



STATE OF WASHINGTON
DEPARTMENT OF HEALTH
Olympia, Washington 98504

August 21, 2018

CERTIFIED MAIL # 7016 3010 0001 0575 1157

Howard Wall, Secretary
Capella Healthcare Inc.
103 Continental Place, # 200
Brentwood, Tennessee 37027

RE: Nonprofit Conversion #17-01

Dear Mr. Wall,

Thank you for your letter dated August 15, 2018, accepting the conditions attached to the department's approval of the non-profit conversions of Lourdes Medical Center and Lourdes Counseling Center.

The department has, in cooperation with the Consumer Protection Division of the Attorney General's office, determined that the revisions submitted to the department are sufficient to meet the conditions identified in our approval letter dated August 6, 2018.

The conditions are restated below. Please ensure that executed versions of the applicable documents listed below are submitted to the department within 30 days of closing the transaction.

Conditions

The documentation required to meet the conditions below should be submitted to the Department of Health and the Office of the Attorney General.

1. Prior to the closing of the transaction no material changes can be made to the Application, the Asset Purchase Agreement, or any other applicable application documents, except as may be necessary to comply with conditions identified.
2. Prior to the closing of the transaction there occur no changes in operations at the Hospitals, or other events, which result in Ascension not receiving fair market value for the Hospitals.
3. The Donation Agreement between LHN and the Catholic Foundation shall be amended to require the Catholic Foundation to hold the proceeds in trust and as permanently restricted funds.
4. LHN shall establish a reasonable process for interim partial transfers of the proceeds of the transaction to the Catholic Foundation during the escrow period. This process must be approved by the Department of Health and the Office of the Attorney General.

5. LHN shall establish a reasonable process for reasonable review of payments from the escrow account to assure that those payments are limited to appropriate liabilities anticipated by the APA. This process must be approved by the Department of Health and the Office of the Attorney General.
6. LHN must resolve the discrepancies between the Application and the draft Donation Agreement, including resolving the duration of escrow, the precise assets to be conveyed into escrow (and concomitant obligations to be paid from escrow), the terms of the escrow, provisions for interim investment of escrowed funds, the treatment of post-closing adjustments, and vesting of authority in the Catholic Foundation to enforce any and all provisions of this transaction governing charitable funds, including without limitation transfers into or out of the escrow account – all subject to Department of Health and Attorney General approval.
7. LHN must establish a third distribution committee related to healthcare grants from the proceeds of the transaction with membership including residents of both Benton and Franklin counties and possessing the necessary subject matter expertise.
8. LHN must vest the right of first refusal with the Catholic Foundation, rather than Ascension. Consistent with statute, the right of first refusal shall not be time limited.
9. LHN must establish a mechanism that requires Capella to provide adequate and timely notice to the Catholic Foundation of any potential sale, acquisition, or merger involving the assets so that it may exercise its right of first refusal.
10. The net proceeds from the sale of Lourdes Medical Center and Lourdes Counseling Center shall be dedicated to the permissible health care-related purposes for the benefit of the communities within the region served by both hospitals. The Catholic Foundation shall provide to DOH annually, such financial reports, either discretely or as a part of any other reports that demonstrate compliance with this condition.
11. RCCH/Capella must agree to the conditions outlined in the Certificate of Need evaluations for Lourdes Medical Center and Lourdes Counseling Center.

Approved Costs

The approved capital expenditure for both project is \$21,000,000

If you have any questions, or would like to arrange for a meeting to discuss our decision, please contact the Certificate of Need Program at (360) 236-2955.

Sincerely,



Nancy Tyson, Executive Director
Health Facilities and Certificate of Need

Enclosure