

Legacy DMC

April 15, 2015

Mr. William R. Bloomfield
Michigan Department of Attorney General
Corporate Oversight Division
Charitable Trust Attorney

Dear Mr. Bloomfield:

The purpose of this letter is to report Legacy DMC's status with respect to the requirements contained in Article 3 of the Monitoring and Compliance Agreement among the Department of Attorney General, Legacy DMC, VHS of Michigan, Inc. and Vanguard Health Systems, Inc. This agreement supplements the Purchase and Sales Agreement (PSA) and defines various requirements relating to the Post-Closing Covenants contained in the PSA. This letter also makes reference to the Enforcement Agreement among the same four parties. (Tenet Healthcare Corp. acquired Vanguard Health Systems, Inc. in 2013; VHS of Michigan is now a wholly-owned subsidiary of Tenet.)

ARTICLE 3 – “Legacy DMC Monitoring Responsibilities”

This article contains five specific monitoring responsibilities (Items A through E) as discussed below:

Item A requires Legacy DMC to monitor VHS of Michigan's compliance with seven of the 20 Post-Closing Covenants contained in the PSA. The Enforcement Agreement adds an additional covenant – bringing to eight the total number of covenants being monitored by Legacy DMC. The attachment lists the 20 PSA Covenants and provides references to the related monitoring and reporting requirements contained in the agreements. Legacy DMC believes it has diligently monitored compliance with the Covenants. VHS of Michigan's Annual Report for 2014, which will be provided to your office with our comments in a separate letter, provides its update to the status of 15 commitments at the end of 2014.

Item B identifies certain reports and other information that VHS of Michigan is required to provide to Legacy DMC so that it can carry out its monitoring obligations; it also provides for a Confidentiality Agreement. The status of the three specific elements is as follows:

i. Exhibit 2 of the Monitoring Agreement requires annual submission of 18 reports. For various reasons, Legacy DMC has reduced this list to 13 reports. All have been received. VHS of Michigan has classified the reports as confidential

ii. VHS of Michigan is required to provide additional "ordinary course of business" information if requested. There have been numerous such requests. The process for responding to requests has improved substantially from prior years. Legacy DMC has received detailed information on the routine capital expenditure budgets for each hospital.

iii. VHS of Michigan requested an agreement to keep "proprietary and commercially sensitive information" confidential as provided in this item. A Confidentiality Agreement is in place. Mr. Conrad Mallett serves as the "DMC Officer" responsible for determining confidentiality. VHS of Michigan's 2014 Report classified financial information useful in understanding indigent and uncompensated care as confidential, as well as the findings of an independent review of its capital expenditures. The information confirms a substantial reduction in costs relating to uncompensated care and that no errors in accounting for capital expenditures were identified.

Item C requires Legacy DMC to establish a public complaint-intake procedure, to review all complaints and to investigate complaints, if appropriate. Legacy DMC has complied with this requirement of monitoring VHS of Michigan's charitable care commitment.

Legacy DMC established a telephone hotline and email and postal addresses to obtain patient complaints. Every contact is logged and reviewed. During 2014, no actionable complaints relating to charitable care were received. Other complaints were referred to appropriate hospital departments, and other correspondence was appropriately re-directed.

The hotline contact information appears in approximately 75 locations throughout the DMC hospitals. It appears in all emergency rooms and all patient notice boards where VHS of Michigan displays its "800" telephone numbers for requesting hospital financial support and submitting patient billing complaints.

Item D requires Legacy DMC staff to report monthly to the Legacy DMC Board of Trustees regarding VHS of Michigan's compliance with the Post-Closing Covenants. During 2014, the Legacy DMC Board met five times. Compliance issues were discussed at each meeting, particularly on four critical commitments: the two relating to capital spending, charitable care, and the commitment to maintain hospitals and specific lines of service.

VHS of Michigan's Chief Executive Officer, Mr. Joseph Mullany, attended four Board meetings to report on the progress of the capital investment program and other hospital developments and issues.

During 2015, Legacy DMC's Board of Trustees plans to meet quarterly to review updated information on the four key commitments. Legacy DMC staff will alert the Trustees of material changes or serious compliance issues that arise during interim months.

Item E requires Legacy DMC to produce a written report annually and make it available to the public on a website. The 2014 report has been completed and will be available to the public on the website of the Detroit Wayne County Health Authority.

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Conclusion

Legacy DMC believes the requirements of Article 3 (as modified) have been met for 2014, the fourth year of the agreement period. In 2015, Legacy DMC will work with VHS of Michigan to ensure that plans are in place to deal with a potential shortfall to the \$350 million commitment relating to routine capital expenditures and that any modification to the original PSA escrow requirements is well supported.

Sincerely,


Joe Walsh
President


Richard Widgren
Chair

Cc: Mr. Trevor Fetter
Mr. Joseph Mullany

POST CLOSING COVENANTS

(15 Vanguard Reporting Requirements Underlined)

Section	PSA Commitments	Monitoring References		
12.1	Buyer Advisory Board, Hospital Advisory Board			
12.2	<u>Indigent and Low Income Care</u>	E	M	Q
12.3	<u>Commitment to Maintain Hospitals and Core Services</u>	E	M	Q
12.4	<u>Capital Expenditures</u>	E	M	Q
12.5	<u>The Warrant</u>	E		
12.6	Retention of Medical Staff			
12.7	<u>No Sale of Hospitals</u>	E	M	Q
12.8	<u>Commitment to Education</u>			
12.9	<u>Commitment to Research</u>			
12.10	<u>Karmanos Center</u>			
12.11	<u>Health and Wellness Initiatives</u>			
12.12	<u>Supplier Diversity Program</u>			
12.13	<u>Project Genesis</u>			
12.14	<u>Detroit-based Systems</u>	E	M	
12.15	<u>National Support Centers</u>	E	M	
12.16	<u>Naming Conventions</u>			
12.17	<u>Annual Reporting Requirements</u>	E	M	
12.18	Post-Closing Assistance to Seller			
12.19	Renaissance Sub-zone			
12.20	Donor-restricted Funds			

Purchase and Sale Agreement – Article 12 identifies 20 Post Closing Covenants

E – Enforcement Agreement – supplemental agreement among Vanguard, DMC and Attorney General (AG) where parties recognize enforcement right by AG to certain remedies beyond those specified in the PSA (identified by “E” above). PSA remedies for any disagreement are primarily mediation/arbitration.

M – Monitoring Agreement – supplemental agreement among Vanguard, DMC and AG specifying responsibilities for Monitoring certain covenants (identified by “M” above) and information necessary to support Monitoring, as well as requiring identification of any potential conflict of interest and defining aspects of Legacy Board structure and operation.

Q – Interim Quarterly Status Report – Legacy DMC and VHS-M have agreed to certain Interim Quarterly Status Reports (identified by “Q” above), in part to carry out Monitoring Agreement responsibilities.