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June 26, 2001

Maureen E. Corcoran, Esq.  
Pillsbury Winthrop LLP  
50 Fremont Street  
San Francisco, California 94105-2228

Re St. Luke's Hospital/Sutter Health

Dear Ms. Corcoran:

The Attorney General hereby consents, pursuant to Corporations Code section 5921, to the transfer of sole corporate membership in St. Luke's Hospital to Sutter Health and the affiliation between St. Luke's Hospital and Sutter Health as set forth in the written notice filed on March 13, 2001. The Attorney General's consent is subject to the attached conditions, which are incorporated by reference herein.

The Attorney General is authorized by law to monitor compliance with the terms and conditions of any transaction approved under Corporations Code section 5921. Pursuant to this authority, the Attorney General will periodically review implementation of this transaction to ensure that the attached conditions are satisfied.

Corporations Code sections 5923 and section 999.5(f) of Title 11 of the California Code of Regulations set forth factors that the Attorney General must consider in determining whether to consent to a transaction involving nonprofit corporations. The Attorney General has reached the following conclusions regarding these factors:

- (1) The proposed transaction will not result in inurement to any private person or entity.
- (2) The proposed transaction, as conditioned, is consistent with charitable trust law.
- (3) The proposed transaction, as conditioned, will not have any immediate adverse effect on the availability or accessibility of health care services to the affected community.

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(4) The proposed transaction will not have a significant anti-competitive effect on healthcare services in the relevant geographic market.

(5) Sufficient information has been provided to the Attorney General for an adequate evaluation of the proposed transaction and its effects on the public.

(6) The proposed transaction as conditioned is in the public interest.

Thank you for your cooperation and that of your client and the purchaser throughout the review process.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Urban", with a long horizontal flourish extending to the right.

MARK J. URBAN  
Deputy Attorney General

For BILL LOCKYER  
Attorney General

**CONDITIONS OF APPROVAL**  
**ST. LUKE'S HOSPITAL**

A. St. Luke's Hospital and Sutter Health shall maintain existing healthcare services at St. Luke's Hospital as follows:

1. Sutter Health and St. Luke's Hospital shall maintain an acute care hospital at the current St. Luke's Hospital site licensed by the California Department of Health Services for at least five years from the date of affiliation of St. Luke's Hospital with Sutter Health ("Affiliation Date").

2. St. Luke's Hospital shall maintain an emergency room service and an ICU on the current hospital site at current or greater licensure levels for at least five years from the Affiliation Date.

3. St. Luke's Hospital shall maintain the primary care services offered by the clinics operated by St. Luke's Healthcare Center and the hospital's outpatient departments for at least five years from the Affiliation Date. St. Luke's Hospital shall maintain access to care provided by the clinics and outpatient departments consistent with policies and procedures in place on January 1, 2001.

4. St. Luke's Hospital shall continue to maintain linguistically and culturally appropriate staff.

5. St. Luke's Hospital shall negotiate in good faith a continuation of its existing contract with the City and County of San Francisco for Medi-Cal mental health services provided to patients who are the responsibility of the Department of Public Health so that such services can be provided for at least five years from the Affiliation Date.

6. If St. Luke's Hospital decides to reduce the capacity of its subacute unit within five years from the Affiliation Date, Sutter Health shall make a good faith effort to influence its affiliates in the San Francisco Bay Area to maintain the availability of subacute capacity currently existing at St. Luke's Hospital on the Affiliation Date.

7. For at least five years from the Affiliation Date, St. Luke's Hospital and Sutter Health shall maintain accreditation for St. Luke's Hospital with the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

B. Sutter Health and St. Luke's Hospital shall maintain the following commitments to historic levels of charity care:

1. For at least five years from the Affiliation Date, St. Luke's Hospital shall continue its charity care policies and procedures that were in place on January 1, 2001. The minimum charity care costs (calculated using the standard "cost to charge ratio") incurred at St.

Luke's Hospital for any fiscal year shall be \$2,000,000, adjusted annually, beginning on January 1, 2002, by the rate of inflation during the previous fiscal year, as measured by the CPI-U for the San Francisco-Oakland-San Jose CMSA. For purposes of this condition, the OSHPD definition of "charity care" as set forth on page 23 of the Lewin Group report and explained on page 24 of that report shall be used.

2. Sutter Health shall take no action that reduces the historic level of charity care at California Pacific Medical Center, including the Davies Medical Center campus, for at least five years from the Affiliation Date.

C. St. Luke's Hospital shall establish a nonprofit public benefit corporation that has the charitable purposes of (1) administering and expending funds for the benefit of St. Luke's Hospital, located in the City and County of San Francisco, and (2) promoting and carrying out activities for the betterment of the general health of the members of the San Francisco communities served by St. Luke's Hospital. All amounts in St. Luke's Endowment Fund, the unexpended funds that were Endowment Funds but were released from the restrictions as to corpus pursuant to an order of the San Francisco Superior Court, and any similar restricted charitable gifts held by St. Luke's Hospital as of the Affiliation Date shall be transferred to this nonprofit public benefit corporation. The incorporation of the Brotherton Fund as described in the Notice and with the above charitable purposes shall satisfy this condition.

D. If St. Luke's Hospital ceases operation as an acute care hospital in the South of Market area of San Francisco within six years of the Affiliation Date other than because of an event beyond the reasonable control of St. Luke's Hospital or Sutter Health, such as an earthquake, fire or other cause of material structural damage to the hospital, Sutter Health shall pay \$15 million to the nonprofit public benefit corporation described in condition (C) above. If St. Luke's Hospital ceases operation as an acute care hospital in the South of Market area of San Francisco after six years of the Affiliation Date, Sutter Health shall make payments to the nonprofit public benefit corporation described in condition (C) above as follows:

1. Between 6 and 7 years of the Affiliation Date: \$12 million.
2. Between 7 and 8 years of the Affiliation Date: \$9 million.
3. Between 8 and 9 years of the Affiliation Date: \$6 million.
4. Between 9 and 10 years of the Affiliation Date: \$3 million.

E. No change in the charitable purposes of St. Luke's Hospital, a nonprofit public benefit corporation, as set forth in Attachment V (A)(2) of the Notice or in Article V (Directors) of the Restated Bylaws of St. Luke's Hospital as set forth in Attachment V(A)(4) of the Notice shall be made without the consent of the Attorney General. The consent of the Attorney General shall not be required for a reduction in the number of elected directors on the St. Luke's Hospital Board to not less than 15.