

**Effect of the Affiliation Agreement between  
Central California Foundation for Health and  
Adventist Health System/West on the Availability  
and Accessibility of Healthcare Services to the  
Communities Served by Delano Regional Medical Center**

Prepared for the Office of the California Attorney General

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## Introduction & Purpose

JD Healthcare, Inc. was retained by the Office of the California Attorney General to assess the potential health impact of the proposed Affiliation Agreement by and between the Central California Foundation for Health, a California nonprofit public benefit corporation and Adventist Health System/West (Adventist Health), a California nonprofit religious corporation, on the availability and accessibility of healthcare services to the communities served by Delano Regional Medical Center (the Hospital). Central California Foundation for Health is the owner and operator of the Hospital, a general acute care hospital licensed for 156 beds located in the city of Delano, California. The Hospital is a Medicaid Disproportionate Share Hospital and a recipient of Medi-Cal Hospital Quality Assurance Fee<sup>1</sup> funds. Adventist Health is a faith-based nonprofit integrated health system serving communities in California, Hawaii, and Oregon. Adventist Health consists of hospitals, clinics (hospital based, rural health and physician), home health agencies, hospices, and retirement centers.

Central California Foundation for Health has requested the California Attorney General's consent to affiliate with Adventist Health.

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

- A review of the written notice submitted to the California Attorney General on February 15, 2019 and supplemental information subsequently provided by the Hospital;
- A review of press releases and news articles related to the proposed Affiliation Agreement and other hospital transactions;
- Interviews with community representatives, representatives of Central California Foundation for Health's Board, representatives of the Hospital's management, medical staff, and employees, a representative of Adventist Health, and others as listed in the Appendix;
- An analysis of financial, utilization, and service information provided by the management of the Hospital, Adventist Health, and the Office of Statewide Health Planning and Development (OSHPD); and
- An analysis of publicly available data and reports regarding the Hospital and Adventist Health, the service area, including demographic characteristics and trends, payer mix, hospital utilization rates and trends, health status indicators, and hospital market share.

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<sup>1</sup> The amount of supplemental Medi-Cal payments received by those hospitals that serve a high percentage of Medi-Cal and other low-income patients, as provided by SB 855 (Statutes of 1991). These payments are funded by intergovernmental transfers from public agencies (counties, districts, and the University of California system) to the State and from federal matching funds. SB 855 Disproportionate Share Payments are received by qualifying hospitals for each Medi-Cal paid inpatient day, up to a certain maximum, and are included in Medi-Cal Net Patient Revenue.

## Background & Description of The Transaction

### *History of the Delano Regional Medical Center*

The Hospital opened its doors on January 17, 1974 with 10 patients, 50 employees, 5 physicians, and 110 volunteers. In 1978 the Hospital was purchased by an individual, Wesley Bilson, who sold it in 1992 to a then newly created nonprofit organization, the Central California Foundation for Health, that continues to have Mr. Bilson and his son Gregory Bilson as its sole members. The Hospital has seen several large expansion efforts over the years, including:

- The addition of a 20,000 square-foot wing in 1993 that added 30 additional acute care beds, including a 10-bed Intensive Care Unit and an expanded inpatient laboratory and pharmacy department;
- A new 12-bed emergency department that opened in early 2000; and
- A new \$20 million outpatient center, including advanced outpatient imaging, a laboratory drawing station, and a retail pharmacy that opened in 2018.

Other recent additions have included a 64-slice Computer Tomography, a Magnetic Resonance Imaging machine, and a designated area for inpatient pediatric patients.

### *Transaction Process and Timing*

Due to the Hospital's financial dependence on state and federal programs, including the Medi-Cal Disproportionate Share Hospital funds and the Hospital Quality Assurance Fee funds, tax reform that could eliminate tax-exempt financing or reduce the tax benefits for nonprofit organizations, and the uncertainty about the future of the Affordable Care Act<sup>2</sup>, the Central California Foundation for Health Board grew concerned about the long-term financial viability of the Hospital. As a result, on December 12, 2017, the Central California Foundation for Health Board authorized the Chief Executive Officer and the President of the Hospital to begin a long-term strategic planning process including the engagement of consultants to assure the long-term continuation of the Hospital as a community resource.

The healthcare consulting firm Kaufman, Hall & Associates, LLC (Kaufman Hall) was hired. On February 23, 2018 Kaufman Hall made initial contact with Dignity Health and Adventist Health to evaluate prospective affiliation options. Both organizations operate hospitals in neighboring Bakersfield.

On March 5, 2018, Kaufman Hall distributed "indication of interest" letters to both Dignity Health and Adventist Health. The targeted letters aimed at soliciting a response based on a broad set of

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<sup>2</sup> The comprehensive health care reform law enacted in March 2010 with three primary goals including: providing subsidies ("premium tax credits") that lower costs for households with incomes between 100% and 400% of the federal poverty level, expanding Medicaid to cover all adults with income below 138% of the federal poverty level in some states and supporting innovate medical care delivery methods designed to lower the cost of health care.

criteria that included a brief description of the organization, its mission, vision, and values, clinical considerations, branding and marketing, employee protections, operational considerations, physician relationships, proposed structure and governance, financial and programmatic commitments, and other considerations.

On April 18, 2018, Dignity Health responded favorably to the “indication of interest” indicating that they could drive growth, reduce outmigration, improve physician alignment, and expand physician access through enhanced services in the local community. Dignity Health’s preferred partnership structure, if selected, would be as a member substitution arrangement whereby Central California Foundation for Health would transfer operational and governance control to Dignity Health.

On April 18, 2018, Adventist Health responded favorably to the “indication of interest” request recommending a member substitution agreement. Adventist Health’s strategy for affiliation focused on the development and delivery of population health and risk-based contracts. This would be achieved through a value-based network of services and programs aimed at improving the health and well-being of the local community. Adventist Health also committed to maintaining and/or expanding existing programs, including emergency and reproductive health services.

On April 26, 2018, Kaufman Hall provided a summary document, of the Adventist Health and Dignity Health proposals, as a tool to compare, contrast, and evaluate options available to Central California Foundation for Health. After negotiations, a letter of intent with Adventist Health was signed on August 21, 2018.

On September 19, 2018, the Central California Foundation for Health Board was presented with and reviewed the letter of intent with Adventist Health. The Chief Executive Officer reported that he, the President, and Wes Bilson in concert with Kaufman Hall had determined that the best choice for the Hospital would be an affiliation with Adventist Health. Thereafter, the negotiations for an Affiliation Agreement began.

On December 10, 2018, the Central California Foundation for Health Board reviewed a final draft of the Affiliation Agreement and authorized the Chief Executive Officer to represent the organization in affiliation matters and to execute the Affiliation Agreement.

On January 4, 2019, the Central California Foundation for Health and Adventist Health entered into an Affiliation Agreement.

On February 15, 2019, Central California Foundation for Health submitted the written notice requesting the California Attorney General’s consent to the Affiliation Agreement.

## ***Summary of the Affiliation Agreement***

The major provisions of the Affiliation Agreement, dated January 4, 2019, include the following:

- On the Closing Date<sup>3</sup>, the following shall occur:
  - Adventist Health will become the sole corporate member of Central California Foundation for Health;
  - The two members, Gregory Bilson and Wes Bilson shall resign; and
  - The Central California Foundation for Health Board members will resign.
- Promptly after completion of such actions, Adventist Health shall appoint new members to the Board that mirror the composition of the Adventist Health Board;
- Adventist Health, in its capacity as the sole corporate member, and the new Board, shall adopt Amended and Restated Articles of Incorporation and Amended and Restated Bylaws of Adventist Health Delano and Bylaws of the Governing Board of Adventist Health Delano that will, among other things, include:
  - Converting Central California Foundation for Health from a nonprofit public benefit corporation to a nonprofit religious corporation;
  - Changing Central California Foundation for Health's corporate name to "Adventist Health Delano", consistent with Adventist Health's branding guidelines; and
  - Creating an advisory Governing Board with responsibilities related to the local operations of the Hospital with the members being appointed by the Adventist Health Delano Board.
- Effective upon the Closing Date, Adventist Health shall cause the Hospital to adopt Adventist Health's policies on charity and indigent care;
- Adventist Health has made the following commitments on, or after, the Closing Date:
  - For at least 10 years, Adventist Health shall cause the Hospital to continue to operate as a licensed general acute care hospital with an operating bed count for emergency services, acute care services (including perinatal and intensive care), and skilled nursing care services at not less than the bed count and the other services listed in Exhibit 3.7 of the Affiliation Agreement;
  - Within five years of the Closing Date, Adventist Health shall develop and open an inpatient obstetrics and delivery unit at the Hospital with a minimum of 12 individual rooms and will have separate Cesarean-section, recovery, and observation areas;
  - After the Closing Date, Adventist Health at its own cost shall convert the Hospital's current electronic medical record system to Adventist Health's standard Cerner Millennium electronic medical record system;

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<sup>3</sup> April 1, 2019, or at such earlier or later date seven days after all the conditions of the Affiliation Agreement have been met, or such other date, time or place as may hereafter be agreed upon in writing by Delano Regional Medical Center and Adventist Health.

- Effective on the Closing Date, Adventist Health shall guarantee all Central California Foundation for Health’s existing long-term debt (\$19,390,427 as of 12/31/2017);
- After the Closing Date, Adventist Health will keep California Foundation for Health’s cash and investment assets (approximately \$80 million) available to the California Foundation for Health when needed subject to Adventist Health’s approval;
- Following the Closing Date, Adventist Health shall provide the Hospital access to administrative and corporate support services in the same manner and at the same levels that are no less than what are provided to other hospitals affiliated with Adventist Health;
- After the Closing Date, Adventist Health will provide the Hospital with access to group purchasing contracts, vendor contracts, payor contracts, managed care support systems and strategies, accountable care organizations, and other health reform initiatives and physician networks in the same manner as other Adventist Health affiliated hospitals;
- After the Closing Date, Adventist Health shall maintain the appropriate accreditation and participation in Medicare, Medi-Cal, and TRICARE<sup>4</sup> programs, subject to any material changes that materially and adversely financially impact, hinder, or preclude participation by the Hospital or Adventist Health;
- After the Closing Date, Adventist Health shall ensure that the Hospital reasonably continues to provide community benefit health programs for the current programs, including participation with local organizations that sponsor healthcare initiatives to address community needs and improve the health status of the elderly, poor, and other at-risk populations;
- Upon the Closing Date, the Hospital’s medical staff in good standing shall maintain medical staff privileges at the Hospital. Adventist Health shall use commercially reasonable efforts to recruit and retain quality medical staff serving the Hospital’s service area;
- After the closing date, Adventist Health shall work with the Hospital to strengthen physician affiliation strategies by providing access to Adventist Health’s existing physician recruitment programs to meet the physician recruitment needs of the Hospital’s service area;
- As of the Closing Date, all the Hospital’s active employees in good standing shall either remain<sup>5</sup> Hospital employees or become employees of Adventist Health or one of its Affiliates<sup>6</sup> for no less than 180 days; and

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<sup>4</sup> TRICARE, formerly known as the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), is a health care program of the United States Department of Defense Military Health System.

<sup>5</sup> Provided that such Hospital employees remain in a substantially similar position under substantially similar terms and conditions of each employee’s current employment arrangement including existing compensation and benefit levels and provided each Hospital employee successfully passes routine sanctions check or if any Hospital employee is subject to an ongoing progressive discipline or termination procedure as of the Closing Date.

<sup>6</sup> Means any person or entity that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with another person or entity.



- After the Closing Date, Adventist Health will continue to allow residents to maintain a one-acre community garden<sup>7</sup> and not use the vacant land located on the northwest corner of Garces Highway and Lexington Avenue for a parking lot<sup>8</sup>.

### ***Use of Net Sale Proceeds***

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

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<sup>7</sup> Unless or until there is a need to utilize such land for expansion of facilities or such land is otherwise disposed of.

<sup>8</sup> Although such land may be used for any other purpose.

## Profile of Adventist Health

Adventist Health is a faith-based, nonprofit, integrated health delivery system headquartered in Roseville, California, that operates healthcare facilities located in California, Hawaii, and Oregon. Adventist Health operates:

- 20 hospitals with more than 3,100 beds
- More than 290 clinics and outpatient centers
- Over 60 rural health clinics
- 13 home care agencies
- Seven hospice agencies
- Four joint-venture retirement centers

Adventist Health's hospitals are grouped into four regions:

### Southern California Region

- Adventist Health Tehachapi Valley (Tehachapi, CA)
- Adventist Health Glendale (Glendale, CA)
- Adventist Health Bakersfield (Bakersfield, CA)
- Adventist Health Simi Valley (Simi Valley, CA)
- Adventist Health White Memorial (Los Angeles, CA)

### Central California Region

- Adventist Health Hanford (Hanford, CA)
- Adventist Health Selma (Selma, CA)
- Adventist Health Reedley (Reedley, CA)
- Adventist Health Sonora (Sonora, CA)

### Northern California Region

- Adventist Health Feather River (Paradise, CA)<sup>9</sup>
- Adventist Health Lodi Memorial (Lodi, CA)
- Adventist Health Howard Memorial (Willits, CA)
- Adventist Health Clear Lake (Clearlake, CA)
- Adventist Health and Rideout (Marysville, CA)
- Adventist Health St. Helena (St. Helena, CA)

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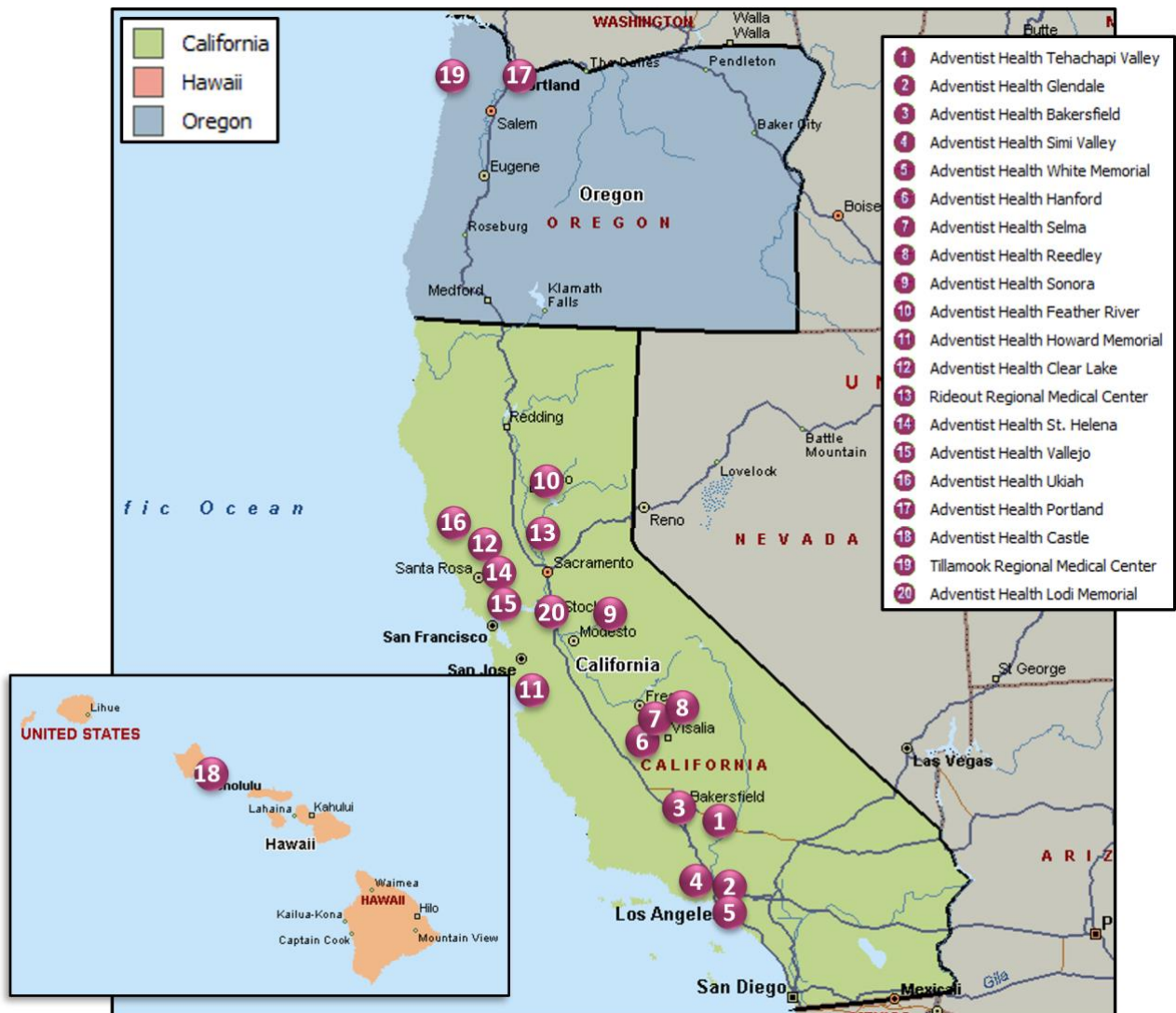
<sup>9</sup> Adventist Health Feather River was severely damaged by the Camp Fire, the largest wildfire in U.S. history that burned at least 153,336 acres and destroyed at least 19,000 buildings. While Adventist Health Feather River is expected to remain closed, the Adventist Health reopened Adventist Health Feather River Health Center in December 2018, and reopened its pharmacy in January 2019.

- Adventist Health Vallejo (Vallejo, CA)
- Adventist Health Ukiah Valley (Ukiah, CA)

Pacific Northwest Region

- Adventist Health Portland (Portland, OR)
- Adventist Health Castle (Kailua, HI)
- Adventist Health Tillamook (Tillamook, OR)

The locations of Adventist Health’s hospitals, covering California, Hawaii, and Oregon, are shown on the map below.



Adventist Health has relationships with more than 5,200 physicians with over 1,400 either employed or under contract. The Adventist Health Physicians Network (AHPN), a licensed 1206(I)

Medical Foundation<sup>10</sup> used for physician recruitment and alignment purposes, currently involves more than 220 physicians. Adventist Health has a commitment to medical education with residency programs at a number of facilities, including programs for family practice, internal medicine, podiatry, and obstetrics/gynecology. In addition, Adventist Health has a number of joint ventures and other arrangements between its facilities and the local medical staff. Adventist Health operates one of the largest hospital-based rural health clinic programs in the country with more than 50 clinics. These clinics vary in size from small, one or two provider offices to larger facilities with primary care, specialty care, dental care, behavioral health services, perinatal services, and other services.

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<sup>10</sup> An organization operated by a nonprofit corporation exempt from federal income taxation under paragraph (3) of subsection (c) of Section 501 of the Internal Revenue Code of 1954, as amended, or a statutory successor thereof, that conducts medical research and health education and provides health care to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than 10 board-certified specialties, and not less than two-thirds of whom practice on a full-time basis.

## Key Statistics

Combined statistics for Adventist Health’s hospitals include the following:

Adventist Health Key Statistics		
	FY 2016	FY 2017
Patient Days	575,914	558,034
Discharges	129,752	129,349
Average Length of Stay	4.4	4.3
Average Daily Census	1,578	1,529
Licensed Beds	2,819	2,749
Occupancy	56.0%	55.6%

Source: Adventist Health Consolidated Financial Statements FY 2016 - FY 2017

- Patient days decreased by 3.1% from 575,914 days in FY 2016 to 558,034 days in FY 2017;
- Inpatient discharges have remained relatively steady at approximately 130,000 discharges per year; and
- In FY 2017, Adventist Health operated a total of 2,749 licensed beds with an average occupancy rate of 55.6%.

## Payer Mix

In FY 2017, Adventist Health’s hospitals combined payer mix consisted of predominantly Medicare (45%) and Medicaid (30%) patients. The remaining 24% of Adventist Health’s inpatient discharges were comprised of Commercial (23%) and Other Payers (1%).

PAYER MIX COMPARISON				
Payer Type	Adventist Health (FY 2017)		California (FY 2017)	
	Discharges	% of Total	Discharges	% of Total
Medicaid	39,322	30%	1,016,014	34%
Medicare	58,466	45%	1,188,773	39%
Commercial	29,233	23%	730,989	24%
Other Payers	2,328	1%	42,435	2%
<b>Total</b>	<b>129,349</b>	<b>100%</b>	<b>3,010,751</b>	<b>100%</b>

Source: Adventist Health Consolidated Financial Statements, FY 2017 & OSHPD Discharge Database, FY 2017

## Adventist Health Financial Profile

The table below shows Adventist Health's combined audited financial statements for Fiscal Year (FY) 2016 and FY 2017.

<b>Adventist Health</b>		
<b>Consolidated Statements of Operations and Changes in Net Assets</b>		
<b>FY 2016 - FY 2017 (In Thousands)</b>		
<b>Unrestricted revenues and support:</b>	<b>FY 2017</b>	<b>FY 2016</b>
Net Patient Service Revenue	\$3,809,674	\$3,642,451
Less Provision for Bad Debts	(85,269)	(92,271)
Net Patient Service Revenue Less Provision for Bad -Debts	3,724,405	3,550,180
Premium Revenue	199,423	161,231
Other Revenue	178,670	164,473
Net Assets Released from Restrictions for Operations	12,024	13,311
<b>Total Unrestricted Revenues and Support</b>	<b>\$4,114,522</b>	<b>\$3,889,195</b>
<b>Expenses:</b>		
Employee Compensation	\$1,888,093	\$1,823,168
Professional Fees	431,327	398,309
Supplies	506,232	498,070
Purchased Services and Other	874,746	775,673
Interest	45,151	45,585
Depreciation and Amortization	165,024	165,604
<b>Total Expenses</b>	<b>\$3,910,573</b>	<b>\$3,706,409</b>
<b>Income from Operations</b>	<b>203,949</b>	<b>182,786</b>
<b>Nonoperating Income (Loss):</b>		
Investment Income	25,516	17,732
Loss on Early Extinguishment of Debt	-	(31,459)
Other Non-operating Gains	319	-
<b>Total Non-operating Income (Loss)</b>	<b>\$25,835</b>	<b>(\$13,727)</b>
<b>Excess of Revenues Over Expenses from Continuing Operations</b>	<b>\$229,784</b>	<b>\$169,059</b>

Source: Adventist Health Consolidated Financial Statements FY 2016 - FY 2017

- Total unrestricted revenue and support increased by 5.7% from \$3.9 billion in FY 2016 to \$4.1 billion in FY 2017;
- Total expenses increased by 4.4% from \$3.7 billion in FY 2016 to \$3.9 billion in FY 2017; and
- Excess of revenues over expenses from continuing operations increased from \$169.1 million in FY 2016 to \$229.8 million in FY 2017.

## Profile of Delano Regional Medical Center

### Overview

The Hospital is a 156 licensed-bed general acute care facility, located at 1401 Graces Highway, in Delano, California. The Hospital offers services including 24- hour emergency, bariatric surgery, intensive care, labor and delivery, women’s health, and skilled nursing services.

DELANO REGIONAL MEDICAL CENTER LICENSED BED DISTRIBUTION 2018	
Licensed Bed Type	Number of Beds <sup>1</sup>
Intensive Care	10
Obstetrics	16
General Acute Care	79
Skilled Nursing (D/P)	51
<b>Total Licensed Beds</b>	<b>156</b>

<sup>1</sup>2018 Hospital License

### Key Statistics

For FY 2017, the Hospital had a total of 2,795 inpatient discharges, 26,386 patient days, and an average daily census of 72 patients per day (approximately 46% occupancy of the total licensed beds).

DELANO REGIONAL MEDICAL CENTER KEY STATISTICS FY 2015 - FY 2017 <sup>1</sup>			
	FY 2015	FY 2016	FY 2017 <sup>1</sup>
Inpatient Discharges	2,571	2,530	2,795
Patient Days	26,429	26,191	26,386
<b>Total Average Daily Census</b>	<b>72</b>	<b>72</b>	<b>72</b>
Hospital Acute Average Daily Census <sup>2</sup>	23	24	24
Sub-Acute Care and Skilled Nursing (D/P)	49	48	48
<b>Total Hospital Occupancy Rate</b>	<b>46.4%</b>	<b>46.0%</b>	<b>46.3%</b>
Hospital Acute Occupancy Rate <sup>2</sup>	22.3%	22.6%	22.9%
Sub-Acute Care and Skilled Nursing (D/P) Occupancy Rate	96.1%	94.1%	94.5%
Average Length of Stay	10.3	10.4	9.4
Emergency Service Visits	30,605	30,571	29,642
Total Live Births	739	715	775

Sources: OSHPD Disclosure Reports, FY 2015 - FY 2017

<sup>1</sup> FY 2017 data unaudited.

<sup>2</sup>Excludes Sub-Acute Care and Skilled Nursing (D/P)

- Since FY 2015, inpatient discharges have increased by 9%, from 2,571 discharges in FY 2015 to 2,795 discharges in FY 2017. Over the same period, patient days have remained relatively constant at between 26,200 and 26,500 patient days;

- Between FY 2015 and FY 2017, emergency department visits have remained relatively constant at approximately 30,000 visits per year;
- Between FY 2015 and FY 2017, total live births have increased by 4.9% from 739 to 775 in FY 2017; and
- The overall high average length of stay for patients, of approximately 10 days, is due to the Hospital's 51-bed skilled nursing unit that is primarily used to provide sub-acute services. These patients require ventilator care and can be admitted to a skilled nursing unit/sub-acute unit for significant lengths of time skewing the Hospital's overall average length of stay. According to OSHPD, the average length of stay for all general acute care hospitals in California is 5.3 days.

### ***Programs & Services***

The Hospital offers medical services that include, but are not limited to, the following:

- General surgical services include: orthopedics, podiatry, ear, nose and throat, gynecology, urology and bariatrics;
- Women's and children's services include: maternity education, labor and delivery services, breastfeeding clinic, and family planning;
- The Hospital's emergency department is an Emergency Department Approved for Pediatrics, and the inpatient unit is approved to provide pediatric services even though they are not separately licensed as a pediatric unit;
- Emergency services include: 24-hour "basic" emergency department<sup>11</sup> licensed for 10 treatment stations;
- A heliport to support patient transports;
- Outpatient imaging services include: X-ray, CT scanner, CT angiography, MRI (wide and short bore), ultrasound, nuclear medicine, and fluoroscopy;
- Stroke and neurology services include: on-call coverage provided via telemedicine for patients suffering neurologic disorders;
- Sub-acute care services;
- Podiatry services;

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<sup>11</sup> A "basic" emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.



- Occupational, speech, and physical therapy services,
- Wound care services; and
- Diabetic services.

**Accreditation**

The Hospital is accredited by the Hospital Accreditation Program by Healthcare Facilities Accreditation Program (Medicare Deemed Status).

**Quality Measures**

The Value-Based Purchasing Program, established by the Federal Patient Protection and Affordable Care Act in 2012, encourages hospitals to improve the quality and safety of care. The Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on four domains that reflect hospital quality: the clinical process of care and outcomes domain, the patient and caregiver centered experience of care/care coordination domain, the safety domain, and the efficiency and cost reduction domain. In FY 2017, the Centers for Medicare & Medicaid Services decreased Medicare payments to the Hospital by 0.16%. For FY 2018, the Centers for Medicare & Medicaid Services is increasing payments to the Hospital by 0.38%.

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

QUALITY MEASURES	
Category	Delano Regional Medical Center
Mortality	Same as the national average
Safety of Care	Above the national average
Readmission	Same as the national average
Patient Experience	Below the national average
Effectiveness of Care	Same as the national average
Timeliness of Care	Below the national average
Efficient Use of Medical Imaging	Below the national average

Source: Data.medicare.gov Hospital Compare, October 2018

The Federal Hospital Readmissions Reduction Program<sup>12</sup>, implemented in 2012, penalizes hospitals for excess patient readmissions within 30 days of discharge for the following three applicable conditions: heart attack, heart failure, and pneumonia. The penalty is administered by reducing all of a hospital’s reimbursement payments under the Medicare program by a certain percentage for the entire year.

In FY 2018, the Hospital was penalized with a 0.5% reduction in reimbursement. For FY 2019, the Hospital will not be penalized with a reduction in reimbursement. The following table shows the Hospital’s 30-day readmission rates for chronic obstructive pulmonary disease, heart attack, heart failure, pneumonia, stroke, hip/knee replacement, and all causes hospital-wide. The Hospital’s 30-day readmission rates for all causes is higher than the national average.

30-DAY READMISSION RATES		
Condition/Procedure	Delano Regional Medical Center	National Average
Chronic Obstructive Pulmonary Disease	20.3%	19.6%
Heart Failure	24.7%	21.7%
Pneumonia	20.1%	16.7%
Coronary Artery Bypass Graft (CABG)	N/A	13.2%
Hip/Knee Replacement	Too few cases to determine	4.2%

Source: Medicare.gov Hospital Compare

<sup>12</sup> The formula for determining hospital reimbursement payments under the Hospital Readmissions Reduction Program varies by hospital and geographic location and may not correspond directly to state and national hospital averages.

**Seismic Issues**

Using the HAZUS seismic criteria<sup>13</sup>, the Hospital’s structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC), as shown in the table below.

<b>DELANO REGIONAL MEDICAL CENTER SEISMIC OVERVIEW</b>				
<b>Building Name</b>	<b>SPC Compliance</b>		<b>NPC Compliance</b>	
	<b>Status</b>	<b>Status</b>	<b>Status</b>	<b>Status</b>
Main Building	2		1	
Radiology/ Addition	4		1	
ICU/TCU Facility	4		1	
Med Gases Ancillary	4		1	
Med Gases	N/A		1	
SNF Building	N/A		N/A	
Generator Yard	N/A		N/A	

Source: OSHPD

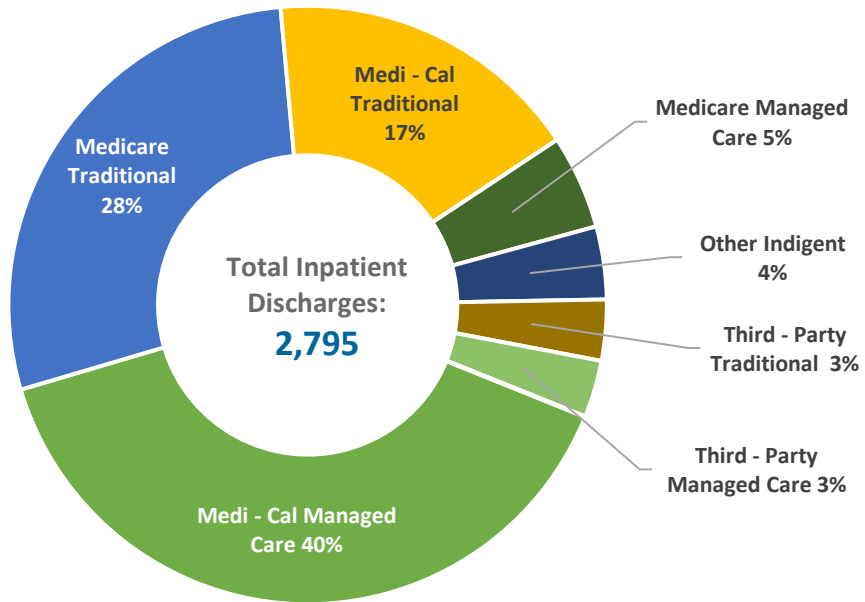
- The Hospital has one building rated SPC-2 (Main Building). The Main Building is in compliance with the pre-1973 California Building Standards Code but not in compliance with the Alquist Hospital Facilities Safety Act (SBC 1953). This building must be seismically retrofitted by January 1, 2030 in order to continue providing inpatient acute care services beyond January 1, 2030;
- The Hospital has three buildings rated as SPC-4. These buildings are in compliance with the structural provisions of the Alquist Hospital Facilities Seismic Safety Act (SBC 1953). Buildings in this category will have been constructed, or reconstructed, under a building permit obtained through OSHPD and may be used for inpatient services through and beyond January 1, 2030; and
- The Hospital has five buildings rated as NPC-1. These buildings do not meet the bracing and anchorage requirements set by OSHPD.

<sup>13</sup>OSHPD uses HAZARDS U.S. (HAZUS), a methodology used to assess the seismic risk of hospital buildings.

**Payer Mix**

The Hospital’s payer mix for FY 2017 consisted of a large proportion of Medi-Cal patients that accounted for over half (57%) of all inpatient hospital discharges. Medicare patients accounted for over 33% of all inpatient discharges, with Medicare Traditional at 28% and Medicare Managed Care at 5%. Thus, 90% of all inpatient hospital discharges are from the two governmental programs. Third-Party Managed Care and Third-Party Traditional each accounted for 3% of all inpatient hospital discharges. Additionally, 4% of all inpatient hospital discharges were indigent patients (uninsured/poor).

**Delano Regional Medical Center Payer Mix, FY 2017**



\*“Other” includes self-pay, workers’ compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report (unaudited), FY 2017 (based on inpatient discharges)

The following table provides the Hospital’s FY 2017 inpatient discharge payer mix compared to Kern County and the State of California. The comparison shows that the Hospital has much higher percentages of Medi-Cal Managed Care patients (39.3%) and Medi-Cal Traditional Patients (17.1%) relative to Kern County and California overall. The table also shows that the Hospital has a very low percentage of Third Party Traditional and Managed Care patients (6.4%) relative to Kern County (23.4%) and California overall (24%). For Other Indigent and County Indigent, Kern County had one percent, and the State of California had 1.1 percent whereas the Hospital had almost 4 percent.

<b>PAYER MIX COMPARISON</b>						
	<b>Delano Regional Medical Center (FY 2017)</b>		<b>Kern County (FY 2017)</b>		<b>California (FY 2017)</b>	
	<b>Discharges</b>	<b>% of Total</b>	<b>Discharges</b>	<b>% of Total</b>	<b>Discharges</b>	<b>% of Total</b>
Medi-Cal Traditional	479	17.1%	7,845	12.3%	401,877	13.3%
Medi-Cal Managed Care	1,099	39.3%	18,417	28.8%	614,137	20.4%
<b>Medi-Cal Total</b>	<b>1,578</b>	<b>56.5%</b>	<b>26,262</b>	<b>41.1%</b>	<b>1,016,014</b>	<b>33.7%</b>
Medicare Traditional	786	28.1%	14,970	23.4%	857,280	28.5%
Medicare Managed Care	142	5.1%	6,541	10.2%	331,493	11.0%
<b>Medicare Total</b>	<b>928</b>	<b>33.2%</b>	<b>21,511</b>	<b>33.7%</b>	<b>1,188,773</b>	<b>39.5%</b>
Third - Party Traditional	92	3.3%	2,840	4.4%	107,487	3.6%
Third - Party Managed Care	86	3.1%	12,121	19.0%	623,502	20.7%
<b>Third-Party Total</b>	<b>178</b>	<b>6.4%</b>	<b>14,961</b>	<b>23.4%</b>	<b>730,989</b>	<b>24.3%</b>
Other Payers	1	0.0%	450	0.7%	42,435	1.1%
Other Indigent	110	3.9%	185	0.3%	17,015	0.6%
County Indigent	-	0.0%	470	0.7%	15,525	0.5%
<b>Other Total</b>	<b>111</b>	<b>4.0%</b>	<b>1,105</b>	<b>1.7%</b>	<b>74,975</b>	<b>2.5%</b>
<b>Total</b>	<b>2,795</b>	<b>100%</b>	<b>63,839</b>	<b>100%</b>	<b>3,010,751</b>	<b>100%</b>

Source: OSHPD Hospital Annual Financial Disclosure Reports FY 2017

**Managed Medi-Cal Managed Care**

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

Kern County has a Two-Plan Model that offers a local initiative plan and a commercial plan. The Two-Plan Model is provided by Kern Family Health Care and Health Net Community Solutions, Inc. The local initiative and commercial plans contract with the Medi-Cal Managed Care program. The percentage of Kern County residents with Medi-Cal Managed Care coverage has increased significantly as a result of the Affordable Care Act (ACA) and California initiatives to expand managed care. Since 2014, the Medi-Cal eligibles count in Kern County has increased by 20% from 348,000 Medi-Cal eligibles in 2014 to 415,000 Medi-Cal eligibles in 2018.

## Medical Staff

The Hospital has relationships with 222 physicians on its medical staff with statuses including: active, honorary/emeritus, provisionals and affiliates. The four largest specialties, comprising 52% of the medical staff, include: primary care/ hospitalist, emergency medicine, cardiology, and nephrology. Of the 222 members of the medical staff, 87 are considered “active” users of the Hospital. Due to the difficulty in accessing specialty care services in the service area, the Hospital utilizes telemedicine coverage agreements to fill deficiencies in specialty services, including tele-cardiology, tele-neonatology, tele-neurology, and tele-radiology.

MEDICAL STAFF PROFILE		
Specialty	Count	% of Total
Anesthesiology	10	4.5%
Cardiology	11	4.9%
Dentist	1	0.4%
Emergency Medicine	19	8.5%
Family Practice	4	1.8%
Gastroenterology	3	1.3%
Infectious Disease	1	0.4%
Internal Medicine	6	2.7%
Nephrology	12	5.4%
Neurology	1	0.4%
Neurosurgery	1	0.4%
OB/GYN	9	4.0%
Orthopedics	2	0.9%
Otolaryngology	1	0.4%
Pathology	3	1.3%
Primary Care/ Hospitalist	15	6.7%
Pediatrics	8	3.6%
Pediatrics Hospitalist	6	2.7%
Physiatry	1	0.4%
Podiatry	4	1.8%
Pulmonology	2	0.9%
Radiology	9	4.0%
Surgery (general)	2	0.9%
Surgery (bariatric)	3	1.3%
Surgery (endovascular/vascular)	1	0.4%
Tele-cardiology (pediatric)	4	1.8%
Tele-neonatology	11	4.9%
Tele-neurology	3	1.3%
Tele-radiology	69	31.1%
<b>Total</b>	<b>222</b>	<b>100%</b>

Source: Delano Regional Medical Center, YTD 2019

## Patient Utilization Trends

The table below shows volume trends at the Hospital from FY 2013 through FY 2017:

DELANO REGIONAL MEDICAL CENTER SERVICE VOLUMES FY 2013 - FY 2017 <sup>1</sup>					
PATIENT DAYS	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Medical/Surgical <sup>2</sup>	7,075	7,361	5,409	5,704	5,320
Intensive Care	2,090	1,685	1,516	1,392	1,476
Obstetrics	1,784	1,673	1,338	1,444	1,458
Pediatrics Acute	466	495	271	131	538
Skilled Nursing	280	456	258	427	658
Subacute Care	17,022	18,723	17,637	17,093	16,936
<b>Total</b>	<b>28,717</b>	<b>30,393</b>	<b>26,429</b>	<b>26,191</b>	<b>26,386</b>
DISCHARGES					
Medical/Surgical <sup>2</sup>	1,772	2,510	1,715	1,553	1,592
Intensive Care	122	182	187	192	196
Obstetrics	560	644	549	688	695
Pediatrics Acute	179	183	102	57	271
Skilled Nursing	1	2	1	7	2
Subacute Care	40	138	17	33	39
<b>Total</b>	<b>2,674</b>	<b>3,659</b>	<b>2,571</b>	<b>2,530</b>	<b>2,795</b>
AVERAGE LENGTH OF STAY <sup>3</sup>					
Medical/Surgical <sup>2</sup>	4.0	2.9	3.2	3.7	3.3
Intensive Care	17.1	9.3	8.1	7.3	7.5
Obstetrics	3.2	2.6	2.4	2.1	2.1
Pediatrics Acute	2.6	2.7	2.7	2.3	2.0
Skilled Nursing	N/A	N/A	N/A	N/A	N/A
Subacute Care	N/A	N/A	N/A	N/A	N/A
<b>Total Acute<sup>4</sup></b>	<b>4.3</b>	<b>3.2</b>	<b>3.3</b>	<b>3.5</b>	<b>3.2</b>
AVERAGE DAILY CENSUS					
Medical/Surgical <sup>2</sup>	19.4	20.2	14.8	15.6	14.6
Intensive Care	5.7	4.6	4.2	3.8	4.0
Obstetrics	4.9	4.6	3.7	4.0	4.0
Pediatrics Acute	1.3	1.4	0.7	0.4	1.5
Skilled Nursing	0.8	1.2	0.7	1.2	1.8
Subacute Care	46.6	51.3	48.3	46.8	46.4
<b>Total</b>	<b>79</b>	<b>83</b>	<b>72</b>	<b>72</b>	<b>72</b>
OTHER SERVICES					
Inpatient Surgeries	621	1,751	1,738	1,690	1,197
Outpatient Surgeries	2,063	1,270	2,665	2,502	2,199
Emergency Service Visits	27,142	30,397	30,605	30,571	29,642
Total Live Births	817	876	739	715	775

Sources: OSHPD Disclosure Reports, FY 2013 - FY 2017

<sup>1</sup> FY 2017 financial information is unaudited

<sup>2</sup> Includes Definitive Observation Beds

<sup>3</sup> The Sub-acute and Skilled Nursing average length of stay can extend over many years and so are not reflected on the table

<sup>4</sup> Excludes Sub-acute care and Skilled Nursing (D/P)

A review of the Hospital's historical utilization trends, between FY 2013 and FY 2017, supports the following conclusions:

- Total patient days decreased by 9%;
- Nearly 65% of patient days are attributed to the sub-acute care unit that represents approximately 46 of the 72 beds that are occupied on average;
- Total live births have decreased by 5.4% to 775 births in FY 2017; and
- Total discharges have increased by 5% to 2,795 discharges in FY 2017.

## Financial Profile

Over the last five fiscal years, the Hospital has maintained a positive net income ranging from approximately \$4.9 million in FY 2017 to \$22.8 million in FY 2014. The net patient revenue and operating revenue in FY 2017 were lower than the three preceding fiscal years. From FY 2013 to FY 2017, the Hospital's operating expenses increased by approximately 9% from \$69.0 million to \$75.3 million.

A significant portion of the Hospital's revenue is derived from the federal government through the Hospital's designation as a Disproportionate Share Hospital and through Hospital Quality Assurance Fees. Hospitals designated as a Disproportionate Share Hospital are eligible to receive matching qualified Medi-Cal expenditures and additional revenue from the federal government for the unrecovered costs associated to providing care to Medi-Cal and other indigent patients. The Hospital Quality Assurance Fees provide supplemental payments to California hospitals that serve Medi-Cal and uninsured patients. The Hospital is dependent on this revenue from these two programs to operate with a positive net income. If these funding sources reduced or eliminated their payments, the Hospital may not remain profitable.

DELANO REGIONAL MEDICAL CENTER						
FINANCIAL AND RATIO ANALYSIS FY 2013 - FY 2017 <sup>1</sup>						
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 <sup>2</sup>	
Patient Days	28,717	30,393	26,429	26,191	26,386	-
Discharges	2,674	3,659	2,571	2,530	2,795	-
ALOS	10.7	8.3	10.3	10.4	9.4	-
Net Patient Revenue	\$76,293,783	\$81,630,159	\$79,755,184	\$85,731,134	\$78,237,421	-
Other Operating Revenue	\$1,403,867	\$1,474,544	\$1,088,176	\$1,157,703	\$538,720	-
Total Operating Revenue	\$77,697,650	\$83,104,703	\$80,843,360	\$86,888,837	\$78,776,141	-
Operating Expenses	\$68,983,918	\$70,576,844	\$72,258,228	\$79,942,864	\$75,256,272	-
Net from Operations	\$8,713,732	\$12,527,859	\$8,585,132	\$6,945,973	\$3,519,869	-
Net Non-Operating Revenues and Expenses	\$1,366,385	\$10,277,231	\$612,491	\$2,531,984	\$1,419,190	-
<b>Net Income</b>	<b>\$10,080,117</b>	<b>\$22,805,090</b>	<b>\$9,197,623</b>	<b>\$9,477,957</b>	<b>\$4,939,059</b>	-
						2017 California
Current Ratio	6.97	5.20	6.12	5.92	3.42	1.56
Days in A/R	17.8	31.2	36.9	32.5	49.0	54.6
Bad Debt Rate	3.2%	2.3%	1.2%	0.9%	1.8%	0.8%
Operating Margin	11.21%	15.07%	10.62%	7.99%	4.47%	3.13%

Source: OSHPD Disclosure Reports, FY 2013 - FY 2017

<sup>1</sup> FY 2017 financial data is unaudited.

The Hospital's current ratio<sup>14</sup> has decreased over the last five years from 6.97 in FY 2013 to 3.42 in FY 2017 (the California average in FY 2017 was 1.56). The Hospital's percentage of bad debt is 1.8% and higher than the statewide average of 0.8%.

<sup>14</sup>The current ratio compares a company's current assets to its current liabilities to measure its ability to pay short-term and long-term debt obligations. A low current ratio of less than 1.0 could indicate that a company may have difficulty meeting its current obligations. The higher the current ratio, the more capable the company is of paying its obligations as it has a larger proportion of assets relative to its liabilities.



### Cost of Hospital Services

The Hospital's cost of services includes both inpatient and outpatient care. In FY 2017, 49% of total costs were associated with Medi-Cal, followed by 34% with Medicare, and 12% with Third – Party.

DELANO REGIONAL MEDICAL CENTER OPERATING EXPENSES BY PAYER CATEGORY FY 2013 - FY 2017 <sup>1</sup>					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Operating Expenses</b>	<b>\$68,983,918</b>	<b>\$70,576,844</b>	<b>\$72,258,228</b>	<b>\$79,942,864</b>	<b>\$75,256,272</b>
<b>Cost of Services by Payer:</b>					
Medicare	\$26,399,736	\$15,444,182	\$21,039,221	\$25,866,352	\$25,317,960
Medi-Cal	\$28,518,963	\$41,034,535	\$38,576,483	\$40,872,868	\$37,250,307
County Indigent	\$1,265,567	\$1,280,337	\$1,061,675	\$0	\$0
Third-Party	\$9,006,104	\$8,214,493	\$7,996,130	\$9,613,260	\$8,834,981
Other Indigent	\$139,277	\$94,412	\$572,443	\$580,933	\$1,256,479
All Other Payers	\$3,654,272	\$4,508,884	\$3,012,276	\$3,009,452	\$2,596,545

Source: OSHPD Disclosure Reports, FY 2013 - FY 2017

<sup>1</sup> FY 2017 financial data is unaudited.

## Charity Care

The following table shows a comparison of charity care and bad debt for the Hospital to all general acute care hospitals in the State of California. The five-year (FY 2013 – FY 2017) average of charity care and bad debt, as a percentage of gross patient revenue, was 2.6% and higher than the five-year statewide average of 2.2%. According to OSHPD, “...the determination of what is classified as charity care can be made by establishing whether or not the patient has the ability to pay. The patient’s accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account.”

DELANO REGIONAL MEDICAL CENTER CHARITY CARE COMPARISON FY 2013 - FY 2017 <sup>1</sup> (In Thousands)										
	FY 2013		FY 2014		FY 2015		FY 2016		FY 2017	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	\$209,396	\$320,382,471	\$211,144	\$338,322,364	\$207,098	\$365,501,463	\$203,417	\$396,427,743	\$202,241	\$408,188,146
Charity	\$423	\$6,563,487	\$282	\$5,113,965	\$1,641	\$3,441,227	\$1,478	\$3,457,868	\$3,377	\$2,864,615
Bad Debt	\$6,805	\$5,891,632	\$4,854	\$4,365,936	\$2,533	\$3,262,642	\$1,840	\$3,108,971	\$3,667	\$2,762,692
<b>Total Charity &amp; Bad Debt</b>	<b>\$7,227</b>	<b>\$12,455,119</b>	<b>\$5,137</b>	<b>\$9,479,902</b>	<b>\$4,174</b>	<b>\$6,703,869</b>	<b>\$3,318</b>	<b>\$6,566,839</b>	<b>\$7,044</b>	<b>\$5,627,308</b>
Charity Care as a % of Gross Patient Revenue	0.2%	2.0%	0.1%	1.5%	0.8%	0.9%	0.7%	0.9%	1.7%	0.7%
Bad Debt as a % of Gross Patient Revenue	3.2%	1.8%	2.3%	1.3%	1.2%	0.9%	0.9%	0.8%	1.8%	0.7%
Total as a % of Gross Patient Revenue	3.5%	3.9%	2.4%	2.8%	2.0%	1.8%	1.6%	1.7%	3.5%	1.4%
<b>Uncompensated Care</b>										
Cost to Charge Ratio	32.3%	24.5%	32.7%	23.6%	34.4%	24.1%	38.7%	23.8%	36.9%	23.0%
Charity	\$136	\$1,608,711	\$92	\$1,207,919	\$564	\$828,647	\$573	\$822,627	\$1,247	\$658,891
Bad Debt	\$2,196	\$1,444,039	\$1,589	\$1,031,234	\$871	\$785,644	\$713	\$739,624	\$1,355	\$635,448
<b>Total</b>	<b>\$2,333</b>	<b>\$3,052,750</b>	<b>\$1,681</b>	<b>\$2,239,153</b>	<b>\$1,434</b>	<b>\$1,614,292</b>	<b>\$1,285</b>	<b>\$1,562,251</b>	<b>\$2,602</b>	<b>\$1,294,339</b>

Source: OSHPD Disclosure Reports FY 2013 - FY 2017

<sup>1</sup> FY 2017 financial data is unaudited.

The table on the following page shows the Hospital's historical costs for charity care as reported to OSHPD. Charity care costs have increased from \$136,0442 in FY 2013 to \$1,247,485 in FY 2017. The average cost of charity care for the last five-year period was \$552,542 while the three-year average cost of charity care was \$794,609.

DELANO REGIONAL MEDICAL CENTER COST OF CHARITY CARE FY 2013 - FY 2017 <sup>1</sup>			
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital
FY 2017	\$3,376,620	36.9%	\$1,247,485
FY 2016	\$1,478,200	38.7%	\$572,520
FY 2015	\$1,640,666	34.4%	\$563,822
FY 2014	\$282,450	32.7%	\$92,439
FY 2013	\$422,766	32.3%	\$136,442
<b>3-Year Average (FY 2015-2017)</b>			<b>\$794,609</b>
<b>5-Year Average (FY 2013-2017)</b>			<b>\$522,542</b>

Source: OSHPD Disclosure Reports FY 2013 - FY 2017

<sup>1</sup> FY 2017 financial data is unaudited.

In the written notice to the California Attorney General, the Hospital reported the following combined distribution of charity care costs by inpatient, outpatient, and emergency room visits. Note that these totals are different than what the Hospital reported to OSHPD. The Hospital's Charity Care and Discount Policy states that persons with family income at or below 200% of the federal policy level, and without other sources to pay for care received, qualify to receive free care. Persons with family income between 201% and 350% of the federal policy level, and without other sources to pay for care received, qualify to receive care at Medicare rates. Persons with family income between 351% and 400% of the federal policy level, qualify to receive a 50% discount off routine charges.

DELANO REGIONAL MEDICAL CENTER COST OF CHARITY CARE BY SERVICE FY 2013 - FY 2017				
	Inpatient	Emergency	Outpatient	Total Costs
<b>FY 2017:</b>				
Cost of Charity	\$81,161	\$73,496	\$63,998	\$218,655
Visits/Discharges	13	117	1,136	
<b>FY 2016:</b>				
Cost of Charity	\$231,777	\$111,737	\$66,545	\$410,059
Visits/Discharges	42	140	853	
<b>FY 2015:</b>				
Cost of Charity	\$285,347	\$115,606	\$73,092	\$474,045
Visits/Discharges	56	137	1,062	
<b>FY 2014:</b>				
Cost of Charity	\$304,455	\$71,635	\$81,849	\$457,939
Visits/Discharges	64	135	1,534	
<b>FY 2013:</b>				
Cost of Charity	\$399,394	\$156,368	\$47,227	\$602,989
Visits/Discharges	68	294	555	

Source: Delano Regional Medical Center

## Community Benefit Services

In the last five fiscal years, the Hospital has provided several community benefit services. As shown in the table below, the average annual cost of community benefit services over the five years was \$830,194.

DELANO REGIONAL MEDICAL CENTER COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Average	Total
Benefits for Persons Living in Poverty	\$313,593	\$83,997	\$49,615	\$46,463	\$43,092	\$107,352	\$536,760
Benefits for Broader Community	\$824,169	\$916,110	\$511,864	\$486,586	\$875,483	\$722,842	\$3,614,212
<b>Total</b>	<b>\$1,137,762</b>	<b>\$1,000,107</b>	<b>\$561,479</b>	<b>\$533,049</b>	<b>\$918,575</b>	<b>\$830,194</b>	<b>\$4,150,972</b>

Source: The Hospital

The following table lists the Hospital's community benefit services over the past five fiscal years that cost over \$10,000, followed by descriptions of these community benefit service:

COST OF COMMUNITY BENEFIT SERVICES FY 2014-2018					
Services over \$10,000 in cost:	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Community Health Education	\$183,384	\$28,770	\$20,015	\$16,303	\$10,150
Community Health Screenings	\$92,515	\$57,012	\$24,895	\$23,481	\$17,588
Transportation Program	\$17,220	\$15,990	\$16,105	\$15,230	\$12,145
Workforce Development/Job Training	\$671,654	\$796,098	\$423,969	\$400,105	\$794,895
Cash & In-kind Donations	\$112,989	\$29,237	\$13,495	\$14,930	\$20,797
Community Benefit Coordinator	\$60,000	\$63,000	\$63,000	\$63,000	\$63,000

Source: The Hospital

The Hospital's community benefit services have supported several initiatives in the community as described below:

- Community Health Screenings:
  - This includes health fairs related to the 2013 and 2016 Community Health Needs Assessments and implementation strategies. The most recent 2016 Community Health Needs Assessment identified the priority health needs as diabetes management, obesity, and overall greater access to healthcare. In response, the Hospital held health fairs that included the testing of A1C, blood pressure, glucose, cholesterol, and body mass index testing with the facilitation of registered nurses at each event; and
  - The Hospital provides flu shots through its community-wide Flu Shot Program conducted in the fall and winter each year. This program helps better health and well-being for the residents of the service area. Flu vaccines are provided by Department of Health, and the Hospital provides the licensed staff.

- Community Education/Seminars:
  - The Workforce Development and Job Training program consists of multiple partnerships with local trade and vocational institutions in the area. The program allows local community students to take part in clinical rotations and educational programs at the Hospital, providing convenience to local community members advancing their education. The Hospital also provides an opportunity for local Cal-Works program participants to obtain volunteer positions within the Hospital and hospital-based clinics with the opportunity to job shadow and gain the necessary skills for a career in the healthcare industry;
  - Breast Cancer education and early detection services for women in the community. Educators promote in the community and schools the Family PACT Program that ensure that low-income women and men have access to health information, counseling and family planning services to reduce the likelihood of unintended pregnancy, as well as maintain optimal reproductive health; and
  - The Hospital partners with organizations in the community to educate and engage the community with interactive tools, educational materials, and other resources from the American Heart Association. The Hospital visits farm sites and tests blood pressure on farmworkers while educating them on the dangers of high blood pressure and stroke.
- Transportation program: The Hospital provides transportation to patients that lack transportation after discharge from the Hospital; and
- Cash and In-Kind Donations: Financial and in-kind support to community organizations, school districts, and other community service groups that benefit the well-being of the community.

## Reproductive Health

For Calendar Year (CY) 2017, the Hospital reported 64 inpatient discharges related to reproductive health services. The table below lists reproductive services by diagnostic related group discharges for CY 2017.

DELANO REGIONAL MEDICAL CENTER CY 2017 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP	
	Discharges
767-Vaginal Delivery W Sterilization &/Or D&C <sup>1</sup>	35
778-Threatened Abortion	17
777-Ectopic Pregnancy	9
770-Abortion W D&C, Aspiration Curettage or Hysterotomy <sup>1</sup>	1
779-Abortion W/O D&C <sup>1</sup>	2
<b>Total Discharges:</b>	<b>64</b>

Source: OSHPD Inpatient Discharge Database, CY 2017

<sup>1</sup>D&C is an abbreviation for Dilation and Curettage

- Out of the five diagnostic related groups, 767-Vaginal Delivery W Sterilization &/Or D&C has the highest number of inpatient reproductive health discharges at the Hospital.

## Analysis of the Hospital's Service Area

### *Service Area Definition*

Based upon the Hospital's CY 2017 inpatient discharges, the Hospital's service area is comprised of eight ZIP Codes from which 91% of inpatient discharges originated. Nearly 70% of the Hospital's discharges originated from the top two ZIP Codes located in Delano and McFarland. In CY 2017, the Hospital's market share in the service area was approximately 33% based on total area discharges.

PATIENT ORIGIN CY 2017						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
93215	Delano	1,581	55.1%	55.1%	3,699	42.7%
93250	McFarland	397	13.8%	69.0%	951	41.7%
93219	Earlimart	231	8.1%	77.0%	794	29.1%
93280	Wasco	195	6.8%	83.8%	1,864	10.5%
93261	Richgrove	74	2.6%	86.4%	186	39.8%
93216	Delano	68	2.4%	88.8%	169	40.2%
93201	Alpaugh	27	0.9%	89.7%	116	23.3%
93249	Lost Hills	25	0.9%	90.6%	164	15.2%
<b>Sub-Total</b>		<b>2,598</b>	<b>90.6%</b>	<b>90.6%</b>	<b>7,943</b>	<b>32.7%</b>
<b>Other ZIPs</b>		<b>270</b>	<b>9.4%</b>	<b>100%</b>		
<b>Total</b>		<b>2,868</b>	<b>100%</b>			

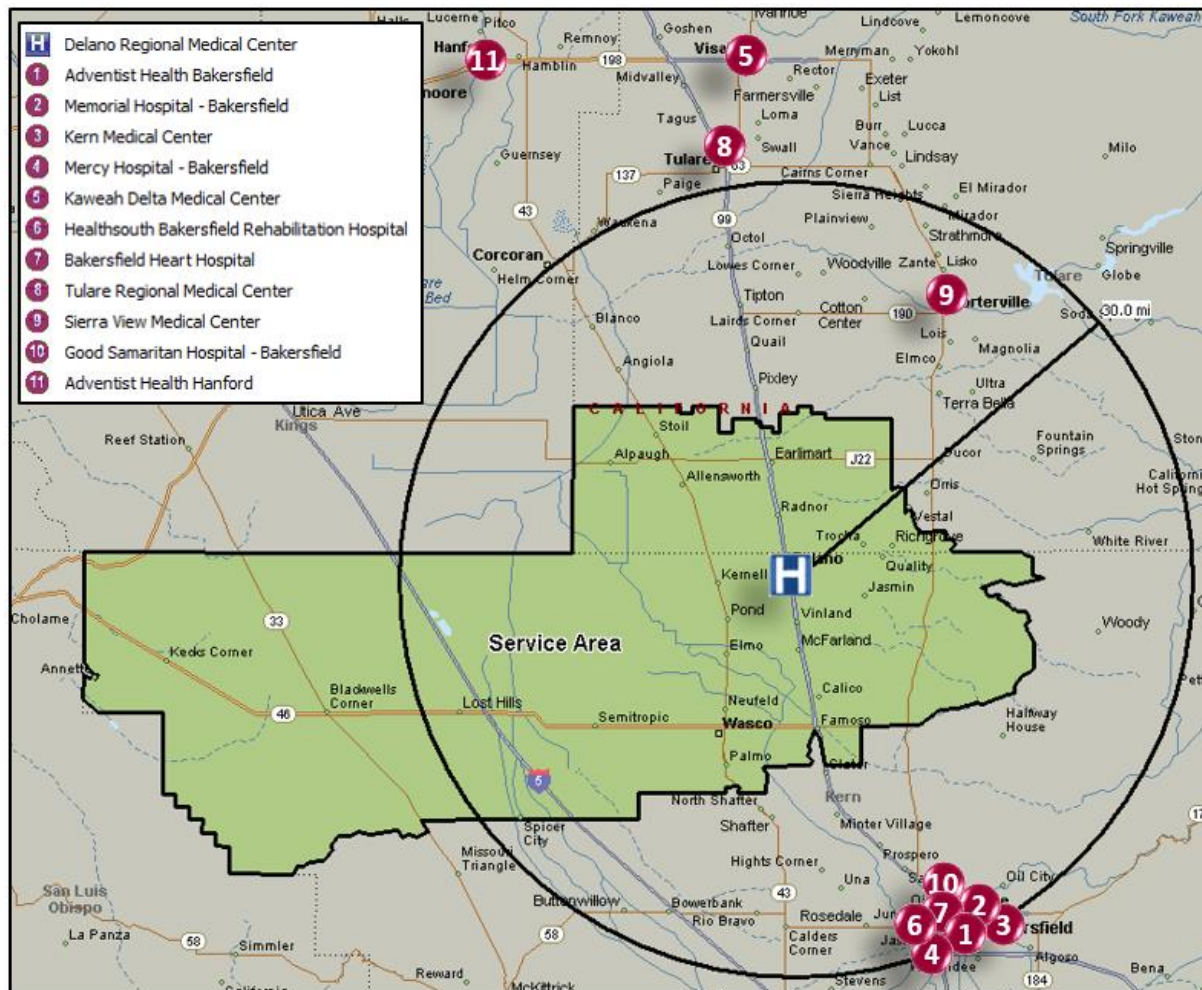
Source: OSHPD Patient Discharge Database, CY 2017

Note: Excludes normal newborns

## Service Area Map

The Hospital's service area, with approximately 118,000 residents, includes the communities of Delano, McFarland, Earlimart, Wasco, Richgrove, Alpaugh, and Lost Hills.

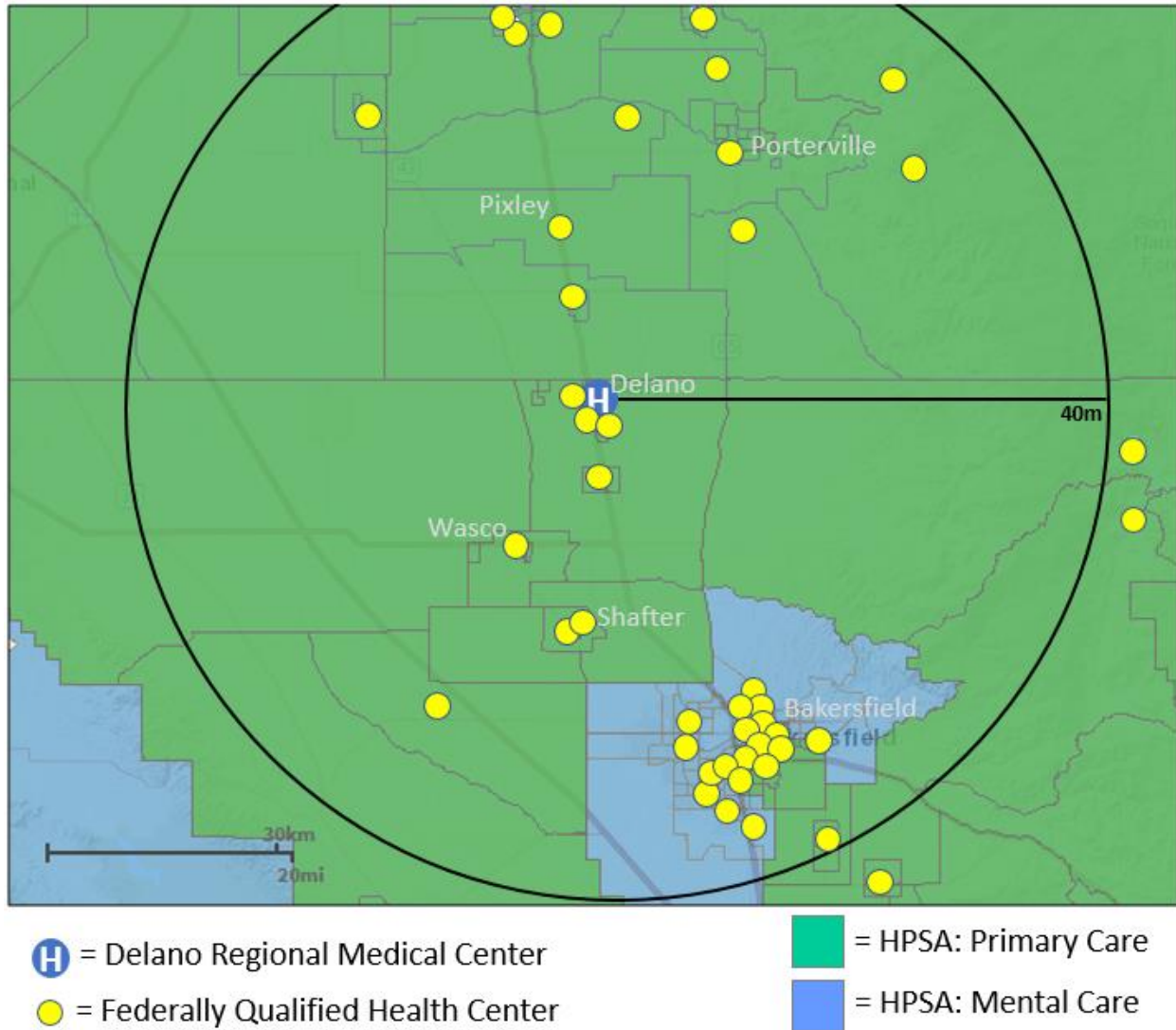
The Hospital ranks first in inpatient market share in the service area. There are no other general acute care hospitals located within the Hospital's service area, however, there are several hospitals located outside of the service area that do provide healthcare services to area residents. There are eight hospitals located within 40 miles of the Hospital: Sierra View Medical Center in Porterville (30 miles), Good Samaritan Hospital – Bakersfield in Bakersfield (29 miles), Bakersfield Heart Hospital in Bakersfield (31 miles), Memorial Hospital – Bakersfield in Bakersfield (32 miles), Mercy Hospital – Bakersfield in Bakersfield (32 miles), Adventist Health Bakersfield in Bakersfield (32 miles), Kern Medical Center in Bakersfield (35 miles), and Tulare Regional Medical Center in Tulare (34 miles).





### Health Professional Shortage Areas (HPSA)

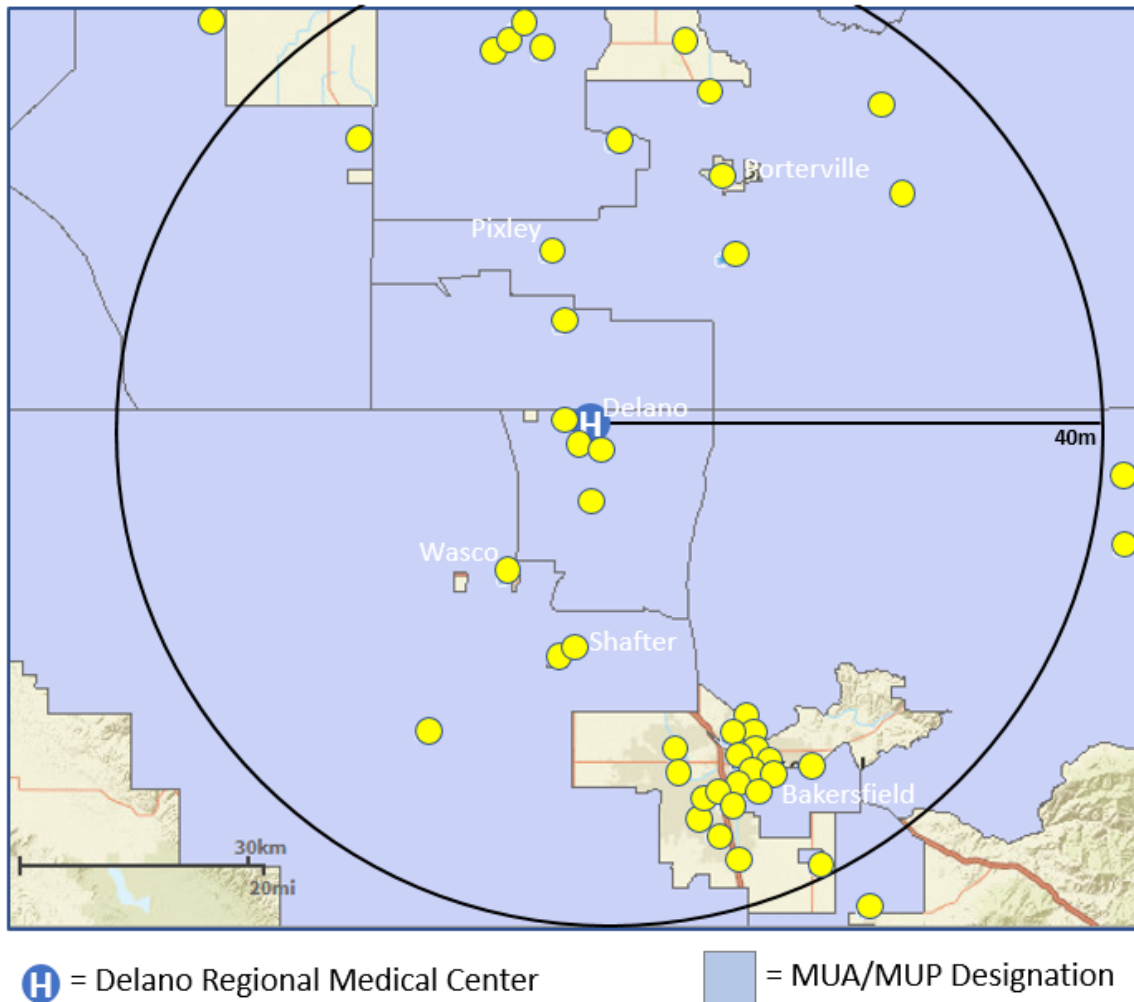
The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Both the Hospital and its entire service area are in designated shortage areas. The map below shows the shortage areas relative to the Hospital's location.



Source: Health Resource & Services Administration & The California Department of Health and Human Services

### Medically Underserved Areas & Medically Underserved Populations

Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local conditions that result in access barriers to medical services. Medically Underserved Areas and Medically Underserved Populations are permanently set, and no renewal process is necessary. The map below depicts the Medically Underserved Areas and Medically Underserved Populations relative to the Hospital's location.



Source: Health Resource & Services Administration & The California Department of Health and Human Services

Based on the census tract where the Hospital is located, the surrounding area is designated as a Medically Underserved Area or as a Medically Underserved Population. There are also over 40 Federally Qualified Health Centers within a 40-mile radius of the Hospital. Federally Qualified Health Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. They must provide primary care services to an underserved area or population, offer a sliding fee scale, have an ongoing quality assurance program, and have a governing board of directors. The ACA included provisions that increased federal funding to Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges.

**Demographic Profile**

The Hospital’s service area population is projected to grow by 4.2% over the next five years. This is lower than the expected growth rate for Kern County (4.9%) and slightly higher than the State of California (4.1%).

SERVICE AREA POPULATION STATISTICS			
	2018 Estimate	2023 Estimate	% Change
Total Population	117,965	122,924	4.2%
Total Households	20,763	21,378	3.0%
Percentage Female	42.6%	43.0%	-

Source: Esri

The ethnicity with the largest population in the Hospital’s service area is White (56.5%) followed by Some Other Race (26.9%) and Black (5.5%). Approximately 45.8% of the service area population is of non-Hispanic origin. This is the same percentage as in Kern County (45.8%) but lower than the California non-Hispanic population of 61.0%.

SERVICE AREA POPULATION RACE/ETHNICITY		
	2018 Estimate	2023 Projection
White	56.5%	55.0%
Black	5.5%	5.3%
Asian Indian	1.4%	1.4%
Asian Alone	4.7%	5.1%
Pacific Islander	0.1%	0.1%
Some Other Race	26.9%	28.1%
Two or More Races	4.9%	5.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Hispanic Origin	54.2%	57.9%
Non-Hispanic or Latino	45.8%	42.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Esri

The median age of the population in the Hospital’s service area is 44.3 years and considerably higher than the statewide median age of 34.3 years. The percentage of adults over the age of 65 is the fastest growing age cohort, increasing by approximately 18.4% between 2018 and 2023.

SERVICE AREA POPULATION AGE DISTRIBUTION				
Cohort	2018 Estimate		2023 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	30,021	25.4%	31,467	25.6%
Age 15-44	58,838	49.9%	60,421	49.2%
Age 45-64	21,286	18.0%	21,780	17.7%
Age 65+	7,820	6.6%	9,256	7.5%
<b>Total</b>	<b>117,965</b>	<b>100%</b>	<b>122,924</b>	<b>100%</b>
Female 15- 44	22,420	19.0%	23,161	18.8%
Median Age	44.3		45.1	-

Source: Esri

The Hospital’s service area households have an average median household income of \$37,795. This is 40% lower than the Kern County average of \$52,842 and 73% lower than the State of California average of \$65,223. The percentage of higher-income households (\$150,000+) in the Hospital’s service area is projected to grow at a faster rate (10.6%) than the Kern County rate of (7.9%) and the State of California rate of approximately (6.0%).

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION						
Household Income	2018 Estimate			2023 Projection		
	Service Area	Kern County	California	Service Area	Kern County	California
\$0 - \$15,000	15.7%	12.4%	9.6%	13.3%	10.7%	8.0%
\$15 - \$24,999	15.3%	10.9%	8.3%	13.0%	9.1%	6.8%
\$25 - \$34,999	14.6%	10.3%	7.8%	13.1%	9.0%	6.5%
\$35 - \$49,999	17.7%	13.7%	11.1%	17.0%	12.6%	9.9%
\$50 - \$74,999	17.0%	17.1%	16.1%	17.9%	16.6%	15.2%
\$75 - \$99,999	8.3%	11.7%	12.2%	9.7%	12.1%	12.3%
\$100 - \$149,999	8.1%	13.1%	16.1%	11.1%	15.4%	17.7%
\$150,000 - \$199,999	2.1%	5.4%	8.1%	3.0%	6.8%	9.6%
\$200,000+	1.3%	5.4%	10.7%	1.9%	7.7%	14.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Median Household Income</b>	<b>\$37,795</b>	<b>\$52,842</b>	<b>\$65,223</b>	<b>\$43,101</b>	<b>\$60,614</b>	<b>\$74,370</b>

Source: Esri

## Medi-Cal Eligibility

With the implementation of the ACA and the statewide expansion of Medi-Cal, 13.2 million of the State of California’s population are eligible for Medi-Cal (33% of California’s population). In Kern County, the California Department of Health Care Services estimated 417,372 people were eligible for Medi-Cal in August 2018 (47% of Kern County’s population). Out of the total estimated population in Kern County, 36% of the population was enrolled for Medi-Cal Managed Care. Since the population in the Hospital’s service area is poorer than Kern County, it is expected that the percent eligible for Medi-Cal would exceed 47%. Medi-Cal eligibility could be significantly affected in the coming years by the potential change or repeal of the ACA.

## Selected Health Indicators

A review of health indicators for Kern County (deaths, diseases, and births) is shown below.

2018 NATALITY STATISTICS: RATE PER 1,000 LIVE BIRTHS			
Health Status Indicator	Kern County	California	National Objective
Low Birth Rate	7.3	6.8	7.8
First Trimester Prenatal Care	76.8	83.3	77.9
Adequate/Adequate Plus Prenatal Care	71.8	77.9	77.6

Source: California Department of Public Health

Kern County had higher morbidity rates for six of the eight health status indicators than the State of California;

2018 MORBIDITY STATISTICS: RATE PER 100,000 POPULATION			
Health Status Indicator	Kern County	California	National Objective
HIV/AIDS Incidence (Age 13 and Over) <sup>1</sup>	230.8	391.7	a
Chlamydia Incidence	707.6	480.3	c
Gonorrhea Incidence Female Age 15-44	373.9	218.0	251.9
Gonorrhea Incidence Male Age 15-44	416.4	372.6	194.8
Tuberculosis Incidence	3.3	5.4	1.0
Congenital Syphilis	172.7	30.6	9.6
Primary Secondary Syphilis Female	12.8	2.6	1.3
Primary Secondary Syphilis Male	28.8	22.5	6.7

Source: California Department of Public Health

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

<sup>1</sup>California Department of Public Health, Office of AIDS, HIV/AIDS Surveillance Section reporting periods are: Current Period 2013-2015, Previous Period 2010-2012.

#: Denotes a suppressed data element in accordance with Data De-Identification Guidelines. Please see County Health Status Profiles 2018, Technical Notes, Data Definitions.

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

b: National Objective is based on both underlying and contributing cause of death which requires use of multiple cause of death files.

California’s data exclude multiple/contributing causes of death.

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

The overall age-adjusted mortality rate for Kern County is higher than that of the State of California. Kern County reported higher age-adjusted mortality rates on 17 of the 18 causes.

2018 MORTALITY STATISTICS: RATE PER 100,000 POPULATION				
Selected Cause	Kern County		Age Adjusted	
	Crude Death Rate	Age Adjusted Death Rate	California	National Objective
All Causes	660.5	795.6	608.5	a
All Cancers	130.5	153.4	140.2	161.4
Colorectal Cancer	10.4	12.5	12.8	14.5
Lung Cancer	28.6	33.7	28.9	45.5
Female Breast Cancer	20.6	21.7	19.1	20.7
Prostate Cancer	14.0	21.2	19.6	21.8
Diabetes	29.7	36.1	20.7	b
Alzheimer's Disease	36.9	51.5	34.2	a
Coronary Heart Disease	107.7	132.6	89.1	103.4
Cerebrovascular Disease (Stroke)	29.3	36.8	35.3	34.8
Influenza/Pneumonia	11.8	14.4	14.3	a
Chronic Lower Respiratory Disease	44.0	55.0	32.1	a
Chronic Liver Disease and Cirrhosis	14.2	15.3	12.2	8.2
Accidents (Unintentional Injuries)	50.5	54.0	30.3	36.4
Motor Vehicle Traffic Crashes	15.3	15.7	8.8	12.4
Suicide	13.5	14.2	10.4	10.2
Homicide	8.7	8.8	5.0	5.5
Firearm-Related Deaths	12.0	12.5	7.6	9.3
Drug-Induced Deaths	24.1	25.0	12.2	11.3

Source: California Department of Public Health  
a: Healthy People 2020 (HP 2020) National Objective has not been established.  
b: National Objective is based on both underlying and contributing cause of death which requires use of multiple cause of death files. California's data exclude multiple/contributing causes of death.  
c: Prevalence data are not available in all California counties to evaluate the Healthy People 2020 National Objective STD-1, as the Healthy People objective is restricted to females who are 15-24 years old and identified at a family planning clinic, and males and females under 24 years old who participate in a national job-training program.

## **2016 Community Health Needs Assessment**

In an effort to understand the communities served by the Hospital, their most critical healthcare needs, and the resources available to meet those needs, the Hospital conducts a Community Health Needs Assessment every three years. The Hospital's most recent 2016 assessment incorporated primary data collected through interviews, focus groups and surveys. Secondary data was gathered from a variety of studies and reports compiled by numerous organizations at the local, state, and national levels. Communities and ZIP Codes included in the Hospital's assessment are listed below:

<b>ZIP Code</b>	<b>Community</b>
93215	Delano
93219	Earlimart
93250	McFarland
93261	Richgrove
93263	Shafter
93280	Wasco

Based on findings from the 2016 Community Health Needs Assessment, the following priorities were identified as the most important health and socioeconomic needs:

- Health Outcomes: mental health, access to care, diabetes, cardiovascular disease, lung disease, asthma, maternal and infant health, cancer rates, and oral health;
- Social Determinants: High rates of individuals below the federal poverty level, high unemployment rates, lower median household incomes and lower educational attainment, substance abuse, obesity, HIV/AIDS/STDs, and environmental health; and
- Clinical Care: Poor access to primary care and behavioral health, lack of preventive screenings for cancer, and inadequate prenatal care.

### **Hospital Supply, Demand & Market Share**

The Hospital is the only general acute care hospital in its service area. There are six other hospitals located within 36 miles of the Hospital, and one other hospital located 49 miles from the Hospital, that together provide health services to residents of the communities within the Hospital’s service area. Together, the hospitals reported a combined total of 2,050 licensed beds with an overall occupancy rate of nearly 60%.

AREA HOSPITAL DATA							
Hospital	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied	Miles from the Hospital
<b>Delano Regional Medical Center</b>	<b>Delano</b>	<b>156</b>	<b>2,795</b>	<b>26,386</b>	<b>72</b>	<b>46.3%</b>	
Adventist Health Bakersfield	Bakersfield	254	17,972	74,076	203	79.9%	31.4
Bakersfield Memorial Hospital*	Bakersfield	421	15,571	66,452	182	43.2%	32.2
Mercy Hospital Bakersfield*	Bakersfield	222	13,903	44,367	122	54.8%	32.2
Healthsouth Bakersfield Rehab. Hospital*	Bakersfield	86	1,975	23,783	65	75.8%	33.7
Tulare Regional Medical Center*	Tulare	108	849	3,134	9	8.0%	33.8
Kern Medical Center*	Bakersfield	222	10,081	48,924	134	60.4%	35.4
Kaweah Delta Medical Center*	Visalia	581	27,525	153,862	422	72.6%	48.5
<b>Total</b>		<b>2,050</b>	<b>90,671</b>	<b>440,984</b>	<b>1,208</b>	<b>58.9%</b>	

Source: OSHPD Disclosure Report FY 2017

\*2017 Audited data unavailable, 2017 submitted data shown



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

**Hospital Market Share**

The table below shows inpatient service area market share by hospital from CY 2013 to CY 2017.

SERVICE AREA MARKET SHARE BY HOSPITAL, CY 2013 - CY 2017						
Hospital	2013	2014	2015	2016	2017	Trend
<b>Delano Regional Medical Center</b>	<b>37.2%</b>	<b>35.8%</b>	<b>33.4%</b>	<b>30.7%</b>	<b>32.7%</b>	↘
Adventist Health Bakersfield	19.3%	21.0%	18.1%	18.1%	18.2%	→
Bakersfield Memorial Hospital	9.1%	9.2%	11.2%	11.6%	12.4%	↗
Kern Medical Center	8.4%	7.1%	7.9%	7.9%	8.6%	↗
Mercy Hospital - Bakersfield	7.3%	7.0%	6.8%	8.3%	7.3%	→
Valley Children's Hospital	3.6%	3.9%	4.4%	4.5%	4.1%	→
Kaweah Delta Medical Center	1.3%	1.4%	1.9%	3.6%	3.3%	↗
Healthsouth Bakersfield Rehab. Hospital	1.2%	1.3%	1.5%	1.4%	1.5%	→
Bakersfield Heart Hospital	2.0%	2.0%	1.7%	1.5%	1.5%	↘
Tulare Regional Medical Center	3.0%	3.4%	3.4%	2.2%	1.5%	↘
Sierra View Medical Center	1.2%	0.9%	1.5%	1.3%	1.2%	→
All Other	6.5%	7.0%	8.2%	8.7%	7.6%	→
<b>Total Percentage</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
<b>Total Discharges</b>	<b>8,304</b>	<b>8,710</b>	<b>7,569</b>	<b>7,386</b>	<b>7,943</b>	↘

Source: OSHPD Discharge Database, CY 2013-2017

- From CY 2013 to CY 2017, the Hospital has consistently ranked first in overall service area market share based on discharges (32.7% in CY 2017). However, the Hospital has lost nearly five market share percentage points over the same period from 37.2% market share in CY 2013 to 32.7% market share in CY 2017;
- Adventist Health Bakersfield, located 31 miles away, ranks second with 18.2% market share in CY 2017. Adventist Health Bakersfield provides inpatient services under contracts to Kaiser Permanente and these patients are reflected in their market share;
- Overall, service area inpatient discharges have decreased by 4.3%, from 8,304 discharges in CY 2013 to 7,943 discharges in CY 2017;
- Bakersfield Memorial Hospital, ranking third in inpatient market share, has increased service area market share from 9.1% in CY 2013 to 12.4% in CY 2017; and
- Dignity Health’s two hospitals, Bakersfield Memorial and Mercy Hospital – Bakersfield had a combined market share of 19.7% in 2017.

## Market Share by Payer Type

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

SERVICE AREA MARKET SHARE BY PAYER, CY 2017						
	Total			Private		
	Discharges	Medi-Cal	Medicare	Coverage	Self-Pay	All Other
Delano Regional Medical Center	2,598	39.4%	38.0%	12.2%	44.7%	4.3%
Adventist Health Bakersfield	1,445	7.4%	20.9%	26.1%	10.7%	69.4%
Bakersfield Memorial Hospital	984	12.5%	12.9%	17.0%	3.9%	3.6%
Kern Medical Center	682	12.6%	2.0%	6.5%	13.6%	5.1%
Mercy Hospital - Bakersfield	583	6.4%	5.9%	15.8%	3.9%	4.8%
Valley Children's Hospital	323	6.6%	0.1%	4.2%	0.0%	0.0%
Kaweah Delta Medical Center	266	4.1%	3.2%	2.3%	0.0%	1.1%
Healthsouth Bakersfield Rehab. Hospital	122	1.3%	3.2%	0.5%	0.0%	0.0%
All Other	940	9.8%	13.8%	15.5%	23.3%	11.7%
<b>Total Percentage</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total Discharges</b>	<b>7,943</b>	<b>4,202</b>	<b>1,948</b>	<b>1,059</b>	<b>103</b>	<b>631</b>

Source: OSHPD Patient Discharge Database, CY 2017

Note: Excludes normal newborns

- The largest payer category of service area inpatient discharges is Medi-Cal with 4,202 inpatient discharges (53%), followed by Medicare with 1,948 inpatient discharges (25%), and Private Coverage with 1,059 inpatient discharges (13%);
- The Hospital is the market share leader for Medicare (38%), Medi-Cal (39%) and Self-Pay (45%);
- Adventist Health Bakersfield is the inpatient leader for Private Coverage (also including Kaiser Permanente patients) with over 26% market share; and
- Dignity Health's two hospitals, Bakersfield Memorial and Mercy Hospital – Bakersfield, had a combined market share of 19% for Medi-Cal, 19% for Medicare, 8% for Self-Pay, and 32% for Private Coverage, for CY 2017.

## Market Share by Service Line

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

SERVICE AREA MARKET SHARE BY SERVICE LINE, CY 2017											
Service Line	Total Discharges	Delano Regional Medical Center	Adventist Health Bakersfield	Bakersfield Memorial Hospital	Kern Medical Center	Mercy Hospital - Bakersfield	Valley Children's Hospital	Kaweah Delta Medical Center	Healthsouth Bakersfield Rehabilitation Hospital	All Others	Total
General Medicine	2,397	44.5%	20.2%	9.5%	3.3%	5.1%	5.3%	2.7%	0.5%	8.9%	100%
Obstetrics	1,842	38.0%	9.6%	18.1%	11.4%	12.2%	0.0%	4.9%	0.0%	5.7%	100%
General Surgery	703	21.3%	28.0%	10.4%	10.2%	6.1%	4.0%	2.0%	0.0%	17.9%	100%
Cardiac Services	674	25.8%	32.8%	14.7%	1.9%	2.7%	1.3%	3.1%	0.4%	17.2%	100%
Neonatology	582	38.7%	5.3%	11.0%	16.5%	9.1%	7.6%	4.1%	0.0%	7.7%	100%
Orthopedics	390	15.4%	13.1%	10.5%	14.6%	7.2%	6.4%	4.1%	10.8%	17.9%	100%
Neurology	326	17.2%	27.6%	9.8%	4.9%	4.6%	5.5%	2.1%	16.9%	11.3%	100%
Oncology/Hematology	212	13.2%	19.3%	9.0%	9.9%	8.0%	11.8%	5.2%	0.9%	22.6%	100%
Behavioral Health	129	10.9%	4.7%	1.6%	15.5%	1.6%	1.6%	5.4%	0.0%	58.9%	100%
Urology	124	19.4%	25.8%	12.1%	9.7%	12.1%	4.8%	0.8%	0.0%	15.3%	100%
ENT	119	27.7%	21.8%	3.4%	4.2%	4.2%	21.8%	0.8%	0.0%	16.0%	100%
Gynecology	116	25.9%	19.0%	12.1%	23.3%	12.1%	0.0%	1.7%	0.0%	6.0%	100%
Other	91	9.9%	20.9%	19.8%	33.0%	2.2%	2.2%	1.1%	0.0%	11.0%	100%
Vascular Services	87	27.6%	23.0%	23.0%	3.4%	2.3%	1.1%	2.3%	1.1%	16.1%	100%
Spine	68	4.4%	7.4%	17.6%	10.3%	23.5%	7.4%	2.9%	10.3%	16.2%	100%
Neurosurgery	63	0.0%	23.8%	12.7%	22.2%	7.9%	6.3%	0.0%	0.0%	27.0%	100%
Ophthalmology	12	16.7%	50.0%	8.3%	0.0%	0.0%	16.7%	0.0%	0.0%	8.3%	100%
No-match-found	8	0.0%	25.0%	0.0%	0.0%	0.0%	0.0%	12.5%	0.0%	62.5%	100%
<b>Grand Total</b>	<b>7,943</b>	<b>32.7%</b>	<b>18.2%</b>	<b>12.4%</b>	<b>8.6%</b>	<b>7.3%</b>	<b>4.1%</b>	<b>3.3%</b>	<b>1.5%</b>	<b>11.8%</b>	<b>100%</b>

Source: OSHPD Patient Discharge Database, CY 2017

Note: Excludes normal newborns

- The Hospital is a service line leader in 7 of 19 service lines including: general medicine (44.5%), obstetrics (38.0%), neonatology (38.7%), orthopedics (15.4%), ENT (27.7%), gynecology (25.9%), and vascular services (27.6%);
- Adventist Health Bakersfield is a service line leader in 7 of 19 service lines including: general surgery (28.0%), cardiac services (32.8%), neurology (27.6%), oncology/hematology (19.3%), urology (25.8%), neurosurgery (23.8%) and ophthalmology (50%);
- Kern Medical Center is the service line leader in behavioral health and Mercy Hospital – Bakersfield is the service line leader in spine; and
- Dignity Health’s two hospitals, Bakersfield Memorial and Mercy Hospital – Bakersfield combined are leaders in orthopedics (17.7%).

## Market Share by ZIP Code

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

AREA MARKET SHARE BY ZIP CODE, CY 2017												
ZIP Code	Community	Total Discharges	Delano Regional Medical Center	Adventist Health Bakersfield	Bakersfield Memorial Hospital	Kern Medical Center	Mercy Hospital - Bakersfield	Valley Children's Hospital	Kaweah Delta Medical Center	Healthsouth Bakersfield Rehabilitation Hospital	All Others	Total
93215	Delano	3,699	42.7%	18.5%	12.2%	6.0%	5.7%	4.3%	0.6%	1.4%	8.5%	100%
93280	Wasco	1,864	10.5%	27.6%	16.7%	15.9%	13.0%	2.5%	0.2%	2.3%	11.3%	100%
93250	Mc Farland	951	41.7%	14.6%	15.1%	7.2%	6.5%	4.4%	0.5%	1.2%	8.7%	100%
93219	Earlimart	794	29.1%	4.8%	4.0%	2.6%	1.8%	5.9%	25.8%	1.3%	24.7%	100%
93261	Richgrove	186	39.8%	4.8%	7.0%	4.8%	2.7%	4.8%	3.8%	1.6%	30.6%	100%
93216	Delano	169	40.2%	18.3%	5.3%	8.9%	11.8%	1.2%	0.6%	1.8%	11.8%	100%
93249	Lost Hills	164	15.2%	15.2%	11.0%	28.0%	15.9%	6.7%	0.0%	1.2%	6.7%	100%
93201	Alpaugh	116	23.3%	4.3%	4.3%	1.7%	2.6%	4.3%	19.0%	0.0%	40.5%	100%
<b>Total Percentage</b>			<b>32.7%</b>	<b>18.2%</b>	<b>12.4%</b>	<b>8.6%</b>	<b>7.3%</b>	<b>4.1%</b>	<b>3.3%</b>	<b>1.5%</b>	<b>11.8%</b>	<b>100%</b>
<b>Total Discharges</b>		<b>7,943</b>	<b>2,598</b>	<b>1,445</b>	<b>984</b>	<b>681</b>	<b>583</b>	<b>323</b>	<b>266</b>	<b>122</b>	<b>941</b>	

Source: OSHPD Patient Discharge Database

Note: Excludes normal newborns

- The Hospital is the inpatient market share leader in six of the service area ZIP Codes;
- Approximately 60% of the residents of Delano leave the community when seeking healthcare services. Adventist Health Bakersfield is the largest hospital recipient of this inpatient outmigration volume, with over 18% market share. Dignity Health's two hospital have a combined market share of 19.7% of service area inpatient outmigration;
- Adventist Health Bakersfield is the inpatient market share leader in ZIP Code 93280 (Wasco) and Kern Medical Center is the inpatient market share leader in ZIP Code 93249 (Lost Hills);
- Dignity Health's two hospitals, Bakersfield Memorial Hospital and Mercy Hospital-Bakersfield, reported a combined 17.9% market share in ZIP Code 93215 (Delano), 29.7% market share in ZIP Code 93280 (Wasco), 21.6% market share in Mc Farland, 5.8% market share in ZIP Code 93219 (Earlimart), 9.7% market share in ZIP Code 93261 (Richgrove), 17.1% market share in ZIP Code (Delano), 26.9% market share in ZIP Code 93249 (Lost Hills) and 6.9% market share in ZIP Code 93201 (Alpaugh); and
- The combined overall inpatient market share for the two Dignity Health's hospitals is 19.7%.

## Delano Regional Medical Center Analysis by Bed Type

The tables on the following pages show the Hospital’s existing hospital bed capacity, occupancy, and availability for medical/surgical, intensive care, obstetrics, pediatrics, and skilled nursing beds for FY 2017.

### *Medical/Surgical Capacity Analysis*

The Hospital has 79 medical/surgical beds. Between 30-50 miles from the Hospital, there are 1,030 additional medical/surgical beds that provide care to patients from the Hospital’s service area. Combined they operated with an occupancy rate of about 60%.

AREA HOSPITAL DATA: MEDICAL/SURGICAL, FY 2017								
Hospital	Within Service Area	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied	Miles from Hospital
<b>Delano Regional Medical Center</b>	<b>X</b>	<b>Delano</b>	<b>79</b>	<b>1,592</b>	<b>5,320</b>	<b>14.4</b>	<b>18.2%</b>	
Adventist Health Bakersfield		Bakersfield	188	13,078	53,071	145.4	77.3%	31.4
Bakersfield Memorial Hospital*		Bakersfield	312	11,747	50,133	137.4	44.0%	32.2
Mercy Hospital Bakersfield*		Bakersfield	161	11,777	30,191	82.7	51.4%	32.2
Healthsouth Bakersfield Rehab. Hospital*		Bakersfield	-	-	-	-	-	33.7
Tulare Regional Medical Center*		Tulare	80	522	2,586	7.1	8.9%	33.8
Kern Medical Center*		Bakersfield	80	5,628	23,197	63.6	79.4%	35.4
Kaweah Delta Medical Center*		Visalia	209	14,495	76,223	208.9	99.9%	48.5
<b>Total</b>			<b>1,109</b>	<b>58,839</b>	<b>240,721</b>	<b>659.5</b>	<b>59.5%</b>	

Source: OSHPD Disclosure Report FY 2017

\*2017 Audited data unavailable, 2017 submitted data shown

- In FY 2017, the Hospital’s medical/surgical beds represented 7.1% of the beds in this category for the listed hospitals; and
- The Hospital reported 1,592 inpatient hospital discharges for its medical/surgical beds with 5,320 patient days resulting in an occupancy rate of 18% and an average daily census of 14.4 patients.

### Intensive Care Capacity Analysis

The Hospital has 10 intensive care beds. Between 30-50 miles from the Hospital, there are 162 additional intensive care beds that provided care to patients from the Hospital’s service area. Combined they operated at an occupancy rate of about 53%.

AREA HOSPITAL DATA: INTENSIVE CARE, FY 2017								
Hospital	Within Service Area	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied	Miles from Hospital
<b>Delano Regional Medical Center</b>	<b>X</b>	<b>Delano</b>	<b>10</b>	<b>196</b>	<b>1,476</b>	<b>4.0</b>	<b>40.4%</b>	
Adventist Health Bakersfield		Bakersfield	30	530	8,448	23.1	77.2%	31.4
Bakersfield Memorial Hospital*		Bakersfield	41	1,682	7,178	19.7	48.0%	32.2
Mercy Hospital Bakersfield*		Bakersfield	24	511	5,656	15.5	64.6%	32.2
Healthsouth Bakersfield Rehab. Hospital*		Bakersfield	-	-	-	-	-	33.7
Tulare Regional Medical Center*		Tulare	14	79	172	0.5	3.4%	33.8
Kern Medical Center*		Bakersfield	12	155	2,836	7.8	64.7%	35.4
Kaweah Delta Medical Center*		Visalia	41	777	7,529	20.6	50.3%	48.5
<b>Total</b>			<b>172</b>	<b>3,930</b>	<b>33,295</b>	<b>91.2</b>	<b>53.0%</b>	

Source: OSHPD Disclosure Report 2017

\*2017 Audited data unavailable, 2017 submitted data shown

- In FY 2017, the Hospital’s intensive care beds had an occupancy rate of 40% and an average daily census of 4 patients;
- Adventist Health Bakersfield, located approximately 31 miles from the Hospital, is operating at an occupancy rate of 77%; and
- Bakersfield Memorial Hospital, located approximately 32 miles from the Hospital, is operating at an occupancy rate of 48%.

## Obstetrics Capacity Analysis

The Hospital has 16 obstetrics beds. Between 30-50 miles from the Hospital, there are an additional 181 obstetrics beds that provided care to patients from the service area. These hospitals and Delano Regional Medical Center together operated with an occupancy rate of 47%.

AREA HOSPITAL DATA: OBSTETRICS, FY 2017								
Hospital	Within Service Area	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied	Miles from Hospital
<b>Delano Regional Medical Center</b>	<b>X</b>	<b>Delano</b>	<b>16</b>	<b>695</b>	<b>1,458</b>	<b>4.0</b>	<b>25.0%</b>	
Adventist Health Bakersfield		Bakersfield	23	3,942	9,329	25.6	111.1%	31.4
Bakersfield Memorial Hospital*		Bakersfield	30	435	1,858	5.1	17.0%	32.2
Mercy Hospital Bakersfield*		Bakersfield	24	1,382	5,998	16.4	68.5%	32.2
Healthsouth Bakersfield Rehab. Hospital*		Bakersfield	-	-	-	-		33.7
Tulare Regional Medical Center*		Tulare	-	-	-	-		33.8
Kern Medical Center*		Bakersfield	41	2,732	5,950	16.3	39.8%	35.4
Kaweah Delta Medical Center*		Visalia	63	4,930	9,258	25.4	40.3%	48.5
<b>Total</b>			<b>197</b>	<b>14,116</b>	<b>33,851</b>	<b>92.7</b>	<b>47.1%</b>	

Source: OSHPD Disclosure Report 2017

\*2017 Audited data unavailable, 2017 submitted data shown

- The Hospital's obstetric beds had an occupancy rate of 25% and an average daily census of four patients;
- Although Adventist Health Bakersfield is running at an occupancy rate of over 100%, it has less than 10% service area market share for obstetrics;
- In FY 2017, Kern Medical Center upgraded its obstetrics unit to private rooms; and
- Over 60% of the Hospital's service area residents leave the service area when seeking obstetrical services with the vast majority receiving services at Adventist Health Bakersfield and Kaweah Delta Medical Center.

## Pediatrics Capacity Analysis

In FY 2017, there were an additional 36 pediatrics beds within 50 miles of the Hospital with an aggregate occupancy rate of 17%. The Hospital uses six general acute care beds for pediatrics and reported an occupancy rate of 25% and an average daily census of less than two patients.

AREA HOSPITAL DATA: PEDIATRICS, FY 2017								
Hospital	Within Service Area	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied	Miles from Hospital
<b>Delano Regional Medical Center</b>	<b>X</b>	<b>Delano</b>	<b>6<sup>1</sup></b>	<b>271</b>	<b>538</b>	<b>1.5</b>	<b>24.6%</b>	
Adventist Health Bakersfield		Bakersfield	-	-	-	-		31.4
Bakersfield Memorial Hospital*		Bakersfield	-	-	-	-		32.2
Mercy Hospital Bakersfield*		Bakersfield	-	-	-	-		32.2
Healthsouth Bakersfield Rehab. Hospital*		Bakersfield	-	-	-	-		33.7
Tulare Regional Medical Center*		Tulare	-	-	-	-		33.8
Kern Medical Center*		Bakersfield	24	465	958	2.6	10.9%	35.4
Kaweah Delta Medical Center*		Visalia	12	634	1,211	3.3	27.6%	48.5
Valley Children's Hospital		Madera	180	10,860	43,654	119.6	66.4%	83.7
<b>Total</b>			<b>222</b>	<b>12,230</b>	<b>46,361</b>	<b>127.0</b>	<b>57.2%</b>	

Source: OSHPD Disclosure Report 2017

\*2017 Audited data unavailable, 2017 submitted data shown

<sup>1</sup>Delano Regional Medical Center does not have licensed pediatric beds but is approved to provide inpatient pediatric services on its beds licensed as unspecified general acute care.

- The Hospital staffs up to six medical/surgical beds with pediatric trained staff for inpatient pediatric patients;
- Kern Medical Center (24 beds) and Kaweah Delta Medical Center (12 beds), located approximately 35 miles and 49 miles from the Hospital, are the closest operators of pediatric beds in the area. Both hospitals have a combined occupancy of less than 20% and a combined average daily census of only six patients; and
- Valley Children's Hospital (180 pediatric beds) located approximately 80 miles from the Hospital reported an occupancy rate of 66%.



## Skilled Nursing/Subacute Capacity Analysis

While the Hospital is licensed to operate 51 distinct part<sup>15</sup> skilled nursing beds, these beds are used for sub-acute patients except for a small number of short-term skilled nursing patients that may be admitted from the Hospital's acute care unit. The Hospital is the only general acute care hospital for over 40 miles providing sub-acute services that specialize in the care of ventilator and tracheostomy dependent patients. These patients are medically fragile and require special services such as inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management care. The Hospital had an occupancy rate of 91% and an average daily census of 47 patients for FY 2017.

AREA HOSPITAL DATA: SUBACUTE, FY 2017								
Hospital	Within Service Area	City	Licensed Beds	Inpatient Discharges	Patient Days	Average Daily Census	Percent Occupied	Miles from Hospital
<b>Delano Regional Medical Center<sup>1</sup></b>	<b>X</b>	<b>Delano</b>	<b>51</b>	<b>39</b>	<b>16,936</b>	<b>46.4</b>	<b>91.0%</b>	
Adventist Health Bakersfield		Bakersfield	-	-	-	-	-	31.4
Bakersfield Memorial Hospital*		Bakersfield	-	-	-	-	-	32.2
Mercy Hospital Bakersfield*		Bakersfield	-	-	-	-	-	32.2
Healthsouth Bakersfield Rehab. Hospital*		Bakersfield	-	-	-	-	-	33.7
Tulare Regional Medical Center*		Tulare	-	-	-	-	-	33.8
Kern Medical Center*		Bakersfield	-	-	-	-	-	35.4
Kaweah Delta Medical Center*		Visalia	32	21	11,270	30.9	96.5%	48.5
<b>Total</b>			<b>83</b>	<b>28,206</b>	<b>28,206</b>	<b>77.3</b>	<b>93.1%</b>	

Source: OSHPD Disclosure Report 2017

\*2017 Audited data unavailable, 2017 submitted data shown

<sup>1</sup>These beds are licensed as skilled nursing beds but used for pediatric care. OSHPD reports pediatric discharges and patient days according to hos beds are utilized and not necessarily licensed.

- The closest general acute care hospital with sub-acute beds to the Hospital was Kaweah Delta Medical Center that operated at an occupancy rate of 97% on 32 beds in FY 2017.

<sup>15</sup> Distinct part skilled nursing facilities exist as a part of an acute-care hospital or hospital system. Distinct part skilled nursing facilities, compared to freestanding community-based skilled nursing facilities, care for more medically complex patients, and are often the only option for patients with complex medical needs and behavioral challenges living in rural areas.

## Emergency Services Analysis

In FY 2017, the Hospital reported 10 emergency treatment stations with almost 30,000 total visits. The table below shows the visits by severity category for area emergency departments as reported by OSHPD's Automated Licensing Information and Report Tracking System.

EMERGENCY DEPARTMENT VISITS BY CATEGORY: FY 2017											
Hospital	Miles from Hospital	ER Level	Stations	Total Visits	Minor	Low/Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
<b>Delano Regional Medical Center</b>		<b>Basic</b>	<b>10</b>	<b>29,566</b>	<b>37</b>	<b>2,415</b>	<b>13,588</b>	<b>8,710</b>	<b>4,816</b>	<b>6.7%</b>	<b>0</b>
Adventist Health Bakersfield	31.4	Basic	32	70,883	434	9,678	20,125	23,196	17,450	13.3%	0
Bakersfield Memorial Hospital	32.2	Basic	36	74,923	2,998	9,482	28,446	21,702	12,295	6.9%	0
Mercy Hospital Bakersfield	32.2	Basic	18	32,879	489	4,190	10,365	10,615	7,220	10.6%	0
Healthsouth Bakersfield Rehab. Hospital	33.7	-	-	-	-	-	-	-	-	-	0
Tulare Regional Medical Center	33.8	Basic	12	19,776	95	1,792	7,377	6,532	3,980	7.4%	0
Kern Medical Center	35.4	Basic	32	46,947	5,915	8,641	13,833	9,730	8,828	11.0%	0
Kaweah Delta Medical Center	48.6	Basic	40	75,420	1,139	12,292	26,957	13,650	21,382	0.0%	0
<b>Total</b>			<b>180</b>	<b>350,394</b>	<b>11,107</b>	<b>48,490</b>	<b>120,691</b>	<b>94,135</b>	<b>75,971</b>	<b>11.3%</b>	<b>0</b>

Source: OSHPD Alirts Annual Utilization Reports

- The Hospital admitted 7% of the patients seen at the emergency room; and
- None of the hospitals reported any hours of diversion.

## Emergency Services Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, in FY 2017, the Hospital's emergency department was operating at 148% of its 10-bed capacity.

EMERGENCY DEPARTMENT CAPACITY: FY 2017							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
<b>Delano Regional Medical Center</b>	-	X	Basic	10	29,566	20,000	(9,566)
Adventist Health Bakersfield	31.4		Basic	32	70,883	64,000	(6,883)
Bakersfield Memorial Hospital	32.2		Basic	36	74,923	72,000	(2,923)
Mercy Hospital Bakersfield	32.2		Basic	18	32,879	36,000	3,121
Healthsouth Bakersfield Rehab. Hospital	33.7		Basic	-	-	-	-
Tulare Regional Medical Center	33.8		Basic	12	19,776	24,000	4,224
Kern Medical Center	35.4		Basic	32	46,947	64,000	17,053
Kaweah Delta Medical Center	48.5		Basic	40	75,420	80,000	4,580
<b>Total</b>				<b>180</b>	<b>350,394</b>	<b>360,000</b>	<b>9,606</b>

Source: OSHPD Alirts Annual Utilization Reports

- The emergency departments at both Adventist Health Bakersfield and Bakersfield Memorial Hospital are operating over capacity at 111% and 104%, respectively; and
- Overall, the hospitals' emergency departments are at approximately 107% of their capacity.

## Summary of Interviews

In March and April of 2019, both in-person and telephone interviews were conducted with members of the Central California Foundation for Health Board, management and clinical representatives of the Hospital, a representative of Adventist Health, as well as physicians, other healthcare and community representatives, and representatives from Kaufman Hall. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding any potential impact on healthcare availability and accessibility as a result of the proposed transaction. The list of individuals who were interviewed is located in the Appendix of this report. The major findings of these interviews are summarized below.

### *Reasons for the Proposed Transaction*

Those interviewed cited a number of reasons for this transaction, including the following:

- The Hospital is heavily dependent on government reimbursement for Medicare and Medicaid patients. As state and federal policies change and limit future hospital reimbursement, members of the Central California Foundation for Health Board and the Hospital's administration believe that the Hospital would be at significant financial risk and potentially unsustainable as an independent stand-alone hospital;
- Despite a current positive financial position, members of the Central California Foundation for Health Board and the Hospital's administration felt that it would be better to look for a partner sooner rather than at a future date when the financial performance of the Hospital could be weaker;
- As a provider of healthcare in a lower socio-economic rural area, it is difficult and expensive to recruit and retain physicians and other clinical personnel;
- The affiliation would provide the Hospital with access to increased administrative and clinical expertise, capital investment, information technology, innovations in healthcare, and additional physicians for specialty care; and
- The Hospital lacks the size and scale to fund the development of new or expanded clinical services and population health initiatives to benefit the community.

### ***Importance of Delano Regional Medical Center***

According to all who were interviewed, the Hospital is a critically important provider of healthcare services to the local community. The next closest hospital is located over 30 miles away and therefore it is important for residents of the service area that the Hospital operate with no less than its current services. Some of the programs and services at the Hospital that were mentioned in the interviews as especially important include the following:

1. Emergency services
2. Sub-acute services
3. Labor and delivery services
4. Orthopedics (joint replacement)
5. Pediatric services
6. Rural Health Clinics
7. Community education for the community

### ***Selection of Adventist Health for the Proposed Transaction***

Some members of the Central California Foundation for Health Board concluded that the Hospital needed to partner with a nearby health system with the financial strength, clinical expertise, and supportive infrastructure necessary to recruit and retain physicians and support the healthcare services needed in the local community. The Central California Foundation for Health Board, the Hospital's management, and its consultant, Kaufman Hall believed that hospitals and health systems located out of the area could not provide these benefits. As such, Dignity Health, with hospital locations in nearby Bakersfield, was the only other alternative health system that was considered for the partnership.

Some members of the Hospital's management team and the Central California Foundation for Health Board indicated that a number of factors were considered in choosing to affiliate with Adventist Health including the following:

- The ability of Adventist Health to recruit and retain physicians because of Adventist Health's medical foundation, network of rural health clinics, and medical staff presence in Bakersfield;

- The compatibility of mission, vision, and culture, since Adventist Health has experience operating similar sized hospitals in rural areas that serve disproportionately more Medi-Cal and Medicare patients;
- Adventist Health’s commitment to continue to provide current or expanded healthcare services locally;
- The opportunity for the Hospital to join Adventist Health’s network of hospitals and outpatient facilities that provide services throughout the Central Valley of California;
- The ability to develop additional clinical expertise and enhance subspecialties;
- The ability to provide capital and expertise for completion of a new obstetrics unit and make other improvements to the Hospital;
- Economies of scale due to the size of Adventist Health;
- Improved purchasing and negotiating positions with vendors and payers;
- The ability to participate in initiatives to improve population health; and
- Enhanced brand and reputation.

The Central California Foundation for Health Board explained that the transaction would provide an opportunity for the Hospital to become part of a larger integrated delivery system that will be better equipped to improve the health of the population in the service area. All of those interviewed expressed support for the selection of Adventist Health and were not aware of any opposition from the physicians or the community.

### ***Expectations of Adventist Health***

Adventist Health has committed to maintaining services at the Hospital. Adventist Health expects to improve access to services by expanding the number of rural health clinics in the service area and recruiting additional physicians to the Hospital. Adventist Health expects to increase the provision of community benefit services. They also expect to make significant capital investments in the Hospital including improvements to meet seismic standard (estimated at \$15 million), additional information technology (estimated at \$5 million), and a new labor and delivery building (estimated at \$35 million). They also stated that the current assets of Central California Foundation for Health, including cash and investments of about \$80 million, would only be used for the provision of healthcare services in the local communities within the service area.

### ***Impact on the Availability & Accessibility of Healthcare Services***

All interviewed believed that the Affiliation Agreement would not have a negative impact on the availability or accessibility of healthcare services. In fact, it was believed that Adventist Health would enhance the Hospital's services and operations and therefore improve the access and availability of healthcare services for the communities served.

### ***Alternatives***

Dignity Health also expressed interest in a member substitution agreement with the Central California Foundation for Health, similar to the proposed Affiliation Agreement. Concerns were raised over Dignity Health's proposed major transaction with Catholic Healthcare Initiatives, a national nonprofit health system with headquarters in Englewood, Colorado and the Hospital becoming part of a new organization with over 140 hospitals.

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

### ***Continuation as a General Acute Care Hospital***

The transaction is not expected to cause any reductions in the availability or accessibility of healthcare services. It is expected that as a result of the transaction, the Hospital will operate in a similar manner as in the past, with additional access to significant expertise, services, and resources provided by Adventist Health. Adventist Health has committed in the Affiliation Agreement to operate the general acute care facility at its current licensed bed count and provide the current specialty services for a term of 10 years. It is very important for the delivery of healthcare services to the community that the Hospital continue to operate with at least its current services.

### ***Emergency Services***

The Hospital is an important provider of emergency services to the residents of its surrounding communities. In FY 2017, the Hospital's 10 emergency treatment stations reported 29,566 emergency service visits, operating at 148% of capacity. In addition, the Hospital is also the only general acute care hospital in its service area. The emergency departments of Adventist Health Bakersfield and Bakersfield Memorial Hospital, the next closest hospitals are located over 30 miles away and both of their emergency departments operate over 100% capacity. As a result of the uncertainties of the future of the ACA and healthcare reform, aging demographics, and with the entire service area designated as having a shortage of primary care physicians, utilization of the emergency department is expected to increase within the service area.

Keeping the Hospital's emergency department open and with the same number of emergency department beds is critical to meeting the emergency service needs in the Hospital's service area.

### ***Medical/Surgical Services***

Although the Hospital only has a 20% occupancy rate on its 79 licensed medical/ surgical beds, it is the only provider of medical/ surgical services in the service area. The utilization of inpatient medical/ surgical services is projected to increase over the next 5 years because of a 4% increase in the overall population and a 18% increase in the percentage of adults over 65 years old.

### ***Intensive Care Services***

The Hospital's intensive care beds had an occupancy rate of about 40% in FY 2017. These services are an important resource for supporting the emergency department and other surgical and medical services. Adventist Health Bakersfield, the next closest hospital, reported an occupancy of rate of 77.2% and an average daily census of 23 patients in FY 2017. Despite the low census of only four patients, the Hospital is the only provider of intensive care service in the service area. Without the intensive care unit at the Hospital, patients would be negatively impacted.

### ***Obstetrics/Perinatal Services***

The Hospital reported an occupancy rate of 25% on its 16 licensed obstetrical beds in FY 2017, and an average daily census of four patients. With 775 deliveries, the Hospital is an important provider of obstetrics services for service area residents. In the Affiliation Agreement, Adventist Health has committed to developing a new inpatient obstetrics and delivery unit with no fewer than 12 licensed private rooms within five years. With an average daily census of only four patients, twelve licensed obstetrics beds will be sufficient to handle growth in patient volume. As a result of Adventist Health's commitment, no adverse effect on the availability and accessibility of these healthcare services in the community is expected.

### ***Skilled Nursing/Sub-acute Care Services***

In FY 2017, the Hospital reported 51 licensed skilled nursing beds, 49 of which operated as sub-acute care beds. The Hospital's Sub-Acute Care Unit provides a specialized level of care to medically fragile ventilator or tracheostomy-dependent patients that typically require a higher level of care than what is provided by skilled nursing facilities. While sub-acute care beds are licensed as skilled nursing beds, they are reimbursed differently and are subject to additional staffing and patient care requirements. Kaweah Delta Medical Center, located nearly 50 miles away from the Hospital, is the closest general acute care hospital providing sub-acute care services. In FY 2017, both hospitals ran at high occupancy rates, with the Hospital reporting an occupancy rate of 95% and Kaweah Delta Medical Center reporting an occupancy rate of 97%. Maintaining sub-acute care beds at the Hospital is important in ensuring the availability and accessibility of sub-acute care services.

### ***Pediatric Services***

The Hospital operates an Emergency Department Approved for Pediatrics and designates six general acute beds for pediatric patients. Because of the distance from other hospitals; even though the average pediatric census is only 1.5 patients, this is an important service to have available for the local community.



**Reproductive Health Services**

The Hospital is an important provider of a range of healthcare services for women. Neither the Hospital nor Adventist Health have restrictions on the provision of any reproductive healthcare services. No adverse impact on availability or accessibility is expected. The table below shows inpatient reproductive-related healthcare procedures that the Hospital provided in CY 2017:

<b>DELANO REGIONAL MEDICAL CENTER CY 2017 REPRODUCTIVE SERVICE BY DIAGNOSTIC RELATED GROUP</b>	
	Discharges
767-Vaginal Delivery W Sterilization &/Or D&C <sup>1</sup>	35
778-Threatened Abortion	17
777-Ectopic Pregnancy	9
770-Abortion W D&C, Aspiration Curettage or Hysterotomy <sup>1</sup>	1
779-Abortion W/O D&C <sup>1</sup>	2
<b>Total Discharges:</b>	<b>64</b>

Source: CY 2017 OSHPD Patient Discharge Database

<sup>1</sup>D&C is an abbreviation for Dilation and Curettage

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

Approximately 89% of the Hospital’s inpatients are reimbursed through Medicare (33.2%) and Medi-Cal (56.5%). The Hospital currently participates in the Medicare and Medi-Cal program, and contracts with both of the County’s Medi-Cal managed care plans (Kern Family Health Care and Health Net Community Solutions, Inc.). If the Hospital did not participate in the Medicare and Medi-Cal programs, eligible patients could be denied access to certain non-emergency healthcare services.

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

Central California Foundation for Health and Adventist Health have agreed to accept and maintain Adventist Health’s policies for indigent and charity care patients at the Hospital for a period of 10 years following the Closing Date. Adventist Health’s policies on charity and indigent care, for patients needing emergency or medical necessary care, include providing free care to families with an income at or below 200% of the Federal Poverty Level<sup>16</sup>. This policy mirrors the Hospital’s current charity and indigent care policy.

<sup>16</sup>The Federal Poverty Levels is used to determine eligibility and benefits for certain Federal programs and services.

### ***Effects on Community Benefit Programs***

The Hospital historically has provided a significant amount of community benefit services, averaging approximately \$830,194 per year over the last five years. Furthermore, in the Affiliation Agreement, Adventist Health committed to provide care through specified community-based health programs, as listed in Exhibit 3.9(b) of the Affiliation Agreement, including cooperation with local organizations that sponsor healthcare initiatives to address the Hospital's market.

### ***Effects on Staffing & Employee Rights***

Prior to the Closing Date, Adventist Health will initially offer to employ all of the Hospital's staff on the similar terms and conditions (i.e., salaries, wages, benefits, job duties, titles and responsibilities) applicable to the hired employees consistent with similarly situated employees of Adventist Health. For at least 180 days after the Closing Date, all of the Hospital's active employees in good standing shall either remain Hospital employees or become employees of Adventist Health or one its Affiliates. Adventist Health will honor existing employee and executive contracts and policies, including, without limitation, those providing for "stay bonuses," severance pay, performance-based bonuses, retirement pay and change of control pay. As a result, no adverse effect on staffing or employee rights is expected.

### ***Effects on Medical Staff***

The Affiliation Agreement states that Adventist Health has committed to retain all current members of the Hospital's medical staff in good standing after the Closing Date. As a result, no changes are expected.

### ***Alternatives***

If the proposed Affiliation Agreement is not approved, it is expected that the Hospital would contact Dignity Health and/or solicit additional proposals for a transaction.

## Conclusions

Based on Adventist Health's commitments outlined in the Affiliation Agreement, the proposed transaction is likely to continue the availability and accessibility of healthcare services in the communities served. It is anticipated that access for Medi-Cal, Medicare, TRICARE, uninsured and other classes of patients will either remain unchanged or will improve. Furthermore, Adventist Health plans to invest in services, programs, technology, and infrastructure development that is expected to lead to improvements in healthcare delivery.

### ***Potential Conditions for Transaction Approval by the California Attorney General***

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

1. For at least ten years from the Closing Date of the Affiliation Agreement, the Hospital shall continue to operate as a general acute care hospital;
2. For at least ten years from the Closing Date of the Affiliation Agreement, the Hospital shall maintain 24-hour emergency services at no less than its current licensure of 10 treatment stations and designation with the same types and/or levels of services, including as an Emergency Department Approved for Pediatrics (EDAP);
3. For at least ten years from the Closing Date of the Affiliation Agreement, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:
  - a. Perinatal services, including a minimum of no less than 16 licensed perinatal beds until the completion of a new obstetrics and delivery facility on the Hospital's campus within five years. Once completed, the Hospital will be required to maintain no less than 12 individual patient rooms with labor, delivery, recovery, and post-partum beds and separate cesarean-section, recovery and observation areas for the remaining portion of the ten-year term;
  - b. Pediatric services, including a designated area of six general acute care beds;
  - c. Intensive care services, including a minimum of 10 intensive care beds; and
  - d. Skilled Nursing (D/P)/ sub-acute services, including a minimum of 51 licensed beds; and
  - e. Other clinical services listed in Exhibit 3.7 of the Affiliation Agreement that include, nuclear medicine services, occupational therapy, diagnostic imaging, physical therapy, podiatry services, social services, speech pathology, blood bank services, dialysis services, pathology services, radiology services, mammography services, and sleep lab services.

4. For at least ten years from the Closing Date of the Affiliation Agreement, the Hospital shall maintain the same types and/or levels of women’s healthcare services and mammography services, currently provided at the location below or an equivalent location:
  - a. Delano Women’s Medical Clinic, located at 1201 Jefferson St, Delano, California;
5. For at least ten years from the Closing Date of the Affiliation Agreement, The Hospital shall maintain the healthcare services provided at the locations below or a similar location with equivalent services:
  - a. Wasco Medical Plaza & Urgent Care, located at 2300 7th Street, Wasco, California;
  - b. Delano Urgent Care Clinic, located at 1201 Jefferson St, Delano, California;
  - c. Delano Wound Care Clinic, located at 1519 Graces Highway, Delano, California; and
  - d. Delano Diabetic Clinic, located at 1519 Graces Highway, Delano, California.
6. For at least five years from the Closing Date of the Affiliation Agreement, the Hospital shall maintain a charity care policy that is no less favorable than its current charity care policy and in compliance with California and Federal law and shall provide an annual amount of charity care equal to or greater than \$522,542 (the “Minimum Charity Care Amount”). For purposes herein, the term “Charity Care” shall mean the amount of charity care costs (not charges) incurred by the Hospital in connection with the operations and provision of services at the Hospital. The definition and methodology for calculating “Charity Care” and the methodology for calculating “cost” shall be the same as that used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for All Urban Consumers in U.S. City Average Base Period: 1982-84=100 (as published by the U.S. Bureau of Labor Statistics);
7. For at least five years from the Closing Date of the Affiliation Agreement, the Hospital shall continue to expend no less than \$830,194 annually in community benefit services. The Minimum Community Benefits Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for All Urban Consumers in U.S. City Average Base Period: 1982-84=100 (as published by the U.S. Bureau of Labor Statistics). In addition, the following community benefit programs shall continue to be offered for at least five years from the Closing Date:
  - a. Childbirth and Family Education;
  - b. Transportation program; and
  - c. Workforce Development/Job Training.
8. For at least five years from the Closing Date of the Affiliation Agreement, the Hospital shall maintain its participation in the Medicare program, providing the same types

and/or levels of emergency and non-emergency services to Medicare beneficiaries, on the same terms and conditions as other similarly situated hospitals, by maintaining a Medicare Provider Number;

9. For at least five years from the Closing Date of the Affiliation Agreement, the Hospital shall be certified to participate in the Medi-Cal program, providing the same type, and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries;
10. For at least five years from the Closing Date of the Affiliation Agreement, the Hospital shall be certified to participate in the TRICARE program, providing the same type, and/or levels of emergency and non-emergency services to TRICARE beneficiaries;
11. For at least five years from the Closing Date of the Affiliation Agreement, the Hospital shall maintain its participation in the Medi-Cal Managed Care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease of quality, or gap in contracted hospital coverage, including continuation of the following contracts:
  - a. Commercial Plan: Health Net Community Solutions, Inc., or its successor; and
  - b. Local Initiative Plan: Kern Family Health Care, or its successor.
12. For at least five years after the sale the Affiliation Agreement, the Hospital shall maintain its current city/county contracts for the programs listed below subject to the request of the appropriate city/county:
  - a. Transfer Agreement between Delano Regional Medical Center and Kern Medical Center; and
  - b. Professional Service Agreement- Kern County.
13. Adventist Health shall within six months of the closing date, begin implementation of information technology infrastructure upgrades necessary to support Cerner Millennium electronic medical records at the Hospital.

## Appendix

### List of Interviewees

Last Name	First Name	Position	Affiliation
Beehler	Bob	Market Development, Mergers and Acquisitions Executive	Adventist Health
Cauthron	Matthew	Director of Planning and Business Development	Delano Regional Medical Center
Cruz	Maria	Controller	Delano Regional Medical Center
Datta, MD	Babita	Medical Director	Delano Regional Medical Center
DiSalvo	Sam	Vice President	Kaufman Hall
Dunn, RN	Emily	Director of Emergency Services	Delano Regional Medical Center
Ghaffari	Bahram	President and Interim Chief Financial Officer	Delano Regional Medical Center
Harris	Brian	Chief Executive Officer	Clinica Sierra Vista
Hollis	Steve	Senior Vice President	Kaufman Hall
Hylton	Linda	Board of Directors and Community Resident	Central California Foundation for Health
Marguello	Maggie	Representative from Omni Health	Omni Family Health
Medina	Janie	Health Center Manager	Omni Family Health
Noble	William	Chairman and CEO	Central California Foundation for Health
Pichay, RN	Cely	Director of Special Care Unit	Delano Regional Medical Center
Salmassi, MD	Sadegh	Medical Staff and Board of Directors	California Foundation for Health and Delano Regional Medical Center
Stotts, RN	Janet	Director of Rural Health Clinics	Delano Regional Medical Center
Tinkle, LVN	Dee	Bariatric Program Representative	Delano Regional Medical Center
Wade, RN	Evelyn	Chief Nursing Officer	Delano Regional Medical Center
Wiggins, RN	Sheryl	Board of Directors	Central California Foundation for Health

*Delano Regional Medical Center License*

License: 120000180  
Effective: 05/29/2018  
Expires: 05/28/2019  
Licensed Capacity: 156

**State of California**  
**Department of Public Health**

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

*this License to*

**Central California Foundation For Health**

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

**DELANO REGIONAL MEDICAL CENTER**

1401 Garces Hwy  
Delano, CA 93215-3690

**Bed Classifications/Services**

- 105 General Acute Care
- 16 Perinatal
- 10 Intensive Care
- 79 Unspecified General Acute Care
- 51 Skilled Nursing (D/P)

**Other Approved Services**

- Basic Emergency Medical
- Nuclear Medicine
- Nuclear Medicine - Outpatient, CT, MRI
- Occupational Therapy
- Outpatient Clinics - RHC at D.R.M.C. RURAL HEALTH CLINIC, 2300 7TH STREET, WASCO
- Outpatient Clinics - RHC at DELANO WOMEN'S MEDICAL CLINIC-RURAL HEALTH CLINIC, 1201 JEFFERSON ST., DELANO
- Outpatient Clinics - Wound Care Clinic at Delano Wound Care Clinic, 1519 Garces Highway, Delano
- Outpatient Services - Diagnostic Imaging at 1205 GARCES HWY #105, DELANO
- Outpatient Services - Physical Therapy at 1205 GARCES HWY #305, DELANO
- Outpatient Services - Radiology or Imaging Clinic - EKG/EEG, Laboratory, Retail Pharmacy
- Physical Therapy
- Podiatry Service
- Respiratory Care Services
- Social Services
- Speech Pathology

**(Additional Information Listed on License Addendum)**

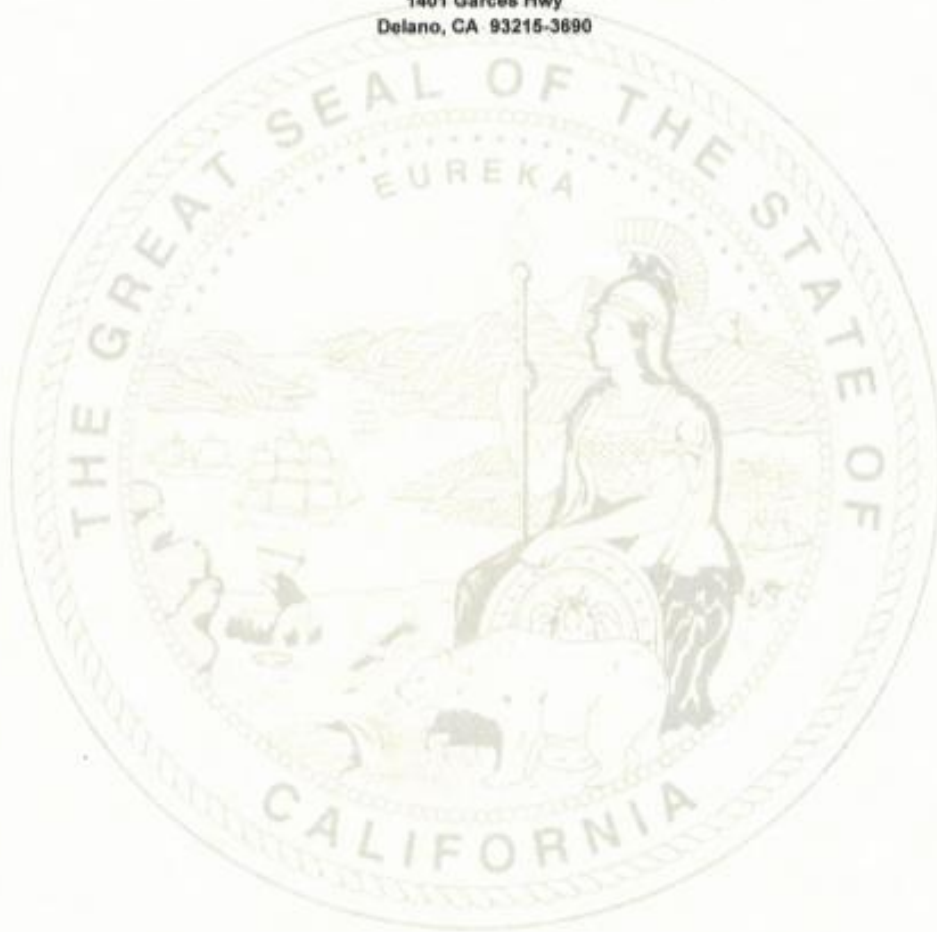
Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, Bakersfield District Office, 4540 California Avenue, Suite 200, Bakersfield, CA 93309, (661)336-0543

**POST IN A PROMINENT PLACE**

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

License: 120000180  
Effective: 05/29/2018  
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Licensed Capacity: 156

DELANO REGIONAL MEDICAL CENTER (Continued)  
1401 Garces Hwy  
Delano, CA 93215-3690



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

Karen L. Smith, MD, MPH

Director and State Public Health Officer

Katrice Miller, Staff Services Manager I

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification,  
Bakersfield District Office, 4540 California Avenue, Suite 200, Bakersfield, CA 93309, (861)336-0543

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