

Approved by the Regents  
June 20, 2013

THE UNIVERSITY OF MICHIGAN  
REGENTS COMMUNICATION

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Annual Business Plan

ACTION REQUESTED: Approve the MHC FY2014 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 2012. Since that time, MHC has focused on the operations of its existing ventures and new ventures started in FY2013 including Michigan Advanced Development and Manufacturing Center, Michigan Health Ventures Limited Partnership (the parent of Michigan Advanced Development and Manufacturing Center), Physician Organization of Michigan ACO and Paradigm. In addition, MHC recently approved MidMichigan and the University of Michigan Health System - Saint Joseph Mercy Ann Arbor Acute Care for Elders new ventures.

The MHC Board of Directors and the MHC Sole Member Representative have unanimously approved the FY2014 Annual Business Plan and Budget.

APPROVAL REQUESTED:

The Board of MHC recommends that the Board of Regents approve the MHC FY2014 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 2013

# Michigan Health Corporation FY2014 Annual Report and Business Plan

## I. MHC OVERVIEW

### Introduction

The Fiscal Year 2014 (FY2014) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its eighteenth 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 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  
Bev Nugent, Administrative Director, MHC  
Teri Grieb, Ph.D., Senior Director of Research, UMMS  
Edward Jennings, Tax Manager, UM  
Ella Kazerooni, M.D., Professor of Radiology, UMHS  
Debra Kowich, Interim Associate Vice President and Deputy General Counsel, UMHS  
Timothy Lynch, Vice President and General Counsel, UM  
Rowan Miranda, Ph.D., Associate Vice President of Finance, UM  
Douglas Strong, Executive Director of the Hospitals and Health Centers, UMHHC and Vice Chair and Chief Operating Officer, 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 reviewed quarterly.

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 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.

As the health care landscape continues to change, in FY14 MHC plans to review the overall MHC mission and governance structure with an eye toward the future healthcare industry landscape and UMHS needs.

### **MHC Subsidiary Organizations**

As MHC completes its seventeenth 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. Eleven subsidiaries, or proposed subsidiaries, have been terminated and fourteen subsidiaries are operational. Paradigm and POM ACO became fully operational in FY2013 and the SJ-UM, LLC and MidMichigan ventures were recently approved.

The SJ-UM, LLC is a joint venture with St. Joseph Mercy Hospital to establish an inpatient unit at St. Joseph Mercy Hospital providing acute geriatrics services to elderly patients in the local community. This new venture supports the UMHS Strategic Plan objective to identify diverse care settings that provide the opportunity to relocate lower-acuity local patients from the University Hospital (UH) to community hospital settings. In turn, UH capacity would be available to accept the transfer of high-acuity patients in need of complex care from around the region. Appropriate utilization of resources enhances the financial success potential for both UMHS and community hospitals.

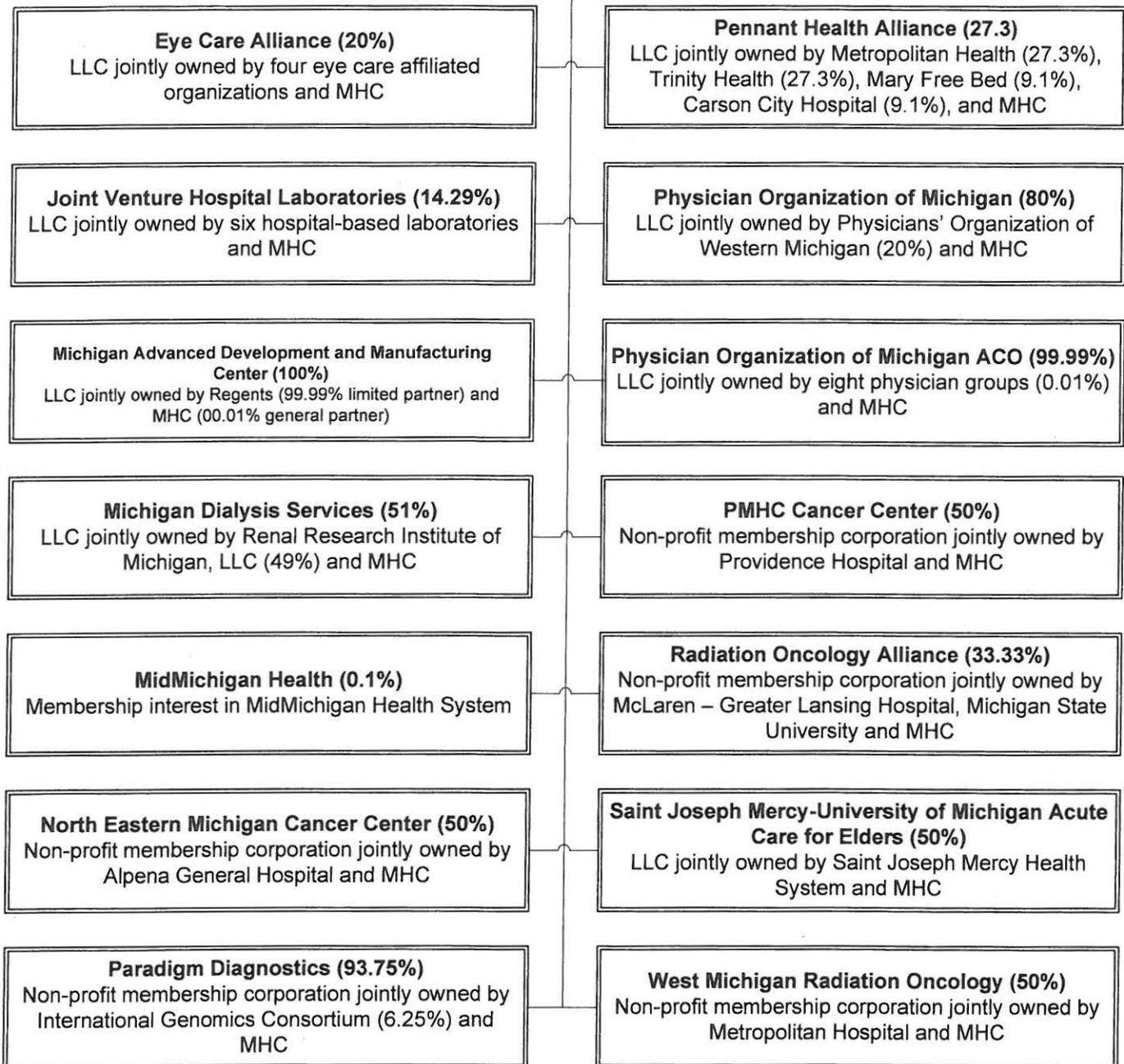
MidMichigan is a joint venture with MidMichigan Health to provide the ideal patient experience to patients in the MidMichigan service area by improving health and access to care. This venture supports the UMHS Strategic Plan goal of pursuing clinical partnerships as “a necessary response to the competitive environment and to mitigate the risk of isolation as facilities and physicians continue to consolidate.”

The Michigan Advanced Development and Manufacturing Center (MADMC) and its parent corporation, Michigan Health Ventures (MHV), are being evaluated for dissolution, given MADMC was not awarded the Department of Defense (DoD) contract. MADMC completed activities in FY2013 and no amounts are budgeted for FY2014.

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 is located on the next page.

# Regents of the University of Michigan

## Michigan Health Corporation (MHC) (Non-profit membership corporation wholly owned by the Regents)



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

## II. MHC FINANCIAL PERFORMANCE FOR FY2013 AND BUDGET FOR FY2014

The MHC Fiscal Year 2013 Projection and Fiscal Year 2014 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. Nine MHC subsidiaries are established ventures and are past their development and start-up stages and are expected to have a margin of \$3.2 million in FY2013 and a planned margin of \$1.5 million in FY2014. Positive margins have been generated by the aggregate of these established ventures for several years. In contrast, five ventures are in a start-up mode, with expected negative margins during the initial start-up period. The margin for these recently opened ventures in FY2013 is (\$8.8) million and is expected to be (\$2.8) million in FY2014.

### 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 and the Medical School Faculty Group Practice.

**Michigan Health Corporation**  
**Consolidated Statement of Operations**  
**ProForma Summary of Net Gain / (Loss)**  
**as of June 30, 2014**

	(in thousands of dollars)	
	<b>FY2013</b>	<b>FY2014</b>
	<b><u>Projection</u></b>	<b><u>Budget</u></b>
<b><u>Established Ventures and MHC Administration</u></b>		
Revenues	16,418	16,311
Expenses	<u>13,665</u>	<u>15,323</u>
Margin	2,753	988
<b><u>Recently Opened Ventures</u></b>		
Revenues	861	8,435
Expenses	<u>9,641</u>	<u>11,204</u>
Margin	(8,780)	(2,769)
<b>Total MHC Margin</b>	<b><u>(6,027)</u></b>	<b><u>(1,781)</u></b>

### 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, 2014, MHC will have an outstanding investment amount of \$21.2 million, leaving \$23.8 million of the approved capitalization available for investment in other ventures.