

**THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION**

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Business Plan

ACTION REQUESTED: Approve the MHC FY2025 Business Plan

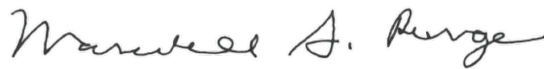
BUSINESS PLAN:

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 2023.

The MHC Board of Directors, the MHC Sole Member Representative, and the University of Michigan Health Board, have unanimously approved the FY2025 Business Plan.

APPROVAL REQUESTED:

Approve the MHC FY2025 Business Plan.



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

June 2024

**Michigan Health Corporation
FY2025 Business Plan**

I. MHC OVERVIEW

Introduction

The Fiscal Year 2025 (FY2025) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its twenty-ninth year of operation. It also includes a summary of the history of MHC and highlights of FY2024 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, Dean of the University of Michigan Medical School and Chief Executive Officer, Michigan Medicine

Vice Chair and Chief Operating Officer

David C. Miller, M.D., President U-M Health, and Executive Vice Dean for Clinical Affairs of the University of Michigan Medical School

Treasurer

Geoffrey S. Chatas, Executive Vice President and Chief Financial Officer of the University of Michigan

Secretary

Thomas A. Finholt, Ph.D., Vice Provost for Academic and Budgetary Affairs, University of Michigan

Director

Paul P. Lee, M.D., Senior Associate Dean of Clinical Affairs of the University of Michigan Medical School

The MHC Management Committee reviews and endorses all proposed activities that are presented to the MHC Board for approval. The Committee includes key individuals from Michigan Medicine (MM), U-M Health, the University of Michigan Medical School (UMMS), MHC, and the University of Michigan (UM). This Committee is chaired by Eric Kratochwill, Administrative Director for MHC, and includes the following individuals:

T. Anthony Denton, Senior Vice President and Chief Environmental Social and Governance Officer, UMHS
Edward Jennings, Tax Director, UM
Ella Kazerooni, M.D., Professor of Radiology, UMMS
Eric Kratochwill (Chair), Administrative Director, MHC
Kirk Mauck, Financial Analyst Lead, MHC
Susanne Pryce, Senior Director, Compliance Audits & Investigations, MM
Katie Schilling, Associate General Counsel, UM
Drew Smith, Assistant Vice President and Treasurer, UM
Eric Strucko, Ph.D., Chief Financial Officer, MM
Serena Wang, Senior Strategist, MM

This Committee evaluates the business cases for new venture activities in MHC and directs due diligence activities. It monitors the financial performance of each MHC subsidiary organization and periodically reviews key milestones for larger ventures.

MHC staff members monitor the activities of the ventures on an ongoing basis and actively participate in finance and operations committee meetings for many of the subsidiary companies. Staff reviews financial statements from the ventures, monitors their activities and presents performance trend reports to the MHC Management Committee and the Board. The MHC Administrative Director also attends board meetings for several ventures, collaborates with U-M Health representatives on the venture boards and interfaces with venture representatives to assist with problem solving to assure that venture and MHC goals are met.

MHC Subsidiary Organizations' History and Highlights of FY2024

As MHC completes its twenty-eighth 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 U-M Health and UMMS. Nineteen subsidiaries, or proposed subsidiaries, have been terminated and eight subsidiaries are operational.

Victors Care continued to steadily increase its membership and had 897 members as of February 29, 2024. Its growth rate was 12.8% over the past six months with an attrition rate of 2.1% during the same period. Victors Care has produced positive net margins that have resulted in distributions totaling \$1.5 million. It anticipates making an additional \$1.4 million cash distribution before the end of the 2024 fiscal year. U-M Health has utilized these funds to support the Anti-Racism Oversight Committee as well as emerging clinical programs and partnerships in the Ypsilanti community. Victors Care leadership and MHC initiated work on a long-term strategic planning process. The MHC Board recently approved funding to support the development of a second Victors Care site.

Michigan Dialysis Services and the radiation oncology joint ventures have continued to serve patients and activity has largely returned to pre-pandemic levels. However, margins are decreasing primarily due to increases in labor costs related to market dynamics.

Great Lakes Lithotripsy continues to be a successful venture and benefit to the Department of Urology, although volumes have decreased significantly since the pandemic and continue to decline. The increased use of ureteroscopy (URS) for the treatment of kidney stones has contributed to the decline. A recently published study of Medicare data shows that URS passed lithotripsy for managing kidney stones in the Medicare population from 2012 to 2019 and continues to decline by 1.7% per year.

Physician Organization of Michigan ACO transitioned to a two-sided risk model starting July 1, 2019. POM ACO has not earned shared savings since the 2019 program year. To better position itself for the anticipated changes in shared savings models, POM ACO completed an extensive consulting project in 2023. Its member organizations are implementing consultant recommendations to improve HCC coding, Post-Acute Care, Transitions of Care, and High-Risk Care Management aimed to improve performance. With its strategic improvements, participant alignment, and clinical partnerships, POM ACO management is positioning itself to earn shared savings in future program years.

MHC Subsidiary Organizations' FY2024 Plan

MHC intends to continue to operate all subsidiaries noted on the June 2024 organization chart on the next page, throughout FY2025. The MHC Board will review any potential future investment according to the authority under its bylaws.

In response to other healthcare changes, patient care needs, and as part of the U-M Health strategic plan, MHC will support strategies that advance healthcare related activities to maintain and enhance Michigan Medicine's education, research and clinical missions.

**Michigan Health Corporation Legal Structure and
Joint Venture Ownership as of June 30, 2024**

Regents of the University of Michigan

**Michigan Health Corporation
Including Victors Care**

**Joint Venture Hospital
Laboratories (25%)**

**Physician Organization of
Michigan ACO (99.98%)**

**Michigan Dialysis Services
(51%)**

PMHC Cancer Center (50%)

MyMichigan Health (12%)

**West Michigan Radiation
Oncology (50%)**

**North Eastern Michigan
Cancer Center (50%)**

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 FY2024 AND BUDGET FOR FY2025

The MHC Fiscal Year 2024 Projection and Fiscal Year 2025 Budget reflect each subsidiary's financial plan, MHC's financial statements, projected results of operations, and anticipated changes for the coming fiscal year. MHC expects to end FY2024 with a favorable margin of \$3.3 million compared to a budget of \$1.9 million. This large variance is primarily due to POM ACO's expenditures being less than anticipated for its strategic consulting project.

In FY2025, MHC is budgeting a favorable margin of \$3.2 million. The decrease in margin for FY2025 as compared to the FY2024 projection primarily relates to the Victors Care second site projecting a budgeted loss of (\$1.1 million) during the construction and start-up phase.

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 exceeding MHC's investment. In MHC's twenty-eight years of operations, MHC's initiatives have produced a return of \$109 million from \$75 million in investments. This was all done within the \$45 million 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 investments. The MHC cash balance is projected to be \$687,000 as of June 30, 2024.