

December 4, 2023

**VIA EMAIL**

Harold S. Horwich  
Morgan, Lewis & Bockius LLP  
One State Street  
Hartford, CT 06103

Re: Form A Statements Filed by SCAN Group (“SCAN”) Regarding the Proposed Transaction with CareOregon, Inc. (“CareOregon”)

Hal,

For your and the public’s convenience, this letter includes responses to all of your inquiries in the letter dated November 9, 2023. Kindly deem this letter the parties’ formal response to such inquiries.

*Inquiries*

1. Produce all emails or other correspondence among (a) CareOregon senior management or members of the CareOregon board of directors and (b) members of the board of directors of Jackson County CCO, LLC (“JCC”), Columbia Pacific CCO, LLC (“CPC”) and Health Share of Oregon (“Health Share” and, collectively with JCC and CPC, the “CCOs”) regarding the transaction before the transaction was announced publicly, [REDACTED]

Response: CareOregon presented a detailed summary of the proposed affiliation with SCAN to the CPC and JCC boards of directors in November 2022, before the Affiliation Agreement was signed or publicly announced. The slides from such presentation are enclosed as Exhibit A. The CareOregon Board of Directors (“CareOregon Board”) and management communicate with the JCC and CPC boards primarily through board meetings and the CareOregon Board and management team members appointed to the CCO boards, so we believe these are the only documents responsive to your request. With respect to emails, please note that CareOregon Board members (other than CareOregon management team members serving as CCO board members) do not have CareOregon email addresses. Searches of CareOregon’s email system therefore will not capture emails among board members unless a CareOregon email address is included, as they would not appear on CareOregon servers. Our search of CareOregon’s email system has not produced any emails responsive to this request.

2. Produce all materials prepared by CareOregon, the CareOregon board of directors or its advisors, and provided to the CCOs regarding the transaction and its impact on CCO

operations, including approval and distribution of funds and each CCO's operational structure of contracts and compliance requirements.

Response: As noted above, CareOregon communicates with the JCC and CPC boards primarily through CCO board meetings. Exhibit A contains the November 2022 JCC and CPC board presentations, which explain the purpose and impact of the transaction prior to its public announcement. The presentation addresses the fact that the "relationship between CareOregon and the affiliate CCOs will remain with the structure and governance as currently in place." It also addresses HealthRight Group's ("HRG's") reserve powers and the ways in which the combined CareOregon/SCAN organization can deliver tangible benefits to each CCO and its members. Eric Hunter has since updated the JCC and CPC boards on the transaction, as reflected in the June 20, 2023 board minutes from CPC, which are attached hereto as Exhibit B.

3. Produce all materials, emails or other correspondence disclosing to the CCOs that the approval of the HealthRight board of directors will be required prior to CareOregon approving an amendment to the CCO operating agreements.

Response: The enclosed November 2022 board presentations to CPC and JCC addresses HRG's' reserve powers (at the time, the parties referred to HRG as "TopCo"). Note that the HRG board of directors will not have any reserve powers with respect to Health Share.

4. Produce all materials, emails or other correspondence among (a) CareOregon or the CareOregon board of directors and (b) each CCO's Community Advisory Council ("CAC") or CAC members regarding the transaction.

Response: See the documents enclosed as Exhibit C. The timing and format of engagement with the JCC and CPC CACs were deeply considered. Nora Leibowitz, CareOregon Chief Strategy Officer, presented an overview of the transaction to both CACs in person. Ms. Leibowitz presented in English with live Spanish interpretation to the CPC Regional CAC with representatives from all three counties in the CPC service area in attendance on September 14, 2023, and she presented to the JCC CAC on May 8, 2023 and again on October 9, 2023. In each case, Ms. Leibowitz solicited feedback from the CACs and invited further engagement through the regulatory approval process.

JCC and CPC are direct subsidiaries of CareOregon. Health Share is not. CareOregon is one of 11 members of Health Share and provides administrative and management services to Health Share through certain arms-length contracts. As such, Health Share separately manages communications with Health Share's CAC, CareOregon produced a presentation deck for Health Share's CAC and provided it to Health Share's Community Engagement Program Manager, for distribution to the Health Share CAC. This presentation is included in Exhibit C.

5. After the affiliation agreement is in place, how will each CCO (and SCAN) decide and govern distribution of budgeted dollars for SHARE program and Health-Related Services (both community investments and member level items/services)?

- a. Will this change from current practice?
- b. If so, how? For example, will there be any input/oversight from SCAN's quality oversight steering committee and workgroups, other changes, etc.

Response: SCAN and CareOregon do not anticipate any material changes to how the CCOs decide on the distribution of budgeted SHARE and Health-Related Services dollars. Currently, the CCOs budget for the SHARE program in accordance with OAR 410-141-3735 and the policies submitted to and approved by OHA pursuant to OAR 410-141-3845(3). Post-closing, these same processes will remain in place, and any changes to the policies and procedures for the distribution of Health-Related Services would be submitted to OHA for approval.

Both SCAN and CareOregon have prioritized the expansion of programs that improve the social determinants of health of their respective members. One of the purposes of this transaction is to share learnings across the organizations' respective Medicaid and Medicare populations and geographies. The parties expect to constitute organization-wide committees to discuss and coordinate the implementation of best practices and innovative new programs related to social determinants of health. Notwithstanding the foregoing, CareOregon is retaining all its existing programs and staff, including the staff in charge of distributing SHARE and Health-Related Services dollars. HRG's reserve powers with respect to budgeting and spending are limited to approval of operating and capital budgets developed and approved by the management and boards of CareOregon and its affiliated CCOs, and do not extend to dictating how such budgeted dollars are distributed. As such, CareOregon and its affiliated CCOs will continue to decide how budgeted SHARE and Health-Related Services dollars are spent, with a focus on how such dollars can best serve the unique needs of each CCO's service area.

6. After the affiliation agreement is in place, how will each CCO (and SCAN) decide and govern distribution of the CCO Quality Incentive Program earnings?
  - a. Will this change from current practice?
  - b. If so, how? For example, will there be any input/oversight from SCAN's quality oversight steering committee and workgroups, other changes, etc.?

Response: CCO Quality Incentive Program earnings will continue to be distributed to community providers in accordance with the terms of CareOregon's agreements with network providers and community organizations. Post-closing, CareOregon will continue to manage its network, including by identifying new providers, negotiating contracts, and implementing value-based payment methodologies. In addition, operational oversight of clinical and quality initiatives, including the quality incentive program, will remain with CareOregon.

Each year 92% of the CCO Quality Incentive Program earnings are earmarked for distribution to network providers and community-based organizations ("CBOs") providing social determinants of health supports and services. The remainder of the funds

are used to support CareOregon's own programs to improve performance on the incentive metrics. The actual amount of earnings redistributed to network providers or CBOs varies based on the CCO's overall performance and the performance of individual participating providers and CBOs. SCAN and CareOregon are committed to maintaining this practice and using CCO Quality Incentive Program earnings exclusively for their intended purpose, which is to improve each CCO's performance on the incentive metric targets set by OHA.

As part of CCO 2.0, CareOregon is increasing the use of value-based purchasing arrangements. This transaction will allow both CareOregon and SCAN to access a broader array of analytical tools that neither party could reasonably purchase or implement independently. These analytical tools will enable CareOregon to explore additional contracting models, improve provider performance tracking in existing models, and implement programs to ensure that the existing models are meeting their goals. The parties anticipate that they will share learnings across organizations, including through the establishment of HRG-wide programs to evaluate the effectiveness of value-based purchasing methodologies currently in place and support the development of new payment models.

However, HRG's reserve power with respect to the spending of CareOregon and its affiliated CCOs is limited to the approval of operating and capital budgets developed and approved by the management and boards of the respective entities. The management and boards of directors of CareOregon and the respective CCOs will continue to develop and implement programs to distribute CCO Quality Incentive Program dollars.

7. Does each CCO currently (pre-affiliation) distribute CCO Quality Incentive Program earnings to any public health partners or non-clinical partners, such as SDOH-HE partners and other health-related services providers?

Response: Yes, the CCOs distribute funds to a range of partners that include public health and non-clinical partners and SDOH-HE partners and other health-related services partners.

- a. Will this change post-affiliation?

Response: We are not planning any changes post-affiliation. As OHA increases the focus on quality measures related to SDOH-HE measures, CareOregon's payments to non-clinical partners may increase over time. SCAN has a long history of funding SDOH-HE initiatives in its service areas. For specific examples, see our response to Inquiry 4 in the letter to the HCMO program dated March 27, 2023. Post-closing, HRG will continue to prioritize programs that improve the social determinants of health in the communities it serves.

- b. If so, how?

Response: N/A.

8. How will members of each CCO (and their families and support networks, if applicable), continue to be meaningfully engaged in organizational quality improvement activities related to the CCO Quality Incentive Program after the affiliation agreement is in place?

Response: CareOregon is committed to ensuring that member and community voices are incorporated into its Quality Program. After this transaction closes, the CareOregon Quality Program will continue to employ its existing formalized approach to quality improvement work. This program includes the following elements:

- QI committee to oversee the quality program;
- Performance improvement projects;
- Collection and submission of performance measurement data (i.e., CCO metrics);
- Evaluation of member satisfaction;
- Mechanisms to detect under- and over-utilization;
- Mechanisms to assess the quality and appropriateness of care furnished to enrollees with special health care needs;
- Evaluation of grievances and appeals;
- Reports on diversity & capacity of the workforce in service area; and
- Written annual evaluation.

The Quality Program includes development and oversight of specific quality deliverables such as the CCO Quality Incentive Program.

CareOregon engages members, families, and community in the Quality Program through regional community advisory groups. At Jackson Care Connect and Columbia Pacific CCO, this occurs through the CCO Community Advisory Councils (“CACs”), which are open to members, their families and social service/safety net care providers. In the Portland metro area, we operate a CareOregon Community Advisory Board (COCAB) for Medicaid members and their caregivers. These committees offer an opportunity for members to provide feedback to CareOregon on their experience with their health care and health plan and to advise CareOregon on priorities, investments, equity initiatives, and member materials. Each of these venues are used to collect input on initiatives tied to the Quality Program.

Additionally, CareOregon collaborates closely with local health care and social service provider networks to plan, implement, and evaluate components of the Quality Program. Providers are engaged through provider advisory committees, provider learning collaboratives and one-on-one provider meetings with major network partners. Through these venues, CareOregon and our provider partners share priorities, collaborate on the development and implementation of Value Based Payment models and other quality-focused initiatives as well as sharing data.

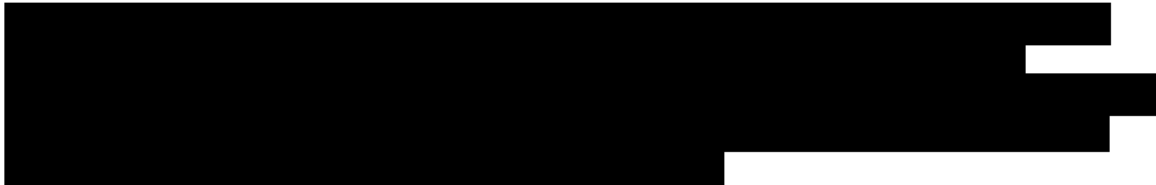
- a. Will this change from practices prior to the affiliation agreement?

Response: No, neither CareOregon as a contractor of Health Share nor its wholly owned CCOs will be making changes to these practices post-affiliation.

b. If so, how?

Response: N/A.

9.



a. Please provide information regarding the Enterprise Risk Management committee that oversees program evaluations, including the composition of the committee and the role of the committee in overseeing program evaluations;

Response: SCAN's Enterprise Risk Committee is comprised of SCAN's executive leadership team and holds the responsibility for oversight and execution of SCAN's Enterprise Risk Management Program ("ERMP"). The ERMP framework is made up of the five components of the Committee of Sponsoring Organization of the Treadway Commission ("COSO") framework. SCAN's value, vision and Code of Conduct are the core of its business philosophy and set the tone and values of the organization. Objectives are set by SCAN's executive leadership team in alignment with its strategic framework and are cascaded throughout the organization. The risks managed through the ERMP are typically associated with financial, strategic, operational, and compliance matters that could materially impact SCAN's performance. The ERMP is managed and staffed by SCAN's Chief Risk Officer and Vice President, Internal Audit. The Audit Committee of the SCAN Board of Directors provides oversight of senior leadership's management of the various risks the organization faces and meets regularly with key risk management functional leaders.

SCAN's Enterprise Risk Management Committee does not typically perform clinical program evaluations such as those cited in this question or in the PwC Report. These programs are generally overseen and evaluated by SCAN management with periodic reporting of selected results to the SCAN Board Quality and Customer Experience Committee. Management makes adjustments to programs from time to time, based on member needs and program effectiveness.

Also, please see the response to Inquiry VI.13 in our letter to you dated July 13, 2023, which explains how the parties plan to consolidate risk management processes across the broader HRG organization post-closing.

b. Please provide an update on all programs that were not fully evaluated as stated in the PwC Report.

[REDACTED]

[REDACTED]

[REDACTED]

10. The CPC Board of Directors presentation dated November 2022 states on page 6 that “large for-profit competitors are dominating the Medicare/Medicaid market in our service areas.”
- a. Please provide CPC’s percentage Medicaid/Medicare membership in the Columbia service area for the prior three years.

Response: CareOregon does not have access to the requested market data for CPC’s service area. For the last three years, Health Plan of CareOregon’s Medicare Advantage market share for the state of Oregon has been:

- 2021: 3.47%
- 2022: 3.73%
- 2023: 3.44%

In contrast, we estimate that for profit carriers such as Atrio, United Health, Centene (HealthNet), and Humana control more than 40% percent of the statewide Medicare Advantage market as of 2023.<sup>1</sup> The chart below shows the percentage of dual eligibles enrolled in CPC for the last three years.

	11/1/21-10/31/22	11/1/21-10/31/22	11/1/22-10/31/23
CPC Total Membership	36,745	39,604	42,769
CPC Medicare Membership	3,210	3,598	3,971
Duals %	8.7%	9.1%	9.3%

<sup>1</sup> All market share data is based on the Department of Consumer and Business Services’ Annual Health Insurance Report, which is available at <https://dfr.oregon.gov/business/reg/reports-data/annual-health-insurance-report/pages/health-ins-enrollment.aspx>.

11. After the close of the proposed transaction, how does CareOregon anticipate it will handle contract negotiation with providers?

Response: CareOregon will continue to manage its provider network for all regions and all services using its in-house network management team and other staffing as needed. CareOregon expects that contracts will continue to be negotiated on either an annual or evergreen basis, will increasingly employ value-based payment models, and will be approved by the CareOregon CFO and/or CEO consistent with prior practice.

- a. To what extent will provider contracting be centralized and conducted at the SCAN / Health Right level, especially with provider organizations that operate in both Oregon and in other states that SCAN currently operates in?

Response: CareOregon does not anticipate making any changes to its current CareOregon network management processes. The team dedicated to network management in Oregon will continue to be responsible for this work.

- b. Do the entities anticipate any cost efficiencies or cost savings that may come from changes in provider contracting, including the ability to negotiate across Medicaid and Medicare Advantage with greater market power? If so, please describe those cost efficiencies or savings and provide estimates.

Response: N/A – no changes are planned

12. After the close of the proposed transaction, what changes, if any, will occur to CareOregon's ability to be able to (a) identify and address areas of underfunding, and (b) modify provider reimbursement rates?

- a. Will changes to either require SCAN / Health Right approval? Will these decisions remain local to Oregon?
- b. Does CareOregon anticipate any changes in available funding that would impact its ability to address areas of underfunding or modify provider reimbursement rates?

Response: Day-to-day operational decisions related to Oregon Medicaid (including provider reimbursement rates) will continue to be made by CareOregon and will not require HRG approval. One of the primary purposes of this transaction is to combine the resources and expertise of SCAN and CareOregon such that both organizations can benefit from organization-wide investments and shared knowledge. Early areas of focus for programmatic collaboration will include provider risk arrangements, enhancing primary care for the Medicare population, and behavioral health. This collaboration, together with the increased scale of the Opportunities Fund, will help both entities identify and invest in areas of historic underfunding.

SCAN and CareOregon will continue to manage their provider networks separately due to differences in delegation structures across networks and products and the need for community involvement in network development. As such, CareOregon's

management will remain responsible for modifying reimbursement rates as necessary to appropriately manage CareOregon's network and respond to community need.

Post-closing, HRG's reserve powers with respect to the budgeting and spending of CareOregon and its affiliated CCOs will be limited to those specifically enumerated in CareOregon's amended and restated bylaws, which will become effective on the date of the closing. HRG's reserve powers include approval of the capital and operating budgets approved by the CareOregon board of directors, but do not extend to establishing or modifying reimbursement rates.

13. SCAN Group Audited Financial Statements for the Year Ended December 31, 2022

- a. Please provide financial statements for SCAN for the year ended December 31, 2022, prepared in accordance with GAAP.

Response: See Exhibit D.

- b. Please provide financial statements for any SCAN subsidiary for the year ended December 31, 2022, prepared in accordance with Statutory Accounting Principles as required under applicable law or regulation.

Response: See Exhibit E

- c. Please provide a consolidated balance sheet and income statement for SCAN for the year ended December 31, 2022, broken out by product line and by state.

Response: See Exhibit F

14. Please provide the Form 990 Return of Organization Exempt from Income Tax filing by (i) SCAN and (ii) CareOregon for each of the last five (5) years.

Response: See Exhibit G

15. Please produce all employee retention agreements, employee incentive plans or other arrangements between SCAN or CareOregon and CareOregon's employees to entice them to stay post-acquisition. This includes, for example, retention bonuses, offers, employment contracts, etc.

Response: There are no such agreements in place.

16. Has the proposed transaction been presented to the Members of Health Share for approval in accordance with Section 5 of Health Share's Restated Bylaws?

Response: Yes. On Wednesday, November 15<sup>th</sup> the members of HealthShare approved the change in control.

- a. If not, what is the schedule for doing so?

Response: N/A

- b. Will CareOregon recuse itself from that vote?

Response: CareOregon did not recuse itself from the member vote because its vote was not dispositive to the outcome.

17. Please provide the names, positions and compensation (salary, benefits, bonuses, commissions, stocks grants, gains from the exercise of stock options, and any other emolument) of the five (5) highest paid SCAN employees in 2022.

Response: Please see Exhibit H. SCAN is a non-profit so there is no equity-based compensation.

- a. Provide the salaries or expected salaries of these same positions after the proposed affiliation is completed.

Response: The SCAN board of directors is in the process of negotiating the renewal of the SCAN CEO's employment agreement and such agreement, if reached, is expected to apply to SCAN CEO in his capacity as the HRG CEO. No agreement has been reached to date.

As a general matter, any adjustments to compensation post-closing will occur in the ordinary course and in accordance with standard procedures for adjusting compensation upon contract renewal, based on analysis by external compensation consultants, or as determined by the HRG Board or executive leadership, as applicable.

- b. Are there any employment agreements or other arrangements that make bonuses or additional compensation dependent on SCAN revenue? Will there be any such agreements or arrangements that will be dependent on HealthRight revenue?

Response: There are no compensation arrangements that are dependent upon SCAN revenue and currently there are no compensation arrangements that will be dependent upon HRG revenue.

18. Please provide the names, positions and total compensation (salary, benefits, bonuses, commissions, stocks grants, gains from the exercise of stock options, and any other emolument) of the five (5) highest paid CareOregon employees.

Response: Please see Exhibit I showing compensation for the five highest paid CareOregon employees for 2022. CareOregon is a non-profit so there is no equity-based compensation.

- a. Provide the salaries or expected salaries of these same positions after the proposed affiliation is completed.

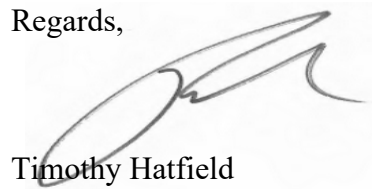
Response: At closing, Eric Hunter will become an employee of HRG. As disclosed in response to Inquiry III.1 of your letter dated April 24, 2023, no specific compensation amount has been discussed with Mr. Hunter or determined with respect to Mr. Hunter's position.

As a general matter, any adjustments to compensation post-closing will occur in the ordinary course and in accordance with standard procedures for adjusting compensation, based on analysis by external compensation consultants, or as determined by the CareOregon and HRG Boards or executive leadership, as applicable.

- b. Are there any employment agreements or other arrangements that make bonuses or additional compensation dependent on CareOregon revenue? Will there be any such agreements or arrangements that will be dependent on HealthRight revenue?

Response: No.

Regards,

A handwritten signature in black ink, appearing to read "Timothy Hatfield", is written over a light gray rectangular background.

Timothy Hatfield