

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Business Plan

ACTION REQUESTED: Approve the MHC FY2019 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 2017.

The MHC Board of Directors and the MHC Sole Member Representative have unanimously approved the FY2019 Business Plan.

APPROVAL REQUESTED:

The Board of MHC and the MHC Sole Member Representative recommend that the Board of Regents approve the FY2019 Business Plan.



Marschall S. Runge, M.D., Ph.D.

Executive Vice President for Medical Affairs

Chair, Chief Executive Officer & Sole Member Representative, MHC

June 2018

**Michigan Health Corporation
FY2019 Business Plan**

I. MHC OVERVIEW

Introduction

The Fiscal Year 2019 (FY2019) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its twenty-third year of operation. It also includes a summary of the history of MHC and highlights of FY2018 activities.

Structure and Governance

MHC is a non-profit, non-stock membership corporation solely owned and operated by the University. MHC is part of Michigan Medicine, 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, 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 Health System and Executive Vice Dean for Clinical Affairs of the University of Michigan Medical School

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

Carol R. Bradford, M.D., M.S., Executive Vice Dean for Academic Affairs of the University of Michigan Medical School

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 Medical School (UMMS), MHC, and the University of Michigan (UM). This Committee is chaired by Bev Nugent, Administrative Director for MHC, and includes the following individuals:

Paul Castillo, Chief Financial Officer, Michigan Medicine
T. Anthony Denton, Senior Vice President and Chief Operating Officer, UMHS
Nancy Hobbs, Associate Vice President for Finance, UM
Edward Jennings, Tax Director, UM
Ella Kazerooni, M.D., Interim Chair and Professor of Radiology, UMMS
Tiana Korley, Associate General Counsel, UM
Bev Nugent, Administrative Director, MHC
Travis Souza, Associate General Counsel, UM
Jeffrey Walker, Contracting Business Development Officer, UMHS

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 participates 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 FY2018

As MHC completes its twenty-second 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 and UMMS. Seventeen subsidiaries, or proposed subsidiaries, have been terminated and nine subsidiaries are operational. In FY2018, MHC focused on the operations of its existing ventures, opened the Victors Care direct primary care program, and initiated the process to close several ventures.

Work with the current ventures included working with Michigan Dialysis Services (MDS) to initiate planning efforts for opening a third dialysis unit to meet the increased patient care needs and working on a number of MDS staffing and patient care issues. Work also continued with the radiation oncology joint ventures to address changing operational and organizational needs.

To support UMHS in providing direct primary care options, MHC planned and implemented Victors Care services. The Victors Care program resides directly in MHC, rather than in a subsidiary organization. Premier Private Physicians Management, LLC manages the program. Michigan Medicine and University policies and procedures are used where appropriate and University physicians staff the program.

MHC also evaluated the need to continue several subsidiary organizations and whether the MHC subsidiary structure was the best for the services UMHS wanted to engage in with St Joseph Mercy Health System. Pennant Heath Alliance and Physician Organization of Michigan had been inactive for several years and after making inquiries of the various partners it was determined that the entity was no longer needed and steps were taken to distribute the remaining cash to the partners and dissolve the entities. In the case of SJ-UM, UMHS wanted to collaborate more broadly with St. Joseph Mercy Health System than just the geriatrics program and it was agreed to dissolve the joint venture and move the geriatrics services into the larger initiative the two organizations were establishing.

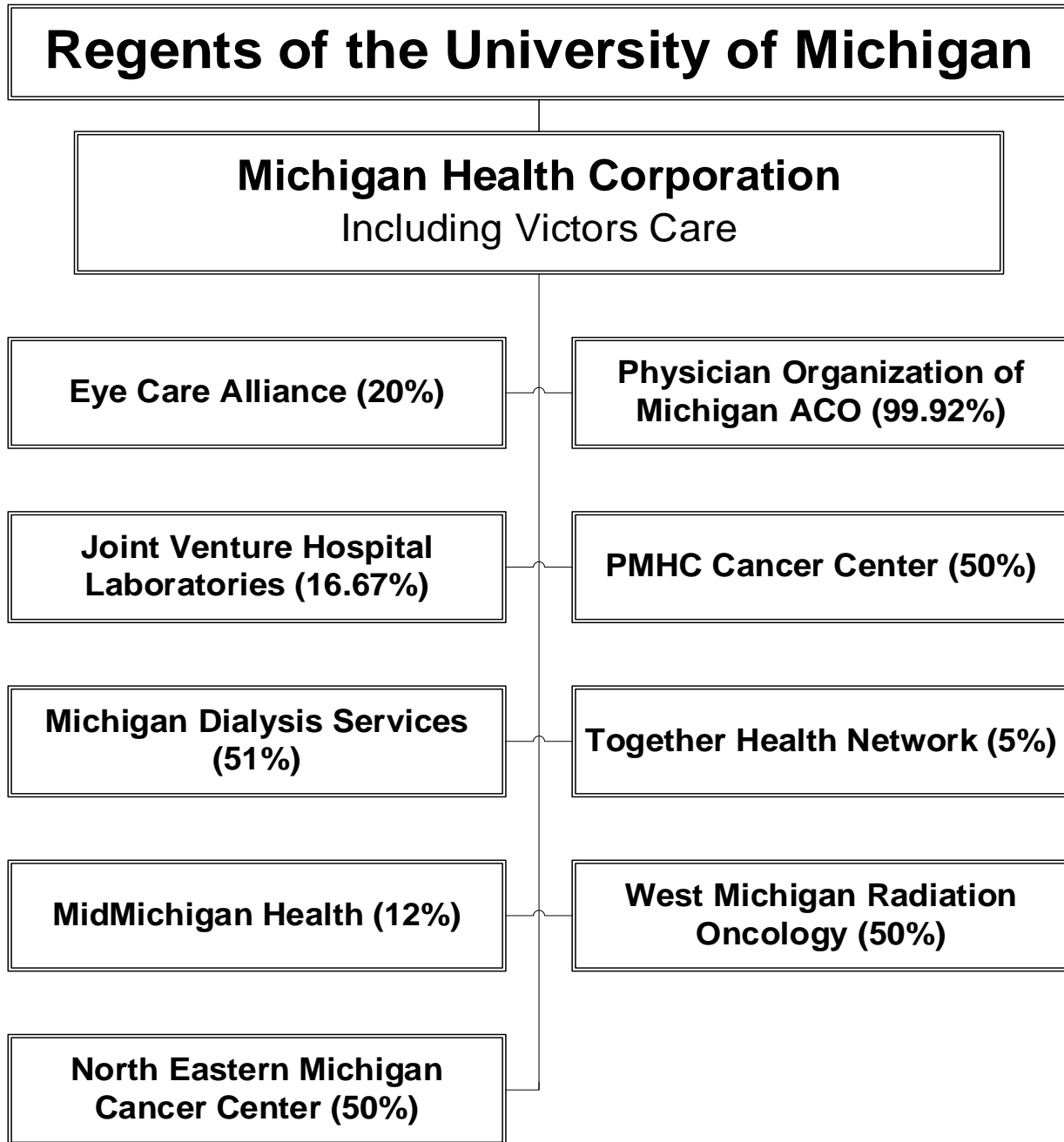
MHC Subsidiary Organizations' FY2019 Plan

MHC intends to continue to operate all of the subsidiaries noted on the June 2018 organization chart on the next page, throughout FY2019. Special focus will be on opening a new MDS site in Canton and supporting the newly established Victors Care program. MHC will also evaluate future participation in Eye Care Alliance and explore alternative models for MDS structure and operations.

A new accountable care organization Track 1+ model is expected to become operational in January of 2019 in response to the alternative payment models that Medicare is implementing. MHC and the current Physician Organization of Michigan ACO (POM ACO) leadership are reviewing options for the changes and the potential impact on POM ACO.

In response to other healthcare changes, patient care needs, and as part of the UMHS strategic plan, MHC is investigating relationships with other hospitals, physician groups, healthcare providers, and healthcare organizations.

Michigan Health Corporation Joint Venture Ownership as of June 30, 2018



NOTE: MHC also owns Class B membership interest in Great Lakes Lithotripsy, preferred stock in Paradigm Diagnostics, and common stock shares in Vizient, Inc.

The percentages reflect MHC's ownership interest in the venture.

II. MHC FINANCIAL PERFORMANCE FOR FY2018 AND BUDGET FOR FY2019

The MHC Fiscal Year 2018 Projection and Fiscal Year 2019 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. MHC expects to end FY2018 with a favorable margin of \$5.7 million compared to a budget of \$3.1 million. This favorable variance is related primarily to MDS which has had a significant increase in activity and favorable adjustments from prior year activity generating a favorable margin and providing MHC with significant cash distributions. In addition, improved performances for the PMHC Cancer Center and West Michigan Radiation Oncology and losses less than budgeted for Victors Care and the North Eastern Michigan Cancer Center, partially offset by unbudgeted losses for Together Health Network have also contributed to the favorable margin.

In FY2019, MHC is budgeting a favorable margin of \$3 million. The decrease in margin for FY2019 as compared to FY2018 relates to the start-up activities of MDS opening a new unit, Victors Care continuing to develop its operations after opening in April of 2018 and POM ACO transitioning to a two-sided risk arrangement in order to continue participation in the Medicare Shared Savings Program. NEMCC and WMRO margins are also anticipated to decrease in FY2019 as activity levels fluctuate.

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, 2019, MHC will have an outstanding investment amount of \$1 million, leaving \$44 million of the approved capitalization available for investment in other ventures. The MHC cash balance is projected to be \$5.2 million as of June 30, 2018.