

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

ACTION REQUEST

Subject: Michigan Medicine
Laundry Services Project

Action

Requested: Approval to Proceed with Project

Background:

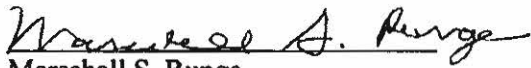
The University Laundry Building, which supplies laundry to Michigan Medicine, has been in place since 1969 and is outdated, requiring total replacement within the next few years. Reliable laundry production is essential to the daily operation and provision of excellent patient care. Several organizational options were considered to handle the nearly 11 million pounds of laundry currently processed annually, which volume is expected to grow. The most cost-effective option is to combine Michigan Medicine laundry with that of other non-profit hospital systems and jointly construct and operate a facility in Detroit.

We propose to enter into a cooperative arrangement that will operate a centralized laundry for non-profit hospitals. Under this arrangement, the university will join Trinity Health–Michigan (Trinity Health) and Henry Ford Health System (Henry Ford) and become the third member of Metropolitan Detroit Area Hospital Services Inc. (MDAHS), a Michigan nonprofit corporation. The board of MDAHS will include appointees from the university, Trinity Health, and Henry Ford. MDAHS plans to acquire an interest in a commercial building located at 1150 Elijah McCoy Drive in Detroit, Michigan, and to renovate, furnish, and equip a new centralized and shared laundry facility to open in the summer of 2020. To finance the construction of the facility, MDAHS intends to issue bonds in the aggregate principal amount of not to exceed \$49,000,000, payable over a term of not to exceed eleven years.

Each member of MDAHS, including the university, will enter into a long-term linen supply agreement with MDAHS. Under the terms of the linen supply agreement, each member, including the university, will commit to pay monthly debt service charges to MDAHS based on its pro rata share of the debt service on the bonds (including principal, premium (if any), and interest on the bonds, and related financing charges) calculated by volume of laundry serviced. Michigan Medicine anticipates providing no less than 30 percent of the overall laundry volume. This commitment will continue for the life of the bonds, even if the linen supply agreement is terminated, unless the university identifies a substitute member to assume its commitments to MDAHS and certain additional conditions precedent to such substitution are satisfied. MDAHS will pledge the receipts of the debt service charges from each of the members to the payment of the bonds. In addition to its pro rata share of debt service, the university will pay standard fees for the Michigan Medicine laundry serviced.

We recommend that the Board of Regents authorize the executive vice president for medical affairs and dean of the Medical School, or the executive vice president and chief financial officer, to: approve, consent to, execute, and deliver, as applicable, a members agreement and other governance documents necessary to permit the university to become a member of MDAHS; negotiate, approve, execute and deliver the linen supply agreement for and on behalf of the university, in such form and upon such terms and conditions as either such officer shall approve; execute and deliver any other agreements and instruments contemplated by the governance documents or linen supply agreement; and to take any other actions necessary or desirable to accomplish the transactions described in this action request.

Respectfully submitted,



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



Kevin P. Hegarty
Executive Vice President and
Chief Financial Officer

February 2019