Salem Health – Santiam
RFI Response

1. **Please confirm that in analyzing and evaluating the Entities' HCMO-2 Emergency Exemption Application, HCMO can consider information in materials previously submitted by the Entities in connection with the Entities' HCMO-1 Notice of Material Change Transaction and that such information is hereby incorporated by reference into the HCMO-2 Emergency Exemption Application. In the alternative, please re-submit all materials previously submitted by the Entities in connection with the Entities' HCMO-1 Notice of Material Change Transaction and any subsequent requests for information thereunder as part of Entities' HCMO-2 filing.**

   We are enclosing with this submission all exhibits associated with the Entities' HCMO-1 Notice of Material Change Transaction.

2. **The HCMO-2 states that Santiam must identify and execute nearly $35 million in operating cuts over the next 18 months. Please explain how Santiam arrived at this figure, including any EBIDA or operating margin assumptions used in projections.**

   The projection is built on three data sets: FY2025 audited financials, May 2026 year-to-date actuals, and the Board-approved 2026 Budget. Budget-to-actual analysis shows Santiam has been meeting its expense projections; however, it is not achieving revenue projections. Therefore, operating income is well under budget and has been weakening since Q3 of 2025.

   Exhibit 1 to the Emergency Exemption accounts for that weaker performance relative to budget, and other material changes in the business since the budget was prepared, [redacted]
   ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

   [redacted]
   ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

   The estimated $35 million in operating and capital cuts reflects the amount necessary to bring both DOCH and DSCR back above their covenant floors and to a level of adequate performance, defined as 60 DCOH and 4.0x DSCR.

3. **The HCMO-2 states that "Santiam is facing deficits associated with Medicaid reimbursement cuts, specifically in primary care." Please provide information and documentation to substantiate these claims, including, but not limited to the following:**
    a. **Current and prior contracts or agreements with payers that demonstrate all changes to Santiam's Medicaid reimbursement rates**
    b. **Copies of all current payer contracts.**
    c. **A breakdown of Santiam's revenue by payer, including Medicaid and the impact any cuts to Medicaid would have on Santiam's overall revenue regardless of source.**

    Please see Exhibit 8 for copies of all payer contracts. A breakdown of Santiam's revenue by payer is provided in response to Inquiry 5 of Attachment A.

4. **Please explain discrepancies found in the first quarter 2026 financial information provided in Ex. 24 – March 31 2026 Financial Statements (submitted to OHA July 1, 2026), Ex. 24 - Santiam Memorial Hospital 2025 Audit FS Final (submitted to OHA July 1, 2026), and Ex. 1 - Santiam Financial Projections 000001 (provided to OHA July 3, 2026). In your response, please explain any and all discrepancies, including the following:**

    a. Q1 2026 actuals figures for cash and equivalents, net patient revenue, and total operating expensed do not match in Ex. 1 Cash Flow Projections and Ex. 24; and

    The Q1 2026 actuals for cash and equivalents, net patient revenue, and total operating expenses in Exhibit 1's cash flow projections do match the corresponding Q1 2026 actuals in HCMO Notice Exhibit 24's March 31, 2026 financial statements. However, there is substantial integration and summarization of financial data sets to incorporate the hospital operations and clinic operations into a consolidated income statement, as reflected on the cash flow statement.

    b. FY2025 audit figures for net revenue and operating income in Ex. 1 Cash Flow Projections do not match the Ex. 24 FY 2025 audited financial statement.

    Net revenue does tie to the audited financial statement prepared by Baker Tilly as reported on Page 6 of HCMO Notice Exhibit 24. Operating Income of $8,918,504 reflects an adjustment to exclude $368,343 in "net assets released from restrictions – satisfaction of program restrictions," which is reported within total revenue in the audited financial statement. GAAP accounting rules place this in revenue on the audited statement, but it is not related to patient care delivered this year, so we chose to exclude it for the purposes of the analysis, which is focused on current operations and go-forward projections. Given this prior period restriction satisfaction will not recur, its exclusion has no effect to the go forward projections.

5. **Please provide the following documents:**
   - **a. HUD Regulatory Agreement, mortgage note, and associated loan documents;**
   - **b. SNAP agreement, covenants, and associated loan documents; and**
   - **c. KeyBank agreement, covenants, and associated loan documents; and**
   - **d. Any other debt or loan documents or agreements that are at risk of a breach.**

   Please see Exhibit 9 for all responsive financing documents.

6. **The HCMO-2 states that "the number of open RN positions has declined from 29 in December to 13 as of June 1." How many of the 29 open RN positions were hired? How many of those open positions closed without filling the position?**

   Santiam successfully hired 18 RNs between December 13, 2025 and June 1, 2026 to replace vacancies. During that same time period, only two RNs terminated employment. Santiam has also reduced travelers in the nursing departments. No positions were closed without filling.

7. **Please describe any and all wage or salary increases for Santiam staff (broken down by percentage increase and position) implemented in 2026 and expected in 2027, in addition to nursing wage increases. Include any and all wage or salary increases for clinical, administrative, and executive staff.**
   - a. **The HCMO-2 states that the Santiam board determined in 2023 that Santiam's survival would depend on identifying a strategic partner that could, among other things, "repair Santiam's balance sheet." Please describe the aggregate wage or salary increases (broken down by percentage increase and position) implemented since Santiam's board made this determination.**

     Since the Board's decision to seek a partner to help strengthen Santiam's balance sheet, Santiam has carefully evaluated market conditions and responded to stay market competitive within the financial constraints of the organization. [redacted]
     ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)
     [redacted]

     [redacted]
     ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

     [redacted]
     ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

8. **Describe in detail Santiam's contingency planning for the EHR transition process in the event the Salem Health transaction is not approved, including:**
    a. **any approaches to Santiam's existing EHR provider to request an extension to the June 30, 2027, termination date or the reasons Santiam believes it is precluded from making such a request, if any;**

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

    b. **any efforts to identify an alternative vendor or Epic Community Connect partner;**

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a) Santiam Hospital determined that it is unable to pay the full implementation cost of an EHR again. Santiam financed the implementation costs of its current EHR platform through a $5 million loan, a pathway that is unavailable to Santiam now due to its deteriorating financial condition. That is one of the contributing factors in seeking a stronger financial partner. The alternatives identified and ruled out include (a) direct contracting with Epic; (b) other Community Connect partners; and (c) platforms other than Epic. Direct contracting with Epic does not exist as a pathway for Santiam, as Epic solely sells directly to hospitals larger than 250 beds. Though alternative Epic Community Connect vendors exist, Santiam cannot afford the projected costs.

Though there are EHR vendors other than Epic, implementing such a system would negatively impact patient care and community access. Virtually all other health systems and most large independent clinics in the state use Epic. If Santiam implemented an alternate platform, Santiam would have difficulty coordinating care with non-Santiam providers, and patients would lose access to MyChart, their known medical records access platform. As a result, Santiam determined that the best option for the hospital and the community is a partnership with Salem Health.

    c. **any efforts to enter into an EHR arrangement with Salem Health independent of the transaction; and**

As described elsewhere, Santiam does not have the financial resources to implement a replacement EHR, even an EHR supplied by Salem Health.

d. any efforts to identify financing for the EHR transition, including an approach to HUD to seek a waiver of the restrictive covenant for this purpose.

Santiam's recent financial performance, together with its substantial existing debt burden, makes it impossible for Santiam to take on additional debt.

9. In response to Item 6(b) of the Original Notice, the Entities stated that the "capital commitment will also include the cost of Santiam's urgently needed Epic electronic medical records system implementation, which the Entities estimate at a total cost of $4 million." Explain in detail why the estimate has increased by an additional $8 million to a total of $12 million since the Original Notice was filed.

The $4 million amount was discussed in the context of the capital commitment and was an estimate of the capital necessary to implement an EHR platform. It did not include non-capital implementation costs, such as consultants, staff, and non-capital infrastructure expenses. Please see Exhibit 5 to the Emergency Exemption for a full accounting of EHR implementation costs.

10. Please provide the following, if available:

a. Q1 and Q2 2026 financial reports for Salem Health;

Please see Exhibit 10.a.

b. Q2 2026 financial reports for Santiam; and

Santiam's unaudited Q2 financial report is attached as Exhibit 10.b.

Please note that we have updated Santiam's financial projections based on June 2026 financial results, which are included in Exhibit 10.b.

Overall, there were nominal changes to operating income for Q2 relative to projections, resulting in no change to the outlook of Santiam's financial condition. [redacted]

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

[redacted]

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

[redacted]

[redacted: ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)]

[redacted: ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)]

c. If any financial reports are not available, please explain why not and when they will become available.

Not applicable.

11. The HCMO-2 states that the solvency crisis is "not a problem that operational improvements can solve." Salem has committed to $35 million of capital improvements but only $4 million has been identified for a specific project (the EHR system). How are the Entities confident that the proposed transaction with Salem will address what Santiam has described as "nearly a decade of flat-to negative operating margins" and recent cash losses?

Salem Health's rescue of Santiam Hospital will broadly fall into two phases. The first phase will provide Santiam with the capital and financial backstop necessary to remove the immediate risk of Santiam's insolvency, debt covenant breach and hospital closure due to the loss of its EHR. The second phase will return Santiam Hospital to the long-term positive operating margin necessary to achieve financial sustainability.

Phase 1

Phase 1 of Salem Health's rescue effort will resolve the immediate threats to Santiam's survival. As long as OHA approves this Emergency Exemption request by August 1st, the success of Phase 1 is guaranteed because Salem Health has the cash and liquid investments necessary to stabilize Santiam's balance sheet and fund the EHR transition. Specifically:

- Salem Health has in excess of $1 billion in liquid cash and investment reserves at the time of the submission of this RFI Response, and these funds are available and ready to be deployed at Santiam Hospital to fund day-to-day operations (including payroll), thereby eliminating all immediate insolvency risk.

- Salem Health will use approximately 1.5% of its liquid cash and investments to pay off 100% of Santiam's outstanding debt, including all the HUD and Key Bank debt outstanding on closing of the transaction. This eliminates risk of debt covenant breach.
- Salem Health liquid cash reserves are sufficient to fund the immediate $26 million needed to acquire and implement Epic EHR at Santiam Hospital.

Importantly, if OHA approves this Emergency Exemption, Santiam Hospital will not need to achieve immediate profitability. The scale and strength of Salem Health's balance sheet means that Salem Health can absorb Santiam's near-term operating losses without risking Salem Health's overall financial sustainability.

Phase 2

Phase 2 is about building Santiam's long-term economic sustainability. Salem Health's financial reserves give leadership at Salem and Santiam time to develop and implement the operational changes, service line investments, and capital projects necessary to make Santiam Hospital economically viable for the long term. This is a multi-year project whose overall strategy will be developed by Salem Health's fiduciary board in collaboration with Santiam's advisory board, executive leadership, staff, and community partners. Salem Health has the operational expertise, financial clout, and turnaround experience necessary to ensure that Santiam Hospital survives and thrives for decades to come.

Salem Health recognizes the intense challenges inherent in operating a hospital in rural Oregon and has proven its ability to do so successfully. Salem Health's rescue and operation of both West Valley Hospital, a critical access hospital, and Salem Hospital, a sole community provider hospital, demonstrates that Salem Health can execute on its strategic goals for Santiam. Earlier this month, on July 9, 2026, S&P Global Rating released their annual report on Salem Health, reaffirming our A+ Bond rating with a stable outlook. Specifically S&P recognized the depth of management experience and successes, stating the following:

> *Salem Health is led by a stable, experienced management team that has utilized lean process management to drive continuous operational improvements over the past decade. This system engages staff at all levels to enhance efficiency across both administrative and clinical services; the efficacy of this culture is evidenced by recent improvements in average length of stay (ALOS), stabilized operating performance, and strong quality and patient-safety outcomes. Furthermore, management demonstrates a commitment to organizational continuity through robust succession planning and effective internal communication regarding strategic goals.*

12. The HCMO-2 states that Santiam faces an immediate threat to continued operations. Please identify each health care service that is expected to be reduced, suspended, or eliminated absent approval of the proposed transaction by August 1, 2026, and explain why such reduction, suspension, or elimination cannot be avoided through interim measures.

a. In your response, please provide a detailed explanation of the impact of eliminated, reduced, or suspended services on patients.

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a) The options available to Santiam to reduce costs and preserve cash include closing the following service lines:

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

The impact of cancelling or closing of these service lines would extend well beyond the [redacted] patients who rely on these services annually. These services are the backbone of a community health infrastructure tailored to fit the unique needs of the Santiam community. If Santiam is forced to reduce or eliminate these services, Canyon residents could no longer rely on Santiam for their ongoing health care needs, further eroding service volumes and forcing more Canyon residents to travel long distances for both routine and emergency care. This would degrade the health and wellbeing of the entire community, while reducing competition for services and vastly increasing the cost of accessing care for members of the Santiam community.

In addition to closing service lines, Santiam would also preserve cash by cancelling or deferring urgently needed capital projects, including:

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

These capital projects represent the bare minimum necessary for Santiam to meet the existing and projected health care needs of the community. If Santiam cancels such projects, health

care services in the Santiam community will be less effective, less accessible, and less sustainable.

Crucially, conservative projections demonstrate that Santiam will be insolvent by Q3 of 2026. Santiam could only achieve the cost-savings necessary to maintain solvency through drastic cost-cutting measures (interim steps would be inadequate) and delaying the implementation of a replacement EHR. As described above, delaying EHR implementation would make it impossible for Santiam to effectively transition to a new EHR by June 30th 2027, the date on which Santiam loses access to its current EHR platform.

[redacted] ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)

Salem Health takes its responsibilities to our community seriously and will begin contingency planning on August 1st if approval is not received by all agencies. Salem Health will immediately pivot our focus and resources to expanding capacity on Salem Hospital's campus to ready us for the imminent influx of [redacted] emergency room visits, all maternity patient needs who can no longer access lifesaving care at Santiam Hospital, and expand our outpatient surgical, radiology and primary care capacity to handle the [redacted] annual visits at Santiam outpatient facilities.

13. The HCMO-2 states that Santiam would begin implementing cost-saving measures if OHA does not approve the emergency exemption by August 1, 2026. Please identify each proposed cost-saving measure, including any anticipated reductions in staffing, compensation, or service lines, and provide the projected implementation timeline for each.

a. Please explain the impact of cost-saving measures on Santiam's projected revenue.

Please see Exhibit 1 to the Emergency Exemption, which provides a list of potential cost-saving measures, together with the savings associated with such measures. Santiam has not specifically calculated the revenue impact of each cost-saving measure. However, certain service lines account for a disproportionate share of Santiam's losses, so would be the most likely avenues for cash savings. Specifically, ICU, maternity, ambulance, and primary care services are each responsible for hundreds of thousands of dollars in losses annually. Because these services do not contribute to overall hospital margin, Santiam would be forced to look first to these service lines for cost-savings.

With that said, there is real risk that, in terminating services like primary care, Santiam does lasting damage to its ability to achieve financial sustainability. The vast majority of Santiam's inpatient admissions originate from the emergency department. If Santiam is to achieve

financial sustainability, it must increase volumes of non-emergency inpatient and ambulatory services, including in orthopedics, cardiology, and maternity. However, doing so requires investment in care pathways, including primary care and outpatient clinical services, which drive surgical and specialist volumes. Thus, cutting primary and specialty services would improve Santiam's short-term cash position, but undermine Santiam's long-term strategy for financial sustainability.

Santiam does not have a specific timeline for implementing specific cost-saving measures, as no such measures will be necessary if OHA approves this Emergency Exemption and the transaction can close by August 14th. Moreover, developing such a schedule poses a real risk of prompting staff to depart affected service lines, which would do immediate and lasting damage to Santiam. However, if this Emergency Exemption is not approved by August 1st, Santiam's board of directors would convene in a special meeting to identify the near-term spending cuts necessary to maintain solvency through the end of the calendar year. Santiam would also have to begin implementing emergency measures surrounding its EHR transition. This would involve significant expenditures associated with identifying and implementing an alternative EHR platform, but such expenditures would be futile because (i) Santiam could not afford to fully implement any alternative platform, (ii) Santiam could not implement an alternate platform before losing access to its current EHR, and (iii) the alternative platform would not serve Santiam over the long term, as described above.

14. Provide post-closing projections that demonstrate how the transaction will address the "solvency crisis" described by Santiam.

a. Provide an explanation of how the to-be-identified capital investments will translate into improved operating margins.

b. Provide a schedule showing proposed capital investments.

Please see the detailed answer provided in response to Inquiry 11. The phase 1 solvency crisis is addressed not by a series of to-be-identified capital investments, but through immediate access to Salem Health's $1 billion in liquid cash and investments, paying off the HUD and KeyBank debt on closing, and using Salem Health's cash to immediately fund the Epic implementation.

15. Please describe all alternatives considered to preserve Santiam's solvency pending completion of HCMO's review of the Original Notice, including interim financing, bridge loans, management services agreements, lender accommodations, governmental assistance, or other operational or financial measures, and explain why each alternative was determined to be unavailable or insufficient.

The only options for Santiam to preserve its solvency are (a) OHA granting this emergency exemption, (b) Santiam implementing the drastic cost-saving measures described in Exhibit 1, or (c) delaying the implementation of a replacement EHR, which would put Santiam on a path toward closure by June 30, 2027.

Debt Markets Are Closed to Santiam: Santiam has substantial long-term debt and is on the verge of defaulting on at least two of its loan agreements. It is also facing an imminent solvency crisis driven by spiraling costs and stagnant-to-negative revenue growth. Under these circumstances, Santiam cannot obtain third-party financing. Doing so would require approval from Santiam's existing creditors, which they would not grant. Even if Santiam's creditors would grant such approval, no lender would agree to lend the required capital to Santiam on reasonable terms.

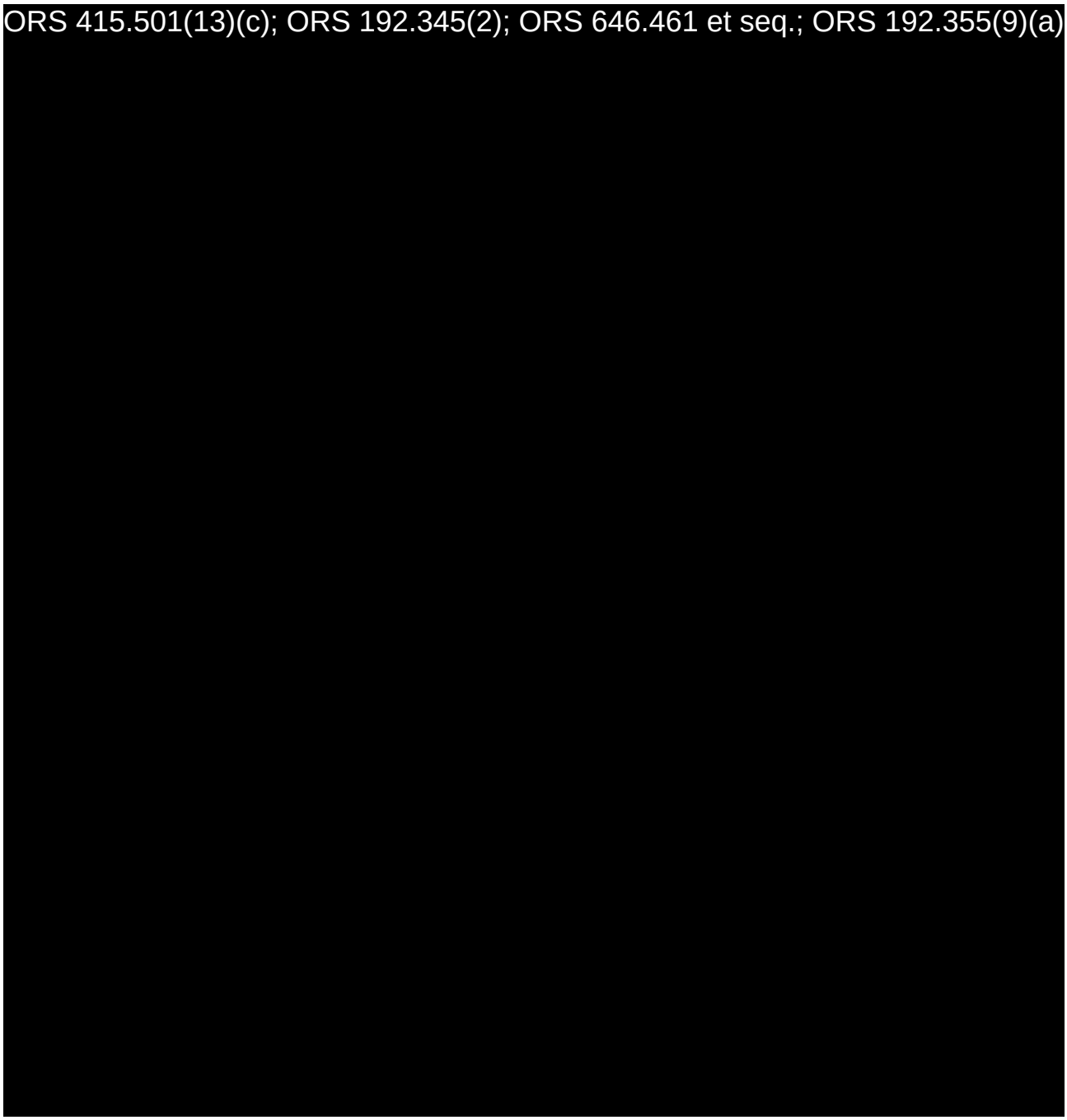
Cost-Saving Measures: As described above, cost-saving measures could, at best, delay insolvency by a matter of months, but only by dramatically reducing access and undermining Santiam's financial sustainability.

Delaying the Implementation of EHR: Santiam could preserve cash by delaying its EHR transition. However, as described in detail elsewhere, the EHR transition is, at best a 9 to 12 month process. Any delay in starting the transition would make it impossible for Salem or Santiam to have a replacement EHR in place by June 30, 2027, the date on which Santiam loses access to its current EHR platform. No hospital can operate without an EHR, so any delay in the EHR transition is an existential threat to Santiam's survival.

A Management Services Agreement: A Management Services Agreement ("MSA") with Salem Health or any third party is entirely impracticable. As a preliminary matter, any MSA would require HCMO approval. The HCMO review process cannot be completed in the time necessary to avoid insolvency. But more importantly, an MSA would do nothing to improve Santiam's solvency position. Santiam is on the verge of insolvency because it lacks the cash necessary to effectuate any kind of turnaround effort. No operational improvement could change this fundamental fact. For Santiam to survive as an independent entity, Santiam would need to make immediate and drastic service and staffing cuts. No MSA would change this reality

Attachment A: Confidential Request for Information
Confidential per ORS 415.510(13)

ORS 415.501(13)(c); ORS 192.345(2); ORS 646.461 et seq.; ORS 192.355(9)(a)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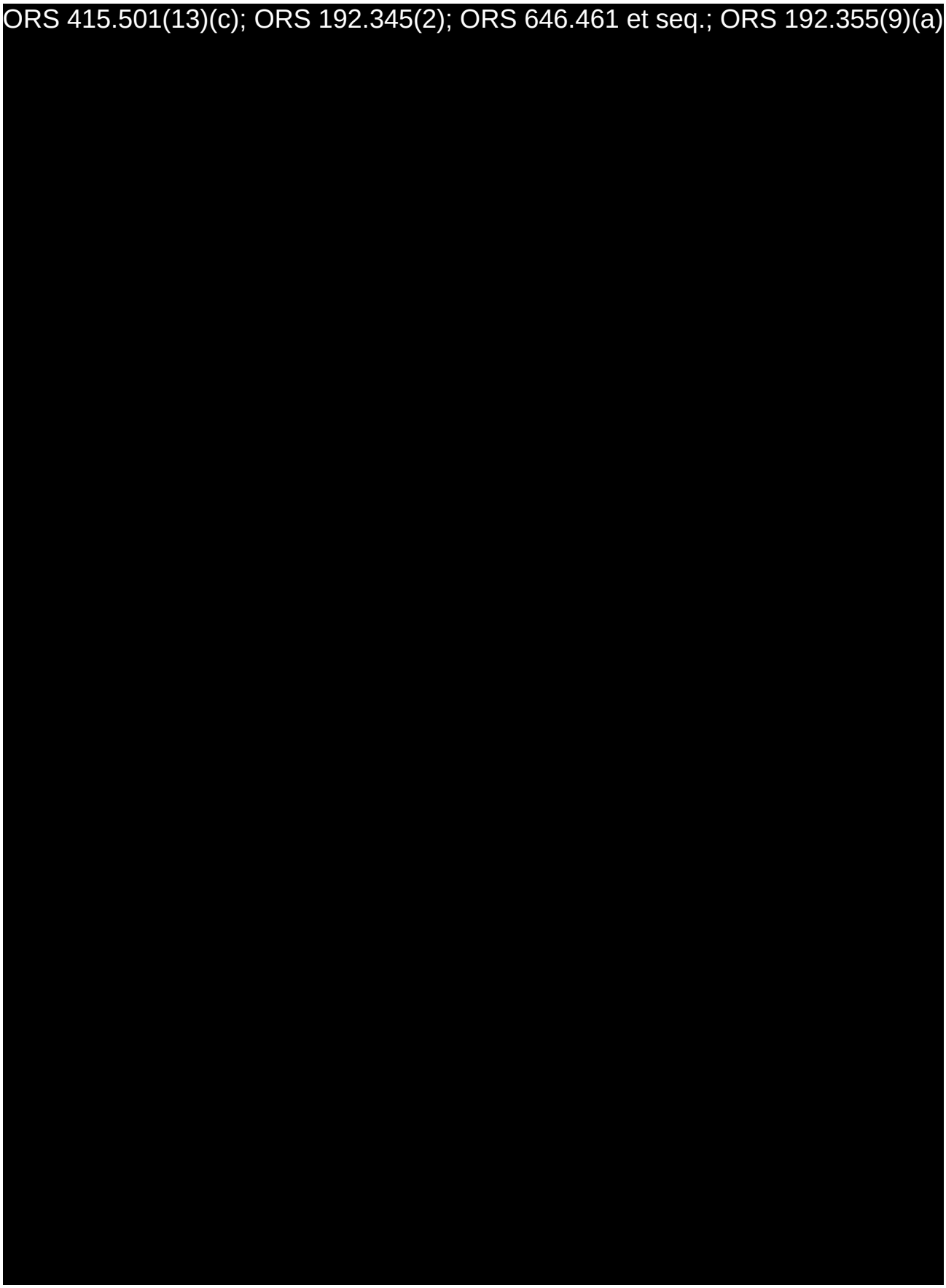

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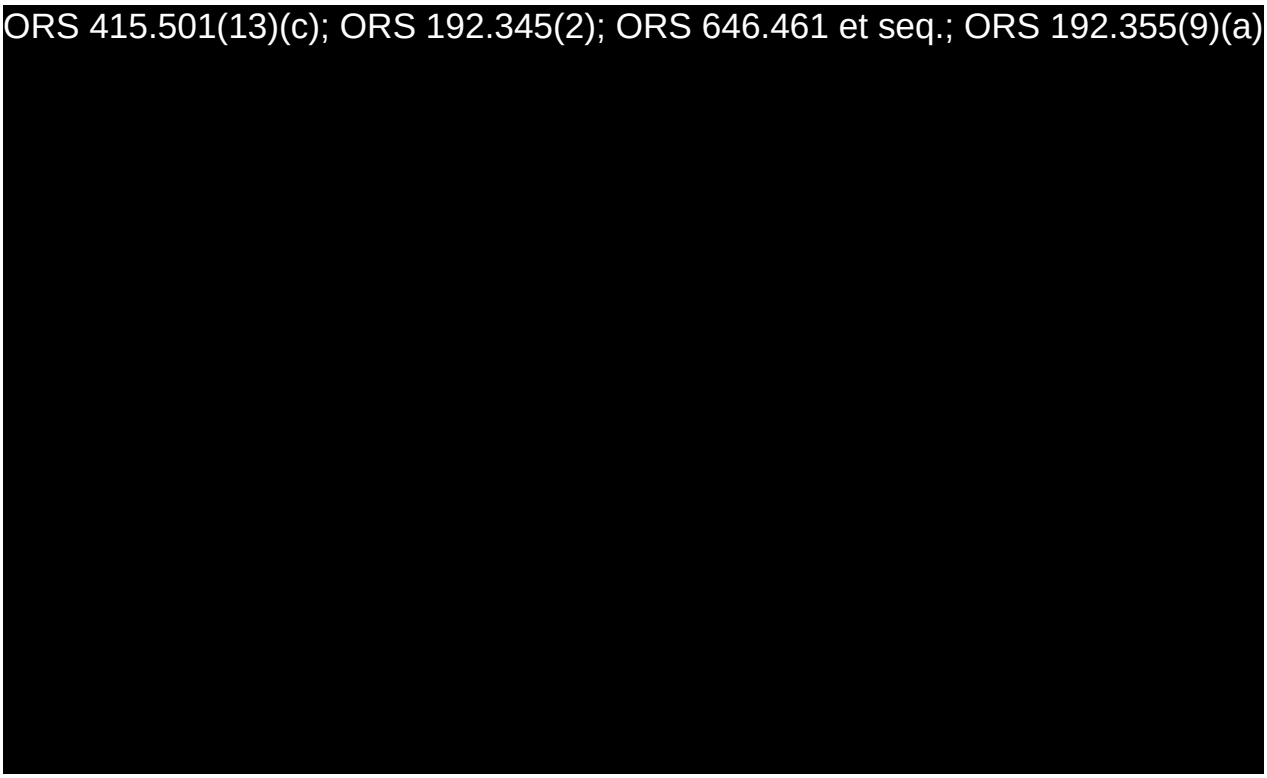
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