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March 30, 2011

Via Hand Delivery

The Honorable George C. Jepsen  
Attorney General  
Office of the Attorney General  
55 Elm Street  
Hartford, CT 06106

The Honorable Jewel Mullen  
Commissioner  
Department of Public Health  
Office of Health Care Access  
410 Capitol Avenue  
Hartford, CT 06134

RE: Saint Mary's Health System, Inc.

Dear Attorney General Jepsen and Commissioner Mullen:

Please be advised that Brown Rudnick represents Saint Mary's Health System, Inc. and its affiliated entities (collectively, "Saint Mary's") in connection with the proposed formation of a joint venture involving LHP Hospital Group, Inc. ("LHP"). Please accept the enclosed Determination Letter submitted by Saint Mary's and LHP to begin the approval process for the proposed transaction as required under Conn. Gen. Stat. §19a-486 et seq.

Saint Mary's decision to partner with LHP is the culmination of an intensive, multi-year review and evaluation process. The joint venture, which will be established as a Connecticut limited liability company, will be owned by Saint Mary's and LHP to operate Saint Mary's facilities (the "LLC"). As a result of a substantial equity investment by LHP, all of Saint Mary's existing debt will be retired, and its pension plan funded. Saint Mary's will become debt-free and among the best capitalized healthcare facilities in Connecticut.

Saint Mary's will be operated by the LLC, not LHP, and will keep its name and continue its historic mission of over 100 years of providing excellent health care in a spiritually enriched environment to improve the health of its community. Saint Mary's will continue to adhere to the community benefits standards required of all tax exempt, non-profit hospitals and continue to follow its current charity and uncompensated care policies. Its current programs and services



will be expanded and all employees will retain their current positions and the existing management team will remain in place. Directors appointed by Saint Mary's from the local community will maintain control of Saint Mary's through governance rights on both the LLC Board of Directors and the Hospital Board of Trustees.

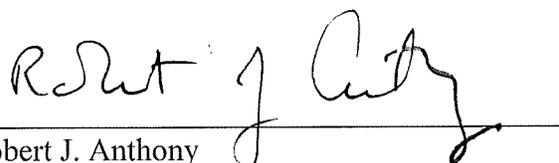
LHP, a national multi-hospital system, brings capital and expertise to support Saint Mary's existing management team as it plans for the coming changes in the industry including health reform, declining reimbursements and the continuing instability of the credit markets. As a result of this partnership, Saint Mary's will be better positioned to maintain the highest level of healthcare services in an affordable and accessible manner for residents of the greater Waterbury area.

We kindly request that the appearance of Brown Rudnick be entered for matters conducted both at the Office of the Attorney General and the Department of Public Health, Office of Health Care Access. We look forward to working with your offices on the details of the proposed transaction in order to reach a successful conclusion that will ensure continuity of healthcare services throughout Saint Mary's Health System.

Thank you for your consideration and please feel free to contact me if you have any questions.

Very truly yours,

**BROWN RUDNICK LLP**

By:   
Robert J. Anthony

RJA/kac  
Enclosure

cc: Chad Wable, President and CEO  
Saint Mary's Health System, Inc.

Dan Moen, President and CEO  
LHP Hospital Group, Inc.

Rebecca Hurley, Esq., Executive Vice President  
General Counsel and Secretary  
LHP Hospital Group, Inc.

# State of Connecticut Office of Health Care Access CON Determination Form

All persons who are requesting a determination from OHCA as to whether a CON is required for their proposed project must complete this Form 2020. The completed form should be submitted to the Commissioner of the Office of Health Care Access, 410 Capitol Avenue, MS#13HCA, P.O. Box 340308, Hartford, Connecticut 06134-0308.

## SECTION I. PETITIONER INFORMATION

If this proposal has more than two Petitioners, please attach a separate sheet, supplying the same information for each Petitioner in the format presented in the following table.

	Petitioner	Petitioner
Full Legal Name	Saint Mary's Health System, Inc.	LHP Hospital Group, Inc.
Doing Business As		LHP Southwest Connecticut, LLC
Name of Parent Corporation	Saint Mary's Health System, Inc.	
Petitioner's Mailing Address, if Post Office (PO) Box, include a street mailing address for Certified Mail	56 Franklin Street, Waterbury, CT 06706	2800 North Dallas Parkway, Suite 200 Plano, Texas 75093
What is the Petitioner's Status: P for profit and NP for Nonprofit	NP	P
<b>Contact Person at Facility</b> , including Title/Position: This Individual at the facility will be the Petitioner's Designee to receive all correspondence in this matter.	Chad Wable President and Chief Executive Officer	Rebecca Hurley, EVP, General Counsel and Secretary
Contact Person's Mailing Address, if PO Box, include a street mailing address for Certified Mail	Saint Mary's Health System, Inc. 56 Franklin Street Waterbury, CT 06706	LHP Hospital Group, Inc., 2800 N. Dallas Parkway., Suite 200 Plano, Texas 75093
Contact Person's Telephone Number	(203) 709-3368	(972) 943-1704

Contact Person's Fax Number	(203) 709-3066	(866) 464-2421
Contact Person's e-mail Address	<u>CWable@stmh.org</u>	rebecca.hurley@lhphospitalgroup.com

## SECTION II. GENERAL PROPOSAL INFORMATION

- a. Proposal/Project Title: Joint Venture between Saint Mary's Health System, Inc. and LHP Hospital Group, Inc.
- b. Estimated Total Project Cost: \$ 135,000,000 in initial capital contributions plus \$75,000,000 in additional capital contributions over the next five years.
- c. Location of proposal, identifying Street Address, Town and Zip Code:  
Saint Mary's Hospital, 56 Franklin Street, Waterbury, CT 06706
- d. List each town this project is intended to serve: Naugatuck, Prospect, Waterbury and Wolcott in the primary service area; Beacon Falls, Bethlehem, Cheshire, Middlebury, Morris, Oakville, Oxford, Plantsville, Plymouth, Southbury, Southington, Terryville, Watertown, Woodbury and Thomaston in the secondary service area.
- e. Estimated starting date for the project: As soon as the CON application is approved.
- f. Type of Entity: Hospital and affiliated entities.

## SECTION III. PROPOSAL DESCRIPTION

Please provide a description of the proposed project, highlighting each of its important aspects, on at least one, but not more than two separate 8.5" X 11" sheets of paper.

## PROPOSAL DESCRIPTION

Saint Mary's Health System, Inc. (Saint Mary's) is a Connecticut non-profit corporation. Together with its affiliates and subsidiaries, including Saint Mary's Hospital, Inc. (the Hospital), Saint Mary's plans to enter into a joint venture with an affiliate of LHP Hospital Group, Inc., (together with its affiliates and subsidiaries, LHP) to recapitalize and strengthen Saint Mary's operations. The two entities will operate Saint Mary's by establishing a for-profit limited liability company (the "LLC"), structured initially so that Saint Mary's will have a 20% ownership interest, and LHP will have an 80% ownership interest. Saint Mary's will have the option to increase its share up to 40%. Assets of the existing Saint Mary's system, which will be contributed to the LLC, have been valued at \$135 million. LHP will contribute \$108 million to the LLC initially and Saint Mary's and LHP together will invest another \$75 million for strategic investments over the LLC's first 5 years.

Under the proposed arrangement, Saint Mary's will continue to retain its name, its Catholic identity and adherence to the Ethical Directives for Catholic Health Care Services. Saint Mary's will also continue to operate in accordance with the "community benefit standards" required of tax-exempt hospitals (as set forth in Revenue Ruling 69-545), including without limitation, the (i) acceptance of all Medicare and Medicaid patients, (ii) acceptance of all emergency patients without regard to ability to pay, (iii) maintenance of an open medical staff, (iv) provision of public health programs of educational benefit to the community, and (v) general promotion of public health, wellness and welfare to the community through the provision of health care at a reasonable cost. The LLC will retain and continue to follow Saint Mary's existing charity care and uncompensated care policies.

The LLC, not LHP, will operate Saint Mary's, and there will be an equally-shared governance structure where local control and leadership are protected both on the LLC Board of Directors and the Hospital's Board of Trustees. The existing management team also will remain in place and all employees will retain their current positions.

The LLC Board will be composed of 10 members; 5 from Saint Mary's and 5 from LHP (2 of LHP's 5 being local physicians). Block voting will be used for most decisions requiring board approval – with a majority required from the Saint Mary's-appointed Board members, and a majority required from the LHP-appointed Board members. Saint Mary's-appointed Board members will also have the unilateral right to (a) terminate the Chief Executive Officer of the Hospital, (b) name the Chairman of the Board, (c) cause the dissolution of the LLC in the event the LLC fails to meet the requirements of the community benefits standards, and (d) decide not to renew the management agreement (between the LLC and an LHP-affiliated management company) if the manager is not operating the LLC or Saint Mary's in accordance with Saint Mary's mission and purposes and/or the community benefits standards, or if the manager is otherwise in breach of the management agreement. The LLC Board will appoint a 12 member Hospital Board of Trustees at least 50% of whose members will be physicians on the Saint Mary's medical staff and the remainder of whom will be local community leaders.

As a result of the proposed joint venture, a significant amount of cash, as well as a continuing income stream from Saint Mary's ongoing ownership interest in the joint venture, will be

available to fund a substantial, locally-controlled charitable foundation to support health-related activities in the community.

It was only five years ago that Saint Mary's was operating with a negative margin of -3.75% and experiencing a loss from operations of \$6,393,000.<sup>1</sup> While its financial situation has improved, its long range financial situation is impeded by an accrued pension liability, aging facilities and lack of capital. LHP will provide the necessary relief by contributing sufficient capital and other resources to eliminate Saint Mary's debt, provide greater security to its pensioners and help Saint Mary's fund numerous capital projects, greatly needed facility upgrades, and make other key expenditures to grow and improve the health system. With the impact of the current recession unknown in terms of its length or depth, increasing bad debt at the Hospital which rose from \$7,898,208 in FY2006 to \$11,724,327 in FY2009,<sup>2</sup> and the unknown implications of federal health care reform, the collaboration with LHP is a necessary step to secure Saint Mary's future as a strong, local healthcare provider.

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<sup>1</sup> Annual Report on the Financial Status of Connecticut's Short Term Acute Care Hospitals for Fiscal Year 2009, State of Connecticut: Office of Health Care Access, Sept. 2010, pp. 88-90.

<sup>2</sup> Id., p. 90.

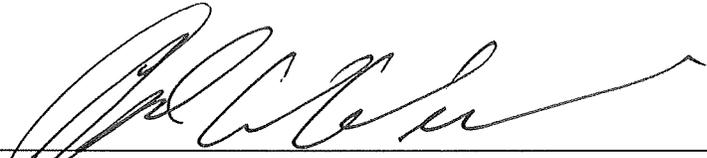
**SECTION IV. AFFIDAVIT**

**(Each Petitioner must submit a completed Affidavit.)**

Petitioner: Saint Mary's Health System, Inc.

Project Title: Joint Venture between Saint Mary's Health System, Inc. and LHP Hospital Group, Inc.

I, Chad W. Wable, President and Chief Executive Officer of Saint Mary's Health System, Inc., being duly sworn, depose and state that the information provided in this CON Determination form is true and accurate to the best of my knowledge.

  
\_\_\_\_\_  
Signature

3/30/11  
\_\_\_\_\_  
Date

Subscribed and sworn to before me on March 30, 2011

Victoria Cipriano  
\_\_\_\_\_  
Notary Public/Commissioner of Superior Court

My commission expires: VICTORIA CIPRIANO  
NOTARY PUBLIC  
MY COMMISSION EXPIRES FEB. 28, 2012

