

Stanford Health Care-ValleyCare merger approved 2 hospital groups receive final OK from state's Attorney General

by Jeb Bing

California Attorney General Kamala Harris Tuesday issued the final approval needed for Stanford Health Care to proceed with its acquisition of ValleyCare Health System and its medical center in Pleasanton. Harris' approval ends a near-year-long effort by the governing board of directors of ValleyCare to find a partner as the health system plunged deeper into debt. While allowing Stanford Health Care to acquire ValleyCare, Harris also ruled that the Pleasanton-based health system must continue providing medical services here for at least five more years, including its 24-hour emergency medical operation and most other services now available.

The current ValleyCare board of directors and CEO Scott Gregerson apparently will remain in place for now with some consolidation, along with "substantially all of the employees employed by VCHS," Harris said in a 21-page letter and "Conditions to Change" packet. "We are very encouraged by the report," Gregerson said. "The work of the Attorney General was thoughtful and considered and the community will be well served by her decision." "This decision validates the work of the (ValleyCare) board of directors and honors the will of our corporate membership many of whom supported this hospital for over 50 years." He said Stanford will now review the terms as proposed. "ValleyCare is a great hospital and is now poised to be far better than it has ever been," Gregerson added. "I would be remiss if I didn't thank the employees and physicians for their unyielding efforts to serve this community during a challenging time and we are awed by the potential this partnership will bring."

As part of the merger agreement, Stanford will provide a capital commitment of \$50 million during the first three years and will be co-obligated on, or guarantee, VCHS's \$85 million revenue bonds in order to resolve the current bond covenant compliance issues.

Although ValleyCare will remain in existence as a nonprofit, public benefit corporation, it will operate as a subsidiary of Stanford. ValleyCare's corporate members, including some still active who paid as little as \$50 to help build Valley Memorial Hospital in 1961, will be terminated as Stanford assumes full operating and management control over ValleyCare. Some corporate members will be offered membership in the ValleyCare Charitable Foundation, which will continue its philanthropic and fundraising efforts for the Pleasanton organization.

Stanford Health Care will take control of the ValleyCare board of directors by creating a new board that will have 11 directors, consisting of three Class A directors who will be chosen by ValleyCare's current board from among its current members, and eight Class B directors. As vacancies occur, the Class A directors will select replacement directors, whose appointment will be subject to approval by Stanford. Class B directors will be selected by Stanford from a slate of candidates submitted by a nominating committee appointed by Stanford.

The agreement also gives the Charitable Foundation an oversight responsibility to protect the community's interests by monitoring Stanford's satisfaction of certain commitments under the Affiliation Agreement for a period of five years. The amended governing documents of the Charitable Foundation will give members the opportunity to elect the Charitable Foundation's board of directors from among nominees approved by the new VCHS Board.

For its part, Stanford will provide fundraising expertise and a charitable contribution of \$3 million to the foundation. VCHS will continue to provide meeting space necessary for the foundation to carry on its fundraising functions. The sole purpose of the foundation going forward will be to support VCHS and further the charitable purposes it serves. The ValleyCare Medical Foundation is a separate nonprofit corporation of which VCHS is the sole member. The foundation contracts with ValleyCare Physician Associates to provide medical services in the foundation's clinics. The new affiliation with Stanford will not initially affect this structure, with the medical staff remaining a part of ValleyCare. However, over time the ValleyCare Medical Foundation operations may be combined into Stanford's Bay Area physician network. Stanford leadership also will assist and provide support to ValleyCare and its medical staff in clinical care currently offered at the ValleyCare hospital and medical facilities in Pleasanton and Livermore as well as support the development and operation of a broad geographic network of health care providers and facilities in collaboration with Stanford Health Care and the Stanford University and its School of Medicine.

This effort will further the charitable, scientific and educational purposes of the university as well as develop, sponsor and advance services and programs that address the physical and 7

A name change for ValleyCare also is likely that will keep that name but also add Stanford Health Care.

An analysis of ValleyCare's service area, which is reported in the attorney general's letter of approval documents, shows the percent of the hospital's market share in the mid-40s in Pleasanton and Livermore, on the mid-30s in Dublin, and then mostly in the single digit range for patients from other Tri-Valley cities. The exception is a 19.5% market share in unincorporated Sunol.