



August 22, 2014

Tom Betlach
Director
Arizona Health Care Cost Containment System
801 East Jefferson
MD 4100
Phoenix, Arizona 85034

Subject: Change of Ownership Request – Response to Request for Additional Information

Dear Director Betlach:

The University of Arizona Health Plans (UAHP), University Family Care, Inc. (UFC) appreciates the opportunity to provide additional information in regard to Banner Health's (Banner) proposed acquisition of The University of Arizona Health Network (UAHN) and all of its affiliated companies, including UFC. AHCCCS' response to UFC's official notification of the proposed acquisition, dated July 23, 2014, requests documentation and clarification in the following areas: Contract Agreement, Finance, Organization, Operations and Other. The response also requests that UFC provide insight into the potential ramifications on the proposed acquisition, should AHCCCS decide to terminate, modify or approve UFC's contract as a part of the acquisition.

Contract Agreement

AHCCCS' response requests an explanation of the level of detail that will be included in the Final Agreement with Banner, and, specifically, clarification on the degree to which commitments made in the transition plan, submitted to AHCCCS on July 1, 2014, will be addressed in this Final Agreement. The Final Agreement will stipulate that, as long as Banner owns and operates UFC under contract number YH14-0001-02, UFC will be operated in accordance with the notification letter and transition plan submitted to and subject to approval by AHCCCS. As such, the final transition plan, approved by AHCCCS, will be explicitly referenced in the Agreement. Any modifications to the transition plan made after finalization of the acquisition and for the term of contract YH14-0001-02 will be subject to AHCCCS approval prior to execution.

While AHCCCS has requested that the Final Agreement regarding the acquisition, documents necessary to effectuate the change in ownership, the articles of incorporation and by-laws that will be in effect at the time of transition be provided in order to render approval of the change of ownership, due to the anticipated timing of the completion of the transaction and related documents, UFC respectfully requests that the attached letter, endorsed by the Chief Executive Officers of both parties, fulfill that request (see Exhibit A). This allowance will ensure that members and providers are properly notified a minimum of forty-five days prior to the effective date of the change of ownership, as outlined in the transition plan, should the Agreement not be finalized prior to that date. As detailed in the letter, all assurances outlined in the transition plan in regard to maintaining continuity in health plan operations, staffing, administrative services subcontracts and the plan's provider network, as well as all commitments made in UFC's response to AHCCCS RFP YH14-0001 will be honored through the term of contract YH14-0001-02. As the letter stipulates, in order to certify those assurances, the notification letter and transition plan will be referenced in the Final Agreement.



AHCCCS' response also requests that UFC outline the commitments that are being contemplated in the contract with regard to payment rates paid to all Banner facilities by UFC related products. The Final Agreement will not detail reimbursement levels paid to Banner facilities. Under the Agreement, and for the term of YH14-0001-02, UFC will maintain full control of its provider network and will continue to reimburse Banner facilities at rates that are competitive and based on fair market value, as it does all providers.

Finance

AHCCCS requests that the following documentation be provided:

- Banner's Master Indenture and supplements. (see Exhibit B)
- Banner's plan to have the Medicaid entity excluded as an obligated member of any and all obligated indenture groups. (see Exhibit C)
- 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). (see Exhibit C)
- Banner's plan for the scheduled long term debt maturing 2014-2018. (see Exhibit C)
- A proforma balance sheet and statement of changes in financial position. (see Exhibit D)
- All proforma statements in excel format identifying line items at a more detailed level. (see Exhibit D)

AHCCCS' response also requests that UFC clarify whether the UAHN line of business will be audited as a single entity or part of the consolidated audit of Banner Health Systems. UFC will be audited as a single entity and the audit results will be consolidated into the audit results for Banner Health.

Organization

AHCCCS' response requests additional information regarding two positions in the organizational chart under Mike Zenobi, Chief Financial Officer, labeled, "Growth and Expansion" and "IS." The "Growth and Expansion" and "IS" functions were recently transitioned to Karen Leonard, Vice President of Business Development, and Emory Heisler, Vice President of Information Technology, and are identified as "Strategic Planning" and "IS Operations" and "IS Development," respectively. The "Growth and Expansion" function (now titled "Strategic Planning"), managed by Ms. Leonard, is focused on planning specific to the pursuit of future business opportunities within the health plan. The "IS" function (now titled "IS Operations" and "IS Development") is the standard information systems function maintained within the health plan, and separate from those services provided by UAHN. A copy of the updated organizational chart is attached (see Exhibit E).

AHCCCS' response requests that UFC provide a list of key positions identified in the AHCCCS contract that will have an employment agreement in place at the time of the transition and the termination dates for those agreements. All of the key positions, as specified in AHCCCS contract YH14-0001-02, Section D, Paragraph 16 (Staff Requirements and Support Services), will be maintained under the change of ownership.

It is not standard practice under UAHN's current operating structure to issue employment agreements. Rather, UAHN issues an offer letter to prospective employees, indicating that the employment relationship is an "at will" relationship and clearly outlining that the offer is not to be considered a contract for a specific period of time. It is anticipated that this practice will continue under the change of ownership and, as conveyed in the transition plan,



Banner will make no changes to the composition of current staff for the term of the contract, barring occurrences that require personnel action consistent with standard business practice.

Operations

AHCCCS' response requests additional detail on how the change of ownership will affect the current Managed Services Agreement with Maricopa Health Plan (MHP). Maricopa Integrated Health System (MIHS) has agreed to extend The University of Arizona Health Plans' Administrative Services Agreement for an additional year, through September 30, 2015. A minimum of one hundred eighty days notice is required, should MIHS determine that it does not want to extend the Agreement beyond September 30, 2015. UAHP will continue to work under the direction of MIHS and manage MHP in a manner consistent with current operating standards, focusing on the delivery of exceptional care for MHP's membership and the provision of first-rate service and responsiveness for MHP's provider network. Furthermore, UAHP will work closely with MIHS in the coming year to ensure that, regardless of our future affiliation, we proceed in a manner that is in the best interest of the members served by the health plan.

AHCCCS' response also requests further detail in regard to the potential benefits of the alignment between Banner and UFC referenced in the July 1, 2014 notification letter. UFC has worked hard to develop clinical programming that integrates the provision of services and care coordination in a manner that enhances the quality of services offered to members while also driving down system costs. The alignment between Banner and UFC has the potential to advance UFC's efforts by improving the health plan's analytic capabilities, allowing for more sophisticated approaches to member care and provider interface and, specifically, offering access to tools such as highly developed predictive modeling and population/provider profiling solutions, which are central to an effective value-based purchasing strategy. Additionally, Banner's commitment to population health management and its drive to realize improved health outcomes will allow the UAHN delivery system to advance in a manner that will facilitate enhanced synergies between UFC and the delivery system, thus aligning vital quality and cost incentives. While, at this juncture, it is impossible to determine the specific capabilities that may ultimately benefit the health plan, UFC looks forward to working with Banner to determine how its systems innovations may serve to augment the health plan's existing infrastructure and further advance the health plan's realization of AHCCCS' priorities. In any event, AHCCCS will be properly notified of any and all systems changes or upgrades a minimum of six months prior to expected implementation, as required by contract YH14-0001-02, Section D, Paragraph 64 (Systems and Data Exchange Requirements).

Other

AHCCCS' response requests additional information regarding Banner's equity or owner relationship with any other potential bidder in the Greater Arizona RFP (ADHS15-00004276). Banner holds a twenty-five percent membership interest in Community Partners, Inc. Community Partnership of Southern Arizona (CPSA), a potential bidder in the Greater Arizona RFP, is a subsidiary of Community Partners, Inc. In order to address concerns regarding a potential conflict of interest, Banner has issued a letter to Community Partners, Inc., UAHP and Cenpatico Behavioral Health of Arizona, LLC, pledging that it will refrain from any involvement in either the UFC/Cenpatico or the CPSA arrangement, including the proposals prepared by either entity in response to the Greater Arizona RFP, and committing to divesting itself of its entire interest in Community Partners, Inc. and any board seats it holds on the Community Partners, Inc. board of directors, should the Arizona Department of Health Services, Division of Behavioral Health Services award Cenpatico a contract and CPSA also remain a Regional Behavioral Health Authority (see Exhibit F).



In its response, AHCCCS also expresses interest in understanding what, if any, impact the proposed acquisition may have on the University of Arizona's provision of matching funding for supplemental payments such as Graduate Medical Education (GME) and Disproportionate Share Hospital (DSH) funding. Given that The University of Arizona acts as the stewardship partner to those organizations which receive GME and DSH matching funding, and UAHN serves as only one of those partners, UAHP is unable to speak to the impact of the proposed acquisition on the provision of such funding.

AHCCCS Recommendations

Finally, AHCCCS' response requests that UFC provide insight into the potential ramifications on the proposed acquisition, should AHCCCS decide to terminate, modify, or continue UFC's contract. The AHCCCS Contractor Operations Manual, Policy 317, clearly stipulates that AHCCCS has three options when making a final determination in regard to a transition plan (proposal) submitted in conjunction with a merger, acquisition, reorganization, joint venture or change of ownership. AHCCCS may approve the proposal without conditions, approve the proposal with conditions (including, but not limited to, an open enrollment for plan membership, more rigorous oversight for a specified period or a cap on enrollment) or deny the proposal and, if the Contractor moves forward, terminate some or all of the geographic service areas that are part of the contract.

The termination or significant modification of the UFC contract as expressly suggested in AHCCCS' July 23, 2014 response, or any other measure posing a long term negative impact to UFC such as an extended enrollment cap, will have critical implications for the proposed acquisition and has the unquestionable potential to jeopardize finalization of the transaction.

In its response, AHCCCS speaks directly to its concern and interest in maintaining the integrity of the procurement process. UAHP has the utmost respect for AHCCCS' competitive procurement process. The health plan was honored to be selected by AHCCCS during the recent Acute Care contract procurement cycle. Having a significant relationship with AHCCCS in a managed care capacity since 1985, UAHP has worked hard to demonstrate its deep ties to the State of Arizona and its dedication to its citizens. UAHP has been a recurring participant in the AHCCCS procurement process and appreciates AHCCCS' approach, aimed at encouraging robust competition and soliciting interest from vendors committed to maintaining AHCCCS' reputation as the country's premier Medicaid agency.

It is understandable that AHCCCS would express concern about Banner's acquisition of UAHN and its health plan, UFC, given each entity's performance during the recent Acute Care contract procurement cycle. That being said, Banner's intent with the proposed transaction, encompassing The University of Arizona Medical Centers, the UAHN physician practice and UAHP, is focused principally on leveraging Banner's experience in delivering quality outcomes for Arizonans and establishing a statewide presence through the infusion of funding to UAHN -- funding which will ultimately secure the fiscal sustainability of Southern Arizona's only fully integrated health system, while also supporting further development of the University of Arizona Medical School. Furthermore, the change of ownership will serve to align quality and financial incentives within Arizona's health care delivery system and will bolster UAHN's ability to partner with AHCCCS in bending the cost curve by providing the network with advanced tools to better manage the increasing costs associated with providing health care to the state's most vulnerable populations. It must be noted that UAHP is only one division of UAHN's large and complex integrated health system and thus only one component of the overall transaction. That said, UAHP is a critical asset in the proposed acquisition in that it is a fundamental component of a comprehensive integrated health network, constructed for the purpose of improving health outcomes, reducing overall healthcare costs and training new healthcare



providers. Furthermore, UFC is a highly respected organization both within the managed care community and the health care delivery system and currently stands as the most financially stable division of UAHN.

Understanding that UAHP is a vital component of the proposed acquisition, Banner remains cognizant of the need to maintain the integrity of the procurement process. To that end, Banner has committed to allowing the health plan to maintain current operations without any interference for the term of contract YH14-0001-02. This commitment is detailed in the transition plan submitted to AHCCCS on July 1, 2014, and will be explicitly referenced in the Final Agreement, as outlined in the “Contract Agreement” section of this letter.

As AHCCCS weighs its options, an equally important consideration is the philosophy that drives UAHP and UFC. UFC has been and will continue to be focused on ensuring access to high quality, sustainable health care for all members served by the health plan. Through its vision, UFC strives to be the preeminent leader in clinical quality, customer service and operational performance. Furthermore, UAHP is passionate about serving AHCCCS members. Every member of the team at UAHP embraces AHCCCS’ values of passion, community, quality, respect, accountability, innovation, teamwork and leadership. Indeed, UAHP prides itself on selecting, developing and growing dedicated employees that share the Agency’s mission, vision and values. We work hard every single day with the goal of improving AHCCCS members’ health and well-being.

UAHP’s dedication to providing the highest quality care to AHCCCS beneficiaries is perhaps best evidenced by consumer satisfaction levels, documented in the 2013 Consumer Assessment of Healthcare Providers and Systems (CAHPS) Health Plan Survey, administered by the Health Services Advisory Group on behalf of AHCCCS, and UAHP’s 2014 Member Satisfaction Survey conducted from March – April of this year. As the CAHPS survey results demonstrate, among the adult population, UFC was one of two acute care health plans which received a four star rating or above (on a scale of one to five stars) for “rating of health plan” and also received a five star rating in the area of “customer service.” Similarly, among the child population, UFC received a four star rating for “rating of health plan” and a four star rating for “customer service.” In the 2014 Member Satisfaction Survey conducted by the health plan, over ninety-three percent of respondents indicated that they were happy with the service received when calling University Family Care.

Given UFC’s high levels of consumer satisfaction and the health plan’s proven track record of success, UAHP strongly believes that contract termination or modification, as suggested in the July 23rd response letter, would be detrimental to UFC members, UAHP employees and the Arizona community at large. The reasons are numerous and include the following:

- **Member Disruption:** Like AHCCCS, UFC is focused, first and foremost, on ensuring that members served by the health plan receive the highest quality care available. As such, the health plan makes every effort to minimize disruption and safeguard member continuity. Should AHCCCS decide to terminate or modify the contract to reflect the footprint prior to the most recent procurement, the decision would result in the transition of over 130,000 or 35,000 members respectively (based on 08/01/14 enrollment data). A large scale transition of this nature would be highly disruptive to members, despite the commitment of both UAHP and Banner to refrain from any changes to the standard of care currently provided to UFC members under the new ownership arrangement.
- **Member Choice/Service:** Should AHCCCS decide to terminate or modify the contract as suggested in the July 23rd response, members would effectively be denied the opportunity to choose one of the state’s highest performing health plans and would either be assigned to and/or required to choose an alternative plan which may not maintain the same level of service excellence or meet the needs of members interested in choosing a plan that is rooted in Arizona and has demonstrated an



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ongoing commitment to serving the state's most vulnerable populations in a culturally sensitive and member-driven manner. Additionally, while not referenced in the July 23rd letter, should AHCCCS continue a longer term enrollment cap, the financial model on which UFC based its 2013 bid would be compromised, as the actuarial analysis for UFC's rates was based on assumptions of a larger membership to offset the health plan's lower capitation and administrative funding rates. Thus, a long term enrollment cap would impact UFC's ability to successfully leverage funding from the anticipated enrollment in providing services to members and providers.

- Community Impact: UAHP believes that health care is best coordinated and delivered when it is furnished locally by individuals who understand the communities where members live and work. UAHP is based solely in Arizona and currently employs nearly 400 individuals in both Tucson and Phoenix. As such, UAHP infuses over \$25 million into the local economies in Tucson and Phoenix. Many of the health plan's employees have enjoyed long careers with UAHP. Terminating and/or modifying the UFC contract as suggested would have an immediate financial impact on the local economy.

Thank you for providing us with the opportunity to offer clarification and additional documentation. As stated in the initial notification letter, the proposed acquisition, established on the principle of maintaining the health plan's current operations, will only serve to further enhance UFC's performance as a top ranked health plan in the Arizona market. University Family Care looks forward to continuing its long standing relationship with AHCCCS and partnering with AHCCCS in achieving improved health outcomes through a continued commitment to quality, innovation and passion for those that we serve.

Should you have additional questions, do not hesitate to contact me at 520.874.5531 or James.Stover@uahealth.com.

Sincerely,

James V. Stover
Chief Executive Officer

cc: Beth Lazare, Deputy Director, AHCCCS
Kari Price, Assistant Director, AHCCCS
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