

**THE UNIVERSITY OF MICHIGAN
REGENTS COMMUNICATION**

REQUEST FOR ACTION

SUBJECT: Michigan Health Corporation (MHC) Business Plan

ACTION REQUESTED: Approve the MHC FY2024 Business Plan

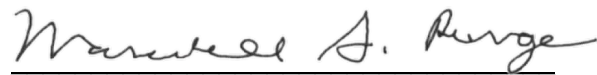
BUSINESS PLAN:

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 2022.

The MHC Board of Directors, the MHC Sole Member Representative, and the University of Michigan Health System Board, have unanimously approved the FY2024 Business Plan.

APPROVAL REQUESTED:

Approve the MHC FY2024 Business Plan.



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

Executive Vice President for Medical Affairs

Chair, Chief Executive Officer & Sole Member Representative, MHC

June 2023

Michigan Health Corporation
FY2024 Business Plan

I. MHC OVERVIEW

Introduction

The Fiscal Year 2024 (FY2024) Business Plan for Michigan Health Corporation (MHC) provides an overview of the direction for MHC and its subsidiary organizations, as MHC begins its twenty-eighth year of operation. It also includes a summary of the history of MHC and highlights of FY2023 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

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

Debra F. Weinstein, M.D., 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 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

Rebecca Hulea, Director, Regulatory Compliance, MM

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

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 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 several 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 FY2023

As MHC completes its twenty-seventh 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. Nineteen subsidiaries, or proposed subsidiaries, have been terminated and seven subsidiaries are operational.

Victors Care continued to steadily increase its membership and had 688 members as of January 31, 2023. Its growth rate was 12.8% over the past six months with an attrition rate of 2.1% during the same time period. Victors Care operations has produced positive net margins that have resulted in distributions totaling \$1.5 million. UMHS 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.

Michigan Dialysis Services and the radiation oncology joint ventures have continued to serve patients and improve their respective margins through COVID-19.

Great Lakes Lithotripsy continues to be a successful venture and benefit to the Urology Department, 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.

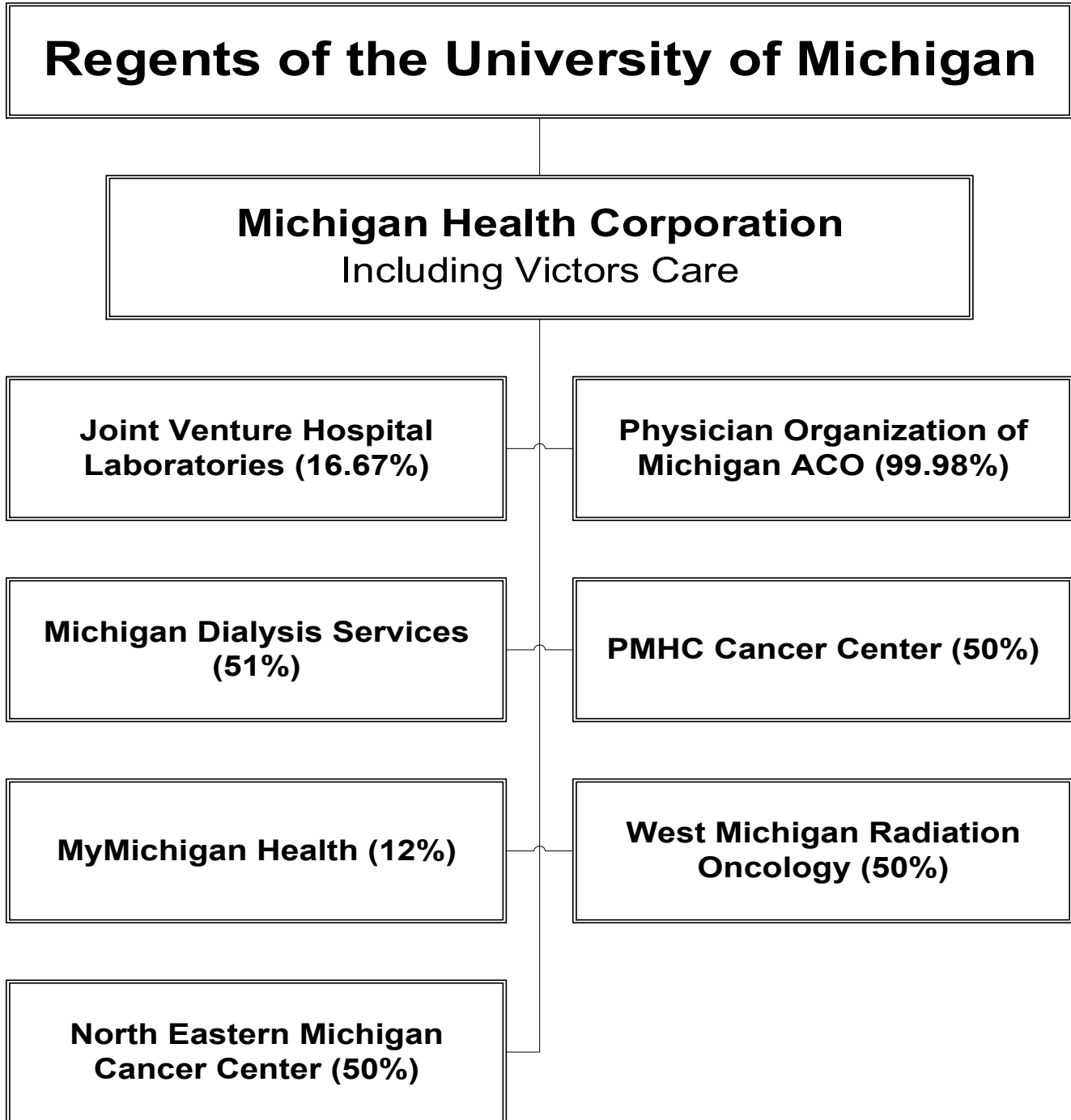
Physician Organization of Michigan ACO transitioned to a two-sided risk model starting July 1, 2019. POM ACO received no shared savings in FY2022. To better position itself for the anticipated changes in shared savings models, POM ACO initiated an extensive consulting project in 2022. Its member organizations are working with consultants to evaluate 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.

MHC Subsidiary Organizations' FY2024 Plan

MHC intends to continue to operate all subsidiaries noted on the June 2023 organization chart on the next page, throughout FY2024. The MHC Board will review any potential investment.

In response to other healthcare changes, patient care needs, and as part of the UMHS strategic plan, MHC will assess 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, 2023**



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 FY2023 AND BUDGET FOR FY2024

The MHC Fiscal Year 2023 Projection and Fiscal Year 2024 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 FY2023 with an unfavorable margin of (\$239,000) compared to a budget of \$2.2 million. This large variance is due to MHC's funding of POM ACO's unbudgeted strategic consulting project to position itself to meet future CMS requirements for shared savings.

In FY2024, MHC is budgeting a favorable margin of \$1.9 million. The increase in margin for FY2024 as compared to the FY2023 projection primarily relates to the projected end of the POM ACO strategic consulting project. While POM ACO has robust risk tracking models, future 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 exceeding MHC's investment. Collectively, the ventures have been so successful that as of June 30, 2023, 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-seven years of operations, MHC is projected to have invested \$74 million in the ventures with \$96 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 investments. The MHC cash balance is projected to be \$3.1 million as of June 30, 2023.