

Legacy DMC

June 15, 2018

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 2017, 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 2017.

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 as of the report date except the 2017 AHA Survey reports (the submission date has been delayed until later this year).

ii. VHS of Michigan is required to provide additional "ordinary course of business" information if requested. Legacy DMC has made numerous such requests relating to capital expenditures in 2017. It will continue to request capital expenditure information for future years.

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 2017 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 that the substantial reduction in the cost of uncompensated care continues and that the review did not identify any errors in accounting for capital expenditures.

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.

Although Legacy has received no complaints, a union representing nurses at Huron Valley Sinai Hospital believes that care for the indigent has declined based on the substantial decline in DMC's charity care expense. Legacy DMC reviews information on DMC's uncompensated care expense each quarter and has reported on the substantial decline in this expense, which includes charity care, since the Affordable Care Act and the Healthy Michigan expansion of Medicaid eligibility became effective in 2014. Legacy DMC believes that the decline reflects the impact of these programs and that its hotline would have captured complaints if indigent and low income patients were being denied service. Nevertheless, this year's annual report will include Legacy DMC's review of its complaint intake process as well as additional information to provide the public with a complete and accurate picture.

Legacy DMC established a telephone hotline and postal address to obtain patient complaints. Every contact is logged and reviewed. During 2017, 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 65 locations throughout the DMC hospitals. It appears in all emergency rooms and all patient notice boards where the DMC 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 2017, the Legacy DMC Board met four times. Compliance issues were discussed at each meeting, particularly on four critical commitments: the two relating to capital spending, charitable care, and the research and education commitment.

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VHS of Michigan's Chief Executive Officer, Dr. Anthony Tedeschi attended two Board meetings in 2017.

During 2018, Legacy DMC's Board of Trustees plans to meet quarterly to review updated information on the 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 2017 report is in process and will be available to the public on the websites of the Detroit Wayne County Health Authority and the Department of the Attorney General later this year.

Conclusion

Legacy DMC believes the requirements of Article 3 (as modified) have been met for 2017, the seventh year of the agreement period.

Sincerely,


Joe Walsh
President


Richard Widgren
Chair

Cc: Mr. Ronald Rittenmeyer
Dr. Anthony Tedeschi

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.

Legacy DMC

June 15, 2018

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 confirm compliance with Article 4 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. (Tenet Healthcare Corp. acquired Vanguard Health Systems, Inc. in 2013; VHS of Michigan is now a wholly-owned subsidiary of Tenet.)

ARTICLE 4 – "Legacy DMC Corporate Structure"

This article contains eight specific governance requirements as discussed below:

Items A and C require Legacy DMC to submit its Articles of Incorporation and Bylaws to the Attorney General promptly before closing after making appropriate changes to reflect its obligations under the Monitoring Agreement. Legacy DMC made the necessary modifications, submitted its documents, and received the approval of the Attorney General before closing. Because of a procedural issue, the modified Articles of Incorporation were not accepted for filing. Approval for a necessary revision of the Articles was requested from the Attorney General, but approval of the modification was never obtained. Thus, the Articles of Incorporation as they existed prior to the sale remain in effect, except for a change of the name of the corporation to Legacy DMC which did receive approval from the Attorney General.

Item D stipulates that the Attorney General must approve all changes in Legacy DMC's Articles of Incorporation or Bylaws for 10 years after closing. During 2015, Legacy DMC proposed certain changes consistent with distribution of the charitable assets. The proposed changes were submitted to the Attorney General for approval. To date, formal approval of the proposed changes has not been received.

Item E establishes certain governance criteria, including the number of trustees (at least 11 and not more than 20), provision for appointment of three trustees (one each by the Mayor of the City of Detroit, the Wayne County Executive, and the Attorney General of the State of Michigan), and staggered three-year trustee terms starting in 2017.

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Legacy DMC presently has 16 trustees (see Attachment) including the appointees representing Detroit (Ms. Patti Kukula), Wayne County (Mr. Marcus Ivery) and the State (Ms. Candyce Abbatt). Legacy DMC's Nominating Committee will identify candidates who meet the criteria contained in this item to fill open positions, if necessary.

Item F states that the President and Chair of Legacy DMC will oversee Vanguard's capital expenditure and hospital commitments. Legacy DMC's Chair, Mr. Richard Widgren, and President, Mr. Joe Walsh, provided this oversight.

Item H establishes certain requirements relating to Legacy DMC representation on the VHS of Michigan Advisory Board, the individual DMC hospital advisory boards, and the Vanguard Health System, Inc. Board. It also stipulated procedures relating to potential conflict of interest situations and compensation. The status of these matters is as follows:

- i.* At its December 2010 meeting, the DMC Board appointed six representatives to the VHS of Michigan Advisory Board and the hospital Advisory Boards; these representatives receive no compensation. At the same time, the DMC Board nominated a representative to the Board of Vanguard Health Systems, Inc. This representative served as a director until September 2013, when Tenet Healthcare Corp. completed its acquisition of Vanguard. Requirements relating to the compensation related to this position were met.
- ii.* No matters considered by the Legacy DMC Board have required a recusal of these members relating to a potential conflict between the interests of Legacy DMC and other entities.

Conclusion

Legacy DMC believes the requirements of Article 4 have been met for 2017, the seventh year of the Agreement. Previous reports have provided a final status on Items B, G and H iii. Subsequent annual reports will provide updates on the remaining open requirements.

Sincerely,


Joe Walsh
President


Richard Widgren
Chair

Cc: Mr. Ronald Rittenmeyer
Dr. Anthony Tedeschi

Legacy DMC

BOARD ROSTER

Richard Widgren (Chair)
President
Life Beyond Barriers
(Subsidiary of Urban Science)

Candyce Abbatt
Fried Saperstein Abbatt P.C.

John M. Barnwell MD
Chief of Surgery and Surgical Services
Sinai – Grace Hospital

Honorable Terrence Berg
U.S. District Court Judge

Cynthia Ford
Vice Chair
Children's Hospital of Michigan Foundation

Matt Friedman
Tanner Friedman Strategic Communications

Marcus Ivery
Wayne County

Patti Kukula
City of Detroit

Yale Levin
Executive Vice President
Soave Enterprises

David Nicholson
PVS Chemicals

Gloria Robinson
Retired CEO
Heritage Vision Plans Inc.

Alan Schwartz (Vice Chair)
Vice Chair
Honigman Miller Schwartz and Cohn LLP

Herbert C. Smitherman Jr. MD, MPH, FACP
Vice Dean, Diversity and Community Affairs
Associate Professor, Department of Medicine
and Karmanos Cancer Institute,
Wayne State University School of Medicine

President and CEO
Health Centers Detroit Foundation

Mary Stephens – Ferris (Secretary)
Retired President
Detroit Community Health Center

Lorna Thomas MD
Chair
DMC Foundation

Rhonda Welburn
Dickinson Wright PLLC