

The University of Michigan
Regents
Communication
Action Request

Date: December 8, 2022

Subject: Affiliation with Sparrow Health System

Action

Requested: Approval to Enter into an Affiliation Agreement with Sparrow Health System

Background:

The University of Michigan, through its academic medical center and clinical enterprise, Michigan Medicine and the University of Michigan Health (collectively “UM”), respectively, serves patients from across the state and beyond through a system of care that includes important relationships with other leading health systems, hospitals, and physicians. A strategic priority in expanding this statewide system of care is a greater presence in communities across the state.

Sparrow Health System (“Sparrow”) owns and operates two Lansing, Michigan hospital campuses, and several community hospitals including Sparrow Eaton Hospital in Charlotte, Sparrow Clinton Memorial Hospital in St. Johns, Sparrow Ionia Hospital in Ionia, and Sparrow Carson Hospital in Carson City. Sparrow also operates and holds majority ownership of Physicians Health Plan (“PHP”), a regional insurance company.

UM and Sparrow have been building a relationship for the benefit of their communities for several years. In 2019, UM and Sparrow entered into 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 UM as an academic health system and Sparrow as a health care system with unique capabilities operating community hospitals and health insurance businesses. The parties entered into a Master Affiliation Agreement which created the infrastructure to develop multiple collaborations, and, created a Pediatric Joint Operating Agreement which has allowed the parties to partner in the development and delivery of pediatric care in the Sparrow service areas. UM also purchased a 25% interest in PHP.

UM and Sparrow now seek to deepen their relationship through a full alignment between UM and Sparrow. The parties executed a Letter of Intent on October 7, 2022 (“LOI”) which set forth their preliminary understandings and agreements regarding the nature and terms of a proposed affiliation. UM and Sparrow have subsequently negotiated an Affiliation Agreement (together with all Exhibits and Schedules thereto, the “Agreement”) through extensive arms-length negotiations whereby UM through UM Health will become the sole corporate member of Sparrow to form an integrated health system (the “Transaction”). Both parties have, since the execution of the LOI, undertaken extensive due diligence to validate their understanding of each other’s

operations and the assumptions upon which the benefits of the Agreement were premised.

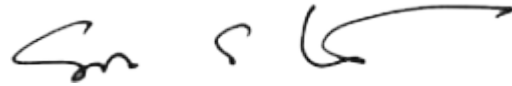
Together, the parties seek to create a statewide UM Health system that is the leading health system in the state with respect to quality, service, and clinical care. The benefits to the parties' respective communities will be tangible through enhanced access to care, improved quality, and brand recognition. The Transaction will also extend the educational and research capabilities of UM to affiliated communities.

Accordingly, 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, and such other officers as they may designate (the "**Designated Officers**"), in consultation with the chairs of the Finance, Audit & Investment and Health Affairs Committees, to: (a) negotiate any final changes to the Agreement with Sparrow, and any other agreements and instruments contemplated by the Agreement; (b) execute and deliver the Agreement, and execute and deliver any other agreements and instruments contemplated by the Agreement, all as approved by the Designated Officers; (c) take any other actions necessary or desirable to consummate the transactions described in this action request and in the Agreement; and (d) to obtain or make, as applicable, all governmental and third-party approvals, consents, notices and authorizations that may be necessary.

Respectfully submitted,



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



Geoffrey S. Chatas
Executive Vice President
and Chief Financial Officer