

1 **BEFORE THE STATE OF WASHINGTON**
2 **OFFICE OF INSURANCE COMMISSIONER**

3 In the Matter of:

4 The Form A and Form E Applications for
5 the Proposed Acquisition of Control of:

6 GROUP HEALTH COOPERATIVE and
7 GROUP HEALTH OPTIONS, INC.,

8 By

9 KAISER FOUNDATION HEALTH PLAN
OF WASHINGTON

Docket No. 16-0050

**DECLARATION OF SUSAN E.
MULLANEY ON BEHALF OF KAISER**

10
11 I, Susan E. Mullaney, hereby declare under penalty of perjury as follows:

12 1. I am an officer of Kaiser Foundation Health Plan of Washington, a Washington
13 corporation ("Kaiser"), holding the title of Regional President.

14 2. I present this Declaration on Kaiser's behalf to show the evidence supporting the
15 approval of transaction subject to the above-entitled action. I am authorized to give this
16 Declaration by the powers vested in me under my duties on behalf of Kaiser.

17 **DESCRIPTION OF TRANSACTION**

18 3. Kaiser submitted to the Washington Office of the Insurance Commissioner
19 ("OIC") the Form A Statement and attached exhibits ("Form A") and the confidential Form E
20 statement and attached exhibits ("Form E"), each dated February 26, 2016. Both statements are
21 incorporated herein by reference. As explained in Form A, Kaiser proposes to acquire control of
22 Group Health Cooperative ("GHC") and its subsidiaries (collectively, "Group Health")¹ pursuant
23 to an Acquisition Agreement dated December 2, 2015 (the "Transaction").

24 ¹ GHC is the controlling person within the GHC holding company system. As used herein, the terms
25 "GHC" or "Group Health" shall refer collectively to Group Health Cooperative and each of its
26 subsidiaries (except Group Health Foundation, which will be separated from the GHC holding company
system prior to closing of the proposed transaction). When referred to individually, Group Health
Options, Inc. shall be referred to as "GHO."

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STOEL RIVES LLP
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1 Quality before assuming the role of Chief Operating Officer for Kaiser Permanente's Northwest
2 Region.

3 7. Prior to joining Kaiser Permanente, I served in several leadership positions
4 including Corporate Vice President, Strategic Services Lines and Regional Surgical Services as
5 well as Vice President of Hospital Operations and Cardiovascular, Surgical Services Lines at
6 Fairview Health Services, a seven-hospital system. Before that I was Director of Provider
7 Relations and Contracting at Vivius, Inc., a venture capital-funded start-up. I also served as
8 Senior Director of Ambulatory Care Services for Specialty Care at Fairview Health Services.

9 8. In April 2016, I was promoted to Regional President Designate for Kaiser and
10 tasked to lead the GHC acquisition upon the departure of Donna Lynne, then the Executive Vice
11 President for Kaiser with oversight responsibility for this Transaction. When Ms. Lynne left the
12 organization, her duties relative to this Transaction were transitioned to me. I have reviewed and
13 am familiar with all material terms of the Transaction and the Form A and Form E filings. I
14 continue to be responsible, with others on the team, for overseeing and monitoring the
15 Transaction, and I believe that the Form A and E statements, taken together with all the
16 supplemental information and materials provided to OIC up to this time, are complete, true, and,
17 as supplemented, current in all material respects. I stand ready to respond to any questions and
18 requests that OIC may have, and we endeavored to respond promptly and fully to all that we
19 have received.

20 DESCRIPTION OF THE PARTIES TO THE TRANSACTION

21 9. Kaiser is a Washington non-profit corporation that is exempt from federal income
22 tax as an entity described under Internal Revenue Code Section 501(c)(3). Kaiser has no current
23 operations and it serves as a supporting organization to its parent organization, Kaiser
24 Foundation Health Plan, Inc. ("KFHP"), a California non-profit public benefit corporation and
25 health care services plan that was founded in 1945. Together with Kaiser Foundation Hospitals
26 ("KFH"), a California non-profit public benefit corporation, and the independent and exclusively

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1 contracted Permanente Medical Groups, KFHP and its subsidiary health plan entities operate
2 what is known as the "Kaiser Permanente Medical Care Program" (or together "Kaiser
3 Permanente"). Kaiser's organizational chart and affiliate list are attached to Form A as Exhibits
4 D and E, respectively. The organizational chart shows the pre-closing and post-closing structure
5 of Kaiser.

6 10. Kaiser Permanente is the nation's leading integrated health care delivery system
7 with over 10 million members enrolled in its commercial, Medicare, and Medicaid lines of
8 business. Kaiser Permanente owns and directly operates 38 hospitals and 621 clinics and
9 outpatient facilities, and the Permanente Medical Groups employ approximately 18,000
10 physicians. Kaiser Permanente is widely known as a national and international leader in health
11 care excellence, with exceptional clinical effectiveness scores, outstanding patient safety ratings,
12 and high-performing hospitals.

13 11. The domestic health insurer to which this application relates is GHC, a
14 Washington non-profit corporation and registered health maintenance organization that was
15 founded in 1945. Together with the independent and exclusively contracted Group Health
16 Permanente, P.C., GHC and its subsidiary health plan entity operate what is known as the
17 "Group Health Medical Care Program." Group Health currently serves almost 600,000 residents
18 of Washington and northern Idaho.

19 **CORPORATE AND REGULATORY APPROVALS**

20 12. On December 1, 2015, at a combined meeting of the boards of directors of Kaiser,
21 KFHP, and KFH, the board of directors of Kaiser authorized and approved the terms and
22 conditions of the Transaction and all actions taken in connection with the loan by KFH to Kaiser
23 of the funds necessary to close the acquisition. A quorum of the Kaiser board was present at the
24 meeting.

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1 does not plan to effect any change in GHC's business, corporate structure, management or
2 general plan of operations that would have any adverse impact on the ability of Group Health to
3 continue to satisfy the requirements of the Washington Revised Code for the issuance of a
4 license. Further, Group Health is well capitalized and will take no steps that would impair its
5 ability to meet all of its obligations.

6 **Requirement 2: The Transaction Will Not Substantially Lessen Competition**
7 **or Create a Monopoly in Insurance in Washington. RCW**
8 **48.31B.015(4)(a)(ii), 48.31B.020(4)(a).**

9 20. The effect of the acquisition will not substantially lessen competition in the
10 insurance industry, nor will it create a monopoly in the health coverage business in Washington.

11 21. As explained above, Kaiser has submitted to the U.S. Department of Justice and
12 the Federal Trade Commission a pre-merger notification statement under the HSR Act relating to
13 the Transaction. The Transaction has since been cleared by those agencies.

14 22. Further, Kaiser engaged an expert economist to conduct an economic assessment
15 of the competitive impact of the Transaction following the approach outlined in RCW
16 48.31B.020 and in response to questions raised by the OIC. Dr. Noether concluded that, among
17 other things, the proposed acquisition will not lead to a substantial reduction in competition, but
18 rather, will bring substantial economies of scale or economies in resource use that cannot
19 feasibly be achieved in any other way. She further concluded that the proposed acquisition is in
20 the best interests of Washington consumers and that the combined organization will increase the
21 availability of insurance and provide vigorous competition by guaranteeing access for
22 Washington consumers to cost-effective innovative products.

23 **Requirement 3: The Financial Condition of Kaiser Will Not Jeopardize the**
24 **Financial Stability of GHC or Prejudice the Interests of GHC's Policy**
25 **Holders. RCW 48.31B.015(4)(a)(iii).**

26 23. Kaiser's financial condition will not jeopardize the financial stability of Group
Health or prejudice the interest of its policyholders. Additionally, Kaiser is aware of no
information suggesting that its financial condition would prejudice the interests of GHC's

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1 policyholders. Kaiser Permanente has consistent, stable, and sustainable financial performance.
2 In 2015, Kaiser Permanente generated \$60.749 billion in operating revenue, \$3.319 billion in
3 operating income, and \$1.868 billion in net income. The financial statements provided with the
4 Form A, which include the most recent combined financial statements for the nine-month period
5 ending September 30, 2016, also reflect the strong financial condition of Kaiser.

6 24. With its financial strength, Kaiser believes that the Transaction will not jeopardize
7 the financial stability of Group Health or prejudice the interest of its subscribers, and will
8 actually substantially strengthen Group Health's financial stability and ability to serve its
9 subscribers with Kaiser as its parent corporation.

10 **Requirement 4: The Transaction Is Fair and Reasonable to GHC's**
11 **Policyholders and Is in the Interest of the Public. RCW 48.31B.015(4)(a)(iv).**

12 25. As stated in the Form A, Kaiser has no current plans to declare any extraordinary
13 dividends, liquidate GHC, sell GHC's assets outside the ordinary course of business, or merge
14 GHC with any third party. Kaiser also has no current intention to make material changes in the
15 business operations, corporate structure, or management of Group Health, including in GHC's
16 subsidiary health plan GHO, except as specifically discussed in Form A or which may arise in
17 the ordinary course of business. Kaiser has also provided to the OIC confidential financial
18 projections for GHC for a period of time after closing and has indicated that the expertise of
19 Group Health physicians and employees will be integral to the continued delivery of excellent
20 care. As such, the Transaction is not anticipated to result in significant job loss, although certain
21 limited leadership changes have been identified in the Form A.

22 26. The corporate structure resulting from the Transaction, as described in the Form
23 A, is fair and reasonable to GHC's policyholders. Kaiser will at closing appoint a board of
24 directors for GHC that contains no less than one-third GHC-enrolled participants or consumers
25 who are substantially representative of the enrolled population of GHC. Kaiser will also adopt
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1 corporate bylaws at closing that require the creation of a Consumer Advisory Committee of at
2 least 25 people to provide GHC's members with an opportunity to participate in matters of
3 policy and operation, to promote the effective use of health care services within the organization,
4 and to suggest ways that the organization can better serve its members and the community as a
5 whole. Kaiser will continue to recognize and engage with special interest groups formed by
6 GHC members, including the group known as the "GHC Senior Caucus."

7 27. The Transaction will also yield significant benefits for GHC and its members. It
8 will facilitate strategic investments in technology, facilities, and providers that will, in turn,
9 enhance Group Health's ability to deliver high-quality, affordable health care and coverage
10 through its integrated delivery system. From an operations and cultural perspective, Kaiser and
11 GHC are highly compatible. Each of these organizations links care delivery and insurance to
12 offer affordable, high-quality health care services using the same integrated and dedicated group
13 practice model. The combination of Kaiser Permanente and Group Health will ensure that the
14 integrated delivery model that Group Health offers today will not only remain available in
15 Washington, but will have the resources to expand and thrive into the future. The Transaction
16 will also preserve the charitable non-profit mission of GHC and separately endow a new
17 community foundation, GHCF, with \$1.8 billion in assets. GHCF will be a non-profit that is
18 entirely independent of Kaiser and will exist solely to serve the community.

19 28. The financial condition and resources of Kaiser will also materially strengthen the
20 financial stability of GHC. In addition to the Transaction consideration used to endow GHCF,
21 Kaiser has made other substantial financial commitments to the benefit of Group Health's
22 members. These include a commitment to spend \$1 billion in aggregate in GHC during the first
23 10 years following closing for capital improvements and key investments in infrastructure and
24 other improvements to help ensure the success of GHC's charitable mission and continued
25 provision of high-quality health care. Kaiser has also committed to continue operating GHC as a
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1 charitable organization, and related to that expects to make \$800 million in community benefit
2 investments for the communities GHC serves over the same 10-year period.

3 **Requirement 5: The Competence, Experience and Integrity of Those Who**
4 **Will Control GHC Following the Closing of the Transaction Indicate That**
5 **the Transaction Is in the Best Interests of GHC's Policyholders and in the**
6 **Public Interest. RCW 48.31B.015(4)(a)(v).**

7 29. The competence, experience, and integrity of those persons who will control GHC
8 are such that it would be in the interest of subscribers of GHC and of the public to permit the
9 Transaction. Kaiser submitted detailed, confidential biographical materials for each of the post-
10 acquisition officers and directors in connection with Form A, none of which indicate a lack of
11 trustworthiness, competence, experience, or integrity on the part of the officers and directors. In
12 addition, my personal experience with these individuals has led me to believe that they all have
13 the requisite competence and expertise to successfully operate and control the operations of GHC
14 in a manner that is consistent with the interests of the policyholders and the public.

15 **Requirement 6: The Transaction Is Not Likely to Be Hazardous or**
16 **Prejudicial to the Insurance Buying Public. RCW 48.31B.015(4)(a)(vi).**

17 30. Kaiser is confident that the Transaction will be beneficial to GHC's current and
18 future members and thus to the wider Washington insurance-buying public. GHC and its
19 members will benefit from Kaiser's resources and systems, and members will be ensured of
20 continuity and stability in the services and benefits available to them. As a result, the
21 Transaction will benefit GHC's policyholders specifically and the insurance-buying public in
22 general.

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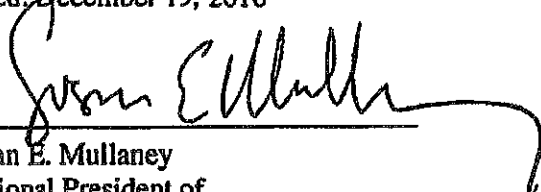
1 I state under penalty of perjury that the foregoing is true and correct to the best of my
2 knowledge, information, and belief.

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4 Dated: December 19, 2016

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Susan E. Mullaney
Regional President of
Kaiser Foundation Health Plan of Washington

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CERTIFICATE OF SERVICE

I, Shannon Liberio, certify that at all times mentioned herein, I was and am a resident of the state of Washington, over the age of eighteen years, not a party to the proceeding or interested therein, and competent to be a witness therein. My business address is that of Steel Rives LLP, 3600 One Union Square, 600 University Street, Seattle, Washington 98101.

On December 20, 2016, I caused a true and correct copy of the foregoing document to be served upon the following parties in the manner indicated below:

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Handwritten signature of Shannon Liberio
Shannon Liberio, Practice Assistant
Steel Rives LLP

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