

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the
Regents
July 16, 2015

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Annual Report and Business Plan

ACTION REQUESTED: Approve the MHC FY2016 Annual Report and Business Plan
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 2014. Since that time, MHC has focused on the operations of its existing ventures with particular attention on the operations of and investments in Paradigm Diagnostics.

The MHC Board of Directors and the MHC Sole Member Representative have unanimously approved the FY2016 Annual Report and Business Plan.

APPROVAL REQUESTED:

The Board of MHC and the MHC Sole Member Representative recommend that the Board of Regents approve the MHC FY2016 Annual Report and Business Plan.



Marschall S. Runge, M.D., Ph.D.
Executive Vice President for Medical Affairs
Chair, Chief Executive Officer & Sole Member Representative, MHC

July 2015

**Michigan Health Corporation
FY2016 Annual Report and Business Plan**

I. MHC OVERVIEW

Introduction

The Fiscal Year 2016 (FY2016) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its twentieth 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 is:

Chair and Chief Executive Officer

Marschall S. Runge, M.D., Ph.D., Executive Vice President for Medical Affairs of the University

Vice Chair and Chief Operating Officer

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

Treasurer

Kevin P. Hegarty, Chief Financial Officer of the University

Secretary

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

Director

Alfred Franzblau, M.D., Vice Provost for Academic and Budgetary Affairs 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

T. 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, such as Paradigm Diagnostics, 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 nineteenth 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.

In FY2015, Michigan Health Ventures, the parent organization of Michigan Advanced Development and Manufacturing, was dissolved. No new ventures were established in FY2015. However, MHC is expected to receive common stock shares in VHA-UHC Alliance NewCo, Inc. on behalf of the University of Michigan Hospitals and Health Centers. These shares are the result of a merger between University HealthSystem Consortium (UHC) and VHA, Inc. The number of shares MHC receives will be based on the patronage and retained equity the Hospitals and Health Centers had in UHC.

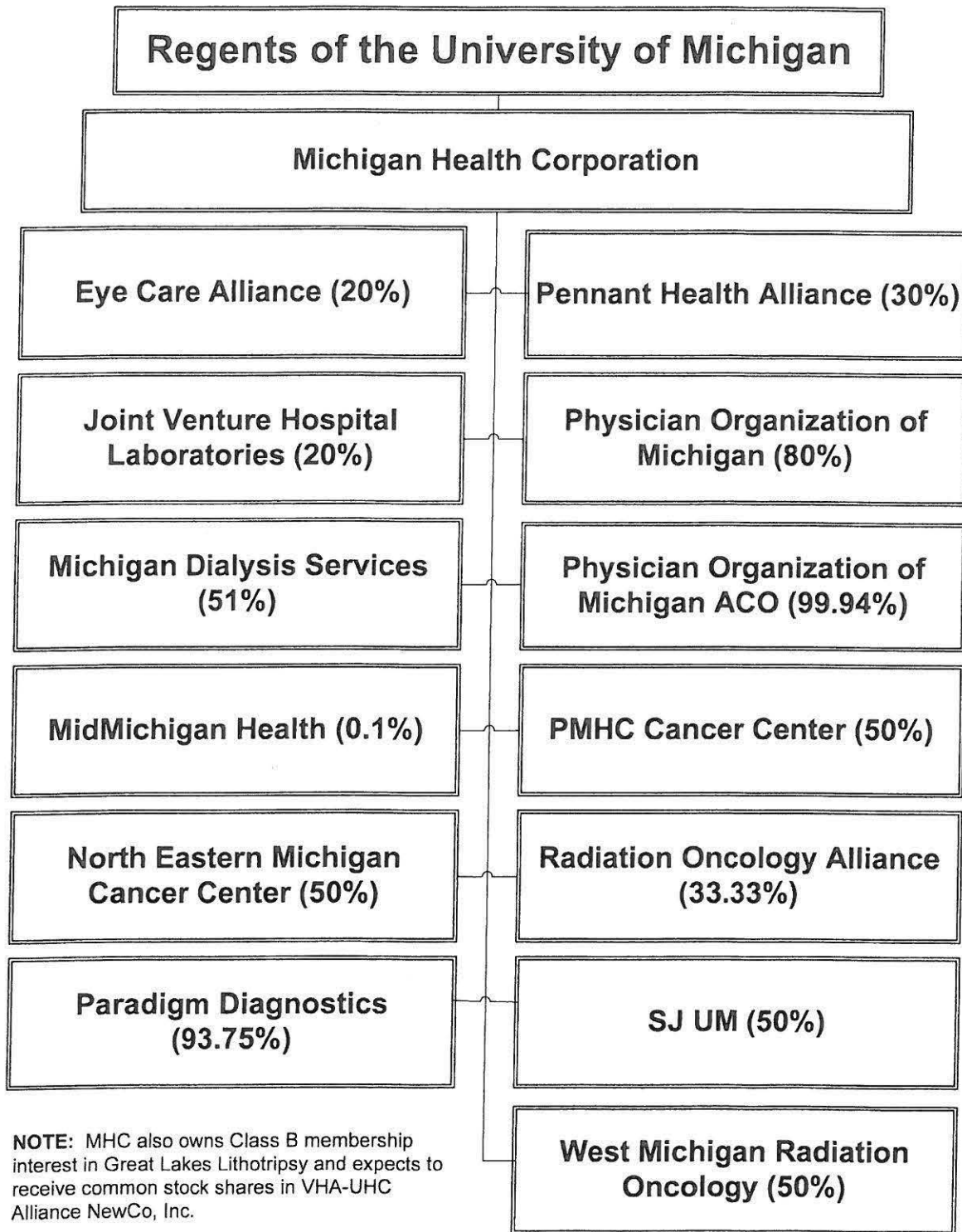
MHC Subsidiary Organizations FY2016 Plan

MHC intends to continue to operate all of the current subsidiaries throughout FY2016, with one expected change. MHC is working with Paradigm Diagnostics to secure additional, external investors to help cover the substantial investment necessary to develop Paradigm's services. Investment bankers and consultants are being contacted to identify potential investors. The level of market interest will determine the future investment and structure of Paradigm Diagnostics.

UMHS and Munson signed an agreement in June of 2014 to collaborate in the provision of cancer care. This agreement is the foundation of UMHS' collaboration in telemedicine, clinical trials, joint tumor boards, genetic counseling and cancer strategic planning. Both parties expect that this will move toward a broader, more significant affiliation in the form of a joint venture that will be created to manage the cancer service lines at Munson. UMHS is also working with St. Mary's in Grand Rapids on a similar programmatic venture to better serve the Grand Rapids community.

In response to other health care changes, patient care needs, and as part of the UMHS strategic plan, MHC is investigating relationships with other hospitals, physician groups, health care providers, and health care organizations. MHC is also contemplating the creation of an entity that would reside within MHC, which would employ non-faculty physicians. A chart displaying current MHC ventures appears on the next page.

Michigan Health Corporation Joint Venture Ownership as of June 2015



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

II. MHC FINANCIAL PERFORMANCE FOR FY2015 AND BUDGET FOR FY2016

The MHC Fiscal Year 2015 Projection and Fiscal Year 2016 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 of the MHC subsidiaries are expected to have positive margins with the notable exception of two ventures. Paradigm Diagnostics and Physicians Organization of Michigan ACO (POM ACO) account for (\$10.1) million and (\$11.2) million in planned negative margins for FY2015 and FY2016 respectively. As mentioned above, Paradigm Diagnostics is seeking additional investors. POM ACO is currently in its third year of operation. It generated almost \$5 million in savings in year one for the Medicare Shared Savings Program, but that amount was not high enough to receive shared savings funds from Medicare. POM ACO is seeking additional capital from existing partners to help cover the operating costs and is exploring additional revenue sources with commercial payers such as Medicare Advantage Programs. The Medicare Oncology Care Model is not expected to have a financial impact on the radiation oncology ventures as venture partners do not expect applications to be submitted for the venture patient populations.

Consolidated Statement of Operations Summary

The summary below identifies MHC's share of the direct results of subsidiary operations and MHC's administrative costs. MHC has a greater than 50% ownership in the consolidated ventures and 50% or less in the unconsolidated ventures. The summary 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 University of Michigan Medical Group.

Michigan Health Corporation
ProForma Summary of Net Margin by Joint Venture - MHC's Share Only
FY2015 Projection and FY2016 Proposed Budget

	<u>FY2015</u> <u>Projection</u>	<u>FY2016</u> <u>Budget</u>
<u>Consolidated Joint Ventures</u>		
Michigan Dialysis Services (51.00%)	\$ 278,102	\$ 151,753
Paradigm Diagnostics (93.75%)	(8,975,553)	(10,002,676)
Physician Organization of Michigan (80.00%)	305,828	(16)
Physician Organization of Michigan-ACO (99.94%)	<u>(1,148,932)</u>	<u>(1,158,241)</u>
Net Gain / (Loss) in Consolidated Joint Ventures	\$ (9,540,555)	\$ (11,009,180)
<u>Unconsolidated Joint Ventures</u>		
Eye Care Alliance (20.00%)	\$ (200)	\$ (200)
Joint Venture Hospital Laboratories (20.00%)	-	-
North Eastern Michigan Cancer Center (50.00%)	480,239	307,624
Pennant Health Alliance (30.00%)	(14,776)	(15,676)
PMHC Cancer Center (50.00%)	909,213	597,906
Radiation Oncology Alliance (33.33%)	79,719	82,769
SJ-UM (50.00%)	410,822	430,802
West Michigan Radiation Oncology (50.00%)	<u>526,340</u>	<u>570,901</u>
Equity in Net Gain / (Loss) in Unconsolidated Joint Ventures	\$ 2,391,356	\$ 1,974,126
Michigan Health Corporation - Administrative Activity including MidMichigan	<u>2,992,744</u>	<u>3,189,136</u>
Total Excess Revenue / (Expenses)	\$ (4,156,455)	\$ (5,845,918)

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, 2016, MHC will have an outstanding investment amount of \$32.8 million, leaving \$12.2 million of the approved capitalization available for investment in other ventures. The MHC cash balance is projected to be \$1.3 million as of June 30, 2015. Based on current projections, including twelve months of funding for Paradigm Diagnostics, MHC will need a cash infusion of \$12.9 million from other Health System units in FY2016.

APPENDIX A

Michigan Health Corporation Joint Venture Partners as of June 2015

Eye Care Alliance

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

Joint Venture Hospital Laboratories

St. John Health d/b/a St. John Providence Health System
Trinity Health System
Beaumont Health
McLaren Health Care Corporation

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