



August 21, 2015

Jack M. Stover, Esquire
Buchanan Ingersoll & Rooney PC
409 North Second Street, Suite 500
Harrisburg, PA 17101-1357

RE: Highmark Health – Preliminary AHN Corrective Action Plan

Dear Mr. Stover:

This letter is to acknowledge receipt of both the confidential and public versions of the Preliminary AHN Corrective Action Plan (the “Preliminary Plan”) submitted by Highmark Inc. (“Highmark”) on July 15, 2015, as required pursuant to Approval Condition H (“Condition H”) of the June 19, 2015 letter from the Department.

We have completed an initial review of the Preliminary Plan. While we understand that this is preliminary, the documents that Highmark submitted do not begin to address the detail that will be required for the Final AHN Corrective Action Plan (the “Final Plan”) to comply with Condition H.

Most important, the drafts fail to provide or describe the particular corrective steps or actions that will be taken to turn around Allegheny Health Network’s (“AHN”) performance. Moreover, while Highmark attached an appendix to the Preliminary Plan that contains an undertaking to provide further disclosure responsive to the Condition H requirements, this undertaking does not include all of the items contained in Condition H, a full and complete response to which will be necessary to make the Final Plan responsive to the Condition H requirements.

To summarize the types of disclosure that need to be included in the Final Plan, attached as Exhibit A is a schedule that lists specific requirements of Condition H, the general extent to which Highmark has responded to the requirements in the Preliminary Plan, and whether Highmark has acknowledged that the requirements will be included in the Final Plan.

The Department is looking forward to the Final Plan being filed on or before September 30, 2015.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Johnson".

Stephen J. Johnson, CPA
Deputy Insurance Commissioner
Office of Corporate and Financial Regulation

August 17, 2015

EXHIBIT A

Analysis of Highmark’s Responses in the Preliminary AHN Corrective Action Plan

Condition H Requirement	Preliminary Plan
<p>(1) (a): A description of the specific steps and investment of funds and changes to AHN and the AHN Entities that have already been taken to carry out or implement the IDN Strategy since the close of the Affiliation Agreement; specifically including: (A) a description of the category of the IDN program changes, projects or investments that have been incurred or implemented (the “Changes Implemented”); (B) the cost thereof; (C) the specific locations at which the Changes Implemented were made; and (D) the reason(s) why such changes or investments were required or advisable;</p>	<p>Not Included¹</p>
<p>(1) (b): The specific results or benefits/cost savings sought to be obtained by the Changes Implemented, including a quantification of value, if available, and comparison of the actual benefits/cost savings obtained to date in comparison to those anticipated as of the date that such Changes Implemented were incurred or implemented;</p>	<p>Not Included²</p>
<p>(1) (c): A description of any steps, initiatives or plans that were proposed, but not implemented, and the reasons for not implementing such plans or proposals</p>	<p>Not Included³</p>
<p>(1) (d): The specific objectives or goals of all strategies, plans and actions comprising the AHN Corrective Action Plan, including the timeline for the accomplishment of these objections (the “Plan Objectives”);</p>	<p>Not Included⁴</p>

¹ Appendix B to the public version states that this information will be included in the Final Plan.

² See footnote 1. Per Highmark, to be included in Final Plan.

³ See footnote 1. Per Highmark, to be included in Final Plan.

⁴ See footnote 1. Per Highmark, to be included in Final Plan.

Condition H Requirement	Preliminary Plan
<p>(1) (e): Detailed operating and financial projections on a quarterly basis for the period of July 1, 2015 through December 31, 2017 and a description of the assumptions underlying such projections which must be reasonable and likely attainable.</p>	<p>Not Fully Responsive⁵</p>
<p>(1) (e) (<i>cont'd.</i>): The following operating and financial projections, with a description of the assumptions underlying such projections which must be reasonable and likely attainable:</p> <p>(i): Projected inpatient discharges and outpatient registration volume for each AHN Entity, along with projected occupancy rates and in connection therewith:</p> <p>(A) Provide written commentary explaining why the Board of Directors of Highmark Health (the "Highmark Health Board") and the Board of Directors of AHN and their management believe these volumes to be achievable; and</p> <p>(B) Discuss the impact of the current University of Pittsburgh Medical Center Consent Decree upon these projections.</p>	<p>Not Fully Responsive⁶</p>
<p>(ii): Projected income statements, displaying a level of detail consistent with the Base Case Financial Projections for the AHN Entities submitted by Highmark in connection with the 2013 Order.</p>	<p>Not Fully Responsive⁷</p>

⁵ See footnote 1. Per Highmark, to be included in Final Plan. Highmark included only annual projections, not quarterly projections. It also summarized five key assumptions that are expected to impact AHN's operating performance: (1) volume; (2) payer payments; (3) expense inflation; (4) expense reduction through efficiency and revenue improvement initiatives; and (5) investments in the future. However, some of these assumptions are vague and, again, do not reflect quarterly projections. For example, the filing states that volume is expected to increase because of: "Highmark product offerings, continued expansion and enhancements of AHN capabilities and the expiration of the safety net provision within the Consent Decrees." But, it does not explain what products it is offering, where it is expanding, or what steps it is taking that will enhance its capabilities; moreover, what capabilities will be enhanced.

⁶ See footnote 1. Per Highmark, to be included in Final Plan. Again, here only annual projections, not quarterly projections are included. There is no written commentary explaining why the Highmark Health and AHN boards believe these volumes will be achievable. The Consent Decree is discussed in several places, stating only that its expiration will increase Volume, but never explaining how or whether such an assumption is realistic.

⁷ See footnote 1. Per Highmark, to be included in Final Plan. Annual, not quarterly, projections with no written commentary.

Condition H Requirement	Preliminary Plan
(iii): Projected balance sheets, displaying a level of detail consistent with the Base Case Financial Projections for the AHN Entities.	Not Fully Responsive ⁸
(iv): Projected cash flow statements, displaying a level of detail consistent with the Base Case Financial Projections for the AHN Entities.	Not Fully Responsive ⁹
(v): A detailed schedule of anticipated capital expenditures for all of the AHN Entities' facilities, including: (A) For each AHN facility, a specific list of significant projects and the timing of these projects, including each Specific Scheduled Use; (B) A list of strategic initiatives, including potential acquisitions of other businesses or entities, including, hospitals, physician groups, laboratories or other enterprises; and (C) A schedule of anticipated future spending by AHN or any AHN Entity for its or their affiliated community hospitals and the strategic rationale for such spending.	Not Fully Responsive ¹⁰
(vi): A schedule of projected salaried and non-salaried employees on an full-time equivalent basis for the AHN Entities in total and for each primary AHN Entity operating segment or component, together with an explanation of how each primary operating segment or component is defined.	Not Included ¹¹

⁸ See footnote 1. Per Highmark, to be included in Final Plan. Annual, not quarterly, projections with no written commentary.

⁹ See footnote 1. Per Highmark, to be included in Final Plan. Annual, not quarterly, projections with no written commentary.

¹⁰ This portion of Appendix B in the non-confidential version to the Preliminary Plan states: "A detailed schedule of capital expenditures for all of the AHN Entities' facilities, including a description of any plans to downsize, close or repurpose, in whole or in part, any facility or operation owned or operated by any AHN Entity and provide a schedule of the timing and cost/benefit analysis associated with these plans." This conflates conditions H-1(e)(v) and (vii) of the Approval Letter, without accounting for the specifications required by conditions H-1(e)(v)(A)-(C) and H-1(e)(vi). It also provides annual, not quarterly, projections with no detail for each facility or the inclusion of a list of significant projects or initiatives and their respective timelines – except to state that fully implementing Epic, acquiring new physician practices, investing in new service lines and outpatient centers will require higher expenditures. However, there are few details as to why the particular costs are anticipated or within which facilities the costs will be allocated.

¹¹ Based on Appendix B, it is not clear if Highmark will address this requirement as there is no undertaking to provide this information contained in Appendix B.

Condition H Requirement	Preliminary Plan
(viii): A description of any plans to downsize, close or repurpose, in whole or in part, any facility or operation owned or operated by any AHN Entity and provide a schedule of the timing and cost/benefit analysis associated with these plans.	Not Included ¹²
(viii): A schedule of any anticipated future Financial Commitments from any Domestic Insurer to any direct or indirect AHN Entity along with the purpose of such Financial Commitments.	Not Included ¹³
(ix): A calculation of AHN's projected Days Cash on Hand (the "DCOH") as defined in the Master Trust Indenture dated May 1, 2007, as amended, relating to the West Penn 2007A Series Bonds (the "Trust Indenture") for each quarter through December 31, 2017.	Not Fully Responsive ¹⁴
(x): A calculation of AHN's projected Debt Service Coverage Ratio as defined in the Trust Indenture for each quarter through December 31, 2017.	Not Fully Responsive ¹⁵
(xi): Provide functional excel backup to each set of financial projections requested in items H.(1)(e)(i) – (x) above.	Not Included ¹⁶
(xii): A list of any projected future changes in Specific Scheduled Uses of the AHN Financial Commitment.	Not Included ¹⁷

¹²See footnote 1. Per Highmark, to be included in Final Plan.

¹³ Based on Appendix B, it is not clear if Highmark will address this requirement as there is no undertaking to provide this information contained in Appendix B.

¹⁴Annual, not quarterly, projections with no written commentary. Additionally, based on Appendix B, it is not clear if Highmark will further address this requirement as there is no undertaking to provide this information contained in Appendix B.

¹⁵Annual, not quarterly, projections with no written commentary. Additionally, based on Appendix B, it is not clear if Highmark will further address this requirement as there is no undertaking to provide this information contained in Appendix B.

¹⁶ Based on Appendix B, it is not clear if Highmark will address this requirement as there is no undertaking to provide this information contained in Appendix B.

¹⁷ Based on Appendix B, it is not clear if Highmark will address this requirement as there is no undertaking to provide this information contained in Appendix B.

Condition H Requirement	Preliminary Plan
<p>(2): As part of the AHN Corrective Action Plan, Highmark Health shall provide a description of the diligence process that the Highmark Health Board pursued in order to ultimately approve the AHN Corrective Action Plan, including a description of the following:</p> <p>(a) The manner in which the AHN Corrective Action Plan was prepared and how the projections were assessed or made at each facility;</p> <p>(b) The material issues or concerns that the Highmark Health Board or management expressed with regard to earlier drafts of the AHN Corrective Action Plan; and</p> <p>(c) The changes that were made to the AHN Corrective Action Plan in order to ultimately obtain approval by the Highmark Health Board.</p>	<p>Not Included¹⁸</p>
<p>(3): Prior to submission of the Final AHN Corrective Action Plan to the Department, Highmark Health shall have the Final AHN Corrective Action Plan reviewed at its sole cost and expense by an independent external financial expert experienced in these matters who was not involved with, and who did not otherwise participate in the preparation of or provide any analysis for, the Preliminary AHN Corrective Action Plan or the Final AHN Corrective Action Plan (the "Financial Commitment Reviewer"). . . A copy of such report shall be submitted to the Department as part of the Final AHN Corrective Action Plan and a public version of such report also shall be submitted to the Department.</p>	<p>Not Included¹⁹</p>
<p>(5): Identify any Financial Commitments (including Donations) contemplated by the Final AHN Corrective Action Plan.</p>	<p>Not Included²⁰</p>

¹⁸ See footnote 1. Per Highmark, to be included in Final Plan.

¹⁹ See footnote 1. Per Highmark, to be included in Final Plan.

²⁰ See footnote 1. Per Highmark, to be included in Final Plan.