

The University of Michigan
Regents Communication
Action Request

Subject: Master Affiliation and Related Joint Venture Agreements, each with Trinity Health – Michigan

Action

Requested: Approval to Enter into a Master Affiliation Agreement and Related Joint Venture Agreements with Trinity Health - Michigan

Background:

The University of Michigan, through its academic medical center and clinical enterprise, Michigan Medicine and the University of Michigan Health System, respectively, serves patients from across the state through a network of relationships with health systems, hospitals and physicians. A strategic priority in expanding this statewide network is a greater presence in communities across the state. Initially driven by high inpatient occupancy in the University of Michigan Hospitals in Ann Arbor, Michigan Medicine and Trinity Health – Michigan (Trinity Health) will form a strategic relationship designed to relieve capacity restraints.

Michigan Medicine and Trinity Health have a history of successful collaborations dedicated to advancing the provision of high-quality, accessible, and affordable health care for the populations that they serve based, in part, on the complementary attributes and resources of Michigan Medicine as an academic health system and Trinity Health as a health care system with unique capabilities operating community hospitals.

Michigan Medicine and Trinity Health desire to develop and implement new collaborations on a statewide basis throughout Michigan through organized systems of care focused on particular clinical initiatives to improve the health of the communities that they serve and to enhance the efficiencies and value of each system's investment in health care. In addition, Michigan Medicine and Trinity Health desire to operate systems of care committed to providing the right care, at the right time, in the right place through shared clinical objectives, rationalization of health care assets to reduce costs, bringing care closer to patients' homes when clinically appropriate and serving as responsible stewards of community resources.

Trinity Health owns and operates Saint Joseph Mercy Chelsea Hospital, a general acute care hospital located in Chelsea, Michigan (Hospital). In 2017, Michigan Medicine and Trinity Health engaged in discussions regarding the formation of a master affiliation and related joint venture to own and operate the Hospital. Michigan Medicine and Trinity Health entered into a Letter of Intent on March 13, 2017. Since then, Michigan Medicine entered into negotiations with Trinity Health and undertook extensive due diligence. These activities have culminated in the proposed master affiliation and related joint venture of the Hospital.

Under the proposed Master Affiliation Agreement, Trinity Health and Michigan Medicine express a desire to develop multiple collaborations, provide each other with rights of first refusal to participate in certain affiliations, and affirm each other and their affiliates as preferred partners for health care initiatives in West Michigan.

Under the proposed Joint Venture Agreements, Trinity Health will contribute the mutually agreed assets and liabilities of the Hospital to St. Joseph Mercy Chelsea, Inc., a Michigan nonprofit

corporation newly formed for purposes of the proposed joint venture (Chelsea). In exchange for consideration, the Regents will become a 49% member of Chelsea. Trinity Health will have the right to appoint five members to the Chelsea board, and the Regents will have the right to appoint four members to the Chelsea board. Trinity Health and the Regents will each have reserved powers which will include approval over such items as the strategic plan, mission, vision and values; annual budget and unbudgeted capital or operating expenditures; modifications of governing documents; incurred or guaranteed debt; merger/acquisition transactions; and the admission of new members. The existing local Hospital board will continue to perform functions delegated by the Chelsea board. The Hospital will be co-branded using Michigan Medicine and Trinity Health brands and logos in a manner that maintains and respects their respective individual brands, subject to mutually agreed upon conditions of use. Chelsea will engage Trinity Health to provide its experience, skills, supervision and personnel in the management and operation of the Hospital on behalf of Chelsea. The Hospital will be operated in compliance with the Ethical and Religious Directives for Catholic Health Care and will retain a Catholic identity. These and other details are described in the Joint Venture Agreements.

Accordingly, we request that the Board of Regents approve the framework of these agreements as described. We request that the Board of Regents authorize the Executive Vice President for Medical Affairs and Dean of the Medical School, and the Executive Vice President and Chief Financial Officer to negotiate any final changes to the Master Affiliation Agreement and Joint Venture Agreements; to execute and deliver, individually or jointly, any other agreements and instruments contemplated in the Master Affiliation Agreement and Joint Venture Agreements; to take any other actions necessary or desirable to consummate the transactions described in this action request; and to obtain or make, as applicable, all governmental and third party approvals, consents, notices and authorizations that may be necessary, including a certificate of exemption or certificate of need, as applicable, from the Michigan Department of Health and Human Services.

Respectfully submitted,



Marschall S. Runge
Executive Vice President for Medical Affairs
And Dean of the Medical School



Kevin P. Hegarty
Executive Vice President
and Chief Financial Officer

February 2018