

Legacy DMC

April 15, 2014

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 Department of Attorney General, Legacy DMC, VHS of Michigan and Vanguard Health System, Inc. ("Enforcement Agreement").

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 2013, 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 2013.

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; all have been received. VHS of Michigan has classified the reports as confidential. The Department of Health Management and Policy at the University of Michigan assisted Legacy DMC by referencing the content of these reports to specific Covenants.

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 continues to be slow and bureaucratic, but has improved. During 2014, Legacy DMC will be reviewing more detailed information on routine capital expenditure levels at 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 2013 Report classified information useful in understanding indigent and uncompensated care as confidential. Legacy DMC continues to encourage VHS of Michigan to provide more public information to ensure appropriate recognition of its important role in providing health care to the indigent.

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.

Legacy DMC has established a telephone hotline and email and postal mailboxes to obtain patient complaints. The hotline provides personal response service during standard business hours. Every contact is logged and reviewed. During 2013, no 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.

Legacy DMC also reviews billing complaints logged with VHS of Michigan's ombudsman; for these cases, the patient outcomes were based on the merits of the claim.

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 2013, 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 three Board meetings to report on the progress of the capital investment program and other hospital developments and issues.

During 2014, 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.

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Item E requires Legacy DMC to produce a written report annually and make it available to the public on a website. The 2013 report has been completed and will be available to the public on the website of the Detroit Wayne County Health Authority.

Conclusion

Legacy DMC believes the requirements of Article 3 (as modified) have been met for 2013, the third year of the agreement. In 2014, 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.

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.