

H&S Code Section 1399.65 Market Impact Analysis

DATE: December 2, 2020

RE: Licensee: Stanford Health Care Advantage
File No. 933 0507
Material Modification eFiling No. 20201761
Change of Control Filed May 14, 2020

This memorandum constitutes the Department of Managed Health Care's (DMHC or Department) Transaction or Agreement Statement (Transaction Statement) pursuant to Health and Safety Code section 1399.65, subdivision (d),¹ and the Major Transaction or Agreement Determination (Major Transaction Determination) pursuant to Section 1399.65, subdivision (g)(1), for the above captioned Notice of Material Modification (Notice).

I. TRANSACTION STATEMENT

The Department conducted a review of the Notice pursuant to Section 1399.65, subdivision (d) and determined a material amount of the Licensee's assets were subject to purchase, acquisition, or control.

Section 1399.65, subdivision (d), in pertinent part, provides:

“If the director determines a material amount of assets of a health care service plan is subject to purchase, acquisition, or control, the director shall prepare a statement describing the proposed transaction or agreement subject to subdivision (a) and make it available to the public.”

Section 1399.65 does not define the term “material” in the phrase “material amount of assets.”

On May 14, 2020, licensee Stanford Health Care Advantage (Plan) filed the above-captioned Notice with the Department proposing a Change of Control, Filing No. 20201761. The Plan is currently licensed under the Knox-Keene Health Care Service Plan Act of 1975, as amended,² to offer Medicare Advantage products in the counties of Alameda, San Mateo, and Santa Clara.

¹ All further statutory references are to the Health and Safety Code unless otherwise indicated.

² Sections 1340 et seq., hereinafter “the Act.”

The Notice proposes a change of control of the Plan through an acquisition agreement providing for Essence Plan Holdings, LLC (Essence) to purchase and acquire eighty-three percent (83%) of all of the issued and outstanding capital stock of the Plan from Stanford Health Care (SHC). Upon closing of the proposed transaction, Essence would have a majority ownership and be the ultimate controlling entity of the Plan.

Accordingly, the Department determined a material amount of assets of Stanford Health Care Advantage are subject to purchase, acquisition, or control, and therefore this Transaction Statement describing the proposed transaction is required.

II. MAJOR TRANSACTION DETERMINATION

The Department conducted a review of the Notice pursuant to Section 1399.65, subdivision (g)(1), and determined the proposed transaction will not affect a significant number of enrollees, involve a material amount of assets on a market-wide basis, or adversely affect either the subscribers or enrollees or the stability of the health care delivery system

Section 1399.65, subdivision (g)(1), in pertinent part, provides:

“[M]ajor transaction or agreement” means a transaction or agreement that meets any of the following criteria: [¶] (A) Affects a significant number of enrollees. [¶] (B) Involves a material amount of assets.³ [¶] (C) Adversely affects either the subscribers or enrollees or the stability of the health care delivery system because of the entity’s market position, including, but not limited to, the entity’s market exit from a market segment or the entity’s dominance of a market segment.”

[Original quotation and punctuation marks].

Section 1399.65, subdivision (g)(2) provides, “The Director shall, upon request, make available to the public his or her determination of whether a transaction or agreement meets the criteria set forth in this subdivision.”

In determining whether the transaction meets the stated definition of “major transaction or agreement,” the Department reviewed the specific facts of the case in light of the criteria in Section 1399.65, subdivision (g)(1)(A) through (C).

The specific facts of the proposed transaction do not meet any of the criteria stated in Section 1399.65, subdivision (g)(1)(A) through (C) and therefore the Department determined the change of control proposed through the Notice is not a major transaction or agreement, and no public meeting or independent analysis is required.⁴

³ A “material amount of assets” refers to a market-wide analysis.

⁴ The Department will hold a public hearing pursuant to Section 1399.74 regarding the Plan’s separately filed Notice of Material Modification proposing a corporate conversion.