

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

Approved by the Regents
June 17, 2010

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Annual Business Plan

ACTION REQUESTED: Approve the MHC FY2011 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 2009. Since that time, MHC has focused on the operations of its existing subsidiaries.

In September 1996, the Regents approved the initial business plan and capitalization for MHC in the amount of \$30 million. As of June 30, 2010, MHC will have made net transfers of \$14.9 million to existing projects and MHC Administration. MHC will begin its fifteenth year of operations in FY2011. The ventures in which MHC participates are expected to generate approximately \$110 million in net patient revenues in FY2011. MHC's share of these revenues, based on MHC's ownership interest in the ventures, is approximately \$25 million.

At the April Board meetings, the Board of MHC and the Sole Member Representative unanimously approved the FY2011 Business Plan for submission to the Board of Regents.

APPROVAL REQUESTED:

The Board of MHC recommends that the Board of Regents approve the MHC FY2011 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 2010

Michigan Health Corporation FY2011 Annual Report and Business Plan

I. MHC OVERVIEW

Introduction

The Fiscal Year 2011 (FY2011) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its fifteenth year of operation.

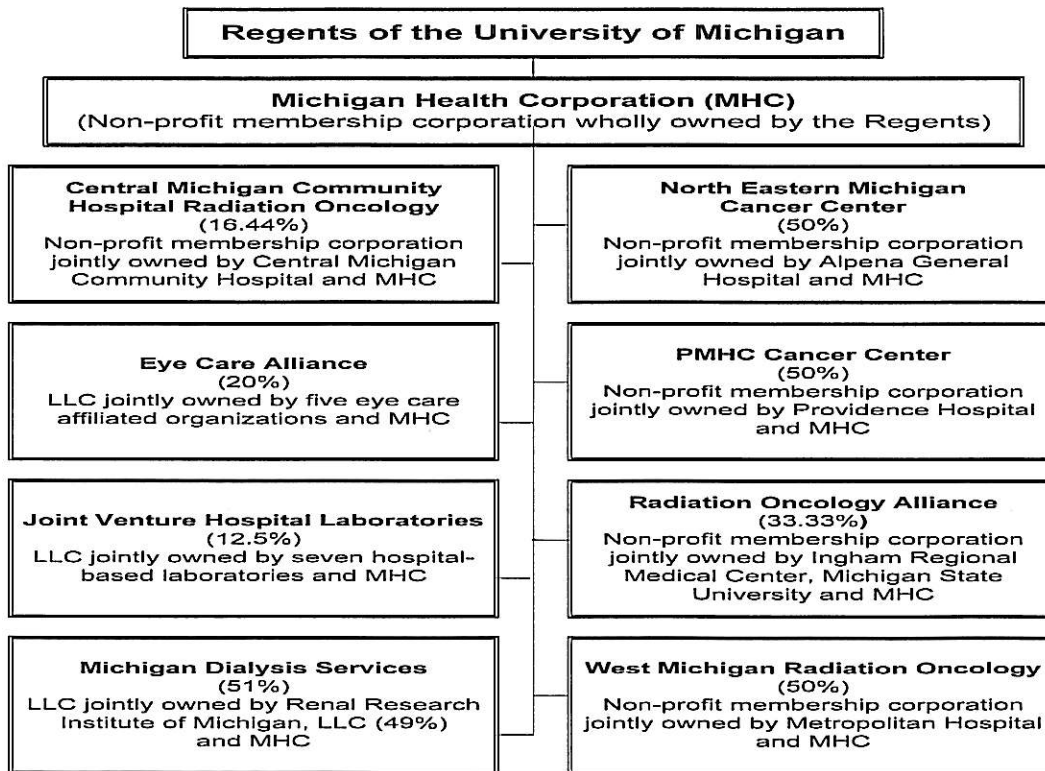
Structure and Governance

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 or 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 fourteenth year of operation, the MHC Board has approved a total of eighteen (18) subsidiary organizations since its activation in 1996. Ten subsidiaries, or proposed subsidiaries, have been terminated and eight subsidiaries are operational. Participation in the Particle Therapy Institute of Michigan, establishment of gastroenterology and/or geriatrics joint ventures, and other activities in support of the UMHS strategy in West Michigan are being evaluated and could provide potential future MHC activity. The following chart shows each of the current subsidiary organizations under MHC.



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

II. FY2010 FINANCIAL PERFORMANCE OF SUBSIDIARIES

Most MHC subsidiaries are past their development and start-up stages and are now ongoing operations. The exception to this is West Michigan Radiation Oncology (WMRO), which began treating patients in November 2008. 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 change that occurred in FY2010 was the operation of WMRO for a full year. Efforts were also undertaken to improve the performance of Central Michigan Community Hospital Radiation Oncology.

The Consolidated Statement of Operations on page three summarizes the projected net gain or loss for MHC as a whole and by venture. In FY2010, MHC is projected to have a favorable margin of \$3,093,523 that compares favorably to the budgeted margin of \$2,069,476. This difference is primarily due to three ventures. Michigan Dialysis Services is projected to have a \$717,161 favorable variance to budget due primarily to an increase in commercial patients. North Eastern Michigan Cancer Center projected to have a \$579,331 favorable variance to budget due to increasing volumes, increasing higher reimbursed procedures and decreasing depreciation. PMHC Cancer Center is projected to have a \$582,458 favorable variance to budget due to increasing volumes and increasing higher reimbursed procedures.

III. MHC FISCAL YEAR 2011 BUDGET

The MHC Fiscal Year 2011 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 three. Highlights of those financial statements are identified below.

Consolidated Statement of Operations Summary

The Statement on page three summarizes the FY2010 projected net margin and the FY2011 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 \$2,763,694 for FY2011 compared to a projected margin of \$3,093,523 for FY2010. In FY2011, all ventures are expected to have a positive net margin.

Schedule of Investments Summary

The Schedule of Investments displayed on page four outlines the expected changes in approved capitalization for each subsidiary and MHC Administration from FY2010 to FY2011. Currently, the MHC Board approved \$6.2 million to be transferred to the subsidiaries and \$8.7 million to MHC Administration as of June 30, 2010. The \$6.2 million is the net investment after ventures have paid back a portion of MHC's investment. The \$8.7 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 FY2011, MHC is projecting to have transferred funds totaling \$14.4 million as of June 30, 2011. This leaves \$15.6 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
 FY2009 Actual Through Proposed FY2011 Budget

	<u>FY2009 Actual</u>	<u>FY2010 Budget</u>	<u>FY2010 Projection</u>	<u>FY2011 Budget</u>
<u>Consolidated Joint Ventures</u>				
Michigan Dialysis Services (51.00%)	\$ 470,858	\$ 28,271	\$ 745,432	\$ 118,968
Net Gain / (Loss) in Consolidated Joint Ventures	\$ 470,858	\$ 28,271	\$ 745,432	\$ 118,968
<u>Unconsolidated Equity in Joint Ventures</u>				
Central Michigan Community Hospital Radiation Oncology (16.44%)	\$ 1,302	\$ (837)	\$ 4,338	\$ 61,772
Eye Care Alliance (20.00%)	9,428	(0)	9,203	9,203
Joint Venture Hospital Laboratories (12.50%)	0	0	0	0
North Eastern Michigan Cancer Center (50.00%)	346,882	337,369	916,700	904,113
PMHC Cancer Center (50.00%)	600,349	1,121,944	1,704,402	1,694,693
Radiation Oncology Alliance (33.33%)	42,774	210,333	251,907	207,602
West Michigan Radiation Oncology (50.00%)	<u>(330,430)</u>	<u>386,112</u>	<u>(61,162)</u>	<u>169,471</u>
Equity in Net Gain / (Loss) in Unconsolidated Joint Ventures	\$ 670,305	\$ 2,054,920	\$ 2,825,388	\$ 3,046,853
Michigan Health Corporation - Administrative Activity	<u>(44,455)</u>	<u>(13,715)</u>	<u>(477,298)</u>	<u>(402,127)</u>
Total Excess Revenue / (Expenses)	\$ 1,096,708	\$ 2,069,476	\$ 3,093,523	\$ 2,763,694

Michigan Health Corporation
 Schedule of Investments
 Projected FY2010 and Proposed Budget for FY2011

	MHC Total Investment as of FY2010	Expected Changes in Investment (C)	MHC Total Expected Investment as of FY2011
Consolidated Joint Ventures (A)			
Michigan Dialysis Services	\$ 2,536,381	\$ 0	\$ 2,536,381
Total Consolidated Joint Ventures	\$ 2,536,381	\$ 0	\$ 2,536,381
Unconsolidated Joint Ventures (B)			
Central Michigan Community Hospital Radiation Oncology Eye Care Alliance	\$ 706,975 321,800		\$ 706,975 321,800
Joint Venture Hospital Laboratories	15,000		15,000
North Eastern Michigan Cancer Center	705,127	(200,000)	505,127
PMHC Cancer Center	3,285,685	(500,000)	2,785,685
Radiation Oncology Alliance	(11,000)	(10,000)	(21,000)
West Michigan Radiation Oncology	400,000	0	400,000
Total Unconsolidated Joint Ventures	\$ 5,423,587	\$ (710,000)	\$ 4,713,587
Closed and Terminated Ventures	\$ (1,757,852)	\$ 0	\$ (1,757,852)
Subtotal for All Ventures	\$ 6,202,116	\$ (710,000)	\$ 5,492,116
Michigan Health Corporation - Administrative Activity Mobile Lithotripsy	8,457,825 210,000	250,000	8,707,825 210,000
Remaining Funds Not Currently Invested	\$ 15,130,059	\$ 460,000	\$ 15,590,059
Regental Approved Limit on Capital Investment	\$ 30,000,000		\$ 30,000,000

Notes:

- (A) Consolidated joint ventures are entities where MHC has an ownership percentage greater than 50%.
- (B) Unconsolidated joint ventures are entities where MHC has an ownership percentage up to 50%.
- (C) Based on expected cash distributions from the ventures back to MHC/JUMHS.