

## Health Care Market Oversight (HCMO) Program

### HCMO-1: Notice of Material Change Transaction

You can get this document in other languages, large print, braille or a format you prefer free of charge. Contact us by email at [hcmo.info@oha.oregon.gov](mailto:hcmo.info@oha.oregon.gov) or by phone at 503-945-6161. We accept all relay calls.

#### General Instructions

Pursuant to Oregon Revised Statute (ORS) 415.501, an entity to a material change transaction must submit a Notice to the Oregon Health Authority (OHA) notifying OHA of such transaction. This form must be used to comply with this statutory mandate.

You must file this Notice electronically with OHA, in a portable document form (pdf), by email to [hcmo.info@oha.oregon.gov](mailto:hcmo.info@oha.oregon.gov) **no less than 180 days** before the expected closing date of your material change transaction.

The Notice is not complete until all required information is satisfactorily provided, and the 180-calendar day pre-merger period will not run until OHA deems the Notice complete. To avoid delays to your transaction, due diligence is required to complete this form correctly. The Notice will be published and serve as notice to the public. Contact program staff with any questions or to request technical assistance at [hcmo.info@oha.oregon.gov](mailto:hcmo.info@oha.oregon.gov).

#### Who must file a Notice

Under ORS 415.501, an entity entering into a transaction that constitutes a material change must submit written notice to OHA of such material change.

A material change transaction includes:

- A. A transaction in which at least one party had average revenue of \$25 million or more in the preceding three fiscal years and another party:
  - i. Had an average revenue of at least \$10 million in the preceding three fiscal years; or
  - ii. In the case of a new entity, is projected to have at least \$10 million in revenue in the first full year of operation at normal levels of utilization or operation as prescribed by the authority by rule.

#### Out-of-state entities

If a transaction involves a health care entity in this state and an out-of-state entity, a transaction that otherwise qualifies as a material change transaction must submit this Notice if the transaction may result in increases in the price of health care or limit access to health care services in this state. See [OHA Guidance on Out-of-State Entities](#).

## Confidentiality

Information on this Notice form shall be a public record and will be posted on OHA's website. Pursuant to ORS 415.501(13), OHA shall maintain the confidentiality of all confidential information and documents that are not publicly available that are obtained in relation to a material change transaction and may not disclose the information or documents to any person without the consent of the person who provided the information or document. Information and documents described in this paragraph are exempt from disclosure under Oregon Public Records Law (ORS 192.311 to 192.478).

Entities must follow the requirements of Oregon Administrative Rule (OAR) 409-070-0070 when designating portions of a Notice and any documents submitted by the applicant in support of the Notice as confidential. See [OHA Use of Confidential Information Guidance](#).

## Definitions

**"Acquisition"** occurs when:

- a) Another person acquires control of the health care entity including acquiring a controlling interest as described in OAR 409-070-0025;
- b) Another person acquires, directly or indirectly, voting control of more than fifty percent (50%) of any class of voting securities of the health care entity other than a domestic insurer as described in OAR 409-070-0025(1)(c);
- c) Another person acquires all or substantially all of the health care entity's assets and operations;
- d) Another person undertakes to provide the health care entity with comprehensive management services; or
- e) The health care entity merges tax identification numbers or corporate governance with another entity.

**"Legal entity name"** means legal business name as reported with Internal Revenue Service.

**"Merger"** means a consolidation between two or more organizations, including two or more organizations joining through a common parent organization or two or more organizations forming a new organization.

**"NPI"** means 10-digit National Provider Identification number issued by the Centers for Medicare and Medicaid Services (CMS).

**"Tax ID"** means 9-digit federal tax identification number also known as an employer identification number (EIN) assigned by the Internal Revenue Service.

**"Transaction"** means:

- a) A merger of a health care entity with another entity;
- b) An acquisition of one or more health care entities by another entity;

- c) New contracts, new clinical affiliations and new contracting affiliations that will eliminate or significantly reduce, as defined by the authority by rule, essential services (see [Essential Services and Significant Reduction](#) guidance);
- d) A corporate affiliation involving at least one health care entity; or
- e) Transactions to form a new partnership, joint venture, accountable care organization, parent organization or management services organization.

Additional defined terms can be found at ORS 415.500 et seq. and OAR 409-070-0000 to -0085.

## I. Parties to the proposed transaction

List the entity name for all parties to the proposed transaction. Add extra rows as needed for additional parties.

Party A (Applicant)	Legacy Health
Party B:	Legacy Health Foundation
Party C:	PacificSource

## II. Contact information for the parties

Provide contact information for the proposed transaction, as requested below.

### 1. Provide information for Party A.

Legal entity name	Legacy Health
Assumed name	N/A
Tax ID	23-7426300
Mailing address	1919 NW Lovejoy Street, Portland, OR 97209
Website	LegacyHealth.org
Contact Name	Craig Armstrong
Title	Chief Legal Officer
Phone	360-241-4924
Cell Phone	
Email	crrarmst@lhs.org

**Is Party A represented by legal counsel for this transaction?**

Yes

No

**Provide information regarding Party A's legal counsel, if applicable.**

Name	Timothy Hatfield
Firm	Hatfield Knivila, LLC
Address	1120 SE Madison St, Portland, OR 97214
Phone	(503) 208-5037
Email Address	tim@hkhealthlaw.com

**2. Provide information for Party B.**

Legal entity name	Legacy Health Foundation
Assumed name	N/A
Tax ID	46-5562403
Mailing address	1919 NW Lovejoy Street, Portland, OR 97209
Website	<a href="https://www.legacyhealth.org/Giving-and-Support/about">https://www.legacyhealth.org/Giving-and-Support/about</a>
Contact Name	Craig Armstrong
Title	Chief Legal Officer
Phone	360-241-4924
Cell Phone	
Email	crrarmst@lhs.org

**Is Party B represented by legal counsel for this transaction?**

Yes

No

**3. Provide information for Party C.**

Legal entity name	PacificSource
Assumed name	N/A
Tax ID	46-5562403
Mailing address	500 SW 1st Ave #200, Portland, OR 97201
Website	PacificSource.com
Contact Name	Kristi Kernutt
Title	Chief Legal & Risk Officer
Phone	541-225-1967
Cell Phone	n/a
Email	kristi.kernutt@pacificsource.com

**Is Party C represented by legal counsel for this transaction?**

Yes

No

**Provide information regarding Party C's legal counsel, if applicable.**

Name	Ken Davis
Firm	Dunn Carney
Address	851 SW Sixth Avenue Suite 1500 Portland, OR 97204
Phone	503.306.5301
Email Address	kdavis@dunncarney.com

**4. Provide a billing contact for payment of review fees.**

Name	Craig Armstrong
Address	1919 NW Lovejoy, Portland, OR 97209

Phone	360-241-4924
Email Address	crrarmst@lhs.org

**III. About the proposed transaction**

**5. Provide the type of material change transaction. (See OAR 409-070-0010 for definitions of transactions subject to review.)**

- Merger
- Acquisition
- Affiliation
- Contract
- Other (specify)\_\_\_\_\_

**6. What is the anticipated effective date of the proposed material change transaction?**

This transaction is related to, but separate from, the proposed affiliation between Legacy Health and Oregon Health & Science University (the “Proposed Affiliation”). The Proposed Affiliation contemplates that, at or prior to the closing of the Proposed Affiliation, Legacy Health will transfer Legacy Health’s net cash (minus certain adjustments) and Legacy Health’s 50% member interest in PacificSource to the Legacy Health Foundation (the “Foundation Transfer”). This filing pertains exclusively to the Foundation Transfer. The parties will close the Foundation Transfer upon or immediately prior to the closing of the Proposed Affiliation, which is subject to industry standard closing conditions, including the receipt of all required regulatory approvals.

This Foundation Transfer will not occur unless and until all other closing conditions associated with the Proposed Affiliation are satisfied, including the receipt of all necessary regulatory approvals. Similarly, the Proposed Affiliation will not proceed unless this Foundation Transfer receives all necessary regulatory approvals. Accordingly, we are requesting that OHA approve this transaction as soon as possible, with the knowledge that the Foundation Transfer will not occur until OHA (and any other applicable regulator) approves the Proposed Affiliation and closing of the Proposed Affiliation is imminent.

## **7. Briefly describe the proposed material change transaction, including:**

### **a. Goals and objectives**

The purpose of this Foundation Transfer is to create a well-capitalized community foundation that will advance health equity in Oregon and Southwest Washington. It will transform the current Legacy Health Foundation (the “Foundation”) into an independent philanthropic organization that will have the capital and expertise necessary to be an effective steward of Legacy Health’s charitable assets, including Legacy Health’s 50% member interest in PacificSource.

The Proposed Affiliation between Legacy Health and Oregon Health & Science University (“OHSU”), together with the funding of this Foundation, is a generational opportunity to advance health equity in Oregon and Southwest Washington. Following the closing of the Proposed Affiliation, the Foundation will undergo a significant and exciting transformation. It will emerge with a new name, a new governance structure, a new board of directors, and an expanded mandate to champion and implement strategies to improve social determinants of health with an eye towards improving health equity and access in Oregon and Southwest Washington.

Legacy Health is dedicated to improving health equity and access in Oregon and Southwest Washington. As such, the intent of this Foundation Transfer is to provide the Foundation with sufficient resources to sustain this mission into the future. This transaction will also maintain continuity of ownership of PacificSource, an Oregon Coordinated Care Organization (“CCO”) and provider of commercial and Medicare Advantage health insurance products via downstream affiliates. The Foundation Transfer will not result in any governance changes at PacificSource (except for the Foundation assuming Legacy Health’s rights as a member of PacificSource) or otherwise affect any operations or services provided by PacificSource.

At closing, the Foundation’s board will be reconstituted to consist of five current Legacy Health directors and four current Foundation trustees. This continuity of leadership (i.e., the representation of current Legacy Health board members on the Foundation Board) will ensure that the Foundation board has the necessary experience and expertise to manage its interest in PacificSource and administer its restricted funds. After closing, the Foundation will recruit additional board members from the community who will collectively represent the Oregon and Southwest Washington communities that the Foundation will serve.

### **b. Summary of transaction terms**

On May 30, 2024, Legacy Health executed a System Combination Agreement (“SCA”) with OHSU, pursuant to which OHSU will become the sole member of

Legacy Health. Once this Proposed Affiliation closes (subject to obtaining required regulatory approvals), OHSU and Legacy will become a unified health system focused on delivering high quality health care services to the communities they serve. Legacy Health and the Foundation also executed a Memorandum of Understanding (“MOU”), pursuant to which Legacy Health and the Foundation will undertake a series of actions with respect to the Foundation that will both ensure continuity and expand its impact as an independent community foundation that furthers Legacy Health’s longstanding charitable mission to improve the health of residents in Oregon and Southwest Washington.

Specifically, the SCA, MOU, and associated transaction documents propose that Legacy Health and the Foundation will:

- (i) convert the Foundation to an independent nonprofit public benefit corporation;
- (ii) ensure continuity of leadership, experience and expertise of Legacy Health and the Foundation by reconfiguring the Foundation board, so that at closing it is comprised of five current Legacy Health directors and four current Foundation trustees (the “Foundation Board”); and
- (iii) transfer Legacy Health’s net cash (subject to certain adjustments) and its member interest in PacificSource to the Foundation pursuant to a grant agreement between Legacy Health and the Foundation.

Post-closing, the Foundation’s purpose will expand beyond supporting a single health system. Instead, it will champion and implement strategies to improve social determinants of health with the (a) mission to create a legacy of generational health and well-being through purposeful and impactful investments in Oregon and Southwest Washington, and (b) vision that every member of our community will achieve their highest possible quality of health.

Under the SCA, OHSU will become the sole member of Legacy Health, which means that Legacy Health will become a wholly owned subsidiary of OHSU, and OHSU will also become the indirect sole owner of all assets, subsidiaries and joint venture interests owned by Legacy Health, except for those included in the Foundation Transfer. As such, OHSU will indirectly hold Legacy Health’s member interest in Health Share. The parties do not anticipate that the Proposed Affiliation or the Foundation Transfer will affect any contractual relationships between PacificSource and Health Share or Legacy Health and Health Share. Legacy Health and PacificSource are fully committed to continue providing services to Health Share under existing agreements without disruption.



### **c. Why the transaction is necessary or warranted**

One of Legacy Health's primary goals for the Proposed Affiliation is to ensure that the health system's charitable assets will continue to be deployed to benefit the communities that Legacy Health currently serves. To this end, the SCA contemplates a significant investment in the combined system in order to ensure and expand access to care for existing and new patients. Additionally, early in the discussions between OHSU and Legacy Health, the parties agreed that an independent foundation would be funded as part of the system combination, creating a new pathway to make significant impact on health equity and access in Oregon and Southwest Washington.

Additionally, in considering any potential combination, Legacy Health sought to maximize the value of its 50% interest in PacificSource. The Legacy Health board has long recognized the importance of PacificSource to Legacy Health and the communities it serves. In addition to being an asset with economic value, it has been core to Legacy Health's long-term strategy to increase the use and effectiveness of value-based care payment programs. Moreover, as one of Oregon's largest CCOs, PacificSource is vital both to (a) ensuring access to high-quality, integrated health care services to Oregon's Medicaid population and (b) achieving Oregon's overall goals around health care cost, access, quality, and equity. Accordingly, in pursuing an affiliation with another health system, Legacy Health recognized the importance of ensuring that PacificSource's next owner would further PacificSource's charitable and public health mission.

However, early in the discussions between OHSU and Legacy Health, OHSU determined that acquiring control of PacificSource would not align with OHSU's long-term strategic objectives. As such, the parties mutually agreed that (a) PacificSource should be excluded from the Proposed Affiliation between OHSU and Legacy Health, and (b) that Legacy Health should transfer its 50% member interest in PacificSource to the Foundation.

OHSU and Legacy Health determined that the Foundation would be the best possible steward of PacificSource for three reasons. First, the Foundation provides PacificSource with continuity of control. The Foundation is an existing affiliate of Legacy Health. At closing, five current Legacy directors will join four current Foundation trustees to form the new Foundation board. The five Legacy Health directors will bring their history and expertise in overseeing Legacy Health's 50% member interest in PacificSource to the Foundation Board.

Second, the Foundation would be well-capitalized post-closing. Legacy Health and OHSU project that the Foundation will ultimately receive approximately \$350 million in liquid assets.

And finally, over the long term, the Foundation can identify a strategic buyer for the 50% member interest that will maximize the value of such interest to the Foundation and help PacificSource achieve its long-term strategic goals.

Accordingly, the Foundation Transfer is warranted and necessary because it capitalizes a community foundation dedicated to improving health equity in Oregon and Southwest Washington.

- d. Any exchange of funds between the parties, including the nature, source and amount of funds or other consideration (such as any arrangement in which one party agrees to furnish the other party with a discount, rebate, or any other type of refund or remuneration in exchange for, or in any way related to, the provision of health care services).**

At or prior to closing, Legacy Health will transfer all of its net cash (minus certain adjustments), as well as Legacy Health's 50% member interest in PacificSource, to the Foundation. The parties currently anticipate that Legacy Health's net cash at closing, minus anticipated adjustments, will equal \$350 million. However, this is an estimate and subject to change based on the timing of closing and other contingencies. See Exhibit 1 for a summary of the net cash calculation.

**8. Describe the negotiation or transaction process that resulted in the entities entering into an agreement.**

- a. How the entities were identified (e.g., did one party approach the other, did one party engage in a bid/auction process, etc.)**

Because the Foundation is an affiliate of Legacy Health, this transaction did not stem from any formal outreach or auction. Instead, once Legacy Health and OHSU agreed that an independent charitable entity would receive Legacy Health assets at closing, the Foundation was the obvious choice to be the recipient of such assets.

Legacy Health's integrated network of hospitals and clinics is supported by five charitable foundations. Four of the foundations support a specific hospital. The Foundation was created to support both the Legacy Health system and the health and well-being of the community. Because of its community focus, Legacy Health approached the Foundation and asked its board to be the recipient of the grant assets at closing. The Foundation board was enthusiastic about changing from a fundraising foundation to a grantmaking foundation, while remaining constant in its support of the health and well-being of the community. Legacy Health and the Foundation intend the independent reconfigured foundation will be the legacy of Legacy Health.

**b. Any due diligence performed by any of the parties to the transaction. Provide any products, reports, or analyses resulting from due diligence processes.**

The Foundation bylaws provide Legacy Health, as the member, has the sole right to approve or disapprove any proposed transaction of the Foundation that Legacy Health deems to have substantial impact, financial or otherwise, upon the Foundation or Legacy Health. Because of this approval right, the parties are not engaging in extensive due diligence. However, the Foundation independently engaged counsel to review the SCA, MOU and proposed grant agreement, including the transfer of the 50% member interest in PacificSource. Counsel advised the Foundation Board about the Foundation's rights and obligations under the SCA and grant agreement, and helped craft the MOU.

The Foundation Board has also been active in planning for the post-closing operations of the Foundation. Foundation trustees have been working alongside members of the Legacy Health board to propose initial funding priorities for the organization (as discussed below.) Legacy Health and the Foundation are also working together to share information about PacificSource in advance of closing so that (a) all Foundation Trustees will be informed about the grant asset, and (b) those Trustees who remain on the reconfigured Foundation Board understand the Foundation's role as a holder of the 50% member interest in PacificSource. The Foundation board and PacificSource leaders will meet regularly over the coming months to ensure that the reconstituted Foundation Board is prepared to step into the shoes of Legacy Health with respect to PacificSource.

**9. Will the proposed material change transaction change control of a public benefit corporation or religious corporation?**

Yes

No

**10. List any applications, forms, notices, or other materials that have been submitted to any other state or federal agency regarding the proposed material change transaction. Include the data and nature of any submissions. This includes, but is not limited to, the Oregon Department of Consumer and Business Services, Oregon Public Health Division, Oregon Department of Justice, U.S. Department of Health and Human Services (e.g., Pioneer ACO or Medicare Shared Savings Program application), Federal Trade Commission, and U.S. Department of Justice.**

The parties expect to file a Form A with the Oregon Department of Consumer and Business Services regarding PacificSource's insurance business and a Form A with

the Oregon Health authority with respect to PacificSource's CCOs. Legacy Health and OHSU will file a HCMO notice with respect to the Proposed Affiliation, which is being considered separately from this transaction.

- a. **If a pre-merger notification was filed with the Federal Trade Commission or U.S. Department of Justice, please attach the pre-merger notification filing along with this notice submission.**

Not applicable.

#### **IV. About the entities involved in the proposed transaction**

##### **11. Describe Party A.**

- a. **Describe Party A's business, including business lines or segments.**

Legacy Health is a local nonprofit health system with a mission of "good health for our people, our patients, our communities and our world." Legacy Health traces its origins to the founding of Good Samaritan Hospital in 1875. Initially rooted in the tradition and values of community health organizations, healing ministries of area churches, and local physicians, Legacy Health transitioned into a secular health care system in 1989. Today, Legacy Health remains dedicated to delivering compassionate, excellent care for patients and communities.

Legacy Health provides comprehensive health care services across the Portland and Vancouver metro areas and the mid-Willamette Valley through its hospitals, outpatient clinics, urgent care centers, and network of community-based providers. Legacy Health is comprised of six hospitals totaling 1,124 beds, 70 outpatient clinics, and various supporting entities.

Core to Legacy's mission are its community and business partnerships that support the continuum of care. These partnerships include the Unity Center for Behavioral Health, a 24-hour center for people facing a mental health crisis; Legacy Health Partners, a physician-led clinically integrated network; and CARES Northwest, a collaboration among local health systems to stop child abuse and neglect.

**b. Describe Party A's governance and operational structure (including ownership of or by a health care entity)**

Legacy Health is governed by a Board of Directors made up of 18 voting members: four Legacy Health physician representatives, nine community members, two representatives of the Lutheran Synod of Oregon, two representatives of the Episcopal Diocese of Oregon, and Legacy Health's President. The four physician members are elected at large by the Board from physicians recommended by any member of the active medical staffs of Legacy hospitals, and the nine community members are elected at large by the Board.

**c. Provide a diagram or chart showing the organizational structural and relationships between business entities.**

An organizational chart of Legacy Health is enclosed as Exhibit 2.

**d. List all of Party A's business entities currently licensed to operate in Oregon using HCMO-1b: Business Entities form. Provide the business name, assumed business name, business structure, date of incorporation, jurisdiction, principal place of business, and FEIN for each entity.**

HCMO-1b is enclosed as Exhibit 3.

**e. Provide financial statements for the most recent three fiscal years. If Party A also operates outside of Oregon, provide financial statements both for Party A nationally and for Party A's Oregon business.**

Legacy Health's audited financial statements are enclosed as Exhibit 4.

**f. Describe and identify Party A's health care business. Provide responses to i-ix as applicable:**

**i. Provider type (hospital, physician group, etc.)**

Legacy Health is a hospital system, as such term is defined in OAR 409-070-0005(20).

**ii. Service lines, both overall and in Oregon**

Please see Exhibit 5, which describes Legacy Health's service lines.

**iii. Products and services, both overall and in Oregon**

Please see Exhibit 6, which includes a list of services provided by Legacy Health.

**iv. Number of staff and FTE, both overall and in Oregon**

Legacy Health employs about 14,000 staff in Oregon and southwest Washington, totaling about 11,000 FTE. Of the total number of staff, just under 12,000 are located in Oregon, including around 9,000 FTE in Oregon.

**v. Geographic areas served, both overall and in Oregon**

Please see Exhibit 7 for maps illustrating the geographic areas served by Legacy Health.

**vi. Addresses of all facilities owned or operated using HCMO-1c: Facilities and Locations form**

Please see Exhibit 8 for the completed form HCMO-1c.

**vii. Annual number of people served in Oregon, for all business, not just business related to transaction.**

In calendar year 2023, Legacy Health served 558,092 unique patients.

**viii. Annual number of services provided in Oregon**

In calendar year 2023, Legacy Health inpatient discharges totaled 41,172. Outpatient volume at hospital facilities totaled 737,438, and outpatient volume at clinic facilities totaled 1,572,915.

**ix. For hospitals, number of licensed beds**

Systemwide, Legacy Health has a total of 1,626 licensed beds.

**12. Describe Party B.**

**a. Describe Party B's business, including business lines or segments**

The Foundation's current mission is to foster charitable giving as well as community commitment and involvement to support the founding principles, mission and vision of Legacy Health and to promote the health and well-being of the community. Charitable gifts to the Foundation support the programs and services of Legacy Health, many of which are not supported by traditional means of reimbursement. The Foundation also provides funding to community-based organizations that support health and well-being.

In fiscal year 2023, the Foundation:

- Supported therapeutic services at the Unity Center for Behavioral Health.

- Provided emergency medications, durable medical equipment, transitional housing, and other health-related supplies to uninsured, under-insured, and low-income patients.
- Provided emergency food support to families experiencing food insecurity.
- Supported injury prevention programs for the community including child passenger safety, bike/sports helmets, elderly falls prevention, and burn injury prevention.
- Supported continuing education classes .
- Provided support for community organizations working to provide access and wrap around services for patients.
- Purchased medical equipment for Legacy Emanuel Medical Center, Legacy Meridian Park Medical Center, and Legacy Mount Hood Medical Center.

**b. Describe Party B’s governance and operational structure (including ownership of or by a health care entity)**

Legacy Health is the sole member of the Foundation. Legacy Health has rights and powers to the fullest extent allowed to a member of a public benefit corporation under the Oregon Nonprofit Corporation Act. In addition to those powers granted under ORS Chapter 65, the Foundation’s bylaws provide the member may review the plans and budget of the Foundation prior to implementation, can remove a Trustee at any time, and has the sole right to approve a proposed transaction that would have a substantial impact, financial or otherwise, upon the Foundation or Legacy Health.

The Foundation is governed by a ten-member Board of Trustees, which includes the President of the Foundation and the Legacy Health CEO. The Foundation Board nominates and elects Trustees, who must then be approved by Legacy Health. Trustees serve for up to two three-year terms.

The Foundation’s President is appointed by Legacy Health and is an employee of Legacy Health. The Foundation has no employees. Legacy Health provides services to the Foundation at no cost to the Foundation.

**c. Provide a diagram or chart showing the organizational structural and relationships between business entities.**

See Legacy Health’s organizational chart enclosed as Exhibit 2, which shows the Foundation as a Legacy Health affiliate.

- d. **List all of Party B’s business entities currently licensed to operate in Oregon using HCMO-1b: Business Entities form. Provide the business name, assumed business name, business structure, date of incorporation, jurisdiction, principal place of business, and FEIN for each entity.**

HCMO-1b is enclosed as Exhibit 3.

- e. **Provide financial statements for the most recent three fiscal years. If Party B operates outside of Oregon, provide financial statements both for Party B nationally and for Party B’s Oregon business.**

The Foundation’s financials are attached as Exhibit 9, which are consolidated with the Legacy Health financials.

- f. **Describe and identify Party B’s health care business. Provide responses to i-ix as applicable.**

- i. **Provider type (hospital, physician group, etc.)**

Not applicable.

- ii. **Service lines, both overall and in Oregon**

Not applicable.

- iii. **Products and services, both overall and in Oregon**

The Foundation exists solely to provide direct financial support to Legacy Health and its affiliates, and for the community. It does not provide any products or services beyond this financial support.

- iv. **Number of staff and FTE, both overall and in Oregon**

Legacy Health provides management services for all its affiliate companies, including the Foundation, at no cost. The Foundation therefore has no staff or FTEs.

- v. **Geographic areas served, both overall and in Oregon**

See Exhibit 7. The Foundation serves the same geographic area as Legacy Health.

- vi. **Addresses of all facilities owned or operated using HCMO-1c: Facilities and Locations form**

Not applicable.



**vii. Annual number people served in Oregon, for all business, not just business related to transaction**

Not applicable.

**viii. Annual number of services provided in Oregon**

Not applicable.

**ix. For hospitals, number of licensed beds**

Not applicable.

**13. Describe Party C.**

**a. Describe Party C's business, including business lines or segments**

PacificSource Health Plans was founded in 1933 by a group of 21 physicians who staffed and operated Pacific Christian Hospital in Eugene, Oregon; PacificSource was established in 2013 to serve as the holding company for PacificSource Health Plans. Currently, PacificSource is a secular, nonprofit holding company that serves as the parent organization for two domestic health care service contractors, PacificSource Community Health Plans and PacificSource Health Plans (the "HCSCs"). These HCSCs offer commercial and Medicare Advantage health insurance products in Oregon, Washington, Montana and Idaho. PacificSource also serves as the parent organization for PacificSource Community Solutions, an Oregon nonprofit public benefit corporation that holds contracts with the Oregon Health Authority to serve as a coordinated care organization ("CCO"), which administer Medicaid managed care plans in Oregon.

**b. Describe Party C's governance and operational structure (including ownership of or by a health care entity)**

Currently, PacificSource has two members, Legacy Health and Pacific Health Associates, an Oregon nonprofit public benefit corporation ("PHA"), each of which hold a 50% member interest. PacificSource is governed by a board of directors consisting of 15 voting members. PHA appoints six members, Legacy Health appoints six members, and three members are appointed jointly by the 12 Legacy Health and PHA appointees. The PHA designees must include at least two actively licensed physicians and three representatives of the public, in compliance with Oregon laws governing the composition of the governing boards of HCSCs. ORS 750.015. The Legacy designees must include at least two actively licensed physicians and shall limit the number of individuals who are employees of Legacy or any Legacy subsidiary or affiliate such that PacificSource can meet any applicable independent director requirements in

Oregon law.

- c. Provide a diagram or chart showing the organizational structural and relationships between business entities.**

See the organizational chart attached as Exhibit 10.

- d. List all of Party C's business entities currently licensed to operate in Oregon using HCMO-1b: Business Entities form. Provide the business name, assumed business name, business structure, date of incorporation, jurisdiction, principal place of business, and FEIN for each entity.**

HCMO-1b is enclosed as Exhibit 3.

- e. Provide financial statements for the most recent three fiscal years. If Party C operates outside of Oregon, provide financial statements both for Party C nationally and for Party B's Oregon business.**

PacificSource financial statements are enclosed as Exhibit 11.

- f. Describe and identify Party C's health care business. Provide responses to i-ix as applicable.**

- i. Provider type (hospital, physician group, etc.)**

Not applicable.

- ii. Service lines, both overall and in Oregon**

Not applicable.

- iii. Products and services, both overall and in Oregon**

PacificSource offers health insurance plans for individuals, families, and employers. It offers commercial and Medicare Advantage health insurance products in Oregon, Washington, Montana and Idaho, but is in the process of exiting the commercial market in Washington. It also operates CCOs serving the following counties in Oregon: Hood River, Wasco, Jefferson, Crook, Deschutes, Klamath (partial), Lane, Polk, and Marian counties.

- iv. Number of staff and FTE, both overall and in Oregon**

As of July 31, 2024, PacificSource has 1,906 staff, with 1,486 located in Oregon. This equates to 1899.29 FTE, with 1481.68 FTE located in Oregon.

**v. Geographic areas served, both overall and in Oregon**

For the commercial market, PacificSource offers products state-wide in Oregon, Idaho and Montana, and is in the process of withdrawing from the Washington market. See Exhibits 12 and 13 for the geographies served by PacificSource in the Medicare Advantage and Medicaid (CCO) markets.

**vi. Addresses of all facilities owned or operated using HCMO-1c: Facilities and Locations form**

Not applicable.

**vii. Annual number people served in Oregon, for all business, not just business related to transaction**

As of December 31, 2023, PacificSource had 211,221 commercial members (excluding dental), 44,946 Medicare Advantage members, and 359,861 Oregon Health Plan members.

**viii. Annual number of services provided in Oregon**

Not applicable.

**ix. For hospitals, number of licensed beds**

Not applicable.

**14. Describe all mergers, acquisitions, and joint ventures that closed in the ten (10) years prior to filing this notice of material change transaction involving any entities party to the current proposed transaction, the same or related services, and health care entities. For each previous transaction, include:**

- a. Legal names of all entities party to the transaction**
- b. Type of transaction**
- c. Description of the transaction**
- d. Date the transaction closed**

See Exhibit 14 for applicable Legacy Health transactions.

With respect to PacificSource, On March 31, 2024, PacificSource closed a transaction with Billings Clinic and New West Health Services whereby PacificSource purchased a 35% economic interest in New West from Billings Clinic pursuant to a Member Substitution Agreement. New West was a Montana non-profit corporation that operated solely in the Medicare Advantage line of business. Billings Clinic,

PacificSource and New West decided to cease New West sales at the end of 2016 and wound down the entity after the 2017 claims run-out year.

**15. Describe any anticipated changes resulting from the proposed material change transaction, including:**

**a. Operational structure**

**i. Provide a chart or diagram showing the pre- and post-transaction organizational structure and relationships between entities.**

Exhibit 15 is the post-closing organizational chart for the PacificSource holding company system.

**b. Corporate governance and management**

The composition of the Foundation Board will change following the closing of the OHSU-Legacy Health Proposed Affiliation. Initially, the post-closing Foundation Board will be comprised of nine directors: five board members from Legacy Health and four from the existing Foundation board. This mix of leaders from Legacy Health and the Foundation will ensure continuity of leadership and control, both for PacificSource and for the Foundation's existing restricted funds. Specific board members have not yet been selected and will not be selected until the closing date approaches.

Following the closing of the Proposed Affiliation, the Foundation Board will begin to identify and recruit additional board members from the community. The Foundation Board will seek new board members who will collectively represent the communities the Foundation will serve. Specific factors to be taken into account when selecting new board members may include lived experience, professional expertise, community engagement, and commitment to health equity.

The parties do not anticipate any corporate governance or management changes at PacificSource. The Foundation will assume Legacy Health's existing right to appoint six members of the PacificSource board of directors. Post-closing, these appointees will not be employees of, or otherwise affiliated with, the combined OHSU-Legacy Health system. However, the Foundation intends to exercise its appointment right in a manner that assures, to the greatest extent possible, continuity of management and control of PacificSource. The Foundation's primary goal is to allow PacificSource to continue operating as it does now while helping PacificSource achieve its mission of better health, better care, and better costs.

**c. Investments or initiatives**

Soon after the execution of the SCA between Legacy Health and OHSU, Legacy Health and the Foundation formed a joint workgroup to chart the future course of the Foundation. The workgroup includes physicians, business leaders, and

community volunteers from the Legacy Health and Legacy Health Foundation boards. Attached as Exhibit 16 is a document prepared by the workgroup describing its mission, vision, and initial focus areas.

The focus of the workgroup was informed in large part by those issues affecting health equity, cost, quality, and access identified by OHA and the community health needs assessments conducted by the Healthy Columbia Willamette Collaborative, as well as case studies capturing what other health foundations across the country have done to create pathways and remove those barriers to health equity.

The workgroup identified several preliminary focus areas and strategies, and strongly committed to engaging the community for further direction. Community engagement will begin prior to the closing of the Proposed Affiliation and funding of the Foundation. A central focus of the Foundation's first three years will be community participation to inform its strategic plan.

That said, Legacy Health is funding the Foundation in large part because it recognizes that health outcomes are driven by upstream factors—for example, social and institutional inequities, physical environment and living conditions, and other factors that impact people well before they set foot in a hospital or clinic and yet have an outsized impact on mortality, disease, treatment, and other health outcomes.

As an independent health-focused organization closely connected to and representative of the community, the Foundation will be ideally positioned to address social determinants of health. The Foundation will be a neutral and trusted voice in the space of health equity, a convener, a strategic and thoughtful grantmaker, a hub for resources and innovation working to align and amplify existing efforts to advance health equity, and more.

The Foundation will pursue various strategies to realize its mandate to create pathways and remove barriers to health equity. Strategies include:

- Community engagement and empowerment
- Strategic and responsive grantmaking
- Convening interested and affected groups and creating taskforces
- Testing and disseminating promising approaches
- Educating and informing the public and policymakers
- Building capacity of community partners working to address health equity
- Leveraging dollars and expertise to bring additional public and private resources to the community

The Foundation will make grants to support programs and projects carried out by other partners, such as nonprofit organizations, health systems, school districts,

Native nations, or state and local government agencies. The Foundation will award a mix of “strategic grants” and “responsive grants.”

Strategic grants are grants made to fulfill a strategic plan adopted by the Foundation and updated periodically to identify the Foundation’s focus areas and goals. The Foundation will then invite organizations to apply for grants that fit within its stated focus areas and further its goals. The Foundation may post an open call for applications and seek out organizations with aligned missions and work in which to invest. It is anticipated that the majority of grants made by the Foundation will be strategic grants.

However, the Foundation will also set aside funds annually to enable it to make responsive grants, which are designed to meet immediate and emerging needs in the community and that may fall outside its stated focus areas and goals. The need for responsive grants may arise due to policy changes (e.g., unexpected loss of funding for a critical community program due to budgetary cuts in congress) or unforeseen circumstances that necessitate a deviation from the Foundation’s strategic plan (e.g., global pandemic).

Many grantmaking organizations award a mix of strategic grants and responsive grants, as strategic grants enable an organization to thoughtfully deploy grants in ways calculated to move the needle in focus areas in a measurable, goal-oriented manner, while responsive grants allow an organization to be nimble and change course when extenuating circumstances demand.

Addressing upstream factors that affect health and health outcomes requires a collective effort. The Foundation will be uniquely positioned to bring grantees, partners, and community members together to share information and ideas and find ways to collaborate. Convenings both ensure that the Foundation is connected to community and aware of community needs, while providing opportunities for a diverse group of people and organizations to come together to tackle major problems that have a far-reaching effect and require a multi-faceted approach to solve.

In carrying out the above strategies—whether through organizing a convening focused on a specific issue, providing seed funding for a promising new approach, sharing data and research with the legislature, or investing in organizational infrastructure for a community partner—the Foundation will be effectively leveraging its own dollars and expertise to set the stage for more public and private dollars and resources to flow towards the organizations, communities and focus areas it champions.

In its first years after closing, the Foundation will engage the community for input to inform its strategic plan, which will identify and elaborate on focus areas and

strategies. The Foundation will also expand its Board to ensure the composition is both reflective of the community and contains people with the right experience and expertise to lead. The Foundation's focus areas and funding decisions are subject to community input and approval by the future Foundation Board, who will adopt a strategic plan and budget to identify and implement the investments in community, which will prioritize the maximization of community benefit over growth of the Foundation's corpus.

**d. Type and level of staffing**

The Foundation anticipates hiring an executive director post-closing who will work with the Foundation Board to determine appropriate staffing levels given the amount of net cash received from Legacy Health and the strategic plan adopted by the post-closing Foundation Board.

PacificSource has no plans to change staffing levels as a result of the Foundation Transfer. PacificSource's staffing levels are a function of its primary service contracts with OHA, Health Share and Legacy Health, among others. Amendment or termination of these service contracts could result in staffing changes, but the parties are not aware of any plans to materially amend or terminate these agreements.

**e. Type and level of services provided**

The Foundation will not be a direct service provider. Instead, it will be a philanthropic organization that will make purposeful and impactful investments to address areas of concern in the region, specifically focusing on health equity and social determinants of health. For a description of these activities, see the response to Inquiry 15.c above.

There will be no changes to PacificSource's service type or levels as a result of the Foundation Transfer.

**f. Number and type of locations**

The grant assets to be paid to the Foundation are restricted to Oregon and Southwest Washington. If the Foundation decides to have a corporate headquarters, it would be located in the region it serves.

**g. Geographic areas served**

The grant assets to be paid to the Foundation are restricted to Oregon and Southwest Washington.

**h. For providers, payer contracts and payer mix**

Not applicable. The parties do not expect any changes to PacificSource’s payer contracts as a result of the Foundation Transfer. Post-closing, OHSU, Legacy Health, and PacificSource intend to maintain their participating provider relationships. PacificSource will address any request to amend contracts with Legacy Health and OHSU on a case-by-case basis.

**i. For insurance carriers, provider contracts and networks**

The parties do not expect any changes to PacificSource’s provider contracts or networks associated with the Foundation Transfer. Post-closing, OHSU, Legacy Health, and PacificSource intend to maintain their participating provider relationships. PacificSource will address any request to amend contracts with Legacy Health and OHSU on a case-by-case basis.

**j. Other contractual arrangements, including contracts with suppliers, partners, ancillary service providers, PBMs, or management services organizations**

The parties intend to maintain existing relationships with vendors and suppliers after the closing of the Foundation Transfer. Legacy Health currently offers its employees health benefits through a self-insured plan administered by PacificSource. The SCA contemplates that OHSU will determine which of Legacy Health’s benefit plans, if any, shall be consolidated with OHSU plans. The parties are not aware of any plans to materially amend or change other contractual relationships but will address any such requests on a case-by-case basis.

**V. Impacts from the proposed material change transaction**

**16. Describe how the proposed material change transaction will impact the public and people served by the entities in Oregon.**

The Foundation will make an immediate and positive impact on the communities currently served by Legacy Health. As an independent and separate foundation, the Foundation will make purposeful and impactful investments to address areas of concern in the region. Its mission will be to create a legacy of generational health and wellbeing through purposeful and impactful investments.

Legacy Health, the Foundation, and OHSU believe that to meaningfully improve health care and health outcomes, investments must be made to address “upstream” factors that strongly affect individuals’ health and wellbeing (commonly referred to as social determinants of health). This led the parties to support the creation of an independent foundation, separate from any health system, that will be free to invest in programs that do the most to improve



population health—even if they have nothing to do with the traditional health care delivery system.

Independent health-focused organizations that are neither affiliated with government or health systems, but instead are reflective of, focused on, and accountable to under-resourced communities, have proven to be powerful catalysts of change with respect to social determinants of health and health equity. The Foundation will fill a critical role in the health ecosystem, as there currently is no other nonprofit organization of this size and nature that is focused on health equity in Oregon and Southwest Washington.

Through collaboration and investment in communities, informed both by other health foundations whose programs have reduced barriers to health throughout the country and by Oregonians who face those barriers most, the Foundation presents a generational opportunity to meaningfully achieve greater health equity in Oregon.

Finally, the parties do not intend for this transaction to affect PacificSource or its members. Although PacificSource is aligned with the mission, values and programs of the Foundation, PacificSource will be classified as an investment asset of the Foundation. The Foundation does not intend to use its member interest in PacificSource to change PacificSource’s management, operations, or strategic direction. Instead, the Foundation will ensure that PacificSource continues to excel at delivering its class-leading Medicare, Medicaid and commercial products to the communities it currently serves.

To diversify its portfolio, the Foundation will seek a buyer for its 50% member interest in PacificSource to divest its interest within the next five to ten years. Per PacificSource’s current by-laws, any member must be an Oregon nonprofit public benefit corporation. This transaction will ensure the Foundation will not be subject to federal excise taxes imposed on private foundation excess business holdings.

- a. **If there are any anticipated negative effects, describe how the entities will seek to mitigate negative impacts.**

Not applicable.

**17. Explain how the proposed material change transaction will:**

- a. **Impact health outcomes for people in Oregon. Provide applicable data, metrics, or documentation to support your statements.**

The Foundation will be uniquely situated to address upstream factors that affect health and health outcomes. This includes social and institutional inequities,

physical environment, living conditions, and other so-called “social determinants of health.” These routine aspects of daily life are not typically considered part of our health care system, yet have an outsized impact on mortality, disease, treatment, and other health outcomes.

Legacy Health is funding the Foundation primarily to improve health equity in Oregon and Southwest Washington through a focus on social determinants of health. To achieve this goal, the Foundation workgroup identified four preliminary focus areas for the post-closing Foundation:

- Mental and behavioral health;
- Substance use;
- Workforce development; and
- Healthy youth and families.

Though the final determination of focus areas will be subject to community input and approval by the future board of the Foundation, the workgroup believes that these four focus areas (a) reflect the urgent health care needs of our community, (b) have upstream causes that are inadequately addressed by our current health care system, and (c) present opportunities for the Foundation to have a quantifiable impact on health outcomes. The Foundation will be well positioned to collaborate with other partners to address upstream factors and advocate for solutions in these focus areas.

True to the Foundation’s mission, each of these focus areas directly impact health outcomes. For example, Oregon faces a chronic shortage of substance use disorder treatment providers, and those providers that are available are not always equipped to handle co-occurring disorders, such as mental and behavioral health. A recent OHA-commissioned study highlighted that 69% of Oregon’s substance use disorder treatment clients have a co-occurring mental health disorder.<sup>1</sup> However, only about half of Oregon’s mental health providers offer integrated mental health and substance use disorder treatment. The study noted that workforce shortages are a key barrier to increasing the number and capacity of co-occurring disorder treatment providers.

The Foundation will be ideally positioned to tackle this kind of systemic problem. Due to its independence from hospitals, payors, and government agencies, the Foundation can help identify and mitigate those barriers that exist within the traditional health care system and those that are upstream of direct care. In the context of increasing access to co-occurring mental and substance use disorder

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<sup>1</sup> Oregon Inventory of Services for Co-Occurring Substance Use and Mental Health Disorders, 2022, OHSU-Portland State University School of Public Health (Prepared for the Oregon Health Authority), available at [https://www.oregon.gov/oha/HSD/AMH/DataReports/COD-Service-Inventory-2022.pdf?utm\\_medium=email&utm\\_source=govdelivery](https://www.oregon.gov/oha/HSD/AMH/DataReports/COD-Service-Inventory-2022.pdf?utm_medium=email&utm_source=govdelivery)

service, this could mean programs that work across health care providers to improve care coordination for patients receiving substance use disorder treatment. It could also mean workforce development programs that are targeted at increasing the ability of existing providers to expand their service offerings, or open entirely new service lines, to better serve clients with co-occurring mental and behavioral health disorders.

By taking a wholistic approach to address well-documented gaps in Oregon's health care system, the Foundation will improve health care outcomes.

**b. Benefit the public good by reducing the growth in health care costs. Provide applicable data, metrics, or documentation to support your statements.**

The Foundation will not be a health care provider, nor will it be affiliated with a health care provider. As such, the Foundation will not directly affect the growth in health care costs. However, it will influence upstream factors that lead to health care inflation.

For instance, health care costs are driven, in part, by workforce shortages. During the COVID-19 pandemic and beyond, Oregon hospitals have had to rely on out-of-state traveling nurses to meet their staffing needs. These traveling nurses are far more expensive than their permanent, full-time equivalents. Reliance on traveling nurses also results in health care dollars flowing outside the state instead of benefiting the communities served by these hospitals.

As such, one of the preliminary focus areas of the Foundation will be health care workforce development. A strong diverse health care workforce is critical to delivering quality, cost-effective, and culturally competent care in the region. The most recent Oregon Health Care Workforce Needs Assessment underscored the need for workforce development in the state, finding that the pandemic exacerbated Oregon's shortage of many types of health care providers, and recommended investment in other factors that influence workforce recruitment and retention (such as housing cost and supply), supporting telehealth, and funding incentives to increase opportunities for training and education.

In considering how to address workforce shortages, the Foundation will look to emulate successful initiatives in other states. For example, in 2017, several of California's leading health foundations, including The California Endowment, Blue Shield of California Foundation, California Health Care Foundation, the Gordon and Betty Moore Foundation, and The California Wellness Foundation, convened the California Future Health Workforce Commission with the purpose of "creat[ing] a comprehensive strategy to move California to build a workforce that can meet the demand for health over the next decade." Participants included the CEO of Dignity Health, a major health system, the president of the University of California system, and other key players across the state. The Commission issued its initial

recommendations in 2019 and has since reported on progress on those recommendations. Successes of the Commission include paving the way for state funding to create the California Medicine Scholars Programs, which provides resources to prepare community college students for careers as primary care physicians in underserved communities; state funding for scholarship and student loan repayments for state mental health workforce programs; and passage of a bill that authorizes nurse practitioners to provide specified services without physician supervision if the nurse practitioners meet additional requirements.

Addressing upstream factors that affect health and health outcomes requires a collective effort. The Foundation will be uniquely positioned to bring grantees, partners, and community members together to share information and ideas and find ways to collaborate. Convenings both ensure that the Foundation is connected to community and aware of community needs, while providing opportunities for a diverse group of people and organizations to come together to tackle major problems that have a far-reaching effect and require a multi-faceted approach to solve. Workforce development is an example of an issue for which the foundation may determine it is appropriate to hold a convening or create a taskforce.

**c. Benefit the public good by increasing access to services for medically underserved populations. Provide applicable data, metrics, or documentation to support your statements.**

The Foundation will be strongly committed to continuously engaging the community around its mission, vision, values, and work. This community engagement will ensure the Foundation's efforts are informed by Oregonians who face barriers to health.

The Foundation will look to examples of how other foundations focused on health equity and racial justice have successfully engaged and empowered medically underserved populations. The community engagement efforts of Inatai Foundation (formerly Group Health Foundation) and Colorado Health Foundation are particularly instructive and successful examples that may provide a roadmap for the foundation to follow.

In its early days as a new independent foundation, Inatai Foundation deeply and authentically engaged with community across Washington state to ensure its mission, vision, and strategy were in alignment with community needs and values. Inatai Foundation traveled across the state, prioritizing meeting with "communities that have historically been overlooked by philanthropy." These community outreach efforts enabled Inatai Foundation to build a framework of principles and values informed and inspired by authentic community engagement.

The Foundation will use this community engagement to direct its work toward the medically underserved. For example, the region has an immense need for

more resources and coordination around mental and behavioral health. A recent report ranked Oregon 48th in the country for adults struggling with mental illness and access to care, and last for youth struggling with mental illness and access to care.<sup>2</sup> This means that Oregonians are disproportionately underserved with respect to behavioral health services.

Making a positive impact in this area will require understanding and addressing the upstream factors that result in and exacerbate mental and behavioral health issues. The Foundation's independence from any health care providers will allow the Foundation to direct its efforts to partners that have the best chance to impact these social determinants, regardless of where they exist in the spectrum of care or services.

Additionally, the Foundation workgroup recognizes that achieving health equity requires a focus on healthy youth and families. Too many children in our communities grow up in families that lack food security, lack adequate shelter, or suffer from abuse or trauma. These social factors can directly contribute to a lifetime of negative mental and physical health outcomes. In planning for the Foundation's early endeavors, the workgroup believes the Foundation can make a positive impact on health equity by investing in programs that seek to improve the lives of vulnerable youth and families.

Examples of programs that may improve health outcomes for the youth in our communities include (a) abuse prevention and education, (b) parenting classes for single parents and working families, (c) improving access to sports and outdoor recreation programs, (d) affordable housing programs targeted at youth and families and (e) support groups for non-binary youth. The Foundation's focus areas and funding decisions are subject to community input and approval by the future Foundation Board, who will adopt a strategic plan and budget to identify and implement the investments in community. But the Foundation's independence and clear mission means that it will have the flexibility to direct resources to those programs that are best able to improve health equity in our communities.

d. **Benefit the public good by rectifying historical and contemporary factors contributing to health inequities or access to services. Provide applicable data, metrics, or documentation to support your statements.**

Gaps in health equity will be most acute where there are shortages in critical services, which increase costs, reduce access, and has a direct negative affect on health outcomes. OHA recently released a report highlighting the acute shortage in substance use treatment services. It noted that the state will need 486 additional acute inpatient psychiatric beds, 3,775 additional residential substance use disorder treatment beds, and 888 additional withdraw

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<sup>2</sup> Ranking the States 2023, Mental Health America, <https://mhanational.org/issues/2023/ranking-states>.

management beds.<sup>3</sup> In each case, this needed capacity is greater than current bed capacity, meaning that Oregon would need to double its bed capacity to meet projected need.

As such, improving health equity in the state will require improving access to, among other things, mental health and substance use treatment services. The OHA report highlighted that one of the key drivers of behavioral health treatment shortages is an upstream workforce shortage. Not only are existing facilities struggling to hire qualified staff, but building the number of facilities needed to address demand would only exacerbate these shortages. Moreover, these shortages are particularly acute for culturally specific providers who can offer culturally appropriate care for diverse and indigenous populations.

As noted above, one of the Foundation's primary focus areas will be workforce development and substance use disorders. The Foundation will therefore explore targeting its workforce development initiatives at those health care providers that are currently most in need, including the behavioral health workforce, which can help unlock additional service capacity. In this way, targeting an upstream factor (workforce development) can have a direct impact on access (by making it possible for new facilities to open and expand), which will in turn have a direct impact on health equity (by giving marginalized communities the culturally appropriate services they need).

- e. **If the transaction will not benefit the public good as described in b-d, explain why this proposed material change transaction is in the best interest of the public.**

This transaction will benefit the public good for the reasons described above.

**18. Describe any competitive effects that may result from the proposed material change transaction.**

- a. **Will the proposed material change transaction result in a decrease in competition?**

This transaction will, if anything, increase competition. The Foundation is not a provider of health care services. Post-closing, its only health care services will be delivered indirectly through its 50% member interest in PacificSource. Thus, the transfer of PacificSource's member interest from Legacy Health to the Foundation will not result in horizontal or cross-market consolidation of health care providers or payors.

Moreover, this transaction will reduce the degree to which the Oregon health care market is vertically consolidated. Currently PacificSource, a payor, is controlled in

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<sup>3</sup> Oregon Health Authority Behavioral Health Residential+ Facility Study (June 2024) *available at* [https://www.oregon.gov/oha/HSD/AMH/DataReports/Behavioral-Health-Residential-Facility-Study-June-2024.pdf?utm\\_medium=email&utm\\_source=govdelivery](https://www.oregon.gov/oha/HSD/AMH/DataReports/Behavioral-Health-Residential-Facility-Study-June-2024.pdf?utm_medium=email&utm_source=govdelivery).

part by Legacy Health, a hospital system. This results in a vertically consolidated system of payor and provider. The transfer of Legacy Health's controlling interest in PacificSource to the Foundation will mean that PacificSource is no longer part of a vertically integrated provider system, which will reduce consolidation and increase competition.

**i. If yes, describe any anticompetitive effects that will result from the proposed transaction.**

Not applicable.

**ii. If yes, describe any plans to mitigate potential anticompetitive effects, including any divestiture plans.**

Not applicable

**b. Provide applicable data, metrics, or documentation to support your statements.**

Not applicable.

**19. Describe the proposed material change transaction's impact on the financial stability of any entity involved in the transaction.**

This transaction will improve the financial stability of the Foundation and Legacy Health and will not affect the financial stability of PacificSource.

Please see OHSU's HCMO filing for more information on the impact of the Proposed Affiliation on the integrated OHSU/Legacy Health system. The transaction is structured to protect the financial stability of Legacy Health after the closing of the Proposed Affiliation, including the initial holdback of some funds that would otherwise be included in the Foundation Transfer to cover Legacy Health's indemnification obligations. In addition, OHSU's current bond rating of AA- creates a favorable basis for the prudent borrowing needed to finance capital needs of the combined system.

The Foundation Funding will not affect the financial stability of PacificSource. PacificSource does not intend to declare any dividends, nor does it project any need for capital from PHA or the Foundation. Nonetheless, the Foundation Funding will ensure that the PacificSource holding company system will remain well capitalized with liquid assets sufficient to address financial needs as they arise.

Ultimately, this transaction will give the Foundation the assets necessary to achieve sustainable improvements in health care and health outcomes in Oregon and Southwest Washington.

## vi. Supplemental materials

Submit the following materials, if applicable, with your submission.

- HCMO-1a: NPI form (required for health care provider entities): Attached as Exhibit 17
- HCMO-1b: Business Entities form (required parties with multiple business entities licensed to operate in Oregon): Attached as Exhibit 3
- HCMO-1c: Facilities and Locations form: Attached as Exhibit 8
- Pre- and post-transaction organizational structure diagram: Attached as Exhibits 10 and 15
- Copies of all current agreements and term sheets for the proposed transaction: Attached as Exhibit 18
- Financial statements for all entities for the most recent three fiscal years: Attached as Exhibits 4, 9 and 11
- Copies of current governance documents for all entities (for examples, bylaws, articles of incorporation, corporate charter, etc.): Attached as Exhibits 19, 20 and 21
- Documentation or analytic support for your responses, as applicable: Attached as Exhibit 16
- Redaction log: Enclosed

*[Signature Page to Filing]*



**VII. Certification**

I, the undersigned, being first duly sworn, do say:

- 1. I have read ORS 415.500 et seq. and OARs 409-070-0000 to 409-070-0085.
- 2. I have read this Notice of Material Change Transaction and the information contained therein is accurate and true.

Signed on the 9 day of October, 2024.

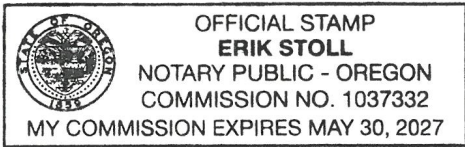
*George Brown MD*

George Brown, M.D.  
President and Chief Executive Officer  
Legacy Health

SUBSCRIBED AND SWORN TO before me, this 9<sup>th</sup> day of OCTOBER, 2024.

*ERIK STOLL*

Notary Public in and for STATE OF OREGON



My Commission Expires: 5/30/2027