

Lee Health Conversion

July 30, 2024

Knowing Where We Have
Been So We Can See
Where We Are Going



**Local Mission.
Regional Impact.**



**Among the Largest Public
Health Systems in U.S. & FL**



Locally Led & Governed



Top Employer in Lee County



A Critical Safety Net



Trusted Provider



Widest Array of Care



Major Economic Engine

Lee Health's Economic Impact



Capital improvements through FY2028 are expected to generate a total one-time benefit over the five-year period of:



6,536 new jobs in Lee County



\$498.6 M in associated earnings in Lee County



\$1.3 B in sales locally within Lee County



The ongoing operation of Lee Health facilities generates an annual economic contribution of:



30,721 jobs in Lee County



\$2.2 B in associated earnings in Lee County



\$4.9 B in sales locally within Lee County

Lee Health annually supports approximately 10% of Lee County's total employment and total earnings

Growing Pressures & Threats



Top Takeaway :

Significant pressures lead Lee Health to consider ways to stay strong and with local control to best serve our community

Health care faces significant pressures

- **Dramatic and lasting cost increases** for supplies and labor brought on by the pandemic
- Medicare/Medicaid **reimbursement not keeping up** with increased costs
- Many health systems operating at a **loss**
- **A surge of disruptors**, such as CVS, Amazon, and private equity companies
- Rise in **consumerism**
- Keeping pace with the velocity of **technology/AI advancements**
- Shift toward **value-based care**
- Physician/nurse **burnout and shortages**

Why Evaluate Our Structure

1916

Lee Health opens as a community-focused nonprofit

1968

Began operating as an independent special healthcare district created by the Florida Legislature and governed by an elected Board of Directors

1970- Today

Decades of rapid growth in our communities

2019

Certificate of Need (CON) Repealed
Halifax Hosp. vs. State - Florida Supreme Court decision limiting all independent special hospital district authority

2020-2022

65 new hospitals announced being built in Florida

2023

Recognizing the uphill climb of systems like ours, the Florida Legislature established a process and timeline to evaluate our structure



Our commitment to our safety-net mission, as well as continued local leadership and independence is unwavering. This commitment is also the driving factor in our decision to evaluate our structure.

Legislative History/Public Policy Shift



Lee Health Approach

- ❖ (2020) HB 1301 Rep Rodrigues – Sought to expand geographic boundary of the Lee Health special district
- ❖ (2021) HB 243 Rep Roach – Sought to eliminate the border of the Lee Health special district
- ❖ (2022) HB 897/SB 1260 Rep Botana/ Senator Gruters – Permissive conversion authority for all public hospital districts
*Passed by the Legislature & vetoed by the Governor
- ❖ (2023) HB 227 (2023) Rep Botana - Permissive conversion authority for Lee Health * Passed by the Legislature & Signed by the Governor

Public Policy Shift

- At one time more than 80 public hospital districts existed in Florida
- Today there are only 28 and many of those taxing districts no longer operate hospitals
- Legislature directed preferred public policy to achieve desired outcome
- Direction was based on historical precedent and desire to limit government while maintaining services for residents

Conversion Timeline



Lee Health is adhering to a process mandated by the Florida State Legislature to determine whether converting to a community-focused nonprofit serves the best interest of the residents of Lee County. The timeline below outlines the steps in this process as set forth by the Legislature.

EVALUATION

WITHIN 180 DAYS

- ✓ Lee Health Board of Directors Vote to Conduct Evaluation (Completed 8.31.23)
- ✓ Conduct a Public Hearing
- ✓ Receive Third-Party Evaluation Report

DISCERNMENT

WITHIN 120 DAYS

- ✓ Examine Evaluation Report & Identify Structure
- ✓ Lee Health Board of Directors Vote to Pursue Conversion and Start the Negotiation Phase (Completed 6.13.24)

AGREEMENT

WITHIN 120 DAYS

Anticipated: October 11, 2024

- Finalize Terms for a Mission Agreement with Lee County
- Vote to Accept or Reject Terms by:
 - Lee Health Board of Directors
 - Board of County Commissioners

Lee Health Board of Directors Best Interests Due Diligence Process

Transparency & Engagement



Physician Engagement

- **Medical Staff Town Halls:** 9/14 and 5/23
- **Lee Physician Group Town Halls:** 9/1, 9/6, 5/20 and 5/22
- **Lee Physician Group Meetings:** 4/22, 4/25, 5/2 (x2), 5/6, 5/8, 5/20, 5/22, 6/19, 6/27, 7/2, 7/15, 7/25 (x2)



Team Member Engagement

- **Leadership Updates:** 10/30, 1/30 and 5/21
- **Outreach Team:** 10/31
- **Staff Town Halls:** 11/2, 11/10 and 11/14
- **Lee Health Leadership Alumni Meeting:** 11/14
- **VP Town Halls:** 12/21, 7/16
- **System Director and Director Townhall:** 7/22
- **Senior Leader Meetings:** 3/11 and 3/12



Community Townhalls

- Community Town Halls held in each of the five health system board member districts



Public Meetings

- **Conversion Evaluation Report:** 2/15 and 2/29
- **Workshops and Special Meetings:** 11/7, 11/13, 1/11, 2/8, 3/5, 3/14, 4/11, 4/18 and 5/16



Public Hearings

- January 25, 2024
- April 25, 2024



Community Engagement

- Hundreds of gatherings, symposia, small-groups, congregational leaders, chambers of commerce, business leaders, community leaders, service clubs, fraternal organizations



Lee Health Website Updates

- Created LeeHealth.org/LookingAhead
 - Official resources
 - Continual updates to FAQ
 - Additional questions can be submitted to: LookingAhead@LeeHealth.org



Education and Discussion:

- 1 Florida Not For Profit Entities
- 2 Duties and Responsibilities of NFP Directors
- 3 Successor NFP Board – Specific Considerations
- 4 Compliance Under Law for Nonprofit Hospitals
- 5 Conversion Objectives and Considerations
- 6 Oversight and Enforcement

Initial Considerations:

- ❖ Mission, Vision and Values of successor entity
- ❖ Composition of initial Board of Directors of successor entity
- ❖ Compensation of successor entity Directors

The Board of Directors approved the following:

- ➔ Mission, Vision and Values: Lee Health's current Mission, Vision and Values would be the MVV for the successor NFP corporation
- ➔ Board Composition: The Lee Health Board of Directors in place at time of final vote on conversion would serve as the initial Board of Directors for the successor NFP corporation (subject to each Board member's preference)
- ➔ Board Compensation: Members of the successor NFP corporation's initial Board of Directors would be eligible for compensation in the same manner as currently provided in the Enabling Act (subject to each Board member's preference)

Education and Discussion:

- 1 Not For Profit Governance
 - ❖ Articles of Incorporation
 - ❖ Bylaws
 - ❖ Policies and Procedures

- 2 Articles of Incorporation for Lee Health Successor Not For Profit Corporation

Education and Discussion:

- 1 Conversion Case Studies
 - ❖ Kootenai Health
 - ❖ Erlanger Health
 - ❖ Tampa General Health
- 2 Articles of Incorporation for Lee Health Successor Not-For-Profit Corporation
- 3 Bylaws for Lee Health Successor Not For Profit Corporation
- 4 Mission Agreement

Kaufman Hall Report Conclusion

“Lee Health is expected to continue facing systematic operational, strategic, political, and financial challenges, along with regional and local competitive pressures.”

To the extent Lee Health can realize the value of prospective strategic opportunities, increase its competitive position at a level that surpasses the near-term financial impact and continue to effectively deliver on its mission, Kaufman Hall stated: “We recommend Lee Health continue with the conversion process” (p. 25).

Education and Discussion:

- 1 Formation of Not For Profit Successor Corporation
- 2 Articles of Incorporation for Lee Health Successor Not For Profit Corporation
- 3 Bylaws for Lee Health Successor Not For Profit Corporation

March 14 Special Meeting



The Board of Directors approved the following:

- ➔ Formation of Not for Profit Corporation – Lee Health System, Inc.
 - Articles of Incorporation & Bylaws

Education and Discussion:

- Post-Closing Not for Profit Corporation
- Amended and Restated Articles of Incorporation
- Amended and Restated Bylaws
- Mission Agreement

Education and Discussion:

1 Lee Health Leadership Recommendations

- ❖ Larry Antonucci, MD, President & CEO

We believe conversion is a strategic move towards securing our future, our safety-net mission and maximizing our impact in the communities we serve.

Education and Discussion:

1 Lee Health Leadership Recommendations – Financial Sustainability

- ❖ Ben Spence, Chief Financial and Business Services Officer

Cost Containment:

Essential but is only half of the solution and does not get us to full sustainability

Revenue Growth:

Conversion presents strategic opportunities not otherwise available

2 Path Forward

- ❖ Larry Antonucci, MD, President & CEO

Education and Discussion:

3 Mission Agreement - Programs & Services

1. Behavioral Health
2. Cancer
3. Cardiovascular
4. General Medicine
5. General Surgery
6. Inpatient Care
7. Medical Education
8. Neonatology
9. Neurosciences
10. Orthopedics
11. Pediatrics
12. Primary Care
13. Trauma Services
14. Women's Health

May 16 Special Meeting

Education and Discussion:

- 1 Mission Agreement
- 2 Conversion Evaluation Draft Resolutions

May 30 Board Meeting

Education and Discussion:

- 1 Revised Conversion Evaluation Draft Resolutions

June 13 Special Meeting

- 1 Lee Health Board determined conversion in best interests of Lee County residents

Understanding the Economics

Financial Model Inputs



Population changes



Inpatient usage



Hospital admissions trends



Hospital at Home program



Lee Memorial strategy



Ambulatory surgery strategy



Physician visit rates



Medicare Advantage changes



Commercial payer mix evolution



Contract labor



Investment income



Case mix index



Average hourly rate increases



Capital investments



Labor productivity

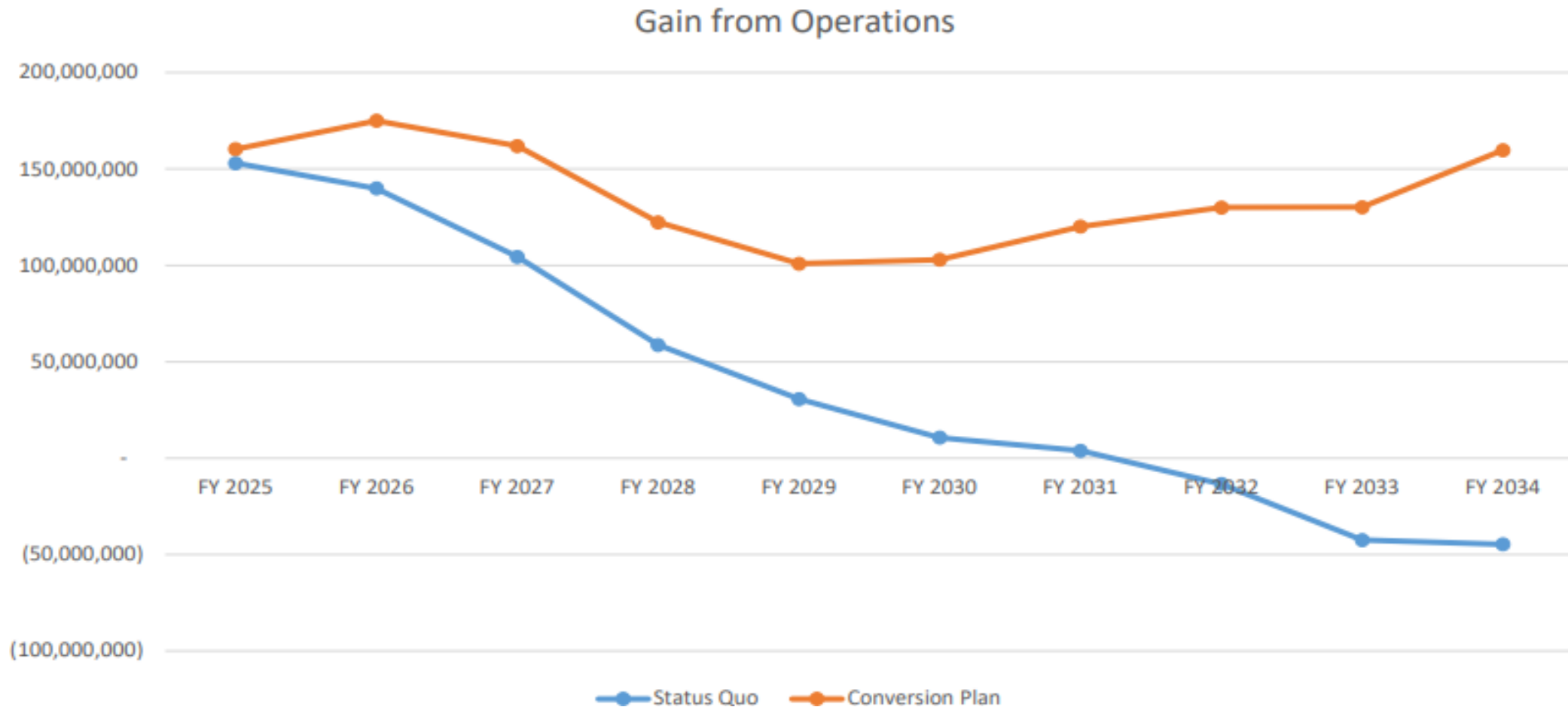


Inflation

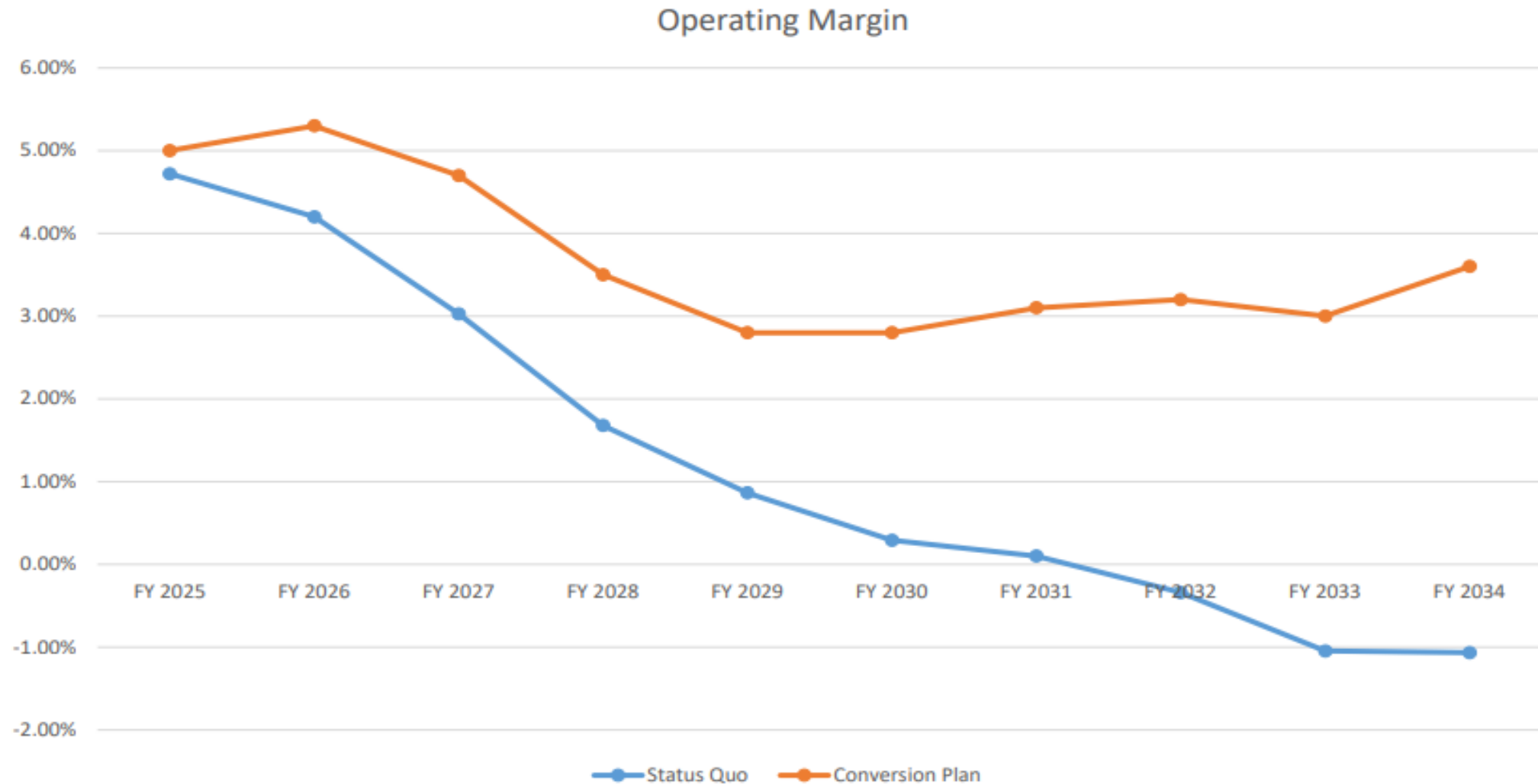


Long-term debt

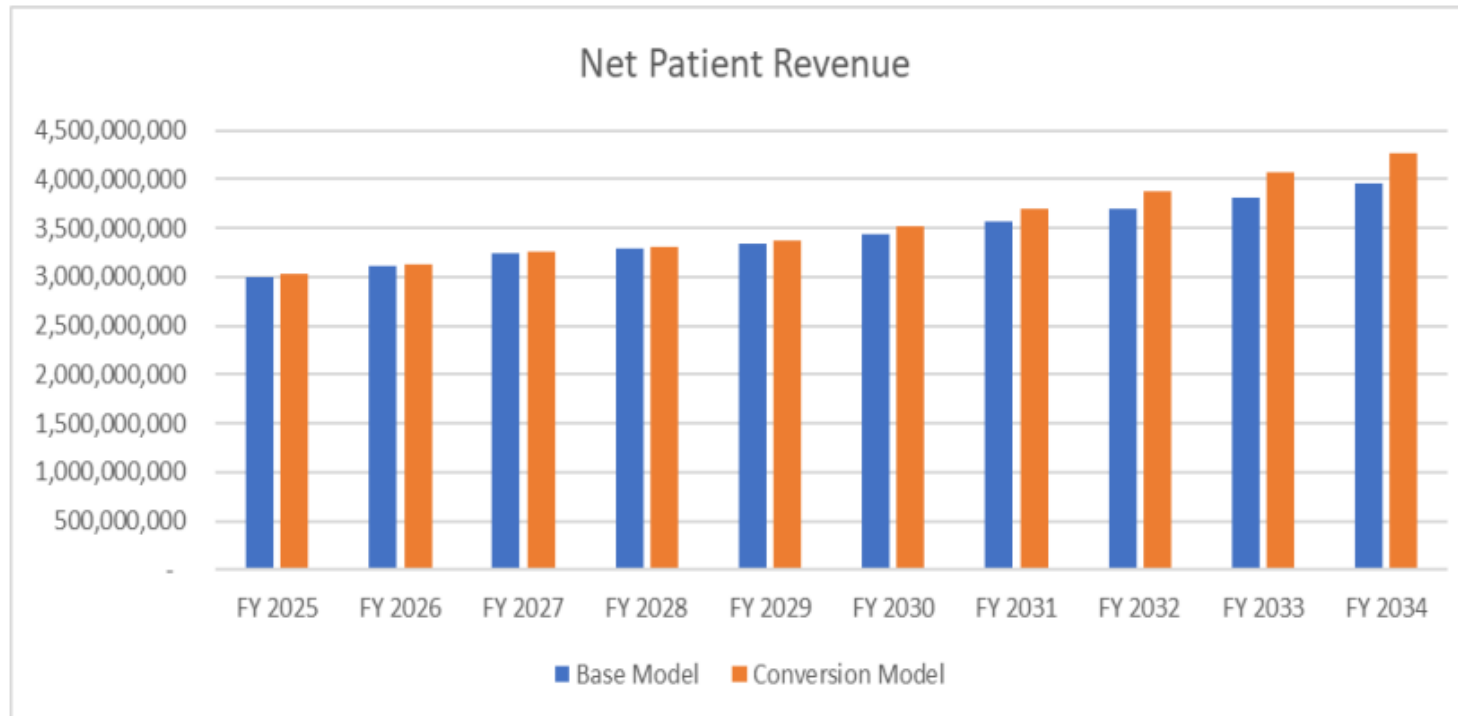
Gains from Operations Improve



Operating Margin Improves



Net Patient Revenue



10 Year Net Patient Revenue

Base Model: \$34.5Billion

New Model: \$35.5 Billion

Variance \$ 1.0 Billion

New Model Advantages

- Less dependency on federal subsidies
- Greater opportunity to grow and scale services regionally
- Opportunities for direct joint ventures
- Cash flow/liquidity

Lee Health Board of Directors Best Interest Determination

Why Conversion Makes Sense

- ✓ Solidify Lee Health's financial sustainability- No added burden for taxpayers
- ✓ Maintain local control – Lee Health is not for sale
- ✓ Maintain the safety net status in perpetuity
- ✓ Unleash our ability to expand access and services to meet patients where they need care

- ✓ Expand partnerships with physicians, improving quality, care coordination and boosting retention
- ✓ Ability to make strategic decisions in confidence
- ✓ We believe in Lee Health & Lee County – Strong leadership and economic growth in this region make this possible

In a 9-1 vote on June 13 the Lee Health Board of Directors approved the following:

Following 10 months of diligent review consistent with its fiduciary duties to Lee Health and its mission to serve the residents of Lee County, the Lee Health Board of Directors determined that conversion is in the best interest of Lee County residents.

Mission Agreement: Covenants & Oversight Monitor

Mission Agreement – Background



- Why is a Mission Agreement Needed?
- Enabling Legislation Requires Enforceable Contract:
 - “An agreement between the system board and Lee County must be completed...and include:
 - An enforceable commitment that programs and services provided by Lee Memorial Health System will continue to be provided to residents of Lee County in perpetuity so long as the succeeding nonprofit entity is in operation or, if otherwise agreed to, until the succeeding nonprofit entity has otherwise met all obligations set forth in the agreement.”

Mission Agreement – Covenants



- **Mission** – Ensure existing programs and services continue for Lee County residents in perpetuity
- **Charity Care** – Maintain nonprofit status and provide charity care to underserved population in Lee County consistent with similarly situated tax-exempt safety net providers in Florida
- **Medicare & Medicaid** – Continue to participate in traditional, fee-for-service Medicare/Medicaid and maintain licenses to participate in Medicare/Medicaid
- **Local Control** – Shall not sell, lease or transfer, directly or indirectly, all, or substantially all, of the assets or operations of Lee Health

Programs and Services



- **Shared Community Objective: Ensure Lee Health's programs and services continue to be provided to residents of Lee County in perpetuity.**
 1. Behavioral Health
 2. Cancer
 3. Cardiovascular
 4. General Medicine
 5. General Surgery
 6. Inpatient Care
 7. Medical Education
 8. Neonatology
 9. Neurosciences
 10. Orthopedics
 11. Pediatrics
 12. Primary Care
 13. Trauma Services
 14. Women's Health

“Significant Reimbursement Change”



- Goal: Ensure commitment to programs and services in perpetuity while allowing Lee Health to appropriately adjust to significant changes in health care delivery and reimbursement
 - Enabling Legislation specifically allows for needed flexibility relating to the delivery of programs and services in perpetuity: “or if otherwise agreed to”
 - Last Resort: Only after all reasonable efforts have been unsuccessful in mitigating impacts
 - Difficult to define single standard to encompass all potential changes in perpetuity
 - Lee Health to present reimbursement impacts for review
 - Accounting firm jointly selected by Lee Health and County to opine as needed
 - Examples of Potential Significant Changes
 - Government moves to single payer
 - Government abolishes supplemental payment programs

- Shared Community Objective: **Maintain A Policy of Providing Charity Care to the Underserved Population in Lee County**
- Measure:
 - Difficult to define single standard to encompass all potential changes in perpetuity
 - IRS requirements and considerations as non-profit provider
 - Proposed: Consistent with similarly situated tax-exempt Safety Net Providers in Florida
 - Safety Net Providers are those providers in Florida who have shown a substantial commitment to underserved populations
 - Safety Net Hospital Alliance of Florida Members: Lee Health, Tampa General, Sarasota Memorial, UF Health, Memorial Health System, Broward Health, Ascension, Nicklaus Children's, Johns Hopkins, Halifax Health, Orlando Health, Mount Sinai, Jackson Health System

Mission Agreement – Oversight



- Shared Community Objective: **Strong Lee Health = Strong Lee County**
- Goal to provide oversight mechanism to assist County in carrying out enforcement of the commitments under the Mission Agreement while minimizing financial and operational burden on Lee County
- Proposed: Oversight Monitor
 - Special purpose Florida nonprofit entity contracted to provide specific functions under the Mission Agreement
 - OM Board comprised of individuals representative of Lee Health's primary service areas
 - OM may retain qualified professionals with expertise in healthcare operations, finance, accounting or related field to advise OM on compliance with covenants
 - Funded by Lee Health
 - Issues reports to County regarding oversight function
- Community feedback and considerations

Final Thoughts

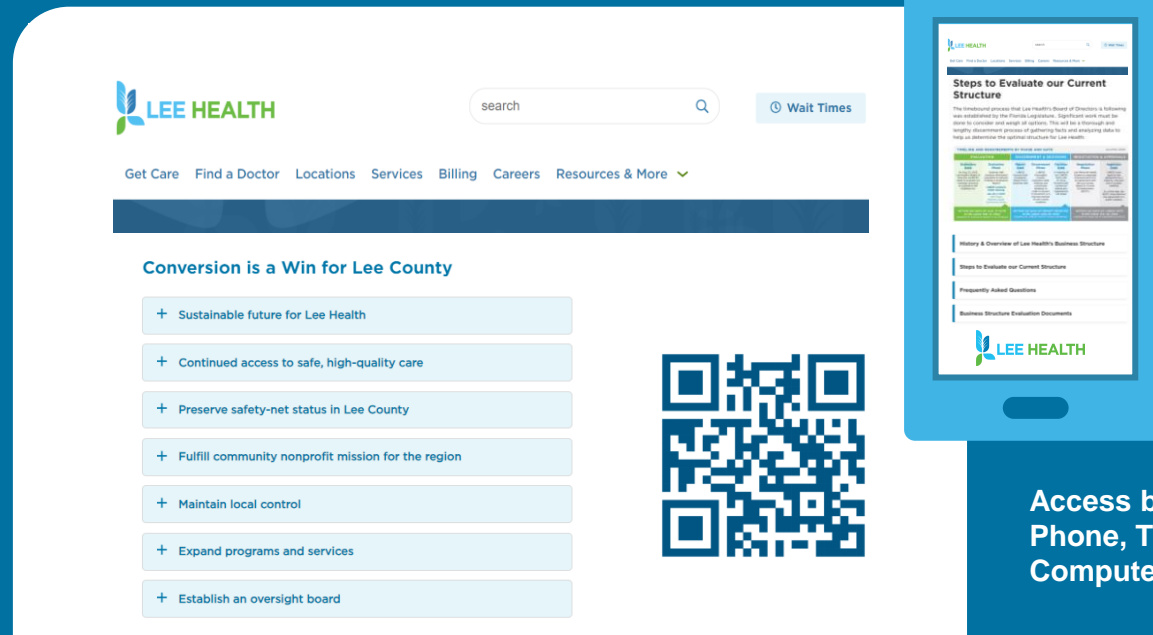
- ✓ Lee Health is not for sale
- ✓ The conversion evaluation is being conducted with full transparency
- ✓ Lee Health will be legally bound to provide safety net/charity care in perpetuity
- ✓ Lee Health liabilities will not shift to Lee County government or residents
- ✓ No taxing authority
- ✓ No financial burden on Lee County government

**“If we want things to stay
as they are, things will
have to change.”**

Giuseppe Tomasi di Lampedusa

Our Single Point Of Truth

LeeHealth.org/LookingAhead



Frequently Updated
Official Resources
(Including Board Updates)

Detailed Timeline with
Phases & Gates

Link to Submit Additional
Questions

Town Hall & Public Hearing
Schedule

45+ FAQ and Growing

Thank you