

July 23, 2014

James V. Stover
Chief Executive Officer
The University of Arizona Health Plans
2701 East Elvira Rd
Tucson, AZ 85756

Subject: Change of Ownership Request

Dear Mr. Stover:

The Arizona Health Care Cost Containment System (AHCCCS), Division of Health Care Management (DHCM) has reviewed the Change of Ownership Request for acquisition of University of Arizona Health Network (UAHN), University Family Care (UFC) by Banner Health (Banner) submitted on July 1, 2014.

Prior to making a final decision regarding approval of the change of ownership request, AHCCCS is requiring UFC and Banner to submit final versions of the following documents:

- The agreement(s) between UAHN, UFC and Banner regarding the acquisition and/or change in ownership/change in membership.
- Documents necessary to effectuate the change in ownership/change of membership of UFC.
- The Articles of Incorporation and By-Laws of UFC that will be in effect at the time of transition.

While the review of this request for acquisition is still under evaluation, additional information or clarification on the below items is required:

Contract Agreement

- Provide an explanation on the level of detail that will be included in the final contractual agreement with Banner. The “Notification of Change of Ownership Transition Plan” submitted by UAHN/UFC provided important information that is necessary for AHCCCS to conduct our review. However, a final analysis cannot be completed until AHCCCS can review the completed terms of the transaction to which both parties are stipulating. Please provide information on what will be specifically addressed in the contract agreement with Banner, including but not limited to:
 - All health plan operations will remain consistent with the current UFC model.
 - There will be no changes to the composition of the current staff for the term of the contract (barring standard business personnel action).
 - All administrative services subcontracts will remain in place and unchanged.
 - There will be no changes to the provider network for the term of the contract (barring circumstances that would merit provider contract termination or network

expansion in order to ensure adherence to established network or quality standards).

- All commitments made in the AHCCCS RFP YH14-0001 will be honored.
- What commitments are being contemplated in the contract with regards to payment rates paid to all Banner facilities by UFC related products?

Finance

- Provide Banner's Master Indenture and supplements.
- Provide Banner's plan to have the Medicaid entity excluded as an obligated member of any and all obligated indenture groups.
- Provide Banner's plan to isolate the Medicaid entity's assets from securing any obligations unrelated to Medicaid (i.e. Banner's long term debt, revolving line of credit, letters of credit and self-insurance program).
- Provide Banner's plan for the scheduled long term debt maturing 2014-2018.
- Provide a proforma balance sheet and statement of changes in financial position.
- Provide all proforma statements in excel format identifying line items at a more detailed level. (The 3 year proforma that was provided in the transition plan is at a very high level roll-up).
- Clarify whether the UAHN line of business will be audited as a single entity or part of the consolidated audit of Banner Health Systems.

Organization

- Provide additional information regarding two positions on the organization chart under Mike Zenobi (CFO); "Growth & Expansion" and "I.S."
- Provide a list of the key positions identified in AHCCCS contract that have an employment agreement in place at the time of the transition and the termination dates for those agreements.

Operations

- Provide details on how this change will affect the current Managed Service Agreement with Maricopa Health Plan.
- The UFC Notification of Change of Ownership letter states that "... alignment between Banner and UFC will allow UFC to remain competitive from a technological standpoint, enhancing opportunities for innovation in clinical programs focused on vulnerable populations and payment reform models intended to improve the quality of care to the AHCCCS population while driving down cost." Please describe in detail changes in technology, clinical programs and payment models that are referenced in this statement.

Other

- UFC is partnering with Cenpatico on the Greater Arizona RFP. What equity or owner relationship, if any, does Banner have with any other potential bidder on the Greater Arizona RFP? Please provide details of any such relationships and identify conflicts and resolution.
- While outside the scope of the formal change of ownership requirement, AHCCCS is interested in understanding what, if any, impact there might be associated with the University of Arizona providing match funding for supplemental payments such as

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Graduate Medical Education and Disproportionate Share Hospital funding? This question pertains to all current funding partners.

AHCCCS Recommendations

As delineated in ACOM Policy 317, AHCCCS may terminate, modify or continue the existing contracts in response to the acquisition. Given these three options, AHCCCS would appreciate having a better understanding of the impact of these three options on the overall transaction.

- **Contract Termination** – As was addressed by your July 1, 2014 letter, AHCCCS has tremendous concerns regarding the integrity of the competitive procurement process and how that is impacted by this proposed acquisition. The new Acute Care contracts represent the single largest procurement in the history of the State of Arizona. Competition and a robust strong procurement process are cornerstones for the AHCCCS program. It is concerning to have a top ranked Contractor be acquired by an organization that was unsuccessful in the procurement process less than one year into a new contract. What are the ramifications on the proposed acquisition if the AHCCCS contract with UFC is terminated?
- **Contract Modification** – UFC currently serves AHCCCS members in ten different counties. One option under consideration is to scale back the UFC geographical coverage to reflect the footprint prior to the most recent procurement or perhaps to reduce the service area to an even smaller geographical region. What are the ramifications on the proposed acquisition if the contract is modified?

As reflected in our policy, AHCCCS will be engaging in a process to obtain stakeholder feedback and input on the proposed acquisition and the three options facing the administration. AHCCCS will provide additional information on this process as timeframes are finalized. It is anticipated that a public hearing will be held in August and that AHCCCS will allow for written input after the hearing.

Please submit the responses to the above information and any questions or concerns to Christina Quast at (602) 417-4527 or via email at: christina.quast@azahcccs.gov.

Sincerely,



Christina Quast
Operations and Compliance Officer
AHCCCS Division of Health Care Management

cc: Jami Snyder, Vice President Medicaid Programs, UAHP
Kari Price, Assistant Director, DHCM
Shelli Silver, Assistant Director, DHCM
Stephanie Lefkowski, Finance Manager, DHCM
Virginia Rountree, Operations Administrator, DHCM
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