

Effect of Prime Healthcare Services' Acquisition of Sherman Oaks
Hospital & Health Center on the Accessibility and Availability of
Healthcare Services

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

November 29, 2005

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INTRODUCTION AND PURPOSE

Sherman Oaks Health System (“SOHS”), a California non-profit public benefit corporation, has requested the California Attorney General’s consent for the sale of a significant proportion of its assets, including Sherman Oaks Hospital and Health Center (“SOHHC” or the “Hospital”), to Prime A Investments, LLC, a Delaware limited liability company and Prime Healthcare Services II, LLC, a Delaware limited liability company (collectively and individually “Purchaser” or “Prime”).

Sherman Oaks Health System owns and operates a 153-bed acute care hospital located in Sherman Oaks, California and owns all the shares of stock of Sherman Oaks Health System Management Services, Inc., (“SOHSMS”) and Valley Healthcare Partners (“VHP”) both California corporations that provide physician office management services.

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

Medical Development Specialists, Inc. (“MDS”), a healthcare planning and policy consulting firm, was retained to analyze the “health impacts” of this proposed transaction. MDS has prepared this report based upon the following:

- A review of the documents filed with the Attorney General by SOHS dated September 30, 2005, in its request for consent to the transaction.
- Interviews with community members and representatives, SOHS medical staff, SOHS management, SOHS board members, the Chairman and the President of Prime, the Director of the Los Angeles County Emergency Medical Services Agency, representatives of Cal-Mortgage, representatives of other area hospitals, and the Office of the Statewide Health Planning and Development (“OSHPD”).
- An analysis of financial, utilization and service information provided by SOHS management.
- An analysis of area healthcare services using OSHPD data, the findings from the 2005 California Health Interview Survey and other various sources.

BACKGROUND AND DESCRIPTION OF THE TRANSACTION

SOHS owns and operates the Hospital which was founded in 1958. Services offered at the Hospital include emergency, burn care, medical/surgical, geriatric mental health services as well as other inpatient and outpatient services. The Hospital does not have an obstetrical service, pediatric unit or neonatal intensive care unit. SOHS also owns and operates a medical office building which houses various outpatient services.

SOHS also owns a for-profit subsidiary, SOHSMS, which is an inactive corporation, and VHP which is a wholly owned subsidiary of SOHSMS. VHP provides management services to a primary care medical group of eleven physicians on a turnkey basis. Services provided include office space, physician office staffing, billing and collections.

The Sherman Oaks Hospital Foundation (the "Foundation") was created in 2003 as a separate non-profit organization to raise funds for the Hospital's capital projects and expansion. The Foundation's Board consists of about 45 community members including physicians, attorneys, business people and others. The Foundation recently raised approximately \$450,000 and has about \$1 million in current assets. The Foundation is not included in the sale and will continue to operate with a mission to support community healthcare needs independently of the Hospital.

Reasons for the Sale

SOHS's reported net income has been intermittently negative with losses reported in 2001, 2004 and 2005. The losses reported for 2005 were over \$5 million. As SOHS has operated with declining liquidity it has been unable to service existing debt, purchase needed equipment, make capital improvements, or plan for the seismic improvements needed for SB 1953 compliance (variously estimated to be between \$7 and \$18 million depending on the selected facility options).

SOHS's ability to remain financially viable is impacted by the large amount of outstanding debt that resulted when the predecessor entity of SOHS (Triad Healthcare) acquired two hospitals including Sherman Oaks Hospital, from a for-profit entity known as Nu-Med. The acquisition financing of \$166 million, which was insured by the Cal-Mortgage Insurance Division of OSHPD ("Cal-Mortgage") was not supportable by the underlying businesses and Triad filed a chapter 11 bankruptcy in the U.S. Bankruptcy Court in 1994. In 1995, SOHS became the re-vested not-for-profit owner of the two hospitals subject to notes totaling approximately \$134 million which were secured by the two hospitals (SOH and West Valley Hospital). West Valley Hospital was subsequently sold to a real estate developer for \$1.1 million and was closed with the proceeds going to Cal-Mortgage for debt repayment. The remaining underlying bond debt became a general obligation of the State of California pursuant to a refunding transaction that increased the overall debt to approximately \$182 million in 1998. Current outstanding debt is reported by Cal-Mortgage as approximately \$145 million.

Cal-Mortgage and the OSHPD have been working with SOHS for the last several years to develop a debt relief solution to allow SOHS to remain open. However, SOHS has defaulted on the terms of previous interim agreements for a restructured schedule of payments and in 2004

Cal-Mortgage was not prepared to recommend to the OSHPD Director a new proposal for debt forgiveness.

In addition to the burden of debt, SOHS's financial condition worsened as a result of the following:

- Increasing bad debt and charity care.
- California State mandated increases in nurse staffing ratios.
- Increases in the cost of surgical supplies.
- Continuing losses of approximately \$2 million per year from the operation of the physician office management services of VHP.
- Inability to purchase equipment and fund expansions or facility redesigns.
- Lowered reimbursement from workers compensation cases (especially burn center patients).

Because of these circumstances the Board of Directors of SOHS determined that they could not continue as a free standing not-for-profit hospital and would need to find a buyer for the Hospital or face a risk of possible bankruptcy and closure.

The Board retained a consulting firm to find and select a qualified buyer. Based on the Board's analysis of multiple proposals, Prime's offer to acquire substantially all of the assets of SOHS was accepted. The \$17 million purchase price was significantly higher than other offers and is acceptable to OSHPD and Cal-Mortgage. The Board believes that Prime has the capital necessary to ensure the Hospital's survival and expand and improve the services offered at SOHHC. The proceeds from the sale will be paid to the bond trustee to redeem bonds and the remaining indebtedness will continue to be the responsibility of Cal-Mortgage.

Summary of the Acquisition Agreement

The major provisions of the Acquisition Agreement, dated September 21, 2005, include the following:

- Prime will purchase substantially all of the assets of SOHS including the Hospital, Hospital property, property leases, equipment, inventory, supplies, SOHSMS and VHP assets, etc. for \$17 million. Cal-Mortgage will receive the net proceeds.
- Prime will not purchase accounts receivable. Remaining net proceeds from accounts receivable (expected to be around \$1.5 million) will be contributed by SOHS to the Foundation after all activities of SOHS have been concluded.¹

¹ While not stated in the Acquisition Agreement the SOHS Board has adopted a resolution to contribute all remaining net cash, after payment of all SOHS payables and expenses, to the Foundation.

- Prime will not accept Hospital liabilities including the bond indebtedness insured by Cal-Mortgage.
- Prime intends to extend offers of employment to substantially all of current employees of the Hospital at their current level of compensation and with the same benefits.

SHERMAN OAKS HEALTH SYSTEM'S PROGRAMS AND SERVICES

Profile and Key Statistics

SOHHC is a 153-bed general acute care facility located at 4929 Van Nuys Boulevard, Sherman Oaks, California 91403. The physical plant consists of two primary facilities located on 2.7 acres of land as follows:

Main Hospital – consisting of three connected buildings which were built in 1956, 1966 and 1978.

- The original 1956 building is approximately 25,000 square feet and houses the emergency department, surgery and inpatient beds. This building has significant issues related to seismic compliance with costs estimated beyond \$4 million to retrofit.
- The 1966 building is approximately 46,000 square feet and houses the gero-psych program, a medical/surgical unit, radiology and other support services. This building also has significant seismic issues with costs estimated at over \$4 million to retrofit.
- The 1978 building is approximately 35,000 square feet and houses the Grossman Burn Center. The building is expected to meet seismic compliance standards.

Medical Office Building – Located at 4911 Van Nuys Boulevard, this building consists of approximately 29,000 square feet and houses outpatient programs and support services.

SOHHC's 153 beds are licensed as follows:

Unspecified general acute care	66
Coronary care	8
Intensive care	8
Burn	30
Adult psychiatric	19
Skilled Nursing	<u>22</u>
Total:	153

The 22 skilled nursing beds were closed (placed in suspense) as a transitional care unit in October 2005 and are being converted to medical/surgical beds to expand capacity (scheduled for 2006).

Some key statistics about SOHHC are as follows:

SHERMAN OAKS HOSPITAL & HEALTH CENTER KEY STATISTICS	
Inpatient Discharges	5,120
Average Daily Census	78.1
Burn Unit Discharges	394
Gero-Psych Discharges	445
Outpatient Visits	44,092
Emergency Visits	14,876
Partial Hospitalization Program	9,551
Active Physicians on Medical Staff	75
Number of Employees	600
Sources: FY 2005 OSHPD Disclosure Report, SOHHC	

Programs and Services

SOHHC is a community hospital that offers primary and secondary services. It also offers a specialized burn unit for adults and children and a gero-psych program that provides services on a regional basis, other services include:

- 24-hour emergency services
- Medical, surgical and intensive care services
- Respiratory care services
- Obstetrical and gynecological services
- Physical and speech therapy services
- Inpatient and outpatient surgical services
- Diagnostic imaging services (including ultrasound, CT scan, MRI, and nuclear medicine)
- Palliative care services

Programs and Services (Cont.)

- Wound care services
- Pain management
- Psychiatric services (gero-psych and partial hospitalization)
- Pharmacy
- Laboratory services
- Outpatient services

SOHHC does not offer the following services:

- Cardiac catheterization
- Cardiovascular surgery
- Neonatal or pediatric intensive care
- Inpatient rehabilitation unit
- Transplant services
- Complex surgeries – neurosurgery, spine surgery, multi-systemic procedures
- Trauma services (not a designated trauma center)

The following table illustrates volume and capacity trends at SOHHC for fiscal years 2001 through 2005.

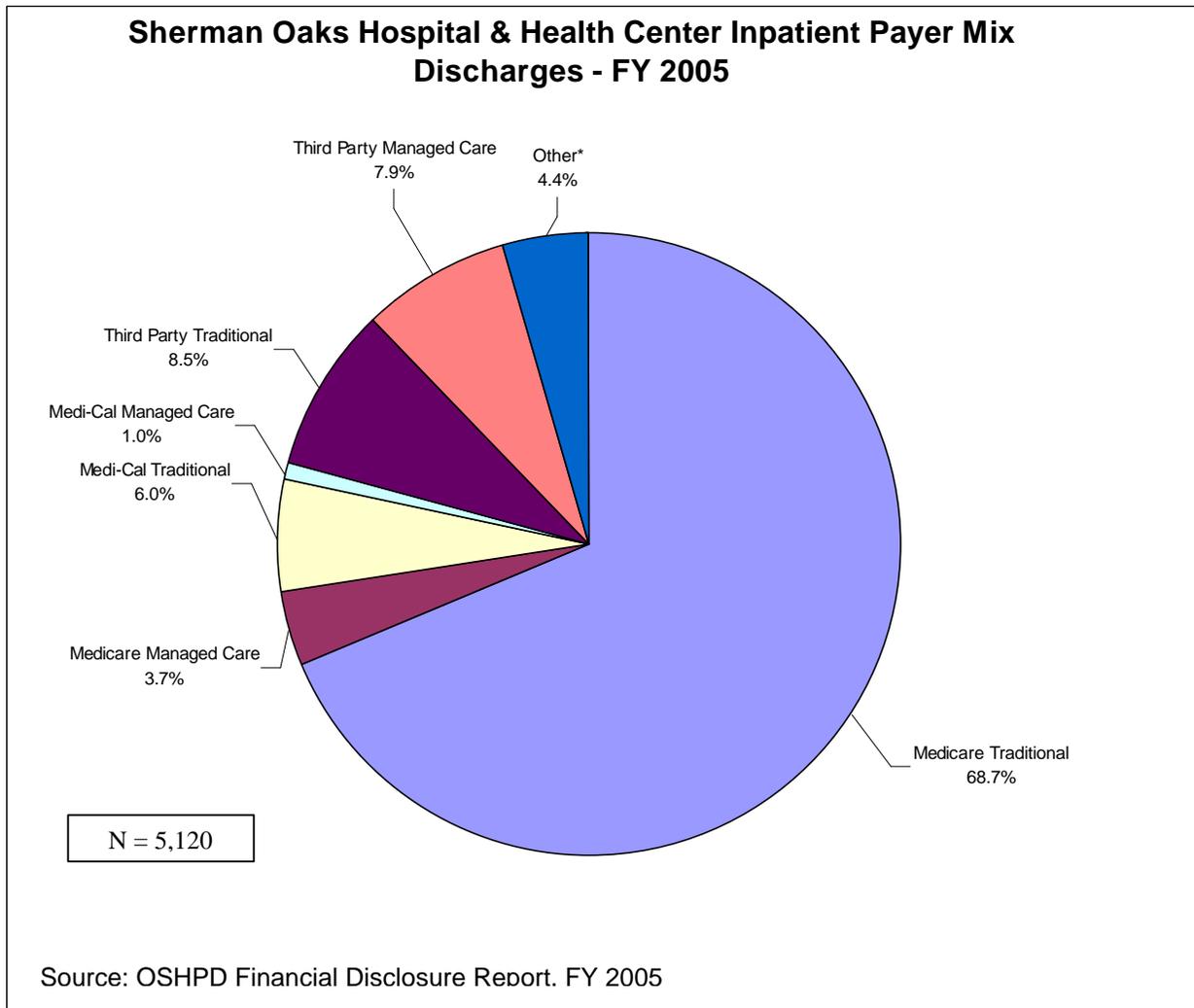
SOHHC - SERVICE VOLUMES					
	2001	2002	2003	2004	2005
PATIENT DAYS					
Medical ICU/CCU	2,717	2,656	3,418	3,993	3,915
Burn	3,150	3,450	3,752	3,456	3,137
Med/Surg	10,817	12,230	13,281	14,036	12,923
Psych Adult	2,929	2,349	3,433	3,385	4,051
Skilled Nursing	5,605	3,985	4,680	4,627	4,481
Total	25,218	24,670	28,564	29,497	28,507
DISCHARGES					
Medical ICU/CCU	341	324	349	366	387
Burn	344	410	468	456	394
Med/Surg	2,656	2,926	3,021	3,351	3,243
Psych Adult	274	297	414	394	445
Skilled Nursing	633	471	590	666	651
Total	4,248	4,428	4,842	5,233	5,120
AVERAGE DAILY CENSUS					
Medical ICU/CCU	7.44	7.28	9.36	10.94	10.73
Burn	8.63	9.45	10.28	9.47	8.59
Med/Surg	29.64	33.51	36.39	38.45	35.41
Psych Adult	8.02	6.44	9.41	9.27	11.10
Skilled Nursing	15.36	10.92	12.82	12.68	12.28
Total	69.09	67.59	78.26	80.81	78.10
OTHER SERVICES					
I/P Surgeries	1,343	1,475	1,636	1,584	1,577
O/P Surgeries	2,127	2,044	2,170	2,468	2,839
ER Visits	12,261	14,462	14,223	14,238	14,876
Sources: OSHPD Disclosure Reports (fiscal years ending 1/31)					
(1) Includes non-admitted ER visits.					

A review of historical utilization trends supports the following conclusions:

- The overall average daily census of 78 in 2005 has been relatively constant for the last three years.
- Discharges and patient days increased from 2001, but stabilized in 2004-2005.
- Burn unit patient days decreased from 2003 to 2005 by 16%.
- While discharges from the ICU grew by only 13%, ICU days have grown 44% from 2001 to 2005.
- Gero-psych discharges have increased 62% from 2001 to 2005.
- Emergency department visits have increased only slightly.
- Both inpatient and outpatient surgeries increased over the five-year period.

Payer Mix

SOHHC serves predominantly older patients with a payer mix that consists of 68.7% traditional Medicare. This is extremely high based on the 2004 State of California average of 29.6%. The Statewide average for third party managed care is 25.2%, while SOHHC is only 7.9% which is very low. The Hospital sees a relatively small percentage of Medi-Cal patients.



* Other includes self-pay, workers' compensation, county indigent, other indigent, other government, and other payers.

Medical Staff

There are 75 “active” physicians on the medical staff. This is a small active medical staff compared to similar sized hospitals in major metropolitan areas. Several key specialties are not represented on the medical staff which seems to mirror the narrow service focus of the Hospital. Only 72% of SOHHC’s active medical staff is board certified which is somewhat low by industry comparisons (normally closer to 85%). This percentage could be low if there are a significant number of younger physicians who have not yet attained Board Certification.

SOHHC ACTIVE MEDICAL STAFF - 2005		
Specialty	Board Certified	Board Eligible
Aerospace Medicine		
Allergy and Immunology		
Anesthesiology	4	2
Cardiovascular Disease		
Forensic Pathology		
Emergency Medicine		
Gastroenterology	3	
General/Family Practice	4	4
General Surgery	3	
Internal Medicine	14	4
Neurological Surgery	2	
Neurology		
OB/Gyn		
Oncology	1	
Oral Surgery		
Ophthalmology	2	
Orthopedic Surgery	5	1
Otolaryngology		1
Pathology	2	
Pediatrics	2	
Podiatry		
Physical Medicine/Rehab		
Plastic Surgery	4	
Psychiatry	4	2
Pulmonary Disease		2
Radiology	2	
Vascular Surgery		3
Urology		
Other	2	2
Total	54	21

Source: OSHPD Disclosure Report, SOHHC

The specialties with the highest number of active physicians include primary care physicians, orthopedic surgeons, anesthesiologists, psychiatrists and plastic surgeons. Specialties that are not represented on the active medical staff are:

- Cardiovascular disease
- OB/Gyn
- Urology
- Cardiovascular surgery
- Allergy
- Neurology

Financial Profile

SOHHC reported a sizeable loss in fiscal year 2005 of over \$5 million. In 2005, operational expenses increased by nearly \$2,500,000 over fiscal year 2004 operating expenses while net operating revenue declined by more than \$2,700,000. The Hospital's operating margin was (-8.3%) which is substantially lower than the average of California hospitals' operating margin of (-1.0%).

SOHHC's current ratio (current assets divided by current debts) is strong at 2.69, as compared to the statewide average of 1.45. The bad debt percentage is low at 0.1% compared to a state average of 1.9%. This seems to be because SOHHC recorded patient charges as charity care that may have more appropriately been recorded as bad debt. Overall, the total percentage of bad debt and charity care at SOHHC is similar but higher than state averages.

SHERMAN OAKS HOSPITAL & HEALTH CENTER FINANCIAL & RATIO ANALYSIS						California Median*
	2001	2002	2003	2004	2005	
Patient Days	25,218	24,670	28,564	29,497	28,507	
Discharges	4,248	4,428	4,842	5,233	5,120	
ALOS	5.9	5.6	5.9	5.6	5.6	
Net Operating Revenue	\$48,957,187	\$52,165,913	\$64,024,236	\$67,696,368	\$64,955,626	
Operating Expense	\$49,424,707	\$51,252,703	\$60,350,808	\$67,895,313	\$70,368,237	
Net from Operations	-\$467,520	\$913,210	\$3,673,428	-\$198,945	-\$5,412,611	
Net Non-Operating Rev.	\$219,084	\$141,305	\$230,259	\$134,641	\$338,449	
Net Income	-\$248,436	\$1,054,515	\$3,903,687	-\$64,304	-\$5,074,162	
Current Ratio	2.18	2.99	3.27	3.10	2.69	1.45
Days in A/R	103.3	60.0	44.1	58.1	58.3	62.0
Bad Debt Rate	0.3%	0.7%	0.3%	0.4%	0.1%	6.7%
Operating Margin	-1.0%	1.8%	5.7%	-0.3%	-8.3%	-1.0%

Sources: *Summary of OSHPD Disclosure Reports, 2004
SOHHC OSHPD Disclosure Reports (fiscal years ending 1/31).

Cost of Services

The operating cost of services by payer category for both inpatient and outpatient was calculated for the past five years. In 2005, 54.4% of all costs were associated with Medicare patients and 32.8% of all costs were for third party payer patients. Medi-Cal comprised a relatively small proportion of overall costs.

SOHHC COST OF SERVICES - BY PAYER CATEGORY					
	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Operating Expenses	\$49,424,707	\$51,252,703	\$60,350,808	\$67,895,313	\$70,368,237
Cost of Services By Category					
Medicare	\$26,407,521	\$27,439,585	\$37,008,795	\$36,830,485	\$38,308,026
Medi-Cal	\$3,049,760	\$2,911,000	\$5,706,278	\$6,551,915	\$5,552,151
Third Party	\$17,418,015	\$18,982,709	\$19,465,466	\$22,061,561	\$23,105,730
Other	\$2,549,411	\$1,919,409	\$2,607,798	\$2,451,352	\$3,402,329

Source: OSHPD Disclosure Reports, SOHHC's fiscal years ends 1/31.

Charity Care

Because different sources of hospital reports of charity care charges often differ, MDS relied on the final OSHPD reports and the OSHPD website which stated the same numbers for five fiscal year periods as follows:

CHARITY CARE - TOTAL CHARGES	
SOHHC - Fiscal Years 2001 to 2005	
	Final OSHPD (1)
2005	\$10,142,734
2004	\$10,151,563
2003	\$5,723,606
2002	\$4,205,837
2001	\$3,048,855

(1) Final as of October 16, 2005. There are no pending revisions submitted to OSHPD.

SOHHC’s most recent charity care charges have significantly increased since FY 2001 and are relatively high as a percentage of gross revenue when compared to California averages (almost double). Charity care charges were \$3,048,855 in 2001 and more than tripled to \$10,151,563 in 2004. The increase may partly be attributed to a change in the treatment of charity care versus bad debt accounting at SOHHC, since as charity care increased bad debt decreased.

The table below shows a comparison of charity care and bad debt for SOHHC and all hospitals in the State of California. The five-year average of charity care and bad debt for SOHHC as a percent of gross patient revenue was 3.4%. The average for the state based upon four years of available data was 3.1%.

CHARITY CARE COMPARISON										
SHERMAN OAKS HOSPITAL & HEALTH CENTER - FY 2001 TO 2005										
	2001		2002		2003		2004		2005	
	SOHHC	State of Calif.								
Gross Pt Revenue	\$127,466,615	\$107,857,181,195	\$186,051,184	\$127,114,241,723	\$238,773,630	\$150,495,549,739	\$257,680,888	\$163,012,900,971	\$258,810,699	Unavail.
Charity	\$3,048,855	\$1,511,642,025	\$4,205,837	\$1,563,404,777	\$5,723,606	\$1,919,126,612	\$10,151,563	\$1,821,474,734	\$10,142,734	Unavail.
Bad Debt	\$333,455	\$2,022,282,978	\$1,371,857	\$2,176,888,212	\$797,476	\$2,575,027,378	\$952,184	\$3,156,424,803	\$200,362	Unavail.
Total	\$3,382,310	\$3,533,925,003	\$5,577,694	\$3,740,292,989	\$6,521,082	\$4,494,153,990	\$11,103,747	\$4,977,899,537	\$10,343,096	Unavail.
Charity as a % of Gross Rev.	2.4%	1.4%	2.3%	1.2%	2.4%	1.3%	3.9%	1.1%	3.9%	Unavail.
Bad Debt as a % of Gross Rev.	0.3%	1.9%	0.7%	1.7%	0.3%	1.7%	0.4%	1.9%	0.1%	Unavail.
Total as a % of Gross Rev.	2.7%	3.3%	3.0%	2.9%	2.7%	3.0%	4.3%	3.1%	4.0%	Unavail.
Uncompensated Care										
Cost to Charge Ratio	38.5%	32.5%	27.4%	30.2%	25.1%	28.1%	26.1%	27.9%	26.8%	Unavail.
Charity	\$1,174,108	\$491,632,949	\$1,150,499	\$471,903,377	\$1,438,559	\$539,998,790	\$2,654,092	\$507,655,680	\$2,722,947	Unavail.
Bad Debt	\$128,413	\$657,709,252	\$375,269	\$657,079,288	\$200,436	\$724,554,420	\$248,945	\$879,714,084	\$53,790	Unavail.
Total	\$1,302,520	\$1,149,342,201	\$1,525,768	\$1,128,982,665	\$1,638,995	\$1,264,553,210	\$2,903,037	\$1,387,369,764	\$2,776,736	Unavail.
Percent of Rev.	1.0%	1.1%	0.8%	0.9%	0.7%	0.8%	1.1%	0.9%	1.1%	Unavail.

Source: OSHPD

The next table shows the charges for charity care adjusted to costs for charity care based upon applying the hospital's ratio of costs to charges for each year. The cost of charity care increased from \$1,174,108 in FY 2001 to \$2,722,947 in FY 2005.

SOHHC COST OF CHARITY CARE				
Year	SOHHC Charity Care Charges (1)	Cost to Charge Ratio	Cost of Charity Care to SOHHC	Percent of Total Costs Represented by Charity Care
FY 2005	\$10,142,734	26.8%	\$2,722,947	3.9%
FY 2004	\$10,151,563	26.1%	\$2,654,092	3.6%
FY 2003	\$5,723,606	25.1%	\$1,438,559	2.2%
FY 2002	\$4,205,837	27.4%	\$1,150,499	2.2%
FY 2001	\$3,048,855	38.5%	\$1,174,108	2.4%

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

SOHHC provided its internal record of charity care charges by department. In 2005, 74.4% of the charges were for inpatients. While the emergency room accounted for just 23.5% of the charges, it represented 79.5% of the patients receiving charity services. A total of 2,571 patients received charity services from SOHHC in FY 2005. The dollars of charity care reported by SOHHC do not agree with the numbers reported to OSHPD, with especially wide differences reported in 2001 and 2002 and are provided as information only.

CHARITY CARE BY SERVICE				
SHERMAN OAKS HOSPITAL & HEALTH CENTER - FY 2001 to 2005				
By Department				
	Inpatient	Outpatient	Emergency Room	Total Charges
2005:				
Charges	\$7,681,335	\$215,730	\$2,432,195	\$10,329,260
Cases/Visits	387	139	2045	2571
2004:				
Charges	\$5,633,824	\$154,758	\$2,722,622	\$8,511,204
Cases/Visits	330	249	2548	3127
2003:				
Charges	\$3,201,984	\$320,751	\$1,428,791	\$4,951,526
Cases/Visits	193	432	1702	2327
2002:				
Charges	\$172,428	\$272,348	\$68,882	\$513,657
Cases/Visits	83	374	261	718
2001:				
Charges	\$9,660	\$28,935	\$9,102	\$47,698
Cases/Visits	8	45	44	97

Source: SOHHC

Community Benefit Services

As required by California Senate Bill 697, SOHHC has completed annual community benefit plans. The Hospital has supported major initiatives involving disaster planning, community education, professional education, screening programs, burn victims, patient transportation and various programs designed for seniors.

Its two largest expenditures are for the SAGE program and for patient transportation expenses. SAGE, which stands for Specialized Ambulatory Geriatric Evaluation, is a unique program that offers an interdisciplinary outpatient assessment program designed to assist older persons, their families, caregivers and other health professionals. Based upon a geriatric evaluation, recommendations for patient management and referral are provided. Care is also coordinated between various healthcare programs and services on the patients' behalf. The table below shows the Hospital's community benefit expenditures by category for the last five years.

COMMUNITY BENEFIT EXPENDITURES					
CATEGORY	FY 2005	FY 2004	FY 2003	FY 2002	FY 2001
Monthly Support Groups	\$63,000	\$52,500	\$52,500	\$60,000	\$60,000
Weekly Support Groups	\$60,840	\$19,250	\$17,500	\$46,000	\$46,000
Children's Burn Foundation	\$66,309	\$62,776	\$68,800	\$64,000	\$64,000
SOH Foundation	\$13,200	\$12,840	\$12,840	\$12,660	\$9,000
SCAN Team	\$7,000	\$7,000	\$10,000	\$10,000	\$10,000
Monthly Community Groups	\$12,600	\$12,600	\$12,600	\$7,200	\$7,200
Disaster Planning	\$27,522	\$21,696	N/A	N/A	N/A
Education, Fairs, Newsletter, Clinics, etc.	\$92,660	\$62,630	\$61,650	\$56,000	\$56,000
Sherman Oaks St. Fair	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Senior Center	\$2,500	\$4,760	\$4,760	\$4,000	\$5,000
Senior Source Program	\$7,000	\$7,000	\$7,000	\$7,000	\$7,000
SAGE	\$252,259	\$91,900	\$91,900	\$43,000	\$40,000
Patient Transportation	\$197,644	\$268,754	\$227,253	\$227,253	\$174,412
TOTAL	\$812,534	\$633,706	\$576,803	\$547,113	\$488,612

Source: SOHHC's fiscal years ends 1/31.

Profile of Prime Healthcare Services

Prime owns and operates Desert Valley Hospital (“DVH”) and Desert Valley Medical Group in Victorville and Chino Valley Medical Center in Chino. Both hospitals are licensed by the State of California Department of Health Services and accredited by the Joint Commission on Accreditation of Health Care Organizations. DVH recently was recognized in “Solucient’s” 100 Top Hospitals: Benchmarks for Success program for the “Small Community Hospital” category. A profile of the hospitals is provided in the table below:

HOSPITALS OWNED BY PRIME		
FY 2004		
Facility	Desert Valley Hospital	Chino Valley Medical Center
Type of Care	General Acute	General Acute
City	Victorville	Chino
Licensed Beds	83	126
Patient Days	19,953	19,080
Discharges	5,708	6,163
Inpatient Surgeries	3,756	5,296
Outpatient Surgeries	1,952	N/A
Births	411	917
Payer Mix:		
Traditional Medicare	37.6%	21.5%
Managed Medicare	22.6%	5.7%
Traditional Medi-Cal	11.9%	22.6%
Managed Medi-Cal	2.1%	10.9%
County Indigent	0.7%	0.0%
Traditional Third Party	2.5%	4.2%
Managed Third Party	18.9%	28.2%
Other Indigent	2.4%	0.0%
Other	1.2%	6.9%
Total	100.0%	100.0%
Income Statement:		
Net Pt Revenue	\$60,845,835	\$45,239,409
Other Operating Rev.	\$170,968	\$374,673
Total Operating Rev.	\$61,016,803	\$45,614,082
Total Operating Rev.	\$52,112,693	\$47,219,632
Net From Operations	\$8,904,110	-\$1,605,550
Nonoperating Rev.	\$1,142,554	\$925,288
Nonoperating Exp	\$1,114,274	\$235,932
Net Income	\$6,346,480	-\$916,194
Other Financial:		
Charity	\$1,557,228	\$0
Bad Debt	\$17,090,654	\$19,895,163

Source: OSHPD Financial Disclosure Reports, both hospitals' fiscal year ends 12/31.

The Prime Chairman, Dr. Prem Reddy, states that Prime’s goal is to successfully operate small primary and secondary care hospitals. His intention is to expand and improve the services at SOHHC, to grow market share and improve financial performance. He has also stated Prime’s commitment to maintain or expand key services (including the Burn Center and the emergency department, add new services (such as a cardiac catheterization lab) and continue providing historical levels of charity care.

HEALTHCARE SERVICE AREA DESCRIPTION

Service Area Definition

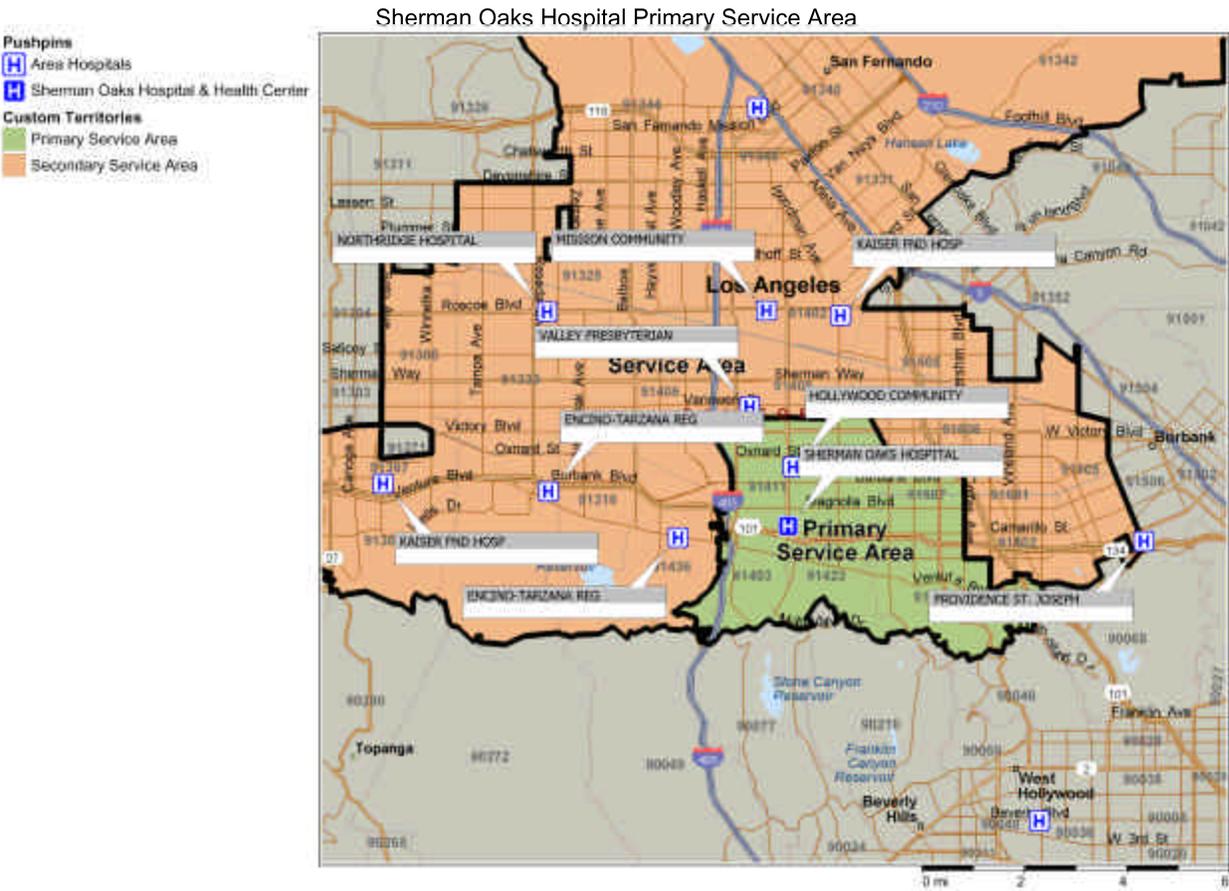
Approximately 43% of SOHHC's discharges come from the six ZIP Codes closest to the Hospital. SOHHC's largest market share is (21%) in ZIP Code 91403, where it is located. Outside of the 6 ZIP Codes SOHHC's market share drops off sharply, indicating that most patients utilize other facilities (except for burn or gero-psych services).

SHERMAN OAKS HOSPITAL AND HEALTH CENTER						
INPATIENT PATIENT ORIGIN AND MARKET SHARE - CY 2004						
ZIP	City	SOHHC Discharges	Pt. %	Cumulative Pt. Origin	Total Discharges from ZIP	Market Share
PRIMARY SERVICE AREA						
91403	SHERMAN OAKS	542	10.7%	-	2,568	21.1%
91423	SHERMAN OAKS	508	10.1%	20.8%	2,968	17.1%
91607	VALLEY VILLAGE	428	8.5%	29.3%	3,141	13.6%
91401	VAN NUYS	314	6.2%	35.5%	3,944	8.0%
91604	STUDIO CITY	230	4.6%	40.1%	2,975	7.7%
91411	VAN NUYS	153	3.0%	43.1%	2,336	6.5%
SUB-TOTAL PSA		2,175	43.1%		17,932	12.1%
91405	VAN NUYS	159	3.2%	46.3%	5,396	2.9%
91601	NORTH HOLLYWOOD	153	3.0%	49.3%	3,495	4.4%
91606	NORTH HOLLYWOOD	128	2.5%	51.8%	4,637	2.8%
91335	RESEDA	125	2.5%	54.3%	7,600	1.6%
91406	VAN NUYS	96	1.9%	56.2%	4,700	2.0%
91605	NORTH HOLLYWOOD	79	1.6%	57.8%	5,819	1.4%
91342	SYLMAR	78	1.5%	59.3%	9,459	0.8%
91316	ENCINO	64	1.3%	60.6%	3,134	2.0%
91402	PANORAMA CITY	64	1.3%	61.9%	6,881	0.9%
91436	ENCINO	64	1.3%	63.1%	1,757	3.6%
91356	TARZANA	61	1.2%	64.3%	3,422	1.8%
91367	WOODLAND HILLS	53	1.1%	65.4%	3,532	1.5%
91343	NORTH HILLS	50	1.0%	66.4%	5,419	0.9%
91505	BURBANK	46	0.9%	67.3%	3,636	1.3%
93550	PALMDALE	46	0.9%	68.2%	7,298	0.6%
91331	PACOIMA	45	0.9%	69.1%	9,248	0.5%
91306	WINNETKA	43	0.9%	69.9%	3,994	1.1%
91602	NORTH HOLLYWOOD	42	0.8%	70.8%	1,567	2.7%
91344	GRANADA HILLS	35	0.7%	71.5%	4,853	0.7%
91364	WOODLAND HILLS	34	0.7%	72.1%	2,899	1.2%
91324	NORTHRIDGE	32	0.6%	72.8%	2,671	1.2%
91340	SAN FERNANDO	29	0.6%	73.3%	3,360	0.9%
91325	NORTHRIDGE	26	0.5%	73.9%	3,096	0.8%
91345	MISSION HILLS	6	0.1%	74.0%	1,813	0.3%
SUB-TOTAL PSA AND SSA		3,733	74.0%		145,550	2.6%
ALL OTHER		1,313	26.0%			
TOTAL		5,046				

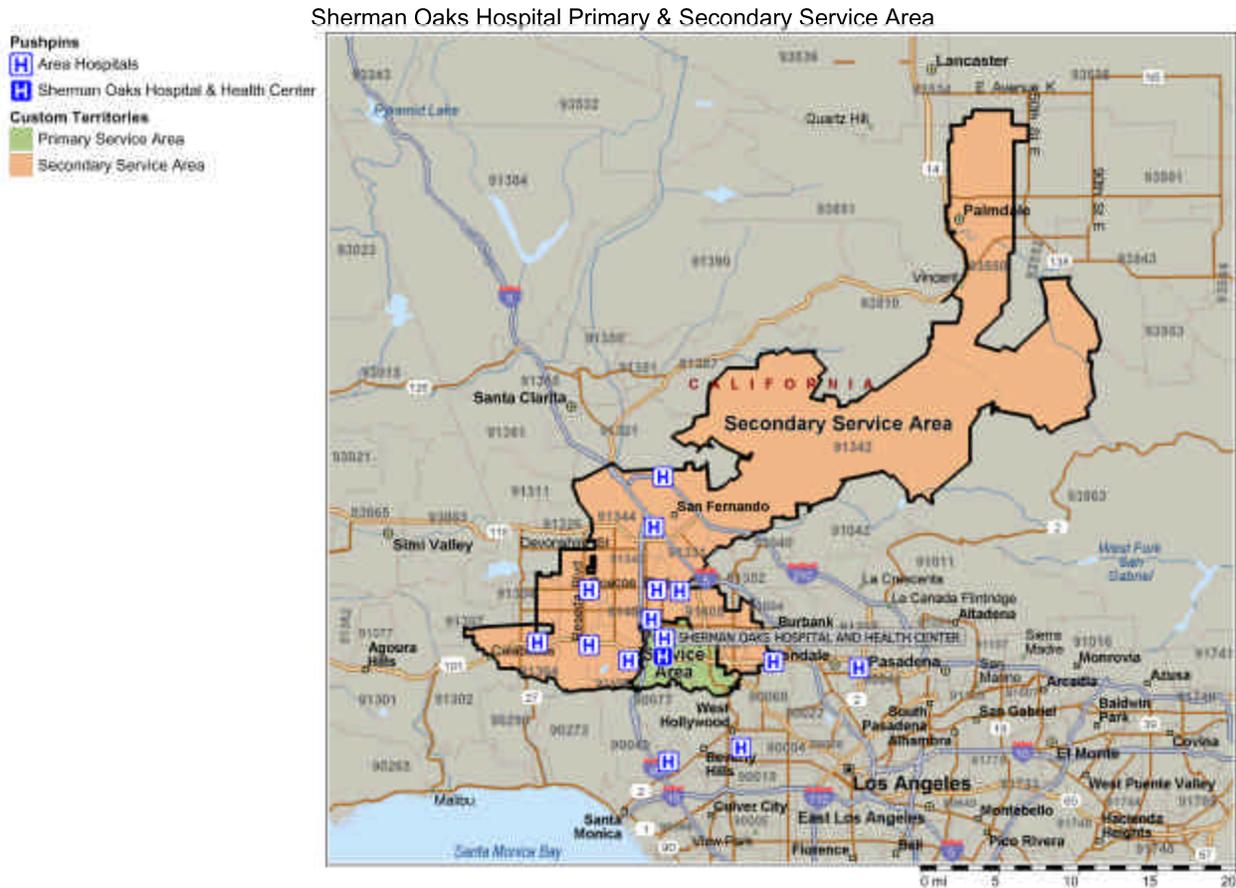
Source: OSHPD Patient Discharge Study, 2004 (excludes normal newborn DRG 391)

Service Area Map

SOHHC’s primary service area and part of its secondary service area are shown in the map below. There are a total of six other acute hospitals within ten miles of SOHHC. The primary service area accounts for approximately 43% of SOHHC total inpatient discharges.



The secondary service area extends to Palmdale. The combined primary and secondary service areas account for approximately 75% of SOHHC’s total inpatient discharges.



Demographic Profile

The primary service area has a total population of 183,575 (2005 estimate). It is projected to grow by 8% over the next five years. This growth rate is approximately 50% higher than the expected growth rate of the State of California.

SOHHC PRIMARY SERVICE AREA POPULATION STATISTICS 2005 & 2010			
	2005	2010	% Change
Total Population	183,575	198,215	8.0%
Households	81,432	87,393	7.3%
Ave Household Size	2.25	2.27	0.6%
% Female	50.9%	50.8%	-0.1%

Source: Claritas, 2005

The average age of the population in the service area is older, at 38.3 years, than the State of California (33.7). The percentage of seniors, over age 65, will grow at a slightly faster rate than other age cohorts. However, the percentage of seniors in the service area will remain lower than the current statewide average, which is approximately 12%.

SOHHC PRIMARY SERVICE AREA AGE DISTRIBUTION 2005 & 2010			
	2005	2010	% Change
Age 0-14	17.5%	17.1%	-2.5%
Age 15 - 64	70.8%	70.6%	-0.2%
Age 65+	11.7%	12.3%	5.2%
Female 15 - 44	22.6%	20.8%	-8.1%
Average Age	38.3	39.5	3.1%
Source: Claritas			

The Hispanic population is projected to grow at the fastest rate in the service area, increasing to 29.5% of the service area population by 2010. The percentage of Black and Asian population is also expected to grow, increasing to 5.1% and 5.6% (respectively) of the population. The percentage of White population will decline from 59.0% of the total population in 2005 to 56.2% in 2010.

SOHHC PRIMARY SERVICE AREA ETHNICITY 2005 & 2010			
	2005	2010	% Change
White	59.0%	56.2%	-4.6%
Black	4.8%	5.1%	7.2%
Hispanic	27.1%	29.5%	8.9%
Asian	5.3%	5.6%	6.0%
Other	3.8%	3.5%	-8.6%
Source: Claritas			

The average household income (aggregate household income divided by total households) is \$76,832 and is projected to grow by 8.4% in the next five years. This is considerably higher than the State of California's average household income, which is approximately \$63,000. Approximately 12% of households in the service area are below the federal poverty level (\$15,260 for a family of three in 2005).

SOHHC PRIMARY SERVICE AREA HOUSEHOLD INCOME DISTRIBUTION 2005 & 2010			
	2005	2010	% Change
\$0 - 14,999	12.1%	10.9%	-9.7%
\$15,000 - 24,999	10.4%	9.4%	-9.7%
\$25,000 - 34,999	11.8%	10.7%	-9.1%
\$35,000 - 49,999	15.9%	15.4%	-3.3%
\$50,000 - 74,999	17.8%	18.0%	1.2%
\$75,000 - 99,999	10.4%	11.1%	6.5%
\$100,000 - 149,999	11.4%	12.6%	9.8%
\$150,000 +	10.2%	12.0%	17.0%
Avg HH Income	\$76,832	\$83,267	8.4%
Source: Claritas			

Area Payer/Insurance Mix

In the service area 13.4% of the population is insured through Medi-Cal. The Van Nuys ZIP Codes collectively have a higher proportion of Medi-Cal beneficiaries. In SOHHC's home ZIP Code (91403) only 6.8% of the population is insured through Medi-Cal. In the State of California as a whole there are 6,551,000 Medi-Cal beneficiaries or approximately 18% of the population.

SOHHC PRIMARY SERVICE AREA MEDI-CAL ELIGIBLES - 2005				
ZIP	City	Eligibles	Population	%
91403	Sherman Oaks	1,495	21,855	6.8%
91423	Sherman Oaks	2,067	29,929	6.9%
91607	Valley Village	3,385	33,145	10.2%
91401	Van Nuys	10,683	45,053	23.7%
91604	Studio City	1,040	27,584	3.8%
91411	Van Nuys	5,924	26,009	22.8%
TOTAL		24,594	183,575	13.4%
Sources: DHS Website (as of Apr. 2005), Claritas				

Selected Health Indicators¹

Approximately 2,176,000 uninsured children and adults reside in Los Angeles County. Los Angeles County has a significantly higher percent of the uninsured non-elderly adult population compared to California (23.6% compared to 18.2%).

A review of health status indicators for Los Angeles County (deaths, diseases, and births) supports the following conclusions:

- The area faces some challenges related to obstetrics and prenatal care (Refer to Table A).
 - The infant mortality rate (6.8 per 1,000 births) is higher than the national goal (4.5).
 - The percentage of low birth weight infants (6.8%) is higher than the state rate (6.4%) and the national goal (5.0%).
- The overall mortality rate is lower than the state mortality rate (Refer to Table B). Chronic diseases are the main cause of death with heart disease and cancer accounting for almost half the mortality rate.
- Chlamydia is the most frequently reported disease in the county and exceeds the incidence rate for California. The rates of incidence of AIDS and TB are both significantly higher than the state rate (Refer to Table C).

The following tables are based on California Department of Health Services reports regarding Los Angeles County:

TABLE A: NATALITY STATISTICS 2005			
	Los Angeles County	California	National Goal
Low Birth Weight Infants	6.8%	6.4%	5.0%
Late or no Prenatal Care	10.3%	13.6%	10.0%
Birth Rate to Adolescents (per 1,000 births)	44.3	41.1	N/E
Infant Mortality Rate (per 1,000 births)	5.4	5.5	4.5

¹ California Department of Health Services, The State of Health Insurance in California, UCLA Center for Health Policy Research

TABLE B: MORTALITY STATISTICS, 2005			
Rate per 100,000 Population			
Selected Cause	Los Angeles County	California	National Goal
Cancer	137.3	169.6	159.9
Heart Disease	166.7	175.9	166.0
Cerebrovascular Disease	42.7	55.6	48.0
Unintentional Injuries	22.1	28.6	17.5
Diabetes	20.9	21.3	N/A
Suicide	7.5	9.5	5.0
Drug-Related Deaths	8.0	9.4	1.0
All Causes	608.2	729.0	N/E

TABLE C: MORBIDITY STATISTICS, 2005			
Incidence Rate per 100,000 Population			
Health Status Indicator	Los Angeles County	California	National Goal
Hepatitis C	0.07	.19	1.0
AIDS	20.96	14.73	1.0
Tuberculosis	10.91	9.18	1.0
Chlamydia	379.86	310.28	N/A

Hospital Supply, Demand and Market Share

There are six acute care hospitals located within 10 miles of SOHHC. Additional hospitals beyond this geographic region also have a significant market share of area patients because of their specialized programs, referral patterns and reputation. On average there are over 700 unoccupied licensed beds within 10 miles of SOHHC (not including Kaiser).

The following pages analyze the services offered by SOHHC and compare them to services offered by other providers. The hospitals shown below were the primary facilities analyzed to determine the area hospital capacity by service.

AREA HOSPITALS								
Facility	Ownership/Affiliation	City	Licensed Beds	Days	Occupied Beds	Percent Occupied	Miles from SOHHC	
SOHHC	Sherman Oaks Health Sys./NFP	Sherman Oaks	153	28,507	78.1	51.0%	-	
Northridge Hosp - Sherman Way ¹	Catholic Healthcare West/NFP	Van Nuys	209	43,061	118.0	56.4%	2.8	
Valley Presbyterian	Valley Presbyterian Hosp./NFP	Van Nuys	380	56,021	153.5	40.4%	3.1	
Encino-Tarzana - Encino Campus	Tenet/For Profit	Encino	151	35,627	97.6	64.6%	3.8	
Encino-Tarzana - Tarzana Campus	Tenet/For Profit	Tarzana	245	67,263	184.3	75.2%	6.0	
Mission Comm. - Panorama	San Fernando Comm., Inc/NFP	Panorama City	145	36,342	99.6	68.7%	6.6	
Providence St. Joseph	Sisters of Providence/Church	Burbank	427	105,764	289.8	67.9%	7.6	
Northridge Hosp	Catholic Healthcare West/NFP	Northridge	470	89,177	244.3	52.0%	9.1	
Providence Holy Cross	Sisters of Providence/Church	Mission Hills	251	81,218	222.5	88.7%	10.3	
UCLA	Regents of Univ. of Calif./NFP	Los Angeles	670	172,387	472.3	70.5%	11.0	
Glendale Adventist	Adventist Health Systems, Inc.	Glendale	448	107,289	293.9	65.6%	13.6	
Cedars Sinai Med Ctr	Cedars Sinai Med Ctr/NFP	Los Angeles	877	284,959	780.7	89.0%	14.6	
LA County Olive View - UCLA	County	Sylmar	377	60,858	166.7	44.2%	15.2	
Other Hospitals:								
Hollywood Comm. - Van Nuys	Alta/Investor	Van Nuys	59	15,358	42.1	71.3%	1.2	
Kaiser - Panorama City	Kaiser Foundation	Panorama City	262	41,057	112.5	42.9%	7.4	
Kaiser - Woodland Hills	Kaiser Foundation	Woodland Hills	218	49,065	134.4	61.7%	8.8	

Source: OSHPD Disclosure Reports (most recent closed fiscal year), OSHPD Annual Utilization Summary 2004, Mapquest.

¹ Northridge Hospital-Sherman Way closed in 2004.

Overall the service area has sufficient beds based upon licensed bed capacity and occupancy rates. The closure of Northridge Hospital-Sherman Way, while impacting already busy emergency rooms, did not have significant impact on local bed availability.

Tenet is currently trying to sell its two Encino-Tarzana facilities. There is speculation that, as a result, the smaller Encino campus with 151 licensed beds may eventually close. However, local Tenet administration believes that the planned expansion of the Tarzana campus would accommodate the patient volumes from Encino should this occur.

In the SOHHC primary service area, as shown on the next table:

- There were almost 18,000 discharges.
- Providence Saint Joseph Medical Center has the largest market share as determined by the percentage of inpatient discharges with 14.3%.
- SOHHC has gained market share over the three years to 12.1%.
- SOHHC is in a very competitive market with 10 other facilities having 2.5% or more market share in the SOHHC primary service area.

SOHHC MARKET SHARE PRIMARY SERVICE AREA						
FACILITY	2002		2003		2004	
	Dis- charges	Mkt Share	Dis- charges	Mkt Share	Dis- charges	Mkt Share
PROVIDENCE SAINT JOSEPH MEDICAL CENTER	2,547	14.2%	2,607	14.0%	2,556	14.3%
SHERMAN OAKS HOSPITAL AND HEALTH CENTER	1,826	10.2%	2,164	11.6%	2,175	12.1%
VALLEY PRESBYTERIAN HOSPITAL	1,712	9.5%	1,863	10.0%	1,645	9.2%
CEDARS SINAI MEDICAL CENTER	1,564	8.7%	1,631	8.8%	1,634	9.1%
ENCINO-TARZANA REGIONAL MED CTR-TARZANA	1,258	7.0%	1,255	6.7%	1,277	7.1%
KAISER FND HOSP - PANORAMA CITY	1,135	6.3%	1,232	6.6%	1,119	6.2%
NORTHRIDGE HOSP MED CTR - SHERMAN WAY	1,073	6.0%	1,144	6.1%	700	3.9%
ENCINO-TARZANA REGIONAL MED CTR-ENCINO	573	3.2%	641	3.4%	657	3.7%
LOS ANGELES COUNTY OLIVE VIEW-UCLA	669	3.7%	599	3.2%	536	3.0%
UCLA MEDICAL CENTER	530	3.0%	545	2.9%	530	3.0%
NORTHRIDGE HOSPITAL MEDICAL CENTER	467	2.6%	433	2.3%	489	2.7%
KAISER FND HOSP - WOODLAND HILLS	571	3.2%	529	2.8%	453	2.5%
PROVIDENCE HOLY CROSS MEDICAL CENTER	232	1.3%	232	1.2%	292	1.6%
HOLLYWOOD COMMUNITY HOSP OF VAN NUYS	149	0.8%	150	0.8%	277	1.5%
MISSION COMMUNITY HOSPITAL - PANORAMA	123	0.7%	230	1.2%	272	1.5%
GLENDALE ADVENTIST MEDICAL CENTER	204	1.1%	212	1.1%	250	1.4%
ALL OTHER	3,332	18.5%	3,156	16.9%	3,070	17.1%
TOTAL	17,965	100.0%	18,623	100.0%	17,932	100.0%

Source: OSHPD Patient Discharge Study, 2002 - 2004 (excludes normal newborn DRG 391)

SOHHC MARKET SHARE BY PAYER PRIMARY SERVICE AREA - 2004												
Facility	Dis- charges	Traditional		Managed			PPO/ EPO/POS	Private Insurance	Self Pay	Workers Comp	Indigent	Other
		Medicare	Medi-Cal	Medicare	Medi-Cal	Commer- cial						
PROVIDENCE SAINT JOSEPH MEDICAL CENTER	2,556	17.9%	7.0%	19.0%	7.1%	12.5%	17.2%	14.1%	9.7%	9.3%	0.0%	0.2%
SHERMAN OAKS HOSPITAL AND HEALTH CENTER	2,175	24.4%	4.5%	7.3%	5.1%	2.7%	6.5%	6.9%	21.9%	9.3%	0.0%	0.5%
VALLEY PRESBYTERIAN HOSPITAL	1,645	9.2%	22.3%	2.7%	19.2%	8.2%	2.6%	0.4%	0.0%	4.0%	0.0%	16.3%
CEDARS SINAI MEDICAL CENTER	1,634	6.8%	3.6%	0.1%	0.0%	10.6%	26.3%	2.9%	9.3%	13.3%	0.5%	2.8%
ENCINO-TARZANA REGIONAL MED CTR-TARZANA	1,277	7.0%	5.5%	1.1%	5.4%	2.9%	16.4%	0.4%	2.6%	0.0%	0.0%	18.9%
KAISER FND HOSP - PANORAMA CITY	1,119	0.4%	0.3%	40.3%	1.7%	14.5%	0.0%	0.0%	8.0%	2.7%	0.0%	0.2%
NORTHRIDGE HOSP MED CTR - SHERMAN WAY	700	3.3%	8.4%	2.4%	17.4%	2.7%	1.0%	0.4%	6.9%	0.0%	0.9%	0.9%
ENCINO-TARZANA REGIONAL MED CTR-ENCINO	657	6.9%	1.5%	2.4%	1.4%	0.8%	2.7%	0.7%	0.9%	26.7%	0.0%	4.6%
LOS ANGELES COUNTY OLIVE VIEW-UCLA	536	0.3%	10.6%	0.0%	5.1%	0.0%	0.0%	2.9%	8.4%	0.0%	70.3%	1.8%
UCLA MEDICAL CENTER	530	2.6%	1.9%	1.0%	5.7%	2.9%	4.4%	13.0%	2.9%	2.7%	0.0%	3.2%
NORTHRIDGE HOSPITAL MEDICAL CENTER	489	1.7%	2.6%	1.3%	9.2%	4.4%	3.0%	0.7%	3.6%	5.3%	0.5%	3.7%
KAISER FND HOSP - WOODLAND HILLS	453	0.1%	0.0%	11.8%	1.0%	9.7%	0.0%	0.0%	0.9%	0.0%	0.0%	0.0%
PROVIDENCE HOLY CROSS MEDICAL CENTER	292	0.7%	2.2%	1.8%	1.2%	3.8%	1.0%	2.2%	4.0%	2.7%	0.0%	0.0%
HOLLYWOOD COMMUNITY HOSP OF VAN NUYS	277	2.6%	4.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%
MISSION COMMUNITY HOSPITAL - PANORAMA	272	2.2%	3.5%	0.0%	1.0%	0.5%	0.3%	1.1%	2.2%	0.0%	0.0%	0.5%
GLENDALE ADVENTIST MEDICAL CENTER	250	1.2%	1.7%	0.0%	3.0%	1.2%	1.9%	6.1%	0.4%	1.3%	0.0%	2.1%
ALL OTHER	3,070	12.6%	19.8%	8.8%	16.4%	22.3%	16.6%	48.4%	18.1%	22.7%	27.9%	44.4%
TOTAL		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
DISCHARGES	17,932	6,159	2,548	1,655	574	2,475	2,967	277	548	75	219	435

Source: OSHPD, 2004 (excludes normal newborn DRG 391)



Denotes market share leader

Market share for acute hospitals is calculated by using the percentage of acute discharges from a hospital within the service area.

- The largest category of inpatient discharges by payer was traditional Medicare with over 6,000 discharges (34%). SOHHC is the market share leader in this category with 24.4% market share.
- SOHHC, without a maternity or NICU service, only has 4.5% of area traditional Medi-Cal and 5.1% of managed Medi-Cal discharges.
- SOHHC, with 21.9% of the self-pay market, is by far the leader in this segment. Often self-pay patients may result in bad debt.
- SOHHC has a small market share of area managed care patients.

**SOHHC MARKET SHARE BY SERVICE LINE
PRIMARY SERVICE AREA - 2004**

Facility	Discharges	Providence St. Joseph	SOHHC	Valley Presb.	Cedars Sinai	Encino-Tarzana Reg. - Tarzana	Kaiser - Panorama City	Northridge Hosp - Sherman	Encino-Tarzana Reg. - Encino	LA County Olive View - UCLA	UCLA	Northridge Hosp	Kaiser - Woodland Hills	Providence Holy Cross	Hollywood Comm. - Van Nuys	Mission Comm. - Panorama	Glendale Adventist	All Other
Burn	20	10.0%	60.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.0%
Complicated Delivery	861	10.7%	0.0%	14.9%	17.9%	11.8%	3.4%	7.7%	0.0%	1.2%	2.4%	3.6%	4.9%	2.3%	0.0%	0.0%	1.5%	17.8%
High-Risk Newborns	276	14.5%	0.0%	17.8%	21.0%	9.4%	1.4%	2.5%	0.0%	2.2%	3.3%	3.3%	3.3%	1.8%	0.0%	0.0%	1.8%	17.8%
Cardiovascular	2,371	14.5%	20.7%	10.0%	5.1%	6.7%	10.5%	4.3%	4.9%	4.4%	1.4%	1.5%	2.8%	1.2%	0.0%	1.8%	0.6%	9.7%
Med - Genitourinary	490	16.5%	18.0%	11.6%	4.1%	5.1%	11.8%	3.5%	6.5%	2.2%	1.6%	2.2%	0.8%	0.4%	0.0%	3.9%	1.6%	10.0%
Med - Nervous System	487	15.2%	24.6%	9.2%	5.5%	5.3%	4.1%	2.7%	6.4%	2.1%	3.3%	1.4%	2.7%	3.1%	0.0%	1.0%	1.6%	11.7%
Med - Respiratory	1,319	19.6%	21.0%	10.7%	4.4%	4.7%	9.7%	4.2%	4.9%	1.7%	1.8%	1.2%	2.3%	1.4%	0.0%	1.4%	0.8%	10.2%
Med GI/Endocrine	1,648	15.4%	14.7%	9.4%	5.5%	6.3%	9.9%	3.8%	6.4%	3.8%	2.7%	1.5%	3.3%	1.3%	0.0%	1.4%	0.5%	14.1%
Med Orthopedic	397	25.4%	22.9%	6.3%	6.3%	4.5%	5.5%	1.0%	6.8%	1.3%	2.5%	1.5%	0.8%	1.3%	0.0%	0.5%	0.8%	12.6%
Oncology	576	21.4%	7.5%	5.7%	9.5%	5.0%	5.9%	1.7%	3.0%	5.7%	6.3%	1.7%	2.8%	2.8%	0.0%	1.0%	0.7%	19.3%
Normal Deliveries	1,360	10.5%	0.0%	13.5%	19.1%	16.4%	3.9%	7.3%	0.0%	1.0%	1.8%	4.0%	4.2%	2.2%	0.0%	0.0%	2.2%	13.9%
Normal Newborns	326	14.4%	0.0%	13.2%	22.4%	12.6%	1.8%	5.8%	0.0%	3.1%	1.8%	4.0%	3.7%	2.8%	0.0%	0.0%	2.8%	11.7%
Pediatrics	288	0.7%	1.0%	25.3%	5.6%	28.1%	6.9%	0.0%	0.3%	4.2%	3.5%	5.6%	1.0%	0.0%	0.0%	0.0%	0.0%	17.7%
Plastic Surgery	80	12.5%	10.0%	11.3%	2.5%	6.3%	3.8%	1.3%	1.3%	7.5%	3.8%	7.5%	1.3%	1.3%	0.0%	0.0%	1.3%	28.8%
Psychiatry	1,212	0.3%	8.2%	0.1%	3.1%	0.0%	0.3%	9.3%	3.1%	1.8%	0.3%	8.2%	0.2%	0.2%	22.9%	7.5%	3.1%	31.5%
Rehabilitation	275	18.5%	15.6%	8.0%	10.9%	0.0%	0.0%	0.0%	23.6%	0.0%	1.1%	3.3%	0.0%	0.7%	0.0%	0.0%	3.3%	14.9%
Substance Abuse	292	2.7%	3.1%	2.1%	1.0%	0.0%	1.0%	0.7%	2.1%	1.0%	1.4%	3.4%	1.0%	0.0%	0.0%	8.6%	2.4%	69.5%
Surg. - Cardiovascular	691	24.9%	2.6%	8.0%	13.7%	15.3%	1.7%	0.4%	0.4%	0.4%	4.9%	2.0%	1.7%	3.0%	0.0%	0.3%	2.0%	18.4%
Surg. - ENT	119	16.0%	10.1%	2.5%	9.2%	1.7%	3.4%	0.8%	1.7%	4.2%	14.3%	3.4%	1.7%	1.7%	0.0%	0.0%	1.7%	27.7%
Surg. - General/GI	746	18.2%	7.2%	8.7%	9.8%	8.7%	6.8%	2.1%	3.5%	6.6%	2.9%	2.0%	3.5%	1.9%	0.0%	0.5%	0.4%	17.0%
Surg. - Genitourinary	441	17.7%	15.2%	5.0%	8.4%	5.7%	8.6%	1.8%	1.6%	3.9%	6.8%	1.8%	2.9%	1.1%	0.0%	1.8%	0.9%	16.8%
Surg. - Gynecology	407	14.0%	2.0%	5.4%	15.7%	9.1%	6.4%	4.7%	0.2%	7.9%	3.2%	4.4%	3.2%	2.9%	0.0%	0.2%	1.7%	18.9%
Surg. - Nervous System	135	13.3%	2.2%	0.7%	16.3%	13.3%	3.7%	1.5%	2.2%	1.5%	11.9%	3.0%	5.9%	3.0%	0.0%	0.7%	0.7%	20.0%
Surg. Orthopedic	1,060	13.4%	9.2%	8.8%	12.7%	1.5%	7.6%	1.5%	5.1%	0.8%	5.1%	2.6%	2.1%	2.7%	0.0%	0.4%	1.2%	25.2%
All Other	2,055	14.6%	19.0%	8.6%	8.1%	5.2%	5.2%	3.1%	2.9%	4.2%	4.2%	1.9%	2.0%	1.4%	0.0%	1.0%	1.9%	16.6%
Discharges	17,932	2,556	2,175	1,645	1,634	1,277	1,119	700	657	536	530	489	453	292	277	272	250	3,070

Source: OSHPD, 2004 (excludes normal newborn DRG 391)

- SOHHC is the market share leader for burn care (60.0%), medical nervous system (24.6%), medical-respiratory (21.0%), medical-cardiovascular (20.7%) and medical-genitourinary (18.0%).
- The highest number of service line discharges was in cardiovascular medicine with 2,371 discharges. SOHHC's relative market share was 20.7% in this service line, which compares favorably to its overall market share of 12.1%.

SOHHC has an array of services typical of a community hospital except that it does not provide obstetrical or pediatric services. The majority of services provided by SOHHC are also provided by other providers that are in or near the service area. SOHHC is unique in the area in providing burn care services.

SERVICE COMPARISON											
PROGRAM/SERVICES	SOHHC	VALLEY PRESBYTERIAN	ENCINO-TARZANA- ENCINO CAMPUS	ENCINO-TARZANA- TARZANA CAMPUS	PROVIDENCE ST. JOSHEPH	NORTHRIDGE HOSPITAL - ROSCOE	PROVIDENCE HOLY CROSS	UCLA	GLENDALE ADVENTIST	CEDARS SINAI MEDICAL CENTER	HOLLYWOOD COMMUNITY - VAN NUYS
Adult Day Care Program						v		v			
Alcohol-Drug Abuse or Dependency Inpatient								v			
Birthing Room-LDR Room-LDRP Room		v	v		v		v	v	v	v	
Breast Cancer Screening-Mammography	v	v			v	v	v	v	v	v	
Burn Care Services	v										
Cardiac Catheterization Laboratory			v		v	v	v	v	v	v	
Emergency Department	v	v	v		v	v	v	v	v	v	
Extracorporeal Shock Wave Lithotripter (ESWL)			v		v			v	v	v	
Hemodialysis						v			v	v	
HIV-AIDS Services						v		v		v	
Home Health					v			v	v		
Magnetic Resonance Imaging (MRI)	v				v	v	v	v	v	v	
Medical Surgical Intensive Care Services	v	v	v	v	v	v	v	v	v	v	
Neonatal Intensive Care Services		v	v	v	v	v		v	v	v	
Obstetrics Services		v		v	v	v	v		v	v	
Occupational Health Services	v			v	v	v	v	v	v		
Oncology Services	v	v	v	v	v	v	v	v	v	v	
Open Heart Surgery			v		v	v	v	v	v	v	
Outpatient Surgery	v	v		v	v	v	v	v	v	v	
Pain Management	v	v	v		v	v	v		v	v	
Pediatric Intensive Care Services		v	v	v		v		v		v	
Physical Rehabilitation Inpatient Services		v			v	v	v	v	v	v	
Physical Rehabilitation Outpatient Services	v			v	v	v	v	v	v	v	
Positron emission tomography scanner (PET)					v			v		v	
Psychiatric Care	v			v		v			v	v	v
Radiation Therapy								v		v	
Single Photon Emiss. Computerized Tomog.	v				v	v	v	v	v	v	
Skilled Nursing			v	v	v		v		v		
Transplant Services										v	
Trauma Center (Certified)						v	v	v		v	

Source: American Hospital Association Guide - 2006, Individual Disclosure Reports

Medical/Surgical Services

- In the service area as a whole, the number of medical/surgical beds far exceeds demand. On average, SOHHC has a total of 35 patients utilizing medical surgical beds. Valley Presbyterian has an average surplus of 48 beds and the Encino-Tarzana facilities have an average surplus of 59 beds. These facilities could accommodate the 35 patients from SOHHC.
- In aggregate, there are, on average approximately 400 licensed medical/surgical beds available in the service area within 10 miles (after adjusting to the closure of Northridge Hospital-Sherman Way).

MEDICAL/SURGICAL SERVICES					
Facility	Miles from SOHHC	Discharges	Patient Days	Licensed Beds	
				Number	Occupancy
SOHHC	-	3,243	12,923	66	53.5%
Northridge Hosp - Sherman Way ¹	2.8	3,613	14,686	76	52.8%
Valley Presbyterian	3.1	3,070	13,799	186	20.3%
Encino-Tarzana - Encino Campus	3.8	2,734	15,142	69	60.0%
Encino-Tarzana - Tarzana Campus	6.0	7,036	31,143	117	72.7%
Mission Comm. - Panorama	6.6	2,738	13,934	65	58.6%
Providence St. Joseph	7.6	7,013	65,859	237	75.9%
Northridge Hosp	9.1	7,150	32,031	175	50.0%
Providence Holy Cross	10.3	1,478	26,897	78	94.2%
UCLA	11.0	16,502	91,525	385	65.0%
Glendale Adventist	13.6	10,576	53,011	256	56.6%
Cedars Sinai Med Ctr	14.6	27,490	156,256	472	90.5%
LA County Olive View - UCLA	15.2	9,929	37,616	170	60.6%
TOTAL		102,572	564,822	2,352	65.8%

Source: OSHPD Disclosure Reports (based on each hospital's most recently closed fiscal year).

¹ Northridge Hospital-Sherman Way closed in 2004

Intensive Care

- SOHHC has 16 licensed ICU beds that are on average 67.0% occupied, with an average daily census of 11 patients.
- In aggregate the local hospitals, within 10 miles have an average of over 60 ICU/CCU beds available (after adjusting for the closure of Northridge Hospital-Sherman Way).
- While in general, there may be sufficient capacity to absorb the demand for ICU/CCU beds, seasonal variations in volume could lead to periodic area shortages. While only representing 9% of local available capacity, the ICU beds at SOHHC are important for local patient access to these services.

ADULT ICU/CCU SERVICES			
FACILITY	Licensed Beds	Pt. Days	Occupancy
SOHHC	16	3,915	67.0%
Northridge Hosp - Sherman Way	8	2,020	69.2%
Valley Presbyterian	20	4,583	62.8%
Encino-Tarzana - Encino Campus	15	2,922	53.4%
Encino-Tarzana - Tarzana Campus	27	6,600	67.0%
Mission Comm. - Panorama	10	2,269	62.2%
Providence St. Joseph	44	8,203	51.1%
Northridge Hosp	46	8,135	48.5%
Providence Holy Cross	24	8,254	94.2%
UCLA	70	26,902	105.3%
Glendale Adventist	20	6,213	85.1%
Cedars Sinai Med Ctr	72	22,711	86.4%
LA County Olive View - UCLA	36	3,807	29.0%
TOTAL	408	106,534	71.5%

Source: OSHPD Disclosure Reports (based on each hospital's closed fiscal year).

Burn Care

SOHHC operates the Grossman Burn Center (“Burn Center”) which is licensed for 30 beds and provides inpatient, outpatient and community education services. It has been the major source of recognition and financial support for the Hospital. The Burn Center is the largest provider of inpatient burn services for Los Angeles and Ventura Counties. The vast majority of the Burn Center patients come from outside of SOHHC’s primary service area. The Burn Center has an international reputation and draws patients nationally and internationally. It is one of only three burn centers in Los Angeles County (representing 43% of all licensed beds) and only one of seven in Southern California.

LICENSED BURN CARE UNITS				
FACILITY	Miles from SOHHC	Licensed Beds	Pt. Days	Occupancy
SOHHC	-	30	3,137	28.6%
LA County - USC	18.6	34	3,634	29.3%
Torrance Memorial	28.9	8	1,993	68.3%
UCI	43.8	8	1,773	60.7%
Western Medical - Santa Ana	49.1	7	1,266	49.5%
Arrowhead Regional	68.6	14	1,590	31.1%
UCSD	133.5	8	2,401	82.2%
TOTAL		109	15,794	39.7%

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

Because of the unique nature of the service provided, Los Angeles County EMS considers the services to be very important for patient access and disaster preparedness. It is the most frequent choice of area fire departments for treatment of burned firefighters.

BURN MARKET SHARE BY COUNTY - 2004						
Facility	Los Angeles			San		
	Los Angeles	Ventura	Riverside	Bernardino	San Diego	Orange
SHERMAN OAKS HOSPITAL AND HEALTH CENTER	29.0%	68.4%	1.1%	2.9%	0.5%	1.0%
LOS ANGELES CO USC MEDICAL CENTER	27.5%	3.5%	2.8%	2.5%	0.0%	1.6%
TORRANCE MEMORIAL MEDICAL CENTER	16.0%	1.8%	0.6%	0.0%	0.5%	0.3%
UNIVERSITY OF CALIFORNIA IRVINE MEDICAL CENTER	3.5%	1.8%	1.7%	1.2%	0.0%	46.1%
ARROWHEAD REGIONAL MEDICAL CENTER	2.4%	0.0%	70.5%	85.5%	0.9%	2.6%
WESTERN MEDICAL CENTER - SANTA ANA	1.8%	0.0%	2.3%	1.7%	0.0%	38.6%
UNIVERSITY OF CALIF-SAN DIEGO MEDICAL CENTER	0.4%	0.0%	2.3%	0.4%	89.2%	1.0%
ALL OTHER	19.3%	24.6%	18.8%	5.8%	8.9%	8.8%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
DISCHARGES	824	57	176	242	213	308

Source: OSHPD, 2004

Gero-psychiatric Services

SOHHC has 19 licensed adult psychiatric beds for a gero-psych program that offers services oriented to elderly patients with medical-psychiatric related problems requiring hospitalization. The length of stay for patients averages 9-10 days and the program has operated with an average daily census in 2005 of about 11 patients.

While a number of hospitals offer adult psychiatric care, only a few specialize in providing a geriatric program exclusively for the elderly. Those specializing in these services include Encino-Tarzana in Encino, which is 3.8 miles away and operating below 50% capacity, and Verdugo Hills Hospital.

ADULT PSYCHIATRIC CARE				
FACILITY	Miles from SDH	Licensed Beds	Pt. Days	Occupancy
SOHHC	-	19	4,051	58.3%
Northridge Hosp - Sherman	2.8	44	6,923	43.0%
Encino-Tarzana Reg. - Encino	3.8	14	2,367	46.2%
Mission Comm. - Panorama	6.6	60	17,476	79.6%
Northridge Hosp - Roscoe	9.1	46	10,711	63.6%
Glendale Memorial Hospital	13.5	49	9,356	52.2%
Verdugo Hills Hospital	17.7	24	7,620	86.7%
TOTAL		256	58,504	62.4%

Source: OSHPD Disclosure Reports (based on each hospital's most recent closed year), Mapquest.

Other psychiatric programs in the area also have available capacity and accept patients over 65 as indicated on the next table:

SOHHC PRIMARY & SECONDARY GERO-PSYCHIATRIC MARKET SHARE - 2004		
FACILITY	Discharges	Market Share
SOHHC	160	23.2%
Encino-Tarzana Reg. - Encino	118	17.1%
Northridge Hosp - Sherman	75	10.9%
Northridge Hosp - Roscoe	65	9.4%
Verdugo Hills Hospital	42	6.1%
Motion Picture and Television Hosp	35	5.1%
Mission Comm. - Panorama	23	3.3%
Glendale Memorial Hospital	21	3.0%
All Other	150	21.8%
Total	689	100.0%

Source: OSHPD (based on psychiatric discharges age 65 and over).

Emergency Services

The service area for SOHHC's emergency services is similar to the service area for all Hospital services (drawing over 50% of its patients from the closest six ZIP Codes).

SOHHC PATIENT ORIGIN EMERGENCY ROOM VISITS - CY 2004				
ZIP	City	SOHHC Visits	Patient Origin	Cumulative Patient Origin
91423	Sherman Oaks	2,189	14.7%	14.7%
91403	Sherman Oaks	2,136	14.3%	29.0%
91401	Van Nuys	1,501	10.1%	39.1%
91607	Valley Village	1,248	8.4%	47.5%
91604	Studio City	819	5.5%	52.9%
91411	Van Nuys	714	4.8%	57.7%
91601	North Hollywood	496	3.3%	61.1%
91606	North Hollywood	444	3.0%	64.0%
91405	Van Nuys	419	2.8%	66.9%
91406	Van Nuys	269	1.8%	68.7%
91605	North Hollywood	218	1.5%	70.1%
ALL OTHER		4,454	29.9%	
TOTAL VISITS		14,907	100.0%	

Source: SOHHC

SOHHC operates 7 emergency stations/beds with about 15,000 visits in calendar year 2004. According to the Los Angeles County Emergency Medical Services Agency ("EMSA") SOHHC received about 4,000 patients by ambulance in 2004. However, overall, compared to the patients at other area hospitals, SOHHC's emergency patients have proportionately less severe medical conditions.

EMERGENCY SERVICES VISITS BY CATEGORY - 2004

Facility	ER Level	Stations	Total	Non Urgent	Urgent	Moderate	Severe	Critical	Admitted	Miles from SOHHC
SOHHC	Basic	7	14,238	2,995	4,756	4,054	1,544	889	2,603	-
Northridge Hosp - Sherman Way ¹	Basic	10	17,581	2,945	5,243	6,038	1,345	2,010	2,578	2.8
Valley Presbyterian	Basic	29	33,589	1,689	8,288	10,697	7,736	5,179	4,459	3.1
Encino-Tarzana - Encino Campus	Basic	8	11,114	1,509	3,801	3,317	1,408	1,079	514	3.8
Encino-Tarzana - Tarzana Campus	Basic	15	28,145	4,803	12,881	4,981	3,069	2,411	5,128	6.0
Mission Comm. - Panorama	Basic	8	12,992	3,493	4,493	2,191	1,260	1,555	1,705	6.6
Providence St. Joseph	Basic	29	51,736	10,347	15,521	9,829	10,865	5,174	8,391	7.6
Northridge Hosp	Basic	28	50,541	3,431	16,141	12,448	8,967	9,554	8,379	9.1
Providence Holy Cross	Basic	16	43,076	4,786	8,655	16,521	11,493	1,621	7,628	10.3
UCLA	Comprehensive	29	43,877	6,378	10,819	8,053	5,933	12,694	10,105	11.0
Glendale Adventist	Basic	27	31,339	950	10,333	3,956	5,033	11,067	8,957	13.6
Cedars Sinai Med Ctr	Basic	40	73,095	1,736	13,685	22,124	23,844	11,706	20,567	14.6
LA County Olive View - UCLA	Basic	15	31,085	1,099	5,455	16,643	6,575	1,313	12	15.2
Other Hospitals:										
Hollywood Comm. - Van Nuys	None	0	0	0	0	0	0	0	0	1.2
Kaiser - Panorama City	Basic	23	36,671	554	8,412	24,989	2,697	19	6,080	7.4
Kaiser - Woodland Hills	Basic	33	35,255	2,094	14,855	16,800	1,463	43	5,035	8.8
TOTAL		317	514,334	48,809	143,338	162,641	93,232	66,314	92,141	
PERCENT OF TOTAL				9.5%	27.9%	31.6%	18.1%	12.9%	17.9%	

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

¹ Northridge Hospital-Sherman Way closed in 2004

The American College of Emergency Physicians (“ACEP”), representing 22,000 members nationally, uses a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of emergency departments. Based upon this benchmark the SOHHC emergency department is operating above desirable capacity. This results in the emergency department frequently being placed on diversion status (estimated to be over 30% of the time).

Most other area hospitals also report visits per bed per year close to or above the ACEP benchmark. According to an impact evaluation report of the EMSA, the closure of the Northridge Hospital-Sherman Way emergency department in 2004 had an adverse impact on emergency services provided in the service area with the EMSA Director now considering the local emergency system to be “overwhelmed.” The Director of the EMSA further believes that the SOHHC emergency department’s continued operation is important to the provision of emergency services in the area and to disaster preparedness.

If the SOHHC emergency department was closed, other area emergency rooms would have trouble accommodating the additional volume. Based upon the results of our analysis we conclude that SOHHC’s emergency department is needed for patient access to healthcare.

LOCAL EMERGENCY ROOM CAPACITY - 2004						
Hospital	Total Visits	Level	Stations	Approximate Capacity (Visits) (1)	Remaining Capacity (Visits)	Miles from SOHHC
SOHHC	14,238	Basic	7	14,000	(238)	-
Northridge Hosp - Sherman Way ¹	17,581	Basic	10	20,000	2,419	2.8
Valley Presbyterian ²	33,589	Basic	29	58,000	24,411	3.1
Encino-Tarzana - Encino Campus	11,114	Basic	8	16,000	4,886	3.8
Encino-Tarzana - Tarzana Campus	28,145	Basic	15	30,000	1,855	6.0
Mission Comm. - Panorama	12,992	Basic	8	16,000	3,008	6.6
Providence St. Joseph	51,736	Basic	29	58,000	6,264	7.6
Northridge Hosp	50,541	Basic	28	56,000	5,459	9.1
Providence Holy Cross	43,076	Basic	16	32,000	(11,076)	10.3
UCLA	43,877	Comprehensive	29	58,000	14,123	11.0
Glendale Adventist	31,339	Basic	27	54,000	22,661	13.6
Cedars Sinai Med Ctr	73,095	Basic	40	80,000	6,905	14.6
LA County Olive View - UCLA	31,085	Basic	15	30,000	(1,085)	15.2
Other Hospitals:						
Hollywood Comm. - Van Nuys	0	None	0	0	0	1.2
Kaiser - Panorama City	36,671	Basic	23	46,000	9,329	7.4
Kaiser - Woodland Hills	<u>35,255</u>	Basic	<u>33</u>	<u>66,000</u>	<u>30,745</u>	8.8
TOTAL	514,334		317	634,000	119,666	

(1) Estimated at 2,000 per station
Sources: OSHPD (based on calendar year, website file: Hosp04_util-data)

¹ Northridge Hospital-Sherman Way closed in 2004

² Valley Presbyterian recently added 16 fast track stations for urgent care type patients

SUMMARY OF COMMUNITY INTERVIEWS

Interviews were conducted in October and November of 2005 at SOHHC and by telephone with numerous community, Hospital and Prime representatives. The purpose of the interviews was to gather information from area healthcare professionals or community members regarding potential impacts on healthcare availability or accessibility as a result of the proposed Hospital transaction. The major findings from over twenty interviews are summarized below.

Reasons for the Sale of the Hospital

Board members, physicians, management and community representatives believe that SOHS is selling because it cannot fund its existing debt nor can it support the additional capital requirements for equipment, expansion and seismic improvements that are necessary in order to maintain and improve services. Recently the financial performance has declined to the point where, without a sales transaction, SOHS may have to face bankruptcy or closure of the Hospital. Factors believed to contribute to the financial difficulties include:

- State mandated nursing staff ratios.
- Increasing labor, supplies, and other costs.
- Increases in charity care.
- Losses associated with the recruitment of physicians and the operation of VHP, the physician practice management.
- Inability to fund the equipment and facility upgrades necessary to attract physicians and patients.
- Lowered reimbursement for burn patients covered under workers' compensation.

Acquisition of SOHS by Prime

Those interviewed believe that Prime clearly offered the best price for the purchase of SOHS and is willing to make capital commitments to expand and improve the Hospital. The Director of OSHPD and Cal-Mortgage both supported the acquisition of SOHS by Prime.

Some physicians are concerned that, as the Hospital transitions to Prime, managed care contracts will be cancelled and therefore some of their HMO and PPO patients will not have access to the Hospital.

Some employees of the Hospital have visited Prime's other hospitals and have been favorably impressed with their operations. Overall, the employees' biggest concern seems to be about the continuation of their benefits (which Prime has agreed to in the Acquisition Agreement).

While having uncertainties, many of those interviewed were favorably impressed with the service and capital commitments that Prime has already made to improve the Hospital. They also believed that Prime would be more able to support the costs of recruiting and retaining qualified staff and would bring new operational expertise to Hospital programs and services.

Importance to the Community

Those interviewed, including the EMSA, believe that SOHHC is very important to the community for its provision of burn care, emergency services and general acute care. SOHHC in particular serves the elderly and has specialty services oriented to this population including the Gero-Psychiatric Program, Palliative Care Program, Wound Center, Center for Aging and SAGE Program.

SOHHC also reports a particularly high percentage of services to “self-pay” patients and a greater than average level of charity care.

Possible Effects of the Sale

Overall, those interviewed were supportive of the Hospital’s sale to Prime, and in general were not concerned about negative effects to the availability and accessibility of healthcare services. Interviewees are optimistic that Prime will bring improvements and expansion to the Hospital’s services.

Alternatives to the Hospital Sale to Prime

Absent an alternative purchaser that was acceptable to Cal-Mortgage and OSHPD and that also would continue to operate the Hospital, it was felt that the Hospital could be faced with bankruptcy and closure. Closure would have a very negative impact on the availability and accessibility of healthcare services, especially as related to burn care, emergency services and general acute care beds.

Impacts on the State of California

Some community representatives were concerned about the affect on the State of California because OSHPD and Cal-Mortgage are accepting the proceeds of the sale in fulfillment of bond debt of about \$145 million. The Director of Cal-Mortgage stated that obligations to bond holders would be covered by the premium payments and fees collected by Cal-Mortgage on a continuing basis.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE ACCESSIBILITY AND AVAILABILITY OF HEALTHCARE SERVICES

Medical/Surgical Services

SOHHC admitted approximately 3,200 medical/surgical inpatients in 2004 with an average daily census of about 35 patients. While an analysis of supply and demand of area hospital beds shows that there is a sufficient supply of beds, recent hospital closures (Granada Hills Hospital and Northridge Hospital-Sherman Way) have reduced the available number of beds. Additional uncertainty about the impacts of the sale of Tenet's Encino-Tarzana facilities, coupled with population growth, population aging, and disaster preparedness make SOHHC an important resource for medical/surgical beds.

While the Acquisition Agreement does not address the continued operation of the Hospital, Prime has stated its willingness to commit to at least a five-year period of operation.

Intensive Care/Coronary Care Services

SOHHC admitted about 400 patients to the ICU/CCU in 2004 with an average daily census of about 11 patients. An analysis of the supply and demand of area hospitals beds shows that while there is enough capacity to absorb SOHHC's historical patient volumes, seasonal variations, aging population growth, etc. could contribute to access and availability issues. Closure of the unit would create a negative impact on the availability and accessibility of these services in the community.

While the Acquisition Agreement does not address the continued operation of the Hospital, Prime has stated its willingness to commit to at least a five-year period of operation.

Burn Unit

The Grossman Burn Center provides a unique and valued service comprising 42% of all licensed beds in Los Angeles County. It is very important for patient access and service availability as well as disaster preparedness.

While the Acquisition Agreement does not address the continued operation of this service, Prime has stated its willingness to commit to at least a five-year period of operation.

Emergency Services

SOHHC, with 7 emergency beds, had over 14,000 visits in 2004. This is above the ACEP benchmark for community hospitals. Many area emergency departments are at or near capacity and are frequently on diversion. As previously discussed, SOHHC's emergency department is needed for patient access and is ranked as being very important by the Director of EMSA.

While the Acquisition Agreement does not address the continued operation of this service, Prime has stated its willingness to commit to at least a five-year period of continued operation.

Gero-psychiatric Services

While a number of area hospitals offer adult psychiatric beds, only a few specialize in services for the elderly. Because of reimbursement changes, some general acute care hospitals have been eliminating these services. While this service at SOHHC is viewed as being a valuable resource, these beds could also be converted for medical/surgical uses thereby expanding the community capacity for general acute care. Because there are some alternatives available in the community for gero-psychiatry and because reimbursement is declining for the provision of these services, it is possible that alternative uses of these beds could be appropriate and have an overall impact of increasing the access to medical/surgical services, even though decreasing access to gero-psychiatric services.

While the Acquisition Agreement does not address the continued operation of this service, Prime has stated its willingness to commit to a 6 month period of operation while it evaluates the cost/benefit of gero-psych and the alternatives.

Reproductive Health Services

Tubal ligations, in-vitro fertilization, and other reproductive health services have not been provided at SOHHC therefore the sale will not reduce the availability or accessibility of these services.

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

SOHHC, without an obstetrical service or NICU, serves only a small proportion of Medi-Cal patients. Also, Medi-Cal patients access other physicians and clinics that are not associated with SOHHC. Emergency services will continue to be available to Medi-Cal and indigent patients at SOHHC.

Effects on the Level and Type of Charity Care Historically Provided

SOHHC has historically reported comparatively large amounts of charity care averaging approximately \$6,655,000 in charges or \$1,822,000 in costs over the last five years.

Because SOHHC seems to have mixed its reporting of bad debt and charity care, MDS also analyzed the percentage of bad debt and charity care relative to statewide averages. The five-year average as a percent of gross revenue is shown below:

	SOHHC	California Hospitals ¹
Bad Debt	.4%	1.8%
Charity Care	3.0%	1.3%
Total:	3.4%	3.1%
¹ Four years only available		

While not addressed in the Acquisition Agreement, Prime has stated its willingness to commit to providing historical levels of charity care as measured by the lesser of \$1.8 million in annual care costs or a combined total of 3.4% of the gross revenue, on a charge basis, that includes both bad debt and charity care.

Effects on Community Benefit Programs

SOHHC has historically provided a significant amount of community benefit services averaging roughly \$612,000 per year in costs over the last five years in support of senior health initiatives, palliative care, professional education, community education, patient transportation, disaster planning, etc.

While not addressed in the Acquisition Agreement, Prime has stated its willingness to commit to providing historical levels of community benefit services.

Additionally, the Foundation has stated its intention to help support certain programs, such as SAGE. With the continued support of community benefits by Prime and the additional support of the Foundation, the level of community benefit services should increase.

Effects on Staffing and Employee Rights

SOHHC employees are not represented by unions. Prime has agreed to continue the employment of substantially all employees with no reduction in benefits. Because Prime's intent is to continue to operate most current services, expand services and add new services, the sale is not expected to affect many employees. In general, employees appear pleased because:

- Prime is expected to bring greater financial stability and growth enabling employees to retain their position.
- New positions and opportunities may be created.
- With Prime's financial resources, it is expected that the Hospital will be more able to support competitive wages and benefits.

Effects on Medical Staff

Very little effect is expected on the medical staff. Some physicians are concerned that Prime may not renew some managed care contracts and that some patients may not have access to the Hospital except on an emergency basis. While it is possible that this may occur, SOHHC is not currently serving a large number of managed care patients, and access for these physicians and patients could be achieved at other area hospitals.

Alternatives

If the proposed transaction were not approved, SOHHC may face sale under less desirable circumstances, bankruptcy, or potential closure.

CONCLUSIONS

Overall, the sale of the Hospital to Prime is likely to be beneficial with little expected negative impact on the accessibility or availability of healthcare services. In fact, with Prime's ownership and commitment to capital improvements, it is expected that key services such as the emergency department, radiology, and general acute care services will improve and expand.

Acquisition Agreement Mitigation Measures

In the Asset Purchase Agreement, Prime has not agreed to specific measures to mitigate or eliminate any potentially significant adverse impacts on the availability or accessibility of healthcare services to the affected community. However, most of the conditions recommended by MDS and listed below have been agreed to in concept by Prime.

Potential Conditions for Transaction Approval by the Attorney General

1. Prime should continue to operate SOHHC as a general acute care hospital and maintain the emergency services with at least current licensure and levels of service for at least five years.
2. Prime should maintain the Burn Center licensure and levels of service for at least five years.
3. Prime should utilize the Foundation board, which is made up of medical, business and other community representatives as a review body prior to initiating any changes to Hospital services, community benefit programs or charity care policies.
4. Prime should continue to expend at least the lesser of \$1.8 million in annual charity costs (not charges) or 3.4% of gross revenue (on a charge basis) for charity care and bad debt on an annual basis for at least five years. The amount of any annual shortfall in charity care should be contributed to the Foundation.
5. Prime should continue to expend an average of at least \$612,000 annually in community benefit services, to include continued support for the SAGE program, for at least five years. Community benefit commitments shall be decided upon in conjunction with input from the Foundation.
6. Prime, in conjunction with plans already underway, will commit to at least \$6 million in capital expenditures over the next three years in order to expand the emergency department, add telemetry and imaging equipment and make other capital equipment and plant improvements.
7. Prime will continue to operate the gero-psychiatric unit for at least six months while it conducts a more detailed evaluation of the community need and cost/benefit of providing the services. The results will be reviewed by the Foundation before determining decisions regarding the continuation of this service.

Recommended Action

Medical Development Specialists, Inc. recommends conditional approval of the proposed transaction subject to acceptance of the mitigation measures described in the previous section.