

The University of Michigan
Regents Communication
Action Request

Subject: Affiliation with Metro Health

Action

Requested: Approval to Enter into an Affiliation Agreement with Metro Health

Background:

The University of Michigan Health System (UMHS) 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 western Michigan, particularly in the Grand Rapids area.

Metropolitan Health Corporation d/b/a Metro Health Corporation (Metro Health) is a nonprofit corporation and the parent company of a premier not-for-profit health system primarily serving Grand Rapids and the surrounding area. This health system includes Metropolitan Hospital d/b/a Metro Health Hospital, Metropolitan Hospital Foundation d/b/a Metro Health Hospital Foundation, Metropolitan Enterprises, and other entities. The UMHS, Metro Health, and their respective affiliates share a common and unifying non-profit mission to improve the quality of care and expand the scope and accessibility of affordable health care and health care-related services with a culture of compassion, respect, integrity and excellence.

Earlier this year the UMHS and Metro Health engaged in discussions to combine their respective organizations to support and further their common and unifying visions for quality and value in health care. The UMHS and Metro Health entered into a Letter of Intent on June 17, 2016. Since then, the university entered into negotiations with Metro Health and undertook extensive due diligence. These activities have culminated in a proposed Affiliation Agreement.

Under this proposed Affiliation Agreement, the UMHS would assume responsibility for key Metro Health decisions while maintaining continued community involvement. This would be accomplished through member substitution, *i.e.* a newly formed university subsidiary would become the sole member of Metro Health. The new subsidiary would appoint university designees to the Metro Health board. For a period of three years, the subsidiary would have the right to appoint 6 of the 13 board members. After this initial term, the subsidiary would appoint all board members, and the majority of the board members would reside in Metro Health's primary or secondary service areas.

The university's reserved powers would include approval over such things as the strategic plan, mission, vision and values; annual budget and unbudgeted capital expenditures over \$500,000; modifications of governing documents; incurred or

guaranteed debt; and merger/acquisition transactions. These and other details are described in the Affiliation Agreement.

Accordingly, we request that the Board of Regents approve the framework of this agreement 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 Affiliation Agreement; to execute and deliver, individually or jointly, any other agreements and instruments contemplated in the Agreement; to take any other actions necessary or desirable to consummate the affiliation 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 Runge
Executive Vice President for Medical Affairs
And Dean of the Medical School



Kevin Hegarty
Executive Vice President
and Chief Financial Officer

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