

**THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION**

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Annual Business Plan

ACTION REQUESTED: Approve the MHC FY2012 Annual Business Plan and Budget

BUSINESS PLAN:

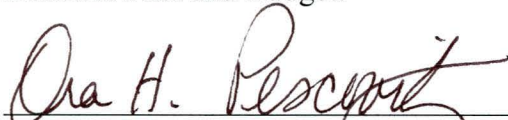
The Bylaws of MHC provide that MHC will annually submit a business plan to the Board of Regents for approval. MHC submitted its last business plan to the Board of Regents in June 2010. Since that time, MHC has focused on the operations of its existing subsidiaries and has decided to exit from the Central Michigan Community Hospital Radiation Oncology venture. In addition, MHC established two new ventures, Pennant Health Alliance and Physician Organization of Michigan.

In September 1996, the Regents approved the initial business plan and capitalization for MHC in the amount of \$30 million. As of June 30, 2011, MHC will have made net transfers of \$14.5 million to existing projects and MHC Administration. MHC will begin its sixteenth year of operations in FY2012. The ventures in which MHC participates are expected to generate approximately \$120 million in net patient revenues in FY2012. MHC's share of these revenues, based on MHC's ownership interest in the ventures, is approximately \$27 million.

At the April Board meeting of MHC and at the May meeting of the Sole Member Representative, both unanimously approved the FY2012 Business Plan for submission to the Board of Regents.

APPROVAL REQUESTED:

The Board of MHC recommends that the Board of Regents approve the MHC FY2012 Annual Business Plan and Budget.



Ora H. Pescovitz, M.D.
Executive Vice President for Medical Affairs
Chair, Chief Executive Officer & Sole Member Representative, MHC

June 2011

**Michigan Health Corporation
FY2012 Annual Report and Business Plan**

I. MHC OVERVIEW

Introduction

The Fiscal Year 2012 (FY2012) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its sixteenth year of operation.

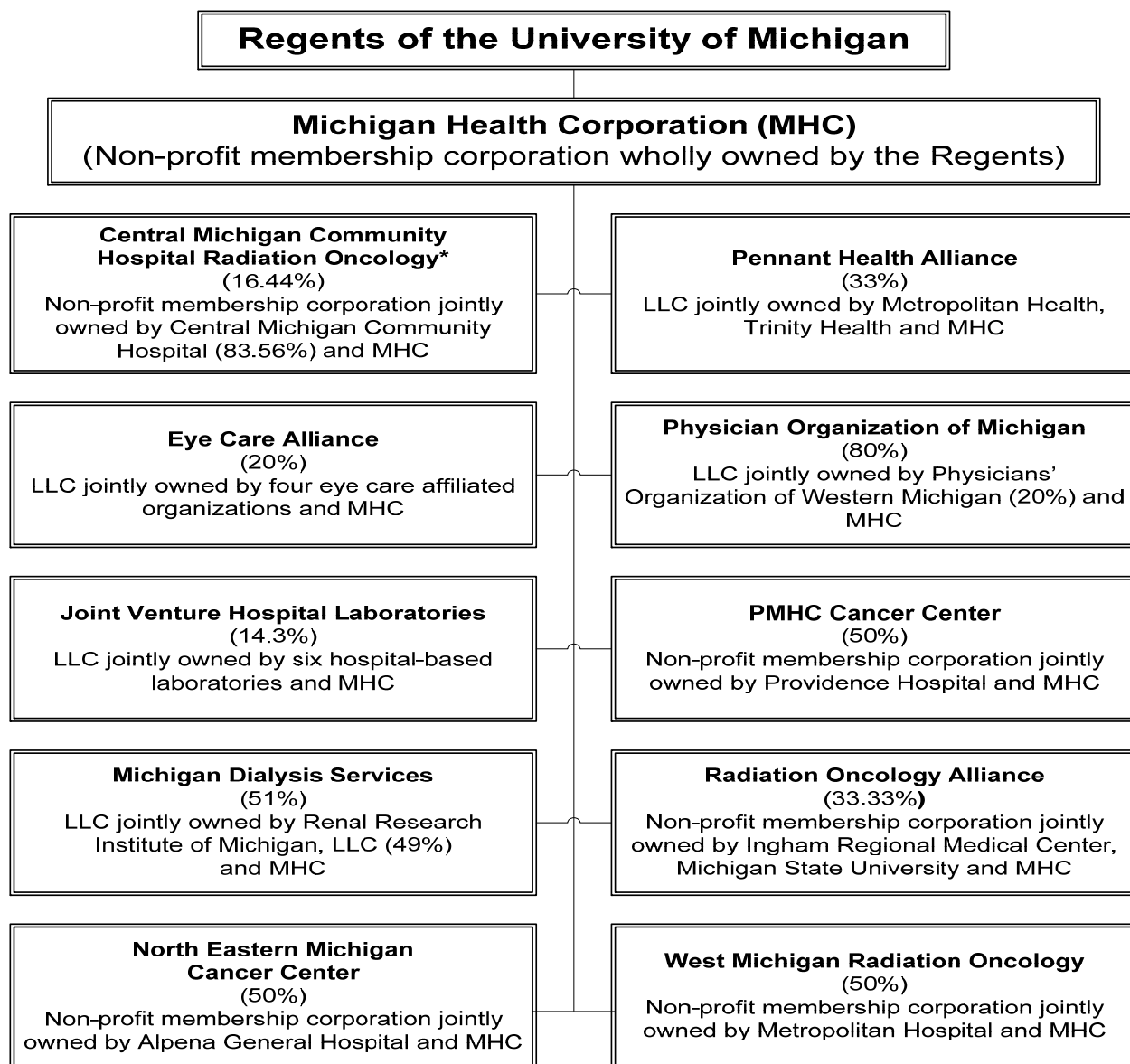
Structure and Governance

MHC is a non-profit, non-stock membership corporation solely owned and operated by the University. MHC is part of the University of Michigan Health System (UMHS).

The MHC Board meets on a regular basis and as necessary to conduct business. The Board of Directors are: Ora Pescovitz, M.D., Executive Vice President for Medical Affairs (Chair and Chief Executive Officer); Douglas Strong, Executive Director of the Hospitals and Health Centers (Vice Chair and Chief Operating Officer); Timothy Slottow, Chief Financial Officer of the University (Treasurer); James Woolliscroft, M.D., Dean of the Medical School (Secretary); and Glenna Schweitzer, Associate Vice Provost and Executive Director of the Office of Budget and Planning of the University.

MHC Subsidiary Organizations

As MHC completes its fifteenth year of operation, the MHC Board has approved a total of twenty (20) subsidiary organizations since its activation in 1996. Ten subsidiaries, or proposed subsidiaries, have been terminated and ten subsidiaries are operational. MHC has also decided to exit from the Central Michigan Community Hospital Radiation Oncology venture. Participation in the Particle Therapy Institute of Michigan and establishment of gastroenterology and/or geriatrics joint ventures are being evaluated and could provide potential future MHC activity. MHC is also investigating moving UMHS nurse managed centers to MHC in preparation for Federally Qualified Health Plan status. The following chart shows each of the current subsidiary organizations under MHC.



* MHC will be exiting from this venture.

NOTE: MHC also owns Class B membership interest in Great Lakes Lithotripsy, LLC.

II. FY2011 FINANCIAL PERFORMANCE OF SUBSIDIARIES

Most MHC subsidiaries are past their development and start-up stages and are now ongoing operations. The exceptions to this are Pennant Health Alliance (PHA) and Physician Organization of Michigan (POM) which are still being developed. MHC will continue to focus on operational and financial performance reviews and address what management and funding actions to take if subsidiaries do not meet their activity and financial goals. The most significant changes that occurred in FY2011 were development of PHA and POM and the decision to exit from Central Michigan Community Hospital Radiation Oncology.

The Consolidated Statement of Operations on page four summarizes the projected net gain or loss for MHC as a whole and by venture. In FY2011, MHC is projected to have a favorable margin of \$1,399,644 that compares unfavorably to the budgeted margin of \$2,763,693. This difference is primarily due to five ventures. Physician Organization of Michigan and Pennant Health Alliance are projecting deficits of (\$211,134) and (\$145,632), respectively, in the first year of operations and were not included in the FY2011 budget. North Eastern Michigan Cancer Center is projected to have a (\$635,157) unfavorable variance to budget primarily due to decreasing volumes. Radiation Oncology Alliance is projected to have a (\$180,126) unfavorable variance to budget due to a significant drop in volumes following the loss of several local medical oncology and other referring physicians. West Michigan Radiation Oncology is projected to have a (\$328,986) unfavorable variance to budget due to a drop in volumes and a loss in referrals from Spectrum physicians.

III. MHC FISCAL YEAR 2012 BUDGET

The MHC Fiscal Year 2012 Budget was developed from each subsidiary's financial plan, MHC's financial statements, projected results of the subsidiary's operations, and known/planned changes for the coming fiscal year. MHC's consolidated financial statements are displayed beginning on page four. Highlights of those financial statements are identified below.

Consolidated Statement of Operations Summary

The Statement on page four summarizes the FY2011 projected net margin and the FY2012 budget for MHC as a whole and by venture. This summary identifies the direct results of operations of the subsidiaries, but does not reflect ancillary benefits to the Health System such as increased research funding and professional net income or expanded patient care service opportunities for the Hospitals and Health Centers (HHC) and the Medical School Faculty Group Practice. MHC is budgeting an overall favorable net margin of \$1,013,538 for FY2012 compared to a projected margin of \$1,399,644 for FY2011. In FY2012, all ventures are expected to have a positive net margin, with the exception of Physician Organization of Michigan and Pennant Health Alliance, as both ventures continue to become established.

Schedule of Investments Summary

The Schedule of Investments displayed on page five outlines the expected changes in approved capitalization for each subsidiary and MHC Administration from FY2011 to FY2012. Currently, the MHC Board approved \$5.9 million to be transferred to the subsidiaries and \$8.6 million to MHC Administration as of June 30, 2011. The \$5.9 million is the net investment after ventures have paid back a portion of MHC's investment. The \$8.6 million for MHC Administration includes \$5.7 million for interest costs paid to HHC.

Assuming the MHC Board approves all of the anticipated capital transactions in FY2012, MHC is projecting to have transferred funds totaling \$15.1 million as of June 30, 2012. This leaves \$14.9 million of the original \$30 million designated capitalization available for investment in current or future subsidiaries and MHC Administration.

Michigan Health Corporation
Consolidated Statement of Operations
ProForma Summary of Net Gain / (Loss) by Joint Venture
FY2010 Actual Through Proposed FY2012 Budget

	<u>FY2010 Actual</u>	<u>FY2011 Budget</u>	<u>FY2011 Projection</u>	<u>FY2012 Budget</u>
<u>Consolidated Joint Ventures</u>				
Michigan Dialysis Services (51.00%)	\$ 863,926	\$ 118,968	\$ 387,091	\$ 252,365
Physician Organization of Michigan (80.00%)	<u>0</u>	<u>0</u>	<u>(211,134)</u>	<u>(851,026)</u>
Net Gain / (Loss) in Consolidated Joint Ventures	\$ 863,926	\$ 118,968	\$ 175,957	\$ (598,662)
<u>Unconsolidated Equity in Joint Ventures</u>				
Central Michigan Community Hospital Radiation Oncology (16.44%)	\$ (65,404)	\$ 61,772	\$ 47,727	\$ 0
Eye Care Alliance (20.00%)	12,646	9,203	15,982	16,015
Joint Venture Hospital Laboratories (14.29%)	0	0	0	0
North Eastern Michigan Cancer Center (50.00%)	559,864	904,113	268,956	410,831
Pennant Health Alliance (33.33%)	0	0	(145,632)	(93,284)
PMHC Cancer Center (50.00%)	2,195,008	1,694,692	1,567,527	1,583,780
Radiation Oncology Alliance (33.33%)	308,732	207,602	27,476	85,092
West Michigan Radiation Oncology (50.00%)	<u>(158,556)</u>	<u>169,471</u>	<u>(159,515)</u>	<u>32,892</u>
Equity in Net Gain / (Loss) in Unconsolidated Joint Ventures	\$ 2,852,290	\$ 3,046,852	\$ 1,622,521	\$ 2,035,326
Michigan Health Corporation - Administrative Activity	<u>(478,335)</u>	<u>(402,127)</u>	<u>(398,834)</u>	<u>(423,126)</u>
Total Excess Revenue / (Expenses)	<u>\$ 3,237,882</u>	<u>\$ 2,763,693</u>	<u>\$ 1,399,644</u>	<u>\$ 1,013,538</u>

Michigan Health Corporation
Schedule of Investments
Projected FY2011 and Proposed Budget for FY2012

	MHC Projected Investment as of FY2011	FY2012 Expected Changes in Investment	MHC Proposed Budgeted Investment as of FY2012
Consolidated Joint Ventures			
Michigan Dialysis Services	\$ 1,771,381	\$	\$ 1,771,381
Physician Organization of Michigan	1,000,000	2,000,000	3,000,000
Total Consolidated Joint Ventures	\$ 2,771,381	\$ 2,000,000	\$ 4,771,381
Unconsolidated Joint Ventures			
Central Michigan Community Hospital Radiation Oncology	\$ 706,975	\$ (706,975)	\$ 0
Eye Care Alliance	306,800		306,800
Joint Venture Hospital Laboratories	15,000		15,000
North Eastern Michigan Cancer Center	705,127		705,127
Pennant Health Alliance	300,000	300,000	600,000
PMHC Cancer Center	1,885,685	(1,000,000)	885,685
Radiation Oncology Alliance	(11,000)		(11,000)
West Michigan Radiation Oncology	947,925		947,925
Total Unconsolidated Joint Ventures	\$ 4,856,512	\$ (1,406,975)	\$ 3,449,537
Closed and Terminated Ventures			
Kids Care of Michigan (Michigan Healthcare Partners)	\$ (67,565)	\$	\$ (67,565)
Michigan Health Management Corporation	550,000		550,000
Michigan Provider Network	0		0
Michigan Visiting Nurses - Consolidated	(2,418,076)		(2,418,076)
South Central Practice Association (Foote) (Jackson)	177,789		177,789
Closed and Terminated Ventures	\$ (1,757,852)	\$ 0	\$ (1,757,852)
Subtotal for All Ventures	\$ 5,870,041	\$ 593,025	\$ 6,463,066
Michigan Health Corporation - Administrative Activity	8,457,825		8,457,825
Mobile Lithotripsy	210,000		210,000
Funds Available to be Committed by the MHC Board			
Regental Approved Limit on Capital Investment			
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Remaining Funds Not Currently Invested	\$ 15,462,134	\$ (593,025)	\$ 14,869,109
Regental Approved Limit on Capital Investment	\$ 30,000,000		\$ 30,000,000