

**1. Post transaction, what will be the organizational structure and tax status of the Foundation? In responding, please also address the following:**

Post-transaction, the Foundation will be an Oregon public benefit corporation with no members recognized as tax-exempt by the IRS (as further described in response to Inquiry #1a below).

A key part of Legacy Health's vision is ensuring that the Foundation is truly led by and for the community. As a result of ongoing conversations with a broad cross-section of the community in Oregon and Southwest Washington, representing a wide range of civic leaders, community organizations and philanthropic funders, Legacy has accelerated the timeline to achieve that and changed the Foundation's transition governance structure and composition. When the combination with OHSU closes and the Foundation is funded, the Foundation will launch with a transition fiduciary board and a community-led grantmaking board.

The *transition fiduciary board* will oversee the Foundation's transition duties, including attending to its duties under the Legacy Health-OHSU combination agreement, stewarding Legacy Health Foundation's existing legally-restricted funds, and managing the Foundation's illiquid member interest in PacificSource. The transition fiduciary board will initially be composed of eleven people: four continuing from Legacy Health, three from Legacy Health Foundation, and four new directors unaffiliated with Legacy Health or OHSU. Having a subset of continuing directors from Legacy Health and Legacy Health Foundation will help the fiduciary board fulfill its ongoing transition duties and provides time to share knowledge with the new board members who will also serve on the grantmaking board to ensure cohesive communication and transition.

The *community-led grantmaking board* will make grantmaking decisions and oversee robust community engagement to expand the number and representation of board members and ensure community-led development of a working set of values and vision. The grantmaking board will be comprised of thirteen people, including two continuing directors and eleven new members. These new board members will represent the voices and experiences from communities across Oregon and Southwest Washington.

The Giving Practice will engage and support community initially to create an independent and public process to identify new board members. This structure and process is designed to ensure that community leadership is at the heart of the Foundation's decision-making from the very beginning. It will also lay the groundwork for a fully community-led board in the future—one that is responsive to the unique needs and voices of the people it serves.

**a. Provide the specific Internal Revenue Code sections that will apply to the new Foundation.**

Legacy Health Foundation is exempt from tax under Section 501(c)(3) of the Internal Revenue Code and is a public charity described in Section 509(a)(1).

Post-transaction, the Foundation will continue to be exempt from tax under Section 501(c)(3) of the Internal Revenue Code and be a public charity described in Section 509(a)(1).

**b. When does the Foundation expect to change its tax status and become a private foundation?**

The grant payment schedule outlines six grant installment payments to be made by Legacy Health beginning at closing, and then by OHSU through 2031. These grant payments will support the continuation of the Foundation's classification as an organization exempt from tax under Section 501(c)(3) and a public charity described in Section 509(a)(1) for a period of time. If the Foundation does not either (a) receive any additional funding after the final grant from the combined system or (b) convert its governance structure to a supporting organization as described in Section 509(a)(3), it would be reclassified as a private foundation by 2036.

**c. What restrictions from changes in tax status, if any, will apply to the Foundation's interest in PacificSource post-closing?**

There will be no change in the Foundation's tax status at closing. As further discussed above, the Foundation's public charity status may change in the future.

**d. What are the potential tax risks to the Foundation related to its change from a public charity to a private foundation, including any risks associated with its 50% ownership interest in PacificSource?**

Private foundations can be subject to excise taxes for excess business holdings, that is, the amount interest in a business enterprise that exceeds the permitted holdings threshold. The Foundation intends to either (a) transfer all of its member interest in PacificSource before it is reclassified as a private foundation or (b) change its governance structure to a supporting organization such that it is not subject to the excess business holdings rule. However, if the Foundation does not transfer all of its interest, so long as it retains less than the permitted holdings threshold, i.e. a 35% member interest in PacificSource while it is classified as a private foundation, it would not subject it to an excise tax on excess business holdings. In other words, the Foundation could sell or grant 15% member interest to avoid excess business holdings excise tax. If the Foundation retains less than 35% member interest and converts to a private foundation, there would be no excise tax and the value of the Foundation's interest in PacificSource would be included in its assets and calculation to determine its minimum distribution requirement, that is, the amount a private foundation must spend annually in furtherance of its charitable purpose.

**2. By when would the Foundation be required to dispose of excess holdings?**

The Foundation plans to transfer its member interest in the next five to ten years or

change its governance structure to a supporting organization as described in Section 509(a)(3) before it can no longer meet the public support test to ensure it is not subject to excise taxes imposed on private foundations for excess business holdings. If the Foundation does not either (a) receive any additional funding after the final grant from the combined system or (b) convert its governance structure to a supporting organization, it would be reclassified as a private foundation by 2036. If a charitable organization classified as a private foundation held the 50% member interest in PacificSource, it would be considered an excess business holding. However, if the Foundation retains less than 35% member interest in PacificSource while it is classified as a private foundation, then that would be a permitted holding and would not subject it to an excise tax on excess business holdings.

**3. If the Foundation is unable to sell its member ownership in PacificSource and is subject to excise taxes, what would be the estimated amount of those taxes?**

If the Foundation is unable to sell its member interest, it would have the option of either granting 15% or more of the member interest to a public charity or changing its governance structure to be a supporting organization as described in Section 509(a)(3) to avoid imposition of excise taxes. If the Foundation retains less than 35% member interest in PacificSource while it is classified as a private foundation, then that permitted holding would not subject the Foundation to an excise tax on excess business holdings. If the Foundation becomes a supporting organization, then it will not be subject to the private foundation rules on excess business holdings.

**4. Describe all tax implications impacting PacificSource should the Foundation be unable to sell its interest in PacificSource within the desired timeline.**

The Foundation plans to transfer its member interest in the next five to ten years or change its governance structure to a supporting organization before it can no longer meet the public support test to ensure the member interest is not subject to excise taxes imposed on private foundations for excess business holdings, or to the income tax on private foundation investments. If the Foundation does not either receive any additional funding after the final grant from the combined system or convert its governance structure to a supporting organization, it would be reclassified as a private foundation by 2036. If a charitable organization classified as a private foundation held the 50% member interest in PacificSource, it would be considered an excess business holding. Any private foundation excise taxes for excess business holdings would not be imposed on PacificSource; it would be owed by the Foundation.

**5. Please explain in detail whether OHSU and Legacy considered alternatives to funding an independent foundation focused on health equity.**

**a. Please identify all such considered alternatives, including, but not limited to, consideration of retaining the proceeds to fund specific programs or improvements of interest to Legacy?**

Early in the discussions between OHSU and Legacy Health, the parties agreed that a foundation independent from the unified system would be funded as part of the combination. Legacy Health understood that, when a nonprofit health

care organization like Legacy Health is acquired by a for-profit company or a private equity firm, a charitable foundation is funded with the value of the nonprofit's assets. Legacy Health never considered a transaction with a for-profit entity or private equity firm, as such a transaction would not have aligned with Legacy Health's mission. However, in considering a combination with another non-profit entity, the Legacy Health Board sought to create a charitable foundation so that the Oregon and Southwest Washington community would benefit from a similarly dedicated foundation.

OHSU and Legacy Health agreed the foundation must be independent from the combined system and would be focused on health equity and access in Oregon and Southwest Washington. Legacy Health identified Legacy Health Foundation as the best recipient for the philanthropic funding. Legacy Health Foundation is the newest charity affiliated with Legacy Health, and it has a two-part mission (i) to raise funds to be distributed to or for the benefit of Legacy Health and (ii) to support the health and well-being of the community. After being approached by Legacy Health, the Foundation board was excited to accept the proposal to focus its future after the transaction on this second part of the mission. Moreover, as a 501(c)(3) public charity and component part of Legacy Health, the Foundation is best positioned from finance, tax, and operational perspectives to accept assets from Legacy Health, including its interest in PacificSource. The boards of Legacy Health and the Foundation worked with counsel to evaluate the legal structure options and to craft the resulting memorandum of understanding, grant agreement, and updated governance documents to effectuate the reconfiguration of the Foundation.

As noted above, the Legacy Health board decided that this transaction should result in an independent charitable entity. It knew that, post-closing, OHSU would own and control any and all Legacy Health assets not included in the initial foundation funding amount, and that OHSU would use such assets at its discretion to fund specific programs or improvements at Legacy Health. Legacy Health's goal was to ensure that the Foundation received funds that would be sufficient to achieve its mission to improve health equity and access in Oregon and Southwest Washington.

**6. If the parties are seeking to meet a legal requirement by Legacy transferring the proceeds to an independent foundation, please explain such requirement in detail and provide all references to any laws guiding this objective. If there is no legal requirement, please explain the following:**

There is no legal requirement to establish an independent foundation.

Legacy Health recognized that if it had pursued a for-profit acquisition, the transaction with a for-profit entity would necessarily yield a conversion foundation, that is, a foundation created in order to ensure charitable assets remain dedicated to a charitable purpose (instead of inuring to the benefit of investors) when a nonprofit hospital or health insurance company is acquired by a for-profit entity or converts to for-profit status. By combining with OHSU, a public corporation that is functionally equivalent to a public benefit corporation and 501(c)(3) public charity, Legacy Health will be able to ensure that the full value of its charitable assets is preserved for

charitable, public benefit purposes. Thus, unlike when a nonprofit hospital or health insurance company becomes a for-profit entity through conversion, merger or acquisition, a conversion foundation is not required to preserve charitable assets in this transaction.

**a. The reasoning behind why it was important to the transacting parties that the Foundation be independent from the combined system.**

Being independent of any health care provider or system will give the Foundation the freedom to pursue innovative initiatives that do the most to improve population health—even if they have nothing to do with the traditional health care delivery system or any particular health care provider. The Foundation will bring this independent, wholistic approach to population health to its role as a member of PacificSource.

Moreover, the wholistic approach to health improvement championed by the Foundation aligns perfectly with PacificSource's mandate to pursue innovative strategies to improve social determinants of health. PacificSource's mission as a CCO is to improve the health of its members, which includes investing in health-improvement initiatives that are upstream of the traditional health care system. These investments provide value both to PacificSource's members (who receive additional supports) and to the Oregon Health Plan (which is able to achieve better health outcomes at a lower cost).

For instance, addressing upstream factors that affect health and health outcomes will help control costs. As such, PacificSource, PacificSource's members, and the Oregon Health Plan will benefit from the Foundation's initiatives to improve social determinants of health. The Foundation will be uniquely positioned to bring grantees, partners, and community members together to ensure that the Foundation's activities have a quantifiable impact on outcomes and utilization, which will in turn help reduce overall cost growth. The Foundation intends to engage with PacificSource to solicit its input on strategic initiatives and identify areas where the Foundation can use its status as a member of PacificSource to further shared objectives, including those related to controlling the growth in health care costs.

In carrying out the Foundation's mission—whether through organizing a convening focused on a specific issue, providing seed funding for a promising new approach, sharing data and research, or investing in organizational infrastructure for a community partner—the Foundation's activities are strategically aligned with PacificSource's efforts to improve its members social determinants of health. As such, PacificSource is uniquely positioned to provide information, data and input to help the Foundation make strategic decisions that will address health inequities and disparities in Oregon, and particularly those that affect PacificSource's members. These learnings will improve the Foundation's programs and activities, which will in turn benefit PacificSource's members.

**b. The conclusion the transaction parties came to that an independent foundation would be better suited to accomplishing the health equity goals that the transacting parties are funding.**

Funding an independent foundation was a key term in OHSU and Legacy Health's 2023 letter of intent. Legacy Health recognized that if it had pursued a for-profit acquisition, the transaction with a for-profit entity would necessarily yield a conversion foundation, that is, a foundation created in order to ensure charitable assets remain dedicated to a charitable purpose (instead of inuring to the benefit of investors) when a nonprofit hospital or health insurance company is acquired by a for-profit entity or converts to for-profit status. By combining with OHSU, a public corporation that is functionally equivalent to a public benefit corporation and 501(c)(3) public charity, Legacy Health will be able to ensure that the full value of its charitable assets is preserved for charitable, public benefit purposes. Thus, unlike when a nonprofit hospital or health insurance company becomes a for-profit entity through conversion, merger or acquisition, a conversion foundation is not required to preserve charitable assets in this transaction. Legacy Health never considered a transaction with a for-profit entity or private equity firm, as such a transaction would not have aligned with Legacy Health's mission. However, Legacy Health saw the meaningful impact such conversion foundations have made in their communities, and believed selling its assets to a for-profit should not be a prerequisite for Oregon to have an independent health equity foundation.

Making a grant to launch a health equity foundation both aligns with and furthers Legacy Health's commitment to advance health equity and provides support for programs and initiatives to improve healthcare and health outcomes, particularly by addressing social determinants of health which strongly affect individuals' health and wellbeing well before they ever set foot in a hospital. Legacy Health believes it is in the best interest of Legacy Health, its patients and the public to both integrate with a public university and fund an independent health equity foundation.

For Legacy, funding a foundation outside of OHSU ensures its mission can innovate beyond the walls of hospitals and clinics. The Foundation would not be confined by OHSU policy or positions and could serve as an independent voice to advocate and inform policymakers. As OHSU and Legacy each do now, the combined system will continue to play an important role in community health. The Foundation will partner with the combined system and with community-based organizations. In funding an independent foundation, the parties are creating a neutral voice in the space of health equity that can serve as convener, strategic and thoughtful grantmaking, and a hub for resources and innovation that will work to align and amplify existing efforts to advance health equity.

The Foundation will also serve an important oversight role. Ensuring there would be a separate entity with a transition fiduciary board that could serve in this role gave the Legacy Board additional confidence that its goals would be accomplished. The continuing directors serving on the transition fiduciary board will work with the new directors to ensure knowledge transfer on this

topic, while the grantmaking board launches community engagement to support community-led grantmaking

**7. If PacificSource were sold to a third party prior to closing, would Legacy still seek to spin off the Foundation?**

Yes. The creation and funding of the Foundation was a critical component of the Legacy Health Board's conclusion that the Proposed Transaction would further the charitable mission of Legacy Health. Legacy Health is more than a collection of assets. It traces its origins to the founding of Good Samaritan Hospital in 1875. For the subsequent 150 years, the organizations that are now Legacy Health have had a consistent and shared mission to improve the health and lives of the communities of Oregon and Southwest Washington.

When this system combination closes, Legacy Health will become a component of OHSU and operate pursuant to OHSU's mission and vision. However, this transaction does not end Legacy Health's 150-year mission. The communities of Oregon and Southwest Washington continue to confront barriers to health equity and access. No one hospital or health system can break down all these barriers. Instead, confronting these issues requires a community-wide approach that looks to upstream causes that our health system cannot address.

Thus, OHSU and Legacy Health agreed that, at closing, a small percentage of Legacy Health's existing charitable assets will be transferred to a reconstituted foundation focused solely on improving health equity and access. This Foundation will ensure that the communities of Oregon and Southwest Washington will continue to benefit from an independent charitable entity that furthers Legacy Health's longstanding charitable mission. It will also create a new pathway to make a significant impact on health equity and access in these communities.

**8. If PacificSource were sold to a third party prior to closing the OHSU-Legacy transaction, please explain in detail what would happen with any proceeds that Legacy received from that sale.**

OHSU and Legacy Health knew that it would not have been possible to transfer PacificSource to an unaffiliated third party prior to closing. Accordingly, the System Combination Agreement contemplates and requires the transfer of PacificSource to the Foundation. However, the parties did briefly consider the sale of Legacy Health's 50% member interest in PacificSource to either Pacific Health Associates or PacificSource itself. In May 2024, OHSU and Legacy Health executed a side letter memorializing their understanding that, if Legacy Health executed such a sale, the proceeds would be transferred to the Foundation at closing.

**9. Based on the information provided to date, it appears it will be at least several years before the Foundation can fully focus on its mission to promote health equity through grant-making. Please respond to the following:**

An essential part of supporting health equity and access is engaging community to inform and guide Foundation grantmaking and activities. To ensure the Foundation is mission-focused from day one, Legacy Health has engaged The Giving Practice, an

independent third-party consultancy experienced in philanthropy and community engagement and housed within Philanthropy Northwest, a nonprofit philanthropy network with the mission of growing philanthropy's capacity to do transformative work toward redistributing resources and power to underinvested communities in the Northwest. The Giving Practice has been in conversation with a broad cross-section of the community in Oregon and Southwest Washington representing a wide range of civic leaders, community organizations, and philanthropic funders. Before closing, The Giving Practice will continue its work to support the launch of the Foundation by partnering with community to create a public process to solicit recommendations and nominations for new members of the transition fiduciary board and the grantmaking board as further described in response to Question 1.

Community engagement work will significantly increase after the transaction closes. The Foundation may make some grants during its first full year of operations. As a strategic plan is developed, it is anticipated the Foundation will increase the number and size of grants. The strategic plan will identify how the Foundation will be a model for trust-based philanthropy and deploy participatory grantmaking in its work.

Whether an organization is new or already existing, it necessarily takes time to plan and prepare to effectively steward and spend funds when a transformative grant is received. One of the benefits of distributing funds to the already existing Legacy Health Foundation is that it eliminates the added, time-consuming steps of forming a new nonprofit under Oregon law, then obtaining tax-exempt status from the IRS, in order to accept funds from Legacy Health. Moreover, given that a significant amount of the assets that will be transferred to the Foundation are in the form of a member interest in PacificSource, it is also important to ensure that the Foundation has the experience and expertise to continue to manage this asset post-transaction. Maintaining a degree of continuity between the current Legacy Health board and the transition fiduciary board is important for this purpose.

**a. Provide an estimate of the amount of funds the Foundation can reasonably be expected to distribute as grants in each of the first five years after closing.**

As noted in response to Question 9 above, the Foundation may make some grants during its first full year of operations while community engagement work is underway. As a strategic plan is developed, it is anticipated the Foundation will increase the number and size of grants. Neither federal tax law, nor terms of the grant supporting health equity and access made by Legacy Health to the Foundation, require that the Foundation grant a certain amount of funds. Moreover, the amount granted will depend on the availability of funds to grant; a significant portion of the grant for Legacy Health to the Foundation is an illiquid member interest in PacificSource and the exact dollar amount granted to the Foundation is formula dependent and will be paid in installments through 2031.

**b. Explain whether the parties considered imposing any requirements regarding the amount of funds that the Foundation should expend on grants each year.**



Legacy Health and the Legacy Health Foundation did not consider imposing any requirements as to the minimum or maximum amount of funds the Foundation should expend on grants annually. To-date the only restrictions have been imposed by Legacy Health as the donor, and those are on place and purpose: health equity and access in Oregon and Southwest Washington. The transition fiduciary board and grantmaking board will co-design an initial strategic framework, and the grantmaking board will oversee ongoing community engagement to determine health equity strategic and responsive grantmaking strategy. This may include a spending rate, spend-down timeline, or other board-imposed restrictions as informed by community.

**10. Given the long ramp up time required for the Foundation to reach its grant-making capacity, please explain why the parties view this option as preferable to funding existing needs or programs or funding an existing foundation that is already engaged in health equity. In doing so, please address how the Foundation is the most beneficial option for meeting the health equity needs of the community despite the significant amount of time required for the Foundation to develop its grant making operations and expertise in this area.**

Making a grant to launch a health equity foundation both aligns with and furthers Legacy Health's commitment to advance health equity and provides support for programs and initiatives to improve healthcare and health outcomes, particularly by addressing social determinants of health which strongly affect individuals' health and wellbeing well before they ever set foot in a hospital.

Legacy Health's goal is to position the Foundation to become a model of trust-based philanthropy. The Foundation will launch with transition governance structure that includes a grantmaking board that will make grant decisions and identify paths for future participatory grantmaking. Initial community feedback has included suggestions of ways the Foundation could best support existing community-based organizations and networks across the State, which may include making grants to regional organizations to re-grant to ensure the decisions are made by and for local communities.

Legacy Health and OHSU engaged in lengthy due diligence and negotiations in the time between signing the letter of intent and the System Combination Agreement. The Legacy Health Foundation was involved in this confidential activity because of its post-closing duties described in the System Combination Agreement. Both because part of the Foundation's mission is to support Legacy Health and because Legacy Health is the Foundation's sole member, the Foundation Board was the obvious choice to involve in the confidential discussions. Moreover, the structure allows for a transition fiduciary board to ensure the oversight roles while it also launches its community-led grantmaking board. The end result will be a new grantmaking foundation with a Board and mission built by the community.

Legacy Health is a supporting organization described in IRC Section 509(a)(3), and it is prohibited from making grants to private foundations and limited to making distributions to or for the benefit of its supported organizations. Treas. Reg. § 1.509(a)-4(e)(1). The Foundation is a permissible grantee because it is a public charity

operated and controlled in connection with Legacy Health's supported organizations, in that Legacy Health is the sole member of the Foundation.

The Foundation is well-positioned to launch as an independent health equity foundation. Its current Board has identified three members with professional experience with investments, insurance, CCO's, working with Medicaid populations, and community engagement who will continue their service post-closing. The Board will be supplemented with continuing directors from Legacy Health who will bring their knowledge and experience, and new members to be identified from Oregon and Southwest Washington. The grantmaking board will oversee community engagement to develop the Foundation's values and mission framework.

Legacy has engaged The Giving Practice, an independent third-party consultancy experienced in philanthropy and community engagement and housed within Philanthropy Northwest, a nonprofit philanthropy network with the mission of growing philanthropy's capacity to do transformative work toward redistributing resources and power to underinvested communities in the Northwest. The Giving Practice is applying its extensive experience with conversion foundations and community engagement. The Giving Practice has been in conversation with a broad cross-section of the community in Oregon and Southwest Washington representing a wide range of civic leaders, community organizations and philanthropic funders. The Giving Practice will continue its work to support the launch of the Foundation by partnering with community to create a public process to solicit recommendations and nominations for new members of the transition fiduciary board and the grantmaking board. Legacy and the Foundation commit to co-creating with communities across the State and SW Washington in furtherance of OHA's definition of health equity.

## **Foundation Governance & Operations**

### **11. Describe all expected interactions between the combined OHSU-Legacy system and the Foundation post-closing.**

Following closing, the Foundation will coordinate with OHSU Foundation, units within the combined OHSU-Legacy system, and the Unity partners to facilitate transfer of donor-restricted funds in accordance with the terms of any gift instruments establishing donor-restricted funds and applicable law such that they can continue to be expended in alignment with donor intent. In consultation with the above-named entities, the Foundation may determine that some funds can be immediately applied by the hospitals within the OHSU-Legacy system, and other funds should be transferred and held for future use in accordance with donor restrictions.

Pursuant to the terms of the System Combination Agreement, the Foundation will have a role in recommending board candidates for the OHSU governing board and the OHSU health system board. The Foundation will also have access to OHSU's reports to OHA to facilitate the Foundation's enforcement of key terms of the Agreement, including its obligations regarding capital commitment.

The Foundation and combined system will interact regarding the grant agreement: OHSU will continue to make grant installment payments to the Foundation through 2031, and, as donor, it will have the authority to enforce the terms of the grant

agreement.

**12. Outside of the right of first refusal and OHSU’s monitoring authority over the grant restrictions, will OHSU have any other ties to the Foundation?**

No. The Foundation will be operated and governed independent from OHSU. The only ties and interactions between the Foundation and the combined OHSU-Legacy system are described in Inquiry #11.

**13. How will OHSU monitor Foundation compliance with the grant restrictions articulated in Attachment 3 of the MOU?**

While the parties have not agreed on a methodology for monitoring compliance, OHSU may request regular reports of the Foundation’s grants and grantmaking activity.

**14. Explain why the Foundation will not continue to raise funds.**

At closing, the Foundation will receive substantial assets in the form of Legacy Health’s net cash at closing (subject to certain adjustments), and Legacy Health’s membership interest in PacificSource. Based on this substantial initial funding amount, the Foundation will have sufficient assets to sustain its mission without supplemental fundraising. Moreover, OHSU requested that, after closing, the Foundation halt its fundraising activities to ensure that the Foundation does not compete for funding with the four hospital-specific foundations that will continue to support Legacy Health facilities post-closing: (a) Good Samaritan Foundation, (b) Randall Children’s Hospital Foundation; (c) Salmon Creek Hospital Foundation; (d) Silverton Health Foundation (the “Hospital Foundations”).

**15. What happens after the combined system annual grant payments cease in six years and the Foundation does not seek other funding?**

The mission and vision of the Foundation will continue through its existence. The Foundation will remain a 501(c)(3) organization even if its sub-classification changes to a supporting organization or private foundation. The Foundation will continue to conduct its activities in line with the grant’s place and purpose restrictions and according to the strategic plan of its future board, as informed by community.

**a. Will the Foundation cease operations after all funds have been disbursed?**

As further explained in response to Question 9b, Legacy Health, as the donor of the funds establishing the Foundation, has not imposed restrictions on how long the Foundation must exist or how quickly the Foundation must grant or spend down dollars received. The transition fiduciary board and grantmaking board will co-design an initial strategic framework, and the grantmaking board will oversee ongoing community engagement to determine health equity strategic and responsive grantmaking strategy, and make initial grant decisions. As a result of such strategic planning, the Foundation may choose to invest a significant portion of the grant funds received so they can continue to be spent in accordance with the restrictions of the grant agreement and

charitable purpose of the Foundation for many years into the future, or the Foundation may choose to adopt a spending rate or spend-down timeline. Either way, it is anticipated the Foundation will continue to operate in fulfillment of its charitable purpose and mission so long as it has assets.

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**17. How much compensation will be paid to the directors of the Foundation?**

At present, the Legacy Health Foundation trustees do not receive any compensation.

The continuing directors do not have an expectation of compensation for their service on the transition fiduciary board. The fiduciary board and grantmaking board will work together to identify how to support broad representation and participation in the Foundation's activities, which may include stipends or other compensation.

**18. Provide the draft plan and timeline for the Foundation to address health disparities and access issues.**

There is no draft plan or timeline at this time. Legacy Health and the Foundation believe that the plan and timeline to address health disparities and access issues should be co-created with community. The Foundation, guided by outside consultants at the Giving Practice, is in the process of engaging community about the post-closing Foundation. This engagement will ultimately result in the appointment of a community-led grantmaking board. The transition fiduciary board and grantmaking board will co-design the Foundation's initial strategic framework. In addition, the grantmaking board will decide early stage grants.

**19. Will the Foundation board have any input into the governance of the combined OHSU- Legacy health system?**

No, the Foundation and the OHSU-Legacy health system will be independent of one another and the Foundation board will not have any input into the governance of the combined OHSU-Legacy health system. Please see Section 3.6 of the System Combination Agreement.

The only connection between the Foundation and the OHSU-Legacy health system after the closing will be:

- 1) The Foundation will have the right to recommend Foundation Nominees for the OHSU Board in accordance the requirements and limitations of Section 1 of the Governance Matters Agreement. If any such recommended Foundation Nominee is appointed to the OHSU Board, such person shall serve independently of the Foundation and the Foundation's only involvement with the process would be the initial recommendation.
- 2) The OHSU-Legacy health system may compete for grants from Legacy Health Foundation on an equal footing with other organizations in accordance with Section 3.6 of the System Combination Agreement.
- 3) The Foundation shall enforce its rights and the applicable rights of Legacy Health after the closing pursuant to the definitive agreements, please see e.g. Section 12.9 of the System Combination Agreement and Section 6.8 of the Governance Matters Agreement.

**a. If yes, please describe what sort of input is envisioned.**

The Foundation and the OHSU-Legacy health system will be independent of one another and the Foundation board will not have any input into the governance of the combined OHSU-Legacy health system. Please see Section 3.6 of the System Combination Agreement

**b. What would be the purpose of the Foundation having input into the governance of the combined health system?**

The Foundation and the OHSU-Legacy health system will be independent of one another and the Foundation board will not have any input into the governance of the combined OHSU-Legacy health system. Please see Section 3.6 of the System Combination Agreement.

**Contract**

**20. In Response #8 of the First Health Care Market Oversight Request from Information (“First HCMO RFI”), you stated that you expect to have a draft member agreement between the Foundation and PacificSource by mid-December. Please provide this draft agreement.**

A proposed amended PacificSource member agreement is attached as Exhibit 40. It remains under review and discussion by Legacy Health, Legacy Health Foundation, PacificSource, and PHA, and is therefore subject to change.

**21. In Response #13b of the First HCMO RFI, OHSU stated that it had sent termination notices for PacificSource contracts.**

**a. Please provide copies of the termination notices.**

Please see attached as Exhibit 53.

**b. Please provide an update on the current state of contract negotiations.**

The materials attached as Exhibit 41(1) detail all communications and meetings between OHSU and PacificSource related to renewal of the contracts between OHSU and PacificSource. Attached as Exhibit 41(2) is a detailed summary of OHSU’s justification for the 2025 rate adjustment.

**Current transfer and future sale of PacificSource**

**22. In the HCMO Notice of Material Change filed by OHSU, the Applicants state: “The Legacy Health Board estimates that the system will require between \$300 and \$750 million in additional investment (beyond standard capital outlays that every system incurs for routine maintenance and similar expenditures) over the next five years to meet community needs with respect to service offerings, quality, access, and cost. Legacy Health has a negative operating margin and does not currently have a viable financial path to make this substantial investment.”**

**a. If this is the case, why is Legacy donating its interest in PacificSource rather than selling to address financial needs?**

In 2022, Legacy Health was in the process of evaluating strategic pathways that would allow Legacy Health to achieve its vision of becoming a value-based healthcare organization. One of the strategic options Legacy Health considered was the sale of Legacy Health's 50% member interest in PacificSource to generate capital, which was valued at approximately \$350-\$400 million. Legacy Health determined that \$350-\$400 million would be insufficient to fulfill its strategic and routine capital needs. Legacy Health recognized that its ability to successfully execute its transition to a value-based care organization would be dependent on a range of market conditions (e.g., availability of independent primary care providers and/or other care delivery assets), which could not reasonably be addressed via a sale of its interest in PacificSource. Legacy Health determined that affiliating with a strategic partner like OHSU was the best path forward to achieve its value-based care goals and sustain its capital investments.

Undertaking the process of selling Legacy Health's interest in PacificSource to offset the amount of capital that OHSU is providing would significantly delay the System Combination and require the parties to operate under an uncertain timeline. The pressure to timely access capital and close the System Combination would have compelled Legacy to sell its interest in PacificSource to the *first* buyer, who may not have been the most *suitable* buyer.

Legacy Health and the Foundation are committed to identifying the *most suitable* buyer for PacificSource, which means a buyer that can preserve and enhance PacificSource's charitable mission while contributing a substantial sum to the corpus of the Foundation.

Finding the most suitable buyer for PacificSource involves establishing specific transaction goals, hiring transaction advisors, engaging with the community, conducting necessary due diligence, negotiating transaction terms, obtaining third-party consents, and securing regulatory approvals. This is a years-long process and may require actively investigating several transaction partners and structures. Because OHSU rejected acquiring PacificSource, the parties would have had to condition the closing of the OHSU-Legacy affiliation on the closing of the PacificSource transfer to a third party. This would have delayed the closing of the System Combination, perhaps for a period of years, and brought significant uncertainty to the ultimate timing of the closing, further complicating integration planning.

Under the current structure, the transfer of PacificSource to the Legacy Health Foundation maintains, to the greatest extent possible, continuity of ownership and control, while giving the Foundation ample time to find the right transaction partner for PacificSource. Moreover, as detailed in Item 5 of the Form A, Legacy Health identified the Foundation as the best possible steward of PacificSource. First, the Foundation is an existing affiliate of Legacy Health and the Foundation shares PacificSource's charitable focus on improving the health of underserved communities in Oregon. Accordingly, the Foundation is uniquely positioned to allow PacificSource to continue operating as it does now while supporting PacificSource's mission of fostering better health, better care, and better costs. Second, the Foundation will support the financial stability of

PacificSource by, among other things, preserving its current operations and strategic direction. And finally, the Foundation will be in the best position to identify a strategic buyer who will help PacificSource achieve its long-term goals. The Foundation is committed to conducting a thorough and informed process to identify such a buyer and will only consider buyers who will advance PacificSource's charitable mission.

**b. If Legacy has a high need for investments, why transfer funds to the Foundation rather than investing in the combined system?**

Under the System Combination, OHSU will assume substantial assets from Legacy Health, the total value of which far exceeds Legacy Health's net cash to be transferred to the Foundation. Specifically, OHSU projected that it will receive (a) \$875 million of net property, plant & equipment, (b) \$160 million cash & investments net of debt, and (c) \$175 million of working capital and other assets. Thus, upon the closing of this transaction, OHSU's projected net assets (i.e., assets minus liabilities) will increase from \$4.4 billion to over \$5.6 billion—a number that takes into account the net transfers to the Foundation.

OHSU is not providing Legacy Health any monetary compensation for such assets. However, OHSU and Legacy Health mutually decided that the communities of Oregon and Southwest Washington would benefit from the creation of a well-funded health equity Foundation that will continue Legacy's long history of serving this community. This contribution to the Foundation balances the goal of endowing the Foundation with assets necessary to make a meaningful improvement in health equity and access in the region, while preserving the financial stability of the combined public university health system.

**23. ORS 713.390 prohibits government entities from controlling a health insurer. Was this statute a consideration in the decision to exclude PacificSource from the OHSU-Legacy transaction?**

For the reasons articulated below, this statute was not a consideration in the decision to exclude PacificSource from the OHSU-Legacy transaction.

**a. Is it the Applicant's interpretation that this statute does not apply? Explain.**

Yes. Although ORS 731.390 may prevent OHSU from obtaining a certificate of authority to transact insurance, it would not apply to any acquisition by OHSU of Legacy Health's PacificSource membership interest because OHSU would not hold a certificate of authority to transact insurance by owning the PacificSource membership interest.

**24. How will the entities minimize the potential disruption to PacificSource communities that may result from multiple changes in ownership?**

Legacy Health has been working closely with PacificSource to ensure that the transfer



of the Legacy Health's 50% member interest in PacificSource causes no disruptions. As discussed in detail elsewhere, the purpose of this transaction structure is to retain, to the greatest extent possible, continuity of ownership and control for the PacificSource membership interest until the parties can identify a viable third-party buyer. The Foundation's fiduciary board will consist of several individuals who currently serve on the Legacy Health Board, and thus have experience governing PacificSource. Additionally, the Foundation is committed to allowing PacificSource to operate as it does today, with no shift in strategic priorities or any requirement to make distributions. And finally, OHSU and Legacy Health are collaborating to ensure that the closing of this transaction does not result in any changes to how PacificSource members access services.

Based on the above, we are confident that the transfer of Legacy Health's 50% member interest in PacificSource to the Foundation will not cause any disruption to PacificSource communities.

Ultimately, the Foundation will seek a buyer for its 50% member interest in PacificSource. However, it has committed to do so via deliberative process designed to ensure that the buyer can preserve and enhance PacificSource's existing charitable mission. PHA, as the other 50% member of PacificSource, must consent to the transfer and has a right of first refusal. This means that the Foundation will work with PacificSource to identify the most appropriate partner for PHA going forward. The continuity of leadership between Legacy Health and the Foundation will help ensure that the sales process is informed by PacificSource's history, mission, and future goals.

**25. Have any valuations for PacificSource been performed outside of the VMG valuation provided as Exhibit 22 in response to the First HCMO RFIs going back through 2014?**

In September 2022, Cain Brothers prepared a valuation for PacificSource, attached hereto as Exhibit 42. This was an unofficial valuation that was not finalized by Legacy or PacificSource.

- a. If so, please describe what prompted the valuation and provide any reports or analyses that resulted from the valuation.**

See response to Inquiry #25 above.

**Alternatives**

**26. Explain why Pacific Health Associates ("PHA") did not buy out Legacy's PacificSource member interest.**

Pacific Health Associates does not have any interest in purchasing Legacy Health's PacificSource membership interest and does not have sufficient unrestricted assets to purchase the interest.

- a. Explain why a partial buyout was not ultimately pursued.**

Pacific Health Associates does not have any interest in purchasing Legacy Health's PacificSource membership interest and does not have sufficient unrestricted assets to purchase the interest.

**b. Explain the benefit of transferring the 50% member interest to the Foundation instead of a PHA purchase.**

Pacific Health Associates was not interested in purchasing the interest.

**27. Did Legacy consider donating its 50% membership in PacificSource to PHA? Provide all documentation of that consideration.**

No, the transfer of the PacificSource membership interest to the Foundation is in furtherance of Legacy Health achieving its goal of ensuring that the Legacy Health Foundation has the assets necessary to make a meaningful impact on health equity and access in Oregon and Southwest Washington. Transferring PacificSource to the Foundation will therefore preserve and enhance Legacy Health's charitable mission long into the future, despite Legacy Health becoming a component of OHSU. A transfer of the interest to Pacific Health Associates would mean the use of the assets would be based on the mission of Pacific Health Associates and not the mission of the Foundation determined by Legacy Health.

**28. Explain why Legacy members would remain on board if there was not a full cash buyout. (HCMO - 00005497)**

Incorporating community input, Legacy Health and Legacy Health Foundation have changed the Foundation's transition governance structure and composition. At closing of the combination, the Foundation will launch with a transition fiduciary board and a community-led grantmaking board. Please see enclosed visual as Exhibit 43.

The transition fiduciary board will attend to the following transition duties: (i) enforcement of Legacy Health's rights under the System Combination Agreement, including rights related to OHSU governance, employee protections, and the \$1 billion capital commitment to Legacy Health; (ii) oversight of the illiquid member interest in PacificSource, a vital resource for the Medicaid community which will be transferred to the Foundation at closing; and (iii) stewardship of Legacy Health Foundation's existing restricted funds. The transition fiduciary board will initially be composed of eleven people: four continuing from Legacy Health, three from Legacy Health Foundation, and four new directors unaffiliated with Legacy Health, Legacy Health Foundation or OHSU. Having a subset of Legacy Health directors and Legacy Health Foundation trustees continue as part of the transition fiduciary board is essential to fulfilling these ongoing duties.

In addition to a transition fiduciary board, the Foundation will now have a community-led grantmaking board comprised of eleven new members from across Oregon and Southwest Washington who will make grantmaking

decisions and will oversee robust community engagement to expand the number and representation of board members and ensure community-led development of a working set of values and vision.

**29. Are discussions still underway with PHA regarding a buyout of PacificSource's member interest? What is the status of those discussions? Provide any documentation reflecting those discussions or analysis of any proposal.**

Pacific Health Associates is not interested in purchasing the interest and there are no discussions between Pacific Health Associates and Legacy Health regarding this.

**30. The June 28, 2024 email from John Espinola to Mark Werner (HCMO- 00005513) states that “Legacy needs to achieve a return on its investment.” Explain how Legacy is achieving a return on its investment by donating its PacificSource member interest to the Foundation, along with the cash surplus from the OHSU transaction.**

Legacy Health's PacificSource membership interest is a significant asset and the Initial Foundation Funding Amount is expected to be a significant asset. Transferring these assets and their value to the Foundation provides substantial opportunity to the Foundation to further the Foundation's mission. Accepting less than the full value of an asset like the PacificSource membership interest would negatively impact the ability of the Foundation to achieve its mission, and negatively impact the achievement of Legacy's transaction goals that are furthered by the Foundation's mission and future work.

**31. Did Legacy consider terminating its acquisition by OHSU upon OHSU's decision to not include PacificSource in the transaction? Provide all documentation of that consideration.**

No, Legacy did not consider terminating its acquisition by OHSU upon OHSU's decision to not include PacificSource in the transaction. This is because Legacy's membership interest in PacificSource would instead be transferred at closing to the Foundation, which will allow the Foundation to use the value of that asset (whether by selling the interest, receiving distributions, etc.) in furtherance of the mission of the Foundation.

[illegible]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**34. How will the Foundation evaluate potential offers from prospective buyers for its PacificSource membership?**

The Foundation expects that the parties would retain financial, legal and accounting advisers to help ensure that the transaction is fair and maximizes PacificSource's value to the Foundation and preserves PacificSource's existing services. Per PacificSource's current by-laws, any PacificSource member must be an Oregon nonprofit public benefit corporation or a foreign nonprofit corporation which, if incorporated in Oregon, would qualify as a public benefit corporation. The Foundation will assess whether a prospective buyer holds itself to the same principles as PacificSource so as to allow the two entities - together - to further PacificSource's mission to provide better health, better care, and better cost to the people and communities it serves.

Legacy Health and the Foundation firmly believe that the sale of PacificSource should be determined and completed by the Foundation after closing. Because the Foundation's post-closing board has not been constituted, it would be premature to dictate the specific process for finding a buyer. That said, the parties anticipate that the Foundation's Board of Directors would establish a competitive and comprehensive process that reflects the fact that PacificSource is a mission-driven organization. The post-closing Foundation Board, which will include community voices and members with experience in fundamental transactions, will control the sales process.

Pre-closing, Legacy Health will help facilitate and prepare for the post-closing sale, including by communicating with interested parties, engaging advisors to assist with the process, and providing diligence information to interested parties, noting that all such activities will be in collaboration with the Foundation and PacificSource. However, Legacy Health does not anticipate making any binding commitments regarding any sale of PacificSource, as the post-closing Foundation Board must evaluate and approve any such transaction.

**a. What guardrails or incentives are in place to ensure the Foundation receives a return on Legacy's original investment in PacificSource?**

As with every investment, there is no guarantee that either Legacy Health

or the Foundation will receive a financial return on Legacy Health's original investment in PacificSource. Moreover, there is no legal requirement that either receive such a return. As 501(c)(3) charitable organizations, both Legacy Health and the Foundation are required to ensure their assets are used for their charitable purposes and that their actions do not result in any private benefit. This legal requirement means any sale to a commercial enterprise must be at arm's length. Both the Oregon Nonprofit Corporation Act and PacificSource member agreement require any member of PacificSource be a public benefit corporation or a foreign corporation that could otherwise qualify as one. This legal framework is in line with Legacy Health and the Foundation's missions as well. The Foundation could also choose to grant all or some of its illiquid interest in PacificSource to another public charity, in which case it would have no financial return on that member interest, but the value of the asset would remain dedicated to its mission and charitable purpose.

**35. How will the Legacy Foundation board members remain independent fiduciaries to the Foundation if they are simultaneously involved in OHSU leadership and subject to the restrictions in the Grant Agreement? How will the Legacy Foundation board be an independent board within the meaning of Treasury Regulations and IRS definitions?**

Post-closing, the OHSU governing board and Legacy Health board will be composed of current OHSU directors. None of those individuals will serve on the Foundation board. All directors have fiduciary duties to the organizations on whose boards they serve.

**36. How will the Foundation's Board market its interest in PacificSource in furtherance of its duty to the Foundation and its charitable purpose to maximize the value of the asset given the restrictions contained in the transaction documents among the parties?**

The Legacy Health Foundation currently has approximately \$1.6 million in unrestricted funds that it may use for any charitable purpose in line with its mission. Legacy Health Foundation will retain these unrestricted funds post-closing. The net cash to be transferred to the Foundation at closing (the "Grant") will be governed by the Grant Agreement between Legacy Health and Legacy Health Foundation. Under the Grant Agreement, the Foundation must use the Grant to support the Foundation's mission and vision in Oregon and Southwest Washington, including for (i) grants to nonprofit organizations, tribes, agencies, educational institutions, OHSU and other hospital-based systems in furtherance of the Foundation's mission, (ii) the Foundation's program costs and activities, and (iii) Foundation's operating and administration costs.

The Grant Agreement prohibits and disallows (i) grants to or for the benefit of other organizations with primary focus and operations outside of Oregon and Southwest Washington and (ii) grants to or for the benefit of any hospital-based health system that is in competition with the OHSU System (as defined in the Definitive Agreements) for purposes of engaging in activities that are competitive with the OHSU System, in whole or in part, as opposed to the purpose of

addressing community health needs and otherwise furthering the mission of Legacy Health Foundation. The Foundation will also be prohibited from soliciting donations from individuals and corporations.

The post-closing Foundation Board will have discretion to select grants that align with its mission. We do not believe that the Foundation would consider capital support for PacificSource a "grant for the furtherance of the Foundation's mission."

Instead, the Foundation views PacificSource as an asset of the Foundation that will, over time, produce a return. Thus, the post-closing Foundation Board could choose to invest further capital in PacificSource, including marketing its interest in PacificSource to potential buyers, as part of a diversified investment strategy intended to produce a return on investment for the Foundation's corpus. Such an investment would not necessarily implicate grant or donor restrictions.

We emphasize, however, that the Foundation does not intend or expect to make any further investments in PacificSource.

**37. Describe the resulting organizational structure and the tax status (tax-exempt under specific Internal Revenue Code sections or otherwise) of each of the entities in the combined health system and the proposed Foundation post-closing.**

Post-closing, the Foundation will be an Oregon public benefit corporation with no members and will continue to be exempt from tax under Section 501(c)(3) of the Internal Revenue Code and be a public charity described in Section 509(a)(1). Additionally, Legacy Health will transition to a public benefit nonprofit corporation with members (OHSU as the sole member), and will continue to be exempt from tax under Section 501(c)(3) of the Internal Revenue Code and be a public charity described in Section 509(a)(3)(B)(ii). All remaining Legacy Health entities will retain their existing structure and tax status at closing. See Exhibit 45 for a list of Legacy Health entities and their tax exempt and public charity status.

**38. How much compensation will be paid to the directors of the Foundation?**

At present, the Legacy Health Foundation trustees do not receive any compensation. The continuing directors do not have an expectation of compensation for their service on the transition fiduciary board. The fiduciary board and grantmaking board will work together to identify how to support broad representation and participation in the Foundation's activities, which may include stipends or other compensation.

**Legacy's Current Involvement in PacificSource**

**39. Please identify specific instances of the rights that Legacy has exercised as a member of PacificSource. Provide copies of PacificSource board minutes documenting such rights being exercised.**

Since becoming a member, Legacy Health has exercised its right to appoint 6 of PacificSource's 15 directors. Legacy Health also from time to time receives

documents and information from PacificSource pursuant to its status as a member. The parties are not aware of Legacy Health exercising any of its other rights as a member.

#### **Impact on PacificSource**

- 40. Please provide all PHA board minutes, agendas, materials, and correspondence to, from, and among entity executives and board members (e.g., memos, emails) related to the proposed transaction. If none exist, please state as much.**

PHA is in the process of compiling this documentation and will provide it as soon as it is available.

- 41. Did PacificSource Community Solutions (PSCS) and Legacy renew their Participating Provider Agreement (HCMO – 00000756) for calendar year 2025 pursuant to Section 4.1?**

Yes, the parties renewed this agreement pursuant to an amendment effective January 1, 2025

- a. Have there been any amendments to this contract since Amendment 13 (HCMO – 00000795)? If so, please produce the current contracts.**

Please see Exhibit 46.

- 42. Please produce all documentation at PHA, PacificSource, or PSCS concerning the impact of the proposed OHSU – Legacy transaction on PSCS's Participating Provider Agreement with Legacy or IDS contract with Health Share, as well as any documents concerning potential changes to these contracts.**

On January 30, 2025, representatives of Health Share, Legacy Health, OHSU and PacificSource participated in a conference call to discuss the Health Share change of control process set forth in the Health Share bylaws. The conversation focused on the procedures that the Health Share board would follow to gather information about the System Combination. PacificSource is not aware of any other discussion or documentation.

PacificSource does not have any knowledge of any proposal to terminate or amend these contracts, so does not have any documents responsive to this request. Pacific Health Associates does not believe it has any such documentation.

- 43. The May 1, 2023, Letter of Agreement between PacificSource and OHSU (HCMO – 0001000) provides that OHSU's primary care providers are not in-network for PacificSource's D-SNP product. Why were OHSU primary care providers excluded for this D-SNP product?**

OHSU made the business decision to omit its primary care providers from



PacificSource's D-SNP product.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

#### **PacificSource Finances**

- 46. Please provide the Risk Based Capital (RBC) filings for the period from 2019 to 2023, and for 2024 when available, for each PacificSource entity (PacificSource Health Plans, PacificSource Community Health Plans, PacificSource Community Solutions).**

Please see attached as Exhibit 47. We believe DCBS and OHA have these documents on file.

- 47. Please provide details (amounts, timing, reason, etc.) for any historical capital infusions to PacificSource from its members (Legacy and PHA) through December 31, 2024.**

Neither PHA nor Legacy Health have provided capital infusions to PacificSource apart from Legacy Health's initial purchase of its 50% member interest.

- 48. Provide information regarding target and minimum capital or risk-based capital (RBC) requirements for PacificSource.**

Please refer to the RBC filings attached to Inquiry #46.

- a. What are the current internal targets for capital levels for PacificSource and its subsidiaries?**

Please refer to the RBC filings attached to Inquiry #46.

- b. How would these internal targets for capital levels for PacificSource and its subsidiaries change under the transaction?**

The targets will not change as a result of this transaction.

- c. What will the intercompany agreements regarding capital transfers to and from PacificSource with its members (the newly established or existing Legacy Foundation and PHA) be once the transaction is finalized?**

The parties do not anticipate executing any intercompany agreements regarding capital transfers.

**49. Please provide PacificSource GAAP Financial Statements for 2019 and 2020.**

Please see attached as Exhibit 48.

**50. Please provide a historical breakout of General and Administrative Expenses as reported in the files “YYYY PacificSource GAAP Financial Statements CONFIDENTIAL.pdf” (HMCO- 00275, HCMO-00319, HCMO-00362) by commissions, taxes and fees, salaries and wages, cost containment expenses, and other admin expenses categories for PacificSource and its subsidiaries for calendar years 2019 to 2023, and for 2024 when available.**

Please refer to the “*Consolidated Schedules of General and Administrative Expenses*” within the respective consolidated financial statement for each fiscal year. HCMO 00273 (2021), HCMO 00317 (2022), and HCMO 00360 (2023).

**51. Please provide the underlying PacificSource financial data utilized in the Fair Market Value Analysis Schedules prepared by VMG Health (HCMO – 00000617 to HCMO – 00000675) including metrics and amounts for balance sheet entries, net working capital, income statement entries and membership segregated by company, product (Medicare, Medicaid, Commercial, Other), and Commercial market segment (Large Group, Small Group, Individual, Dental, ASO) for the period 2019 to 2024.**

Please see attached as Exhibit 52.

**52. Please provide a detailed explanations of the underlying methodologies and calculations for the premium deficiency reserves for the Medicare and Commercial lines of business as of December 31, 2023, as described in the 2023 PacificSource GAAP Financial Statement (HMCO- 00337); provide similar information as of December 31, 2024, when available.**

Please refer to the annual Statement of Actuarial Opinion and memorandum attached as Exhibit 49.

- 53. In the Memorandum of Understanding document, the Timeline section describes Legacy Health Foundation’s due diligence regarding the transfer of Legacy’s net cash and its member interest in PacificSource to an independent charitable foundation (the “Grant”) in 2024 (HCMO-00440). Please share any available deliverables from this due diligence.**

The Foundation Board performed diligence with respect to the Foundation Transfer between March 1, 2024 and May 24, 2024. During this period, the Foundation Board and/or its special committee met approximately on a weekly basis to discuss diligence matters with respect to the Foundation Transfer. See Foundation Board Materials attached as Exhibit 34.A. to Foundation’s HCMO Notice. The Foundation Board appointed a special committee to perform and manage diligence regarding the Foundation Transfer and make a recommendation to the Legacy Board. See Charter of Special Committee attached as Exhibit 34.A.3c to Foundation’s HCMO Notice. There are no materials other than the board meeting minutes and materials that have already been shared with OHA. Please note that certain diligence materials are protected by attorney client privilege, and thus were not provided.

- 54. Please provide an organizational chart of key leadership positions at PacificSource (President, CEO, CFO, Board of Directors, P&L owners for each line of business, etc.) and the proposed organizational chart showing leadership positions post-transaction.**

The PacificSource organizational chart was attached as Exhibit 13 to the RFI response dated December 23, 2024. There will be no changes to leadership positions as a result of this transaction.

- 55. Please provide copies of Own Risk and Solvency Assessment (ORSA) reports for the period from 2019 to 2024.**

Please see attached as Exhibit 50.

- 56. Please identify and quantify any financial, economic, and operational risks for PacificSource related to:**

Please see PacificSource’s risk and solvency report, which is attached as Exhibit 50.

- a. changes in healthcare regulations (e.g., expiration of enhanced tax credits in the Individual ACA market after 2025, implementation and funding of Oregon’s Basic Health Program, potential changes in federal Medicaid funding or state’s 1115 Medicaid Waivers, changes in Medicare Advantage and Part D federal rules such as 2026 Advance Notice, state legislative changes impacting health plans and providers, etc.) that impact current and future revenue and operational costs;**

Please see PacificSource’s risk and solvency report, which is attached as

Exhibit 50. PacificSource cannot otherwise reasonably identify and quantify these risks.

**b. fluctuations in the economy (employment levels, economic growth, etc.) that affect enrollment numbers and premium pricing;**

Please see PacificSource's risk and solvency report, which is attached as Exhibit 50. PacificSource cannot otherwise reasonably identify and quantify these risks.

**c. performance of investments, including fixed income and equity investments return and default expectations;**

Please see PacificSource's risk and solvency report, which is attached as Exhibit 50. PacificSource cannot otherwise reasonably identify and quantify these risks.

**d. changes in historical, current, and future revenues from government programs;**

Please see PacificSource's risk and solvency report, which is attached as Exhibit 50. PacificSource cannot otherwise reasonably identify and quantify these risks.

**e. changes in provider reimbursement rates and network agreements and their impact on claims expenses and PacificSource market competitiveness (see 14., also);**

Please see PacificSource's risk and solvency report, which is attached as Exhibit 50. PacificSource cannot otherwise reasonably identify and quantify these risks.

**f. historical and current competitiveness and market share of PacificSource by key lines of business (Commercial, Medicare, Medicaid); and**

Please see PacificSource's risk and solvency report, which is attached as Exhibit 50. PacificSource cannot otherwise reasonably identify and quantify these risks.

**g. historical and current dependency on employers, government, and other large contracts (including concentration of revenue and/or membership within a contract or single large employers).**

Please see PacificSource's risk and solvency report, which is attached as Exhibit 50. PacificSource cannot otherwise reasonably identify and quantify these risks.

**57. Please describe any additional financial, economic, and operational risks that could impact PacificSource under the proposed transaction, along with how the risks outlined in responses to the previous question and in the most recent ORSA report could be impacted post-transaction.**

**Financial, Economic, and Operational Risks:** PacificSource has identified no immediate financial, economic, or operational risks that materially threaten PacificSource's solvency or PacificSource's commitment to quality service for its members resulting from the proposed transaction. The transaction is expected to have few or no short-term operational impacts, as PacificSource does not rely on Legacy for any of its operations that don't relate only to Legacy.

For a longer view, the foundation inheriting Legacy's interest in PacificSource may choose to sell its interest eventually. The risks to PacificSource in that subsequent sale by the Foundation are the same if this current transaction were to fail and Legacy was to sell its current interest to a third-party. Notably, PacificSource is an independent entity and the transfer of a member interest can't change that, which ensures that PacificSource is able to protect its capital, employees, and members.

**ORSA:** The Key Risks of the previous ORSA are discussed below, in relation to the potential impacts of the transaction. PacificSource's opinion of its solvency is formed independent of Legacy's capital and is on an entirely independent basis composed only of the PacificSource family of companies. As such PacificSource's opinion of its solvency is unchanged under the proposed transaction.

- **Business Continuity and Disaster Recovery:** The transaction is not expected to introduce any new risk in this category.
- **Capital Management:** PacificSource's credit rating is impacted by the financial strength of its controlling interests. PacificSource's credit rating was recently downgraded back to the level PacificSource had before Legacy, with AM Best citing the proposed Legacy transaction (and loss of hypothetical available emergency capital) as the cause. PacificSource doesn't have any particular access to Legacy capital today and never assumed that it did for the purposes of ORSA, so internally no new risks are posed to PacificSource. The credit rating impact has already occurred and is no longer a risk.

If membership changes occur as a result of the transaction - though no material fully insured membership changes are anticipated in particular - this would have a corresponding impact on Risk Based Capital. Last year's ORSA modeling was sufficient to stress test a large amount of membership change from any source and demonstrate solvency.

- **CCO 3.0 Procurement:** The transaction is not expected to introduce any new risk in this category.
- **IT Systems and Security:** The transaction is not expected to introduce any new risk in this category.

- **Medicare Financial Improvement:** In theory, when Legacy is no longer a stakeholder in PacificSource, our contracting position with Legacy could feasibly degrade. However, the existing provider contracts between Legacy Health and PacificSource are negotiated on an arms' length basis. Moreover, only 10% of our current Medicare membership is in the Portland metropolitan area. Accordingly, it is unlikely that this change would be material.
- **Membership Growth / Retention:** There is no fully insured membership that will be directly impacted; however, OHSU has yet to decide if the self-insured Legacy Health employee plan will continue to be administered by PacificSource Health Plans.
- **Premium Adequacy:** The transaction is not expected to introduce any new risk in this category, beyond those cited in the Medicare Financial Improvement risk section above.
- **Provider Network Stability:** This transaction is not expected to cause network adequacy issues.

**58. Please provide a breakout of annual incurred claims by National Provider Identifier (NPI) and CMS Certification Number (CCN) for service years (2022, 2023, 2024) for PacificSource.**

This request is pending further discussion with OHA.

**59. Please provide a breakout of incurred claims by network (as outlined in HMCO – 00000710), major provider system (Legacy, OHSU, other), major service category (inpatient, outpatient, professional, medical other, prescription drug), provider geography (state and county), and service year (2022, 2023, 2024) for PacificSource.**

This request is pending further discussion with OHA.

**60. Please provide descriptions (network, provider, contract terms, experience period, settlement timing) of all risk sharing and incentive arrangements between PacificSource and providers, along with the payments/receipts under each contract in 2022, 2023, 2024, and YTD 2025, and any accrued amounts for experience periods that have not been settled yet.**

This request is pending further discussion with OHA.

**Additional Information**

**61. Please provide all responses and documents provided in response to the Second Request for Information for the Legacy Health – Legacy Health Foundation – Pacific Source transaction for the CCO Form A and Department of Consumer & Business Services Form A reviews.**

Please see attached as Exhibit 51.

**62. Please provide a spreadsheet (.xlsx or .csv) of PacificSource Health Share member IDs and Medicaid IDs for all members enrolled at any point between January 1st, 2021 and December 31st, 2023. Do not include any names or other identifying information.**

This request is pending further discussion with OHA.