

**XAVIER BECERRA**  
**Attorney General**

**State of California**  
**DEPARTMENT OF JUSTICE**



455 GOLDEN GATE AVENUE, SUITE 11000  
SAN FRANCISCO, CA 94102-7004

Public: (415) 703-5500  
Telephone: (415) 703-5652  
Facsimile: (415) 703-5480  
E-Mail: [Scott.Chan@doj.ca.gov](mailto:Scott.Chan@doj.ca.gov)

December 28, 2017

**Via Email and US Mail**

Jill H. Gordon, Esq.  
Nixon Peabody LLP  
300 South Grand Avenue, Suite 4100  
Los Angeles, CA 90071-3151

RE: Proposed Affiliation between Torrance Health Association and Cedars-Sinai Health System

Dear Ms. Gordon:

Pursuant to Corporations Code section 5920 *et seq.*, the Attorney General hereby conditionally consents to the proposed change in governance and control of Torrance Health Association, Inc., a California nonprofit public benefit corporation, pursuant to the terms of the Affiliation Agreement dated June 5, 2017, entered into with Cedars-Sinai Health System, a California nonprofit public benefit corporation.

Corporations Code section 5923, and California Code of Regulations, title 11, section 999.5, subdivision (f), set forth factors that the Attorney General shall consider in determining whether to consent to a proposed transaction between a nonprofit corporation and another nonprofit corporation. The Attorney General has considered such factors and consents to the proposed transaction subject to the attached conditions that are incorporated by reference herein.

Thank you for your cooperation throughout the review process.

Sincerely,

SCOTT CHAN  
Deputy Attorney General

For XAVIER BECERRA  
Attorney General

**Conditions to Change in Control and Governance of Torrance Health Association and Torrance Memorial Medical Center<sup>1</sup> and Approval of the Affiliation Agreement by and among Torrance Health Association and Cedars-Sinai Health System**

**I.**

These Conditions shall be legally binding on the following entities: Torrance Health Association, Inc. (Torrance Health Association), a California nonprofit public benefit corporation, Torrance Memorial Medical Center (Torrance Memorial Medical Center Corporation), a California nonprofit public benefit corporation, Torrance Memorial Medical Center Health Care Foundation, a California nonprofit public benefit corporation, Cedars-Sinai Health System, a California nonprofit public benefit corporation, Cedars-Sinai Medical Center, a California nonprofit public benefit corporation, CFHS Holdings Inc., a California nonprofit public benefit corporation, and any other subsidiary, parent, general partner, limited partner, member, affiliate, successor, successor in interest, assignee, or person or entity serving in a similar capacity of any of the above-listed entities, any entity succeeding thereto as a result of consolidation, affiliation, merger, or acquisition of all or substantially all of the real property or operating assets of Torrance Memorial Medical Center or the real property on which Torrance Memorial Medical Center is located, any and all current and future owners, lessees, licensees, or operators of Torrance Memorial Medical Center, and any and all current and future lessees and owners of the real property on which Torrance Memorial Medical Center is located.

**II.**

The transaction approved by the Attorney General consists of the Affiliation Agreement by and between Cedars-Sinai Health System and Torrance Health Association, dated June 5, 2017, and any and all amendments, agreements, or documents referenced in or attached to as an exhibit, attachment, or schedule to the Affiliation Agreement.

All the entities listed in Condition I and any other parties referenced in the above agreement shall fulfill the terms of these agreements or documents and shall notify the Attorney General and obtain the Attorney General's approval in writing of any proposed modification or rescission of any of the terms of these amendments, agreements or documents. Such notifications shall be provided at least sixty days prior to their effective date in order to allow the Attorney General to consider whether they affect the factors set forth in Corporations Code section 5923 and obtain the Attorney General's approval.

**III.**

For ten years from the closing date of the Affiliation Agreement, all the entities listed in Condition I, any other subsidiary, parent, general partner, limited partner, member, affiliate,

---

<sup>1</sup> Throughout this document, the term "Torrance Memorial Medical Center" shall mean the general acute care hospital located at 3330 Lomita Blvd., Torrance, CA 90505, and any other clinics, laboratories, units, services, or beds included on the license issued to Torrance Memorial Medical Center by the California Department of Public Health, effective April 1, 2017, unless otherwise indicated.

successor of any of the entities listed in Condition I, and all future owners, managers, lessees, licensees, or operators of Torrance Memorial Medical Center shall be required to provide written notice to the Attorney General sixty days prior to entering into any agreement or transaction to do any of the following:

- (a) Sell, transfer, lease, exchange, option, convey, manage, or otherwise dispose of Torrance Memorial Medical Center; or
- (b) Transfer control, responsibility, management, or governance of Torrance Memorial Medical Center. The substitution or addition of a new corporate member or members of any of the entities listed in Condition I that transfers the control of, responsibility for, or governance of Torrance Memorial Medical Center shall be deemed a transfer for purposes of this Condition. The substitution or addition of one or more members of the governing bodies of any of the entities listed in Condition I or any arrangement, written or oral, that would transfer voting control of the members of the governing bodies of any of the entities listed in Condition I shall also be deemed a transfer for purposes of this Condition.

#### IV.

For ten years from the closing date of the Affiliation Agreement, Torrance Memorial Medical Center shall be operated and maintained as a licensed general acute care hospital (as defined in California Health and Safety Code Section 1250) and shall maintain and provide 24-hour emergency medical services at current<sup>2</sup> licensure and designation with the same types and/or levels of services, including the following:

- a) 33 emergency treatment stations at a minimum;
- b) Designation as a Paramedic Base Station; and
- c) Designation as an Emergency Department Approved for Pediatrics.

#### V.

For five years from the closing date of the Affiliation Agreement, Torrance Memorial Medical Center shall maintain and provide the following medical services at current licensure, certification, and designation with the current types and/or levels of services:

- a) Cardiovascular services, including designation as a STEMI Receiving Center;
- b) Certification as a Primary Stroke Center;
- c) Critical care services, including a minimum of 44 intensive care/coronary care beds;
- d) Neonatal intensive care services, including a minimum of 25 neonatal intensive care beds and designation as a Level III Neonatal Intensive Care Unit;
- e) Obstetric services, including a minimum of 25 perinatal beds;
- f) Oncology services, including radiation oncology;
- g) Orthopedic and rehabilitation services;
- h) Outpatient chemical dependency services;

---

<sup>2</sup> The term "current" or "currently" throughout this document means as of April 1, 2017.

- i) Pediatric services, including a minimum of 10 pediatric beds; and
- j) Women's health services, including women's reproductive services and women's imaging services (mammography, ultrasound, MRI, osteoporosis screenings, stereotactic breast biopsy services, and other diagnostic services) and those provided at the Vasek and Anna Maria Polak Breast Diagnostic Center.

Torrance Memorial Medical Center shall not place all or any portion of the above-listed licensed-bed capacity or services in voluntary suspension or surrender its license for any of these beds or services.

## VI.

For ten years from the closing date of the transaction, Torrance Memorial Medical Center shall maintain a minimum of 12 burn care beds and provide burn care services at current licensure, types, and/or levels of services, including diagnostic services, cardiac and respiratory monitoring, hydrotherapy tanks, rehabilitation, reconstructive services, wound debridement and closure, skin grafting, and treatment for non-healing wounds.

## VII.

For six fiscal years from the closing date of the Affiliation Agreement, Torrance Memorial Medical Center Corporation shall provide an annual amount of Charity Care (as defined below) at Torrance Memorial Medical Center equal to or greater than \$4,183,544 (the Minimum Charity Care Amount). For purposes hereof, the term "charity care" shall mean the amount of charity care costs (not charges) incurred by Torrance Memorial Medical Center Corporation in connection with the operation and provision of medical services at Torrance Memorial Medical Center. The definition and methodology for calculating "charity care" and the methodology for calculating "costs" shall be the same as that used by Office of Statewide Health Planning Development for annual hospital reporting purposes.<sup>3</sup> Torrance Memorial Medical Center Corporation shall use and maintain a charity care policy that is no less favorable than its current charity care policy at Torrance Memorial Medical Center and in compliance with California and Federal law. The planning of, and any subsequent changes to, the charity care and collection policies, and charity care services provided at Torrance Memorial Medical Center shall be decided upon by the Torrance Memorial Medical Center Corporation's Board of Trustees.

Torrance Memorial Medical Center Corporation's obligation under this Condition shall be prorated on a daily basis if the closing date of the Affiliation Agreement is a date other than the first day of Torrance Memorial Medical Center Corporation's fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Charity Care Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any,

---

<sup>3</sup> OSHPD defines charity care by contrasting charity care and bad debt. According to OSHPD, "the determination of what is classified as . . . charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (as published by the U.S. Bureau of Labor Statistics).

After the closing date of the Affiliation Agreement, if the actual amount of charity care provided at Torrance Memorial Medical Center for any fiscal year is less than the Minimum Charity Care Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Torrance Memorial Medical Center Corporation shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide direct health care services to residents in Torrance Memorial Medical Center’s service area (23 ZIP codes), as defined on page 42 of the Health Care Impact Report, dated October 31, 2017, and attached hereto as Exhibit 1, and residents in the following ZIP codes: 90245, 90220, 90044, 90047, 90304, and 90810. Such payment(s) shall be made within four months following the end of such fiscal year.

### VIII.

For six fiscal years from the closing date of the Affiliation Agreement, Torrance Memorial Medical Center Corporation shall provide an annual amount of Community Benefit Services at Torrance Memorial Medical Center equal to or greater than \$2,663,312 (the “Minimum Community Benefit Services Amount”) exclusive of any funds from grants. For six fiscal years, the following community benefit programs and services shall continue to be offered:

- a) Support for Children’s Nutrition and Exercise Initiatives;
- b) Support for Homeless, Low-Income and Working Poor Individuals and Families; and
- c) Support for Patient-Centered and Family Care at End-of-Life.

The planning of, and any subsequent changes to, the community benefit services provided at Torrance Memorial Medical Center shall be decided upon by the Torrance Memorial Medical Center Corporation’s Board of Trustees.

Torrance Memorial Medical Center Corporation’s obligation under this Condition shall be prorated on a daily basis if the effective date of the Affiliation Agreement is a date other than the first day of Torrance Memorial Medical Center Corporation’s fiscal year.

For the second fiscal year and each subsequent fiscal year, the Minimum Community Benefit Services Amount shall be increased (but not decreased) by an amount equal to the Annual Percent increase, if any, in the 12 Months Percent Change: All Items Consumer Price Index for All Urban Consumers in the Los Angeles-Riverside-Orange County, CA Consolidated Metropolitan Statistical Area Base Period: 1982-84=100” (as published by the U.S. Bureau of Labor Statistics).

If the actual amount of community benefit services provided at Torrance Memorial Medical Center for any fiscal year is less than the Minimum Community Benefit Services Amount (as adjusted pursuant to the above-referenced Consumer Price Index) required for such fiscal year, Torrance Memorial Medical Center Corporation shall pay an amount equal to the deficiency to one or more tax-exempt entities that provide community benefit services for residents in Torrance Memorial Medical Center’s service area (23 ZIP codes), as defined on page 42 of the

Health Care Impact Report, dated October 31, 2017 and attached hereto as Exhibit 1. Such payment(s) shall be made within four months following the end of such fiscal year.

## IX.

For five years from the closing date of the Affiliation Agreement, Torrance Memorial Medical Center Corporation shall:

- a) Be certified to participate in the Medi-Cal program providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries as required in these Conditions at Torrance Memorial Medical Center; and
- b) Be certified to participate in the Medicare program by maintaining a Medicare Provider Number to provide the same types and levels of emergency and non-emergency services to Medicare beneficiaries (both Traditional Medicare and Medicare Managed Care) as required in these Conditions at Torrance Memorial Medical Center.

## X.

For five years from the closing date of the Affiliation Agreement, Torrance Memorial Medical Center Corporation shall maintain their contracts and any amendments and exhibits thereto with the County of Los Angeles and/or its subdivisions, departments, or agencies for services at Torrance Memorial Medical Center, including the following:

- a) Paramedic Base Hospital Services Agreement, Agreement No. H-705648, dated January 1, 2013, and all amendments;
- b) Participation in the Hospital Preparedness Program Agreement, Agreement No. H-705619, dated January 1, 2013 and all amendments;
- c) Designation as an Emergency Department Approved for Pediatrics Confirmation Agreement; and
- d) Designation as a STEMI Receiving Center/ST-Elevation Myocardial Infarction Receiving Center (SRC) Confirmation Agreement.

## XI.

Prior to the closing date, Cedars-Sinai Health System and Torrance Health Association shall amend their Affiliation Agreement dated June 5, 2017 as follows:

Section 12.3 shall be amended to read as follows:

12.3 Reduction in Services at TMMC Hospital. The Parties acknowledge and agree that after the Closing Date, Parent shall have the unilateral right to take action causing the discontinuation of, or a material reduction to, any medical service provided at TMMC Hospital, which shall be subject to the approval of the Board of Directors of Parent. However, if such discontinuation or reduction is not supported by reasonable quality or economic justifications and creates a significant negative effect on the availability or accessibility of the discontinued or reduced medical services to the residents in TMMC's service area, as determined by Parent after

receiving input from a qualified independent consultant chosen by both the Parent and THA in their reasonable discretion, such discontinuation or reduction in services as described in this Section 12.3 shall require the affirmative approval of a majority of the Board of Trustees of THA.

## XII.

Prior to the closing date, Cedars-Sinai Health System and Torrance Health Association shall amend their Affiliation Agreement dated June 5, 2017 as follows:

Section 12.6 shall be amended to read as follows:

12.6 Gifts, Donations, and Endowments. The Parties acknowledge and agree that after the Closing Date, THA shall have the right to approve: (i) a change in the control, management or administration of any gifts, grants, donations or endowments (collectively, the “*Restricted Assets*”) received by THA or a THA Subsidiary, or (ii) the transfer to Parent of any Restricted Assets of THA or a THA Subsidiary that were designated by a donor after the Closing Date and only if California law and the restriction allow it to be transferred to Cedars Health System.

## XIII.

Prior to the closing date, Cedars-Sinai Health System and Torrance Health Association shall amend their Affiliation Agreement dated June 5, 2017 as follows:

Section 13.1 shall be amended to read as follows:

13.1 Pension Plans. The Parties acknowledge and agree that after the Closing Date, Parent shall have the right to take action causing: (i) the transfer of the administration or sponsorship of a pension plan of THA or a THA Subsidiary, or (ii) the merger of a pension plan of THA or a THA Subsidiary with a pension plan of Parent. Additionally, Parent agrees that if Parent makes any pension plan related changes described in this Section 13.1, such changes shall be implemented uniformly with respect to all Member Organizations, unless otherwise mutually agreed by the Parties. Notwithstanding the foregoing, THA shall have the right to approve any transfer or merger described in this Section 13.1 unless such transfer or merger is required by applicable law.

## XIV.

Prior to the closing date, Cedars-Sinai Health System and Torrance Health Association shall amend their Affiliation Agreement dated June 5, 2017 as follows:

Section 13.5 shall be amended to read as follows:

13.5 Transfer of Non-Cash Assets to Parent. The Parties acknowledge and agree that after the Closing Date, subject to the limitations on the transfer of restricted assets set forth in Section 12.6 and the limitations with respect to the transfer of pension plans set forth in Section 13.1, Parent shall have the right to take action causing the transfer of any non-cash assets

from THA or a THA Subsidiary to Parent (“*THA Non-Cash Asset Transfer Amount*”). Notwithstanding the foregoing, THA shall have the right to approve any such transfer of assets from THA or a THA Subsidiary to Parent; provided, however, the Parties acknowledge and agree that THA shall not have the right to approve: (i) payments required to be made by THA to Parent to cover Parent’s budgeted operating expenses in accordance with Section 12.4, or (ii) capital contributions required to be paid by THA to Parent in accordance with Section 12.5. All asset transfers made pursuant to this Section 13.5 shall be accounted for as a “due to/due from” between Parent and THA for purposes of Section 1(d) of Exhibit A, which shall reflect the value of each THA Non-Cash Asset Transfer Amount as of the date of the asset transfer.

#### **XV.**

Prior to the closing date, Cedars-Sinai Health System and Torrance Health Association shall amend Torrance Health Association’s proposed Amended and Restated Bylaws attached as Attachment 2.1(b) to the Affiliation Agreement dated June 5, 2017 as follows:

Section 2.2(a)(x) shall be amended to read as follows: Transfer non-cash assets from the Corporation or one of its Affiliated Organizations to the Member;

Section 2.2(b)(vii) shall be deleted.

#### **XVI.**

Prior to the closing date, Cedars-Sinai Health System and Torrance Health Association shall amend Torrance Memorial Medical Center Corporation’s proposed Amended and Restated Bylaws attached as Attachment 2.1(c) to the Affiliation Agreement dated June 5, 2017 as follows:

Section 2.2(a)(x) shall be amended to read as follows: Transfer non-cash assets from the Corporation or one of its Affiliated Organizations to the Member;

Section 2.2(b)(iv) shall be deleted.

#### **XVII.**

Torrance Memorial Medical Center Corporation shall maintain privileges for current medical staff at Torrance Memorial Medical Center who are in good standing as of the closing date of the Affiliation Agreement. Further, the closing of the Affiliation Agreement shall not change the medical staff officers, committee chairs, or independence of the medical staff, and such persons shall remain in good standing for the remainder of their tenure at Torrance Memorial Medical Center.

#### **XVIII.**

There shall be no discrimination against any lesbian, gay, bisexual, or transgender individuals at Torrance Memorial Medical Center. This prohibition must be explicitly set forth in Torrance Memorial Medical Center’s written policies, adhered to, and strictly enforced.

## **XIX.**

For five years from the closing date of the Affiliation Agreement, Torrance Health Association's and Torrance Memorial Medical Center Corporation's Board of Trustees shall include at least one member from a health care advocacy group that represents residents from Torrance Memorial Medical Center's primary service area (23 ZIP codes), as defined on page 42 of the Health Care Impact Report, dated October 31, 2017, and attached hereto as Exhibit 1.

## **XX.**

For six fiscal years from the closing date of the Affiliation Agreement Torrance Memorial Medical Center Corporation shall submit to the Attorney General, no later than four months after the conclusion of each fiscal year, a report describing in detail compliance with each Condition set forth herein. The Chairman of the Board of Trustees and Chief Executive Officer of Torrance Memorial Medical Center Corporation shall each certify that the report is true, accurate, and complete and provide documentation of the review and approval of the report by Torrance Memorial Medical Center Corporation's Board of Trustees.

## **XXI.**

At the request of the Attorney General, all the entities listed in Condition I shall provide such information as is reasonably necessary for the Attorney General to monitor compliance with these Conditions and the terms of the transaction as set forth herein. The Attorney General shall, at the request of a party and to the extent provided by law, keep confidential any information so produced to the extent that such information is a trade secret or is privileged under state or federal law, or if the private interest in maintaining confidentiality clearly outweighs the public interest in disclosure.

## **XXII.**

Once the Affiliation Agreement is closed, all the entities listed in Condition I are deemed to have explicitly and implicitly consented to the applicability and compliance with each and every Condition and to have waived any right to seek judicial relief with respect to each and every Condition.

The Attorney General reserves the right to enforce each and every Condition set forth herein to the fullest extent provided by law. In addition to any legal remedies the Attorney General may have, the Attorney General shall be entitled to specific performance, injunctive relief, and such other equitable remedies as a court may deem appropriate for breach of any of these Conditions. Pursuant to Government Code section 12598, the Attorney General's office shall also be entitled to recover its attorney fees and costs incurred in remedying each and every violation.

## Analysis of Torrance Memorial Medical Center's Service Area

### Service Area Definition

Torrance Memorial Medical Center's service area is comprised of 23 ZIP Codes from which approximately 82% of its discharges originated in 2016. Approximately 51% of Torrance Memorial Medical Center's discharges originated from the top 10 ZIP Codes, located in Torrance, Rancho Palos Verdes, Carson, Lomita, Hawthorne, Redondo Beach, and Wilmington. In 2016, Torrance Memorial Medical Center's market share in the service area was 26%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2016						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
90505	Torrance	1,795	6.8%	6.8%	3,613	49.7%
90275	Rancho Palos Verdes	1,758	6.6%	13.4%	3,509	50.1%
90745	Carson	1,703	6.4%	19.9%	6,080	28.0%
90501	Torrance	1,345	5.1%	24.9%	3,991	33.7%
90503	Torrance	1,327	5.0%	29.9%	4,336	30.6%
90717	Lomita	1,164	4.4%	34.3%	2,277	51.1%
90250	Hawthorne	1,150	4.3%	38.7%	9,463	12.2%
90277	Redondo Beach	1,140	4.3%	43.0%	2,940	38.8%
90274	Palos Verdes Peninsula	1,123	4.2%	47.2%	2,140	52.5%
90744	Wilmington	1,002	3.8%	51.0%	5,188	19.3%
90278	Redondo Beach	989	3.7%	54.8%	3,360	29.4%
90504	Torrance	975	3.7%	58.4%	3,015	32.3%
90731	San Pedro	837	3.2%	61.6%	6,743	12.4%
90710	Harbor City	815	3.1%	64.7%	2,390	34.1%
90247	Gardena	765	2.9%	67.6%	5,429	14.1%
90502	Torrance	595	2.2%	69.8%	2,080	28.6%
90266	Manhattan Beach	595	2.2%	72.1%	2,400	24.8%
90260	Lawndale	559	2.1%	74.2%	3,265	17.1%
90746	Carson	519	2.0%	76.1%	2,894	17.9%
90249	Gardena	452	1.7%	77.9%	2,992	15.1%
90732	San Pedro	419	1.6%	79.4%	2,167	19.3%
90254	Hermosa Beach	370	1.4%	80.8%	1,251	29.6%
90248	Gardena	212	0.8%	81.6%	1,069	19.8%
<b>Sub-Total</b>		<b>21,609</b>	<b>81.6%</b>	<b>81.6%</b>	<b>82,592</b>	<b>26.2%</b>
All Other		4,862	18.4%	100%		
<b>Total</b>		<b>26,471</b>	<b>100%</b>			

Source: OSHPD Patient Discharge Database, 2016