

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

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

ACTION REQUESTED: Approve the MHC FY2016 Annual Report and FY2017 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 2015.

The MHC Board of Directors and the MHC Sole Member Representative have unanimously approved the FY2016 Annual Report and FY2017 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 FY2017 Business Plan.



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

June 2016

**Michigan Health Corporation
FY2016 Annual Report and FY2017 Business Plan**

I. MHC OVERVIEW

Introduction

The Fiscal Year 2016 (FY2016) MHC Annual Report and FY2017 Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its twenty-first 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). MHC's structure may change as the result of the UMHS governance restructuring. This report reflects the current MHC structure.

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, University of Michigan and Dean of the University of Michigan Medical School

Vice Chair and Chief Operating Officer

David A. Spahlinger, M.D., President of the University of Michigan Hospitals and Health Centers and University of Michigan Medical Group, Executive Vice Dean for Clinical Affairs

Treasurer

Kevin P. Hegarty, Executive Vice President and Chief Financial Officer of the University of Michigan

Secretary

Amy K. Dittmar, Vice Provost for Academic and Budgetary Affairs for the University of Michigan

Director

Open (Will be filled when additional positions in the Dean's Office are filled.)

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, Senior Vice President and Chief Operating Officer, UMHS
Pamela Emenheiser, Health System Transactional Attorney, UM
Teri Grieb, Ph.D., Senior Director of Research, UMMS
Nancy Hobbs, Associate Vice President for Finance, UM
Edward Jennings, Tax Director, UM
Ella Kazerooni, M.D., Professor of Radiology, UMMS
Bev Nugent, Administrative Director, MHC
Travis Souza, Associate General Counsel, UM

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 by the MHC Management Committee and key milestones are periodically reviewed for larger ventures.

MHC staff monitors 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 and Highlights of FY2016

As MHC completes its twentieth year of operation, the MHC Board has approved a total of twenty-six subsidiary organizations since its activation in 1996 to support the missions and strategic plan of UMHS. Fourteen subsidiaries, or proposed subsidiaries, have been terminated and twelve subsidiaries are operational.

In FY2016, MHC focused on the operations of its existing ventures with particular attention on the operations of and investments in Paradigm Diagnostics. After consultation with industry experts and potential investors, the MHC Board decided to exit from Paradigm Diagnostics, a Michigan nonprofit corporation, and transfer the assets to Paradigm Diagnostics, Inc., a new Delaware corporation. As a result of this May 31, 2016, transfer, MHC will have a lesser interest in the new Paradigm Diagnostics with no additional investment of funds. In another action, MHC and the other partners of the Radiation Oncology Alliance (ROA), agreed to the sale of MHC's interest in ROA to McLaren Greater Lansing in early June.

MHC received common stock shares in VHA-UHC Alliance NewCo, Inc. on behalf of the University of Michigan Hospitals and Health Centers. These shares were the result of a merger between University HealthSystem Consortium (UHC) and VHA, Inc. The number of shares MHC received was based on the patronage and retained equity the Hospitals and Health Centers had in UHC.

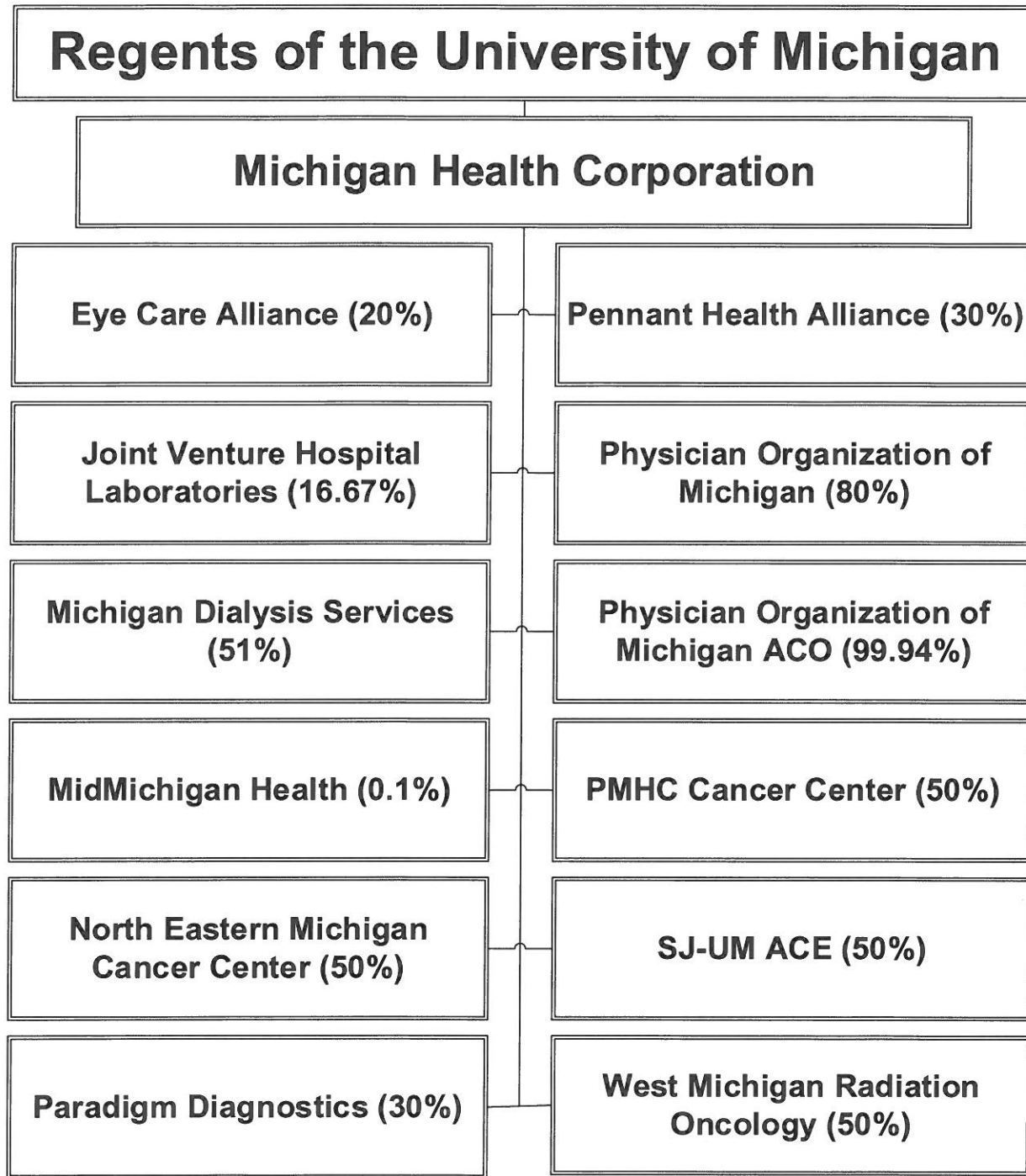
MHC Subsidiary Organizations FY2017 Plan

MHC intends to continue to operate all of the subsidiaries noted on the June 2016 organization chart on the next page, throughout FY2017.

In FY2017, UMHS expects to participate, through MHC, as an equity owner of a provider sponsored network, to be offered to employers and other payers. UMHS is working with cancer centers in west Michigan and other areas of the State that may lead to MHC joint ventures focused on cancer that include oncology services, as well as both teaching and clinical research expansion. Other UMHS interests include collaborating with other facilities that may result in joint ventures to manage those facilities and other related investments, as well as, participating in a health information exchange with other health care providers.

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 2016



NOTE: MHC also owns Class B membership interest in Great Lakes Lithotripsy and common stock shares in VHA-UHC Alliance NewCo, Inc.

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

II. MHC FINANCIAL PERFORMANCE FOR FY2016 AND BUDGET FOR FY2017

The MHC Fiscal Year 2016 Projection and Fiscal Year 2017 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. For FY2017, most of the MHC subsidiaries are expected to have positive margins with the notable exception of Physician Organization of Michigan ACO which accounts for (\$1.4) million in planned negative margin. This is the result of assuming that they may not receive Medicare Shared Savings funds in FY2017. With the FY2016 dissolution of Paradigm Diagnostics, which has had significant annual losses, MHC is expected to have \$4.2 million excess revenues over expenses in FY2017. Financial information for the new Paradigm Diagnostics company is not yet available for inclusion.

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, professional net income, or expanded patient care service opportunities.

Michigan Health Corporation
ProForma Summary of Joint Venture Contributions - MHC's Share Only
FY2016 Projection and FY2017 Budget

	<u>FY2016</u> <u>Projection</u>	<u>FY2017</u> <u>Budget</u>
<u>Consolidated Joint Ventures</u>		
Michigan Dialysis Services	\$ 418,187	\$ 144,614
Paradigm Diagnostics (MI Company Ending May 2016)	(8,744,393)	-
Physician Organization of Michigan	(16)	(16)
Physician Organization of Michigan-ACO	<u>3,776,065</u>	<u>(1,359,733)</u>
Net Gain / (Loss) in Consolidated Joint Ventures	\$ (4,550,157)	\$ (1,215,135)
<u>Unconsolidated Joint Ventures</u>		
Eye Care Alliance	\$ (324)	\$ (85)
Joint Venture Hospital Laboratories	-	-
MidMichigan Health	3,750,000	4,400,000
North Eastern Michigan Cancer Center	86,552	215,318
Paradigm Diagnostics (DE Company Opening June 2016)	-	-
Pennant Health Alliance	(7,160)	(6,037)
PMHC Cancer Center	573,546	471,141
Radiation Oncology Alliance	109,497	-
SJ-UM ACE	399,217	357,927
West Michigan Radiation Oncology	<u>470,329</u>	<u>291,448</u>
Net Gain / (Loss) in Unconsolidated Joint Ventures	\$ 5,381,657	\$ 5,729,712
Michigan Health Corporation Administrative Activity	<u>240,632</u>	<u>(308,986)</u>
Total Excess Revenue / (Expenses)	\$ <u>1,072,132</u>	\$ <u>4,205,591</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, 2017, MHC will have an outstanding investment amount of \$14.4 million, leaving \$30.6 million of the approved capitalization available for investment in other ventures. The MHC cash balance is projected to be \$5 million as of June 30, 2016.

APPENDIX A

Michigan Health Corporation Joint Venture Partners as of June 2016

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
Sparrow Health System

Michigan Dialysis Services

Renal Research Institute of Michigan

MidMichigan Health

MidMichigan Health

North Eastern Michigan Cancer Center

MidMichigan Medical Center - Alpena

Paradigm Diagnostics (New entity effective June 2016)

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

Oakland Southfield Physicians
Olympia Medical Services
Physicians' Organization of Western Michigan
United Physicians
Huron Valley Physicians Association, P.C.
Wexford PHO
MidMichigan Collaborative Care Organization, L.L.C.
Integrated Health Associates, Inc.

PMHC Cancer Center

Providence Hospital and Medical Centers

SJ-UM ACE

Saint Joseph Mercy Health System

West Michigan Radiation Oncology

Metropolitan Hospital