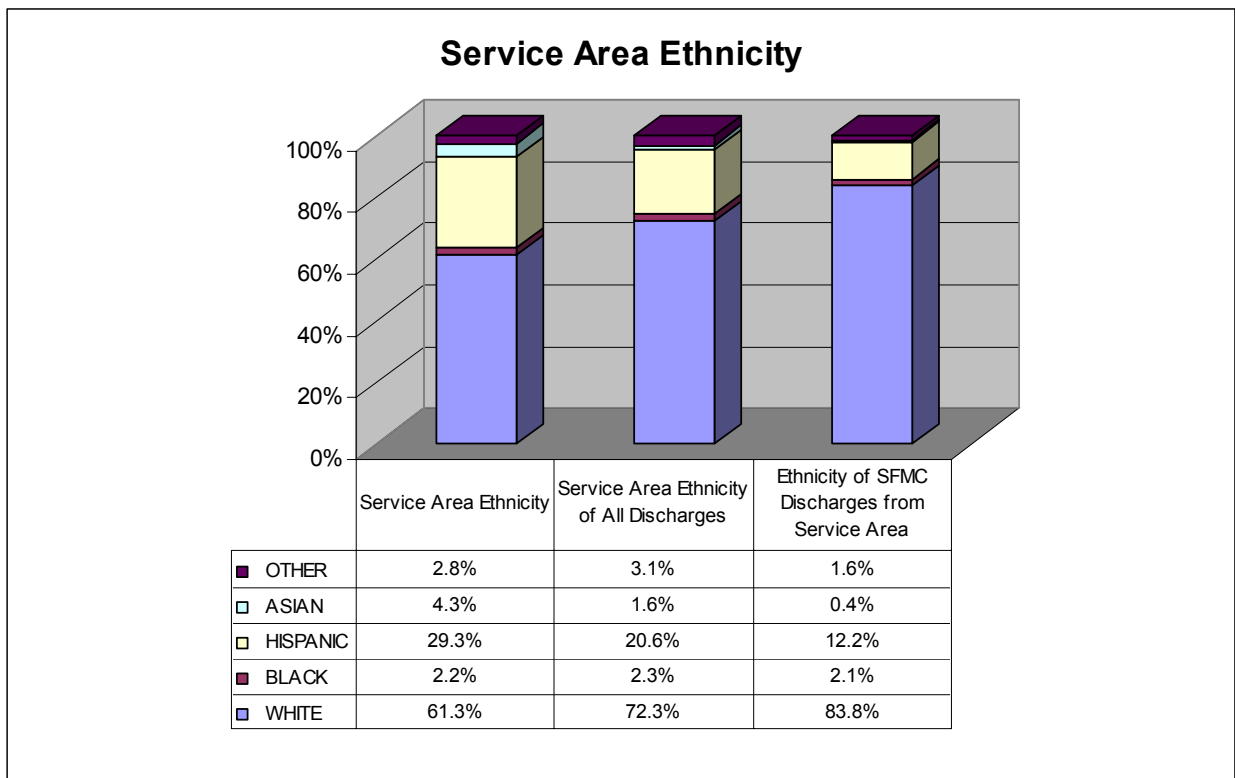
| Service Area Demographics 2002 & 2007 | | | |
|--|-------------|-------------|-----------------|
| | 2002 | 2007 | % Change |
| Ethnicity Distribution | | | |
| WHITE | 61.3% | 58.8% | -4.1% |
| BLACK | 2.2% | 2.2% | -0.7% |
| HISPANIC | 29.3% | 31.3% | 6.6% |
| ASIAN | 4.3% | 4.6% | 6.8% |
| OTHER | 2.8% | 3.1% | 10.3% |
| Source: Claritas | | | |

The average household income (aggregate household income divided by total households) is \$77,970 and is projected to grow by nearly 16% in the next five years. The wealthiest categories \$75,000 and above are all expected to grow. The household income which is projected to grow the most substantially is the over \$150,000 category. In 2007 it is projected that over 26% of the households in the service area will earn more than \$100,000 annually.

| Service Area Demographics 2002 & 2007 | | | |
|--|-------------|-------------|-----------------|
| | 2002 | 2007 | % Change |
| Household Income Distribution | | | |
| \$0 - 14,999 | 9.8% | 7.4% | -24.5% |
| \$15,000 - 24,999 | 10.1% | 8.7% | -13.6% |
| \$25,000 - 34,999 | 10.7% | 9.6% | -10.2% |
| \$35,000 - 49,999 | 15.3% | 14.4% | -5.7% |
| \$50,000 - 74,999 | 20.5% | 19.9% | -3.0% |
| \$75,000 - 99,999 | 13.0% | 13.6% | 4.3% |
| \$100,000 - 149,999 | 11.7% | 13.8% | 17.1% |
| \$150,000 + | 8.8% | 12.6% | 43.0% |
| Average HH Income | \$77,970 | \$90,390 | 15.9% |
| Source: Claritas | | | |

The service area ethnicity bar chart indicates the ethnicity of the entire population of approximately 275,000 in the service area (from 2002 Claritas study), the ethnicity of all inpatient discharges from the service area (2001 OSHPD Patient Discharge Study) and the SFMC discharges (2001 OSHPD Patient Discharge Study) from within the service area.

St. Francis Medical Center has a higher proportion of White patients (83.8%) than are represented by the service area discharge figures (72.3%). The Hospital receives proportionately fewer patients in each of the other demographic categories. SFMC has significantly less Hispanic patients since 20.6% of all discharges from the service area are Hispanic, and SFMC has only 12.2% of its volume from this ethnic group.



Selected Health Indicators²

The California Department of Health Services reports the following regarding Santa Barbara County's Health status for 2002.

Infant Mortality: The infant mortality rate has declined. However, of concern is the Hispanic infant mortality rate which remains significantly higher than the average for all races.

| NATALITY STATISTICS 2002 | | | |
|--|----------------------|------------|---------------|
| | Santa Barbara County | California | National Goal |
| Low Birth Weight Infants | 5.7% | 6.2% | 5.0% |
| Late or no Prenatal Care | 21.3% | 15.5% | 10.0% |
| Birth Rate to Adolescents (per 1,000 population) | 43.3 | 47.7 | N/E |
| Infant Mortality Rate (per 1,000 births) | 4.6 | 5.7 | 4.5 |

Live Births to teenage mothers have continued to decrease. The majority of teen births are to mothers of Hispanic ethnicity.

Deaths: Chronic diseases are the main cause of death with heart disease and cancer accounting for almost half the mortality. Diabetes is a common chronic disease occurring in 4.6% of the population.

| MORTALITY STATISTICS, 2000 | | | |
|-----------------------------|----------------------|------------|---------------|
| Rate per 100,000 Population | | | |
| Selected Cause | Santa Barbara County | California | National Goal |
| Cancer | 163.3 | 176.1 | 159.9 |
| Heart Disease | 159.1 | 194.3 | 166.0 |
| Cerebrovascular Disease | 61.3 | 61.2 | 48.0 |
| Unintentional Injuries | 31.7 | 27.2 | 17.5 |
| Diabetes | 16.0 | 20.7 | N/A |
| Suicide | 10.8 | 9.5 | 5.0 |
| Drug-Related Deaths | 9.3 | 8.4 | 1.0 |
| All Causes | 709.2 | 760.0 | N/E |

² California Department of Health Services, The State of Health Insurance in California, UCLA Center for Health Policy Research

Communicable Diseases: Chlamydia is the most frequently reported disease in the county and although the rate has increased, it remains below the California rate. The rates of incidence of AIDS and TB have declined and are below the state rate.

| MORBIDITY STATISTICS, 2000 | | | |
|--|-----------------------------|-------------------|----------------------|
| Incidence Rate per 100,000 Population | | | |
| Health Status Indicator | Santa Barbara County | California | National Goal |
| Hepatitis C | .16 | .55 | 1.0 |
| AIDS | 5.73 | 8.43 | 1.0 |
| Tuberculosis | 5.99 | 8.35 | 1.0 |
| Chlamydia | 203.69 | 217.0 | N/A |

Access to healthcare and health insurance is a problem, with approximately 70,000 uninsured children and adults residing in Santa Barbara County.

- Approximately 20.8% of the non elderly are uninsured in Santa Barbara County compared to 15.2% in California.
- Approximately 15.2% of the non elderly in Santa Barbara County are covered by Medi-Cal or Healthy Families.

The table below shows the distribution of Medi-Cal eligibles in the SFMC service area.

| St. Francis Medical Center Service Area Medi-Cal Eligibles | | | | |
|---|---------------|---------------------------|------------------------------|------------------------------|
| ZIP | City | Medi-Cal Eligibles | Total Population 2002 | Percent of Population |
| 93013 | Carpinteria | 1,369 | 17,327 | 7.9% |
| 93101 | Santa Barbara | 4,680 | 32,406 | 14.4% |
| 93103 | Santa Barbara | 3,337 | 21,443 | 15.6% |
| 93105 | Santa Barbara | 1,061 | 27,362 | 3.9% |
| 93108 | Santa Barbara | 127 | 12,842 | 1.0% |
| 93109 | Santa Barbara | 448 | 11,383 | 3.9% |
| 93110 | Santa Barbara | 797 | 15,269 | 5.2% |
| 93111 | Santa Barbara | 838 | 17,343 | 4.8% |
| 93117 | Goleta | 2,627 | 51,477 | 5.1% |
| 93436 | Lompoc | 9,651 | 53,438 | 18.1% |
| 93460 | Santa Ynez | 329 | 5,727 | 5.7% |
| 93463 | Solvang | 265 | 8,349 | 3.2% |
| TOTAL | | 25,529 | 274,366 | 9.3% |

Sources: DHS Website (as of Apr. 2002), Claritas

Hospital Supply, Demand and Market Share

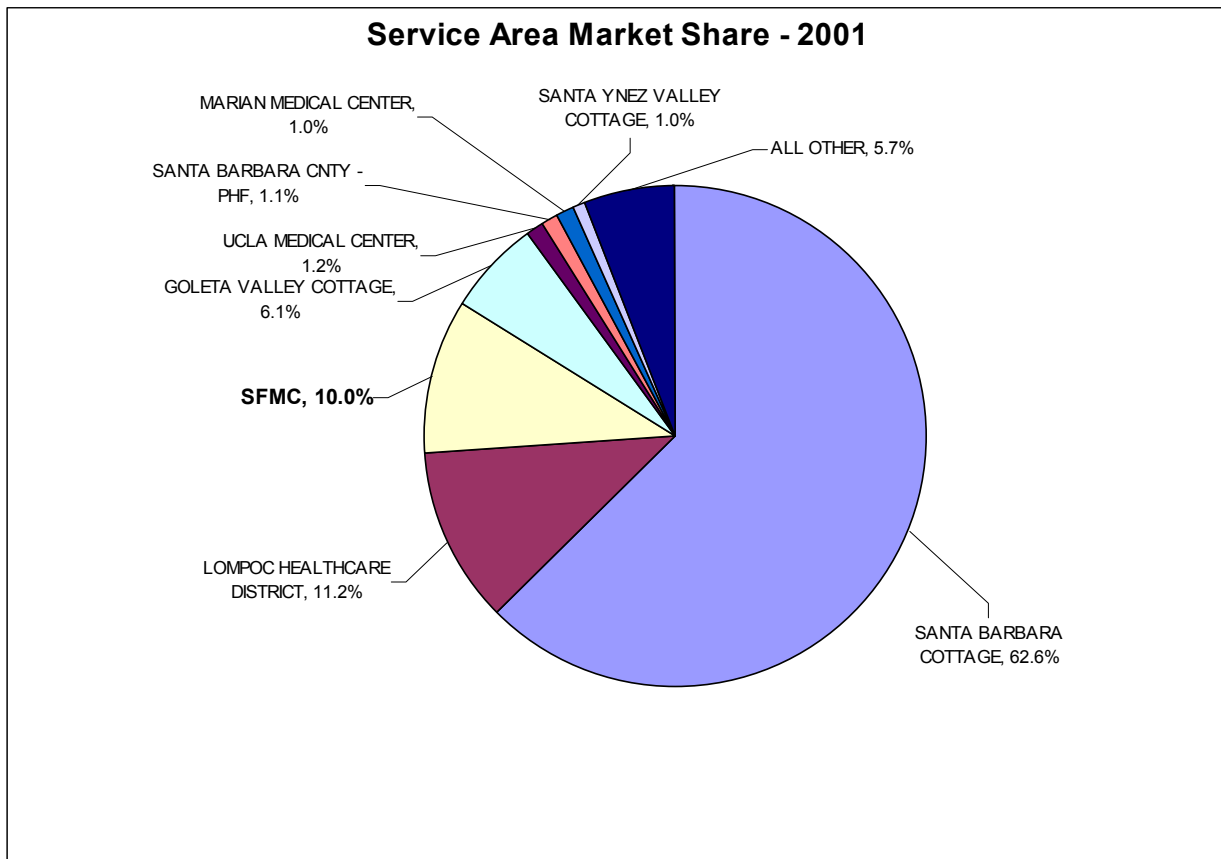
There are five general acute care hospitals within SFMC's service area. Two hospitals, Santa Ynez Valley Cottage Hospital and Lompoc Healthcare District, are over 25 miles from SFMC.

The following pages analyze SFMC's services as well as the service capacity of local hospitals. The hospitals that are within close proximity of SFMC are Santa Barbara Cottage Hospital (1 mile from SFMC) and Goleta Valley Cottage Hospital (6 miles from SFMC). These two hospitals were the primary facilities analyzed for service capacity and their ability to absorb patients after the closure of SFMC.

In 2001 there were 22,397 total inpatient discharges from the SFMC service area. Santa Barbara Cottage Hospital was the overwhelming market leader with 62.6% market share. Lompoc Healthcare District had 11.2% of the market, although 2,462 of their 2,504 service area discharges came from the 93436 (Lompoc) ZIP code. SFMC had 10.0% market share and Goleta Valley Cottage Hospital captured 6.1% market share.

| Service Area Market Share - 2001 | | |
|----------------------------------|--------------|--------------|
| Facility | Discharges | Market Share |
| SANTA BARBARA COTTAGE | 14,025 | 62.6% |
| LOMPOC HEALTHCARE DISTRICT | 2,504 | 11.2% |
| SFMC | 2,237 | 10.0% |
| GOLETA VALLEY COTTAGE | 1,372 | 6.1% |
| UCLA MEDICAL CENTER | 277 | 1.2% |
| SANTA BARBARA CNTY - PHF | 250 | 1.1% |
| MARIAN MEDICAL CENTER | 232 | 1.0% |
| SANTA YNEZ VALLEY COTTAGE | 224 | 1.0% |
| ALL OTHER | 1,276 | 5.7% |
| TOTAL | 22,397 | 100.0% |

Source: OSHPD Patient Discharge Study, 2001



SFMC was not the market leader in any service line. As compared to St. Francis Medical Center's overall market share of 10.0%, SFMC only had a strong market position in the orthopedic areas. SFMC had a 33% market share position in the orthopedic medical service line and 16.6% market share in the orthopedic surgery service line. SFMC had a strong market share in gynecology medical, ENT surgery, and plastic surgery but there was not material volume in those service lines. Santa Barbara Cottage Hospital is the market share leader in every service line.

| Market Share by Service Line - 2001 | | | | | | | | | | | | |
|-------------------------------------|------------------------|-----------------------|----------------------------|-----------------------|-----------------------|-------|----------------------------|---------------------------|---------------|----------------------|-----------|------------------|
| Service Line | ST FRANCIS MEDICAL CTR | SANTA BARBARA COTTAGE | LOMPOC HEALTHCARE DISTRICT | GOLETA VALLEY COTTAGE | MARIAN MEDICAL CENTER | UCLA | SANTA BARBARA COUNTY - PHF | SANTA YNEZ VALLEY COTTAGE | VISTA DEL MAR | CEDARS-SINAI MED CTR | ALL OTHER | TOTAL DISCHARGES |
| DISCHARGES | 2,237 | 15,908 | 2,824 | 1,621 | 291 | 277 | 250 | 224 | 166 | 91 | 1,038 | 24,927 |
| BURN | 0.0% | 80.0% | 5.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 15.0% | 20 |
| CHEMOTHERAPY | 0.0% | 84.4% | 0.0% | 0.0% | 0.0% | 0.8% | 0.0% | 0.0% | 0.0% | 0.0% | 14.8% | 122 |
| COMPLICATED DELIVERY | 0.0% | 77.5% | 9.3% | 8.7% | 3.4% | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.9% | 816 |
| HIGH-RISK NEWBORNS | 0.0% | 77.2% | 15.8% | 2.7% | 1.9% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% | 1.9% | 368 |
| CARDIOVASCULAR MEDICAL | 9.1% | 66.9% | 11.8% | 4.6% | 0.4% | 0.9% | 0.0% | 2.1% | 0.0% | 0.3% | 4.0% | 3,164 |
| GENITOURINARY MEDICAL | 10.5% | 54.3% | 16.7% | 8.6% | 1.1% | 0.5% | 0.0% | 3.2% | 0.0% | 0.5% | 4.6% | 372 |
| GYNECOLOGY MEDICAL | 14.3% | 52.4% | 14.3% | 14.3% | 0.0% | 4.8% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 21 |
| NERVOUS SYSTEM MEDICAL | 11.5% | 65.5% | 6.7% | 7.2% | 0.6% | 0.6% | 0.0% | 1.3% | 0.0% | 0.2% | 6.5% | 539 |
| OTHER MEDICAL | 23.1% | 52.1% | 11.1% | 7.0% | 0.6% | 1.0% | 0.0% | 1.4% | 0.0% | 0.5% | 3.3% | 1,230 |
| RESPIRATORY MEDICAL | 12.4% | 50.6% | 18.7% | 9.6% | 0.6% | 0.3% | 0.0% | 3.7% | 0.0% | 0.1% | 4.0% | 1,216 |
| GI/ENDOCRINE MEDICAL | 10.0% | 60.5% | 15.5% | 6.4% | 1.0% | 1.1% | 0.0% | 2.1% | 0.0% | 0.2% | 3.3% | 1,841 |
| ORTHOPEDIC MEDICAL | 33.1% | 46.3% | 6.8% | 5.3% | 1.0% | 0.0% | 0.0% | 1.4% | 0.0% | 0.0% | 6.2% | 514 |
| NEOPLASIA/ONCOLOGY | 8.8% | 67.6% | 6.3% | 3.5% | 1.5% | 3.5% | 0.0% | 0.9% | 0.0% | 0.8% | 6.9% | 648 |
| DELIVERIES (NORMAL) | 0.0% | 69.4% | 18.4% | 9.2% | 2.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.8% | 2,116 |
| NEWBORN (NORMAL) | 0.0% | 72.0% | 14.9% | 9.8% | 2.6% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.7% | 2,739 |
| OBSTETRICS OTHER | 1.6% | 79.3% | 11.4% | 4.7% | 1.6% | 0.5% | 0.0% | 0.0% | 0.0% | 0.0% | 1.0% | 193 |
| PEDIATRICS | 0.0% | 66.6% | 28.0% | 0.3% | 0.5% | 1.7% | 0.0% | 0.7% | 0.0% | 0.2% | 2.0% | 599 |
| PLASTIC SURGERY | 27.0% | 48.7% | 9.6% | 3.5% | 0.0% | 3.5% | 0.0% | 0.0% | 0.0% | 0.0% | 7.8% | 115 |
| PSYCHIATRY | 12.0% | 41.5% | 0.9% | 0.3% | 0.0% | 0.1% | 17.7% | 0.3% | 13.0% | 0.5% | 13.6% | 1,188 |
| REHABILITATION | 0.6% | 91.3% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.9% | 0.0% | 0.6% | 6.6% | 333 |
| SUBSTANCE ABUSE | 4.8% | 67.7% | 2.4% | 0.9% | 0.0% | 0.0% | 11.7% | 0.3% | 3.3% | 0.3% | 8.7% | 334 |
| CARDIOVASCULAR SURGERY | 6.3% | 82.3% | 2.8% | 0.7% | 1.2% | 2.5% | 0.0% | 0.0% | 0.0% | 1.3% | 2.8% | 824 |
| ENT SURGERY | 26.9% | 37.8% | 14.1% | 1.3% | 0.0% | 10.3% | 0.0% | 0.0% | 0.0% | 0.6% | 9.0% | 156 |
| GASTROINTESTINAL SURGERY | 12.6% | 64.2% | 10.9% | 6.2% | 0.6% | 1.7% | 0.0% | 0.4% | 0.0% | 0.4% | 2.9% | 1,362 |
| GENITOURINARY SURGERY | 13.8% | 70.3% | 3.4% | 4.0% | 0.4% | 3.6% | 0.0% | 1.1% | 0.0% | 1.9% | 1.5% | 471 |
| GYNECOLOGY SURGERY | 7.8% | 62.3% | 11.1% | 9.5% | 3.1% | 1.5% | 0.0% | 0.0% | 0.0% | 1.0% | 3.7% | 676 |
| NERVOUS SYSTEM SURGERY | 3.0% | 64.8% | 0.0% | 1.5% | 0.5% | 12.1% | 0.0% | 0.0% | 0.0% | 3.0% | 15.1% | 199 |
| OPHTHALMOLOGY SURGERY | 0.0% | 50.0% | 33.3% | 0.0% | 0.0% | 16.7% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 6 |
| OTHER SURGERY | 11.8% | 57.3% | 7.0% | 4.2% | 0.3% | 8.4% | 0.0% | 0.0% | 0.0% | 3.1% | 7.9% | 356 |
| ORTHOPEDIC SURGERY | 16.6% | 57.1% | 6.5% | 12.1% | 1.0% | 0.8% | 0.0% | 0.0% | 0.0% | 0.1% | 5.7% | 2,134 |
| ALL OTHER | 8.1% | 66.8% | 9.8% | 5.5% | 0.4% | 1.7% | 0.4% | 0.4% | 0.0% | 0.0% | 6.8% | 255 |

General Acute Care

The Santa Barbara service area has a large excess of licensed general acute care beds. SFMC had a general acute care census of approximately 18 acute patients or 37.7% occupancy. This includes the ICU. Both Santa Barbara Cottage and Goleta Valley Cottage have excess capacity. Only 48% of Santa Barbara Cottage Hospital's 375 licensed acute beds and only 22% of Goleta Valley Cottage Hospital's 67 licensed acute beds were occupied on average. Despite these low occupancy figures, CHS reports that periodic shortages of available medical/surgical beds occur at Santa Barbara Cottage Hospital sometimes causing additional waiting times in the emergency department. Santa Barbara Cottage Hospital has plans in place to mediate these occurrences by converting 41 TCU beds to approximately 25 medical/surgical beds.

| General Acute Services | | | | |
|---------------------------|------------|--------------|---------------|-----------|
| Facility | Discharges | Patient Days | Licensed Beds | |
| | | | Number | Occupancy |
| ST FRANCIS MEDICAL CENTER | 2,032 | 6,602 | 48 | 37.7% |
| SANTA BARBARA COTTAGE | 16,529 | 65,799 | 375 | 48.1% |
| GOLETA VALLEY COTTAGE | 1,593 | 5,244 | 67 | 21.4% |
| TOTAL | 20,154 | 77,645 | 490 | 43.4% |

Source: OSHPD Disclosure Reports (Cottage Facilities FY 12/31/01, SFMC FY 6/30/02).

Intensive Care

The Santa Barbara service area has a large excess of licensed ICU/CCU beds. SFMC had a census of only 2.5 patients in the ICU in 2002. Santa Barbara Cottage Hospital can easily absorb the volume of patients within their ICU/CCU. Santa Barbara Cottage Hospital has 40 beds with approximately 16 beds of excess capacity. Goleta Valley Cottage Hospital has approximately 8 beds of excess capacity in their ICU.

| Adult ICU/CCU Services | | | |
|-------------------------------|----------------------|-----------------|------------------|
| FACILITY | Licensed Beds | Pt. Days | Occupancy |
| ST FRANCIS MEDICAL CENTER | 8 | 900 | 30.8% |
| SANTA BARBARA COTTAGE | 40 | 7,934 | 54.3% |
| GOLETA VALLEY COTTAGE | 11 | 957 | 23.8% |
| TOTAL | 59 | 9,791 | 45.5% |

Source: OSHPD Disclosure Reports (Cottage Facilities FY 12/31/01, SFMC FY 6/30/02).

Emergency Services

In 2002 approximately 65% of the SFMC emergency room visits were from the city of Santa Barbara. In comparison, 58% of acute inpatient discharges were from Santa Barbara. This indicates that emergency department users are generally more local than the inpatients. Over 40% of the ED patients came from the two closest ZIP codes.

| SFMC Patient Origin | | | | |
|---------------------------------|------------------|-------------|----------------|---------------------------|
| Emergency Room Visits - CY 2002 | | | | |
| ZIP | Community | SFMC Visits | Patient Origin | Cumulative Patient Origin |
| 93101 | Santa Barbara | 1,772 | 21.2% | 21.2% |
| 93103 | Santa Barbara | 1,685 | 20.1% | 41.3% |
| 93105 | Santa Barbara | 626 | 7.5% | 48.8% |
| 93013 | Carpinteria | 589 | 7.0% | 55.9% |
| 93108 | Santa Barbara | 547 | 6.5% | 62.4% |
| 93117 | Goleta | 315 | 3.8% | 66.2% |
| 93109 | Santa Barbara | 295 | 3.5% | 69.7% |
| 93110 | Santa Barbara | 281 | 3.4% | 73.1% |
| 93111 | Santa Barbara | 161 | 1.9% | 75.0% |
| 93001 | Ventura | 66 | 0.8% | 75.8% |
| 93436 | Lompoc | 64 | 0.8% | 76.5% |
| 93067 | Summerland | 59 | 0.7% | 77.2% |
| 93140 | Santa Barbara PO | 48 | 0.6% | 77.8% |
| 93003 | Ventura | 47 | 0.6% | 78.4% |
| 93102 | Santa Barbara PO | 45 | 0.5% | 78.9% |
| 93030 | Oxnard | 42 | 0.5% | 79.4% |
| 93120 | Santa Barbara PO | 36 | 0.4% | 79.8% |
| 93130 | Santa Barbara PO | 28 | 0.3% | 80.2% |
| ALL OTHER | | 1,658 | 19.8% | |
| TOTAL DISCHARGES | | 8,364 | 100.0% | |

Source: SFMC

Approximately 3,200 of SFMC’s emergency visits are urgent or critical (32%), while slightly more than 6,700 are non-urgent visits (68%) that could also be treated in an urgent care center or physician’s office. SFMC, Santa Barbara Cottage Hospital and Goleta Valley Cottage Hospital all have basic emergency services. Santa Barbara Cottage Hospital has a Trauma II designation and has about 69% of patient visits being urgent or critical. SFMC is a base station and does receive life threatening or complex cases periodically. The County EMS has a policy of transporting patients to the closest facility as appropriate. Medical direction is provided by physicians at the ED to ambulances regarding the transportation of patients. This EMS approach means that a formal “diversion” policy is not required and “diversions” are not tracked. SFMC is not licensed for trauma. It has an EDAP designation (Emergency Department Approved for Pediatrics) as does Santa Barbara Cottage Hospital.

| EMERGENCY SERVICES – VISITS BY CATEGORY 2001 | | | | | | | | |
|---|----------|-----------|---------------|---------------|---------------|--------------|--------------|------------------|
| Hospital | ER Level | Stations | Total | Non Urgent | Urgent | Critical | Admitted | Distance to SFMC |
| St. Francis Medical Center | BASIC | 8 | 9,908 | 6,737 | 2,477 | 694 | 1,352 | - |
| Santa Barbara Cottage Hospital | BASIC | 17 | 30,328 | 9,482 | 18,735 | 2,111 | 5,860 | 1.2 |
| Goleta Valley Cottage Hospital | BASIC | 8 | 14,200 | 3,276 | 8,249 | 2,675 | 752 | 6.1 |
| TOTAL | | 33 | 54,436 | 19,495 | 29,461 | 5,480 | 7,964 | |

Sources: OSHPD (based on calendar year, website file: aurb_2001_profile); Mapquest.com

There is enough excess capacity between Santa Barbara Cottage Hospital and Goleta Valley Cottage Hospital to absorb the 9,908 visits that SFMC handled in 2001. Calculating capacity at 2,000 visits per station per year, Santa Barbara Cottage Hospital had about 3,672 visits of remaining capacity and Goleta Valley Cottage Hospital had 1,800 visits of remaining capacity. Santa Barbara Cottage Hospital, however, is expanding, adding another 6 emergency department stations that will provide estimated additional capacity for 12,000 visits.

| LOCAL EMERGENCY ROOM CAPACITY 2001 | | | | | | | |
|---------------------------------------|---------------|-------|-----------|-----------------------------------|-----------------------------|--------------------------|------------------|
| Hospital | Total Visits | Level | Stations | Approximate Capacity (Visits) (1) | Remaining Capacity (Visits) | Transports Received 2002 | Distance to SFMC |
| St. Francis Medical Center | 9,908 | BASIC | 8 | 16,000 | 6,092 | 1,239 | - |
| Santa Barbara Cottage Hospital | 30,328 | BASIC | 17 | 34,000 | 3,672 | 4,202 | 1.2 |
| Goleta Valley Cottage Hospital | 14,200 | BASIC | 8 | 16,000 | 1,800 | 402 | 6.1 |
| TOTAL | 54,436 | | 33 | 66,000 | 11,564 | | |

(1) Estimated at 2,000 per station

Sources: OSHPD (based on calendar year, website file: aurb_2001_profile)

Skilled Nursing/TCU

The St. Francis Medical Center skilled nursing services are operated as a step down transitional care unit (TCU). The TCU primarily serves the medical/surgical patients during the last days of their acute stay. As a result of reimbursement and efficiency issues, many hospitals statewide have decided to downsize or eliminate their TCU services. Goleta Valley Cottage has a TCU unit, but it is not operational. Santa Barbara Cottage had a 41 bed TCU, but it was only occupied at 30% of capacity. Santa Barbara Cottage Hospital stated that they were going to convert the TCU to medical/surgical beds (approximately 25).

Rather than operate a TCU, many hospitals, such as Santa Barbara Cottage Hospital, are extending the patient's acute stay, as needed, and then discharging the patient to a traditional skilled nursing facility (SNF). This method of treatment is taking the place of the use of the hospital-based TCU for the later days of the patient's hospital stay.

There is sufficient capacity to absorb SFMC's patients between CHS and the eight licensed nursing homes within the city of Santa Barbara. SFMC has a census of 13 patients in its 23 skilled nursing/TCU beds. The area facilities listed below have an estimated 164 beds of available capacity to accommodate these patients.

| Nursing Homes - City of Santa Barbara | | | | |
|--|-----------------|-------------|---------------------|------------------|
| 2001 | | | | |
| Facility | Category | Beds | Patient days | Occupancy |
| HILLSIDE HOUSE | ICF | 59 | 21,077 | 97.9% |
| MISSION TERACE | SNF | 138 | 39,488 | 78.4% |
| SMARKAND CONVALESCENT HOSPITAL | SNF | 63 | 10,595 | 60.9% |
| SANTA BARBARA CONVALESCENT HOSPITAL | SNF | 61 | 18,949 | 85.1% |
| VALLE VERDE HEALTH FACILITY | SNF/RES | 80 | 22,715 | 77.8% |
| VISTA DEL MONTE | SNF/RES | 29 | 8,874 | 83.8% |
| BUENA VISTA CARE CENTER | SNF | 150 | 52,184 | 95.3% |
| LA CUMBRE SENIOR LIVING CONCEPTS | SNF | 189 | 46,874 | 67.9% |
| TOTAL | | 769 | 220,756 | 78.6% |
| BED AVAILABILITY | | 164 | | |

Source: OSHPD

Obstetrical Services

SFMC discontinued its Obstetrical Service in December 2000. The table below shows that the community has sufficient available obstetrical capacity.

| Obstetrical Services | | | |
|-----------------------|---------------|--------------|--------------|
| FACILITY | Licensed Beds | Pt. Days | Occupancy |
| SANTA BARBARA COTTAGE | 32 | 7,129 | 61.0% |
| GOLETA VALLEY COTTAGE | 10 | 847 | 23.2% |
| TOTAL | 42 | 7,976 | 52.0% |

Source: OSHPD Disclosure Reports (Cottage facilities fiscal year ending 12/31/01).

Psychiatric Services

St. Francis Medical Center’s psychiatric unit is specific for senior mental health services and has an average census of slightly more than 10 patients. Santa Barbara Cottage Hospital and Santa Barbara County Psychiatric Health Facility (PHF) have psychiatric units, but do not specialize in services for senior mental health patients. St. John’s Regional Medical Center was included in the table below since they are the nearest alternative gero-psychiatric unit. St. John’s which is in Oxnard (approximately 37 miles from SFMC), has an average available capacity for four patients. While this represents little current capacity to absorb SFMC patients, discussions are proceeding with St. John’s, CHW, CHS and the Santa Barbara County Health Department to determine if capacity can be expanded.

| Psychiatric Services - Adult | | | |
|-------------------------------------|----------------------|-----------------|------------------|
| FACILITY | Licensed Beds | Pt. Days | Occupancy |
| ST FRANCIS MEDICAL CENTER | 14 | 3,704 | 72.5% |
| SANTA BARBARA COTTAGE | 20 | 5,847 | 80.1% |
| SANTA BARBARA COUNTY - PHF | 16 | 5,421 | 92.8% |
| ST. JOHN'S REGIONAL MEDICAL CENTER | 22 | 6,352 | 79.1% |
| TOTAL | 72 | 21,324 | 81.1% |

Source: OSHPD Disclosure Reports (based on each hospitals' most recent closed fiscal year).

Approximately 50% of the gero-psychiatric patients are from the city of Santa Barbara. This is lower than the overall acute inpatient patient origin which shows that about 65% of the Hospital's patients come from the city of Santa Barbara. This indicates that the gero-psychiatric program has a wider geographic draw than the Hospital as a whole.

| SFMC Psychiatric Patient Origin - 2001 | | | | |
|---|-----------------|--------------|-------------------|------------------------------|
| ZIP | City | Cases | Pt. Origin | Cumulative Pt. Origin |
| 93101 | Santa Barbara | 37 | 15.4% | |
| 93105 | Santa Barbara | 19 | 7.9% | 23.3% |
| 93103 | Santa Barbara | 18 | 7.5% | 30.8% |
| 93454 | Santa Maria | 17 | 7.1% | 37.9% |
| 93110 | Santa Barbara | 15 | 6.3% | 44.2% |
| 93117 | Goleta | 14 | 5.8% | 50.0% |
| 93436 | Lompoc | 14 | 5.8% | 55.8% |
| 93013 | Carpinteria | 7 | 2.9% | 58.8% |
| 93401 | San Luis Obispo | 7 | 2.9% | 61.7% |
| 93420 | Arroyo Grande | 7 | 2.9% | 64.6% |
| 93446 | Paso Robles | 7 | 2.9% | 67.5% |
| 93455 | Santa Maria | 7 | 2.9% | 70.4% |
| 93111 | Santa Barbara | 6 | 2.5% | 72.9% |
| 93422 | Atascadero | 6 | 2.5% | 75.4% |
| 93109 | Santa Barbara | 5 | 2.1% | 77.5% |
| 93444 | Nipomo | 4 | 1.7% | 79.2% |
| 93463 | Solvang | 4 | 1.7% | 80.8% |
| ALL OTHER | | 46 | | |
| TOTAL | | 240 | | |

Source: OSHPD Patient Discharge Study, DRGs: 425-430, 432.

SUMMARY OF COMMUNITY INTERVIEWS

Interviews were conducted at St. Francis Medical Center, at various community locations and by telephone with numerous community stakeholders as listed in the Appendix. The purpose of the interviews was to determine if area healthcare professionals or community representatives had knowledge regarding potential impacts on healthcare availability or accessibility as a result of the transaction. Major findings from the interviews are summarized below.

Reasons for the Transaction

The Hospital is recognized and respected for its long history in the community, its quality of care, its personalized attention, its mission and its community benefit programs. However, most people believe that SFMC has been struggling to survive for years. Interviewees stated that SFMC has become increasingly financially distressed because of:

- Increased competition from area hospitals and physician owned ambulatory surgical centers.
- Inability to attract and retain physicians and patients at SFMC.
- Lack of capital investment in medical office buildings, equipment, programs and facilities.
- Unfavorable changes to Medicare reimbursement.
- Inefficiencies related to the small size of the hospital and the low volume of patients.
- Requirements to fund seismic improvements estimated to cost over \$20 million.

Almost all those interviewed felt that the closure of SFMC had become inevitable as a result of financial losses over the last five years and the inability to find a purchaser interested in continuing to operate the Hospital.

Acquisition by Cottage Health System

Almost all interviewed were supportive of CHS as the acquiring organization. The transaction is widely supported by Santa Barbara County Health Officials, the Franciscan Sisters of the Sacred Heart, the Mayor, the Chamber of Commerce leadership, the United Way leadership, physicians, and other community members interviewed. The reasons cited for this support include:

- CHS is a local non-profit healthcare organization
- Management and the Board are well respected
- The planned use of the property for workforce and affordable housing is a good idea that can help attract needed healthcare personnel to Santa Barbara.

Impacts of the Transaction/Closure

The sales transaction itself, CHW's sale of the facility to CHS, is not viewed as the reason for the closure. It is widely believed that CHW would close the facility if the sale to CHS were not finalized.

There concerns expressed by those interviewed about the closure of SFMC include the following:

- The closure of the Senior Mental Services Program will create a service gap for frail elderly patients with certain mental health diagnoses. Santa Barbara's population is growing and ageing with some expectation that demand for these services will grow. The County EMS and Alcohol, Drug and Mental Health Services departments are concerned about the absence of appropriate facilities for involuntary holds and treatment. Similarly, operators of skilled nursing and assisted living facilities are concerned about the loss of this resource creating gaps in needed services for their patients and residents.
- It is believed that the closure of the emergency department will cause longer waits in the Emergency Department at Cottage Hospital. Patients could frequently be seen immediately at SFMC, while Cottage may average 2-3 hour waiting times. While these waiting times are still much less than average times in Los Angeles County, the Santa Barbara EMS would like to work with CHS to ensure that the additional expected patient volume does not lead to further delays in care.
- A potential loss of community benefits programs, especially the Parish Nursing and Liberty programs.
- A loss of choice is of some concern to a few physicians that believe with less competition there is less incentive for Hospitals to be responsive to medical staff needs. Some physicians and a health plan representative expressed concern that insurance costs may go up as a result of CHS's ability to negotiate higher rates without competition. Higher hospital rates could lead to higher health insurance rates which may make it more difficult for employers to support insurance plans for employees. Others disagree citing that CHS's large market share and unique tertiary services already provide a strong position for CHS in managed care negotiations.

In general there are few or no concerns about the following:

- Interviewees believed that there are sufficient health care services available and an excess of general acute care beds in Santa Barbara.
- Physicians on the medical staff already have access to other hospitals. Physicians already on the medical staff and in the campus office buildings have options to stay on site or move without particular hardship.
- There is no apparent opposition in the community to the sale or closure.

Stabilization of Community Health Resources

Some interviewees felt that a benefit of the closure of SFMC could be a more stable healthcare environment because resources may be used more efficiently. For example, the utilization and financial performance of Goleta Valley Cottage Hospital might improve with additional volume making it more operationally and financially viable and less likely to close. A closure of Goleta Valley Cottage Hospital would create larger healthcare access and availability problems.

Use of Proceeds

Only a few people were knowledgeable of the issues associated with the use of sales proceeds. Those knowledgeable had strong opinions that the SFMC Foundation should continue with a mission to support community benefit services in the SFMC service area. Some local community members preferred that the net proceeds of the sale go to the Foundation for its support of local community benefit services and not be taken out of the geographic area to Marian Medical Center.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE ACCESSIBILITY AND AVAILABILITY OF HEALTH CARE SERVICES

Emergency Services

St. Francis Medical Center, with 8 emergency beds, had 9,908 emergency department visits in FY 2002. This volume represents a low level of average daily utilization of only 27 patients per day. The emergency department received 1,239 transports by ambulance in calendar year 2002 or 21% of the total area volume of 5,843 transports for the year (Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and SFMC).

While the Santa Barbara County Department of Emergency Medical Services is not concerned about the capacity of CHS (Santa Barbara and Goleta Valley) to absorb the volume of emergency visits, they are interested in working with CHS to see that any difficulties are minimized. Steps that CHS can take to avoid increased patient waiting times or seasonally related capacity issues include:

- Adding ED staff (nurses, physicians, and support personnel)
- Completing expansion projects in the ED and Medical/Surgical inpatient units
- Improving operational processes to expedite patient flow

Cottage Health System stated its intention to reduce ED wait times and has proactively decided to take the steps outlined below:

- Hire additional staff. Three of the emergency physicians from St. Francis have agreed to join the emergency physicians at Cottage Hospital. Discussions are occurring between CHS and St. Francis regarding hiring nursing and other personnel.
- Santa Barbara Cottage Hospital is in the process of expanding from a 17 bed emergency department to 23 beds. Applying industry estimates for emergency room capacity, 23 beds would provide enough for 46,000 annual visits. This is more than enough to handle the 2002 volume of 30,328 visits at College Hospital and the 9,908 at SFMC.
- Bottlenecks sometimes occur in the College Hospital Emergency Department because of the lack of available medical/surgical beds leading to increased patient waiting times. Cottage Hospital is planning to convert its 41 bed transitional care unit to approximately 25 medical/surgical beds. This increase in capacity more than exceeds the extra demand potentially created by the closure of SFMC, which only ran an average daily census of 18 acute care patients in 2002 (includes average of 2 ICU/CCU patients).
- Develop operational improvements enabling an overall reduction in waiting time for emergency department patients. Some of these improvements may involve expedited handling of ambulance transported patients, additional triage resources, creation of a discharge holding area to free beds, a “rapid admission” initiative, etc.

- Because many of SFMC's and Santa Barbara College Hospital's emergency department patients are low acuity, walk-in patients, CHS is considering advertising the availability of emergency services at Goleta Valley Cottage Hospital. These patients may prefer to go to Goleta Valley Cottage Hospital that has capacity and lower waiting times.

Senior Mental Health Services

The psychiatric program for seniors at SFMC has 14 beds available and operated with an average daily census of just over 10 patients in 2002. Admissions have been growing since the program began in 1998, with 295 patients being discharged in 2002. The program at SFMC is unique in that it:

- Focuses on seniors, many of whom are frail and need specialized medical attention.
- Receives patients regionally with approximately 18% coming from outside the service area.
- Is designated by the Santa Barbara County Public Health Department to provide for 72 hour involuntary detention of patients who are a danger to themselves or others (California Welfare and Institutions Code 5150).

The two other facilities with psychiatric services that are available locally are Santa Barbara College Hospital and the Santa Barbara County Psychiatric Facility.

College Hospital has twenty licensed psychiatric beds and runs at 80% occupancy. Its program serves a younger adult psychiatric and chemical dependency population. While it is designated by the County for 5150s (involuntary detention) it is not accepting these types of patients. While Cottage Hospital may be able to absorb some of these patients, the Medical Director for the Senior Mental Health Program at SFMC and others believe that without program and facility modifications, many frail elderly patients could not be appropriately treated there.

The County Department of Public Health also believes that both Cottage Hospital and its own Psychiatric Health Facility (PHF) are not currently appropriate for many of the patients treated at SFMC. While the County has a locked unit for 5150 patients, its patients are younger and some are from the jail, making it more difficult to accept a frail elderly population requiring medical attention. The PHF also has an occupancy rate of 93% on its 16 beds, leaving little room for many additional patients.

While some patients can be accommodated by the County PHF, Cottage Hospital, St. John's Hospital in Oxnard (which has a geropsychiatric service) and perhaps community based outpatient mental health services, it is likely that some patients will not have available alternatives comparable to the services offered at SFMC. Also, without this service available locally to refer to, area skilled nursing and assisted living facilities may be less likely to accept older people with agitated behavior or underlying brain conditions as residents. Cottage Health System has expressed an interest in evaluating steps that could be taken to increase appropriate services, and is working with the County EMS and Mental Health departments, however at this point no decisions have been made.

Reproductive Health Services

Tubal ligations, in-vitro fertilization, and other reproductive health services were not provided at SFMC, therefore the sale and closure of the Hospital will have no short-term effect on the availability or accessibility of these services. Cottage Health System and area ambulatory surgery centers and clinics do provide reproductive health services. In the future, if CHS conducts any healthcare operations on the property, the APA prohibits the performance of abortion and in-vitro fertilization services. This limitation could have an impact on the accessibility and availability of these services at a later date if CHS provided health care services at the SFMC site and was prohibited from offering reproductive health services. Based on the previous findings and decisions of the Attorney General in the Santa Marta Hospital transaction, these prohibitions may be legally improper and unenforceable as part of the APA.

Villa Riviera/Assisted Living

Villa Riviera is an assisted living facility with 20 residents who are on short term leases. Cottage Health System has stated that it has no plans to cease the operations of Villa Riviera, however, if the facility is closed or ceases to operate as an assisted living facility, CHS will use its best efforts to make reasonable accommodations to assist residents to relocate to other comparable facilities or living quarters. Santa Barbara has a growing retirement community and additional assisted living facilities are being built in the area, making it likely that alternative accommodations could be made for the small number of residents at Villa Riviera. While CHS states its intention for “best efforts”, this is not stated as a certain obligation of the APA.

Other Health Care Services

There is adequate capacity in the area to absorb SFMC’s other general acute care services and outpatient services. The average acute care daily census from 2002 of 18 patients can easily be absorbed by Cottage Health System. The average census of 13 patients on the Skilled Nursing/Transitional Care Unit can also be absorbed at CHS and area skilled nursing facilities that collectively have a large available capacity.

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

The Santa Barbara Regional Health Authority (“SBRHA”) administers several publicly funded health care plans serving the residents of Santa Barbara County. Its primary plan, the Santa Barbara Health Initiative (SBHI), began operations September 1, 1983. Under State enabling legislation, SBRHA assumed responsibility for the Medi-Cal program in Santa Barbara County. The program is the oldest Medicaid managed care program of its kind in the country; and has become a demonstration program for other counties and states. Individuals who qualify for Medi-Cal and are residents of Santa Barbara County are automatically inscribed into the SBHI program.

SBRHA is reimbursed on an at-risk basis for arranging and paying for Medi-Cal covered health care benefits. As such, SBRHA is empowered to contract for health services and negotiate rates with providers, administer the program, process claims, and assure access to covered services for

eligible members. Both CHS and SFMC have maintained contracts for services with SBHI. In fact, all Hospitals in the County are currently under contract with SBHI.

While SFMC has contracted with SBHI and has been a provider of care to the medically indigent adult and the other publicly supported healthcare programs under the Public Health Department, they have only provided a small fraction (less than 5%) of the total care in the service area. Neither the Director of the Public Health Department for the County of Santa Barbara nor the Executive Director for SBHI expressed concern about the ability to negotiate and provide care for these populations locally at CHS.

Effects on the Level and Type of Charity Care Historically Provided

CHS proposes to assume additional commitments to charity care in an amount comparable to an average of the three prior full fiscal years of charity care provided at SFMC. This average for 2002, 2001, and 2000 on a cost basis would be \$290,950. If the average were figured on a five year basis, as some prior hospital sales transactions have been, it would be \$389,015 per year. The CHS commitment also does not provide for CPI increases to preserve the future value of provided charity care.

Effects on Community Benefit Programs

St. Francis Medical Center and its Foundation have provided significant amounts of community benefits over the last few years ranging in value, as reported in the Community Benefits Plan, from \$331,762 in fiscal year 1999 to \$1,093,904 in fiscal year 2000. The Parish Nursing Program and the Liberty Program are viewed as the most significant to the community. In fiscal year 2002 they comprised 44% of the total community benefit costs. These programs were paid for by the St. Francis Hospital Foundation which likewise paid for many of the other community benefit services of SFMC. The Foundation currently has approximately \$11.6 million in assets which will remain dedicated to the local community. The Foundation and CHW have expressed a desire to continue to use their funds to support the Parish Nursing and Liberty Programs. However the funds may not be large enough to support the programs to the same degree as the past. CHS has stated its willingness to provide support to these programs for reimbursement comparable to that received by SFMC.

St. Francis Medical Center has also provided annual financial support to Santa Barbara Community College's Associate Degree in Nursing Program. In 2003 and 2002, \$50,000 per year was contributed and in each of the five prior years, \$14,300 was contributed by SFMC. The Hospital was reimbursed by the Foundation for these contributions. According to SFMC administration, CHS's commitment to the college will be increased by any decreases in the amount contributed by SFMC or the Foundation.

While CHW has stated its intention to use the proceeds of the sale of SFMC for improvements at Marian Medical Center, discussions between CHW and the Foundation are continuing about contributing some amount of the sales proceeds to the Foundation to enhance local community benefit funding.

Effects on Staffing and Employee Rights

St. Francis Medical Center had about 400 employees in 2002. Since announcing the intention to close and sell SFMC, CHW has actively worked with CHS to communicate the plans, arrangements, and employment opportunities to SFMC employees. Preparations have included employee meetings and information sessions, job fairs, transition assistance, inquiry telephone lines, severance plans, retention plans, etc. It appears that many employees with high demand health care skills will find placement in the service area. However, some with skills in less demand may find it difficult to secure local employment.

Applicant Proposed Mitigation Measures

At this time the mitigation measures included in the Asset Purchase Agreement relate to those previously described concerning:

- Continued charity care commitments
- Placement of Villa Riviera residents
- Provision of employee transition assistance
- Continuation of current Foundation mission and role in support of local community benefits

Alternatives

If CHS were not purchasing SFMC, Catholic Healthcare West would still continue with closing the facility. In this case CHW would probably sell the property for value after the closure. Comparatively, ownership by CHS, despite the closure:

1. Enables retention of the assets in a local non-profit healthcare organization
2. Provides for continuation of charity care and some community benefits
3. Potentially, provides a mechanism to help support health professional recruitment (e.g. workforce housing)

Value and Uses of the Sale Proceeds

The sale to CHS provides potential benefits to the community because:

- It retains SFMC and related assets and their value within a non-profit, healthcare organization that will use the property for healthcare related purposes.
- Provides sales proceeds to CHW for uses related to improvements at Marian Medical Center.

- May provide additional resources to the Foundation to support community healthcare programs.

If the sale to CHS is not completed and CHW closed the facility and sold it for alternative development purposes, the benefits to the community could change as follows:

- The related assets and value of SFMC would not be retained in a non-profit healthcare organization.
- Depending on the sales price of SFMC and the related assets, CHW may benefit to a greater or lesser degree from the sale. If the sales proceeds were greater, CHW would have additional proceeds to use for the improvements at Marian Medical Center and potentially for community healthcare programs supported by the Foundation. If the sales proceeds were less, less benefit would be derived than from the sale of CHS.
- The use of land would depend on the purchaser's intentions and various local approval processes.

CONCLUSIONS

Due to increasing financial losses, diminishing census, and the cost to make seismic and other expensive capital improvements, CHW determined that it will close and/or sell SFMC. CHS, a non-profit organization was judged to be the most qualified purchaser and provided the highest bid for SFMC. CHS in its due diligence has determined that SFMC can not be operated successfully as a general acute care hospital and that the assets best use would be for workforce and affordable housing. Therefore CHS would, similar to CHW, close SFMC for Hospital services. CHW is working with the support of CHS to close SFMC by June 30, 2003. Because CHW has determined that the closure of SFMC is inevitable under its ownership, and because there were no suitable offers to continue the operation of SFMC, the sale transaction to CHS, by itself, does not negatively impact the accessibility and availability of health care services to the community.

However, there are negative impacts to the accessibility and availability of health care services that result from the closure of SFMC. These impacts relate most specifically to:

1. The potential loss of the Senior Mental Health Services
2. The potential loss of the Parish Nursing, Liberty programs and other community benefit programs
3. The loss of the emergency department and the increase in waiting times that might result particularly at Cottage Hospital Santa Barbara
4. The loss of medical and surgical bed capacity at SFMC and the potential impact of reducing bed availability at Cottage Hospital Santa Barbara
5. The impact of potential increases in hospital rates on insurance cost, affordability and access
6. The loss of EMS training program sponsorship at SFMC

Potential Conditions for Transaction Approval by the Attorney General

The Asset Purchase Agreement does not reflect many commitments that CHS has been willing to consider to mitigate negative impacts to the availability and accessibility of health care services. CHS is actively involved in the process of determining steps that it can take to prevent negative impacts and has already verbally agreed to many of the following proposed mitigation measures and conditions.

Medical Development Specialists recommends the following conditions be considered to mitigate potential negative impacts of the closure of SFMC.

1. Cottage Health System, the Santa Barbara County EMS Agency, and the Santa Barbara County Alcohol, Drug and Mental Health Services Division shall develop a mutually acceptable plan, within the next three months, for the arrangement or provision of care to senior mental health patients in the service area. Solutions to be considered must include the establishment of a Senior Mental Health Service program at Santa Barbara Cottage Hospital or Goleta Valley Cottage Hospital. (CHS has agreed to meet in order to consider these solutions)
2. Cottage Health System, CHW and the St. Francis Hospital Foundation shall develop a mutually agreeable plan for continuation of the Parish Nursing and Liberty Programs (or similar programs of like community benefit) within the next three months.
3. Cottage Health System shall complete their planned expansion to 23 emergency department beds at Santa Barbara Cottage Hospital and maintain a total of at least 31 emergency beds between Goleta Valley Cottage Hospital and Santa Barbara Cottage Hospital for at least 5 years after completion of the transaction. (CHS has agreed to maintain 31 beds)
4. Cottage Health System shall complete their planned conversion of 41 Transitional Care beds at Cottage Hospital to approximately 25 Medical/Surgical beds. (CHS has agreed)
5. Cottage Health System shall work with County Emergency Medical Services to develop mutually agreeable solutions regarding the following:
 - a. The handling of increased radio calls from paramedics
 - b. Establishing and determining the roles of a Paramedic Liaison Nurse
 - c. Increasing the frequency of base station meetings and paramedic skills training days
 - d. Examining methods and developing a plan to improve patient “through put”
 - e. Strengthening CHS’s disaster response program
 - f. Increasing the number of community education classes
 - g. Conducting a public information campaign in conjunction with CHW regarding the closure of SFMC emergency services

CHS has agreed to all of these measures and has started discussions with EMS.

6. Cottage Health System shall modify the charity care commitment to be calculated using the average cost of the previous five years of charity care provided by St. Francis Hospital or \$389,015. The total charity commitment amount including CHS amounts shall be adjusted annually by the consumer price index as published by the US Bureau of Labor Statistics. Shortfalls in charity commitment shall be made up by contributions to non-profit organizations providing healthcare benefits.

7. Cottage Hospital System shall commit to the continued operation of Villa Riviera or bearing the expense of relocation of the residents to an alternative facility that is comparable in cost and services.
8. Based upon the Attorney General's previous decision regarding Santa Marta Hospital and the potential for limitations of future access to reproductive health services, consider a condition that removes the prohibition regarding the restriction on the provision of reproductive health services.
9. CHW shall allocate a proportion of sales proceeds, to be decided, to the St. Francis Hospital Foundation.

Appendices

Appendix I - Interviews

INTERVIEW PARTICIPANTS

| <u>First Name</u> | <u>Last Name</u> | <u>Title</u> |
|-----------------------|------------------|--|
| Sue | Andersen | Chief Financial Officer - SFMC |
| Arthur | Barron | President, St. Francis Hospital Support Corporation, Board Member, St. Francis Hospital Foundation |
| Robyn | Basiago | V.P. Human Resources – SFMC |
| Ron | Biscaro | President, SFMC |
| Marty | Blum | Mayor, City of Santa Barbara |
| Michael | Bordofsky, MD | Medical Director, SFMC TCU |
| Helen | Campbell | Guild Volunteer, SFMC |
| Steve | Cushman | Executive Director, Santa Barbara |
| Paul | Didier | Executive Director, United Way |
| Jeffrey | Fried, MD | Medical Director, SFMC Respiratory/ CCU |
| Roger | Heroux | Director, Public Health Department, Santa Barbara County |
| Eli | Katz, MD | Medical Director, SFMC Senior Mental Health |
| Flo | Hanna | Chief Nurse Executive - SFMC |
| Jeff | Hankoff, MD | Santa Barbara Select IPA |
| Sister Mary Elizabeth | Imler, OSF | Franciscan Sisters of the Sacred Heart |
| Angel | Iscovich, MD | President and Chair, SFMC Foundation |
| David | Lamkin | Executive Director/CEO Santa Barbara Regional Health Authority |
| Nancy | Lapolla | Director, Emergency Medical Services |
| Michael | Merrin, MD | Chief of Staff, SFMC |
| Charles | Nicholson, MD | Medical Director, Santa Barbara County Alcohol, Drug and Mental Health Services |
| Kurt | Ransohoff, MD | Sansum Santa Barbara Medical Foundation Clinic |
| Fran | Rogoff, MSW | Social Worker, SFMC Senior Mental Health |
| Debbie | Romuld, RN | Nurse, SFMC Senior Mental Health |
| Jackie | Spencer | President, SFMC Guild |
| Owen | Stormo, MD | Medical Director, Cottage Hospital Emergency Department |
| David | Tufenkian, MD | Medical Director, SFMC Emergency Department |
| Ron | Werft | President and CEO, Cottage Health System |
| Gary | Wilde | Executive VP and Chief Operating Officer, Cottage Health System |

Appendix II – Charity Care Policies and Procedures

ST. FRANCIS MEDICAL CENTER OF SANTA BARBARA
PATIENT ACCOUNTING
POLICY AND PROCEDURE

SUBJECT: CHARITY CARE

NEW POLICY DATE:
REVISION DATE: 08/97

POLICY: It shall be the policy of the hospital to determine a patient's ability to pay for hospital services at the point of admission or as soon as possible thereafter. The policy of St. Francis Medical Center is to render care to all patients regardless of their ability to pay.

PROCEDURE:

At the point of admission or as soon as possible thereafter, a patient's ability to pay is determined by admitting and/or patient accounting staff. The criteria used at St. Francis Medical Center in determining if a patient is indigent may include, but is not limited to, the following:

Patient's gross income is within the established range for determining the poverty level. This determination is made utilizing Federal Poverty guidelines for Medi-Cal as published in the Federal Register.

Net worth should be considered along with liquidity and non-liquid assets net of liabilities and claims against those assets.

Employment status and capacity for future earnings as compared to ability to meet future obligations.

Other living expenses and financial obligations should be considered in conjunction with the size of the family.

All available resources must first be applied, including Medi-Cal and other third party sources. Only the portion of the patient's bill that is uncollectible due to inability to pay is written off as charity care.

All charity care accounts are referred to the Director of Patient Financial Services for approval, write-off, and reporting to Administration.

Charity Care Guidelines

It is the policy of St. Francis Medical Center of Santa Barbara to make available charity care for eligible persons needing care who are unable to pay for hospital services. You may be eligible for charity care depending upon your income and the size of your family, based upon the following guidelines:

| Family Size* | Annual Income** | | | | | | | |
|------------------------|-----------------|----|------------|----|------------|------------|------------|------------|
| 1 | 7,740 | to | 9,443 | to | 11,146 | to 12,849 | to 14,552 | Over |
| 2 | 10,360 | to | 12,657 | to | 14,954 | to 17,251 | to 19,548 | Over |
| 3 | 12,980 | to | 15,872 | to | 18,764 | to 21,656 | to 24,548 | Over |
| 4 | 15,600 | to | 19,087 | to | 22,574 | to 26,061 | to 29,548 | Over |
| 5 | 18,222 | to | 22,302 | to | 26,389 | to 30,476 | to 34,563 | Over |
| 6 | 20,840 | to | 25,517 | to | 30,194 | to 34,871 | to 39,548 | Over |
| 7 | 23,460 | to | 28,732 | to | 34,004 | to 39,276 | to 44,548 | Over |
| 8 | 26,080 | to | 31,947 | to | 37,814 | to 43,681 | to 49,548 | Over |
| Discount Amount | 100% | | 80% | | 60% | 40% | 20% | -0- |

*
A family member is defined as one who is eligible to be claimed on a Federal Income Tax return, including children under 18 or full-time students to age 24.

**
Income is defined as total receipts before taxes, from all sources, including wages, self-employment income, retirement, public assistance, social security, unemployment income or workmen's compensation, strike benefits, alimony, child support, military allotments, dividends, interest and rent. Income equal to exactly the amounts indicated fall into the preceding discount category.

Appendix III – Owned Real Property

Owned Real Property

1. St. Francis Medical Center located at 601 E. Micheltorena Street, Santa Barbara, California. (Land and buildings owned by St. Francis Medical Center.)
2. Sisters Convent located at 601 East Micheltorena Street, Santa Barbara, California. (Land and building owned by St. Francis Medical Center.)
3. Villa Riviera Convalescent Hospital located at 1621 Grand Avenue, Santa Barbara, California. (Land and building owned by St. Francis Medical Center.)
4. Residential property located at 723 California Street, Santa Barbara, California. (Land and building owned by St. Francis Medical Center.)
5. Residential property located at 727 California Street, Santa Barbara, California. (Land and building owned by St. Francis Medical Center.)
6. Apartment building located at 1601 Grand Avenue, Santa Barbara, California. (Land and building owned by St. Francis Medical Center.)
7. Vacant lot located at 1609 Grand Avenue, Santa Barbara, California. (Land and building owned by St. Francis Medical Center.)
8. Vacant lot located at 1615 Grand Avenue, Santa Barbara, California. (Vacant land owned by St. Francis Medical Center.)
9. Medical Office building located at 533 East Micheltorena Street, Santa Barbara, California. (Fee interest in land is owned by St. Francis Medical Center; Leasehold interest in land is owned by Micheltorena Medical Partners, an unrelated third party; Suites 101, 102 and 204 are owned by St. Francis Hospital Support Corporation.)
10. Medical Office buildings located at 536 East Arrellaga Street, Santa Barbara, California. (Fee interest in land is owned by St. Francis Medical Center; Leasehold interest in land is owned by St. Francis Hospital Support Corporation; Individual office suites are owned by unrelated third parties; and Suites 101, 102, 104, 201 and 203 are owned by St. Francis Hospital Support Corporation.)
11. Proposed MOB site.
12. Parking Lot.