



DATE: July 18, 2024  
TO: Amy J. Malm  
Mark McNabb  
FROM: Christopher Martin  
SUBJECT: Form A - Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer

**Filing Contact(s)**

**Primary Contact(s):**

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**Exhibit(s)**

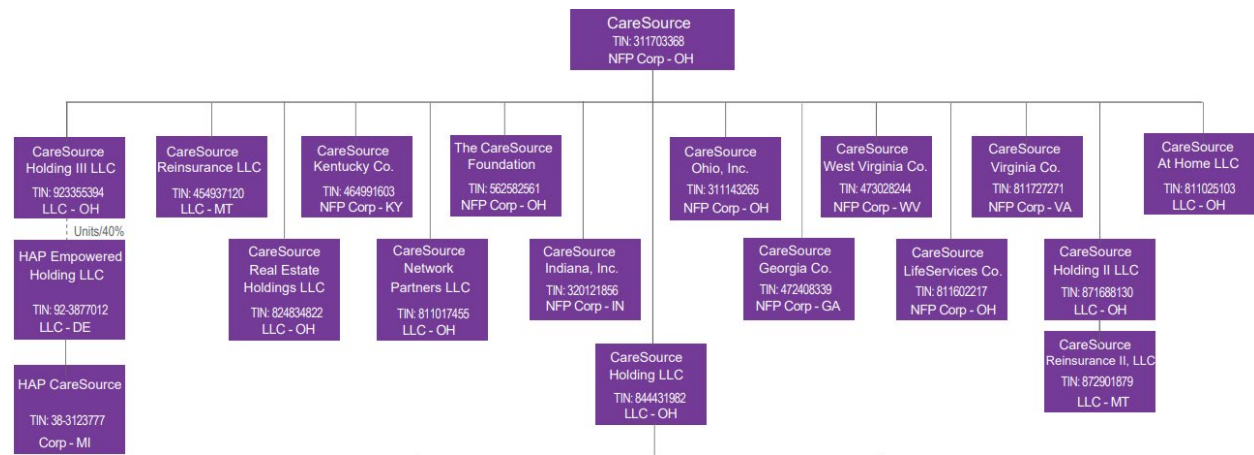
<b><u>Exhibit:</u></b>	<b><u>Description:</u></b>
Ex. 1	Transmittal Letter
Ex. 2	Form A Filing
Ex. 3	Affiliation Agreement (Redacted)
Ex. 4	Organizational Chart Prior to the Proposed Affiliation
Ex. 5	Organizational Chart After the Proposed Affiliation
Ex. 6	Directors and Executive Officers of CareSource
Ex. 7	Directors and Executive Officers of CGHC
Ex. 8	Administrative Services Agreement (Redacted)
Ex. 9	First Amended Administrative Services Agreement (Redacted)
Ex. 10	First Amended Administrative Services Agreement (Redlined against existing Administrative Services Agreement (Redacted))
Ex. 11	Audited Financial Statements of CareSource for the years ended 2019 to 2023
Ex. 12	Affiliation Agreement (Unredacted)
Ex. 13	Biographical Affidavits of CareSource
Ex. 14	Business Plan of CGHC
Ex. 15	Financial Projections of CGHC
Ex. 16	CGHC Request to CMS to Voluntarily Terminate CO-OP Program Loan Agreement, dated April 2, 2024 (Submitted to CMS on April 17, 2024)
Ex. 17	Biographical Affidavits of CGHC

- Ex. 18 Administrative Services Agreement (Unredacted)
- Ex. 19 First Amended Administrative Services Agreement (Unredacted)
- Ex. 20 First Amended Administrative Services Agreement (Redlined against existing Administrative Services Agreement (Redacted))

**Executive Summary**

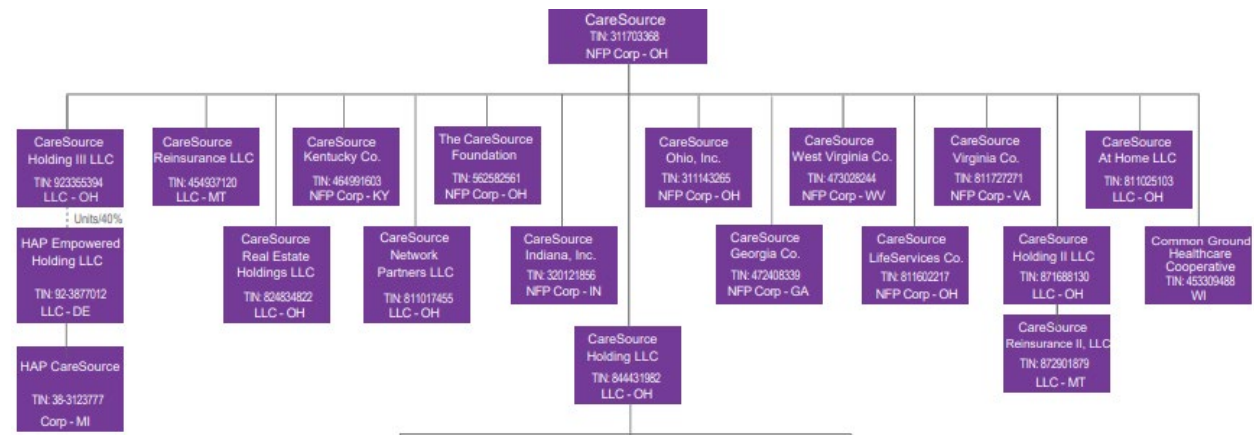
On May 20, 2024, CareSource (CareSource, the “Applicant”), submitted a Form A filing, in the matter of the acquisition of control of Common Ground Healthcare Cooperative (CGHC). Pursuant to an affiliation agreement between CareSource and CGHC, CareSource will become the sole voting member of CGHC. CareSource will acquire control through its exclusive authority to appoint all of the members of the board of directors of CGHC. The acquisition of control will occur as outlined in the affiliation agreement dated March 28, 2024.

**Organizational Chart Before Proposed Transaction:**



Note: OCI has removed some companies from the Organizational Chart Before the Proposed Transaction above to include in the Recommendation Memo. Please see the complete Organizational Chart in the Organizational Chart Before the Proposed Transaction document.

**Organizational Chart After Proposed Transaction:**



Note: OCI has removed some companies from the Organizational Chart After the Proposed Transaction above to include in the Recommendation Memo. Please see the complete Organizational Chart in the Organizational Chart After the Proposed Transaction document.

<b>Identity and Background of the Domestic Insurer(s)</b>
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**Identity of the Domestic Insurer(s):**

**Common Ground Healthcare Cooperative**

120 Bishop's Way, Suite 150  
Brookfield, WI 53005

**Background of the Domestic Insurer(s):**

**Common Ground Healthcare Cooperative**

CGHC is a Wisconsin non-stock cooperative located in Brookfield, WI. The company has a single class of members consisting of the individuals insured by CGHC. CGHC received its Certificate of Authority in 2013.

<b>Identity and Background of the Applicant(s)</b>
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**Identity of the Applicant(s):**

**CareSource**

230 North Main Street  
Dayton, Ohio 45402

**Background of the Applicant(s):**

**CareSource**

CareSource is an Ohio nonprofit corporation engaged in the business of health care and related services. The company operates a network of managed health care plans for individuals who participate in government programs, including Medicaid and Medicare.

**Executive Officers and Directors of CareSource**

<b><u>Name</u></b>	<b><u>Title</u></b>
Anthony J. Principi*	Director
E. Thomas Brodmerkel*	Director
Craig J. Brown*	Director
David T. Miller*	Director
Thomas Edwards*	Director
Thomas L. Kelly*	Director
Linda A. Willet*	Director
Anthony L. Winns*	Director
Erhardt H. Preitauer*	Director, President, CEO
Lawrence R. Smart*	Treasurer
Richard F. Topping*	Secretary

**Executive Officers and Directors of CGHC**

<b><u>Name</u></b>	<b><u>Title</u></b>
Erhardt H. Preitauer*	Director, Chair
Lawrence R. Smart*	Director, Treasurer
Edward L. Stubbers*	Director, Secretary
Cathy Mahaffey*	Director, President
Scott R. Markovich*	Director

Todd Hutchinson\*  
Stephanie A. Williams\*

Director  
Assistant Treasurer

Note: \* following an individual's name indicates that the biographical affidavit was provided for the individual and there are no outstanding significant concerns after OCI review.

### **Nature, Source, and Consideration**

No cash consideration will be paid by CareSource pursuant to the affiliation agreement. As noted in the Form A, CGHC currently has a single class of members which includes the individuals insured under CGHC policies. After the affiliation CGHC would have Class A members, with voting rights, of which CareSource will be the sole member and Class B members, without voting rights, who would be the individuals insured under CGHC policies. As the sole member of Class A, CareSource will have the ability to elect all directors on the board of directors of CGHC, and thereby acquire control. The CGHC members approved the proposed affiliation at a special member meeting held on April 23, 2024.

Note that as a nonprofit CGHC does not have voting securities. The Applicant stated in the Form A that there has not been any recent purchase of beneficial ownership or membership in the Domestic Insurer in the past 12 months and there have been no other recommendations to obtain membership interest in the past 12 months.

### **Future Plans**

After the affiliation CareSource intends to make significant changes to CGHC. In connection with the proposed affiliation, CGHC has requested the CMS allow CGHC to repay its surplus notes and withdraw from the ACA CO-OP Program. As a participant in the CO-OP Program CGHC is currently tax exempt under Internal Revenue Code s. 501(c)(29) and as an effect of the proposed affiliation would convert to s. 501(c)(3).

As discussed above, CareSource will, after the effective date of the affiliation, be the sole member of Class A with the ability to vote for directors and officers. The applicant has provided a copy of the post close directors and officers, as well as biographical affidavits for the individuals which were reviewed above. As voted on by the current members of CGHC during the April 23, 2024 special member meeting, amendments will be made to both the Articles of Incorporation and the Bylaws. The amendments will address the changes to tax status, membership classes, directors and officers, committees, and corporate headquarters along with additional items as noted in the Form A filing and amended and restated documents themselves.

The Applicant has no plans to declare an extraordinary dividend, liquidate the Domestic Insurers, sell the Domestic Insurers assets, or merge it with any person or to make any other material changes in the Domestic Insurers' business operations, corporate structure, or management, other than those discussed above or in the ordinary course of business.

### **Financial Highlights**

#### **Highlighted Financial Data of CareSource:**

<b>Financial Highlights (in thousands)</b>	<b>Consolidated Financial Statements</b>					
	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Total Assets	5,773,637	4,921,907	4,573,628	3,971,616	3,023,572	2,967,438
Total Liabilities	2,666,655	2,611,565	2,716,058	2,486,740	1,842,189	1,918,787
Total Net Assets	3,106,982	2,310,342	1,857,570	1,484,876	1,181,383	1,048,651
Total Revenue	11,823,533	13,124,794	12,372,564	11,191,484	10,600,708	10,423,677
Net Income	761,356	717,212	236,764	303,493	132,732	(33,589)
Net Cash Provided by Operations	116,929	842,154	585,703	1,059,087	76,518	(239,076)

### **Financial Projections of the Domestic Insurer(s):**

The financial projections of the Domestic Insurer(s) are confidential. OCI reviews these projections as part of the Form A review process.

### **Review Standard(s)**

This filing was made pursuant to s. 617.21(1), Wis. Stat. and s. Ins 40.02, Wis. Adm. Code. In order to evaluate the acquisition of control, through the effect of the affiliation agreement, OCI utilized the five-part test in s. 611.72(3)(am), Wis. Stat. and s. Ins 40.02, Wis. Adm. Code. OCI further reviewed the requirements of s. 617.21(1), Wis. Stat. related to the transaction and the affiliation.

Wisconsin Statute s. 611.72(3)(am) creates a five-part test for the Commissioner to use when evaluating the merger or acquisition of a domestic stock insurance company. It reads, in relevant part:

**(am)** The commissioner shall approve the plan if the commissioner finds...that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation and that:

1. After the change of control, the domestic stock insurance corporation or any domestic stock insurance corporation controlled by the insurance holding corporation would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;
2. The effect of the merger or other acquisition of control would not be to create a monopoly or substantially to lessen competition in insurance in this state;
3. The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders;
4. The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest; and
5. The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of the policyholders of the corporation and of the public to permit the merger or acquisition of control.

These five requirements are analyzed below.

**s. 611.72(3)(am)1:** After reviewing the documents provided by the Applicant in their Form A filing, OCI Staff believes that the Applicant is able to satisfy s. 611.72(3)(am)1. In reaching this decision, OCI staff has relied heavily on the proposed business plan and financial projections.

**s. 611.72(3)(am)2:** OCI's determined that a Form E analysis was not necessary. OCI's examination of the potential competitive effects concluded that approving the acquisition would not violate the competitive standards set forth in s. Ins 40.025(4), Wis. Adm. Code.

**s. 611.72(3)(am)3:** Paragraph three requires that the financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic insurance corporation or its parent insurance corporation, or prejudice the interest of its Wisconsin policyholders. After reviewing the documents

provided by the Applicants, the concern that affiliated non-insurance operations would jeopardize the financial condition is deemed minimal. OCI, however, will monitor compliance with s. 611.72(3)(am)3, Wis. Stat., going forward.

**s. 611.72(3)(am)4:** Paragraph four requires that the post-transaction plans to change the business structure be “fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest.” The Form A filing notes that the Applicants have no current plans or proposals to declare any extraordinary dividend, to liquidate the Domestic Insurer, or to sell the assets of the Domestic Insurer. As noted in the Future Plans section above, the Applicant plans to make significant changes to the operations of the Domestic Insurer. The plans appear to be fair and reasonable and compliance with s. 611.72(3)(am)4, Wis. Stat., is expected.

**s. 611.72(3)(am)5:** Paragraph 5 requires that OCI review the Biographical Affidavits of the proposed officers and directors of the Applicants. This review did not raise significant concerns.

OCI then reviewed the requirements of s. 617.21(1), Wis. Stat.

#### **617.21 Transactions with affiliates.**

(1) General requirements. Except as provided under s. 617.11 (2), neither an insurer authorized to do business in this state nor an affiliate of the insurer may enter into a transaction between the insurer and affiliate unless all of the following apply:

- (a) The transaction at the time it is entered into is reasonable and fair to the interests of the insurer.
- (b) The books, accounts and records of each party to the transaction are kept in a manner that clearly and accurately discloses the nature and details of the transaction and in accordance with generally accepted accounting principles permits ascertainment of charges relating to the transaction.
- (c) The insurer's surplus following any dividends or distributions to shareholders or a person having control of the insurer is reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs.
- (cm) Any cost-sharing services or management agreements involved in the transaction include such provisions as the commissioner requires by rule.
- (d) The transaction complies with any other standard that the commissioner prescribes by rule.

After review of the transaction by OCI, it was determined that the requirements of s. 617.21(1), Wis. Stat. were met.

<b>Recommendation</b>
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The Acquisition of Control in the above-referenced Form A filing will not violate the law or be contrary to the interests of the insureds, and it does not meet any of the disqualifying criteria outlined in s. 611.72 (3) or s. 617.21(1), Wis. Stat. Therefore, the transaction should be approved.