Strategic and Operating Plan Cycle

- **Targeted Strategy**: Make choices that support Michigan Medicine's Strategy
- **Prudent Investment**: Invest prudently to optimize capital and human resources
- **Strong Operating Performance**: Generate cash flow margin to make investments
• Within UMHS, support for investment and financial decision making is derived from three primary sources:

  – **Strategic Financial Framework** – Long range financial and reserves planning, in alignment with strategy

  – **Three-Year Routine Capital Plan** – Near and mid-term routine replacement and growth planning

  – **Annual Operating Budget** – Near-term financial goal setting consistent with the strategic financial framework
MM Strategic Financial Framework Approach

• The Strategic Financial Framework (SFF) is a model aimed at defining Michigan Medicines (MM) financial capacity to invest in replacement, recruitment/retention, growth and strategic initiatives.

• The SFF model estimates the amount of cash that comes in to the organization and compares this to the cost of planned investment to determine affordability.

• The SFF is based on high level projections and assumptions, therefore while not used as a budget it does establish required margin targets to fund the identified investments.

• Michigan Medicine (MM) annually updates its five year investment plan to enhance all three missions of the organization.
MM Strategic Financial Framework - Sources

• The organization generates cash to invest in four primary ways –
  – Cash generated from operations (referred to as cash margin)
    • This is the primary means of cash generation. Recent operating margin performance has been 6.1%, 2.7%, and 4.0% in FY 2017, FY 2018, and FY 2019, respectively. **Long-term aim is to achieve and sustain a 5% operating margin.**
  – New debt
    • All debt is issued as part of the overall University and is dependent on maintaining a prudent mix of debt and cash reserves
  – Generation of investment income
    • Referred to as the long-term portfolio, is dependent on maintaining a sufficient cash reserve balance to generate interest income
  – Philanthropy/Fund Raising
    • Aim is to **maximize philanthropy** to support strategic projects and programs
Michigan Medicine Investment Overview

• The organization spends cash in four primary ways:
  – Replacement of equipment and facilities $845M
  – Recruitment and retention initiatives $823M
  – Growth in capacity $834M
  – Strategic investments and other $140M
  – Total expected investments 2020 – 2024 $2,642M

• The proposed level of investments will be substantially funded by cash generated through operations.

• Average annual cash generated from operations needs to be $450M
• Much like in our households, it is not prudent to spend every dollar that is generated by the organization.

• The **amount of cash maintained** in the savings account (balance sheet) is an **important component of investment capacity and also influences the ability to borrow money.**

• Balance sheet cash is typically measured by “days cash on hand” (DCOH).

• Days cash on hand is defined as the **amount of days an organization could continue its existing operations if no other cash/revenue was raised.** A higher number is indicative of being more financially stable and prevents over-reaction to short-term events.
MM Strategic Financial Framework

- UMHS Board has established a current target floor for DCOH of 125 days for the health system, with a mid-term goal of lifting the floor to 200 days.

- In preparation for long term investment cycles of 30 – 40 years, significant facility replacement requires DCOH to grow to a range of 350 days. We typically think of this cash availability, together with new debt issuance, as enabling a full replacement of University Hospital years into the future.
UMHS Unrestricted Days Cash on Hand
FY20 – FY24

Cash Generation and Investment ($M)

- Operating Cash Generated (M)
- Investment and Funds Flow

Days Cash On Hand

- 2020: 143 Days
- 2021: 136 Days
- 2022: 132 Days
- 2023: 135 Days
- 2024: 127 Days
Converting The Words to a Visual

- Cash from Operations
- Investment Income
- New Debt
- Philanthropy

Long-term savings and reserves: 125 days cash

Replacement of equipment and facilities
Recruitment and retention initiatives
Growth in capacity
Strategic investments and other

$2.6B of investment FY 20-FY24
## FY19 - FY24 UMHS Capital and Investment Spend Projection

<table>
<thead>
<tr>
<th>Investment Projection ($ millions)</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>FY20-24 Total</th>
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<tbody>
<tr>
<td><strong>UMHS</strong></td>
<td></td>
<td></td>
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<tr>
<td>1 West Ann Arbor</td>
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<td>2 Brighton Center for Specialty Care</td>
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<td>$1.0</td>
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<td>3 Pathology Relocation</td>
<td>$13.2</td>
<td>$12.1</td>
<td>$11.9</td>
<td>$11.9</td>
<td>$8.7</td>
<td>$2.6</td>
<td>$47.2</td>
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<tr>
<td>4 Other Approved Routine Capital</td>
<td>$177.7</td>
<td>$73.5</td>
<td>$5.1</td>
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<td>$78.6</td>
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<tr>
<td><strong>Subtotal Approved Investments</strong></td>
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<td>$86.6</td>
<td>$17.0</td>
<td>$11.9</td>
<td>$8.7</td>
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<td>5 UH Infrastructure Upgrades</td>
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<td>6 Facilities Condition Assessment - Phase I</td>
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<td>$11.0</td>
<td>$11.0</td>
<td>$12.0</td>
<td>$12.0</td>
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<td>$15.0</td>
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<td>8 Routine, Major Capital, and Other</td>
<td>$110.0</td>
<td>$110.0</td>
<td>$110.0</td>
<td>$110.0</td>
<td>$142.5</td>
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<tr>
<td><strong>Subtotal Routine, Major Capital and Other</strong></td>
<td>$11.0</td>
<td>$121.0</td>
<td>$121.0</td>
<td>$122.0</td>
<td>$154.5</td>
<td>$178.5</td>
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<td>9 Inpatient Tower (Debt Financed 80/160/60)</td>
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<td>14 Clinical Enterprise Imaging and PACS Replacement</td>
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<td>15 Other Strategic Investments</td>
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<td><strong>Subtotal In Discussion Investments</strong></td>
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<td>$69.4</td>
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<table>
<thead>
<tr>
<th>Funds Flows</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>FY20-24 Total</th>
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<tbody>
<tr>
<td>20 Academic Support Payment</td>
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<td>$67.2</td>
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<td>22 Clinical Investment Fund</td>
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<td><strong>Total Funds Flow From UMHS to Medical School</strong></td>
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<td>$167.5</td>
<td>$153.5</td>
<td>$164.1</td>
<td>$165.0</td>
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<td>$822.6</td>
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</table>

Note: Totals may not sum due to rounding.
Routine Capital Planning
Systematic 3-Year Planning Framework

• We are moving to a systematic 3-year planning approach
  – Goal is to obtain a broader and improved sense of the future – Identify enterprise needs and timing for when funding will be required
  
  – Allows for longer term project management and resource prioritization as compared to a 12-month view
  
  – Focus paid not just to total cost estimates, but cash flow timing estimates to better inform days cash on hand.
    • Cash flow for any given period is comprised of delayed projects from prior periods as well as newly approved projects.
    • Delayed cash flow timing does not create any additional capacity.
Annual Operating Budget Process

**December**
- Process overview
- UMHS Current Year Proforma

**January**
- Review of CY forecast and future year initial projection
- Set UMHS future year goal
- Establish segment goals

**February**
- Detailed volume build involving all services

**March**
- Detailed revenue and expense build involving departments

**April**
- Gap closure
- UMHS Board approval

Setting expectations (not precision) around goals

Building accountability detail

Governance