

Office of the President

TO MEMBERS OF THE HEALTH SERVICES COMMITTEE:

ACTION ITEM

For Meeting of June 21, 2017

APPROVAL OF PROPOSAL ON WITHDRAWAL FROM CORPORATE MEMBERSHIP IN A HEALTH MAINTENANCE ORGANIZATION, DAVIS CAMPUS

EXECUTIVE SUMMARY

UC Davis Medical Center (“UCD”) seeks the Health Services Committee’s approval to withdraw from the Western Health Advantage (“WHA”) corporation, due to the misalignment in WHA’s and UCD’s business strategies and interests.

RECOMMENDATION

The President of the University recommends that the Health Services Committee:

- A. Approve UC Davis Medical Center’s withdrawal from Western Health Advantage.
- B. Authorize the President, or her designee, after consultation with the Office of the General Counsel, to approve and execute any agreements reasonably required to implement the foregoing action, including any subsequent agreements, modifications, or amendments thereto, provided that such agreements, modifications, amendments, or related documents do not otherwise materially increase the obligations of the Regents or materially decrease the rights of the Regents.

BACKGROUND

In July 1995, the Regents authorized UC Davis Medical Center (“UCD”) to join with Mercy Healthcare/Woodland Healthcare and NorthBay Health System to form Western Health Advantage (“WHA”), a nonprofit public benefit corporation. (Mercy Healthcare and Woodland Healthcare merged after WHA’s incorporation, and subsequently changed their name to Dignity Health.)

Today, WHA is a tax-exempt public benefit corporation that operates a health maintenance organization in Sacramento, Yolo, Solano, Placer, Marin, Napa, and Sonoma counties. It is regulated by the California Department of Managed Health Care as a healthcare service plan

under the Knox Keene Health Care Service Plan Act of 1975. WHA was formed in response to healthcare market forces that were moving toward full-risk capitation: providers or provider groups received a fixed payment per month for each individual assigned to them and then assumed full financial risk for delivery of covered healthcare services to those individuals.

Among other reasons, UCD became a member in WHA in order to strengthen UCD's ability to negotiate effectively with third-party payors, provide increased opportunities for UCD resident training programs, and deliver expanded access to services (e.g., skilled nursing) for UCD patients. These objectives, however, have not been achieved.

Despite UCD Health's concerted efforts over the past several years to modify WHA's strategic plan and rationalize its premium-setting practices, UCD Health has been unable to advance its recommendations. Additionally, there are escalating business risks related to ownership of a health plan, including cybersecurity risks and considerable uncertainty as to the future of the healthcare insurance industry. UCD has concluded that differing opinions among WHA members about prudent financial strategy and increased business risk cannot be resolved.

Accordingly, UCD believes it is necessary and appropriate to withdraw from WHA as a corporate member.

Financial Considerations

It is anticipated that WHA infrastructure in areas such as IT enhancements and growth to support an expanded business model will be necessary in the near term and will require significant capital contributions from its members. Withdrawing from WHA as a corporate member would eliminate UCD's obligation as of the withdrawal date to make future capital contributions to WHA.

Withdrawing from WHA is not itself expected to result in any financial cost to UCD Health. Because WHA is a nonprofit public benefit corporation, withdrawal would not result in forfeiture of any financial interest in the entity. Although a 2014 fair market value analysis of WHA determined its value to be \$86 million, because WHA is a nonprofit public benefit corporation, UCD has no entitlement to any portion of that value from WHA; further, under California law, UCD cannot transfer its interest in WHA to a third party for value. For these reasons, short of dissolution of the corporation or sale of all of its assets to a third party, no distribution of its value could be made to UCD. Such actions, in turn, would require the vote of at least one other member of WHA, and both other members of WHA have indicated that they have no interest in proceeding with a dissolution or sale.

In July 2016, the Regents authorized a loan to WHA in the amount of \$4,334,000, in exchange for a promissory note. The current unpaid balance on the loan is \$3,754,478. UCD's withdrawal from WHA will have no impact on WHA's contractual obligation to repay the Regents.

Legal and Regulatory Considerations

The Regents required as a condition of approving UCD's proposal to participate in WHA that UCD maintain the right to withdraw from the corporation on 90 days' notice. The resulting affiliation agreement and WHA's corporate bylaws permit any member to do so.

No approvals from State or federal regulators regarding the proposed change in corporate membership are required. However, WHA may report the change to the Department of Managed Health Care ("DMHC") or other regulatory bodies.

Campus and Community Considerations

UCD's withdrawal from WHA as a corporate member does not automatically affect its status as a network provider to WHA, though both WHA and UCD Health retain the right to terminate their provider agreement on 120 days' notice. Consistent with UCD Health's practice with respect to all provider agreements, UCD will review the financial performance and operational effectiveness of its network provider agreement with WHA on an annual basis, and make adjustments as needed. In its contract negotiations, UC Davis will work to ensure that the WHA provider network is available to UC employees and continues to include UC Davis providers.

UCD's withdrawal from WHA does not affect the University's Office of Human Resources' decision to continue to contract with WHA to be a health plan option for UC employees, nor would it affect those employees who wish to select that health plan during open enrollment. Neither UCD nor UC Health controls that decision.

UC Health Considerations

Ownership of a health plan is not part of UC Davis's core mission. While participation in various accountable care organizations and investment in UC Care has been determined to be strategically important in other markets and systemwide in recent years, maintaining a corporate membership in WHA offers no current strategic or mission-related benefit for UCD or UC Health.