

**THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION**

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Business Plan

ACTION REQUESTED: Approve the MHC FY2022 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 2020.

The MHC Board of Directors, the MHC Sole Member Representative, and the University of Michigan Health System Board, have unanimously approved the FY2022 Business Plan.

APPROVAL REQUESTED:

Approve the MHC FY2022 Business Plan.



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

Executive Vice President for Medical Affairs

Chair, Chief Executive Officer & Sole Member Representative, MHC

June 2021

Michigan Health Corporation FY2022 Business Plan

I. MHC OVERVIEW

Introduction

The Fiscal Year 2022 (FY2022) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its twenty-sixth year of operation. It also includes a summary of the history of MHC and highlights of FY2021 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.

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 C. Miller, 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

Brian T. Smith, Interim Executive Vice President and Chief Financial Officer of the University of Michigan

Secretary

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

Director

Brian J. Zink, M.D., Interim 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), University of Michigan Health System (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, MM
T. Anthony Denton, Senior Vice President and Chief Operating Officer, UMHS
Rebecca Hulea, Director, Regulatory Compliance, MM
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
Brian T. Smith, Associate Vice President for Finance, UM

This Committee evaluates the business case for new venture activities in MHC and directs due diligence activities. 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 FY2021

As MHC completes its twenty-fifth 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.

MHC focused on the operations of its existing ventures. Victors Care continued to steadily increase its membership and had 463 members in early March of 2021. Michigan Dialysis Services and the radiation oncology ventures worked diligently to improve their venture margins and increase activity during the challenging times of COVID-19. Fortunately, no serious issues related to COVID-19 surfaced and the receipt of CARES Act funds was beneficial. Regulatory and legal reviews were undertaken to assure compliance for the joint ventures and Michigan Medicine.

Great Lakes Lithotripsy continued to pursue merging into a new Great Lakes Lithotripsy (GLL) organization. The number of shares MHC holds on behalf of Urology is expected to decrease in FY2021 or FY2022 as a result of GLL changing GLL participation standards. Urology will receive a buyout of the shares which no longer meet the new standards.

POM ACO transitioned to a two-sided risk model starting July 1, 2019. Given the COVID-19 pandemic, the Centers for Medicare and Medicaid Services removed risk for most of 2020. POM ACO was then able to adjust membership fees and stop-loss insurance. Physician Organization of Michigan ACO received \$10.5 million of shared savings, with \$2.6 million going to UMHS as a participant in the program. This distribution was for the 2019 calendar year results.

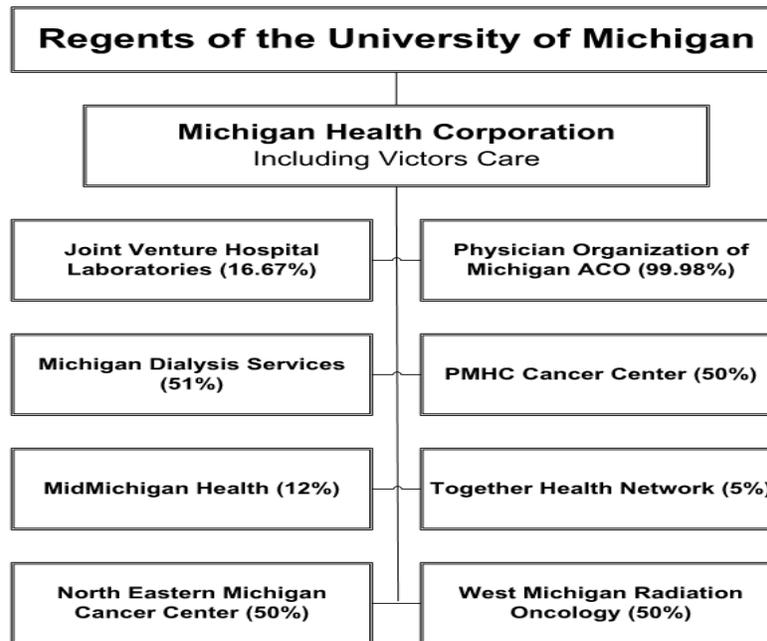
Together Health Network continued to wind down operations. Most of this process is expected to be completed in FY2021, but may carry over to FY2022.

MHC Subsidiary Organizations' FY2022 Plan

MHC intends to continue to operate all of the subsidiaries noted on the June 2021 organization chart on the next page, throughout FY2022, with the exception of Together Health Network. Together Health Network is winding down operations and is expected to dissolve in calendar 2021. No new ventures are expected to be added to MHC in FY2022.

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, 2021



NOTE: MHC also owns Class B membership interest in Great Lakes Lithotripsy, stock in Exact Sciences Corporation, and common stock shares in Vizient, Inc.

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

II. MHC FINANCIAL PERFORMANCE FOR FY2021 AND BUDGET FOR FY2022

The MHC Fiscal Year 2021 Projection and Fiscal Year 2022 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. Management has recognized that variances may still occur because of the pandemic and will address these as they develop. MHC expects to end FY2021 with a favorable margin of \$3.6 million compared to a budget of \$2.3 million. This favorable variance is related primarily to POM ACO receiving Medicare shared savings.

In FY2022, MHC is budgeting a favorable margin of \$1.6 million. The decrease in margin for FY2022 as compared to the FY2021 projection primarily relates to the POM ACO receiving shared savings in FY2021 and not budgeting for shared savings in FY2022. 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, 2021, 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-five years of operations, MHC is projected to have invested \$66 million in the ventures with \$86 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 \$5.7 million as of June 30, 2021.