

February 21, 2011

Mr. John Copeland  
Chair, Public Health Trust  
1500 NW 12<sup>th</sup> Ave #106  
Miami, FL 33136

Re: Non-binding Indication of Interest regarding Jackson System

Dear Mr. Copeland:

This letter outlines the terms of our non-binding letter of interest in becoming a long term strategic partner for Jackson Health System ("JHS"). This letter outlines our conceptual model for combining the substantial resources and operational expertise of Steward Health Care System LLC ("SHC") with the long tradition of excellence of JHS to form a stronger more viable health system for the people of Miami-Dade County.

We believe Steward is uniquely positioned to partner with the PHT, the management and the physicians of JHS to secure the System's future and bring additional healthcare resources to the communities it services. Our vision of the future of healthcare delivery is focused on the creation of highly integrated, innovative and well capitalized accountable care organizations that reflect the needs and culture of the communities where these institutions are located.

As a means of introduction, we offer the following:

- SHC is the largest community hospital-based provider network in New England with approximately \$1.65 billion in net revenue, 300,000 emergency department visits and over 1,000,000 annual physician visits.
- We are a physician-lead organization. In addition to comprising the majority of our senior leadership team, physicians (and community-based physician organizations) are a pivotal component of our overall strategy to re-shaping the way care is delivered.
- Changing the focus of care to ensure that patients and their families are able to receive the highest quality services right in the communities where they live is our mission, our design and our philosophy. We are leading the way in the development of the "prototypical" accountable care organization ("ACO"). Our vision is an ACO with patients and their physicians driving decisions in complete coordination where care is delivered at the right time, in the right setting and at the right cost.

- SHC is a mission driven organization. We grew out of a Catholic Health Care system and the continued commitment to social justice, care for the poor and unfettered access regardless of one's ability to pay remain at the center of our mission.
- Four of SHC's current hospitals are 340B Safety Net hospitals, serving some of the most vulnerable communities in Massachusetts.
- To realize this vision:
  - We have invested in strengthening each of our community hospitals through investment in vital technology and infrastructure. Along with our capital partner, we have embarked on significant upgrades to each of the facilities that we currently operate. These improvements include investments in cutting edge equipment, refurbishment and expansion of operating rooms, new emergency departments and the development of world-class programs.
  - We have invested heavily in information technology. By the end of this year, we will have invested over \$75 million in:
    - implementing Advanced Clinical and computerized physician order entry systems in each of our hospitals
    - "wiring" 100% of our employed and affiliated physicians with electronic medical record systems
    - a unique and innovative partnership with Microsoft to develop and deploy their Amalga cloud-based computer solution. When fully implemented Amalga will allow us to seamlessly integrate electronic medical records across different information technology platforms and regions as well as to begin to proactively determine treatment options designed to keep our patients "well".

Steward is currently considered a "Stage 6" Healthcare System by the HIMMS – indicating an advanced level of electronic integration. This designation places us in a peer group representing less than 5% of all hospitals nationally. We are also the only adult medical/surgical acute care hospital with this designation in eastern Massachusetts (and one of only a few in the Commonwealth).

- Steward Health Care System includes:
  - 8 acute care hospitals
  - 2 of our facilities are academic medical institutions affiliated with Tufts Medical School that offer training platforms for a multitude of medical students, interns, residents and fellows in a wide variety of specialties.
  - A contracting network of 1,650 physicians and 10 hospitals

- An employed multi-specialty physician group practice of 450 full-time and 150 part-time providers
  - A substance abuse hospital
  - An award-winning Home Health Agency
  - A mobile imaging company
  - A College which focuses on nursing and medical technology as well as providing our employees with an opportunity to advance their own training
  - A malpractice insurance company that provides coverage for our hospitals as well as our employed *and* affiliated physicians
  - A managed care insurer providing services to active and retired members of the United States armed services
  - A management services company specifically designed to support our ACO efforts with care coordination, utilization and disease management services, informatics, and quality improvement
- SHC's financial position is very strong. As a result of our recent transaction with Cerberus Capital Management, we are currently completely debt free; we have provided for the full funding of all of our pension obligations and we have the strongest cash position the System has ever enjoyed.
  - SHC strongly believes that a commitment to behavioral medicine and to those who are often times disenfranchised from the healthcare system is a cornerstone of being a true "community-based" provider. We live this commitment as the Commonwealth's largest provider of inpatient behavioral health services. Our inpatient behavioral health service operates as an integrated network tying in all beds in our System thus enabling us to quickly locate and place patients in the most appropriate setting.
  - SHC is an entity committed to research. We have numerous federal research grants and each of our hospitals actively participates in clinical trials / clinical research.
  - SHC is an innovator in the area of labor relations. For example, we have a unique strategic partnership with SEIU 1199. This partnership has allowed us to work together with Union leadership to manage the growth of labor and benefit costs; to work jointly to address areas of mutual interest before policy makers and regulators; and, to develop careers ladders and training opportunities for our employees. We also have good working relationships with many of the same labor organizations that are present at JHS and South Florida including the AFL/CIO, the Building Trades Council and the Teamsters.

As we have indicated, Steward is very interested in the opportunity to become JHS' long term strategic partner. Subject to further due diligence, our general concept (discussed in more detail in the attachment to this letter) envisions a transaction that:

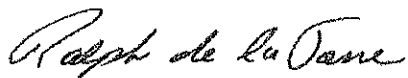
- Removes all operational risk from the County for continued potential losses at JHS
- Guarantees that debt service obligations will continue to be met
- Invests at least \$600 million in capital and infrastructure at JHS over an agreed upon period of time. Not only will this investment allow JHS to modernize its facilities and equipment, it will have the added benefit of creating economic activity that will mean thousands of additional jobs for the people of Miami-Dade County.
- Perpetuates JHS' mission of providing care for all regardless of ability to pay, and, its commitment to teaching and research
- Provides a formal opportunity for continued input and guidance regarding the needs of the community through the PHT.

The combination of infused capital and cash to fund debt will yield **an investment by SHC of over \$1 billion.** This investment will be further augmented by any cash SHC needs to invest to fund losses on operations during the "turn-around" phase of our involvement. (We estimate that the current "run rate" for these losses is \$190 million to \$200 million per year.)

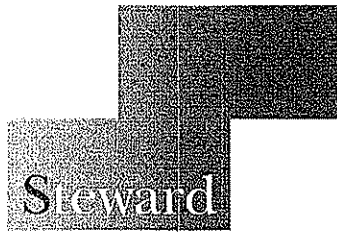
SHC as an entity, as well as the management and Board of SHC, have a wealth of experience in the acquisition and integration of hospitals. In particular, our expertise is in the acquisition and continued operation of stand-alone hospitals with a focus on growth and expansion.

As a final comment, we would like to note that we learned a great deal from the Caritas / Steward transaction, and we strongly believe the same compelling strategic and operating rationale exists for JHS aligning with Steward. The integration of JHS, backed by the financial and operational strength of Steward, will create an enduring, comprehensive healthcare delivery system for the citizens of Miami-Dade and South Florida. We look forward to further exploring this exiting opportunity.

Sincerely,



Ralph de la Torre, MD – Chairman & CEO  
Steward Health Care System LLC



**Expression of Interest in Jackson Health System**  
***General Proposal***

SHC has thoroughly reviewed publicly available data and had informal discussions with JHS' auditors. Based on this preliminary yet thorough work, our understanding of current JHS situation is:

- Jackson Health System is a vital provider of many services that are simply not available elsewhere in South Florida particularly services for the uninsured and underinsured. However, the downturn in the economy combined with the continuing (and growing) burden of offering high quality care to the uninsured/underinsured of South Florida have created **a dire (and bleak) economic outlook** for JHS.
  - The System is key provider for the uninsured and under-insured in South Florida
  - The System provides services not available elsewhere in South Florida
    - Burn Unit
    - Trauma Center
    - High risk obstetrics and nursery services
  - The System is a major academic center supporting training and research
  - The System –despite its continued losses - is a major component of the economic engine of Miami-Dade County providing employment to over 11,000 people and retirement benefits to multiple thousands of former employees and their families.
- The failing economic health of JHS has lead to a lack of capital investment. This in turn has lead to continued erosion in JHS' market share. It is our understanding that current year **volume is 9% behind budget.**
- The System has undertaken a number of steps to improve the financial performance over the last year. These initiatives – and those planned for 2011 – have improved and will continue to improve earnings. However, as noted volume appears to be behind original projections by 9%. News reports indicate that **the hospital is on track to lose (despite management's initiatives) \$80 million to \$100 million in fiscal year 2011.** Subtracting out the one-time infusion of supplemental federal funding received this year these losses would have risen to approximately \$120 million in 2011. Further adjusting for “one-time” gains and current contract terms increases the run rate loss to nearly \$200 million.
- Furthermore (and more importantly), from our due diligence, it is our understanding that JHS will be **completely out of cash in July of this year. Those shortfalls in cash will have to be made up by the County (just to continue to meet payroll).**

- JHS will continue to be an economic challenge for the PHT. As stated, our preliminary estimates indicate that - management's improvements notwithstanding - the **"run rate" for JHS as it heads into fiscal year 2012 is a loss of nearly \$200 million** as a result of the decrease in market share (driven in large part by the inability to invest in capital) and the continuing pressure to be the key provider for the uninsured/underinsured.
- At September 30, 2010, JHS' current liabilities exceeded current assets by \$72 million. Additionally, based on that same balance sheet date, **JHS has over one-half billion dollars (\$500 million) in debt and liabilities in excess of cash and other liquid assets.**

#### The Goals of Our Proposal

- Given this understanding, our proposal is designed to:
  - Reduce and eliminate for the PHT/County the operational risk associated with changes in volume, increases in the cost of materials, changes in payment rates
  - Reduce and eliminate for the PHT/County the risk associated with the execution of management's strategic and tactical initiatives
  - Provide stable, reliable and predictable cash flow for debt service
  - Provide a guaranteed level of investment in capital for infrastructure, information technology, equipment and new programs. These investments will allow us to modernizing facilities; improve/enhance quality and patient safety; and expand existing programs.
  - Provide for the perpetuation of JHS mission of service to all and education.
  - Additionally, a robust JHS will be a stimulus for the overall economy of Miami-Dade County. The proposed infrastructure improvements will generate thousands of jobs in the construction and service industries as well as provide an economic platform for reinvest in the communities of Miami-Dade County.

#### Our Proposal

- Steward Health Care System, LLC proposes:
  - In order to eliminate the risks associated with the operations of JHS, Steward will assume all responsibility for the operations of JHS by acquiring all of the property, plant and equipment and operations of JHS.
  - Steward will agree to invest at least \$600 million over an agreed upon timeframe in capital for infrastructure, information technology, equipment and new programs

- The combination of the acquisition, the investment in capital and the absorption of liabilities will yield an investment by SHC of over \$1 billion directly into the communities of Miami-Dade County. This investment will be further augmented by any cash SHC needs to invest to fund losses on operations during the “turn-around” phase of our involvement.
- We believe that all hospitals are key and essential components of their communities. Consistent with this belief, we place a high value on partnering with the community in furtherance of the success of these vital assets. To this end, we will agree *in writing* (similar to the Stewardship agreement that SHC has for its operations in Massachusetts) that the PHT Board will continue to have a robust role providing oversight and input regarding the prioritization of capital, participation in the development of programs for the community, the monitoring quality and patient safety initiatives and the oversight of funds received from the County for the support of the uninsured/underinsured. We will enhance this agreement by providing cash resources for the PHT to create positions specifically designed to monitor our progress and assist the PHT Board in providing this input.

Of course all of these terms are subject to further due diligence. However, as outlined we believe that the proposal offers significant advantages for the PHT and Miami-Dade County:

- The removal of all variability with respect to the County’s resource commitment to JHS though the elimination of the funding exposure associated with operational risk
- Substantial capital investment in JHS
- Perpetuation of JHS’ mission
- Continued provision of services key to its constituents and the uninsured / under-insured
- A substantial vehicle for continued community oversight and input via an enhanced PHT

We believe that the operational and capital needs of JHS are dire and demand quick action. We are prepared to invest significant time and resources on our end to complete the processes needed to finalize this proposal in a very short time frame. We also understand the need for a process that provides the public with confidence that it has been adequately represented.

To this end, we propose the following process:

- PHT takes action with respect to this non-binding letter of interest by allowing a 60 day period whereby SHC is allowed to undertake its due diligence review. Due diligence can be a very resource intensive process for all parties involved. In order to maximize the resources available for the process and to minimize the time frame we need to be awarded this period of due diligence on an exclusive basis.

- At the end of the 60 day period, SHC will produce a proposal for review by the appropriate PHT and Miami-Dade County officials. We will also provide access to all data we have gathered from JHS and other sources through the due diligence process to the PHT.
- If that proposal is deemed acceptable, the PHT would – at its discretion – enter into a 30-day “go shop” period. During this 30 day period, other interested parties would be allowed to review our proposal; review data we have collected during the due diligence process; and make their own proposal. Should the PHT decide that a proposal other than SHC’s would be more beneficial to JHS, SHC would (as is common under this type of arrangement) be eligible for reimbursement of its expenditures during the due diligence process. Our expectation is that the selected entity will be the source of payment for these expenditures.

Timing is of the essence. We believe that any delay in this timeline imperils JHS and with it our ability to significantly impact operations. We therefore ask that the PHT provide us any feedback regarding the acceptability of these terms by March 1, 2011.

At your request, we will also agree to provide – in a process that will run parallel to our proposed process – a grant to an organization of your choosing so that it may explore the feasibility of JHS remaining an independent organization and still being able to fulfill its mission.