



PeaceHealth

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INSURANCE COMMISSIONER  
COMPANY SUPERVISION

December 9, 2010

Ronald Pastuch, Holding Company Manager  
Office of the Insurance Commissioner  
State of Washington  
5000 Capitol Blvd.,  
Tumwater, WA 98501

RE: Form A Filing dated September 3, 2010 – Proposed acquisition of Control of  
Columbia United Providers

Dear Mr. Pastuch:

Thank you again for the time at your office yesterday. It was very helpful for us and  
provided a greater understanding of what you need to complete our Form A filing.

Per your request, attached is a narrative overview of the PeaceHealth / Southwest  
Washington Health System Affiliation.

Please contact me at your earliest convenience to confirm that this overview is sufficient  
and renders PeaceHealth's Form A Filing complete.

I will contact you this afternoon as well.

Again, we appreciate your efforts and continued commitment to complete the review of  
this pending transaction prior to December 31, 2010.

Sincerely,

*Meredith Vaughan (K.W.)*

Meredith Vaughan  
System Director, Planning and Strategy

CC: Peter Adler, PeaceHealth Sr. Vice President, Strategy, Innovation and  
Development  
Stu Hennessey, PeaceHealth General Council  
Marcia Strickler, OIC Staff Attorney

## **PeaceHealth/Southwest Health System Affiliation Overview**

The Affiliation between PeaceHealth and Southwest Washington Health System (SWHS) brings together two northwest organizations with nearly identical missions, values, and over a century of providing healthcare services to all patients and entire communities, regardless of their socio-economic or insurance status.

Both PeaceHealth and SWHS share a unique history of having been founded by pioneering Catholic Sisters who built the region's first institutions of hope and healing. Mother Joseph, of the Sisters of Providence, founded the Northwest's first hospital, St. Joseph's in Vancouver in 1858. Mother Teresa Moran founded a different St. Joseph Hospital in Fairhaven, Washington in 1891 for loggers, miners and fisherman. Today, and for some time, each organizations' assets and governance have been separated from the church; both operate with independent, community-based boards; yet both continue to carry forward their near identical core values and spirit of their founders to provide access to high quality, compassionate care and to serve all people, regardless of their ability to pay. For two independent organizations to share such similar beginnings, histories and cultures is at the core of the PeaceHealth/SWHS affiliation.

### **Overview of PeaceHealth**

PeaceHealth is a \$1.4 billion Bellevue, WA-based not-for-profit health care system with medical centers, small critical access hospitals, large community and tertiary hospitals, medical clinics, physician offices, and hospice, homecare, and laboratory services located in Alaska, Washington and Oregon. Founded by the Sisters of St. Joseph of Peace, PeaceHealth has provided exceptional medicine and compassionate care to Northwest communities for more than a century. Three of PeaceHealth's many distinguishing attributes are that: each of PeaceHealth's six geographically dispersed regions are governed by an active, community governing board with delegated powers from the PeaceHealth system board; growth in and expansion to new communities only occurs if and when PeaceHealth has first been invited; and PeaceHealth patients have enjoyed a single, integrated electronic medical record (across all three states and all communities) for over 20 years.

The communities served by PeaceHealth are often those with geographic, economic and access challenges, and/or ones in which PeaceHealth provides the disproportionate share of uncompensated care (\$141,695,000 in FY2009). One of those communities is Cowlitz County in southwestern Washington, within which PeaceHealth operates St. John Medical Center, a 346-bed community hospital, and PeaceHealth Medical Group, a 125 physician multi-specialty medical group based in Longview, WA. St. John's was recently awarded approval by the Department of Health to serve as one of only five western Washington hospitals to offer advanced cardiac cath (PCI) services.

During its most recent fiscal year (2010), PeaceHealth systemwide provided patient care to more than 53,000 inpatient admissions, 513,000 outpatient visits, and over 1 million patient encounters with PeaceHealth Medical Groups. PeaceHealth, with 520 employed physicians and more than 11,000 employees, consistently receives national recognition for innovations in patient-centered care, patient safety, high value services, health care technology, and cost efficiency. Research published in the June 2008 edition of the Joint Commission Journal on Quality and Patient

Safety ranked PeaceHealth as one of the top five health care systems in the country for quality of care, and the leading system in the West. PeaceHealth was also named one of America's top 50 best-performing health care systems in a 2009 Thomson Reuters study published by Modern Healthcare magazine.

Please see Attachment 1 for a pre-affiliation organization structure graphic of PeaceHealth.

**Overview of Southwest Washington Health System:**

Southwest Washington Health System (SWHS) is a \$650 million regional network of healthcare services primarily serving Clark County, Washington. SWHS serves as the health system 'parent' for multiple affiliates, each of which is governed by community-based boards. Through its multiple affiliates, SWHS primarily serves Clark County, Washington; however, its Southwest Washington Medical Center serves as a tertiary referral destination for patients throughout southwestern Washington and northwestern Oregon.

SWHS is a not-for-profit 501(c)3 parent corporation that includes the following subsidiary organizations: Southwest Washington Medical Center, a 442 bed not-for-profit, tertiary-level hospital; Southwest Medical Group, an 100 physician multi-specialty group; Family Medicine of Southwest Washington, a three-year family practice residency program; Southwest Washington Foundation, dedicated to support SWMC and its philanthropy needs; Columbia United Providers, a community-based health plan for Medicaid patients; Southwest Imaging Center - Fisher's Landing, a free-standing diagnostic imaging service; Southwest Washington Regional Surgery Center LLC, an ambulatory (day) surgery facility; and Property & Building Company LLC. Southwest Washington Medical Center is the oldest hospital in Washington State, and its emergency room, with 114,033 visits per year, is the busiest ER in the state. Southwest, like PeaceHealth, sees all patients regardless of their ability to pay and provides over \$77,000,000 in charity care annually to the residents of Clark County.

Please see Attachment 2 for a pre-affiliation organization structure graphic of Southwest.

**How did PeaceHealth and SHWS Find One Another?**

In 2008, the SWHS board self-initiated a strategic planning process in which they explored the question of whether it was in their and the community's best interest to continue to carry on their community-based mission by remaining independent, or by affiliating with a larger health system. In November of 2009, the SWHS board concluded that it was in their and the community's best interest if they affiliated with a larger, northwest-based, not-for-profit health system.

To that end; SWHS invited 3 healthcare systems, of which PeaceHealth was one, to explore an affiliation and to complete a Request for Proposal (RFP) to help them determine which organization might provide the best fit and synergy for their patients and community in the long term. On March 17, 2010, the Southwest Washington Health System Board invited PeaceHealth to formally explore an affiliation. On March 26, 2010, the two organizations executed a non-binding Letter of Intent (LOI), and on December 8, the organizations executed a binding

affiliation agreement within which PeaceHealth would become the sole corporate member of the Southwest Health System on December 31, 2010, subject to required regulatory approvals.

Between April and December, both organizations completed an extensive due diligence process to assess and to confirm that the opportunities and benefits envisioned in the RFP and LOI were substantiated by facts, and that there was truly a good cultural, clinical and strategic fit. The boards of both not-for-profit organizations independently and unanimously reached the same conclusion that Southwest should become a part of PeaceHealth, and as quickly as possible.

Please see Attachment 3 for a post-affiliation organization structure graphic for PeaceHealth and Southwest.

### **Guiding Principles:**

The first thing that the boards of both organizations jointly developed and approved were 12 "guiding principles" .... Principles that would (and did) guide the negotiations, but more importantly, that are expected to guide future planning and operations. These principles are included in the executed Affiliation Agreement:

1. **Mission:** The affiliated organization will continue to serve communities and all patients, regardless of their ability to pay; with a special focus on the poor and the vulnerable.
2. **Values:** The affiliated organization will continue to live, pursue and fulfill the core values of Social Justice, Respect, Stewardship, and Collaboration.
3. **Quality, Safety, and Service:** The affiliation will advance the commitment to and achievement of high levels of quality, safety and service, as well as provide enhanced access to care.
4. **Provider Collaboration:** The affiliation will recognize and enhance the collaboration and partnership with physicians and other healthcare providers throughout the new Southwest/Columbia Region.
5. **Broad/Accessible Services:** The affiliation will respect patient choice while increasing and enhancing options for patients to access a broad array of services in their own community. SWMC will serve as the tertiary center of the new PeaceHealth "Columbia Region".
6. **Our Employees:** Throughout and beyond the affiliation, we will honor our people (our most valuable asset) in accordance with our four core values, including treating every caregiver with dignity and respect.
7. **Integration and Operating Efficiencies:** The affiliation will aggressively seek operating efficiencies and system integration. PeaceHealth will utilize common, systemwide operating platforms (including information technologies), standard support services, and

common processes as soon as possible and where prudent. Integration and operating efficiencies will be pursued and achieved within the Southwest/Columbia Region and across PeaceHealth as an integrated health system. The affiliation will operate on evidence-based practices and will work to establish a fully integrated model of care coordination across the entire Columbia Region as fast as possible.

8. **Simplicity**: The affiliation will strive to operate with the least complex structures and the most efficient processes as soon as practical in service to the Mission and Values of PeaceHealth.
9. **Financial Responsibility**: The affiliation will enable sustained financial strength and the continuation of our mission. Financial strength will safeguard and/or improve our bond rating so that we will have ongoing access to reasonably priced capital and the means by which to deliver the full value of this affiliation to the communities we serve.
10. **Integrity of the System**: PeaceHealth will effectively integrate and manage as one system, pursuant to PeaceHealth policies, in order to best optimize performance and mission fulfillment across the entire system.
11. **Resilience of appropriate regional, local and system control**: The adopted structures must assure that local, regional and system matters are appropriately balanced and distributed. The form of structure developed must assure the long-term continuance of the principles in this document.
12. **Scalability and Flexibility**: The structural arrangements and relationships both within the new Columbia Region, and between the Region and PeaceHealth must be “scalable” and flexible to allow the continued growth of PeaceHealth. The Affiliation should be attractive to other healthcare organizations which may consider joining PeaceHealth in the future.

#### **Anticipated Synergies/Benefits of the Affiliation:**

The following accretive strategic, operational and clinical benefits are anticipated for both organizations (partial list):

- **Cultural Integration and Synergy**: As noted above, PeaceHealth’s history, Mission, Vision and Values are almost identical to those of Southwest. This in turn, will lead to an early and easy cultural fit that will enable Southwest’s staff to feel secure and able to continue their focus on patient care, access and quality with minimal distraction.
- **Scale Economies**: PeaceHealth is a much larger organization that will bring Southwest early financial benefit; including but not limited to lower supply chain (purchasing) costs, lower professional liability costs, greater access to capital, lower financing and debt costs, lower IT acquisition and implementation costs, etc.

- **Growth/Increased Access to Care:** PeaceHealth's and Southwest's services and service areas in Southwestern Washington are adjacent, not redundant, and do not compete with one another. Therefore, we do not anticipate needing to elimination redundancies because there are none. Instead, we anticipate that the combination of the two organizations' services and service areas in southwest Washington will ultimately result in a seamless, integrated network of care, supported by a common electronic medical record that will provide patients with greatly enhanced access to care that is closer to home. As the population in southwestern Washington grows, so too will PeaceHealth.
- **Serving Whole Communities:** Southwest's and PeaceHealth's century-plus commitment is serving all people, regardless of their ability to pay, will continue.
- **Local Governing Boards:** PeaceHealth's model of governance which supports and relies upon strong, well functioning community-based governing boards will continue, so that the combined PeaceHealth/Southwest will continue to be guided by and responsive to the unique needs of each southwest Washington community.
- **Family Practice Residency:** Southwest operates a stellar family practice residency program that graduates 6-7 family practitioner physicians/year. After a period of planning, we anticipate spreading and expanding the residency program in both Vancouver and in other PeaceHealth communities so that PeaceHealth is able to provide access to primary care services despite the growing national shortage of primary care providers
- **Medical Group Practice Management:** Southwest anticipates that it will enjoy significant benefit from PeaceHealth's 15+ year track record and experience operating large, multi-specialty group practices that are economically sustainable and clinically excellent to assist the Southwest Medical Group to rapidly become a national 'destination' for care outcomes, access and operating costs.
- **IT:** PeaceHealth will assist Southwest in transitioning its smaller IT systems to PeaceHealth's larger and sophisticated IT platforms, which will be required for all providers nationally in order to conform to new national guidelines to receive HITECH incentives and enhanced reimbursement dollars.
- **Columbia United Providers (CUP):** PeaceHealth does not currently operate a health plan or insurance vehicle; making CUP a welcome addition to PeaceHealth's services. CUP's expertise, commitment to organizing cost-efficient, high quality networks of care, and its commitment to serve some of the most vulnerable individuals in the community is not only aligned with, but is core to PeaceHealth's Mission.

#### **Columbia United Providers (CUP):**

As noted above and throughout PeaceHealth's Form A filing, the affiliation agreement joins PeaceHealth and Southwest at the level of the Southwest Health System (SWHS) parent organization, not at the level of the CUP subsidiary (please see Attachment 3). Further, although

CUP is an important component of the Southwest Health System, it is a relatively small portion of the overall Southwest/PeaceHealth affiliation. Further, since CUP's current governance and operations are already in good standing with the Office of the Insurance Commissioner, and since due diligence confirmed that CUP's leadership and operations are excellent and already highly aligned with PeaceHealth's Mission and charitable purposes, PeaceHealth is not proposing to make any changes to CUP's governance, management, products, or services at closing.

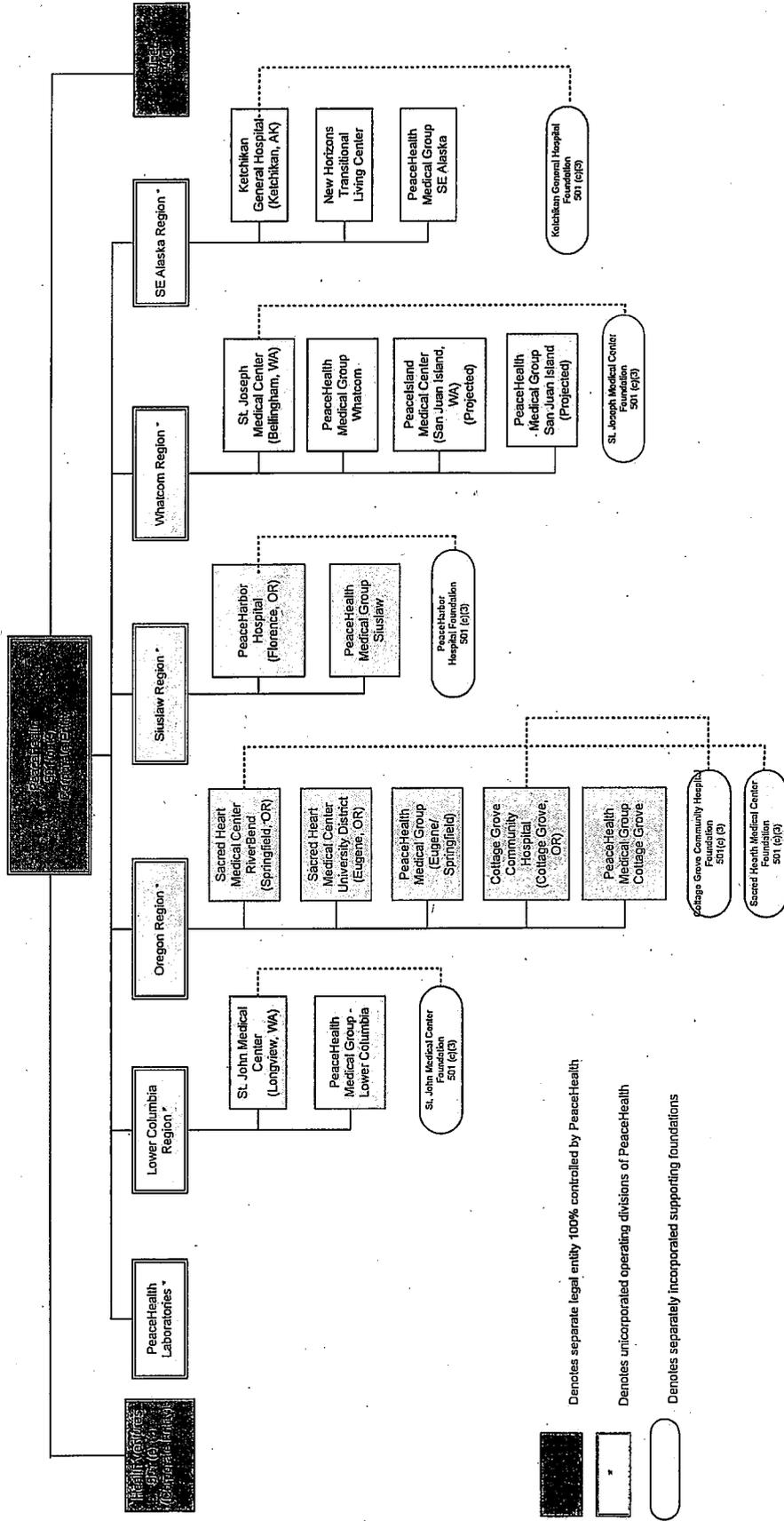
Questions/Additional Information:

Please do not hesitate to contact any of the following people with questions:

1. Meredith Vaughan  
System Director of Planning and Strategy  
Mvaughan2@peacehealth.org  
(425) 649-3885
2. Peter Adler  
Senior Vice-President, Strategy, Innovation and Development  
padler@peacehealth.org  
(425) 649-3845
3. Stu Hennessey  
Senior Vice-President, General Counsel  
Shennessey@peacehealth.org  
(425) 649-3811

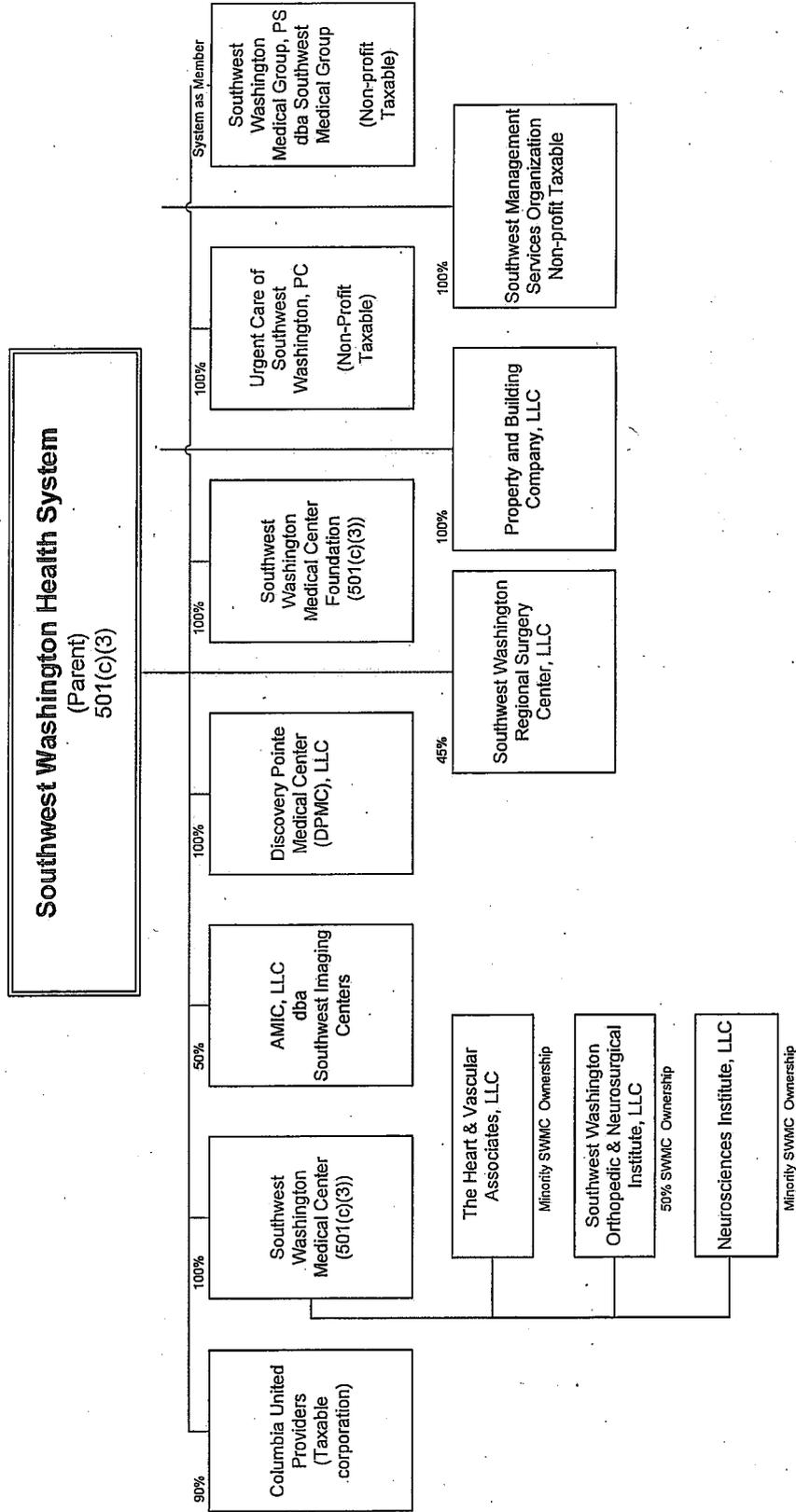
Attachment 1

PeaceHealth System Entity Chart



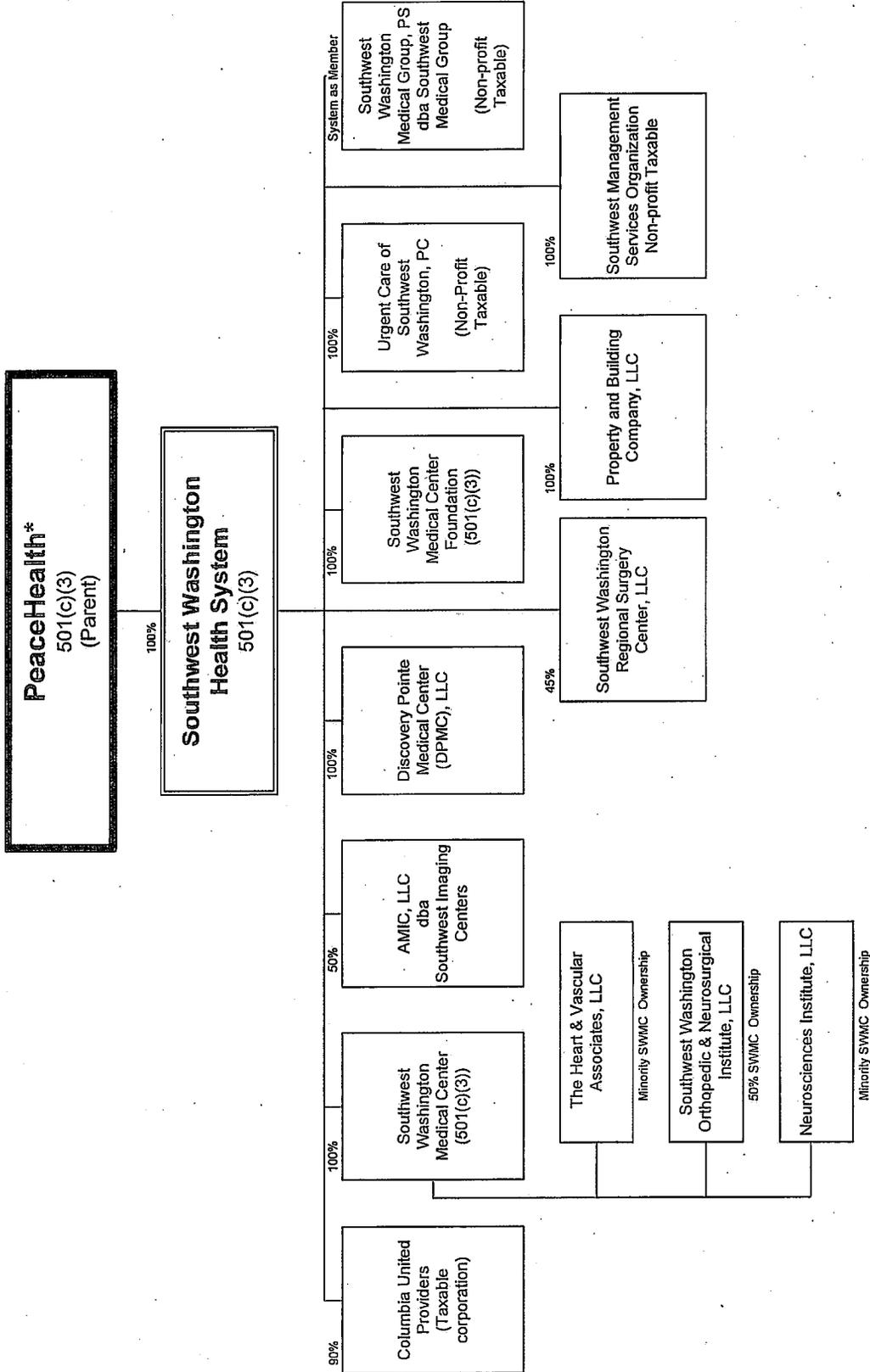
Attachment 2

**Southwest Washington Health System Organization Chart**



Attachment 3

Combined  
PeaceHealth/Southwest Washington Health System Organization Chart



\*See Attachment 1 for the existing PeaceHealth entities and operating divisions