

State of Connecticut

GEORGE C. JEPSEN
ATTORNEY GENERAL



Hartford

June 3, 2011

Robert J. Anthony, Esq.
Brown Rudnick
City Place I
185 Asylum Street
Hartford, Connecticut 06103

Re: In re St. Mary's Health System, Inc.

Dear Attorney Anthony:

After our review of the certificate of need determination letter submitted by you, dated March 30, 2011, we have determined that the proposed joint venture between St. Mary's Health System, Inc. ("St. Mary's"), including St. Mary's Hospital (the "Hospital"), and LHP Hospital Group, Inc. (together with its affiliates and subsidiaries, "LHP") requires approval pursuant to Conn. Gen. Stat. § 19a-486 et seq.

Accordingly, the parties to the proposed joint venture (the "Joint Venture") shall submit to the Commissioner of Public Health (the "Commissioner") and to the Attorney General, within sixty (60) days of the date of the mailing of this application form, an application for approval of the Joint Venture. Please mail two (2) complete copies of the application for approval to the following address:

Office of the Attorney General
55 Elm Street, P.O. Box 120
Hartford, Connecticut 06141-0120
Attn: Gary W. Hawes, AAG

Please mail seven (7) complete copies of the application for approval to the following address:

Commissioner of Public Health
410 Capitol Avenue
Hartford, Connecticut 06134
Attn: Melanie A. Dillon

We request that your application for approval include the following information (Conn. Gen. Stat. § 19a-486a(c)), address the following issues (Conn. Gen. Stat. § 19a-486a(c)), and be presented in substantially the following format:

1. Identify the contact information for St. Mary's and LHP, including for the individual to whom the Attorney General shall submit bills for contracts with experts or consultants.
2. Provide an executive summary of the application for approval.
3. Describe the terms of the proposed Joint Venture. This section should include, but is not limited to, a financial analysis of the transaction (e.g., projected sources and uses of proceeds and the valuations of included and excluded assets) and descriptions of St. Mary's, LHP, the new LLC that is to be formed, the assets to be transferred pursuant to the Joint Venture and any assets excluded from transfer, the assumed and excluded liabilities of the Joint Venture, LHP's other undertakings, and the Hospital's expected financial state and proposed governance structure after the transaction. Provide copies of all contracts, agreements, memoranda of understanding, and financial statements relating to the proposed Joint Venture.
4. Describe the due diligence undertaken by St. Mary's in deciding to enter into the Joint Venture. This section should include, but is not limited to, considerations regarding the current financial condition of the Hospital and any projected financial condition of the Hospital, any professional assessments of or reports regarding the Hospital or the Joint Venture, any and all alternatives explored by the Hospital or other offers received by the Hospital, the reasons for rejecting such alternatives and offers, the Hospital's selection of LHP for the Joint Venture, and the specific terms of the Joint Venture. In addition, the parties should discuss its due diligence in obtaining the fairness evaluation required by Conn. Gen. Stat. § 19a-486a(c)(5), including providing a copy of said independent expert's resume or other documentation of his or her qualifications and describing the process undertaken to identify and retain this person as an independent expert.
5. Describe any and all potential conflicts of interest between, among, or pertaining to, at a minimum, any and all board members, officers, key employees, and experts of the Hospital, St. Mary's, LHP, any other party to the transaction, and any person or entity that performed assessments requested in this application. In addition, describe the due diligence taken to determine the existence of any conflicts of interest, including how St. Mary's and LHP defined "conflict of interest" for purposes of the response to this question.
6. Provide an assessment of the fair market value of the transaction, including, but not limited to, a discussion regarding whether the fair market value of the Hospital's assets has been manipulated. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications

to perform the assessment. Provide copies of all documents and statements, financial and otherwise, in support of this assessment.

7. Provide an assessment of whether the transaction will place the Hospital's assets at unreasonable risk. Provide copies of all documents and statements, financial and otherwise, in support of this assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
8. Provide an assessment of whether any managerial contracts to be entered into are for reasonable fair value. Provide copies of the managerial contracts and of all documents and statements, financial and otherwise, in support of the fair value assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
9. Describe your concept of the locally-controlled charitable foundation to support health-related activities in the community (the "Foundation"), identified in your letter of March 30, 2011, including the funding of the Foundation, the charitable purpose of the Foundation, and its governance structure. Provide copies of any documents related to the creation, structure, and purpose of the Foundation.
10. Identify any and all assets of the Hospital that are subject to a charitable use restriction imposed by a donor and the intended handling of those assets as a result of the Joint Venture. Please provide copies of the original gift instruments for each of the gifts.
11. Provide copies of all correspondence, memoranda, and any other documents that include the terms of any other offers to transfer assets or operations or change control of operations received by the Hospital.
12. Provide a copy of a fairness evaluation by an independent person who is an expert in such Joint Ventures that includes the expert's evaluation of each of the criteria set forth in Conn. Gen. Stat. § 19a-486c. Also provide copies of the information and documents relied upon by the expert in the preparation and issuance of the fairness evaluation.
13. Explain how St. Mary's determined the need for the proposal and discuss the benefits of this proposal for the Hospital (provide discussion on history and time-line).
14. List any changes to the clinical services offered at the Hospital's main campus and any/all satellite locations that result from this proposal and provide an explanation for each change.
15. Describe the existing populations served by the Hospital and how the change in ownership will affect these populations. Include demographic information.

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16. Provide a transition plan and describe how the Hospital will ensure continuity of care of services through this plan.
17. Explain how the Hospital will ensure that the community its serves has continued access to affordable health care.
18. Provide a description of plans that the Hospital will implement to control cost, such as discharge care coordination, implementation of electronic medical records and emergency department triaging to the appropriate level of care.
19. Will the Hospital continue to provide services to the uninsured and underinsured? In responding to this question, please describe any plans the Hospital has to work with other providers in the community, such as federally qualified health centers or community health centers, to provide specialty care to patients, or low cost programs that the Hospital will provide in the area that are tailored towards the uninsured or underinsured.
20. Submit a list of all key professional, administrative and clinical department heads related to this proposal. Additionally, provide a copy of the Curriculum Vitae of each individual listed.
21. Explain how the proposal contributes to the quality of health care delivery in the region.
22. Identify the Hospital's ownership type(s) (e.g. Corporation, PC, LLC, etc.).
23. Provide the corporate organizational chart prior to and after the proposal and include all affiliates.
24. Provide a list of owners and the percentage of ownership by each entity involved.
25. Please provide the date on which St. Mary's filed audited financial statements with OHCA. St. Mary's may reference these statements in responding to questions.
26. List all funding or financing sources for the proposal and the dollar amount of each source. Provide applicable details such as interest rate; term; monthly payment; pledges and funds received to date; letter of interest or approval from a lending institution.
27. Describe in detail how this proposal will affect the financial strength of the state's health care system?
28. Provide the current and projected patient population mix (based on the number of patients, not based on revenue) for this proposal.

Table X: Patient Population Mix

	Prior to the Proposal	After the Proposal
Medicare*		
Medicaid*		
CHAMPUS & TriCare		
Total Government		
Commercial Insurers*		
Uninsured		
Workers Compensation		
Total Non-Government		
Total Payer Mix		

* Includes managed care activity.

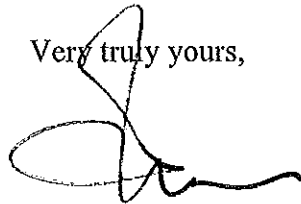
29. Provide the assumptions used to project the patient population mix after the proposed transfer of ownership.
30. Provide a summary of revenue, expense, and volume statistics for each entity as follows:
 - The Hospital without the CON project, incremental to the CON project, and with the CON project (Note that the actual results for the fiscal year reported in the first column must agree with the Hospital's audited financial statements.);
 - St. Mary's without the CON project (Note that the actual results for the fiscal year reported in the first column must agree with St. Mary's audited financial statements.); and
 - The Joint Venture with the CON project and incremental to the CON project.
 Complete Financial Attachments 1A through 1C. The projections must include the first three full fiscal years of the project.
31. Provide the assumptions utilized in developing Financial Attachments 1A through 1C (e.g., full-time equivalents, volume statistics, other expenses, revenue and expense percentage increases, project commencement of operation date, etc.).
32. Explain any projected incremental losses from operations contained in the financial projections that result from the implementation and operation of the CON proposal.
33. As a result of the proposal, will there be any change to existing reimbursement contracts between the Applicants and payers (e.g., Medicare, Medicaid, commercial)? Explain.
34. Provide the specific amount and form of capital (e.g. money or property) that will be contributed by St. Mary's and LHP to fund the total cost of the project.

35. Provide the percentages from the total capital contributions that will be utilized to eliminate the Hospital's debt, reduced pension liability, and to fund capital projects and other facility improvements.

After receipt of your application for approval, the Commissioner and the Attorney General shall review the submission to determine whether the application for approval is complete. If not, the Commissioner and the Attorney General shall provide written notice of any deficiencies within twenty (20) days of receipt of the application for approval.

Should you have any questions regarding this application form, your application for approval, or any other issues relating to the Commissioner's and Attorney General's review, please do not hesitate to contact either Steven Lazarus at the Department of Public Health (860-418-7012; Steven.Lazarus@ct.gov) or Assistant Attorney General Gary W. Hawes at the Office of the Attorney General (860-808-5020; gary.hawes@ct.gov).

Very truly yours,

A handwritten signature in black ink, appearing to read "George Jepsen", with a stylized flourish at the end.

GEORGE JEPSEN
ATTORNEY GENERAL

cc: Kimberly Martone, Director of Operations, OHCA
Steven Lazarus, Associate Healthcare Analyst, OHCA
Gary W. Hawes, Assistant Attorney General, OAG

Attachments

FINANCIAL ATTACHMENTS 1A through 1C

Financial Attachment 1A – Total Hospital Health System (Not-for-Profit) – To be completed for Actual Completed Year & Projections only for years until conversion to For-Profit

Financial Attachment 1B – Total Hospital Health System (For-Profit) – To be completed for the "new" For-Profit entity created after the proposal takes effect

Financial Attachment 1C – Hospital ONLY (Prior & Post to the joint venture) – To be completed for Actual Completed Year & Projections for years to include prior to and 3 years past the joint venture

Saint Mary's Health System (Not-For Profit)

Please provide one year of actual results and three years of Total Hospital Health System projections of revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

<u>Total Hospital Health System:</u> Description	FY	FY	FY	FY
	Actual Results	Projected W/out CON	Projected W/out CON	Projected W/out CON
NET PATIENT REVENUE				
Non-Government				
Medicare				
Medicaid and Other Medical Assistance				
Other Government				
Total Net Patient Revenue	\$0	\$0	\$0	\$0
Other Operating Revenue				
Revenue from Operations	\$0	\$0	\$0	\$0
OPERATING EXPENSES				
Salaries and Fringe Benefits				
Professional / Contracted Services				
Supplies and Drugs				
Bad Debts				
Other Operating Expense				
Subtotal	\$0	\$0	\$0	\$0
Depreciation/Amortization				
Interest Expense				
Lease Expense				
Total Operating Expense	\$0	\$0	\$0	\$0
Gain/(Loss) from Operations	\$0	\$0	\$0	\$0
Plus: Non-Operating Revenue				
Revenue Over/(Under) Expense	\$0	\$0	\$0	\$0
FTEs	0	0	0	0

Projections to be complete prior to and 3 years past the joint venture. Add columns as necessary.

*Volume Statistics:

Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.

Future Joint Venture "LLC" (For Profit)

Please provide three years of Total Hospital Health System projections of revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

<u>Total Hospital Health System:</u>	FY		FY		FY		FY	
	Projected Incremental	Projected With CON	Projected Incremental	Projected With CON	Projected Incremental	Projected With CON	Projected Incremental	Projected With CON
NET PATIENT REVENUE								
Non-Government								
Medicare								
Medicaid and Other Medical Assistance								
Other Government								
Total Net Patient Patient Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenue								
Revenue from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING EXPENSES								
Salaries and Fringe Benefits								
Professional / Contracted Services								
Supplies and Drugs								
Bad Debts								
Other Operating Expense								
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation/Amortization								
Interest Expense								
Lease Expense								
Total Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income (Loss) from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Non-Operating Income								
Income before provision for income taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Provision for income taxes								
Net Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Retained earnings, beginning of year								
Retained earnings, end of year	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FTEs	0	0	0	0	0	0	0	0

First 3 years of the new joint venture LLC and use the W/O CON from FA1(A)

Volume Statistics:

Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.

Saint Mary's Hospital ONLY (Prior & Post Joint Venture)

Please provide one year of actual results and three years of projections of Total Facility revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

Total Facility: Description	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
	Actual Results	Projected Without CON	Projected Incremental	Projected With CON	Projected Without CON	Projected Incremental	Projected With CON	Projected Without CON	Projected Incremental	Projected With CON	
NET PATIENT REVENUE											
Non-Government				\$0			\$0			\$0	\$0
Medicare				\$0			\$0			\$0	\$0
Medicaid and Other Medical Assistance				\$0			\$0			\$0	\$0
Other Government				\$0			\$0			\$0	\$0
Total Net Patient Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING EXPENSES											
Other Operating Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revenue from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Salaries and Fringe Benefits				\$0			\$0			\$0	\$0
Professional / Contracted Services				\$0			\$0			\$0	\$0
Supplies and Drugs				\$0			\$0			\$0	\$0
Bad Debts				\$0			\$0			\$0	\$0
Other Operating Expense				\$0			\$0			\$0	\$0
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation/Amortization				\$0			\$0			\$0	\$0
Interest Expense				\$0			\$0			\$0	\$0
Lease Expense				\$0			\$0			\$0	\$0
Total Operating Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gain(Loss) from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Plus: Non-Operating Revenue				\$0			\$0			\$0	\$0
Revenue Over/(Under) Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FTEs		0	0	0	0	0	0	0	0	0	0

Please complete Actual Year for Hospital and projections for all years of the proposal including 3 years post joint venture. Please add columns as necessary.

*Volume Statistics:

Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.