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**This Just In**

**Butzel Long CFO leaves to become first COO at UHY**

Rick David, CFO of Detroit-based **Butzel Long P.C.** since October 2008, has left the law firm to return to his accounting roots to become the first COO of **UHY Advisors Inc.**, both companies confirmed Friday.

David, 53, resigned earlier this month to take a "national appointment" at the Chicago-based firm but will remain based in Southeast Michigan, said **Joseph Melnick**, chief marketing officer and director of strategic

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## Lehman-Kojaian loss Redico's gain

*Firm adds 2.5M square feet of space to portfolio*

BY DANIEL DUGGAN  
CRAIN'S DETROIT BUSINESS

Southfield-based **Redico** has been awarded management of the 2.5 million square feet of commercial real estate and 300 acres of land in Michigan owned by the restructuring New York lender **Lehman Bros.**

The properties, including the Travelers Towers in Southfield and One Woodward Ave. in Detroit, have been managed in the past by Bloomfield Hills-based **Kojaian Management Co.**, a firm that has been parting ways with

Lehman since last year.

CEO Dale Watchowski said his firm won the work because of its history as an owner and developer of real estate.

"This goes back to our company's roots owning and developing property for the Teacher's Union," he said. "We are an owner and developer of property, and we think like an owner and developer, so that differentiates us from other firms."

According to the *Crain's* list of largest property managers, Redico is eighth-largest in the area with 13.8 million square feet of

space under management in 2009.

Watchowski said he is in the early stages of creating marketing plans for the buildings and intends to hire a brokerage firm to handle leasing.

Though the regional commercial real estate market is slow, Watchowski expects to have success in leasing the buildings. For one thing, he said, the buildings have no debt because of Lehman's bankruptcy restructuring.

"Because the properties don't have debt, we're in a good posi-

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**REDICO'S ROSTER**

**Redico** will now handle the management, marketing and lease management of:

- Travelers Tower I & II, Southfield
- One Woodward Ave., Detroit
- Maple Corporate Center, Troy
- 1350 Hamlin Road, Rochester Hills
- Cherry Creek Corporate Park, Shelby
- 27555 Farmington Road, Farmington Hills
- Wixom Technology Park, Wixom
- Northville Technology Park, Northville
- Romulus Crossing, Romulus
- Grand Rapids Pontaluna Road, Norton Shores

## RecoveryPark seeks to harvest jobs with farm

*Project hopes to create 4,000 within 10 years*

BY SHERRI WELCH  
CRAIN'S DETROIT BUSINESS

New urban farm projects led by nonprofits are cropping up in Detroit, including a 30-acre pilot farm scheduled to go into the ground next spring.

The pilot farm would be the centerpiece of a larger, 2,000-acre project dubbed "RecoveryPark," under development by **Shar Foundation** in Detroit and more than two dozen other public, private, nonprofit and for-profit members of the collaborative effort.

About half the land ultimately will be designated for farming. The remaining land will include pockets of housing, commercial development and green spaces, said Gary Wozniak, chief development officer at Shar Foundation, an affiliate of the **Self Help Addiction Rehabilitation Inc.** in Detroit.

The estimated \$220 million project aims to create 4,000 permanent jobs over the next 10 years through not only farming but also deconstruction of vacant homes, soil preparation, food processing, hy-



Wozniak

See *Farm*, Page 24

## DMC sale may mean more competition

*Hospitals likely to press harder for patients*

BY JAY GREENE  
CRAIN'S DETROIT BUSINESS

**Detroit Medical Center's** intent to sell its eight-hospital system to for-profit **Vanguard Health Systems** could stimulate competition between hospitals in Southeast Michigan for paying patients and intensify efforts by hospitals to acquire physician organizations, said several experts.

"Michigan is one of the last places to get a significant influx in investor-owned hospitals, assuming this deal goes through," said Allan Baumgarten, a Minneapolis-based health care consultant who is familiar with the Michigan market.

"To make it work, DMC will have to increase patient volume and that will have to come from other hospitals," Baumgarten said. "It also changes the landscape with negotiations with the health plans. The investor-owned hospitals tend to be more aggressive in contracting with health plans."

In a statement Friday, Daniel Loepp, CEO of **Blue Cross Blue Shield of Michigan**, said Vanguard's proposed acquisition of DMC requires a close examination by Michigan Attorney General Mike Cox and the state **Department of Community Health**.

"While we welcome investment in Detroit and the opportunity for the DMC to improve its facilities and services, we hope that the health system's nonprofit mission to provide charitable access to medical services for the poor is not compromised as a result of this deal," Loepp said.

"Ownership of the state's largest charitable care provider by a for-profit health system has the potential to permanently alter this safety net," Loepp said.

Steve D'Arcy, DMC's chairman, said Vanguard was selected over several other investor-

*"We believe we can now not only take on local hospitals but the Cleveland Clinics of the world."*



Mike Duggan, Detroit Medical Center

**ALL ABOUT THE DEAL**

- **Six points:** What's in Vanguard's letter of intent? **Page 22**
- **Where it began:** Deal born of bond market's closed doors, **Page 22**
- **Still uncommon:** Vanguard would be second for-profit buyer of an area nonprofit health system in two years, **Page 22**
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owned companies because DMC board members and executives felt the 15-hospital chain shared its same community mission and commitment to urban health care.

On the other hand, D'Arcy said Vanguard's commitment to provide an estimated \$1.5 billion toward capital improvements, debt repayment and liability relief was equally important.

"We wanted to make sure they had the mon-

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# Transfer to profit status will boost tax revenue

BY DANIEL DUGGAN  
CRAIN'S DETROIT BUSINESS

The proposed acquisition of the **Detroit Medical Center** by a for-profit health system is expected to bring a high level of government scrutiny, but also a big boost in tax revenue over time.

Strict laws govern the transfer of a nonprofit, tax-exempt entity — such as DMC — into a for-profit company such as Nashville-based **Vanguard Health Systems Inc.**

As a result, the deal will need to be approved by Michigan Attorney General Mike Cox before it moves forward.

Lawyers familiar with state laws regarding the transfer of nonprofit assets say the issue will be whether the price paid for the business is at least the equivalent of the intrinsic value of the assets.

"The attorney general will have to decide whether the assets were sold for fair value," DMC board Chairman Steve D'Arcy said. "After their analysis, they'll see it was a fair value."

The deal involves Vanguard's

**“The question is how to protect the charitable assets.”**

**Gregory Drutchas,  
Kitch Drutchas Wagner Valitutti  
& Sherbrook P.C.**

assumption of \$750 million in bonds and unfunded pension liabilities, D'Arcy said.

He's also hoping the attorney general's office also will take into account Vanguard's commitment to fund \$850 million in capital improvements over five years.

Vanguard has successfully moved hospitals from nonprofit status to for-profit status in other regions of the country, said Trip Pilgrim, Vanguard senior vice president and chief development officer.

"We've never had an attorney general say we didn't offer a fair value," he said.

Government agencies tend to

be cautious in how they approach these kinds of transactions, said Gregory Drutchas, senior partner in charge of the health care practice at Detroit-based **Kitch Drutchas Wagner Valitutti & Sherbrook P.C.**

"The central issue is that there is an intrinsic value to the assets," he said. "When the debt is taken away, the amount left over needs to be placed into some sort of a charitable trust."

"The question is how to protect the charitable assets that were developed through the tax-exempt entity," he said.

D'Arcy said cash raised by charitable donations, an estimated \$143 million, will be moved to a nonprofit fund operated by the DMC. He said the foundation will use the charitable donations for the purpose intended by the individual donors. (See story at right.)

D'Arcy did not give the value of DMC's assets.

The attorney general's office will start its own analysis of the value of the deal, said John Sellek, director of communications for Cox. However, he said the staff is just starting to analyze the deal and does not have a timeline created.

"The department has an obligation to review a sale like this under the charitable asset laws, and we'll be doing that," Sellek said.

While the Vanguard acquisition represents a major cash infusion for DMC, it will also represent a cash infusion for all levels of government, said Gregory Moore, chairman of the health care practice group for Detroit-based **Clark Hill P.L.C.**

DMC is tax exempt from federal, state and local taxes right now, he said. It won't become taxable overnight, since part of the deal announced Friday includes the creation of a renaissance zone for the DMC campus in Detroit. As a result, no state or local taxes will be paid on that campus for 12 years.

"But as this comes onto the tax rolls, there will be a lot of assets to be taxed," said Moore.

D'Arcy added that Sinai-Grace Hospital will be placed on the tax rolls immediately after approval of the deal.

How much tax money to be collected remains to be seen, he said. There is no assessed value on the DMC assets, "because it's never been taxed before."

"I think you will see over \$1 billion in assets added to the tax rolls," he said, "when the capital improvement investments are included."

In 1997, the **Michigan Department of Treasury** did a study showing that 172 hospitals in the state at that time would pay a collective \$390 million in taxes if they lost their tax-exempt status, with almost half of that in state and local property taxes.

Treasury public information officer Terry Stanton said no analysis has been done since 1997.

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## Foundation would oversee DMC's nonprofit mission

**Detroit Medical Center** may be selling its assets to **Vanguard Health Systems Inc.**, but its nonprofit mission will go on.

DMC's board of directors plans to continue oversight of an estimated \$143 million in donations to the nonprofit system and to keep raising money to fund medical research and community outreach programs, likely as the **DMC Foundation**.

The money will remain with the 501(c)3 nonprofit, since philanthropic donations cannot be sold as part of the deal under Michigan law, said DMC board Chairman Steve D'Arcy. The board will ensure that money donated to DMC will go to fund its original intent.

"If you gave it for x, it's going for x, and it's not going to benefit the bottom line of Vanguard," D'Arcy said.

If a donor gave money for something DMC can no longer do under tax laws, such as painting

its lobby, "we'll go back to donors and ask if they want to give to something else," he said. If not, DMC will return the money.


Commitments to the DMC's \$200 million campaign for construction of a new pediatric health center and other projects will go away, since that project will no longer be eligible for donations, D'Arcy said.

As a foundation, DMC will continue to raise money to fund medical research and community outreach programs such as dietary training, prenatal care for expectant mothers and other programs to maintain community health, D'Arcy said.

The DMC Foundation board will also have the legal right to enforce Vanguard's commitment to continue providing the same level of or increased charitable care for at least the next decade, which is included in the purchase agreement.

— Sherri Welch

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