

November 12, 2014

James V. Stover  
Chief Executive Officer  
The University of Arizona Health Plans  
2701 East Elvira Road  
Tucson, Arizona 85756

**Subject: Change of Ownership Request**

Dear Mr. Stover:

The Arizona Health Care Cost Containment System (AHCCCS) has reviewed the change of ownership request for University Family Care (UFC) as a result of the proposed merger with University of Arizona Health Network (UAHN) and Banner Health. The agency has had adequate time to conduct its due diligence in accordance with AHCCCS policy to confirm commitments will be maintained and to ensure there will be minimal member disruption. Based on our review of the submitted documents and information provided to AHCCCS, the change of ownership for January 1, 2015 is approved. As a result of this decision, effective November 12, 2014, AHCCCS will lift the cap on auto-assignment that has been in place since July 9, 2014.

AHCCCS strives to be a transparent public program and accordingly we have provided opportunity for the public to express any thoughts and concerns regarding the merger of UAHN and Banner as it relates to the changes affecting the contract between AHCCCS and UFC. As ACOM Policy 317 allows, AHCCCS engaged in a process to obtain stakeholder feedback and input on the proposed merger. AHCCCS has shared information on our website and received and shared feedback that was provided in writing. In addition, AHCCCS and UFC held a public forum in August 2014 that allowed for in-person feedback.

As previously communicated, AHCCCS has publicly identified concerns related to the proposed merger. These concerns included:

- Commitments made and results of a recently completed competitive procurement process;
- Potential negative impact and higher cost pressures associated with hospital consolidations; and
- Continued funding support for Graduate Medical Education (GME) and Disproportionate Share Hospital (DSH) Funding by the University of Arizona for a number of hospitals involved in these programs statewide.

Through the public engagement processes, a number of organizations have expressed strong support of the merger and the economic stability, development and competitiveness it would provide. Although some very limited concerns were expressed by a single organization, it is notable that no outright negative consequences were identified.

UFC has provided reassurance on multiple occasions that the health plan will continue to honor all commitments made in the response to the Request for Proposal YH14-0001. UFC has further stated that language will be included in the Final Agreement between UAHN and Banner Health regarding the continuation of the plan operations and management in accordance with the notification letter and transition plan submitted by UFC. UFC has provided assurance that clinical protocols and health plan functions will not be altered for the term of the current contract. UFC has provided assurances that there

will be no changes to the composition of the current staff for the term of the contract barring occurrences that require personnel action consistent with standard business practice. Lastly and most importantly, UFC has provided reassurance on multiple occasions that UFC and Banner are committed to offering members the same level of customer service that the health plan has historically delivered and that there will be no disruption to members as a result of the merger. Provider contracts will not be changed as a result of the merger and members will continue to access the same providers they are able to access today without interruption.

In addition, AHCCCS has received commitments from both the University of Arizona (UA) and Banner that no changes will be made with regards to the local funding that is made available to historical hospital partners for GME and DSH through January 1, 2019. Given the importance of these programs, the AHCCCS Administration appreciates this support and will monitor the ongoing commitment.

AHCCCS appreciates the comprehensive commitments made through this process by UAHN, UFC, UA and Banner in response to issues and concerns raised throughout our due diligence process. AHCCCS also recognizes that the proposed merger has received strong public support particularly from southern Arizona as part of our review process.

Additionally, as part of the agency's review, AHCCCS considered the August 22, 2014 letter from James Stover stating that "termination or significant modification of the UFC contract as expressly suggested in AHCCCS' July 23, 2014 response, or any other measure posing long term negative impact to UFC such as an extended enrollment cap, will have critical implications for the proposed acquisition and has the unquestionable potential to jeopardize finalization of the transaction."

In a letter dated August 25, 2014, the Arizona Board of Regents summarized this transaction by stating: "[W]e are energized by the impact the proposed merger of UAHN, UFC and Banner will have on the University of Arizona and its research and health care training capabilities, the future of health care delivery in Arizona, our residents and our state economy."

Despite our continued concerns regarding the public perception of the integrity of the procurement process and potential for unintended consequences that may be experienced in the broader health care system, AHCCCS has fulfilled its fiduciary, statutory and policy responsibilities. As we move beyond January 1, 2015, AHCCCS will closely monitor contract compliance and the extensive commitments that have been made as part of this merger. AHCCCS will also monitor broader impacts to the health care system that may be associated with the merger, such as cost pressures on AHCCCS plans or rural hospitals, and the continued success of programs like Medicare Dual Special Needs Plans.

AHCCCS will provide under separate cover a list of deliverables due for submission as a result of the change of ownership including approval for member notification letter. Thank you for your patience and continued cooperation as we conducted our review of this requested change.

Sincerely,



Thomas J. Betlach  
Director