

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

Subject: Sparrow Health System and Affiliates

Action Requested: Approve a Plan for the Defeasance and/or Prepayment of Indebtedness of the Sparrow Obligated Group as Recommended by the Board of Directors of UM Health

Background and Summary:

UM Health (“UM Health Corp.”) is the sole member of Sparrow Health System (“SHS”). SHS is the sole member of Edward W. Sparrow Hospital Association, Sparrow Clinton Hospital, Sparrow Carson Hospital, Sparrow Eaton Hospital, and Sparrow Ionia Hospital (collectively, the “Sparrow Affiliates”).

The Sparrow Affiliates are co-obligors and members of an obligated group under a Master Indenture and Security Agreement (the “Master Indenture”). Pursuant to the Master Indenture, the Sparrow Affiliates have issued or incurred certain debt, consisting generally of (a) loan repayment and guaranty obligations in connection with long-term bonds issued on behalf of the Sparrow Affiliates, which bonds are currently outstanding in the aggregate principal amount of approximately \$255,755,000 (the “Sparrow Bonds”), and (b) a revolving line of credit, which has a current outstanding balance of approximately \$51,954,000 (the “Sparrow Line of Credit”).

The Board of Directors of SHS has approved and recommended to the Board of Directors of UM Health Corp., a plan for the defeasance, redemption, and/or prepayment, as applicable, of all of the outstanding Sparrow Bonds and the Sparrow Line of Credit in order to satisfy and discharge the obligations of the Sparrow Affiliates under the Master Indenture (the “Prepayment Plan”). The Prepayment Plan will result in the elimination of certain restrictive financial and operating covenants that the Sparrow Affiliates are currently subject to under the Master Indenture.

The Board of Directors of UM Health Corp. has evaluated and approved the Prepayment Plan, as presented by SHS, and has recommended approval of the Prepayment Plan by the Regents.

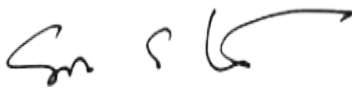
The Board of Directors of UM Health Corp. has further recommended to the Regents that the funding necessary to accomplish the Prepayment Plan be provided from a combination of (a) the proceeds of an intercompany loan to be made by the University to SHS in a principal amount not to exceed \$300,000,000 (the “Intercompany Loan”), and (b) the utilization of reserves or other available funds of SHS and/or the Sparrow Affiliates to prepay the Sparrow Line of Credit (collectively, the “Prepayment Funding Plan”).

The terms of the Intercompany Loan will be set forth in an intercompany loan agreement between the University and SHS (the “Intercompany Loan Agreement”), which will obligate SHS to repay the Intercompany Loan, with interest, upon the terms and conditions approved by the Executive Vice President and Chief Financial Officer of the University (the “Authorized Officer”).

We recommend at this time that the Regents take the following actions by adoption of the attached resolution:

- Approve the Prepayment Plan and the Prepayment Funding Plan, including the undertaking by SHS of the Intercompany Loan, pursuant to the powers reserved to the Regents by the Bylaws of UM Health Corp.;
- Authorize the making of the Intercompany Loan by the University to SHS, in a principal amount of not to exceed \$300,000,000, for the purpose of providing a portion of the funds necessary to accomplish the Prepayment Plan; and
- Authorize the Authorized Officer to approve the interest rate and other terms of the Intercompany Loan, and to approve, execute, and deliver the Intercompany Loan Agreement on behalf of the University.

Respectfully submitted,



Geoffrey S. Chatas
Executive Vice President
and Chief Financial Officer



Marschall S. Runge
Executive Vice President for
Medical Affairs and Dean, Medical
School

September 2023
Attachment

RESOLUTION OF THE REGENTS OF THE UNIVERSITY OF MICHIGAN
APPROVING A PLAN FOR THE DEFEASANCE AND/OR PREPAYMENT
OF INDEBTEDNESS OF THE SPARROW OBLIGATED GROUP
AS RECOMMENDED BY THE BOARD OF DIRECTORS OF UM HEALTH
AND APPROVING CERTAIN OTHER MATTERS RELATED THERETO

WHEREAS, the Regents of the University of Michigan (the “*Regents*”) is a constitutional body corporate established pursuant to Article VIII, Section 5 of the Constitution of the State of Michigan of 1963, with general supervision of the University of Michigan (the “*University*”) and the control and direction of all expenditures from the University’s funds; and

WHEREAS, the Regents owns and operates a premier non-profit academic health system, and is the sole member of UM Health, a Michigan nonprofit corporation (“*UM Health Corp.*”); and

WHEREAS, UM Health Corp. is the sole member of Sparrow Health System, a Michigan nonprofit corporation (“*SHS*”); and

WHEREAS, SHS is the sole member of Edward W. Sparrow Hospital Association, Sparrow Clinton Hospital, Sparrow Carson Hospital, Sparrow Eaton Hospital, and Sparrow Ionia Hospital, each a Michigan nonprofit corporation (collectively, the “*Sparrow Affiliates*”); and

WHEREAS, the Sparrow Affiliates are currently obligors and members of an obligated group under a certain Master Indenture and Security Agreement, dated as of June 1, 1985, as amended and supplemented (the “*Master Indenture*”), between Edward W. Sparrow Hospital Association and U.S. Bank Trust Company, National Association, as master trustee; and

WHEREAS, the Sparrow Affiliates have issued or incurred certain indebtedness under the Master Indenture, consisting generally of (a) certain loan repayment and guaranty obligations in respect of several series of bonds issued by the Michigan Finance Authority on behalf of one or more of the Sparrow Affiliates (collectively, the “*Bonds*”), which Bonds are currently outstanding in the aggregate principal amount of approximately \$255,755,000, and (b) payment obligations in respect of a revolving line of credit with a commercial bank (the “*Line of Credit*”), which Line of Credit has a current outstanding principal balance of approximately \$51,954,000; and

WHEREAS, the Board of Directors of SHS, by resolution adopted on August 29, 2023 (the “*SHS Resolution*”), approved a plan for the defeasance, redemption, and/or prepayment, as applicable, of all of the outstanding Bonds and the Line of Credit in order to satisfy and discharge all of the obligations of the Sparrow Affiliates under the Master Indenture, all as more particularly described in the SHS Resolution (collectively, the “*Prepayment Plan*”); and

WHEREAS, the Board of Directors of UM Health Corp., pursuant to the powers reserved to UM Health Corp. by the Bylaws of SHS, has evaluated and approved the Prepayment Plan, and has recommended approval of the Prepayment Plan by the Regents; and

WHEREAS, the Board of Directors of UM Health Corp. has further recommended to the Regents that the funding necessary to accomplish the Prepayment Plan, including certain costs and expenses in connection therewith, be provided from a combination of (a) the proceeds of an intercompany loan to be made by the Regents to SHS in a principal amount of not to exceed \$300,000,000 (the "*Intercompany Loan*"), and (b) the utilization of reserves or other available funds of SHS and/or the Sparrow Affiliates to prepay the Sparrow Line of Credit (collectively, the "*Prepayment Funding Plan*"); and

WHEREAS, the Regents, pursuant to the powers reserved to it under the Bylaws of UM Health Corp., hereby finds and determines that it is in the best interests of the University, UM Health Corp. and SHS that the Regents approve the Prepayment Plan and the Prepayment Funding Plan, including the undertaking by SHS of the Intercompany Loan; and

WHEREAS, the Regents, in the exercise of its constitutional duties, hereby finds and determines that the making of the Intercompany Loan to SHS, upon the terms and conditions provided herein and agreed upon by the Authorized Officer and the President of SHS, is in the best interests of the University, UM Health Corp. and SHS.

NOW, THEREFORE, BE IT RESOLVED BY THE REGENTS OF THE UNIVERSITY OF MICHIGAN, AS FOLLOWS:

1. Approval of Prepayment Plan and Prepayment Funding Plan. The Regents, acting pursuant to the powers reserved to it under the Bylaws of UM Health Corp., hereby authorizes and approves the Prepayment Plan and the Prepayment Funding Plan, including the undertaking by SHS of the Intercompany Loan, and any and all actions necessary to accomplish the same, all as recommended to the Regents by the Board of Directors of UM Health Corp.

2. Approval of Intercompany Loan and Intercompany Loan Agreement. The making of the Intercompany Loan to SHS from funds of the University, for the purpose of providing a portion of the funds necessary to accomplish the Prepayment Plan, is hereby authorized and approved. The Intercompany Loan shall be made from such source or sources of available University funds as determined by the Executive Vice President and Chief Financial Officer of the University (the "*Authorized Officer*"). The Intercompany Loan shall be in the principal amount, bear interest at the rate or rates, be payable at the times and in the manner, and be subject to such other terms and conditions, all as shall be determined by the Authorized Officer; *provided, however*, that the aggregate principal amount of the Intercompany Loan shall not exceed \$300,000,000.

The Intercompany Loan shall be evidenced by an intercompany loan agreement (the "*Intercompany Loan Agreement*") to be entered into between the Regents and SHS. The Intercompany Loan Agreement shall obligate SHS to repay the Intercompany Loan, together with interest thereon, in the manner and upon the terms and conditions approved by the Authorized Officer in accordance with the terms of this resolution, and may contain such other covenants, terms and conditions as the Authorized Officer deems appropriate and agreed upon with the President of SHS. The Authorized Officer is authorized to approve, execute and deliver the Intercompany Loan Agreement, for and on behalf of the Regents, when it is in final form.

3. Authorization of Other Actions. The Authorized Officer is further authorized to take all other actions, for and on behalf of the Regents, as may be necessary or as may be deemed by the Authorized Officer to be appropriate to consummate the transactions authorized or approved by this resolution.

4. Conflicting Resolutions. All previous resolutions or other proceedings of the Regents, to the extent inconsistent with this resolution, are hereby rescinded.