

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Annual Business Plan

ACTION REQUESTED: Approve the MHC FY2015 Annual Business Plan and Budget

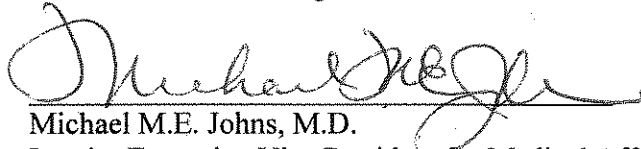
BUSINESS PLAN:

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 2013. Since that time, MHC has focused on the operations of its existing ventures and new start-up ventures, including Paradigm Diagnostics, Physician Organization of Michigan ACO, MidMichigan Health and Saint Joseph Mercy-University of Michigan Acute Care for Elders. Michigan Advanced Development and Manufacturing Center (MADMC) was terminated in FY2014 when MADMC was not awarded the Department of Defense contract.

The MHC Board of Directors and the MHC Sole Member Representative have unanimously approved the FY2015 Annual Business Plan and Budget.

APPROVAL REQUESTED:

The Board of MHC recommends that the Board of Regents approve the MHC FY2015 Annual Business Plan and Budget.



Michael M.E. Johns, M.D.

Interim Executive Vice President for Medical Affairs

Chair, Chief Executive Officer & Sole Member Representative, MHC

June 2014

**Michigan Health Corporation  
FY2015 Annual Report and Business Plan**

**I. MHC OVERVIEW**

**Introduction**

The Fiscal Year 2015 (FY2015) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its nineteenth 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 effective June 20, 2014 is:

**Chair and Chief Executive Officer**

Michael M.E. Johns, M.D., Interim Executive Vice President for Medical Affairs of the University

**Vice Chair and Chief Operating Officer**

Anthony Denton, Acting Chief Executive Officer of the Hospitals and Health Centers

**Treasurer**

Douglas Strong, Interim Chief Financial Officer of the University

**Secretary**

James Woolliscroft, M.D., Dean of the Medical School

**Director**

Glenna Schweitzer, Associate Vice Provost and Executive Director of the Office of Budget and Planning for the University

All proposed activities that are presented to the MHC Board for approval are first reviewed and endorsed by the MHC Management Committee. The Committee includes key individuals from UMHS, the University of Michigan Hospitals and Health Centers (UMHHC), the University of Michigan Medical School (UMMS), MHC, and the University of Michigan (UM). This Committee is chaired by Thomas Campbell and includes the following individuals:

Thomas Campbell, Associate Vice President, UMHS

Paul Castillo, Chief Financial Officer, UMHS

Anthony Denton, Acting Chief Executive Officer, UMHHC and Vice Chair and Chief Operating Officer, MHC

Pamela Emenheiser, Health System Transactional Attorney, UM

Teri Grieb, Ph.D., Senior Director of Research, UMMS

Nancy Hobbs, Interim Associate Vice President for Finance, UM

Edward Jennings, Tax Director, UM

Ella Kazerooni, M.D., Professor of Radiology, UMMS

Bev Nugent, Administrative Director, MHC

This Committee evaluates the business case for new venture activities, directs due diligence activities, and recommends the optimal placement of the activity in UMHS. The financial performance of each MHC subsidiary organization is reviewed at least quarterly by the MHC Management Committee. In addition, for larger ventures in development, such as Paradigm, key milestones are periodically reviewed.

MHC staff monitor the activities of the ventures on an ongoing basis and actively participate in finance and operations committee meetings for many of the subsidiary companies. Financial statements from the ventures are reviewed and various activities are tracked, including venture performance trend reports which are presented to the MHC Management Committee and the Board. The MHC Administrative Director also attends board meetings for a number of ventures and interfaces with venture representatives to assist with problem solving and assuring that venture and MHC needs are met.

#### **MHC Subsidiary Organizations History**

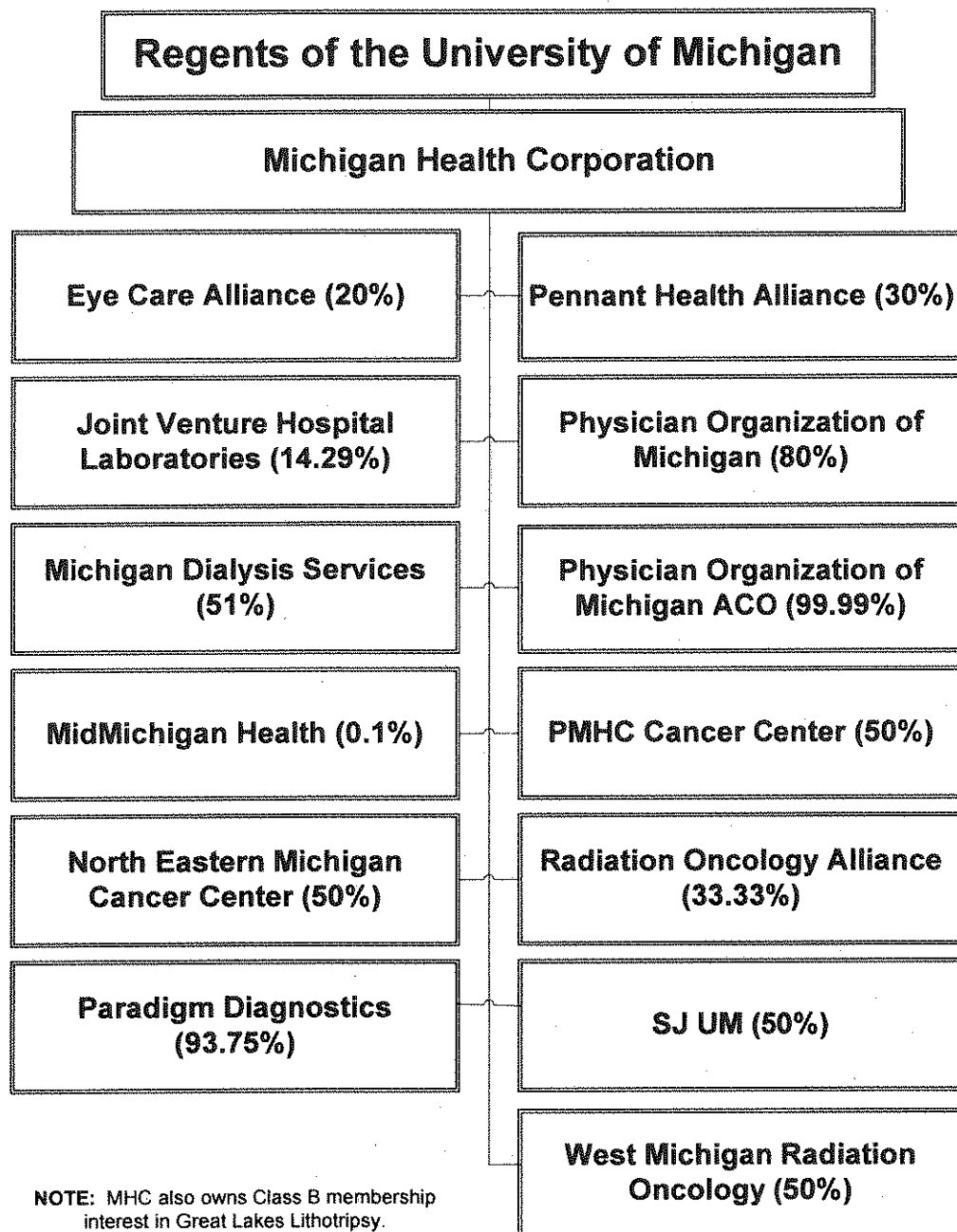
As MHC completes its eighteenth year of operation, the MHC Board has approved a total of twenty-five subsidiary organizations since its activation in 1996 to support the missions and strategic plan of UMHS. Twelve subsidiaries, or proposed subsidiaries, have been terminated and thirteen subsidiaries are operational. The Michigan Advanced Development and Manufacturing Center (MADMC) was terminated in FY2014 when MADMC was not awarded the Department of Defense contract. MidMichigan, Physician Organization of Michigan ACO, and SJ-UM became fully operational in FY2014.

#### **MHC Subsidiary Organizations FY2015 Plan**

MHC intends to continue to operate all of the current subsidiaries throughout FY15. In addition, MHC is currently evaluating the possibility of a venture with Munson Healthcare. Munson Healthcare and UMHS are looking to further a strategic relationship that will provide for the integration of UMHS' clinical oncology and oncology research capabilities, including Munson's existing oncology service line. Creating an affiliation will further support the quality of oncology services provided in northern Michigan, improve patient care access, and solidify UMHS' reputation as an industry leader in the treatment of oncology-related disease which is aligned with UMHS' strategic plans.

In response to other health care changes and patient care needs and as part of the UMHS strategic plan, MHC is also investigating relationships with other hospitals, physician groups, health care providers, and health care organizations. A chart displaying current MHC ventures appears on the next page.

# Michigan Health Corporation Joint Venture Ownership as of June 2014



The percentages reflect MHC's ownership interest in the venture. Venture partners are listed in Appendix A.

## II. MHC FINANCIAL PERFORMANCE FOR FY2014 AND BUDGET FOR FY2015

The MHC Fiscal Year 2014 Projection and Fiscal Year 2015 Budget were 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. Most active MHC subsidiaries are established ventures and are past their development and start-up stages and are expected to have a margin of \$1.9 million in FY2014 and a planned margin of \$1.0 million in FY2015. Positive margins have been generated by the aggregate of these established ventures for several years. However, the lower expected margin in FY2015 over FY2014 is a result of decreasing reimbursement. In contrast, four ventures are in start-up mode, with an expected negative aggregate margin during the initial start-up period. The margin for these recently opened ventures in FY2014 is (\$4.8) million and is expected to be (\$2.1) million in FY2015 as the ventures begin to transition into regular, ongoing operations.

### Consolidated Statement of Operations Summary

The summary below identifies MHC's share of the direct results of subsidiary operations and MHC's administrative costs. It does not reflect ancillary benefits to the Health System such as increased research funding paid to UMHS and professional net income or expanded patient care service opportunities for the Hospitals and Health Centers, the Medical School and the Faculty Group Practice.

The established ventures and MHC Administration include Eye Care Alliance, Michigan Dialysis Services, North Eastern Michigan Cancer Center, Pennant Health Alliance, PMHC Cancer Center, Physician Organization of Michigan, West Michigan Radiation Oncology, and MHC Administration. Joint Venture Hospital Laboratories is excluded as all venture proceeds are distributed to the network providers and not the owners. The recently opened ventures that are still in their start-up phase include MidMichigan Health, Paradigm Diagnostics, Physician Organization of Michigan ACO and SJ-UM.

**Michigan Health Corporation**  
**Consolidated Statement of Operations**  
**ProForma Summary of Net Gain / (Loss)**  
**(in thousands of dollars)**

	<u>FY2014</u> <u>Projection</u>	<u>FY2015</u> <u>Budget</u>
<b><u>Established Ventures and MHC Administration</u></b>		
Revenues	\$16,050	\$13,812
Expenses	<u>\$14,143</u>	<u>\$12,855</u>
Margin	\$ 1,907	\$ 957
<b><u>Recently Opened Ventures</u></b>		
Revenues	\$ 5,746	\$14,710
Expenses	<u>\$10,563</u>	<u>\$16,826</u>
Margin	(\$ 4,817)	(\$ 2,116)
<b>Total MHC Margin</b>	<u><b>(\$ 2,910)</b></u>	<u><b>(\$ 1,159)</b></u>

### Investments Summary

MHC's maximum capitalization level for all ventures combined is \$45 million. MHC has made investments in ventures over the years and many ventures have not only repaid MHC the full investment amount, but have provided cash distributions in excess of the MHC original investment. It is projected that as of June 30, 2015, MHC will have an outstanding investment amount of \$17.8 million, leaving \$27.2 million of the approved capitalization available for investment in other ventures.

## APPENDIX A

### Michigan Health Corporation Joint Venture Partners as of June 2014

#### **Eye Care Alliance**

GRO Ventures  
Henry Ford Health System  
L.O. Ventures  
Michigan Eye Associates

#### **Joint Venture Hospital Laboratories**

St. John Health  
Oakwood Healthcare  
Trinity Health-Michigan  
William Beaumont Hospital  
McLaren Macomb

#### **Michigan Dialysis Services**

Renal Research Institute of Michigan

#### **MidMichigan Health**

MidMichigan Health

#### **North Eastern Michigan Cancer Center**

Alpena Regional Medical Center

#### **Paradigm Diagnostics**

The International Genomics Consortium

#### **Pennant Health Alliance**

Metro Health  
Trinity Health Michigan  
Mary Free Bed Rehabilitation Hospital

#### **Physician Organization of Michigan**

Physicians' Organization of Western Michigan

#### **Physician Organization of Michigan ACO**

Advantage Health/Saint Mary's Care Network  
Lakeshore Health Network  
Oakland Southfield Physicians  
Olympia Medical Services  
Physicians' Organization of Western Michigan  
United Physicians

#### **PMHC Cancer Center**

Providence Hospital and Medical Centers

#### **Radiation Oncology Alliance**

Michigan State University  
McLaren Greater Lansing

#### **SJ-UM**

Saint Joseph Mercy Health System

#### **West Michigan Radiation Oncology**

Metropolitan Hospital