



Lee Health

Board of Directors Special Meeting

1:00 p.m. Thursday, April 11, 2024



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AGENDA

LEE MEMORIAL HEALTH SYSTEM BOARD OF DIRECTORS SPECIAL MEETING

April 11, 2024 at 1:00 P.M.

Location: Gulf Coast Medical Center Board Room, Suite 190

Teleconference Dial-In # 1 415 655 0002 Access Code 2303 571 3124

- I. Call to Order** (*Donna Clarke, Board Chair*)

- II. Public Input**

- III. Florida Nonprofit Governance Structure Brief Update** (*D. Ty Jackson, Partner & Jesse C. Neil, Partner – Holland & Knight*)

- IV. Conversion Evaluation: President & CEO Recommendations** (*Larry Antonucci, MD, President & CEO*)

- V. Adjourn**

Date of Next Board of Directors Meeting: April 18, 2024

Time: 1:00 PM

Location: Gulf Coast Medical Center Board Room, 13685 Doctor's Way Ft. Myers FL 33912

Teleconference: Dial-In #415 655 0002 Access Code 2303 571 3124

Public Input – Agenda Items



Any public input pertaining to items on the Agenda is limited to three minutes and a “Request to Address the Board of Directors” card should be completed and submitted to the Board Staff prior to meeting.

Refer to board Policy: 10.15H: Public Addressing the Board

Non-Agenda Item

Individuals wishing to address the Board on an item NOT on the Agenda, the Board office must be notified of subject matter at least three (3) days prior to the meeting to allow staff time to prepare and to insure the matter is within the jurisdiction of the Board.

Florida Nonprofit Governance Structure – Brief Update

D. Ty Jackson, Partner & Jesse C. Neil, Partner – Holland & Knight

CONVERSION EVALUATION:

Lee Health Leadership Recommendations

Larry Antonucci, M.D.

President & CEO

April 11, 2024



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

Giuseppe Tomasi di Lampedusa

U.S. Hospital Financial Challenges

Workforce and supply chain volatility

- 200K estimated loss of experienced RNs from 2020 to 2022
- 6% average annual increase in medical and surgical supply expenses at U.S. hospitals
- From 2017 to 2021

Capacity and quality changes

- 19% increase in average length of stay from 2019 to 2022
- 19% increase in adverse events resulting in permanent/severe harm or death from 2021 to 2022

Scrutiny over legacy subsidies

- Site-neutral payments
- 340B drug discounts program
- Nonprofit status

Shifting reimbursement mix

- 11.8M Medicaid terminations as of December 2023
- 3.5M projected enrollment loss in employer coverage, 2024

Source: Advisory Board, is a subsidiary of Optum.



Healthcare Industry Trends

01 Financial performance expected to continue to rebound due to transformation efforts, labor operations improvements, supply spend and revenue diversification

02 Site of care shift to outpatient care settings such as physician offices and ambulatory surgery centers (ASCs)

03 Adoption of technology / AI will accelerate

04 Specialty pharmacy business will continue to grow rapidly

05 Medicare Advantage will continue to grow but at a slower pace of 5% from historic 9% and with greater margin pressure, Medicare duals have greatest opportunity for margin growth

06 Commercial payer margins expected to return to average by 2027 due to inflation on premiums and greater enrollment of duals

07 Expected shift of employer-sponsored insurance from fully insured into self-funded plans

08 Accelerating Value-Based Care – 90 million lives in VBC by 2027 from 43 million in 2022



Our Focus

Given these challenges and trends, Lee Health must:

- ✓ Ensure a sustainable future
- ✓ Preserve our safety-net status
- ✓ Deliver on our community mission
- ✓ Compete fairly with new entrants and future changes
- ✓ Align conversion opportunities with our strategic plans
- ✓ Partner and engage with physicians as key stakeholders
- ✓ Keep safe and high-quality care at the center of all we do
- ✓ Maintain local control without burdening taxpayers

Key Items Update

Key Concerns Addressed

Kaufman Hall assessed the following issues which have been addressed:

Lee Health 457(b) Retirement Savings Plan: Conversion would serve as a qualifying event, allowing employees to transition existing 457(b) plan funds to an alternative investment vehicle (such as a 401k or IRA). **No 457(b) plan funds will be at risk in the event of a conversion.** The team is evaluating alternative supplemental retirement benefit options.

340B: While the level of participation is dependent on the FQHC co-application, Lee Health would continue to be a 340(b) provider based on its position as a nonprofit safety net system.

Sovereign Immunity: Lee Health would address sovereign immunity through enhanced insurance protections and provider education. The additional cost to Lee Health will be roughly \$5.3 million annually, which would be absorbed by Lee Health. **Lee Health will continue to protect employees from financial liability and risk.**

Debt Covenants: Preserve existing debt structure by amending the obligated group and **transferring the debt liability to a successor entity.** The anticipated financial impact of transitioning the bonds would be a one-time cost of \$3.8M.



Solutions in Progress

We are developing workable solutions for these considerations

FQHC: Seeking approval from HRSA to continue co-applicant model. Initial conversations have been productive and positive.

Supplemental Payments: Secure IGTs for FY 2025 prior to conversion. Transition to a Local Participation Provider Fund (LPPF) with Lee County assistance in 2026. Full timeline and details will be presented at April 18 Special Board Meeting.



Building the Path Forward



Senior Leadership's Assessment



Overwhelmingly positive given the opportunities provided



Unanimous support to move forward with the conversion process



We tapped into the collective strength of leaders across the organization

Leadership Workshops

The leadership team held two dynamic, in-person workshops focused on cost containment and revenue growth to establish a transformative path towards a sustainable and vibrant future for our health system.



March 11: Financial Sustainability and Efficiency

Facilitators: Ben Spence, Chief Financial and Business Services Officer and Carol Simonds, System Director Leadership and Organizational Development



March 12: New Revenue Opportunities

Facilitators: Chris Simoneau, Chief Development, Marketing and Communications Officer and Carol Simonds, System Director Leadership and Organizational Development

**60 senior
leaders**

participated in the
workshops



Workshop Challenges Presented to Leadership Team:

Long Range Financial Planning

Financial sustainability is a top priority for Lee Health leadership regardless of conversion. We must continually adapt to the external threats facing the U.S. health system today.

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



Workshop Challenges Presented to Leadership Team:

Financial Sustainability and Efficiency

- Without conversion, we have only cost containment and limited revenue generation as an option for financial sustainability. With conversion, we have both accelerated new revenue sources and cost containment as options.
- We will focus on potential new revenue sources today.



Full Financial
Improvement Plan
to be presented at

April 18

Special Board
Meeting.



Workshop Challenges Presented to Leadership Team:

Revenue Enhancements

Challenge Presented

“Let's dive into identifying strategic revenue-producing opportunities that could result from a conversion, such as expanded partnerships with physicians and businesses within and beyond Lee County.”



Workshop Reminders:

Current Special District Limitations

- Joint ownership prohibition

- Geographic boundaries

- Two-year governance election cycle

- Competitor access to open records

- Disfavored delivery model

- Investment limitations



Workshop Reminders:

Current Special District Limitations

- ⚠ Response to current world
 - Subsidiary creation
- ⚠ Limitation of current structure
 - Prohibits employed physician participation
 - Prohibits co-branding
 - Limits availability of willing partners
 - Subject to challenge

**Without These Limitations
What Might We Do?**

Expanding Revenue Opportunities

Lee Health's Leadership Team explored the following new revenue opportunities.



Educational Partnerships/
Joint Appointments



Strategic Alliances



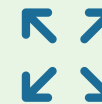
Joint Ventures



Physician Alignment



Philanthropy and Grants



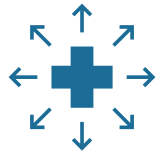
Everything Else

Note: The ideas presented today will need to be vetted and detailed proformas created. Not all can or will be pursued.



Pediatrics

What and How:



Expand outpatient pediatric clinics in neighboring counties

- Use philanthropic funds to cover startup costs



Create a pediatrics concierge practice

- Significant margin opportunity to reinvest into charity care for those unable to cover cost
- Meet safety-net mission while expanding access for all

Pediatrics

Example: Expand outpatient pediatric clinics in neighboring counties

- Use philanthropic funds to cover startup costs
- Expand urgent care, radiology, rehab, PPEC, primary care and specialists

	YR1	YR2	YR3	YR4	YR5	TOTAL
NET REVENUE	\$ 3,566,995	\$ 4,236,513	\$ 4,499,151	\$ 4,764,180	\$ 4,846,874	\$21,913,713
OPERATING COSTS	\$ 3,800,279	\$ 4,075,770	\$ 4,261,750	\$ 4,489,646	\$ 4,603,712	\$21,231,157
OPERATING MARGIN	\$ (233,284)	\$ 160,743	\$ 237,401	\$ 274,533	\$ 243,163	\$ 682,557


*Increases access, net positive ROI, mission critical, enhances recruiting, aligned with strategic plan, drives downstream referrals





Post Acute Care

What and How:

 Expand home health agency to neighboring counties to improve patient access

 Rebrand existing Encompass Rehab Hospitals to enhance philanthropic opportunities and brand loyalty

 Rebrand Access Medical South (medical equipment company) and operate regionally

 Partner and co-brand in LTAC to increase visibility across the continuum of care

Post Acute Care

Example: Replicate rehab hospital joint ventures in neighboring counties, expanding access to continuum of care

- Enhance Lee Health branding on joint ventures

CY 2023 Actual Results				
Joint Venture - non branded				
	Actual	Budgeted	Change	% change
EBITA	\$ 5,011,636.00	\$ 3,449,711.00	\$ 1,561,925.00	45%
Admissions	1,116	916	200	22%
Discharges	1,109	916	193	21%
Patient Days	12,465	11,377	1,088	10%
LOS	11.24	12.42	(1.18)	-10%

*Incredibly successful, currently unbranded, expands continuum of care, expedited distributions, exceeding expectations



Orthopedics and ASCs

What and How:

- ✓ Enhance existing strategy of physician partnerships with ASCs
- ✓ Provide physicians with equity ownership opportunities
- ✓ Expand physician partnerships in primary care
- ✓ Leverage philanthropic opportunities to fund innovation

Orthopedics and ASCs

- Example:**
- Replicate model across multiple ASC's, expanding outside the county.
 - Create joint ownership with physicians.

Current unbranded joint venture includes:

- **15** affiliated, non-employed surgeons
- Full return of investment within **6 years** (vs. 7 projected)
- Provides **ownership opportunities** for physicians
- Generating **\$3-4 million** annually for system
- **Improves access**, leverages move to non-hospital locations for surgery
- **Efficiency opportunities** with multiple ASC's across the region

Revenue Expansion Example

Lee Health Cancer Institute

What and How:



Build a truly regional comprehensive cancer institute across multiple counties



Leverage philanthropic investment to provide sites of care closer to patients



Utilize higher volumes to drive additional clinic trials, research, collaborations, and partnerships



Pursue national recognition and patient-centered care as differentiators



Seek destination medicine opportunities



Expanding Revenue Opportunities

Paramedic Training Partnership **Home Health**
Group Practice Retail Partnerships Mobile Clinics Destination Sports Medicine
Naming Opportunities Recruitment Strategy
Research Institute Cosmetic Care **Pediatric Concierge**
Behavioral Health Concierge Medicine Pediatric Partnerships Dermatology
Co-branding AI Education Advocacy Transportation Partnerships
Virtual University Telehealth **Cancer Institute** Airport Clinic Academics
Outpatient Pediatrics Sponsorships Inclusive Philanthropy
Regional Clinically Integrated Network Home Health **LTAC Partnerships**
Strategic Alliances Housing Partnerships Medical Tourism Childcare
Pharmacy Partnerships Women's Health Affiliations **Joint Ventures**
Genetics Expansion Certification Program Partnerships Nurse Housing
Virtual Nursing School **Inclusive Philanthropy** Wellness Programs



Leadership Recommendation

There is significant energy and enthusiasm among senior leadership about the opportunities conversion provides Lee Health, and we are confident in our team to navigate these changes.

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



Leadership Assessment on Conversion

- Creates opportunities to **propel us into a new era of healthcare excellence**
- Addresses the reality that the **benefits we once enjoyed as a public entity are eroding**
- **Protects our independence** and community-led structure
- Provides a **viable opportunity to thrive and maintain long-term financial stability**
- Opens doors to **enhanced revenue opportunities**
- **Increases flexibility to collaborate with partners** committed to improving health outcomes
- **Ensures our ability to provide high-quality care and services** to the residents of Lee County, regardless of their ability to pay



**“The bold enterprises are
the successful ones.”**

President Rutherford B. Hayes



Thank You



Adjourn

Date of Next Meeting
April 18, 2024 at 1:00 PM

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Location:

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13685 Doctor's Way
Fort Myers, FL 33912

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