

THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Business Plan

ACTION REQUESTED: Approve the MHC FY2020 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 2018.

The MHC Board of Directors, the MHC Sole Member Representative, and the University of Michigan Health System Board, have unanimously approved the FY2020 Business Plan.

APPROVAL REQUESTED:

Approve the MHC FY2020 Business Plan.



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

June 2019

**Michigan Health Corporation
FY2020 Business Plan**

I. MHC OVERVIEW

Introduction

The Fiscal Year 2020 (FY2020) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its twenty-fourth year of operation. It also includes a summary of the history of MHC and highlights of FY2019 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, Ph.D., 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 Michigan Medicine (MM), 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
Rebecca Hulea, Director, Regulatory Compliance, Michigan Medicine
Edward Jennings, Tax Director, UM
Ella Kazerooni, M.D., Professor of Radiology, UMMS
Tiana Korley, Associate General Counsel, UM
Bev Nugent (Chair), Administrative Director, MHC
Katie Schilling, Associate General Counsel, UM
Currently vacant, Associate Vice President for Finance, 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 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 FY2019

As MHC completes its twenty-third 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. Eighteen subsidiaries, or proposed subsidiaries, have been terminated and eight subsidiaries are operational.

The process to close several ventures was also undertaken. Physician Organization of Michigan had been inactive for several years and after making inquiries of the various partners, it was dissolved. 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. The larger affiliation has been implemented and the SJ-UM patient care activities have been transitioned. SJ-UM is winding down its financial activities. Discussions continue regarding the future of Pennant Health Alliance (PHA) and Eye Care Alliance (ECA) which have been inactive for several years. SJ-UM, PHA, and ECA are all expected to be dissolved by June 30, 2019.

MHC also focused on the operations of its existing ventures, including the recently opened Victors Care direct primary care program, opening a third Michigan Dialysis Services (MDS) dialysis unit in Canton, and exploring alternative models of providing for MDS services. Victors Care reached 300 members in February. Regulatory and legal reviews were undertaken regarding several lease arrangements for the MHC radiation oncology ventures. Several opportunities for improvement were identified and implemented.

Physician Organization of Michigan ACO received \$20.7 million of shared savings, with \$2.7 million going to UMHS as a participant in the program. This distribution was for the 2017 calendar year results.

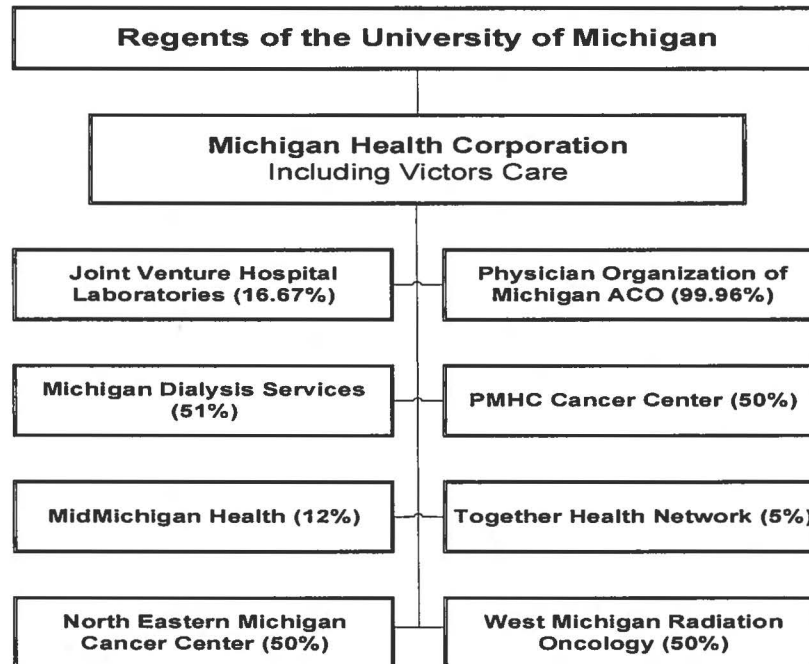
MHC Subsidiary Organizations' FY2020 Plan

MHC intends to continue to operate all of the subsidiaries noted on the June 2019 organization chart on the next page, throughout FY2020. Special focus will be on building the practices of the newly opened MDS site in Canton and the Victors Care program. MHC will continue to explore alternative models for MDS structure and operations with its MDS partner, Renal Research Institute of Michigan and with its parent organization, Fresenius Medical Care North America.

POM ACO will transition to a two-sided risk model starting July 1, 2019, called Basic Level E. To off-set some of the risk, POM ACO has charged members membership fees and secured stop-loss insurance.

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. MHC will also continue its regulatory and compliance reviews.

Michigan Health Corporation Legal Structure and Joint Venture Ownership as of June 30, 2019



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 FY2019 AND BUDGET FOR FY2020

The MHC Fiscal Year 2019 Projection and Fiscal Year 2020 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 FY2019 with a favorable margin of \$9.6 million compared to a budget of \$3.0 million. This favorable variance is related primarily to POM ACO receiving Medicare shared savings.

In FY2020, MHC is budgeting a favorable margin of \$1.5 million. The decrease in margin for FY2020 as compared to FY2019 primarily relates to the POM ACO receiving shared savings in FY2019 and not budgeting for shared savings in FY2020. Shared savings are difficult to predict and POM ACO has taken a conservative approach to budgeting.

Investments Summary

Over the years, many ventures have not only repaid MHC the full amount MHC invested in the venture, but they have provided cash distributions well in excess of MHC's investment. Collectively, the ventures have been so successful that as of June 30, 2019, MHC's investments are expected to be repaid in full, leaving the full \$45 million Regent authorization for investment into additional venture opportunities. In MHC's twenty-three years of operations, MHC is projected to have invested \$66 million in the ventures with \$74 million returned from the ventures. This was all done within the Regent approved authorization.

Just as the source of investment funds comes from the Michigan Medicine unit interested in pursuing the venture activity, most of the cash distributions received from the ventures are transferred to other Michigan Medicine units. MHC only keeps sufficient cash to cover operations and potential small investments. The MHC cash balance is projected to be \$5.1 million as of June 30, 2019.