

University of Michigan Hospitals and Health Centers Capital Planning Process Overview



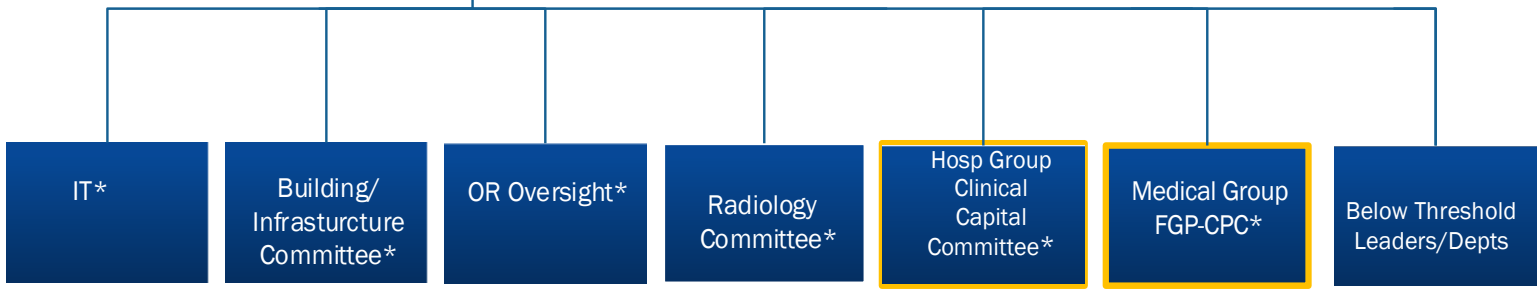
Countermeasure 1: Capital Redesign

Working Draft

Capital Allocation & Strategic

Major (\$5M to \$15M)

Routine



Governance

Chair: EVPMA; Membership: Refer to Governance Documents
Scope of Responsibilities: 1.) Determines Strategic and Innovative priorities 2.) Final Recommendation of capital allocation and decisions for HHCEB approval. 3.) Reviews Capital Scorecard

Capital Oversight Group

Chairs: Clinician Leader + Finance Director
Membership: As delegated by Proposed Integrated Delivery System Exec Group (Current COG membership and others TBD)
Scope of Responsibilities: 1.) Make major project recommendations for Exec Group approval. 2.) Make Routine Capital Committee allocations and recommendations for Exec Group approval. 3.) Responsible for Innovative and Ad Hoc requests (>\$0.5Mil) review and decision making. 4.) Oversight for Capital Scorecard
Meeting Frequency: Monthly

Notes:
 *Includes cross membership
 **Yellow highlights indicate new committee or change to current structure process
 ***Holdback/Contingency included within the committee allocation.



Role Clarity – Committee Membership

	Role and Responsibility
<p>Capital Oversight Group (COG)</p>	<ul style="list-style-type: none"> • Share COG materials and standard reporting within respective areas of responsibility; information sharing and input gathering for prioritization of capital requests. • Maintain Objectivity and Consider system and strategic impacts for requests and recommendations being made.
<p>Categorical Committee Members</p>	<ul style="list-style-type: none"> • Share committee materials and standard reporting within respective areas of responsibility; information sharing and input gathering for prioritization of capital requests. • Maintain Objectivity and Consider system impacts for requests and recommendations being made. • Work towards prioritization of capital requests within allocation guidelines. • Inform COG of implications and concerns of annual project prioritization recommendations.



COG Prioritization Principles

Maintain alignment with cash flow objectives

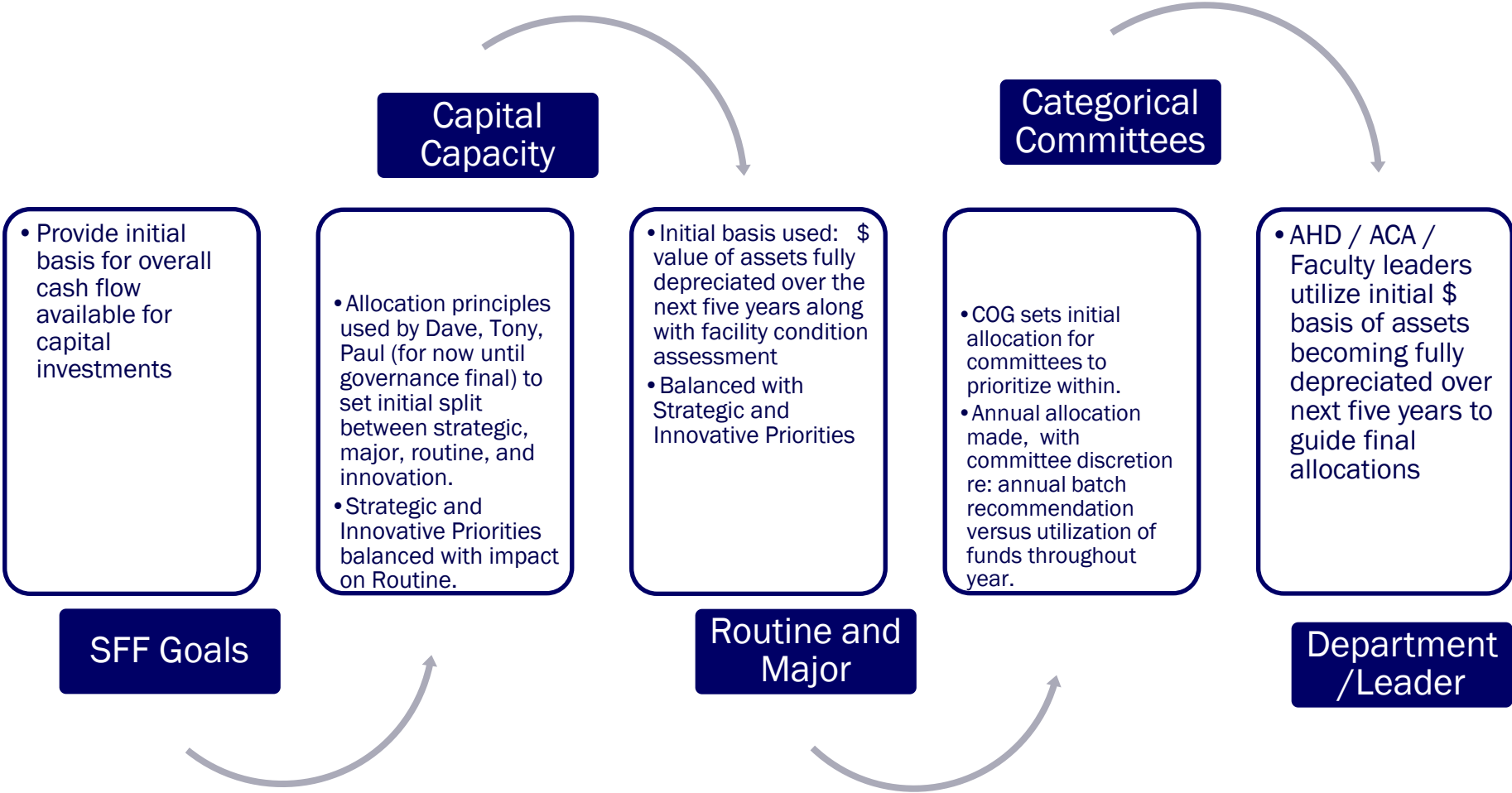
Patient Safety

**Patient Access
and Throughput**

Quality of Care

Financial

HHC Annual Capital Capacity Allocation Methodology



HHC - Strategic Financial Framework (SFF)



Enabler of our strategic and operating plans

The long term financial framework has been established to ensure sustainability and flexibility for the future. Specific goals that enable our desired capital capacity include:

HHC
<ul style="list-style-type: none">• 5% operating margin
<ul style="list-style-type: none">• Unrestricted DCOH floor above 150• Begin to grow DCOH each year to support long term savings needed for sustainability into the future.• Long term average unrestricted DCOH above 250, and goal of 350 for capacity replacement and or expansion
<ul style="list-style-type: none">• Debt to capitalization at or below hospital A medians of 38-40%
<ul style="list-style-type: none">• Philanthropy aligned with Development Campaign assumptions as they are realized.

Capital Capacity Principles

- Capital Capacity will align with Cash Flow availability as defined by the Strategic Financial Framework.
- Support strategic and innovative investments to advance and sustain the success of our strategic plan.
- Maintain stable and adequate funding of ongoing major and routine capital investments.
 - Initial basis for stable and adequate funding to be defined by the facilities condition assessment and analysis that provides the value of assets becoming fully depreciated over the next five years.

Clinical Allocation – Medical Group and Hospitals

- The following approach is based on history and will need ongoing assessment each year to ensure we as a clinical system are allocating dollars that support market trends and strategic needs.
- Utilizing as an initial basis; the value of assets becoming fully depreciated over the next five years along with the proportionate split of existing asset values between the Medical and Hospital Clinical Group Committee's for initial basis of allocation :
 - 30% Medical Group
 - 70% Hospital Group

Capital Allocation Process

December through February

- SFF projections provide capital capacity parameters.
- Initial Categorical Committee Guidelines as overseen by the Capital Oversight Group (COG) are created to provide a framework for prioritization of project submissions.
 - Initial guidelines are based off of an analysis that calculates the value of assets becoming fully depreciated over the next five years along with the results of the Facility Needs Assessment.
 - Committee's will evaluate project requests and submit recommendations to COG.
- Prioritized strategic project scope and cash flow timing to be updated as planning continues.
- Results of both the recommendations from COG (Major and Routine) along with projections related to strategic priorities will be reviewed together to inform final allocations for Routine, Major, and Strategic Projects.