John Santa MD MPH Comments on CareOregon transaction---Follow the money

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My name is John Santa MD MPH. I am a retired clinician and health administrator. I have been involved in 15-20 mergers and acquisitions over the last 43 years. Many of them involved health insurance companies or provider groups where I was a senior executive. Some of them worked well and were a benefit to the patients served. Others failed and resulted in substantial upheaval. I am not a lawyer, an accountant, or economist but I have had sufficient training and experience in administration to have some understanding of these complex transactions. I oppose this transaction. The transaction underestimates the value of CareOregon and overestimates the value of SCAN services.

This comment hopes to respond to a general rule in health care that is sad but true---"Follow the money." OHA has made a strong commitment to health equity by 2030. A key portion of that commitment is stated in the second paragraph of the definition: "**Achieving health equity requires the ongoing collaboration of all regions and sectors of the state, including tribal governments to address: • The equitable distribution or redistributing of resources and power; and • Recognizing, reconciling and rectifying historical and contemporary injustices."** This language appears in the HCMO founding documents. Many mergers and acquisitions have divided communities rather than promoting collaboration. And many have transferred power and resources away from the people and communities who most need them. Key to the health equity analysis OHA is required to do is a transparent analysis of where the money is going.

In every transaction I have been part of the flow of money within the transaction and at the end of the transaction was key to understanding the impact. As might be expected, it is difficult, especially for the public, to follow the money. I hope my comment results in others with experience in transactions weighing in. For this comment I am using the 2022 annual report of CareOregon and various documents released by OHA as part of the review of the transaction.

There are at least four major financial flows of funds that are significant in this transaction---annual revenues, reserves/assets, payments for administrative services, and "investments" in subsidiaries.

- The major source of funds in this transaction is the annual revenues of each company involved. CareOregon reports annual revenues of 2.7 billion dollars in its 2022 annual report. These revenues come primarily from the state of Oregon for the care of Medicaid patients. The majority of CareOregon patients come via an arrangement with Health Share for Portland metropolitan patients. This portion of CareOregon's business has been profitable. OHA reported 2021 profits in 2022 as follows: "CareOregon, which reported $145 million in Operating Net Income, (and a calculated net operating margin of about 11%) through its sub-capitated contract with Health Share." CareOregon also has revenue from 2 CCO subsidiaries, Jackson Care Connect and Columbia Pacific CCO, and other subsidiaries. Annual revenues are a major source of value. In this transaction CareOregon's annual revenue is especially valuable because it is highly likely to be stable and predictable for multiple reasons. The state of Oregon highly values Medicaid coverage and has made a long term commitment to it via CCOs. The recent federal waiver expands a concept Oregon has been a leader in---continuous eligibility of populations which increases financial stability. Also, CareOregon has been successful in contracting with a unique subset of safety net organizations and county clinics who focus on low income vulnerable populations. As a result, CareOregon has a strong majority of the Medicaid patient "market" in the metropolitan area. The transaction would give HealthRight/SCAN control over annual revenues and profits via the reserve powers the transaction requires be turned over to HealthRight. The SCAN transaction would require CareOregon pay HealthRight .5% of annual revenues until CareOregon has contributed 70 million to HealthRight. Profits are turned over to reserve funds. I suspect that these annual revenues have a value of hundreds of millions of dollars because of their potential to generate profits.

- Reserve funds are usually a diverse set of financial assets that are designed to be available to the organization when needed. CareOregon reports 1.27 billion dollars of assets in its 2022 annual report. A significant portion of those reserves are identified as reserves to be used for health insurance purposes if annual revenues are not sufficient to cover costs. Some of these reserves are likely dedicated to Columbia Pacific and Jackson Care Connect for the approximate 100,000 people they serve. I think it is likely that there are hundreds of millions of dollars in reserves beyond the reserves required by Oregon. There are some protections of the Columbia Pacific and Jackson Care Connect reserves for a limited period. A substantial portion of these reserves comes from 2020-2022 during the pandemic when large decreases in utilization occurred because of pandemic restrictions on access while Medicaid enrollment increased. Like revenues, the transaction would put the ultimate control of reserves in the hands of HealthRight. 50 million in CareOregon reserves are transferred at the outset.
- Payments for administrative services also create significant financial flows and opportunities for profits. All the dollars coming out of OHA for Medicaid patients require administration usually in the 8-10% range. If annual revenues are 2.7 billion dollars it is likely that organizations will receive around 210 million dollars for administration. CareOregon has organized itself to be the recipient of most of those funds via administrative services arrangements with HealthShare, Columbia Pacific CCO, Jackson Care Connect and other subsidiaries. Such an approach makes sense given duplication of these services can be inefficient. These arrangements have value likely in the tens of millions of dollars range. I believe the transaction would turn management of these decisions over to HealthRight given the reserve powers it maintains. CareOregon has suggested that HealthRight/SCAN has solutions for some administrative processes that would create efficiencies suggesting that this will be an area of focus. This structure and the contracts they create have value. However, it assumes that organizations independent of CareOregon like Health Share will continue these contracts once current contracts expire.
- Finally, there is a significant flow of funds to various subsidiaries that CareOregon and SCAN own. The transaction proposes, for example, that 25 million dollars of CareOregon reserves be dedicated to a foundation to fund projects that are yet to be defined. SCAN created a foundation in 2008 with a 205 million dollar donation that continues to fund various projects. One company, Alive Ventures, a Delaware corporation, is listed in the organizational chart submitted by SCAN as a subsidiary of SCAN Foundation. A 2020 press release states: "LOS ANGELES, Aug. 5, 2020 /PRNewswire/ -- Alive Ventures today announced that it has formally spun out of Long Beach-based The SCAN Foundation, launching as a dedicated startup studio focused on imagining and building companies, products and services to help older adults live, work and love. The startup studio's formal spinout is supported with a $12 million phased investment from The Scan Foundation, which has been transforming care for older adults for more than a decade and whose financial commitment will provide a long-term runway for the studio as it develops its portfolio of companies and partners." It appears that the Foundation strategy can enable a pathway to transfer funds to both for profit and non profit organizations. This gives interesting access for SCAN to for profit and private equity strategies. These are risky arrangements. Valuation is difficult.

My conclusion from the above is that the funds flow in this transaction are multiple, complex and, in aggregate, of significant value that will all be under the control of HealthRight.

Overall, this suggests that CareOregon, if assessed independently, might be worth hundreds of millions of dollars if not a billion or more. CareOregon has positioned itself to be the dominant Medicaid provider in a major metropolitan market, in a state with stable Medicaid funds flows. That increases value.

SCAN has provided a diagram of funds flows in the transaction which fails to mention many of the above fund flows, opportunities for profit and obscures the overall value of CareOregon—Exhibit E at https://www.oregon.gov/oha/FOD/Filings/Exhibit%20E%20-%20Funds%20Flow.PDF. This exhibit suggests modest value is changing hands. I don't think that is the case. SCAN has provided a complex organizational chart but fails to indicate or explain the fund flows between all the organizations involved post transaction.

I urge that OHA/HCMO provide a more comprehensive analysis of CareOregon fund flows pre and post proposed transaction. As part of that analysis the organizational structure of all the organizations and subsidiaries should be identified and their annual revenues, reserves, and administrative relationships should be identified. Flow of funds back and forth between organizations should be identified and if possible quantified to whatever degree possible.

I am opposed to this transaction because it transfers significant value to SCAN/HealthRight with little coming back in return. SCAN seems to promise a new "infrastructure" that will enable CareOregon to transform its approach to Medicaid patients. But there are multiple ways SCAN and CareOregon could work together to share this infrastructure without pursuing such an imbalanced merger. Likely at least a billion dollars of power and resources is headed out of Oregon. What is Oregon getting in return?