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UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK

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 In re: :
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 SAINT VINCENT'S CATHOLIC MEDICAL : Chapter 11
 CENTERS OF NEW YORK d/b/a SAINT VINCENT : Case No. 05-14945 (ASH)
 CATHOLIC MEDICAL CENTERS, *et al.*, : (Jointly Administered)
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 Debtors. :
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**DECLARATION OF JAMES WOODS IN SUPPORT OF
 DEBTORS' MOTION FOR ENTRY OF AN ORDER PURSUANT TO
 SECTIONS 105(a), 363(b), 363(f) and 1146(a) OF THE BANKRUPTCY
 CODE AUTHORIZING THE PRIVATE SALE OF BAYLEY SETON
 HOSPITAL AND RELATED ASSETS FREE AND CLEAR OF LIENS,
CLAIMS, AND OTHER INTERESTS, AND GRANTING RELATED RELIEF**

I, James Woods, declare, pursuant to section 1746 of title 28 of the United States Code, that the following is true to the best of my knowledge, information and belief:

1. I am a Managing Director of Huron Consulting Group ("Huron"), which was previously retained as financial advisors for Saint Vincent's Catholic Medical Centers of New York d/b/a Saint Vincent Catholic Medical Centers ("SVCMC"), CMC Physician Services, P.C., CMC Radiological Services P.C., CMC Cardiology Services P.C., CMC Occupational Health Services P.C., Medical Service of St. Vincent's

Hospital and Medical Center, P.C., and Surgical Service of St. Vincent's, P.C., as debtors and debtors in possession (collectively, the "Debtors"). Between April, 2004 and November, 2006, I served as Senior Vice President, Corporate Real Estate Services of the Debtors. From December, 2006 to present, I have continued to provide consulting services relating to the disposition or financing of assets undertaken as part of the Plan of Reorganization.

2. I submit this Declaration in support of the Debtors' motion (the "Motion") for an order authorizing the private sale of Bayley Seton Hospital and related assets. Capitalized terms not otherwise defined have the same meanings as in the Motion.

The Decision to Sell Bayley Seton

3. Bayley Seton is a 198-bed hospital located at 75 Vanderbilt Avenue, Staten Island, New York. The Bayley Seton Campus is an approximately 21-acre plot. It has 14 buildings, and includes parking for Sisters of Charity Health Care System Nursing Home, Inc. (d/b/a St. Elizabeth Ann's Health Care & Rehabilitation Center) ("SEA"). There is also an on-site power plant, which provides heat and electricity to the Bayley Seton Campus.

4. The Sisters of Charity acquired Bayley Seton in 1981 from the United States of America, acting through the secretary of Health and Human Services ("HHS"). The transfer of Bayley Seton to the Sisters of Charity was accompanied by an expansion in the services provided at that facility, including the introduction of psychiatric inpatient services in 1982 and an alcohol inpatient program in 1983. The Sisters of

Charity combined Bayley Seton's operations with those of SV Staten Island to form a comprehensive healthcare system to serve the borough of Staten Island, and transferred services away from Bayley Seton to make this new system more efficient and reverse Bayley Seton's poor financial performance. In April 1999, Bayley Seton's medical acute care inpatient services were relocated to SV Staten Island. The same month, the Bayley Seton emergency room was closed.

5. The Sisters of Charity introduced new services at Bayley Seton in an effort to improve financial performance. For example, the Sisters of Charity opened a part-time ambulatory clinic, and installed a 28-bed neurobehavioral skilled nursing unit in 1999 that expanded to 72 beds in the following year. In spite of the success of these ventures, the Bayley Seton Campus continues to be underutilized and unprofitable.

6. Key services still provided at Bayley Seton as of the Petition Date included behavioral health care; chemical and alcohol detox treatment; HIV treatment; endoscopy services; ambulatory care; rehabilitation services; and vision care. The majority of these programs were sold to Castleton Acquisition Corporation ("Castleton") pursuant to a July 24, 2006 Bankruptcy Court Order, in connection with the sale of SV Staten Island, and are being transferred from Bayley Seton to Richmond University Medical Center ("RUMC"), the entity that runs the facilities. This transition may take as long as three (3) years.

7. The cessation of acute care facilities and the consolidation of other services formerly provided at Bayley Seton with related programs at SV Staten Island

have left the Bayley Seton Campus largely unused. At the same time the cost of maintaining that campus, which has historically exceeded the net revenues generated by the programs housed there even when Bayley Seton was a fully operational acute care facility, is increasing as the campus's infrastructure, much of it nearly a century old, continues to age.

8. The Debtors decided to sell Bayley Seton to relieve their estates of the obligation to fund the significant operating losses and the ever-increasing costs of maintaining the facilities, and to convert an underutilized asset of their estates into cash to help finance the Debtors' successful reorganization.

Solicitation of Buyers for Bayley Seton

9. In mid 2004, SVCMC engaged Cushman & Wakefield to market the property. The results of the marketing effort led to several expressions of interest, in the range of \$15 million, and site visits by potential purchasers, but no negotiable offers. No party was willing to move beyond a preliminary expression of interest because SVCMC could not commit to a time-line by which it could deliver the premises vacant.

10. Between 2002 and November 2005, SVCMC had the Bailey Seton Campus appraised. The appraisals were for the fair market value of the real estate as a vacant, single, undivided lot. The valuations ranged from \$6.5 million to \$24 million.

11. Starting in the fall of 2005, as the sale of SV Staten Island evolved and SEA explored its expansion options, it became increasingly evident that SVCMC would need to provide for the programs then operating at the Bayley Seton Campus to continue for a significant period of time. Several factors led to this conclusion, among

them the requirement of DOD approval for the sale, the time it would take to transition programs to RUMC as a condition of the sale of the SV Staten Island hospital, and the gradual conclusion that the only viable option for SEA was to expand its existing facility. SVCMC began to develop and evaluate alternatives for the disposition of the property that could accommodate these realities.

12. In January, 2006, The Salvation Army approached SVCMC about acquiring a portion of the Bayley Seton Campus, on which to develop the Ray and Joan Kroc Corps Community Center (Kroc Center).

13. With the need to balance, among other things, the requirements of the sale to RUMC, the expansion of SEA, DOD approval, and environmental concerns, it became clear to SVCMC that a traditional marketing approach was not appropriate. This was more apparent, too, given the failure of the earlier marketing efforts by Cushman & Wakefield. Instead, SVCMC negotiated separately with TSA, SEA and Chait with the goal of maximizing the sale proceeds in the context of the above concerns. Through the negotiation process a plan emerged, described below, whereby the Bayley Seton Campus would be subdivided and sold in pieces.

The Bayley Seton Transaction

14. The Bayley Seton Campus is a single tax lot. To consummate the Bayley Seton Transaction, SVCMC, as the owner of the parcel, must obtain a tax lot subdivision and zoning lot subdivision. However, to proceed with the tax-lot subdivision of the Bayley Seton Campus, SVCMC and SEA, as owner of a contiguous parcel, must first enter into a Declaration of Zoning Lot Restrictions which confirms the exis-

tence of a single zoning lot encompassing both the Bayley Seton Campus and the SEA site. In contemplation of the transactions described herein, SVCMC requested the New York City Department of Buildings (the "Department of Buildings") to act upon its application for tax lot subdivision (the "Subdivision") to subdivide the Bayley Seton Campus into four tax lots (Tax Lots 1, 25, 150 and 200). The Bayley Seton Transaction is conditioned upon the Department of Buildings approving the Subdivision. SVCMC anticipates that Subdivision approval will be granted within the next four weeks and prior to closing.

15. The disposition of the four new Tax Lots will be as follows:

(a) Tax Lot 1 (8.59 acres). Tax Lot 1 will be sold to The Salvation Army (TSA). The contract between SVCMC and TSA for Tax Lot 1 requires SVCMC to transfer title to Tax Lot 1 to TSA at the later of the vacating of the site by RUMC, SEA and SVCMC or the approval of the Department of Defense to allow SVCMC to transfer Tax Lot 1. The sale of Tax Lot 1 is also contingent upon securing a Special Use Permit. Pending the transfer of title of Tax Lot 1 to TSA, SVCMC will continue to own and lease the premises to Richmond University Medical Center for the continued operation of programs associated with the acquisition SV Staten Island, the continued operation of the program operated by SEA, and a School of Nursing operated by SVCMC.

(b) Tax Lot 25 (9.48 acres). Tax Lot 25 will be sold to The Salvation Army for the development of the Ray and Joan Kroc Corps Commu-

nity Center (Kroc Center). The acquisition and construction of the Kroc Center will be accomplished largely with funds left to The Salvation Army by the estate of Joan Kroc. The Kroc Center will offer facilities and programs appropriate for all ages in the areas of recreation, arts, and education, including a Family Enrichment Center, Recreation Center, Aquatics Center, Visual and Performing Arts Center, learning/Technology Center, and Outdoor Sports Recreation. It is anticipated that the Kroc Center will serve thousands of people per week, many of who will be of low and moderate income.

(c) Tax Lot 150 (2.1 acres). Tax Lot 150 will be sold to SEA, a non-debtor affiliate of SVCMC. SEA operates a 72-bed neuro-behavioral rehabilitation ("NBR") program in Building #1 (the main hospital building at the Bayley Seton Campus) on a leasehold interest. SEA's main building is located directly adjacent to the Bayley Seton Campus, on a parcel that SEA purchased from Bayley Seton Hospital in 1991. SEA is planning to construct an approximately 56,000 square foot enlargement of its facility. SEA has spent approximately two years exploring alternative locations for the NBR program, but without success. The only viable option is to expand the existing facility, which cannot be accomplished without acquiring Tax Lot 150.

(d) Tax Lot 200 (0.4 acres). Tax 200 will be sold to Chait Housing Development Corporation (Chait), a newly formed housing develop-

ment corporation. Chait will undertake to renovate the existing building to provide for continued operation of the existing congregate care treatment residences. Funding for the acquisition by Chait has been approved by the New York State Office of Mental Health.

Special Considerations That Justify a Private Sale

A. The USFHP Program

16. Pursuant to a contract with the United States Department of Defense ("DOD"), the Debtors offer eligible beneficiaries of the Uniformed Service Family Health Plan ("USFHP") program comprehensive healthcare services and associated support services (excluding family planning and those services that would not be permitted under the Ethical and Religious Directives for Catholic Health Care Facilities). In return, DOD pays to the Debtors a periodic "capitation payment" (*e.g.*, a fixed, per-person payment) for each eligible beneficiary that enrolls to receive USFHP-covered healthcare services through the Debtors.

17. The Debtors, themselves or through their predecessors in interest, have been a sponsor and administrator of a USFHP program since 1994. The Debtors' right to participate in this program has its legislative roots in Bayley Seton's history as a military hospital, and SVCMC's status as the successor in interest to the Sisters of Charity as the owner of Bayley Seton. DOD has not confirmed to the Debtors that their right to participate in the USFHP program will not be impacted by the sale of the entire Bayley Seton Campus. Therefore, the Debtors are not able to transfer fee title to Tax Lot 1 until such time as DOD approves the sale without jeopardizing SVCMC's future par-

ticipation in the program. To accommodate any delays in the DOD approval, SVCMC and TSA have agreed that the ownership of Tax Lot 1 shall remain with SVCMC until such time as SVCMC receives DOD approval. This accommodation is reached by providing that if Tax Lot 1 is vacated prior to receipt of DOD approval to sell the site, SVCMC and TSA shall enter into a long-term land lease whereby the development rights of SVCMC are transferred to TSA to allow TSA to undertake the redevelopment of Tax Lot 1.

B. Health and Human Services Use Restriction

18. The Sisters of Charity acquired the Bayley Seton Hospital from the United States for consideration of one dollar and the agreement to perform and observe certain covenants, including the following "health care use" covenant:

That for a period of thirty (30) years from the date hereof the Property herein conveyed will be used continuously as a General Health Care Facility (except as such use may be interrupted by labor strikes, fire, flood, or acts of God or acts beyond the control of the Grantee) which shall mean a facility in connection with which is provided a range of diagnostic, therapeutic, rehabilitative and nursing services, or other activities permitted by the Act and the operation and maintenance of related facilities and personal property, to the population within its service area.

If the grantee breaches this covenant,

the Grantee shall owe the Grantor an amount not to exceed 1/360 of the appraised value of the property, [as determined by MAI appraisal], for each full month remaining in the 30 year period referenced ...

19. To illustrate, assuming a \$15,000,000 value and a sale in September, 2007, the fee payable by SVCMC to the United States of America would be \$2,083,350

calculated as follows: $\$15,000,000/360 \text{ months} = \$41,667 \text{ per month} \times 50 \text{ months} = \$2,083,350$. SVCMC requested, and received confirmation in writing on December 15, 2006, that the intended use of the parcel by TSA is consistent with the above referenced use restriction and granting SVCMC permission to sell the parcel to TSA, thereby avoiding the approximately \$2,000,000 in fees otherwise due and payable upon transfer of the site for a "non health care use."

C. Environmental Impairment

20. Various studies have been undertaken to identify any and all environmental concerns at the Bayley Seton Campus. Results of these studies indicate the cost of environmental remediation will be between \$15 and \$17.5 million. Environmental problems consist of leaking underground storage tanks, asbestos, an electrical transformer containing PCB's (no leaks of PCB's have been identified), lead paint, and miscellaneous items such as petroleum products, batteries and portable oxygen tanks. While SVCMC has undertaken necessary remediation actions to protect the health of the current employees and residents of the Bayley Seton Campus, these actions do not address the need to complete a comprehensive environmental remediation as part of the redevelopment of the parcels. The agreement between SVCMC and TSA is that TSA will be responsible for executing the remediation plan pursuant to current laws, rules and regulations. In exchange for this obligation, SVCMC has agreed to offset the purchase price by \$12.5 million, thereby netting approximately \$9.5 million from the sale of Tax Lots 1 and 25 to TSA. The \$12.5 million credit is at least several million dollars less than it would otherwise cost SVCMC to undertake the remediation itself.

D. Zoning Lot Development Agreement and Special Use Permit

21. Upon receipt of final approval of the Tax Lot Subdivision as described above, the owners of Tax Lots 1, 25, 120 (the existing SEA property), 150, and 200 will enter into a Zoning Lot Development Agreement, the primary purpose of which is to document the use by SEA of development rights from the other parcels in order for SEA to proceed with the expansion of its facility.

22. At the same time that the tax-lot subdivision is being processed, SVCMC will also be processing a zoning lot subdivision and Special Use Permit application. The purpose of the zoning lot subdivision is to combine Tax Lots 1 and 25 into one zoning lot and Tax Lots 120 (the existing SEA property), 150 and 200 into a different zoning lot. The ability to create these zoning lots is predicated on the approval of a Special Use Permit for the existing SEA facility. SVCMC is in the process of seeking these approvals from the various government and regulatory departments. SVCMC expects approval of the Special Use Permit in early fall 2007.

E. Richmond University Medical Center Lease

23. A condition of the July 2006 sale of SV Staten Island to RUMC included the transfer of several programs currently operating on the Bayley Seton Campus. These programs are critical to the financial viability of RUMC as stated in the New York State Department of Health approval of the transfer in a memorandum dated October 17, 2006. DOH recommended approval of the application contingent upon, among other items, "[s]ubmission of a detailed plan acceptable to the Department for permanent relocation of the 25 psychiatric and 47 chemical dependency beds, prior to

expiration of the two year lease period for the Bayley Seton site, which assures the provision of uninterrupted services," and further conditioned upon "[t]he applicant demonstrating that relocation of services from the Bayley Seton site has been accomplished prior to lease expiration, in a manner acceptable to the Department, Office of Mental Health, and Office of Alcohol and Substance Abuse Services." In view of these requirements, SVCMC entered into a two year lease with RUMC for the services provided at Bayley Seton with an additional one year "holdover" provision, creating the possibility that the main hospital building would not be able to be delivered vacant until December 31, 2009.

F. Sale of Property Inhibited by Existing Leases

24. Portions of the Bayley Seton Campus are currently leased to SEA, RUMC, Marine Dental and Amethyst House. The occupancies will extend through at least December 31, 2008 and, in the case of SVCMC's lease with RUMC, possibly December 31, 2009. As strictly an investment, the economics of continuing to lease the facilities, as opposed to an outright sale, are dismal based on the limited income and high operating and maintenance costs. The limitation on income is driven by two major considerations – the age and condition of the physical plant and the inability to enter into long-term leases. The high operating costs are driven by the age, condition, and inefficiency of the physical plant as well as the need to operate the property on a 24 hours per day/365 days per year basis to accommodate the needs of the tenants and the "residential" nature of their business.

G. Temporary and Permanent Easements

25. During the period that the Bayley Seton Campus is occupied by Richmond University Medical Center, SEA and SVCMC, the owners of each of the proposed Tax Lots will grant easements sufficient to allow each current and future owner of the Tax Lots (SVCMC, TSA, SEA, and Chait), to continue to operate the programs in the same manner as they are currently operated. Further, there will likely be a limited number of permanent easements across certain of the parcels to provide the necessary utility or street access to support the operations of the properties.

26. In light of the foregoing, I believe that the Bayley Seton Transaction is in the best interests of the Debtors and their estates, and that the value of the Bayley Seton Campus will be maximized through the private sales and transactions described herein and in the Motion.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on July 23, 2007.



James Woods