

Health Care Market Oversight

# Transaction 0012

## PeaceHealth-Northwest Surgical Specialists, LLP

### 30-Day Review Summary Report

August 16, 2023



# About this Report

This report summarizes analyses and findings from Oregon Health Authority’s preliminary (30-day) review of the proposed material change transaction of PeaceHealth-NWSS. It accompanies the Findings of Fact, Conclusions of Law, and Final Order (“Preliminary Review Order”) issued by Oregon Health Authority on August 16, 2023. For legal requirements related to the proposed transaction, please reference the [Order](#).

You can get this document in other languages, large print, braille or a format you prefer free of charge. Contact us by email at [hcmo.info@oha.oregon.gov](mailto:hcmo.info@oha.oregon.gov) or by phone at 503-385-5948. We accept all relay calls.

If you have any questions about this report or would like to request more information, please contact [hcmo.info@oha.oregon.gov](mailto:hcmo.info@oha.oregon.gov).

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# Executive Summary

The [Health Care Market Oversight](#) (HCMO) program reviews proposed health care business deals to make sure they support statewide goals related to cost, equity, access, and quality. After completing a review, the Oregon Health Authority (OHA) issues a decision about whether a business deal, or transaction, involving a health care company should proceed. On July 17, 2023 OHA received a completed [Notice of Material Change Transaction](#) from PeaceHealth, a nonprofit health system.

## Proposed Transaction

PeaceHealth is a nonprofit Catholic health system headquartered in Vancouver, Washington, that operates hospitals, clinics and other health care facilities in Washington, Oregon, and Alaska. PeaceHealth proposes to acquire Northwest Surgical Specialties, LLP (NWSS), a surgery practice that operates a clinic in Springfield, OR. Through this proposed transaction, PeaceHealth will acquire substantially all of NWSS's business. This includes taking over the clinic location lease, purchasing furniture and equipment, taking over telephone numbers, and employing most NWSS physicians and staff. PeaceHealth states that it intends to employ seven of NWSS's eight surgeons, four advanced practitioners (physicians' assistants and family nurse practitioners), and half of other NWSS staff members following the proposed transaction.

## OHA's Review

OHA conducted a preliminary review of the proposed transaction to assess the likely impact of the transaction across four domains: cost, access, quality, and equity. During the review, OHA reviewed documents filed, gathered background information about the entities involved, analyzed claims and other relevant data, and issued requests for additional information from the entities. OHA held a 14-day public comment period and received no comments.

## Key Findings



### Cost

The proposed transaction is unlikely to increase costs associated with surgical care services. PeaceHealth committed to not charging new facility fees for services rendered by NWSS providers. OHA will monitor trends in prices and spending for surgery and related services in follow-up reviews.



### Access

PeaceHealth committed to preserving access to surgical care services and is exploring expanding services. Because the same surgeons will be serving patients in the same location, the proposed transaction is unlikely to affect access to care. NWSS providers will also continue to offer their surgical care services to patients in other hospitals.



### Quality

NWSS surgeons currently perform surgeries in PeaceHealth operating rooms and will continue to do so after the transaction. The transaction is unlikely to adversely affect the quality of health care.



### Equity

The proposed transaction will increase patients' access to financial assistance, because NWSS does not have a patient-facing financial assistance program whereas PeaceHealth does. The types of services offered will remain the same and the health insurer payer mix is unlikely to significantly change.

## Conclusions and Decision

Based on preliminary review findings, **OHA approved the transaction with conditions on August 16, 2023.** (See [Order](#)). The transaction was approved because it is not likely to substantially alter the delivery of health care in Oregon.

The proposed transaction is unlikely to reduce the availability or breadth of surgical care services for the communities served by NWSS. NWSS physicians and other providers will continue serving patients and performing surgical procedures from the same locations. OHA does not expect that the proposed transaction will result in significant changes to the types of health insurance accepted for surgical care services.

Further, PeaceHealth asserts it will neither restrict future employment opportunities as a condition for former NWSS physician employment with PeaceHealth, nor will PeaceHealth charge any new facility fees for services rendered by former NWSS physicians.

Conditions for approval of the proposed transaction are in place for a period of five years following the close of the transaction and include the following:

1. PeaceHealth shall not charge facility fees for any services rendered by former NWSS physicians for which no facility fees are currently applied.
2. PeaceHealth shall not subject former NWSS employees to any restrictions on future employment opportunities as a condition for their employment, or subsequent bona fide advancement of the former NWSS employee by PeaceHealth.

OHA will monitor the impact of the transaction by conducting follow up analyses one year, two years, and five years after the business deal is completed. During these reviews, OHA will analyze the impact of the transaction on quality of care, access to care, affordability, and health equity, specifically following up on concerns or observations noted in the Findings & Potential Impacts section of the Review Summary Report. OHA will also assess whether the parties to the transaction have kept to the commitments stated in the Notice regarding cost, access, and quality of care.

## About HCMO

In 2021, the Oregon Legislature passed [House Bill 2362](#), giving the Oregon Health Authority (OHA) the responsibility to review and decide whether some transactions involving health care entities should proceed. In March 2022, OHA launched the Health Care Market Oversight (“HCMO”) program. The HCMO program reviews proposed health care transactions such as mergers, acquisitions, and affiliations to ensure they support statewide goals related to cost, equity, access, and quality.

The HCMO program is governed by [Oregon Revised Statute 415.500 et seq.](#) and [Oregon Administrative Rules 409-070-0000 through -0085](#).

In the authorizing statute, the Oregon Legislature specified what types of proposed transactions are subject to review and the criteria OHA must use when analyzing a given proposed transaction. The Oregon Legislature also authorized OHA to decide the outcome of a proposed transaction. After analyzing a given proposed transaction, OHA may approve, approve with conditions, or disapprove the proposed transaction.

The HCMO program fits within OHA’s broader mission of ensuring all people and communities can achieve optimum physical, mental, and social well-being through partnerships, prevention, and access to quality, affordable health care.

## Proposed Transaction

On July 17, 2023, OHA confirmed receipt of a [Notice of Material Change Transaction](#) (“Notice”) from PeaceHealth (“Entity”), a nonprofit Catholic health system. The Notice describes plans to acquire substantially all of Northwest Surgical Specialists, LLP (“NWSS”) assets and operations. (PeaceHealth and NWSS are sometimes referred to collectively as the “entities”)

On June 30, 2023, PeaceHealth submitted an incomplete Notice to OHA, after which OHA requested more information. On July 17, 2023, OHA confirmed receipt of a complete Notice regarding the acquisition of NWSS by PeaceHealth.

OHA reviewed the Notice and determined, based on the facts in the Notice, that the transaction is subject to review. The entities meet the revenue thresholds specified in [Oregon Revised Statute \(ORS\) 409-070-0015](#) and the proposed transaction is otherwise covered by the program in accordance with [Oregon Revised Statute \(OR\) 409-070-0010](#).

After receipt of the complete Notice, OHA began a preliminary review of the proposed transaction. Preliminary reviews must be completed within 30 days of OHA’s confirmation of receipt of a complete Notice. This report describes the transaction, OHA’s approach to the review, its findings, and OHA’s conclusions based on these findings.

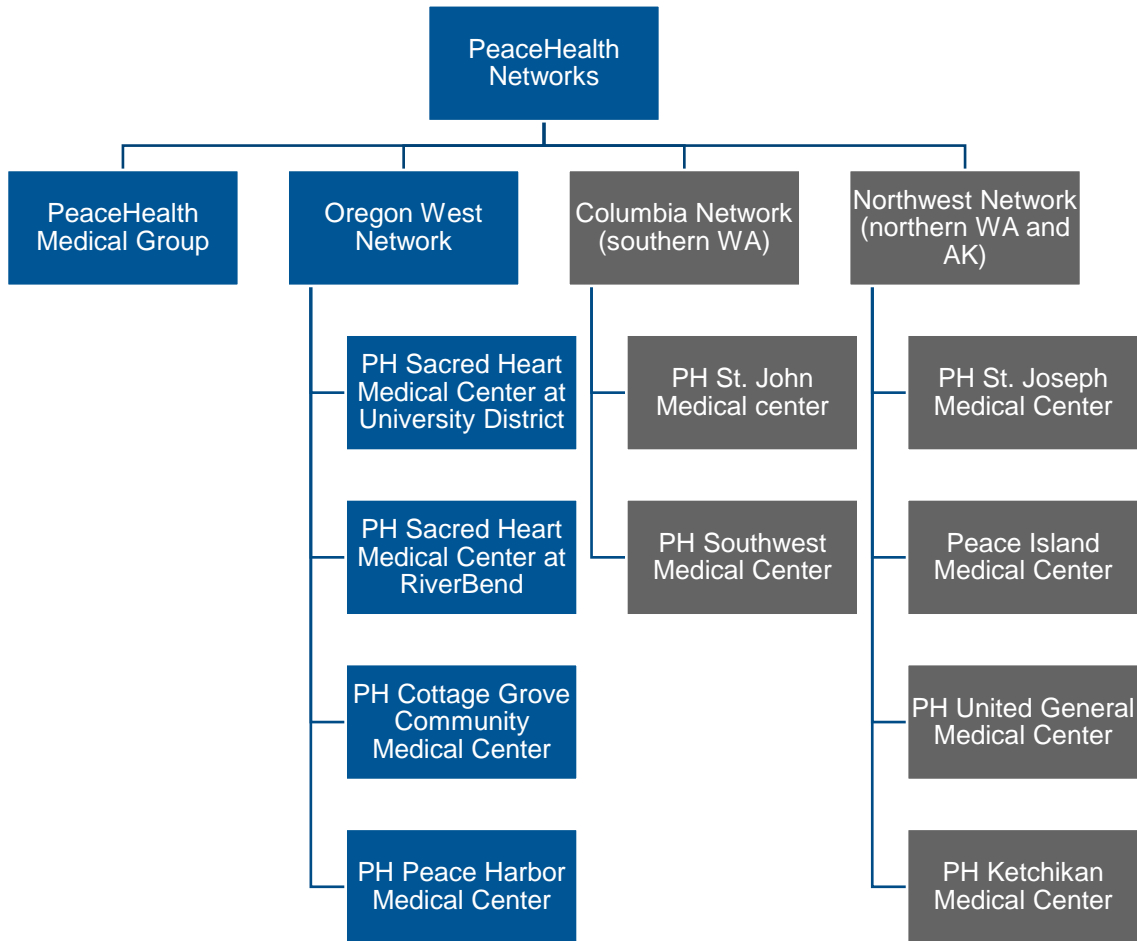
### Entities Involved

The entities involved in this transaction are PeaceHealth and NWSS.

#### PeaceHealth

PeaceHealth is a nonprofit Catholic health system headquartered in Vancouver, Washington with hospitals, clinics, and other health care facilities in Washington, Oregon, and Alaska. In Oregon, PeaceHealth operates four hospitals in the cities of Eugene, Springfield, Florence, and Cottage Grove.

The diagram below shows the relationships between PeaceHealth Networks, PeaceHealth hospital (“PH”) locations, and PeaceHealth Medical Group (“PHMG”).<sup>1</sup>



PeaceHealth operates four hospital facilities in Oregon, as detailed below.

Facilities in Oregon	Size	Address
Sacred Heart Medical Center at RiverBend	353 beds; Level II Trauma Center	3333 RiverBend Drive, Springfield, OR 97477
Sacred Heart Medical Center at University District	113 beds	1255 Hilyard Street, Eugene, OR 97401
Cottage Grove Community Medical Center	14 beds	1515 Village Drive, Cottage Grove, OR 97424
Peace Harbor Hospital	21 beds	400 9th Street, Florence, OR 97439

PeaceHealth is the sole member of Health Ventures, a Washington nonprofit corporation, which owns a majority stake in the RiverBend Ambulatory Surgery Center (“RiverBend ASC”), also known as Day Surgery at RiverBend. RiverBend ASC is managed and operated by an independent team, and PeaceHealth provides payer contracting support, pharmacy oversight, clinical trial services, clinical nursing services coverage, and regulatory and policy support. PeaceHealth and RiverBend ASC do not jointly negotiate payment rates with payors such as commercial insurance companies.

In partnership with LifePoint Rehabilitation, a business unit of LifePoint Health, PeaceHealth plans to build and operate a new inpatient rehabilitation facility serving communities in Springfield, Oregon. This new facility is expected to open in 2026.<sup>2</sup>

PeaceHealth also owns Zoom+care, an on-demand retail health care provider serving the greater Pacific Northwest. Acquired in 2018, Zoom+care operates independently under its own leadership, board of directors, and brand name.<sup>3</sup>

### **PeaceHealth Medical Group**

PeaceHealth Medical Group (“PHMG”), a division of PeaceHealth, operates 61 medical clinics across Lane County and employs 398 Oregon practitioners, of whom 28 are surgeons. PHMG provides primary care, surgery, gastroenterology, cardiology, and other medical specialties. Across all PeaceHealth’s facilities in Oregon, there are 182 surgeons on staff.

### **Northwest Surgical Specialists, LLP**

NWSS, registered as a domestic limited liability partnership in Oregon since 1996, is a surgery practice that operates a clinic in Springfield, Oregon. NWSS is owned and governed by seven physician partners and employs eight physicians, four advanced practice providers - physicians’ assistants and family nurse practitioners - and 30 other employees. NWSS physicians provide cancer, breast, trauma & acute care, colorectal, and vascular surgical care to patients across Southwest Oregon. NWSS physicians perform surgical procedures at nearby hospitals and other health care facilities, including PeaceHealth Sacred Heart Medical Center at RiverBend and McKenzie Willamette Hospital. NWSS offices are currently located on the PeaceHealth Sacred Heart Medical Center at Riverbend campus.

NWSS providers perform the following types of surgeries:

- Breast
- Colon and Rectal
- Endocrine
- Esophageal
- Gastrointestinal
- General surgery
- Hernia
- Liver and Pancreas
- Oncology (cancer)
- Trauma and Acute Care
- Vascular

### **Transaction Terms**

On July 31, 2023, NWSS and PeaceHealth executed an Asset Purchase Agreement formalizing the terms of the transaction. Under the terms of the agreement, PeaceHealth will purchase all furniture and equipment currently located at the NWSS clinic, rights to all telephone numbers currently in use by NWSS, and inventory of medical and other supplies. Additionally, PeaceHealth will assume the equipment lease for an ultrasound machine. The total purchase price is \$121,600.

Following the acquisition, PeaceHealth intends to execute a space lease for the NWSS clinic space and states it will hire seven of eight NWSS physicians, four advanced practice providers, and 15 other employees, all of whom would become employees of PHMG. The proposed transaction will increase the number of PHMG surgeons in Lane County from 28 to 35, a 25% increase.



## Rationale for the Transaction

NWSS is under financial pressure associated with the recent departure of several partner physicians. The remaining NWSS partners were looking for a way to wind down the practice either through an acquisition or dissolution. The transaction would accomplish this goal while preserving NWSS's general surgery service line. The entities stated in published supplemental materials,

*“As a practical matter, NWSS’s model was not sustainable, in large part because of the costs associated with operating an independent practice. In joining PeaceHealth, the physicians formerly affiliated with NWSS have found a financially sustainable way to continue practicing in the community.”*

## Post-Transaction Plans

After the transaction, the newly employed surgeons plan to continue providing the same scope of services at the same location. NWSS physicians and staff will remain in the same location, as PeaceHealth states that it intends to assume the lease for the clinic space. PHMG has had preliminary discussions about further expanding surgical services to include colorectal surgical care and surgical oncology. Patients seeking care from the newly employed surgeons will be eligible for PeaceHealth's patient financial assistance policy, which provides charity care for eligible patients.

# When Hospitals Buy Clinics & Physician Groups

## The Effects of Vertical Consolidation

### Introduction

The acquisition of a physician practice by a hospital or health system is a type of **vertical consolidation**. Vertical consolidation refers to the combination of two companies or organizations in different lines of work or operating at different levels of the supply chain. Nationally and in recent decades, the share of physicians employed by hospitals has increased dramatically, while the number of independent, non-affiliated physicians has starkly fallen.<sup>4,5</sup> When a hospital buys a clinic or physician group, it creates a **vertically integrated** system because different types of health care services – inpatient care at the hospital and outpatient care at the clinic – are now aligned under one entity. In health care as well as other industries, vertical consolidation comes with potential costs and benefits to the community it serves.

Research shows that although vertical consolidation has some benefits for patients, it often results in higher prices, referrals to more expensive care settings, and no increase in health care quality.

Proponents of vertical consolidation in health care point to the enhanced ability to coordinate patients' care (e.g., vertically integrated providers use the same health record system and can see lab results in real time), more streamlined referrals to other providers, and lower administrative costs for the entities. However, a growing body of research shows that prices tend to increase while quality remains the same or decreases.

### Administrative Cost Savings

Vertical consolidation reduces the acquired clinic's or physician group's administrative and other overhead costs, because it can rely on the hospital's billing infrastructure, human resources, appointment scheduling team, supply ordering, and other administrative support systems.<sup>6</sup> Vertically consolidating transactions may reduce the need for duplicative staff, facilities, equipment, and other resources. Additionally, a hospital or health system-owned practice can spread overhead costs across more services and patients, leading to lower per-unit expenses (also known as "economies of scale").

### Higher Health Care Prices and Spending

Because vertical consolidation is a type of consolidation, and consolidation decreases competition in a given market, vertical consolidation can lead to higher prices. When vertical consolidation occurs in already concentrated hospital markets, consumers' health insurance premiums increase more than areas without vertical consolidation.<sup>7</sup> The prices of outpatient services also tend to increase after vertical consolidation, even when the amount of health care services rendered – also called utilization – remains unchanged.<sup>8</sup>

Physician practices that contract jointly as part of a hospital system may have greater bargaining leverage in negotiations with commercial health insurers, particularly when the health system is a dominant provider in the region. Another issue associated with vertical integration between hospitals and physician practices which may also ultimately result in higher prices is "foreclosure" of competition. For example, a vertically integrated system may restrict competing hospitals' access to its employed physicians by limiting their ability to practice or admit patients at other hospitals. Alternatively, a vertically integrated system may restrict competing physician groups'

access to hospital services by making it harder for non-affiliated physicians to obtain admitting privileges at system hospitals.<sup>9</sup>

Vertical consolidation of hospitals and physicians can also increase overall spending on health care (separately from any price effects). Vertical consolidation can change physicians' referral patterns such that more tests and procedures are performed within the integrated system. In many cases, this means the services move from a less expensive setting to a hospital setting, which increases the amount charged to payers like commercial insurance companies, state Medicaid programs and the Medicare program.<sup>10,11,12,13</sup> Physicians employed by health systems may also be incentivized to deliver or refer patients for additional hospital-based services which may be unnecessary. For example, research studies have found links between vertical integration and greater use of diagnostic imaging tests.<sup>14</sup>

Another effect of vertical consolidation relates to how Medicare pays hospitals. Typically, Medicare will pay a hospital for treating a Medicare enrollee by sending two payments: a facility fee and a professional fee. The facility fee is designed to cover the hospital's costs of the building, equipment, stocking the exam room, etc. The professional fee is designed to cover the cost of the physician's or treating provider's services and expertise. In some cases, vertical consolidation allows the hospital to designate the newly acquired clinic or physician group as a branch of the hospital's outpatient department, thereby allowing the hospital to collect facility fees for clinic visits. In other words, vertical consolidation can lead to higher overall costs even when the same physicians are rendering the same services in the same location.

### **No Improvements in Quality**

Research also shows that vertical consolidation does not result in discernable improvements in health care quality. One analysis shows that vertical consolidation results in *decreased* quality across a variety of standard metrics.<sup>15,16</sup> The quality metrics in the study included the percent of patients who received preventive antibiotics one hour before surgery, the percent of doctors who ordered treatments to prevent blood clots for certain surgeries, and the percent of patients who were kept on a class of heart medication (beta blockers) before and after surgery if they were taking the medication before coming to the hospital. There are, however, some research findings that show vertical consolidation can lead to higher rates of screenings for cancer.<sup>17</sup>

### **Increased Access for People with Medicaid**

When a general or multispecialty surgical practice vertically integrates with a hospital, the likelihood that the surgeons accept Medicaid increases. This occurs because many hospitals are nonprofit organizations that commonly treat Medicaid enrollees, while independent general and multispecialty surgical practices are for-profit entities. Despite the higher rates of treating Medicaid enrollees for surgical care, "the financial vulnerability of many state Medicaid systems may limit low-income populations from accessing nonacute surgical care in these large networks."<sup>18</sup>

### **Vertical Consolidation & Oregon's Health Care Market Oversight Program**

In 2021, the Oregon Legislature passed a bill creating the HCMO Program. Legislators pointed to vertical consolidation as one reason why reviewing proposed transactions is important. One of the sponsoring Legislators submitted published research articles about vertical consolidation in support of House Bill 2362, the bill that would eventually become the statute that created the HCMO Program.<sup>19</sup>

# Findings & Potential Impacts

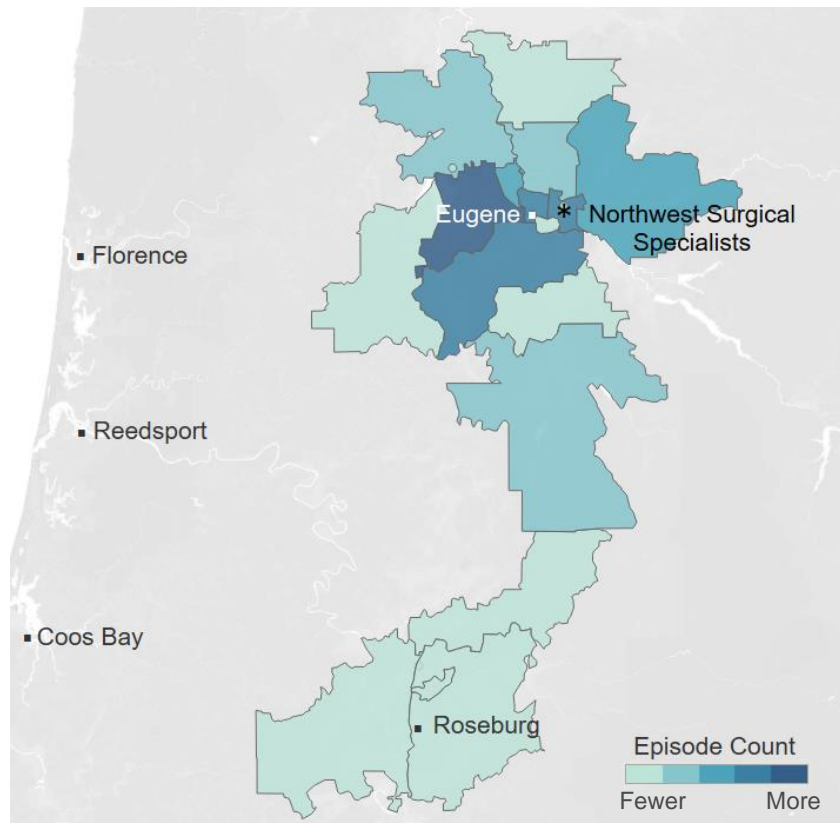
OHA compiled available data and information to understand and examine the potential impacts of the proposed transaction across four domains: access, cost, quality, and equity. To assess the potential impacts of the proposed transaction on Oregon residents' equitable access to affordable care, OHA considered the following:

- Transaction terms
- Market characteristics
- Statements by entities
- Publicly available data, research, and reports on vertical consolidation

## Overview

### NWSS Service Area

The primary service area (PSA) of NWSS includes Springfield, which is part of the greater Eugene area, as well as Roseburg, Oregon. OHA calculates the PSA by identifying where the closest 75% of patients reside relative to NWSS's location. NWSS is located on the campus of PeaceHealth Sacred Heart Medical Center at RiverBend. Many patients of NWSS also reside in Florence, Reedsport, and Coos Bay, but the PSA is based on continuous zip codes that border one another.



## **Market Share and Consolidation**

NWSS has a relatively small market share of the surgical care services rendered in outpatient settings, ambulatory surgical centers and inpatient hospital settings in the PSA. NWSS providers rendered less than 12% of the surgical procedures performed in the PSA.<sup>20</sup> These data suggest that NWSS does not possess a large share of the market for surgical care in the PSA.

OHA was unable to calculate PeaceHealth's market share or the Herfindahl–Hirschman index (HHI), a measure of market concentration, for this transaction. OHA's All Payer All Claims (APAC) database does not include information on surgeons' affiliation with physician practice groups or employment by hospitals, so OHA could not attribute surgery services in the claims to independent surgery groups or hospitals. In their supplemental responses to HCMO questions, the entities identified several other independent surgical groups serving the region.

Health system acquisitions of physician practices are a type of vertical consolidation (see *When Hospitals Buy Clinics & Physician Groups*). Because PeaceHealth, through PHMG, already employs surgeons and other clinical staff who provide services similar to NWSS within the PSA, this transaction also represents horizontal consolidation.

## Access

Current NWSS providers practice at an office location that is on the PeaceHealth hospital campus. The acquisition of NWSS by PeaceHealth is unlikely to reduce access to surgical care because the same surgeons will be rendering the same services to the same or very similar service area.

Importantly, without the acquisition by PeaceHealth, it is unclear if NWSS would continue to serve the community. In the Notice, the entities stated that due to financial pressures, “the remaining NWSS partners were actively looking for a way of winding down their practice, either through an acquisition or dissolution.” The entities continued “[a]n acquisition by another party, such as private equity group, competing surgical practice, or an out-of-area hospital, would have threatened access to general surgery services at PeaceHealth Sacred Heart Medical Center RiverBend.”<sup>21</sup>

## Payer Mix

Historical health care claims data show that NWSS treated patients with commercial health insurance, Medicare coverage, and Medicaid coverage (also known as Oregon Health Plan or OHP). Accepting all of these insurance types is important for community members’ access to surgical care and is important from an equity perspective. The payer mixes of PeaceHealth and NWSS are similar, and the transaction is unlikely to significantly change the types of health insurance accepted by the NWSS surgeons after they become PHMG employees. Both PeaceHealth and NWSS see proportionally more patients with Oregon Health Plan or Medicare coverage compared to the percent of individuals residing in the PSA with those types of coverage.<sup>22</sup>

## Abortion Care

As general, breast, colorectal, trauma and vascular surgeons, NWSS surgeons do not provide abortion care. Moving to PeaceHealth will not affect the availability or patient access to abortion care services.

As a Catholic health system PeaceHealth does not offer certain abortion services. PeaceHealth’s abortion policy states it does not perform “direct abortions,” but the health system “allows the indirect termination of a pregnancy as a result of direct intervention against a maternal pathology to save the life of the mother.”<sup>23</sup>

## Noncompete Clauses for Physicians

Health systems and hospitals sometimes require physicians and other providers to sign employment contracts that include a noncompete clause. Noncompete clauses prevent the provider from leaving that hospital and working for another hospital or health system in a specific region, within a specific timeframe. In some instances, noncompete clauses require a physician who wants to leave their employer to work in a different geographic region or practice in a different area of care, either of which creates significant challenges for the physician and potentially affects patients’ access to care.

PeaceHealth stated that they will not require former NWSS employees to sign a noncomplete clause or be subject to any restrictions on future employment opportunities as a condition of their employment with PeaceHealth.

## Potential Impacts

The transaction is unlikely to result in any reductions in access to health care services provided that PeaceHealth does not impose any restrictions on former NWSS employees’ future

employment options. The providers will continue rendering the same services to patients in the same locations and the payer mix of patients is unlikely to change.

### **Entity Statements about Access**

The entities do not anticipate that the transaction will negatively affect access to affordable health care in Oregon. In the Notice, they stated:

*We expect the proposed transaction to preserve and potentially increase access to affordable health care in Oregon. NWSS is under severe financial pressure associated with the recent departure of several partner physicians. As such, the remaining NWSS partners were actively looking for a way of winding down their practice, either through an acquisition or dissolution. An acquisition by another party, such as private equity group, competing surgical practice, or an out-of-area hospital, would have threatened access to general surgery services at PeaceHealth Sacred Heart Medical Center Riverbend. Similarly, a dissolution of the practice likely would have resulted in additional NWSS physicians leaving the community.*

## Cost

Costs associated with surgical care provided by NWSS providers are not substantially different from costs for surgical care provided by other physicians in the PSA. The proposed transaction is not likely to significantly increase the total health care costs for surgical services in the PSA, provided that PeaceHealth 1) does not impose facility fees on services for which no facility fees are currently applied, and 2) does not use any increased bargaining leverage to obtain higher reimbursements from health insurance companies.

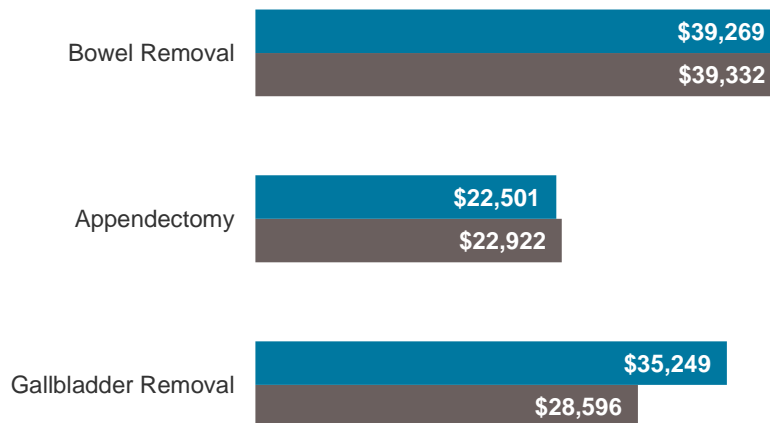
Moreover, the NWSS surgeons represent a relatively small proportion of surgeons in the PSA, which also suggests that significant increased costs as a result of consolidation are unlikely.

### PeaceHealth's Prices for Surgeries

PeaceHealth hospitals, like all hospitals in Oregon, accept many different types of health care insurance. Data about the median amount paid by commercial insurance for a given procedure or surgery is publicly available from Oregon's Hospital Reporting Program. A median is the middle value where half of the values are more and half of the values are less.

According to the publicly available 2021 Oregon Hospital Payment Report, the median payment by commercial health insurers for an inpatient bowel removal surgery at PeaceHealth Sacred Heart Medical Center at RiverBend is slightly less than the statewide median. Similarly, the commercial insurance median payment for an appendectomy, which is the removal of a patient's appendix, is also slightly less than the statewide median. However, the median price paid for gallbladder removal at PeaceHealth Sacred Heart Medical Center at RiverBend (\$35,249) was 23% higher than the statewide median.<sup>24</sup>

Commercial Insurance Median Prices Paid for Surgeries in 2021 at **PeaceHealth Sacred Heart Medical Center** and **Statewide Average**



### Potential Impacts

As outlined in a previous section in this report, instances of vertical consolidation may result in additional facility fee charges when hospitals deem newly acquired outpatient clinics as extensions of the hospital, and then charge new facility fees on top of professional fees. When asked if



PeaceHealth will charge facility fees for any services rendered by former NWSS physicians for which no facility fees are currently applied, PeaceHealth replied, “No.”<sup>25</sup>

Vertical consolidation can also create incentives to restrict competing providers’ access to physician or hospital services. The entities have stated they will not impose any limitations on former NWSS surgeons’ ability to practice or admit patients at other hospitals or facilities outside the PeaceHealth system. They have also committed to not imposing any new limitations on the ability of non-affiliated surgeons to gain admitting privileges at PeaceHealth hospitals or any limitations on former NWSS providers’ ability to refer patients outside of PeaceHealth.

### **Entity Statements about Cost**

The entities do not anticipate that the transaction will negatively affect health care costs or spending. In the Notice, they stated:

*...these [NWSS] physicians will begin billing under PeaceHealth’s provider contracts, many of which are value-based and include incentives for adhering to cost and quality metrics.*

## Quality

The NWSS surgeons currently perform surgeries in the PeaceHealth hospital operating rooms, along with other hospitals in the region. After the acquisition, the surgeons will continue to provide surgical care to patients in PeaceHealth's operating rooms, which means any quality metrics or health outcomes will likely remain unchanged. Additionally, the NWSS providers will be able to offer their surgical care services to patients in other hospitals, just as they currently do.

PeaceHealth stated, "We support the providers in making joint decisions with their patients regarding hospital [or ambulatory surgical center] services. PeaceHealth providers may use non-PeaceHealth hospitals and facilities when that is the patient's choice and/or clinically in the best interests of the patient."<sup>26</sup> The ability for the NWSS surgeons to use non-PeaceHealth hospitals and facilities, as they currently do, means the quality of surgical care services will likely remain unchanged.

### Potential Impacts of the Transaction

The quality of health care services delivered by the NWSS providers is unlikely to diminish and may increase because PeaceHealth may impose additional quality metrics on the NWSS providers' surgical care to achieve value-based payment incentives.

### Entity Statements about Quality

The entities do not anticipate that the transaction will negatively affect health care quality. In the Notice, they stated:

*By joining PeaceHealth Medical Group, NWSS's general surgeons will have expanded access to PeaceHealth's quality improvement and peer review infrastructure. Additionally, these physicians will begin billing under PeaceHealth's provider contracts, many of which are value-based and include incentives for adhering to cost and quality metrics. This will improve care management and continuity for patients in the community.*

In their supplemental responses to OHA, the entities stated:<sup>27</sup>

*Quality oversight of surgical practitioners is performed in the hospital by the hospital's organized medical staff. In addition, PHMG sponsors a confidential incident reporting system and runs routine quality data from the clinic EMR in order to monitor for patterns of performance.*

## Equity

The proposed acquisition of NWSS by PeaceHealth will not change the number of surgeons serving the greater Eugene community nor the range of available services. The transaction is also unlikely to adversely affect who has access to surgical care. NWSS currently accepts Oregon Health Plan and Medicare insurance, as does PeaceHealth. The transaction is unlikely to reduce the number of patients served with these types of insurance.

Additionally, and as is customary for hospitals in Oregon, PeaceHealth offers interpretation services for individuals who do not speak English and individuals who are deaf or hard of hearing, at no charge to the patient. The proposed transaction is unlikely to adversely affect the availability and provision of interpretation services.

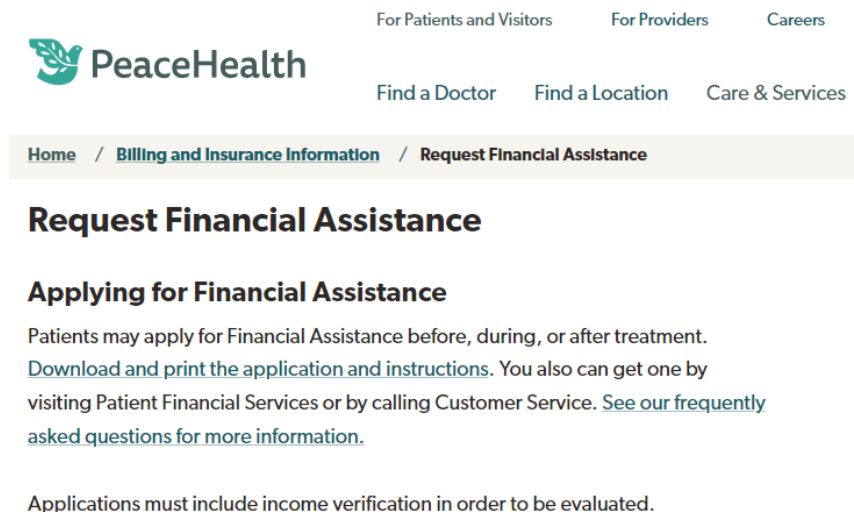
### Increased Access to Financial Assistance

NWSS does not currently notify patients of any kind of financial assistance policy. If a patient requests any discount from their medical bill, NWSS offers a 10% discount for insured patients and 25% for self-pay patients, if the patient pays the full balance within 30 days.<sup>28</sup>

The PeaceHealth financial assistance policy is more generous. The level of financial assistance is based on the family's size and income. Families earning less than three times the federal poverty level who apply for assistance are eligible for full assistance, which means all of the charges billed to the patient would be removed. Families earning less than four times the federal poverty level are eligible for 70% to 85% reductions.<sup>29</sup>

Individuals can apply online for financial assistance to PeaceHealth (see picture below of PeaceHealth's financial assistance webpage). However, in some cases PeaceHealth has also been known to not publish the availability of financial assistance for non-hospital-based care such as clinic services.<sup>30</sup>

From PeaceHealth's Financial Assistance webpage:<sup>31</sup>



The screenshot shows the PeaceHealth website's navigation menu with links for 'For Patients and Visitors', 'For Providers', and 'Careers'. Below the logo are links for 'Find a Doctor', 'Find a Location', and 'Care & Services'. A breadcrumb trail reads 'Home / Billing and Insurance Information / Request Financial Assistance'. The main heading is 'Request Financial Assistance', followed by a sub-heading 'Applying for Financial Assistance'. The text states: 'Patients may apply for Financial Assistance before, during, or after treatment. Download and print the application and instructions. You also can get one by visiting Patient Financial Services or by calling Customer Service. See our frequently asked questions for more information.' A note at the bottom says: 'Applications must include income verification in order to be evaluated.'

The proposed transaction may help patients in these income levels because they will be newly eligible for financial assistance through PeaceHealth's policies, as long as the patients know about and apply for the assistance.

## **Potential Impacts**

NWSS providers will continue serving the same populations, and access to financial assistance will likely increase as a result of the transaction. OHA will monitor PeaceHealth's financial assistance (also known as charity care) in terms of total dollars forgiven.

## **Entity Statements about Equity**

The entities do not anticipate that the transaction will negatively affect health equity. In the Notice, they stated:

*As describe above, the proposed transaction will benefit the public good by preserving access to general surgery services for the community and expanding service lines for colorectal surgical care and surgical oncology.*

## Conclusions

Based on preliminary review findings, **OHA approved the transaction with conditions on August 16, 2023.** See Findings of Fact, Conclusions of Law, and Final Order in the Matter of the Proposed Material Change Transaction Involving PeaceHealth and NWSS, dated August 16, 2023.

The transaction was approved, per ORS 415.501(6)(b), because the transaction is not likely to substantially alter the delivery of health care in Oregon.

The approval criteria are specified in administrative rules for the HCMO Program and are consistent with Oregon law. Below is a summary of the main reasons, based on the findings described in this report, why OHA considers the criterion satisfied.

### Approval Criteria

**The material change transaction is not likely to substantially alter the delivery of health care in Oregon.**

The proposed transaction is unlikely to reduce the availability or breadth of surgical care services for communities served by NWSS. The surgeons and other providers will continue serving patients and performing surgical procedures from the same locations. It is not expected that the transaction will result in significant changes to the types of health insurance accepted for surgical care services.

Further, PeaceHealth asserts it will neither restrict future employment opportunities as a condition for former NWSS physician employment with PeaceHealth, nor will PeaceHealth charge any new facility fees for services rendered by former NWSS physicians.

### Approval Conditions

The purpose of the two conditions below is to ensure the transaction does not increase health care costs for consumers and does not adversely affect patient access to surgical care.

For a period of five years following the close of the transaction, conditions for approval of the proposed transaction are as follows:

1. PeaceHealth shall not charge facility fees for any services rendered by former NWSS physicians for which no facility fees are currently applied.
2. PeaceHealth shall not subject former NWSS employees to any restrictions on future employment opportunities as a condition for their employment, or subsequent bona fide advancement of the former NWSS employee by PeaceHealth.

### Post-Transaction Monitoring

As required by statute, OHA will conduct follow-up analyses one, two, and five years after the transaction is complete. OHA's monitoring will assess whether PeaceHealth complies with the approval conditions and keeps other commitments included in the Notice. More broadly, OHA will monitor changes to cost, quality, access and equity.

As part of the required monitoring activities, OHA may request additional information from the entities. OHA will publicly publish findings and conclusions from follow-up analyses.

# Acronyms & Glossary

## Acronyms & Abbreviations

APAC	Oregon's All Payer All Claims database
ASC	Ambulatory Surgery Center
CMS	Centers for Medicare and Medicaid Services
DCBS	Department of Consumer and Business Services
EMR	Electronic medical record system
HCMO	Health Care Market Oversight
NWSS	Northwest Surgical Specialists, LLC
OHA	Oregon Health Authority
OHP	Oregon Health Plan
PH	PeaceHealth
PHMG	PeaceHealth Medical Group
PSA	Primary Service Area

## Glossary

**Competition:** A situation in a market in which firms or sellers independently strive to attract buyers for their products or services by varying prices, product characteristics, promotion strategies, and distribution channels.

**Concentration:** A measure of the degree of competition in the market; highly concentrated markets are generally characterized by a smaller number of firms and higher market shares for individual firms.

**Consolidation:** The combination of two or more business units or companies into a single, larger organization. Consolidation may occur through a merger, acquisition, joint venture, affiliation agreement, etc.

**Horizontal consolidation:** The combination of two or more business units or companies that formerly competed with one another in the same geographic market. In health care, the combination of two hospitals or two insurers would be considered horizontal consolidation.

**Vertical consolidation:** The combination of two companies or organizations in different lines of work or operating at different levels of the supply chain. In health care, the acquisition of a physician practice by a hospital or the merger of a health plan with a hospital system would be considered vertical consolidation.

**Health equity:** OHA defines health equity as follows:

Oregon will have established a health system that creates health equity when all people can reach their full health potential and well-being and are not disadvantaged by their race, ethnicity, language, disability, age, gender, gender identity, sexual orientation, social class, intersections among these communities or identities, or other socially determined circumstances. Achieving

health equity requires the ongoing collaboration of all regions and sectors of the state, including tribal governments to address:

- The equitable distribution or redistribution of resources and power; and
- Recognizing, reconciling, and rectifying historical and contemporary injustices.

# Appendix A: OHA’s Review

OHA performed a preliminary review of the transaction to assess its potential impact on Oregon’s health care delivery system. The review explored impacts in four domains: cost, access, quality, and equity. OHA’s analysis followed the guidelines and methods set out in the HCMO Analytic Framework published January 31, 2022.<sup>32</sup> The framework is grounded in the goals, standards and criteria for transaction review and approval outlined in OAR 409-070-0000 through OAR 409-070-0085.

## Background Research and Literature Review

OHA conducted background research on the entities involved in the transaction to understand more about the proposed transaction and the entities involved. OHA consulted publicly available sources, including press releases, business filings with the Secretary of State in Oregon, and entity websites. OHA also considered articles and research reports about vertical consolidation involving hospitals and physician specialty groups.

## Requests for Information

In addition to the information provided in the Notice, OHA made two information requests of PeaceHealth and NWSS to clarify and supplement the Notice, to which PeaceHealth responded. Through these requests, OHA sought more information about organizational structure, financial assistance policies, restrictions on referrals to other providers, employment noncomplete clauses, among other topics. The supplemental responses received on [July 14, 2023](#) and [July 26, 2023](#) are posted online.

## Public Input

OHA solicited public comments on the proposed transaction during the preliminary review. On July 17, 2023 OHA posted a request for public comment to the [Transaction Notices and Reviews](#) page of the HCMO website and emailed subscribers to HCMO program updates to inform them about the opportunity to provide comment. OHA accepted comments through July 31, 2023, by email to [hcmo.info@oha.oregon.gov](mailto:hcmo.info@oha.oregon.gov). No public comments were submitted.

## Analysis

OHA’s analysis assessed the current state of the entities involved in the transaction, related industry trends, and the likely impact of the proposed transaction on the delivery of surgical care in Oregon. The table below describes the types of analysis OHA typically performs in each domain.

Domain	Analysis
Cost	<p>Analyses under the cost domain explore how the transaction may affect the prices consumers and payers (e.g., insurers, employers, and governments) pay for surgical care services in Oregon and overall spending on surgical care services for people in Oregon. Prices and spending for surgical care services may be affected by the degree of competition between providers offering similar services within a service area.</p> <p>For this review, OHA identified common types of surgeries performed by NWSS providers and analyzed the average paid amounts of similar surgeries provided by other surgeons in the primary service area.</p>



Domain	Analysis
Access	<p>Analyses under the access domain explore how the transaction may affect the range of services available in the market, types of providers and provider-patient ratios, characteristics of the patient population, and any barriers to access, including transportation burdens and limitations by insurance type.</p> <p>Consolidation and change of ownership in the health care market can impact the range and type of services offered in the service area. Changes in population demographics can alter demand for some services and shifts in the labor market can impact availability of specific provider types, potentially affecting the financial viability and profitability of offering certain health care services in a region.</p> <p>For this review, OHA used claims data to identify the number of common types of surgeries performed by NWSS providers and compared that total to the number of surgeries provided by other surgeons in the primary service area.</p>
Quality	<p>Analyses in the quality domain explore how the transaction may affect patient outcomes and the experience of care. Consolidation and ownership changes in health care can impact clinical practice, including staffing ratios, time spent or number of visits with patients, timeliness of care, and the patient’s experience of care, all of which can have adverse effects on patient outcomes. Analyses in the quality domain consider current indicators of quality and assess potential impacts of the transaction on quality of care.</p> <p>For this review, OHA researched common quality indicators associated with surgical care. However, performance results are not available for independent physician groups such as NWSS.</p>
Equity	<p>Analyses in the equity domain explore how the transaction may affect the entity’s ability to assess for and equitably meet the needs of the population it serves. Consolidation and ownership changes in health care can disproportionately impact availability of health services for populations who already experience health inequities, including people of color, low-income families, and residents of rural areas. Equity-focused analysis considers the entities’ ability to serve a patient population that is representative of the community in which they operate. OHA also looks for evidence that the entity is actively identifying and addressing inequities in access to or quality of care across their patient population.</p> <p>For this review, OHA looked at financial assistance policies, translation and interpretation policies, and insurance payer mix of the entities.</p>

## Appendix B: PeaceHealth locations outside of Oregon

Facilities in Washington	Location	Address
St. John Medical Center	Longview, WA	1615 Delaware Street, Longview, WA 98632
PeaceHealth Southwest Medical Center	Vancouver, WA	400 NE Mother Joseph Place, Vancouver, WA 98664
St. Joseph Medical Center	Bellingham, WA	2901 Squalicum Parkway, Bellingham, WA 98225
Peace Island Medical Center	San Juan Island, WA	1117 Spring Street, Friday Harbor, WA 98250
United General Hospital	Sedro-Woolley, WA	2000 Hospital Drive, Sedro-Woolley, WA 98284

Facilities in Alaska	Location	Address
Ketchikan Medical Center	Ketchikan, AK	3100 Tongass Avenue, Ketchikan, AK 99901
New Horizons Transitional Living Center	Ketchikan, AK	3100 Tongass Avenue, Ketchikan, AK 99901

## Appendix C: Data Tables

### Primary Service Area Zip Codes

Zip codes listed in the tables below represent 78% of NWSS Surgical Volume.

Zip Code	Percent of NWSS Episodes
97402	17%
97405	13%
97477	11%
97401	11%
97404	10%
97478	9%
97424	6%
97408	4%
97448	4%
97487	3%
97426	3%

Zip Code	Percent of NWSS Episodes
97471	3%
97403	2%
97470	2%
97446	1%
97479	1%
97440	1%
97475	<1%
97495	<1%
97409	<1%
97494	<1%

### Commercial Insurance Median Prices for Surgeries

Data from the [2021 Hospital Payment Report](#)

Surgery Type	PeaceHealth Sacred Heart Medical Center at RiverBend	Statewide Average
Gallbladder Removal	\$35,249	\$28,596
Appendectomy	\$22,501	\$22,922
Bowel Removal	\$39,269	\$39,332

# Appendix D: Reporting Methodology

## Surgical Procedure Claim Identification Methodology

OHA's identification of Northwest Surgical Specialists', LLP patient service area and analysis of market share are based on claims data from APAC. To find relevant claims for these uses, OHA first identified all APAC claims incurred between 2016 and 2020 where an NWSS provider or the NWSS location was listed as either the rendering or billing provider. The procedure codes from those claims were reviewed and classified as surgical or non-surgical. Surgical procedure codes were then used to identify claims from other providers during the same incurred time-period. The resulting data set was used to define the NWSS patient service area.

## Surgical Episode Definition

OHA's PSA and market share analyses use 'surgical episodes' for the unit of measurement. Surgical episodes count unique instances of patient ID and service date regardless of the number of procedures or claims for that patient on that day. A distinct surgical episode may include more than one surgery if the surgeries were rendered on the same date of service.

## PSA Definition Methodology

To define the PSA for NWSS, OHA followed four steps:

1. Summarize relevant claims rendered during the study period by patient zip code and episode count.
2. Rank the zip codes in descending order of episode count (volume).
3. Identify contiguous zip codes that account for at least 75% of episodes. To do this, OHA starts with the provider's office zip code and adds other zip codes to the map based on volume rank. Zip codes that are not immediately contiguous with the provider's office location may be permanently excluded from the PSA, or only temporarily excluded until interim zip codes are added that fill in the geographical gap. Continue to add zip codes until the total episode count from zip codes contiguous with the facility constitutes 75% of the entity's total episodes. Adding a new zip code that then pulls in previously excluded zip codes can result in a PSA volume over 75%. This identifies the contiguous, volume-driven PSA.
4. Add zip codes that are fully encompassed by the zip codes identified in step 3. This may result in a PSA volume over 75%.

## Data Sources

### All Payers All Claims Data

The Oregon All Payer All Claims Database (APAC) houses administrative health care data for Oregon's insured populations. It includes medical and pharmacy claims, non-claims payment summaries, member enrollment data, billed premium information and provider information for Oregonians who are insured through certain commercial insurance, Medicaid and Medicare. Information about APAC is available on OHA's [website](#).

### American Community Survey Data

The American Community Survey (ACS) is an ongoing, nationwide survey conducted by the U.S. Census Bureau. The survey generates data about a variety of topics like occupation, housing, education and demographics. For this report, OHA used 2020 ACS 5-Year Estimate data. Additional information about the ACS can be found on the US Census [website](#).

### Oregon Hospital Payment Report

The Oregon Hospital Payment Report summarizes the median amounts commercial insurance companies paid to Oregon hospitals for common procedures each year. It includes procedures rendered at hospital inpatient and outpatient facilities (it does not include procedures rendered at ambulatory surgical centers) and calculates median price based on the total payment a hospital received, not including the amount billed by the physician/service provider. The report allows for cost comparisons between hospitals but does not reflect the actual price a patient will pay for a given service. Access the report and additional methodology details on OHA's Oregon Hospital Payment Report [website](#).

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