



Lee Health Conversion Evaluation Final Report

Fort Myers, Florida

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Introduction

- The purpose of this document is to provide facts and considerations related to Lee Health's evaluation of converting from a public hospital district to a private nonprofit corporation by:
 - Establishing a fact-based foundation, grounded in market data and regulatory developments
 - Assessing the merits and considerations to Lee Health and to community stakeholders
 - Identifying the strategic benefits, considerations, and financial impacts to Lee Health's operations
 - Considering the risks identified during the extensive due diligence process
- The Florida Governor, along with the House and Senate, approved Bill HB 227, relating to Lee Memorial Health System, which amends Florida Law chapter 2000-439 to provide a process by which the health system may convert to a private nonprofit entity
- Lee Health engaged several third-party legal counsels and advisory firms to assist in the evaluation; Kaufman Hall relied on their input and work product throughout the evaluation process
- Lee Health management provided factual information and data that was utilized and relied upon throughout the report; additional information from other sources is identified herein

Process Overview, Current Status, and Next Steps

August

- ✓ During the August 31st meeting, **Lee Health's Board of Directors ("Board") approved a 180-day evaluation process** to assess the impact of a potential conversion from the current special district structure to a community-focused, private nonprofit corporation

February

- From the date the report is issued, the Board has 120 days to review the information and vote to either approve or deny the pursuit of a conversion

June

Next Steps:

- ☐ If approved, within 120 days of the Board approval vote, Lee Health must negotiate and gain approval from the Lee County Board of County Commissioners to move forward with the conversion
- ☐ Following and subject to the negotiation period, the conversion may occur

Source(s): Enabling Legislation: Florida Bill HB227

Lee Health Engaged Various Third-Party Advisors to Support the Evaluation Process



Independent strategic and financial advisors leading the evaluation efforts and overall project management



Providing overall legal expertise and support to evaluate the potential conversion and its legal implications



KILLIAN HEATH & LYMAN

Providing counsel related to how a potential conversion would impact the Federally Qualified Health Center model



Providing counsel related to public finance and bond matters



Providing expertise for state supplemental payment programs



A CHARTIS COMPANY

Leading management and execution of internal and external communication efforts



Providing advisory for investing solutions, research, and implementation

Potential Conversion Evaluation Interview Overview

Kaufman Hall conducted 20+ interviews with a variety of stakeholders to receive and codify feedback on the perceived merits and considerations of a potential conversion, including its impact to Lee Health and its stakeholders. The interviews helped to:

- Identify Lee Health’s top strategic, operational, and financial priorities, and how those might be impacted by a potential conversion
- Establish the key cultural and mission-focused tenants to be considered in this evaluation

Physician Stakeholders ¹	Board of Directors		Executive Management
Dr. Timothy Dougherty <i>PLC Chair¹</i>	Donna Clarke <i>Chair, District 2</i>	Nancy McGovern <i>Member, District 2</i>	Dr. Larry Antonucci <i>President and Chief Executive Officer</i>
Dr. Daniel Krauss <i>MEC President – HPMC</i>	Therese Everly <i>Vice Chair, District 1</i>	David Klein <i>Member, District 3</i>	Dr. Scott Nygaard <i>Chief Operating Officer</i>
Dr. Emad Mansour <i>MEC President – GCHSWFL</i>	David Collins <i>Treasurer, District 3</i>	Diane Champion <i>Member, District 4</i>	Ben Spence <i>Chief Financial Officer</i>
Dr. Jean Hage <i>MEC President – CCH</i>	Dane Allen <i>Secretary, District 4</i>	Kathy Bridge-Lies <i>Member, District 5</i>	Mary McGillicuddy <i>Chief Legal Officer</i>
Dr. Lee Coghill <i>MEC President – LMH</i>	Dr. Stephen Brown <i>Member, District 1</i>	Dan Adler <i>Member, District 5</i>	
Dr. Samith Sandadi <i>MEC President – GCMC</i>			

Note(s): (1) PLC – Physician Leadership Council. MEC – Medical Executive Committee. HPMC – HealthPark Medical Center. GCHSWFL – Golisano Children’s Hospital of Southwest Florida. MS – Medical Staff. CCH – Cape Coral Hospital. LMH – Lee Memorial Hospital. GCMC – Gulf Coast Medical Center.

Stakeholder Interviews Yielded Consistent Themes Across Each Topic of Discussion

Strategic Initiatives

- Enhancing services and capabilities to align with regional provider status
- Long-term strategic planning flexibility
- Enhance clinical excellence, access, and cost of care through provider partnerships
- Growth restrictions within county limit

Financial Impacts

- Positioning for long-term sustainability
- Supplemental payments
- 340(b) participation
- Outstanding indebtedness

Mission and Community

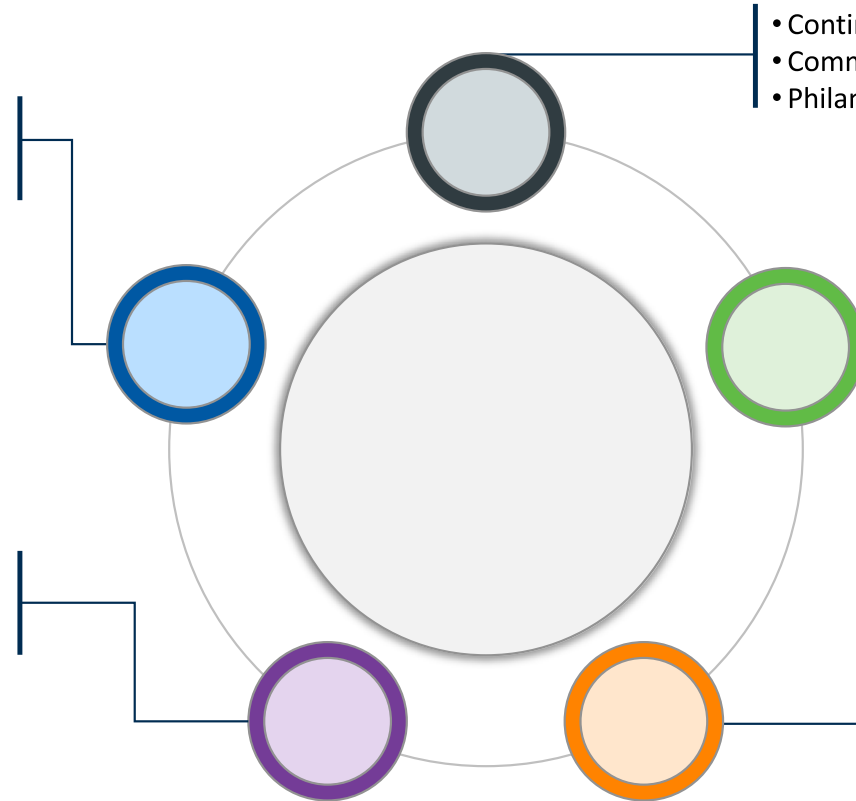
- Continuation of safety net mission
- Community representation
- Philanthropic opportunity

Governance

- Community representation
- Ongoing governance model
- Access to expertise for high-quality board representation relative to similar organizations
- Governance best practices and ease of conducting business


Operational Considerations

- Physician and provider recruitment, retention, and satisfaction
- Employees
- Sovereign immunity
- Federally qualified health center model



Overview of the Evaluation Process

Lee Health investigated and evaluated the merits and considerations of the potential conversion compared to the status quo across numerous workstreams

 Workstreams to Address Key Diligence Questions	
1 Business & Community Strategy	What are the strategic implications to Lee Health and its community?
2 Operations	What are the key benefits and challenges of a district model?
3 Human Resources	How would staff and employment practices be impacted?
4 Governance & Structure	What is the optimal go-forward structure and governance construct?
5 Legal	What key contracts or partnerships may be impacted by a potential conversion?
6 Finance	How does a potential conversion impact the financial structure / profile?
7 Communications	How does the community view a potential conversion?

 The Project Committee Provided Cross-Functional Process Support

Workstreams were supported by the Project Committee, which ensured continuity throughout the evaluation process.

In addition to workstream discussions, the Project Committee participated in four governance workshops with the Board of Directors, six community town halls, ten internal town halls and other open forums to help inform the report.

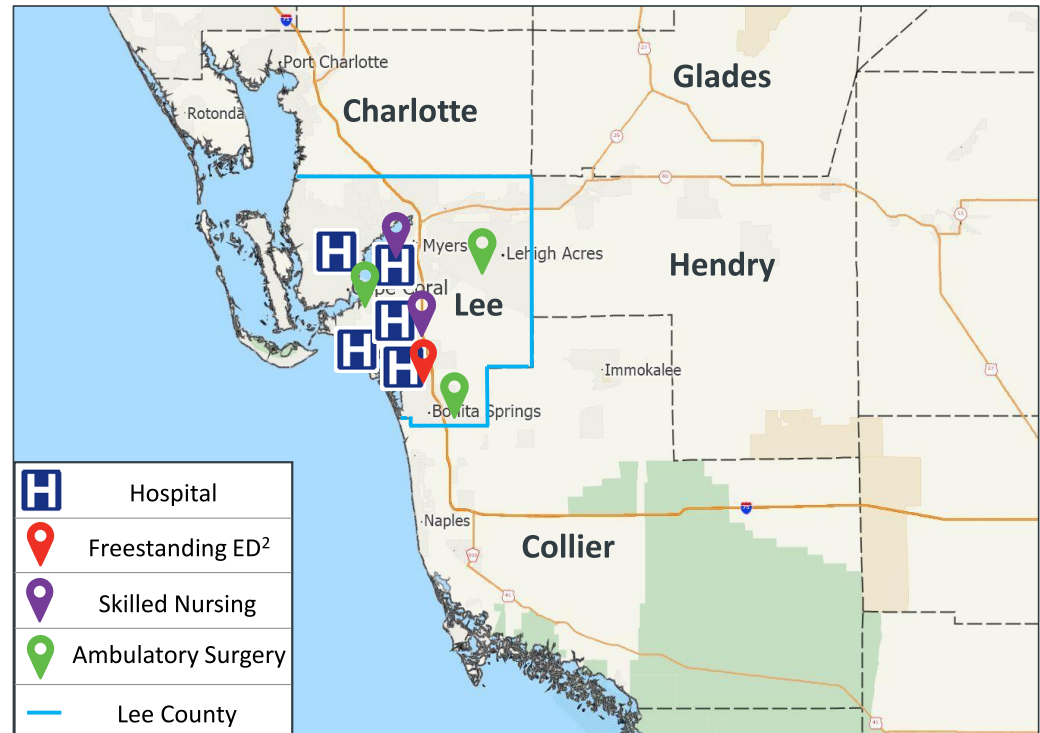
Executive Summary

Lee Health Snapshot: A Regional Safety Net Provider

ORGANIZATIONAL OVERVIEW

- LH is a regional health system that serves as the safety net provider for healthcare in Lee County and the surrounding geographies
- As one of the largest public health systems in Florida, LH and its 15,000+ employees serve more than one million patients annually across four general acute care hospitals, two specialty hospitals, 100+ clinic locations, a trauma services district, and numerous other locations
- Previously a private nonprofit corporation, LH converted to a public independent hospital district in 1968





CURRENT GEOGRAPHIC FOOTPRINT¹



Note(s): (1) Includes Lee County facilities only. (2) Lee Health's Coconut Point freestanding emergency department resides next to its Coconut Point Bonita Health Center which provides comprehensive care including urgent care, rehabilitation services, imaging, rheumatology, and other services.

Source(s): Lee Health website and press releases.

Lee Health Snapshot: A Regional Safety Net Provider (continued)

FINANCIAL AND OPERATING BACKGROUND		NOTABLE CONSIDERATIONS		
Characteristic	Fiscal Year 2023	<div><div>One out of Five Patients</div><div>served by Lee Health reside outside Lee County</div></div>	<div><div>Regional Trauma Center and Children’s Hospital</div><div>serve the entirety of southwest Florida, despite Enabling Act restrictions to Lee County</div></div>	<div><div>Approximately \$1 Billion</div><div>in strategic capital spending within Lee County over the next five years</div></div>
Hospitals & Medical Centers	6			
Total Revenue	\$2,895M			
EBIDTA ¹ (Margin)	\$223M (7.7%)			
Operating Income (Margin)	\$43M (1.5%)			
Credit Rating (Moody’s/S&P/Fitch)	A2/A+/NR			
Net Assets	\$2,378M			
Days Cash on Hand	198			
Licensed Beds	1,977			
Admissions	85k			
Emergency Room Visits	276k			
Outpatient and Provider Visits	2.6M			
		<div><div>Widely Recognized as a Regional Leader in Quality and Patient Safety</div><div><div></div><div></div><div></div><div></div></div></div>	<div><div>No Taxing Authority or Ongoing Support,</div><div>the only hospital district in Florida that does not financially burden its community</div></div>	

Source(s): Lee Health website and press releases, EMMA, S&P Rating Agency, Moody's Investor Service, Fitch Ratings

Note: (1) EBIDTA stands for earnings before interest, depreciation, taxes, and amortization

Lee Health Provides \$273 Million in Annual Community Benefits

2023 Community Benefits

Component	\$ Millions	Description
Cost of Charity Care	\$112.9	Free or discounted health services for patients who cannot afford to pay and meet eligibility criteria
Cost of Unpaid Medicaid	\$88.8	Unpaid costs of public programs for low-income patients
Cost of Providing Community Benefit and Outreach	\$71.3	LH investments in activities aimed to improve community health and extend beyond patient care
Total Community Benefit	\$273.0	Total community benefits provided by LH in 2023
Less the Benefit of Taxes	(\$94.2)	LH is a nonprofit public hospital system; illustrates amount of tax LH would pay as a tax-paying entity
Net Value of Community Benefit	\$178.8	Incremental value LH provides to its community as a nonprofit, in excess of the potential value of taxes

Source(s): Lee Health 2023 Community Benefits Report

Why Consider a Conversion Now?

<p>Healthcare is Rapidly Evolving</p>	<p>→</p>	<ul style="list-style-type: none"> • Industry trends are shifting to outpatient and home-based care with increasing reimbursement pressure, while macroeconomic inflationary conditions are elevating labor and supply costs, creating a unique set of revenue and expense challenges for health systems • The need for a nimble governance structure is more important than ever to react to the quickly changing market environment that requires greater access to quality healthcare and evolving competitor actions, many of whom have more flexible governance dynamics • As competitors enter the market, LH may be disadvantaged by public disclosure and open meeting requirements – as a result, LH cannot progress key initiatives as efficiently as may be needed
<p>Local Competitive Dynamics Are Changing</p>	<p>→</p>	<ul style="list-style-type: none"> • Effective in 2019, the Florida Legislature and Governor repealed the certificate-of-need requirements for acute care hospitals, increasing the potential for market competition • HCA, the nation's largest health system and for-profit operator, has grown its presence in Lee County <ul style="list-style-type: none"> – HCA currently operates a freestanding emergency department, three urgent care centers, two ambulatory surgery centers, and plans to build a hospital in Lee County with land purchased in 2021 – Competitors have access to Lee Health's strategic plans through Florida Public Record Act petitions; LH does not have similar opportunities to access competitors' strategic plans

Source(s): News articles, press releases and Florida Senate

Why Consider a Conversion Now?

Political Landscape Creating Pressure on Hospital Districts	→	<ul style="list-style-type: none">• The increased pressure from the political landscape is diminishing certain benefits of operating as a governmental entity<ul style="list-style-type: none">– Congress continues to propose changes or reductions to supplemental payment programs that allow safety net providers additional funding to serve those most in need– Both the Florida House and Senate have quickly advanced similar bills focused on increasing the liability limits for governmental agencies with sovereign immunity• Most recently, there has been proposals in the Florida legislature stating that government entities should not compete with the private sector in operating hospitals; in December 2023, HB 739 was introduced which mandated the North Brevard Hospital District explore a valuation and a sale of assets• Additional legislation has been introduced that would require a number of governmental district hospital systems to evaluate a potential conversion or sale
Legislation Now Provides a Pathway	→	<ul style="list-style-type: none">• In July 2023, the Florida Legislature passed HB 227 which amended Lee Health's Chapter 2000-439 Enabling Act ("Enabling Act") and prescribed a process for LH to evaluate a potential conversion to a private nonprofit corporation, an opportunity previously not afforded to the LH Board of Directors

Source(s): Press releases, Florida House, and Florida Senate

Community Considerations | Conversion Evaluation Summary

KEY ISSUE	EVALUATION SUMMARY
Safety Net Mission	<ul style="list-style-type: none"> • LH has long operated as the safety net provider for Lee County, a core tenet of the mission and culture of the organization • The LH Board and management intend to continue and enhance the safety net mission of the organization; the Enabling Act requires that any agreement entered into by the LH Board and Lee County Board of County Commissioners include an enforceable commitment to continue programs and services in perpetuity
Expansion of Services	<ul style="list-style-type: none"> • The Enabling Act's geographic limitations have constrained LH's service offerings as Lee County's population base does not support the necessary volumes to maintain quality and patient safety standards for certain subspecialty programs (e.g., pediatrics, transplant). Expanding services outside Lee County provides LH the opportunity to offer highly specialized services to residents in Lee County and the broader region and support existing programs to enhance quality and patient safety
Representation for All Patients Served by LH	<ul style="list-style-type: none"> • One out of every five patients served by LH do not reside in Lee County • With the Enabling Act's geographic limitations, LH is unable to serve these patients and employees in their local settings, resulting in significant travel for access to their preferred healthcare providers • Under the existing governance structure, those patients are not represented on Lee Health's Board of Directors
Philanthropy	<ul style="list-style-type: none"> • 58% of fundraising over the last three years are from individuals who reside outside Lee County • Substantial demand for the LH brand and reputation, with ample fundraising opportunity, offers the ability to expand into adjacent geographies, developing the population base to support enhanced service offerings within Lee County

Source(s): Enabling Legislation (Chapter 2000-439, as amended by 2023-326), Florida Bill HB 227

Strategic Considerations | Conversion Evaluation Summary

Florida Public Records Act / Sunshine Laws

- **As a community-focused private nonprofit corporation (post-conversion), LH would be subject to disclosure and reporting standards consistent with other nonprofit health systems across the country and in Florida;** LH would no longer be subject to the Florida Public Records Act or Sunshine Laws
- A potential conversion would **support transparent and confidential strategic planning** discussions between the LH Board and management
- As a private nonprofit, there is **reduced potential for competitors to preemptively disrupt LH strategic plans**, as organizations have historically had the opportunity to do

Lee County Border Restrictions

- **Removes strategic ambiguity from the current legislative directive**
 - The Enabling Act limits LH operations to Lee County
 - The Florida Department of Health defines trauma districts, associated counties, and number of accredited trauma centers throughout the state; LH was selected as the trauma center for service area 15, which requires LH to provide trauma services to Charlotte, Collier, Glades, Hendry and Lee Counties
- **Removal of geographic restrictions allows LH to expand services to surrounding counties, increase access to a broader population base, expand the service offering in Lee County, and meet patients and employees where they require care**

Source(s): Enabling Legislation (Chapter 2000-439, as amended by 2023-326), Florida Bill HB 227

Strategic Considerations | Conversion Evaluation Summary (cont.)

Partnerships

Physicians and Providers

- Private nonprofit corporations are better positioned to invest in partnerships with physicians via joint ventures and other mechanisms
- Change may enhance LH's ability to compete with for-profit operators targeting physician partnerships, **improving LH's physician retention and the community's access to high quality care**

New Opportunities

- Across the industry, there is a growing need to partner for capabilities such as telehealth and artificial intelligence
- Certain organizations are unwilling to partner with organizations subject to public disclosure requirements, potentially limiting the capabilities LH can offer to the community
- LH may pursue and expand partnerships with other hospital and health system providers, improving care coordination across the region

Strategic Flexibility

- **With no geographic limitation, LH may pursue additional strategic opportunities to support its existing patient base and further enhance its safety net mission**
- For example, LH was selected as the preferred healthcare partner in a new and growing community development; however, LH's geographic limitations led the community to move forward with a private not for-profit health system

Operational Considerations | Conversion Evaluation Summary



Employees

The employment status and benefit programs for LH employees would be substantially similar to the existing programs today.

Employees would transition to a new employer entity, which will result in the transition of certain programs such as the health plan offering, 403(b) plan, and 457(b) plan. The transition of these plans would not significantly alter employee benefits.

Currently, LH abides by Florida State Public Employee Relations Act but is not subject to the National Labor Relations Act (“NLRA”) or Occupational Safety and Health Administration (“OSHA”) regulations as a governmental entity. LH voluntarily complies with most NLRA and OSHA regulations today, and as a nonprofit corporation, LH would be required to comply with both state and new federal oversight and regulations.



Federally Qualified Health Center (“FQHC”) Model

In 2015, LH and Lee Community Healthcare partnered to transition certain clinics to an FQHC setting, focused on meeting the needs of underserved communities across Lee County. This model allows the underserved communities, Lee Community Healthcare, and LH financial benefit via subsidization for medical services and drug costs.

It is likely that LH and Lee Community Healthcare would transition the FQHC model to a new structure in the possible event of a conversion. LH evaluated four alternatives as a component of diligence, with financial impact ranging from no change to an approximately \$49 million loss. In the next phase of evaluation, LH and Lee Community Healthcare would determine a preferred option based on strategic, operational, and financial factors.



Sovereign Immunity

With ongoing legislative efforts to raise liability limits, an increase in lawsuits, insurance premiums, and related costs is probable for LH in its current structure. LH currently obtains insurance protection for its providers and employees above its sovereign immunity protections.

As a private nonprofit corporation, LH would operate similar to other health system competitors, forgoing its sovereign immunity protections. LH would address the loss of sovereign immunity through enhanced insurance protections and provider education; LH estimates an incremental cost of \$5.2 million annually.

The loss of sovereign immunity may also impact physician recruitment and retention, as sovereign immunity remains a factor in provider satisfaction. **New partnerships / compensation methodologies would be available as a community-focused private nonprofit corporation to support provider recruitment and retention, alleviating this factor.**

Governance Considerations | Conversion Evaluation Summary

The future governance model is critical to the long-term sustainability of LH’s safety net mission. **A private nonprofit governance model offers certain benefits relative to the current district structure.**

The LH Board has participated in four governance education workshops and continues to evaluate potential governance models.

On a preliminary basis, the LH Board has determined:

- **Continuation of the safety net mission is of utmost priority**
- The existing board would likely serve as the initial board of the community-focused nonprofit corporation, ensuring LH **remains a locally governed organization**
- The board would be eligible to receive compensation in the same manner provided by the Enabling Act

SELECT BENEFITS OF A PRIVATE GOVERNANCE MODEL	
Representation for All Patients	Allows all patients served by LH’s regional operations to be represented in governance
Governance Consistency	Promotes certainty of governance to enable execution of longer-term initiatives that extend beyond election cycles
Diversify Perspectives	Opportunity to expand geography from which the board members reside, consistent with the broadening of LH’s service area, and the size of the board
Enhance Governance	Streamlines process to continue seating experienced, qualified board members from a diversity of backgrounds and expertise
Nimble Leadership	Increases ability to react to evolving market realities without being subject to open meeting requirements and/or public records disclosures
Public Disclosures	Private nonprofit corporations are not subject to the Florida Public Records Act or Sunshine Laws, limiting competitor access to sensitive information and promoting open governance discussions

Introduction to Financial Impact Evaluation

- Historically, LH has produced strong financial operating performance to support its safety net mission, including operating and EBIDTA¹ margins that average 4.5% and 11.3%, respectively
- As a public hospital district, LH's operations are supported by various supplemental payment programs (described herein), which are subject to continual reevaluation and federal and state level appropriations
- Similar to other health systems, LH faces industry headwinds of expense inflation that is growing more rapidly than revenues, which may compress the operating margins of the system if not otherwise addressed; however, the system has historically navigated these pressures
- Should LH convert to a community-focused nonprofit corporation, it risks losing a portion of various supplemental payment programs; however, such funding sources themselves remain at risk, due to macroeconomic factors, so annual appropriations and the political uncertainties of the programs endure
- There are various initiatives LH may pursue to address the loss of supplemental funding sources, if not replace them altogether; some of these replacement supplemental funding sources may require execution over a period of time, and they necessitate further study to understand the potential risks when compared to the *status quo*
- While a potential conversion may result in the near-term loss of supplemental funding sources, it does provide the opportunity to execute on new strategic growth initiatives that advance LH's mission, enhance access to high quality care, and generate new streams of revenue

Note: (1) EBIDTA stands for earnings before interest, depreciation, taxes, and amortization

Lee Health Historical Financial Performance and Profile

Lee Memorial Health System											
Historical Financial Performance				Fiscal Year Ended September 30,							
(\$ in 000s)	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EBIDTA	\$134,711	\$200,861	\$206,567	\$188,935	\$186,161	\$175,205	\$217,869	\$163,383	\$357,345	\$305,149	\$223,050
Interest Expense	71,057	73,809	79,116	81,890	96,003	100,366	115,586	131,207	138,375	115,457	143,395
Depreciation and Amortization	27,806	26,441	23,961	22,112	21,415	20,996	22,568	29,531	29,548	32,274	36,850
Gain from Operations	\$35,848	\$100,611	\$103,490	\$84,933	\$68,743	\$53,843	\$79,715	\$2,645	\$189,423	\$157,418	\$42,806
Investment Income	46,241	43,562	(16,735)	71,806	87,550	42,521	33,768	75,660	170,984	(200,380)	131,420
Other Non-Operating Income	37,954	13,523	20,325	13,968	12,980	4,675	3,760	50,715	29,300	39,685	41,142
Total Non-Operating Income	\$84,195	\$57,085	\$3,590	\$85,774	\$100,530	\$47,196	\$37,528	\$126,375	\$200,284	(160,695)	\$172,562
Excess of Revenue Over Expenses	\$120,043	\$157,696	\$107,080	\$170,707	\$169,273	\$101,039	\$117,243	\$129,019	\$389,707	(\$3,277)	\$215,368
Cash & Investments	690,922	824,219	941,773	1,010,575	996,434	876,520	1,069,066	1,476,597	1,679,022	1,550,044	1,504,690
Debt	715,450	691,237	714,455	705,982	680,209	658,167	786,693	908,172	933,228	1,046,938	1,044,746
Capital Spend	65,942	91,801	128,687	192,422	173,253	277,092	191,253	181,647	149,993	158,191	187,833
Net Capital Assets	695,210	714,281	770,647	860,229	959,038	1,149,219	1,256,531	1,323,478	1,412,352	1,456,334	1,581,851
Liquidity Ratios											
Cash to Debt	97%	119%	132%	143%	146%	133%	136%	163%	180%	148%	144%
Days Cash on Hand	219	247	261	253	232	196	219	272	280	218	199
Profitability Ratios											
Operating Margin	2.9%	7.4%	6.9%	5.2%	4.0%	3.0%	4.0%	0.1%	7.7%	5.6%	1.5%
Excess Margin	9.6%	11.6%	7.2%	10.5%	9.8%	5.6%	5.9%	6.3%	15.8%	(0.2%)	7.3%
EBIDTA Margin	10.7%	14.7%	13.8%	11.6%	10.7%	9.8%	11.0%	7.9%	14.5%	10.9%	7.7%

Source: Lee Health management

Baseline Financial Performance is Projected to Compress, While Serving a Larger Patient Base

Select Baseline Demographic & LH Operational Statistics

	2023		2033	% Increase
Population Served (000s)	815	▶	1,000	23%
Physician Visits (000s)	2,282	▶	3,553	56%
Hospital Admits (000s)	80.8	▶	82.6	2%
Outpatient Surgeries (000s)	57.7	▶	68.8	19%
Ambulatory Surgery Centers	3	▶	8	167%

Source: Lee Health management

Select Baseline LH Financial Statistics

	Projected Total FY24-FY28	Projected Total FY29-FY33
\$ in millions		
Operating Revenue	\$16,466	\$19,242
Operating Expenses	14,949	17,911
Operating EBITDA	1,517	1,331
Operating EBITDA Margin	9.2%	6.9%
Operating Income	621	271
Operating Income Margin	3.8%	1.4%
Non-Operating Income	549	589
Excess of Revenues Over Expenses	\$1,170	\$860
Cash Flow	\$2,170	\$1,685
Less: Principal Payments	(262)	(228)
Plus: New Debt	300	-
Net Cash Available for Capital	\$1,907	\$1,457
Less: Capital Spend	(1,525)	(1,310)
Net Cash Increase/(Decrease)	\$382	\$147

- Lee Health continues to be positioned well in the community, generating strong margins to support the safety net mission and investment in Lee County
- With increasing competition and industry-wide challenges to the operating model, management anticipates it may become more difficult to maintain the status quo over-the long-term

Strategic Opportunities to Drive Financial Benefit

OPPORTUNITY	DESCRIPTION	FINANCIAL IMPACT
Alternative Participation in State Programs	<ul style="list-style-type: none"> LH may pursue alternative qualification for supplemental payment programs, such as a statutory teaching hospital designation by investing in at least five new programs and 37 additional residents LH may aggressively pursue new supplemental payment programs to offset anticipated reductions 	<ul style="list-style-type: none"> Potential to access over \$28M in supplemental payments through qualifying each LH hospital license as a statutory teaching hospital, with program growth planned by July 2027 Potential to address financial impacts of supplemental payment programs; likely to occur over long-term period
Expansion of Clinical Services	<ul style="list-style-type: none"> LH may expand existing services to improve patient access and support clinical growth, utilizing philanthropic funding or strategic investment allocations (e.g., oncology, pediatrics, orthopedics, cardiology, hospital-at-home) 	<ul style="list-style-type: none"> Multispecialty site development has potential to generate up to \$15M of cash flow per site, depending on service offering and investment Potential to realize between \$4M to \$6M annually from deployment of the hospital-at-home model across the region
Joint Venture and Partnership Opportunities	<ul style="list-style-type: none"> LH may establish or expand joint ventures or partnerships with physicians and other healthcare organizations to strengthen provider alignment, enhance quality of care, and better meet patients needs 	<ul style="list-style-type: none"> Joint ventures such as ambulatory surgery centers with specialty physicians can generate cash flow margins of ~25%, allowing further reinvestment in clinical services New or expanded partnerships with healthcare organizations in the region can bolster revenue and operating performance
Value-Based Expansion	<ul style="list-style-type: none"> Partner with providers in neighboring counties to enhance Medicare ACO Reach program and scale existing infrastructure Expand direct-to-employer offerings to employers in neighboring counties, increasing demand for clinical services inside and outside Lee County 	<ul style="list-style-type: none"> Potential to realize between \$3M and \$8M annually in additional shared savings through the Medicare ACO Reach program Financial impacts from expanded direct-to-employer offerings would be determined on a case-by-case basis

Source: Lee Health management

Pro Forma Look at Near-Term Financial Considerations of a Conversion

The anticipated impact of converting to a private nonprofit corporation is a **net decrease in operating income ranging from \$59M to \$107M**, resulting in LH's operating margin **dropping from 4.2% in FY2024 (budgeted) to a range of 0.8% to 2.3%**

The most material impacts stemming from the decreased benefit from supplemental payment programs enrolled in as well as the decrease in cost savings from the 340(b) program

A range of FQHC financial impacts is provided to show the HOPD option as compared to the status quo/affiliation agreement option (no financial impact)

(\$ in millions)

Financial Data (internal)

	FY2024 Budget	FY2025 Pro Forma	FY2026 Pro Forma
Total Net Operating Revenue	3,101	3,183	3,303
Total Operating Expense	(2,792)	(2,893)	(2,980)
Depreciation & Amortization	(140)	(140)	(140)
Interest	(37)	(42)	(35)
Operating Income	\$131	\$108	\$149

Conversion Financial Impacts

Outstanding Tax-Exempt Debt Re-financing Expense	(4.8)	(1.0)	(0.7)
Impact to Low Income Pool Annual Payments	(10.8)	(10.8)	(10.8)
Impact to Public Hospital/Physician Supplemental Payments	(23.4)	(23.4)	(23.4)
Impact to Disproportionate Share Hospital Payments	(14.9)	(14.9)	(14.9)
Impact to IME/GME Funding ¹	(2.7)	(2.7)	(2.7)
Impact to Directed Payment Program Payments	1.3	1.3	1.3
Impact to 340(b) Enhanced Reimbursement from FQHC Sites	(37.9) to 0.0	0.0	0.0
Impact to Medicaid Reimbursement from FQHC Sites	(8.3) to 0.0	(8.3) to 0.0	(8.3) to 0.0
Impact to Medicare Reimbursement from FQHC Sites	(1.7) to 0.0	(1.7) to 0.0	(1.7) to 0.0
Insurance Impact from Loss of Sovereign Immunity ²	(5.2)	(5.2)	(5.2)
Reduction of Limits on Design and Construction Expense	0.5	0.5	0.5
Reduction in Sunshine Law Related Costs	0.8	0.8	0.8
Impact to Workers Comp. Savings for Drug Free Workplace	(0.2)	(0.2)	(0.2)

Total Conversion Adjustments (\$107) to (\$59) (\$66) to (\$56) (\$65) to (\$55)

Operating Income, Conversion Adjusted \$24 to \$72 \$42 to \$52 \$83 to \$93

Operating Margin, Budgeted 4.2% 3.4% 4.5%

Operating Margin, Conversion Adjusted 0.8% to 2.3% 1.3% to 1.6% 2.5% to 2.8%

Note(s): (1) IME: Indirect Medical Education, GME: Graduate Medical Education. (2) Includes \$2.7M of additional insurance premium cost for medical claims, \$2.5M of estimated increases in loss payments, and \$114k of additional commercial liability coverage.

Final Report Summary Recommendation

- As the broader healthcare industry transforms, Lee Health is expected to continue facing systematic operational, strategic, political, and financial challenges, along with regional and local competitive pressures
- The Lee Health Board of Directors must consider whether the medium- and long-term strategic and operational benefits of a potential conversion to a community-focused private nonprofit corporation outweigh the measurable financial impacts in the near term, some of which may or may not continue
- While the financial considerations associated with a potential conversion were readily identified and estimated by those involved with the evaluation, many benefits are challenging to quantify during the defined timeframe as they are contingent on execution in a post-conversion structure or the benefits are more intangible in nature, without a direct economic measure
- To the extent the Lee Health Board and management believe the system can realize the value of prospective strategic opportunities and increase its competitive position at a level that surpasses the near-term net cost increase outlined herein, and more effectively deliver on its mission – *to be a trusted partner, empowering healthier lives through care and compassion* – we recommend Lee Health continue with the conversion process
- Regardless of whether a potential conversion is effectuated, the Lee Health Board and management maintain that the highest priority is protecting the system's safety net mission
- Kaufman Hall's recommendation is subject to further evaluation of the future governance model, potential conversion structure, and other operating model elements that would be developed at a later stage in this process, but that has not been determined as part of the analyses herein

Overview of the Enabling Act

Lee Memorial Health System Enabling Act Overview

Lee Memorial Health System is classified as an independent special district – a governmental entity which has a special purpose. Although Lee Health has provided hospital services in the community since 1916, the special district was authored in 1963 and effectuated in 1968.

The Enabling Act (Florida Law chapter 2000-439 and subsequent amendments) outlines the key operational, financial, and governance parameters by which Lee Health functions

Operational	Governance	Financial
<ul style="list-style-type: none">• The operation, maintenance, and construction of health system facilities are declared to be for a public purpose• The system board may establish policies providing for the treatment without charge of those patients who, after reasonable inquiry, are found by Lee Memorial Health System Management to be without the means to pay• Restricted to operations in Lee County, with the exception of trauma and children’s services	<ul style="list-style-type: none">• The Lee Health system board shall consist of 10 directors, comprised of 2 directors from each of the 5 county health system districts• Board members shall be elected on a nonpartisan basis by a vote of the electorate of the county• Board members shall serve staggered 4-year terms	<ul style="list-style-type: none">• For the purpose of providing funds to be used in connection with the Lee Memorial Health System, the system board, at its discretion, is authorized to issue general obligation bonds in the amounts necessary to pay the cost thereof• The LH board may deposit or invest its surplus funds in interest-bearing accounts, instruments, or securities to the fullest extent permitted by general law

Source(s): Enabling Act: Florida Bill HB227

Recent Updates to Lee Memorial Health System’s Enabling Act



Statement of Purpose

Bill HB 227, relating to Lee Memorial Health System, amends Florida Law chapter 2000-439, **outlining the process by which the health system may convert to a private nonprofit entity**. The process includes notice, contract, and requirements for evaluating the reasoning of any conversion as well as a **detailed plan on how the LH board will address the impact on assets, liabilities, and debt**.

Additional Provisions of HB 227

- ✓ Provides quorum requirements for system board meetings to conduct business and take official action
- ✓ Removes requirement that health system’s annual audit & budget be filed with clerk of circuit court
- ✓ Revises provisions related to purchasing real property, entering into financial agreements, & managing funds
- ✓ Removes provisions related to execution & enforcement of liens

HB 227 | Sponsor – Adam Botana

2023

JAN 17

Filed to the Florida House of Representatives

FEB 8

Approved in the Local Administration, Federal Affairs, & Special District Subcommittee (18 – 0 – 0)

MAR 24

Approved in the Health & Human Services Subcommittee (18 – 0 – 3)

APR 11

Approved in the State Affairs Committee (17 – 0 – 4)

APR 27

Passed in the Florida House of Representatives (114 – 0 – 5)

MAY 4

Passed in the Florida Senate (39 – 0 – 1)

JUNE 16

Signed into law by Governor of Florida

After vetoing a bill in 2022 that would have granted Lee Health the option of converting to a private nonprofit entity, the Governor, along with the Florida House and Senate, approved legislation to amend the Lee Memorial Health System Enabling Act to provide a process by which it can convert to a private nonprofit entity¹.

Notes: (1) The Florida Governor vetoed the bill SB 1260 on June 24th, 2022
Source(s): Enabling Act, Florida Bill HB 227, MyFloridaHouse.gov.

Hospital / Health System Industry and Conversion Trends

Financial Challenges Remain Numerous and Persistent as the Industry Stabilizes Following the Pandemic



1 | Margins Plummeted



2 | Utilization Has Not Rebounded for Many Organizations



3 | Labor Expenses Remain Increased

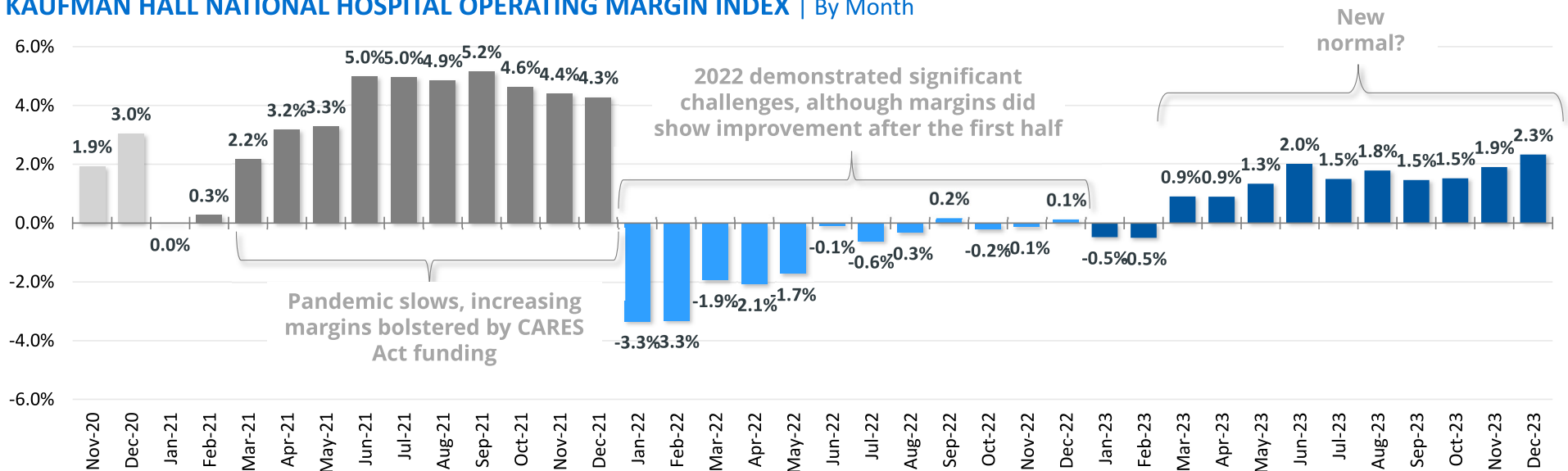


4 | Inflationary Pressures & Supply Chain Challenges



5 | Financial Market Volatility

KAUFMAN HALL NATIONAL HOSPITAL OPERATING MARGIN INDEX | By Month

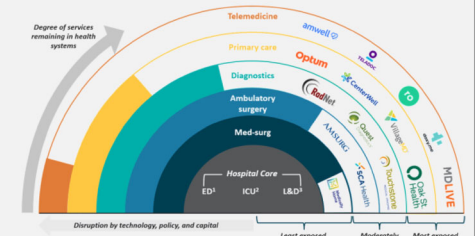


Source(s): Kaufman Hall Flash Reports

Strategic Pressures Continue as New Entrant Competitors, Financial Sponsors, and Retail Players Expand

New Entrants

- Non-hospital competitors continue to target specific population segments with lower cost business models
- Increasing willingness to collaborate with health systems to enhance the mutual value proposition (e.g., joint ventures)



Financial Sponsors

- Financial sponsors remain focused on controlling cost levers through shared service platforms
- Historically focused on scaling hospital-based specialists and high-margin specialty services, creating pressure for hospitals and health systems
- Recent emphasis on capitalizing on the shift to outpatient surgeries or targeting value-based care platforms, driving additional volume outside the traditional hospital setting

Retail Players

- Bolstered by increased consumer spending, the retail players' entrance into healthcare has focused on expanding consumer-centric offerings to grow its share of consumer spending, utilizing existing infrastructure

CVS Health

Oak St. Health signifyhealth. minute clinic*

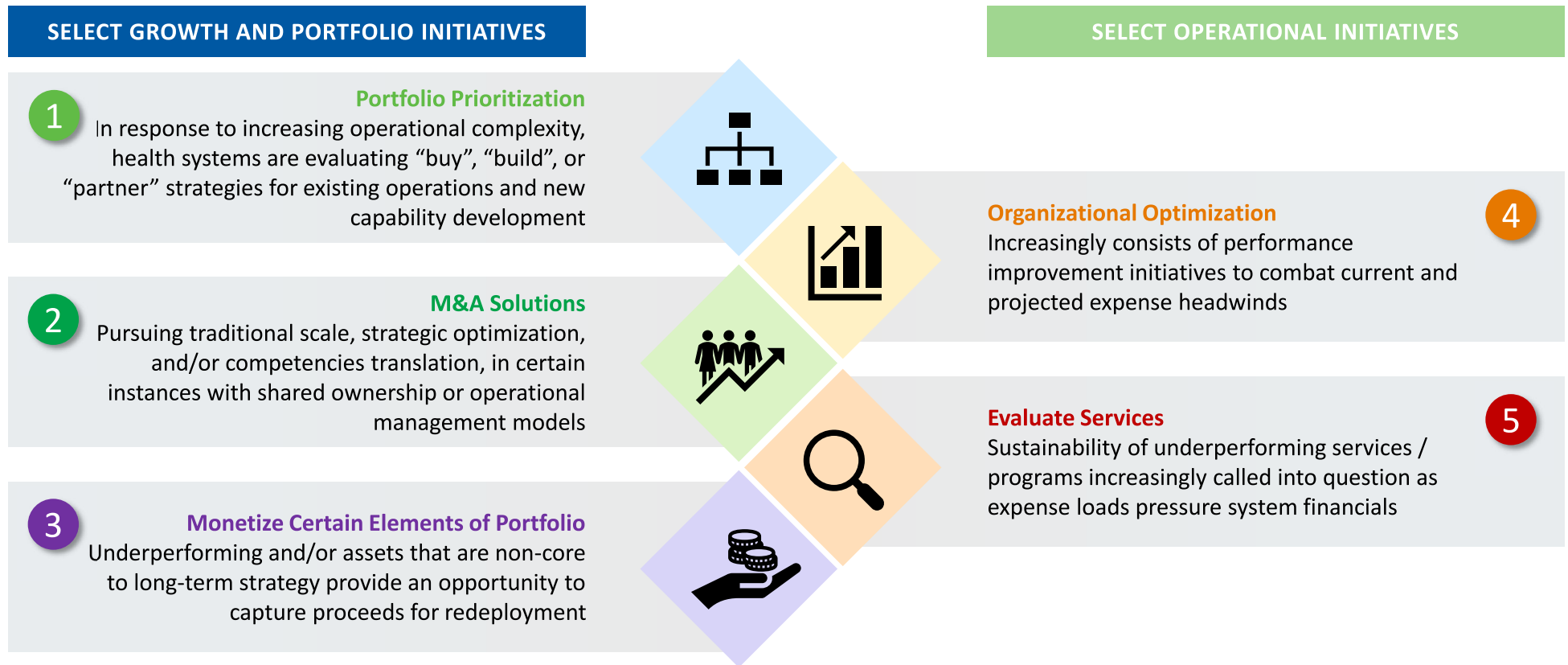
amazon

one medical amazon clinic amazon pharmacy

Walgreens

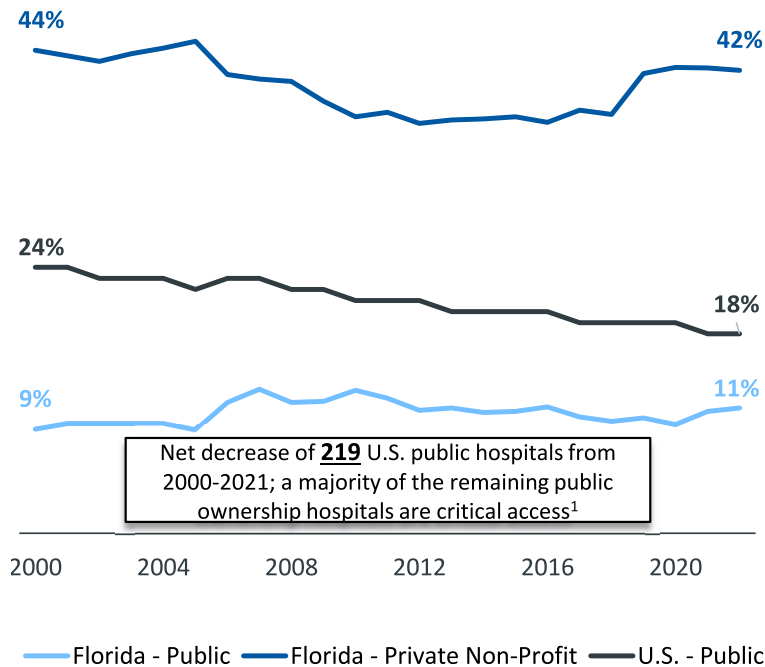
carecentrix. Walgreens healthcare clinic VillageMD*

Health Systems Have Numerous Strategic Alternatives Available to Address the Current Market Environment



Meanwhile, Governmental Ownership Has Decreased Over Time and Now Represents ~18% of Community Hospitals Across the United States

Community Hospital Ownership in Florida & United States (2000-2022)



- As organizations navigate the current and future operating environment, public / governmental ownership of hospitals continues to decrease in favor of private ownership / operation
- In Florida, the aggregate number of public hospitals has generally remained stable over the last 20+ years – some hospital districts have shuttered but some have been added through both acquisition and/or new build – while the total number of hospitals declined
- When compared to their for-profit counterparts, a majority of hospitals converting to non-profit were larger, located in more populated areas, and in more competitive markets
- Approximately 72% of public hospitals in Florida receive tax support, which Lee Health does not
- Select empirical outcomes from the conversions include:

6.1%

Increase in
Operating
Margins

12%

Reduction in
Length of Stay

No Change

Uncompensated
Charity Care/
Bad Debt

Increased

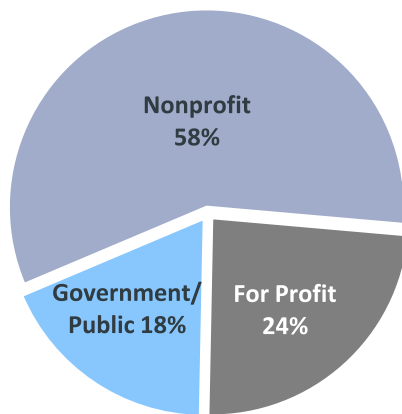
Operating and
Financial Asset
Efficiency

Note(s): (1) There are more than 500 critical access hospitals with governmental ownership and ~950 state/local government owned hospitals remaining

Source(s): Kaiser Family Foundation & 2000 - 2021 AHA Annual Survey, Copyright 2022 by Health Forum, LLC. ISPOR's "Assessing the Impact of Privatizing Public Hospitals in Three American States: Implications for Universal Health Coverage" (ISPOR is the professional society for health economics and outcomes research (HEOR) globally). "The Impact of Privatization on Efficiency and Productivity: The Case of US Public Hospitals" - Journal of Health Care Finance. Definitive Healthcare.

Of More than 4,000 Hospitals in the United States, Only 14 Hospitals Are District Hospitals Similar to Lee Health

U.S. Hospitals by Ownership Type



Of the 530+ acute care hospitals with public / governmental ownership, 14 are hospitals in a district structure with 400+ licensed beds (i.e., similar to LH)

- Government institutions are actively evaluating hospital transitions to nonprofit status as:
 - The operating landscape faces increasing financial pressure as competition increases
 - Substantial liability loads further augment risk amid the current interest rate environment
 - The largest portion of Americans since 2020 have expressed preference for reduced tax burden according to the Gallup Poll
- Several public / government owned hospitals of similar characteristics to Lee Health are transitioning to or partnering with private nonprofit corporations



erlanger
Health System



New Hanover
Regional Medical Center



Atrium Health



Kootenai Health

Note(s): (1) Press releases and related news articles of each health system/hospital listed

Source(s): Kaiser Family Foundation & 2000 - 2021 AHA Annual Survey, Gallup Poll annual taxes polling, and publicly available sources

Common Goals of Health Systems Pursuing Non-Profit Status



Long-Term Fiduciary Effectiveness

- Ability to make long-term commitments to the communities served
- Align stakeholders that have a higher degree of community representation
- **Enhance governance effectiveness to react nimbly in evolving and complex market environment**



Support High Quality Care Initiatives

- Promote access to resources that are otherwise more challenging to procure (e.g., raise capital)
- Enhance ability to structure provider alignment strategies
- Broaden continuum of services



Pursue Strategic Growth

- Become a more effective competitor
- **Develop services to keep care closer to home**
- **Extend services outside the primary service area**
- **Support expansion of historical “boundaries”**
- **Promote partnership / joint venture development**
- Preserve confidential information






Operational Efficiencies

- **Operate more efficiently**
- More easily attain economies of scale
- Promote long-term financial viability
- **Support recruitment and retention of providers and staff**
- Streamline partnership development

Source(s): ISPOR's "Assessing the Impact of Privatizing Public Hospitals in Three American States: Implications for Universal Health Coverage" (ISPOR is the professional society for health economics and outcomes research (HEOR) globally), press releases




Dynamics of the Local Landscape

Legislative Priorities Are Impacting The Current Business Model

Topic	Recent Events
 Supplemental Payments	<ul style="list-style-type: none">❖ Congress continues to propose changes to supplemental payment programs, which currently support safety net providers with funding to serve those most in need❖ While the complete removal of supplemental payments is unlikely in the near-term, there is a growing risk of stalled supplemental payment increases
 Political Landscape	<ul style="list-style-type: none">❖ There has been recent proposals in the legislature stating that government entities should not compete with the private sector in operating hospitals during Florida House committee meetings❖ HB 739, a bill mandating the North Brevard Hospital District explore a valuation and sale of the District’s assets, has progressed through the Florida House Select Committee on Health Innovation and the Local Administration, Federal Affairs & Special Districts Subcommittee
 Sovereign Immunity	<ul style="list-style-type: none">❖ Florida House Civil Justice Subcommittee approved HB 569 by a vote of 17-1 while a similar bill (SB 472) was introduced in the Senate, weakening sovereign immunity protections for governmental agencies❖ Both bills propose doubling the liability cap from \$200,000 to \$400,000 for claims by one person and the liability cap for the sum of claims that arise from the same incident doubled from \$300,000 to \$600,000

Source(s): Press releases and Florida Senate

Forcing Health Systems to Rethink Their Position and Long-Term Strategy

Topic	Implications for Lee Health
 Supplemental Payments	<ul style="list-style-type: none">• Supplemental payment programs remain a controversial topic politically, with a focus on programmatic spending• State government actions have had a more tangible impact on the lives of Floridians, as roughly 250,000 citizens on Medicaid were dropped in 2023 after automatic renewal of membership concluded
 Political Landscape	<ul style="list-style-type: none">• The Florida Legislature remains skeptical on the operational and financial benefits of hospital districts• Florida’s political position on the healthcare industry is predominantly pro-competition and consumer preference, which places pressure on health systems, services, and business models• Political headwinds extend to all independent special hospital districts in the state of Florida, creating challenges to the current operating models
 Sovereign Immunity	<ul style="list-style-type: none">• LH may experience an increase in litigation as plaintiffs could have the opportunity to receive higher claims payments than in the past• While still a deterrent to litigation, physicians may now place a lower value on sovereign immunity designation

Source(s): Press releases and Florida Senate

Recent Florida Legislation Sets The Stage For Increased Competition

The Florida Legislature and Governor repealed the certificate-of-need (“CON”) requirements for acute care hospitals (effective in 2019) and specialty hospitals (effective in 2021), increasing the potential competition in the market

Context of Repeal

- Those in favor of repeal argue that the CON limits competition, provides an **advantage to existing hospitals**, prevents patients from seeking better care, and limits overall access to healthcare
- Supporters of the CON argue that government review of hospital construction limits excessive duplication of certain services and **reduces hospital bills for consumers** by limiting the number of empty hospital beds


Implications and Opportunities

- Existing hospital providers may **engage in construction and renovation, or expand their existing service offerings** and bed counts **without obtaining a need determination, regulatory approval, or accepting operating commitments from regulators**
- Removes a barrier to entry and **creates opportunities for new providers** who were previously limited in expanding their footprint
- **High performing specialty services** that help support the safety net mission will likely be targeted by competitors

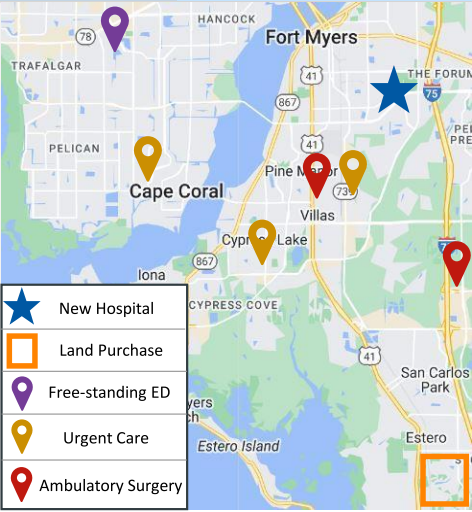
Source(s): Florida Bill HB 221 and press releases

Growing Presence of For-Profit Operators in Lee County




The repeal of the CON requirement presents opportunities for health care systems seeking to expand their footprint and service offerings



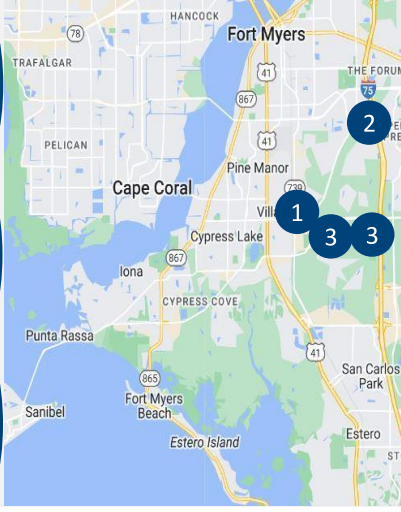
- ❖ Currently operates a freestanding emergency department, three urgent care centers, two ambulatory surgery centers, and **plans to build a hospital with owned land in Lee County**
- ❖ HCA's new hospital in Lee County will **open in 2025** and have **100 beds**, including two trauma rooms and a **16-bed ICU**
- ❖ Competitors often request access to Lee Health's strategic plans, creating an asymmetric competitive advantage



Repeal of the CON requirements in recent years **allowed HCA the opportunity** to develop a new hospital in Lee County




2018	Millennium Physician Group acquires Internal Medicine Associates to combine resources and expand their footprint into Lee County	1
2022	Florida Cancer Specialists open a new state-of-the-art facility to expand alongside Lee County's rapid growth	2
2023	Orthopedic Specialists of SW Florida announce plans to build two new facilities in Lee County	3



Providers undergoing **recent expansion** are **targeting high margin services** in Lee County in response to the repeal of CON requirements and Lee County's increasingly attractive market














Source(s): Florida Bill HB 221, press releases, and company websites

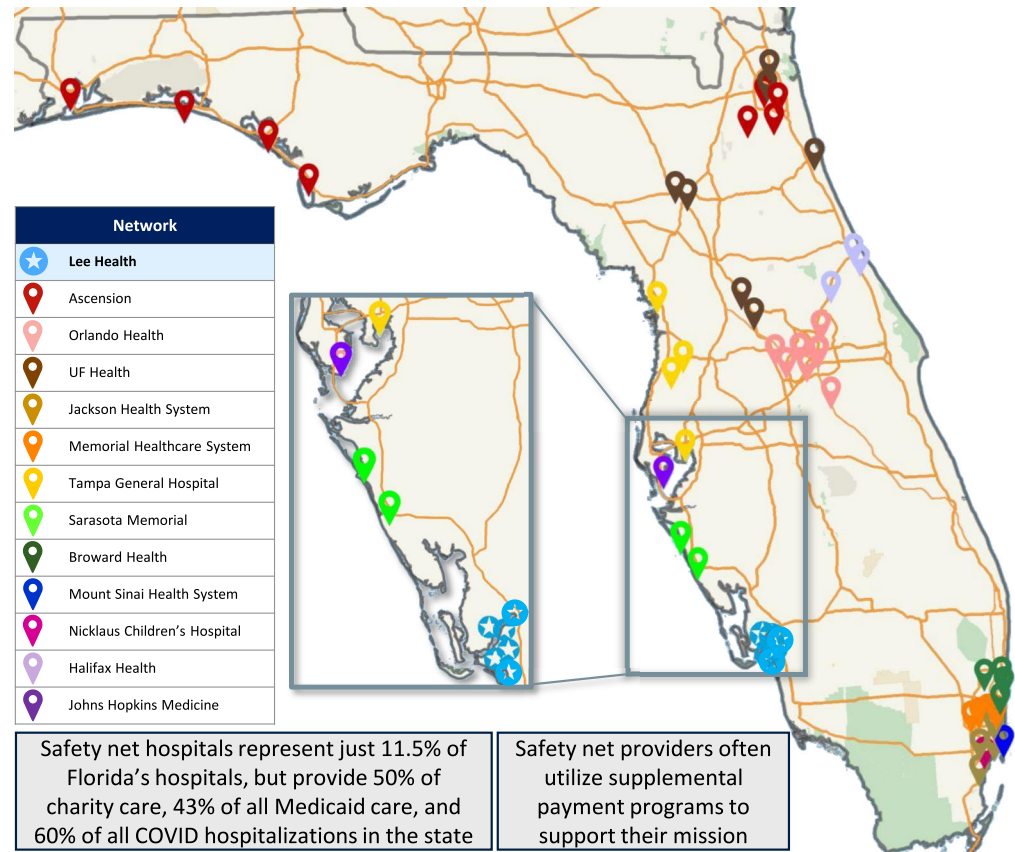
LEE HEALTH – CONVERSION EVALUATION FINAL REPORT

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Florida Has 13 Safety Net Providers Across the State, Including Both Governmental and Private Nonprofit Corporations

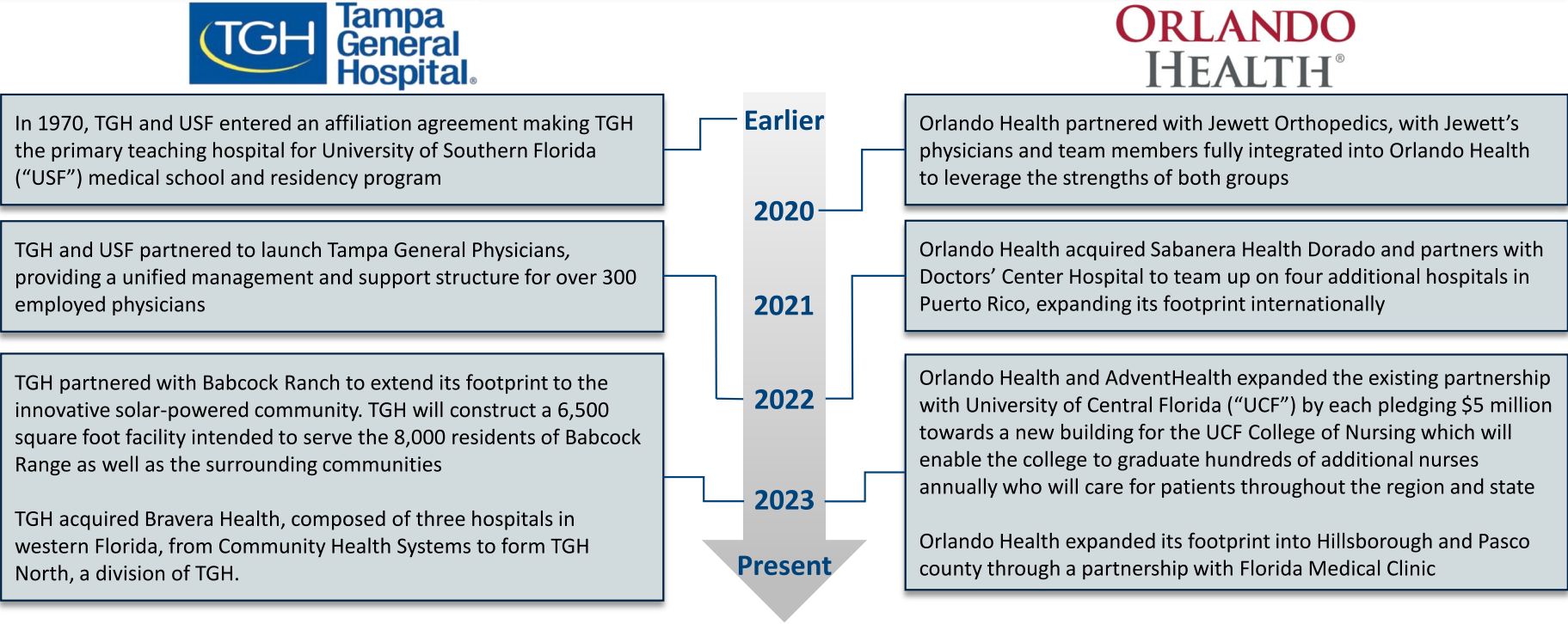
Safety Net Organization	Ownership	# of FL Hospitals	Total Revenue (\$M) ²	Operating Margin (%) ²	Credit Ratings (M/S/F) ¹
 LEE HEALTH	NFP – District	6	\$2,895	2.8%	A2/A+/-
 ASCENSION	NFP – Church	10	\$28,348	(10.7%)	Aa2/AA+/AA+
 JOHNS HOPKINS All Children's Hospital	NFP	1	\$8,156	2.1%	Aa2/AA-/AA-
 ORLANDO HEALTH	NFP	11	\$5,253	8.2%	A2/A+/AA-
 Memorial Healthcare System	NFP – District	6	\$2,931	2.9%	Aa3/AA/-
 Jackson HEALTH SYSTEM	NFP – Govt.	6	\$2,792	4.3%	Aa2/A+/AA-
 UFHealth UNIVERSITY OF FLORIDA HEALTH	NFP – Academic	10	\$2,613	6.8%	A3/A/-
 TGH Tampa General Hospital	NFP	4	\$2,150	0.2%	Baa1/A-/A
 SARASOTA MEMORIAL	NFP – Govt.	4	\$1,399	2.5%	A1/-/AA-
 BROWARD HEALTH	NFP – District	5	\$1,319	(8.6%)	Baa2/A-/A+
 Nicklaus Children's Hospital	NFP	1	\$933	5.9%	-/A+/A+
 Mount Sinai MEDICAL CENTER	NFP	1	\$835	3.9%	Baa1/A-/A
 HALIFAX HEALTH	NFP – District	3	\$704	3.0%	-/A-/A-



Note(s): (1) Credit ratings reflect 2023. (2) Most recent financial statements were used for total revenue and operating margin %.
Source(s): Florida Safety Net Hospital Alliance, Definitive Healthcare, Credit Rating Agency reports, financial reports

Local Private Nonprofit Corporations Are Utilizing Creative Growth Strategies to Expand Their Footprint

Tampa General Hospital and Orlando Health are examples of community-focused nonprofit corporations that utilize creative growth strategies such as partnerships and acquisitions to expand their geographic footprint and services available for patients



Source(s): Press releases and company websites

Diligence Investigation Summary

Overview of the Evaluation Process

Lee Health investigated and evaluated the merits and considerations of the potential conversion compared to the status quo across numerous workstreams



Workstreams to Address Key Diligence Questions

1	Business & Community Strategy	What are the strategic implications to Lee Health and its community?
2	Operations	What are the key benefits and challenges of a district model?
3	Human Resources	How would staff and employment practices be impacted?
4	Governance & Structure	What is the optimal go-forward structure and governance construct?
5	Legal	What key contracts or partnerships may be impacted by a potential conversion?
6	Finance	How does a potential conversion impact the financial structure / profile?
7	Communications	How does the community view a potential conversion?



The Project Committee Provided Cross-Functional Process Support

Workstreams were supported by the Project Committee, which ensured continuity throughout the evaluation process.

In addition to workstream discussions, the Project Committee participated in four governance workshops with the Board of Directors, six community town halls, ten internal town halls and other open forums to help inform the report.

Business & Community Strategy Review

Primary Elements of Diligence Review

- Impacts of a potential conversion on the current strategic initiatives
- Impacts of a potential conversion on the strategic planning process
- Partnership strategy implications
 - Provider alignment partnerships
 - Certificate-of-need implications
- Patient origin information
- Philanthropy efforts and opportunities

Key Conclusions and Findings

- LH is a **regional health system and safety net provider**, subject to its existing legislation to serve the residents of Lee County; however, **one in every five patients originates outside the county**
- The LH Board and management **anticipates continuing and enhancing the safety net mission of LH**, which would be memorialized in an agreement with the Board of County Commissioners
- Current community benefit programs supported by Lee Health **would not be impacted or disrupted in the event of a potential conversion**. LH may add additional or expand existing community benefits to support Lee County and adjacent geographies
- In conjunction with the existing investment of more than \$1 billion over the next five years, LH could **expand opportunities for incremental strategic initiatives** that are prohibited or difficult to execute in the current structure (e.g., provider alignment joint ventures, mobile units, Babcock Ranch expansion)
- LH currently utilizes a subsidiary corporation to participate in select investments to improve access to patients and advance provider alignment. As a private nonprofit corporation, LH's ability to **execute common partnership models while retaining governance authority and operational flexibility would be greatly enhanced**, consistent with competitor actions
- With over 50% of current philanthropy originating from outside of Lee County, **there is likely increased fundraising potential** to fund expansion projects identified outside of LH's current footprint

Lee Health Would Continue to Provide Significant Financial Benefit as a Community-Focused Nonprofit Corporation

Lee Health currently provides \$273 million in community benefit through charity care, discounted services, educational programs and more. LH is committed to continuing to offer similar community benefit programs and services, in the existing hospital district structure or as a community-focused nonprofit corporation

Benefit Type \$ in millions	Lee Memorial Hospital	HealthPark Medical Center	Cape Coral Hospital	Gulf Coast Medical Center	Total Financial Benefit
Charity Care	\$36.1	\$19.4	\$24.1	\$33.4	\$112.9
Unpaid Medicaid	22.5	38.1	7.7	20.5	88.8
Cost of Providing Community Benefit and Outreach	17.8	17.8	17.8	17.8	71.3
Total Community Benefit	76.4	75.3	49.6	71.7	273.0
Less Tax Benefit	22.0	22.3	22.5	27.4	94.2
Net Value of Community Benefit	\$54.4	\$53.0	\$27.1	\$44.3	\$178.8

Source(s): Lee Health 2023 Community Benefit Report

Operations Review

Primary Elements of Diligence Review

- Identify key operational benefits and challenges of the hospital district model
- Determine areas of operational efficiency and/or dis-synergy under a community-focused nonprofit corporation model
- Medical education reimbursement analysis and impacts
- Physician needs assessment
- Impact on physician operations and provider recruitment
- Provider alignment and partnership opportunities

Key Conclusions and Findings

- A private nonprofit corporation structure may **enhance LH's ability to recruit physicians** due to increasing patient volumes from the removal of geographic restrictions and increased access to shared savings and profit-sharing models (*compensation models detailed in the Human Resources section*)
 - The recruitment of physicians, in particular subspecialties, has faced challenges in the district structure, primarily due to the limited geographic reach and necessary patient volumes
 - Foregoing sovereign immunity may be a negative factor in recruitment, though it can be alleviated with adequate education regarding supplemental insurance coverage and ongoing physician support
- **Enhanced ability to develop de novo physician relationships and expand existing partnerships**
 - Create stickiness with independent physicians in the area through joint investments and expand current partnerships (e.g., Babcock Ranch, Encompass, Proton, orthopedics)
 - Ability to leverage LH's strong reputation through co-branding models, increasing community acknowledgement and recognition for existing and new relationships
 - Eliminate the need to use Lee Health Holdings when partnering, which has limited financial resources, weaker credit, and additional execution risks and governance challenges
- **No anticipated impact to medical education programs**, though a potential conversion would require contractual modifications to the Florida State University affiliation agreement; Lee Health is actively planning to grow these programs
- Lack of geographic restriction would enhance LH's ability to **grow regional service line programs**
- Ability to put an increased emphasis on strategic resource allocation to outpatient, ambulatory surgery and post-acute service line growth

Human Resources Review

Primary Elements of Diligence Review

- Employee compensation structure
- Employee benefit plans
 - Health plan design and offerings
 - Retirement plans – 403(b) and 457(b)
 - PTO benefits and transition
- Remote work capabilities
- ERISA compliance
- Eligibility requirements
- Impacts to physician and workforce recruitment

Key Conclusions and Findings

- **A potential conversion would have no impact on the length of service and/or seniority of current employees** (e.g., paid time off balances would roll-over to the new entity unchanged)
- **No anticipated impact to the current benefit package structure**, though a potential conversion would require the private nonprofit corporation to contract with existing vendors to continue the current health plan offering
 - Management does not expect any issues in transitioning to a new health plan
- Requires full transition to new employer entity
- **Current employee compensation models would not be altered.** LH may be able to implement increased access to shared savings and profit-sharing models to enhance recruitment (*detailed on pages 49-50*)
- Similar to the health plan, both the 403(b) and 457(b) plans would need to be transitioned under a private nonprofit corporation, with no anticipated impact to employees or their current vested interests
- Currently, LH currently complies with ERISA and OSHA, **requiring minimal additional action in the event of a potential conversion**
- Current restrictions on out-of-state remote work capabilities would be simplified, though LH does not anticipate building a significant out-of-state presence due to misalignment with its operational and strategic vision
- **Currently, LH abides by Florida State Public Employee Relations Act but is not subject to National Labor Relations Act (“NLRA”) oversight as a governmental entity. As a private nonprofit corporation, LH would be subject to both current state and new federal oversight and regulations**
- With the loss of sovereign immunity, **LH would increase its current insurance coverage to maintain similar protections for employees in response to potential litigation**

Human Resources Review: Benefits and Compensation

Conversion Implications

Employee Benefits

- The preparation and transition of the health plan would be completed by management and effectuated on day 1
- The transitioned plan would not result in an impact to employee benefits or cost structure
- It is anticipated there would be no eligibility requirement adjustments

Compensation Models

- Increased access to shared savings and profit-sharing models using non-PPPS and value-based arrangements¹
- Opportunity to employ physicians in a separate group practice entity, allowing potential profit-sharing arrangements and moderating operational and regulatory risks

Retirement Plans

- The 403(b) plan would be transitioned similar to the health plan
- The 457(b) plan would transition from its current structure in a trust and re-designated as an asset of LH, which would be subject to creditors in the unlikely event of major financial challenges at LH (e.g., bankruptcy)

Note(s): (1) PPPS stands for personally-performed professional services. Non-PPPS refers to compensation methods such as profit distributions from physician practices or investments in certain types of providers, such as ASCs. Value-based arrangements are another form of compensation whereby physicians can receive a portion of the savings earned by reducing costs while maintaining or improving quality outcomes.

Human Resources Review: Benefits and Compensation (continued)

Impacts to Lee Health

Employee Benefits

- ▶ Incremental administrative cost to transition health plan under the private nonprofit corporation
- ▶ Re-enrollment of employees into the health plan, but no anticipated impact to the level or cost of coverage to employees



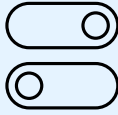
Compensation Models

- ▶ Enhance LH's ability to recruit and jointly invest with new physicians and align with independent physicians and providers through shared ownership models
- ▶ Current and future employed physicians would be able to invest in specific healthcare entities (e.g., ASCs, urgent care centers), creating a recruitment and retention mechanism consistent with competitors and not afforded to LH today

Retirement Plans

- ▶ In the unlikely event of a bankruptcy, creditors may access additional funds such as the 457(b) plan capital

Employment Considerations

IMPACT		POTENTIAL OPPORTUNITY
 LH subject to additional collectively bargaining requirements	▶	<ul style="list-style-type: none">Historically, Florida has not had substantial union activityRecent government efforts appear to be limiting union organizing, such as recently signed bill, SB 256, which removes union fee deductions from paychecks and requires at least 60% of members pay dues or the union will be decertified
 Subject to NLRA oversight and loss of sovereign immunity protections	▶	<ul style="list-style-type: none">LH currently obtains insurance for added protection above sovereign immunity; LH management anticipates increasing its current coverage to ensure employees and providers are protected similarly to the current status quoLH does not anticipate substantial impact to operations in transitioning to NLRA compliance
 Requirement for benefits changes if transitioning to private nonprofit corporation	▶	<ul style="list-style-type: none">Given Lee Health substantially complies with ERISA and OSHA requirements, there will be minimal addition action required by LH to meet the new requirements as a non-governmental entity

Governance and Structure Review

Primary Elements of Diligence Review

- Florida Not-For-Profit Corporation Act requirements and education
- Governance requirements
- Board selection, size, and qualifications
- Board term and term limits
- Compensation requirements
- Compliance requirements
- Education on governance best practices for nonprofit hospitals and health systems

Key Takeaways and Findings

- The Enabling Act requires that the potential conversion of the district must be into a Florida nonprofit entity; **the precise governance model and structure of a potential conversion has not been determined by the LH Board**
- The LH Board participated in a series of education workshops, highlighting the fiduciary duties and the governance similarities and differences between the current structure as a special district and a community-focused private nonprofit corporation
 - The Board evaluated similar nonprofit structures from previously converted entities as well as any changes in fiduciary responsibilities as a result of those conversions (e.g., community benefit, charity care)
- During the November 17th, 2023 meeting, the LH Board voted to give preliminary guidance on three items regarding the composition and structure if a potential conversion was executed:
 - **Mission, vision, values:** the current mission, vision, and values of LH will be maintained and continued, though the ability to update the current language remains available as LH and the surrounding communities grow
 - **Initial Board composition:** immediately post-conversion, the current Board will serve as the initial representation of the private nonprofit corporation, subject to later changes at the discretion of the Board
 - **Board compensation:** the initial Board will be eligible to receive compensation in the same manner provided by the enabling act, subject to each Directors' preference and later revisions

Legal Review

Primary Elements of Diligence Review

- Legal structure
- Contract analysis
- Partnerships and affiliations
- Sovereign immunity
- Sunshine law
- FQHC and 340(b)
- Investment policy

Key Conclusions and Findings

- **The articles of incorporation/bylaws of the successor entity would ensure that programs and services provided by LH will continue to be provided to residents in Lee County in perpetuity**
- **LH would forego sovereign immunity protections**, though the system would adopt supplemental insurance policies to ensure a similar level of internal protection against malpractice claims (*detailed on pages 54-55*)
- Based on a review of material contracts, **counsel does not anticipate there would be financial or operational disruption to LH in the event of a potential conversion** (*detailed on pages 56-57*)
- Outside the FQHC partnership, which is discussed herein, there is no anticipated impact to LH's current partnerships or affiliations that would impact those relationships or their scope
- Clinics currently designated under the FQHC program may be required to transition from the current Co-Applicant agreement structure between LH and Lee Community Healthcare (*detailed on pages 64-65*)
- **LH would not be subject to Sunshine Laws and the Florida Public Records Act** requiring the organization to hold public meetings as well as comply with open information requests
 - LH receives roughly 30 requests annually, translating to an estimated administrative and storage **cost of ~\$1.3M per year, which would be materially decreased post-conversion**
- LH would no longer have eminent domain authority as a private nonprofit corporation

Summary Impact to Lee Health From Loss of Sovereign Immunity



Legal

Lee Health would no longer be protected as a sovereign entity

As a community-focused private nonprofit corporation, Lee Health would forego sovereign immunity protections. The current advantages of sovereign immunity may be at risk as recent legislation focused on weakening the benefits is being considered, which would increase Lee Health's current exposure to claims as a public entity.



Financial

Increased insurance premiums to cover new exposure

Lee Health would incur approximately \$5.4M in additional insurance costs to cover the increased exposure due to lack of sovereign immunity protections. Those expenses include increased liability coverage, annual loss payments, and annual commercial liability coverage.



Operational

Loss of physician recruitment benefit

The loss of sovereign immunity may have a negative impact on recruitment efforts, although LH would recruit providers in a manner consistent with community-focused nonprofit corporations across the state. LH intends to address these factors through enhanced insurance protections and provider education, ultimately ensuring physicians are provided ongoing protection and support.

Sovereign Immunity Background, Financial Impacts, and Key Factors

Overview of Current State

Sovereign Immunity Protections



- Florida governmental entities are protected by liability limits of \$200k for an individual plaintiff and \$300k for all plaintiffs whose claims arise out of the same incident or occurrence¹
 - If the new legislation bills (HB 472 and HB 569) increasing the liability limit passes, LH could see an increase in annual liability insurance premiums and loss payments as a public entity*
- All lawsuits are brought against LH and not individual employees, protecting its workforce from ordinary negligence liability alleged to have occurred within their role under public employment
- In addition to the sovereign immunity protections, Lee Health has excess insurance protections in aggregate of \$25M, which are subject to \$5M per claim of self-insured retention for covered losses

Impact of a Potential Conversion to Lee Health's Sovereign Immunity Status

If LH converted to a private nonprofit corporation, it would no longer qualify for sovereign immunity and be subject to:

- \$2.2M – \$3.1M** in additional premium cost for liability insurance coverage
- An increase of **\$2.4M – \$2.5M** in annual loss payments
- A **\$114k** premium increase in annual commercial liability coverage

However, there are methods to alleviate the negative financial impact.

Alleviating Factors

Corporate Form

- LH could adopt a corporate structure to offer liability protections to the health system and its affiliates
- LH could be structured to minimize its liability resulting from actions of its subsidiaries

Florida Tort Reform

- The 2023 Florida Legislature enacted a significant tort reform bill (HB 837) to reduce unnecessary lawsuits
- The modifications include:
 - Reduced statute of limitations for liability claims from four years to two years
 - Modified the negligence standard
 - Limits on evidence of past medical treatment to amount actually paid

Contracting

- LH could incorporate a contracted services model in which it partners with sovereign entities for the provision of safety net services
 - Example: University of South Florida partners with Tampa General Hospital to provide safety net services, with select physicians protected by sovereign immunity

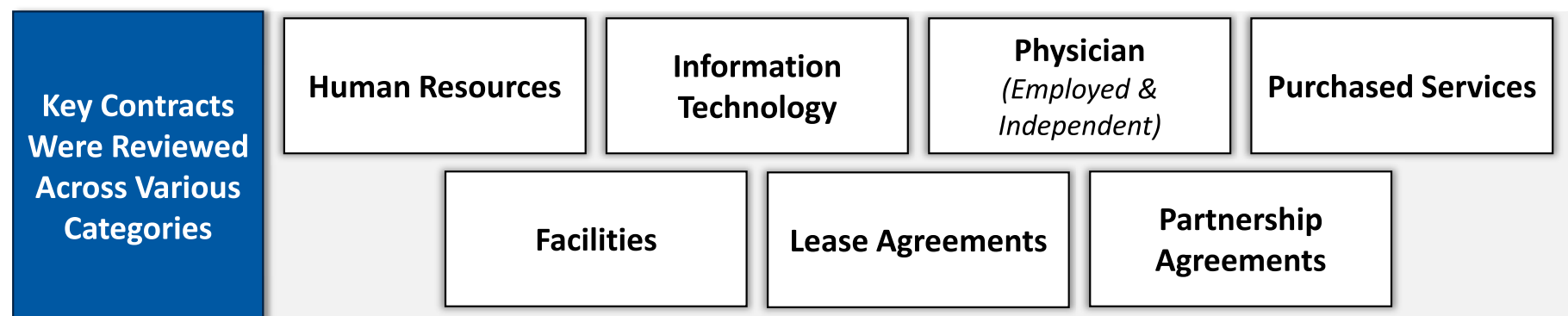
Note(s): (1) The Florida Legislature is currently considering a bill to increase the sovereign immunity cap to \$400k for an individual plaintiff and \$600k for all plaintiffs whose claims arise out of the same incident or occurrence in a growing effort to limit the benefits of sovereign immunity.

Contracts and Agreements Review Summary

The Lee Health legal department conferred with internal stakeholders to identify contracts the stakeholders deemed as material to the continuity of business operations within their scope of control. Certain stakeholders elected to use a dollar threshold, others selected specific contracts they deemed material.

In total, the legal department reviewed over 1,200 material contracts as identified by internal stakeholders.

At the conclusion of the review, **the legal department did not identify any material contract that would be a disruptor to the continuity of business operations in the event Lee Health converted** from a governmental entity to a private nonprofit corporation under the Enabling Legislation.



Contracts and Agreements Review Detail

Contract Type	Material Definition	Analysis Conclusions
Human Resources	Contracts most impactful to employees	<ul style="list-style-type: none"> No disruptive contracts, though LH would need to transition the health plan offering to the successor entity (no coverage gap or impact to benefit structure or costs anticipated)
Information Technology	Contracts at or exceeding \$200k of annual spend	<ul style="list-style-type: none"> The majority of contracts are assignable or request permission; no anticipated disruption
Physician <i>(Employed & Independent)</i>	Every physician contract was reviewed	<ul style="list-style-type: none"> Majority of Lee Physician Group employment contracts do not have a full assignability provision However, most have provisions that are assignable, requiring written consent to assign the employment agreement to a new entity All independent physician contracts are assignable
Purchased Services	Contracts most impactful to patients and supply chain	<ul style="list-style-type: none"> The majority of contracts are assignable or request permission; no anticipated disruption
Facilities	Contracts at or exceeding \$500k	<ul style="list-style-type: none"> The majority of contracts are assignable or request permission; no anticipated disruption
Lease Agreements	Contracts with leased property at or above 8,000 square feet	<ul style="list-style-type: none"> The majority of LH's significant leases are assignable without consent or require consent, which cannot be held unreasonably Potential opportunity for renegotiations, but LH does not anticipate any disruption to the business
Partnership Agreements	All affiliation agreements, strategic alliance agreements and partnership agreements reviewed	<ul style="list-style-type: none"> There are no anticipated concerns regarding current partnership agreements

Finance Review

Primary Elements of Diligence Review

- Outstanding tax-exempt re-financing
- Supplemental payment programs
- FQHC system and community impacts
- Loss of sovereign immunity impacts
- 403(b) / 457(b) implications
- Indirect Medical Education / Graduate Medical Education (“IME/GME”) impacts and potential partners
- Limits on design on construction analysis
 - Contractor bonding
 - Public bidding process
- Other conversion-related administrative benefits and costs

Key Conclusions and Findings

- **It is estimated a potential conversion’s net impact to operating income in year 1 would range from a (\$107M) to (\$59M) loss, adjusting FY2024 budgeted operating income from \$131M to either \$24M or \$72M, depending on what FQHC model is chosen (detailed on pages 59-60)**
 - Similar impacts anticipated for future years, with FY2025 pro forma operating income declining from \$108M to \$42M – \$52M and FY2026 pro forma operating income declining from \$149M to \$83M – \$93M (range due to FQHC model sensitivities)
- LH assessed several options related to the outstanding debt, ultimately deciding the preferred option to largely **preserve the existing debt structure by amending the obligated group and transferring the debt liability to a successor entity (detailed on page 61)**
 - The anticipated financial impact of transitioning the bonds would be one-time costs of \$3.8M and minimal ongoing costs
- **LH’s existing FQHC structure may require transition to an alternate model to provide similar benefits to the community, which totaled nearly \$5.6M in FY2023** through sliding fee discounts and 340b program eligibility
 - Four alternate models were assessed (detailed on pages 64-65). Lee Health and Lee Community Healthcare would determine the optimal future model dependent upon evaluation of operational, strategic, and financial factors
- **The loss of sovereign immunity is likely to result in incremental costs of \$5.2M annually**, though it may have operational impacts on areas such as physician recruitment and retention

FQHC Sensitivity Analysis of Year 1 Pro Forma Financial Considerations

There are four potential options in regard to a go-forward model for the currently designated FQHC sites. Additional conversations with regulators / system management need to occur prior to selecting the approach that would be most beneficial for both the system as well as the patients served.

The Year 1 financial impact of each option is outlined on this page. It is important to note that the 340(b) financial impact for option 2 depends on when the HOPD sites would become eligible for the program benefits in future years.

(\$ in millions)

Financial Data (internal)

	Year 1 Financial Projections		
	Option 1 ¹	Option 2	Option 3
	Status Quo/Affiliation Agt.	HOPD	Freestanding Clinics
Financial Data (internal)			
Total Net Operating Revenue	3,101	3,101	3,101
Total Operating Expense	(2,792)	(2,792)	(2,792)
Depreciation & Amortization	(140)	(140)	(140)
Interest	(37)	(37)	(37)
Operating Income	\$131	\$131	\$131
Conversion Financial Impacts			
Outstanding Tax-Exempt Debt Re-financing Expense	(4.8)	(4.8)	(4.8)
Impact to Low Income Pool Annual Payments	(10.8)	(10.8)	(10.8)
Impact to Public Hospital/Physician Supplemental Payments	(23.4)	(23.4)	(23.4)
Impact to Disproportionate Share Hospital Payments	(14.9)	(14.9)	(14.9)
Impact to IME/GME Funding ²	(2.7)	(2.7)	(2.7)
Impact to Directed Payment Program Payments	1.3	1.3	1.3
Impact to 340(b) Enhanced Reimbursement from FQHC Sites	0.0	(37.9)	(37.9)
Impact to Medicaid Reimbursement from FQHC Sites	0.0	(8.3)	(8.3)
Impact to Medicare Reimbursement from FQHC Sites	0.0	(1.7)	(2.7)
Insurance Impact from Loss of Sovereign Immunity ³	(5.2)	(5.2)	(5.2)
Reduction of Limits on Design and Construction Expense	0.5	0.5	0.5
Reduction in Sunshine Law Related Costs	0.8	0.8	0.8
Impact to Workers Comp. Savings for Drug Free Workplace	(0.2)	(0.2)	(0.2)
Total Conversion Adjustments	(59)	(107)	(108)
Operating Income, Conversion Adjusted	\$72	\$24	\$23
<i>Operating Margin, Budgeted</i>	4.2%	4.2%	4.2%
<i>Operating Margin, Conversion Adjusted</i>	2.3%	0.8%	0.7%

Note(s): (1) Both the status quo and affiliation agreement options have the same financial impact, so they have been consolidated for purposes of this slide. (2) IME: Indirect Medical Education, GME: Graduate Medical Education. (3) Includes \$2.7M of additional insurance premium cost for medical claims, \$2.5M of estimated increases in loss payments, and \$114k of additional commercial liability coverage

Pro Forma Look at Financial Considerations of a Conversion

The anticipated impact of converting to a private nonprofit corporation is a **net decrease in operating income ranging from \$59M to \$107M**, resulting in LH's operating margin **dropping from 4.2% in FY2024 (budgeted) to a range of 0.8% to 2.3%**

The most material impacts stemming from the decreased benefit from supplemental payment programs enrolled in as well as the decrease in cost savings from the 340(b) program

A range of FQHC financial impacts is provided to show the HOPD option as compared to the status quo/affiliation agreement option (no financial impact)

(\$ in millions)

Financial Data (internal)

	FY2024 Budget	FY2025 Pro Forma	FY2026 Pro Forma
Total Net Operating Revenue	3,101	3,183	3,303
Total Operating Expense	(2,792)	(2,893)	(2,980)
Depreciation & Amortization	(140)	(140)	(140)
Interest	(37)	(42)	(35)
Operating Income	\$131	\$108	\$149

Conversion Financial Impacts

Outstanding Tax-Exempt Debt Re-financing Expense	(4.8)	(1.0)	(0.7)
Impact to Low Income Pool Annual Payments	(10.8)	(10.8)	(10.8)
Impact to Public Hospital/Physician Supplemental Payments	(23.4)	(23.4)	(23.4)
Impact to Disproportionate Share Hospital Payments	(14.9)	(14.9)	(14.9)
Impact to IME/GME Funding ¹	(2.7)	(2.7)	(2.7)
Impact to Directed Payment Program Payments	1.3	1.3	1.3
Impact to 340(b) Enhanced Reimbursement from FQHC Sites	(37.9) to 0.0	0.0	0.0
Impact to Medicaid Reimbursement from FQHC Sites	(8.3) to 0.0	(8.3) to 0.0	(8.3) to 0.0
Impact to Medicare Reimbursement from FQHC Sites	(1.7) to 0.0	(1.7) to 0.0	(1.7) to 0.0
Insurance Impact from Loss of Sovereign Immunity ²	(5.2)	(5.2)	(5.2)
Reduction of Limits on Design and Construction Expense	0.5	0.5	0.5
Reduction in Sunshine Law Related Costs	0.8	0.8	0.8
Impact to Workers Comp. Savings for Drug Free Workplace	(0.2)	(0.2)	(0.2)

Total Conversion Adjustments (\$107) to (\$59) (\$66) to (\$56) (\$65) to (\$55)

Operating Income, Conversion Adjusted \$24 to \$72 \$42 to \$52 \$83 to \$93

Operating Margin, Budgeted 4.2% 3.4% 4.5%

Operating Margin, Conversion Adjusted 0.8% to 2.3% 1.3% to 1.6% 2.5% to 2.8%

Note(s): (1) IME: Indirect Medical Education, GME: Graduate Medical Education. (2) Includes \$2.7M of additional insurance premium cost for medical claims, \$2.5M of estimated increases in loss payments, and \$114k of additional commercial liability coverage

Outstanding Tax-Exempt Debt Assessment for a Conversion

Lee Health currently has over \$770M of outstanding debt. A potential conversion from the current district structure to a private nonprofit corporation would require refinancing the debt or transferring the liability from the hospital district. LH assessed several options, quantifying the transition costs related to each option: **(option 1) refinancing all of the outstanding debt through a government issuer or (option 2) transitioning the existing liabilities to a successor entity through amending the debt documents, including the current Master Trust Indenture. A governmental entity is a required participant in tax-exempt financings. The new structure (under either option) would include the debt being “issued” by a governmental entity (e.g., Lee County or Lee County Industrial Development Authority) with the debt proceeds being loaned to the private nonprofit corporation.**

The preferred approach is option 2, transferring the liability to a successor entity. The cost, transition requirements, and associated timing are comparable between transferring to a new private nonprofit corporation or Cape Memorial Hospital, Inc.

Options:	1	2								
	Refinance all Outstanding Debt	Amend Current Debt Documents								
Overview	LH would secure new financing arrangements to refinance the ~\$770M of outstanding tax-exempt debt	The parties would effectuate the necessary legal actions to either admit a new private nonprofit corporation to the OG or utilize Cape Memorial and transfer liability, while withdrawing LH from the OG and removing responsibility								
Merits	<ul style="list-style-type: none">• Execution risk for substantial refinancing• Most straightforward path for a potential conversion	<ul style="list-style-type: none">• Does not require refinancing but does require new governmental entity to step in as nominal debt issuer• May require refinancing of certain bonds								
Considerations	<ul style="list-style-type: none">• Existing interest rate environment is unfavorable and likely to yield a more expensive debt structure for LH	<ul style="list-style-type: none">• Requires majority consent from bondholders• If amendment does not receive approval, required to refinance the debt for which consent is not obtained.• Would lose the BABs subsidy								
Financial Impacts	Estimated cost of \$84M on a Present Value Basis	<table><tr><th>Estimated</th><th>2024</th><th>2025</th><th>2026</th></tr><tr><td>cost* per year:</td><td>(\$4.8)</td><td>(\$1.0)</td><td>(\$0.7)</td></tr></table> <p><i>*Costs associated to effectuate legal transition shown in year 1, with BABs subsidy loss included in all years</i></p>	Estimated	2024	2025	2026	cost* per year:	(\$4.8)	(\$1.0)	(\$0.7)
Estimated	2024	2025	2026							
cost* per year:	(\$4.8)	(\$1.0)	(\$0.7)							

A Conversion Would Impact LH's Eligibility and Net Benefit From Supplemental Payment Programs

Lee Health is currently enrolled in various supplemental payment programs that provide financial support to the system for continued service of its safety net services and mission. A private nonprofit conversion would impact the eligibility and net benefit of those programs, as outlined below. For purposes of this report, the supplemental payments from FY2024 were utilized as the baseline “current net benefit”. Lee Memorial Hospital anticipates qualifying as a Statutory Teaching Hospital in the coming years, allowing the system to address certain supplemental payment program impacts.

Program	Current Net Benefit (A)	Post-Conversion Net Benefit (B)	Conversion Impact (C = B – A)	Net Benefit as Statutory Teaching Hospital ¹ (D)	Impact with Statutory Teaching Hospital ¹ (E = D – A)
Low-Income Pool (“LIP”)	\$38.0M	\$27.3M	\$10.8M Loss	\$27.3M	\$10.8M Loss
Public Hospital Physician & Physician Supplemental Payments	\$23.4M	\$0M	\$23.4M Loss	\$0M	\$23.4M Loss
Disproportionate Share Hospital (“DSH”)	\$14.9M	\$0M	\$14.9M Loss	\$9.1M	\$5.8M Loss
IME/GME Funding	\$5.4M	\$2.7M	\$2.7M Loss	\$5.4M	No Impact
Direct Payment Program (“DPP”)	\$58.8M	\$60.1M	\$1.3M Gain	\$60.1M	\$1.3M Gain
	\$140.6M	\$90.1M	\$50.5M Loss	\$102.0M	\$38.7M Loss

Note(s): (1) Lee Memorial Hospital may qualify as a statutory teaching hospital by 2027. With that qualification, LH would regain partial or full benefits from several of the supplemental payment programs that may be impacted by a potential conversion. The metrics inputted for the net benefit with statutory hospital designation are based on the supplemental payments from FY2023. The actual impact of a conversion and statutory teaching designation on supplemental payment programs would be subject to change.

Supplemental Payment Program Detail and Potential Opportunities to Address Conversion Impacts

It is important to note that the amount of financial benefit LH receives in supplemental payments differs yearly. The net benefit Lee Health observed during FY2023 could be decreased moving forward due to legislative movement or changes in LH's tiering. However, as a private nonprofit, LH has the ability to benefit from alternative supplemental payment programs, helping to offset a portion of the losses estimated from a potential conversion.

Program	Description	Potential Opportunity
Low-Income Pool ("LIP")	Program which compensates hospitals and healthcare providers for uncompensated care costs incurred while treating uninsured or underinsured individuals.	<ul style="list-style-type: none"> Potential to requalify for existing status at GCMC/CCH as statutory teaching hospitals over the long-term
Public Hospital Physician & Physician Supplemental Payments	Payments aimed to support physician staffing, retention and recruitment services in publicly-owned or operated hospitals. Physician supplemental payments are made to address disparities in physician reimbursement and incentivize participation in Medicaid and safety-net healthcare systems.	<ul style="list-style-type: none"> Potential alternative supplemental payment programs that LH could enroll in as a private nonprofit to alleviate the losses
Disproportionate Share Hospital ("DSH")	DSH payments are intended to compensate hospitals for the uncompensated care costs that arise from treating a disproportionate share of patients who are uninsured or covered by Medicaid.	<ul style="list-style-type: none"> Potential to requalify for existing status at Lee Memorial Hospital as a statutory teaching hospital in 2027 and other hospitals over the long-term
IME/GME Funding	IME funding reimburses teaching hospitals for the additional costs associated with supervising medical residents and the higher patient complexity typically seen in teaching hospitals. GME funding focuses on supporting the training of medical residents and fellows in various specialties and primary care fields.	<ul style="list-style-type: none"> Potential to requalify for existing status at Lee Memorial Hospital as a statutory teaching hospital in 2027
Direct Payment Program ("DPP")	Designed to provide financial assistance directly to healthcare providers that serve high concentrations of low-income or uninsured individuals in the form of payments to help cover expenses related to the delivery of healthcare	<ul style="list-style-type: none"> With a potential conversion, LH could implement a local provider participation fund with Lee County in lieu of the IGT¹ payments, which may be roughly equivalent to current IGT payments

Note(s): (1) IGT stands for intergovernmental transfers

Impact Analysis of a Conversion to Current FQHC Operations

Lee Health and Lee Community Healthcare, Inc. ("LCH") operate a Co-Applicant FQHC model that operates over 35 clinics ("Clinics"). A potential conversion from a district structure to a private nonprofit corporation could require unwinding the current Co-Applicant model, though maintaining the status quo is still a potential outcome and will depend on regulator approval.

If the FQHC is unwound, the Clinics would no longer be eligible for certain financial benefits, including the revenue related to the 340(b) program as well as enhanced Medicaid/Medicare reimbursement. These may be addressed by returning the Clinics to their prior states as a hospital-based outpatient department ("HOPD"). However, LH and LCH may limit financial disruption through transition to an Affiliation Agreement model.

Options:	1 Remain in Co-Applicant Model	2 Affiliation Agreement Model	3 Convert to HOPD Sites of LMH	4 Convert to Freestanding Clinics
Overview	LH discloses the conversion to HRSA and is allowed to continue operating in the Co-Applicant model	LCH could be converted to a standalone entity, implementing an affiliation agreement with LH. LCH would transition to the supplier for 340(b) eligibility	If FQHC status cannot be maintained, the Clinics could convert to their prior form as HOPDs of LH by meeting the provider-based requirements with respect to LH	The Clinics would be converted to freestanding clinics within LH
Merits	<ul style="list-style-type: none"> ✓ Status quo to current operations ✓ Maintain enrollment in enhanced Medicaid/Medicare reimbursement ✓ Maintain 340(b) registration 	<ul style="list-style-type: none"> ✓ Enrollment and payment process would remain the same, but LCH would require new assignment for Medicare/Medicaid and 340(b) registration 	<ul style="list-style-type: none"> ✓ LH retains governance and operational oversight over the Clinics ✓ Potential to address certain financial disruptions 	<ul style="list-style-type: none"> ✓ No advance survey or integration requirements ✓ No facility requirements beyond local and state construction standards ✓ LH retains governance and operational oversight over the Clinics
Considerations	<ul style="list-style-type: none"> × Given the Co-Applicant model requires a government entity, this path forward is dependent on HRSA approval 	<ul style="list-style-type: none"> × As a standalone entity, LCH would be independently governed and operated, subject to establishing an affiliation agreement × The LCH financials would no longer be consolidated with LH financial statements 	<ul style="list-style-type: none"> × Dependent on timing, the Clinics may need to operate as freestanding prior to meeting HOPD requirements × Likely to lose supplemental managed care payments × Expected 5-7 months (up to 23 months) from converting to provider-based sites to becoming eligible for 340(b) status 	<ul style="list-style-type: none"> × Financial benefits of 340(b) program and supplemental managed care payments would not continue, representing the largest financial disruption
Total Financial Impacts	No financial impacts to current status quo	No anticipated material changes to financials of FQHC sites, although representation on LH's financial statements would be changed	<p>Initial estimated loss until 340(b) eligibility: (\$47.9M)</p> <p>Go-forward estimated loss post-340(b) eligibility achieved: (\$10.0M)</p>	Go-forward est. loss: (\$48.9M)

Impact Analysis of a Conversion to Current FQHC Operations

Detailed Financial Analysis

Financial Impacts	1 Remain in Co-Applicant Model	2 Affiliation Agreement Model	3 Convert to HOPD Sites of LMH		4 Convert Sites to Freestanding Clinics
			Pre-340(b) eligible	Post-340(b) eligible	
340(b) Reimbursement	No impact	No impact	\$37.9M loss	\$0 <i>Offsetting Potential</i>	\$37.9M loss
Enhanced Medicaid Reimbursement	No impact	No impact	\$8.3M loss	\$8.3M loss	\$8.3M loss
Enhanced Medicare Reimbursement	No impact	No impact	\$1.7M loss	\$1.7M loss	\$2.7M loss
Total Financial Impacts	No anticipated financial impact	No anticipated financial impact	Approximately \$47.9M	Approximately \$10.0M	Approximately \$48.9M

Key Takeaways:

- Due to remaining in the Co-Applicant, the status quo would remain the same
- Conversations with HRSA regulators have gone well to date, but it is still uncertain if LH will be able to maintain operations in the current Co-Applicant model
- With this structure, LH would provide services to LCH and be paid a fee associated with market reimbursement for those services
- LCH financials would not be consolidated with LH
- For at least 5 months and up to 23 months, LH can expect a total financial impact of (\$47.9M) while the HOPD sites wait to be approved for 340(b) eligibility
- Once eligible for 340(b), the negative financial impact decreases to (\$10.0M)
- This option results in the largest negative financial impact to LH given the loss of both 340(b) benefits as well as the supplemental payments

Communications Review

Primary Elements of Diligence Review

- Lee Health stakeholders interviewed
 - Board of Directors
 - Executive Leadership
 - Key Physician Stakeholders
 - Select external experts
- Topics of Discussion
 - Mission and community
 - Strategy and growth initiatives
 - Governance
 - Financial and operational impacts
 - Legislation
- Community town hall and public hearing feedback
- Review and response to community FAQs

Key Activities

- **Lee Health consistently emphasized its commitment to being a safety net provider to the community regardless of our governance structure**
- A detailed communications plan was developed and implemented to **provide ongoing information to both internal and external stakeholders throughout the evaluation process**
- **Four governance education workshops were conducted throughout the process** to help inform the Board of key governance related implications of a potential conversion
- **Lee Health representatives conducted six community town halls** across all Board districts to address community questions and concerns regarding the potential conversion
- LH also conducted **ten internal town halls** that provided a forum for all employees to submit questions and receive feedback from management regarding the evaluation
- As an additional resource, a public facing website for FAQs was available for public submissions. **LH made sure to address every question that was submitted.**

Key Questions and Topics Raised During The Community Town Halls

Town hall meetings were conducted at each of the six districts that Lee Health operates in. These sessions provided an opportunity for local community members to submit feedback and receive answers to their concerns regarding the potential conversion and its impacts to the existing state.

Noteworthy and Recurring Community Questions

- How would a conversion support Lee Health's accountability to the community?
- How would Lee Health ensure the best interests of the community are served?
- Who will be on the board and how will they be representative of the community?
- How would the conversion impact Lee Health's ability to compete with other systems in the area?
- How will the conversion impact the recruitment of doctors?
- How will a conversion impact the Lee Physician Group?
- Will a conversion help Lee Health with access to capital or introduce new investment opportunities?
- What will happen to governmental supplemental payment programs?
- What will be the potential economic impact of converting?
- How would the conversion factor into a future Lehigh expansion?

Lee Health representatives in attendance included Board Directors from each district, select executive officers as well as supporting third-party advisors.

With over 100 total community members present across the town halls, recurring feedback surrounding accountability in a new structure as well as continued community benefit were among the most popular topics of discussion.

Appendices

Lee Health Historical Financials

Lee Health Historical Income Statement Financials, Audited

Lee Memorial Health System			
Income Statement		Fiscal Year Ended September 30,	
(\$ in 000s)	2021	2022	2023
Revenues			
Net patient service revenue ¹	\$2,296,033	\$2,538,467	\$2,661,600
Capitation revenue	54,498	79,994	1,702
Other revenue	120,761	182,952	231,278
Total Operating Revenues	\$2,471,292	\$2,801,413	\$2,894,580
Operating Revenue YoY Growth Rate		13.4%	3.3%
Expenses			
Salaries, wages, and benefits	1,230,212	1,525,027	1,601,427
Supplies and other services	657,691	711,577	737,087
Purchased services	226,042	259,657	333,018
Depreciation and amortization	138,376	115,458	143,394
Total Operating Expenses	\$2,252,321	\$2,611,719	\$2,814,926
Operating EBIDTA	\$357,347	\$305,152	\$223,048
Operating EBIDTA Margin	14.5%	10.9%	7.7%
Operating Income (Loss)	\$218,971	\$189,694	\$79,654
Operating Margin	8.9%	6.8%	2.8%
Nonoperating Gains (Losses)			
Interest expense	(29,547)	(32,272)	(36,849)
Investment income (Loss)	170,982	(200,380)	131,419
All other non-operating items	26,100	39,685	41,144
Nonoperating Gains (Net)	\$167,535	(\$192,967)	\$135,714
Net Income	\$386,506	(\$3,273)	\$215,368
Net Income Margin	15.6%	(0.1%)	7.4%

Note(s): (1) Net patient service revenue is net of provision for uncollectible accounts of \$293,242, \$305,931, and \$319,391 for 2021, 2022, and 2023 respectively.

Source(s): Audited and internal financial statements

Lee Health Historical Balance Sheet Financials, Audited

Lee Memorial Health System			
Balance Sheet		Fiscal Year Ended September 30,	
(\$ in 000s)	2021	2022	2023
Assets			
<i>Current Assets</i>			
Cash and cash equivalents	\$170,289	\$102,009	\$26,475
Restricted cash and cash equivalents	37,664	44,534	17,702
Investments	1,471,069	1,403,501	1,446,412
Assets whose use is restricted	1,499	1,435	36,255
Accounts receivable ¹	308,299	319,347	370,531
Inventories	41,307	44,795	50,198
Estimated third-party settlements	-	-	40,449
Other current assets	49,700	64,116	81,371
Total Current Assets	\$2,079,827	\$1,979,737	\$2,069,393
<i>Non-Current Assets</i>			
Assets whose use is restricted	14,257	12,410	14,100
Capital assets, net	1,344,067	1,456,334	1,581,851
Other LT assets	34,961	56,725	65,139
Total Assets	3,473,112	3,505,206	\$3,730,483
Deferred Outflows of Resources			
Deferred loss on debt refunding	622	373	124
Deferred outflows on pension and post-employment benefit plan	8,496	9,005	6,837
Excess consideration provided for acquisition	104,622	102,069	96,940
Total Deferred Outflows of Resources	\$113,740	\$111,447	\$3,834,384

Note(s): (1) Accounts receivables are net of allowance for estimated uncollectable accounts of \$131,579, \$127,465, and \$156,411 for 2021, 2022, 2023 respectively.

Source(s): Audited financial statements

Lee Health Historical Balance Sheet Financials, Audited (continued)

Lee Memorial Health System			
Balance Sheet	Fiscal Year Ended September 30,		
(\$ in 000s)	2021	2022	2023
Liabilities			
Current Liabilities			
Accounts payable	\$84,817	\$90,237	\$87,408
Accrued expenses	141,719	144,713	173,900
Medicare advance payments	127,391	1,886	-
Current installments of long-term debt	47,714	60,914	75,330
Estimated third-party payor settlements	58,041	9,541	-
Total Current Liabilities	\$459,682	\$307,291	\$336,638
Non-Current Liabilities			
Long-Term Debt ¹	817,382	986,026	969,415
Pension and post-employment benefit plans	71,529	78,317	54,163
Other LT liabilities	58,879	64,907	63,631
Total Liabilities	\$1,407,472	\$1,436,541	\$1,423,847
Deferred Inflows of Resources			
Deferred gain of debt refunding	3,047	2,817	2,587
Deferred inflows related to pension and post-employment benefit plan	2,869	362	18,837
Deferred inflows related to leases	-	10,612	11,014
Deferred inflows on split-interest agreements	391	-	-
Total Deferred Inflows of Resources	\$6,307	\$13,791	\$32,438
Net Position			
Unrestricted	1,635,550	1,697,212	1,775,881
Restricted	58,552	59,751	65,115
Net investment in capital assets	478,971	409,394	537,103
Total Net Position	\$2,173,073	\$2,166,321	\$2,378,099

Note(s): (1) Excludes current installments

Source(s): Audited and internal financial statements

Pro Forma Assumptions

Sensitivities for Financial Impact Analysis

Sovereign Immunity Impacts \$ in millions	Worst	Base ¹	Best
Additional premium cost	(\$2.2)	(\$2.7)	(\$3.1)
Increase in loss payments	(\$2.4)	(\$2.5)	(\$2.5)
Increase in commercial liability premium	(\$0.1)	(\$0.1)	(\$0.1)
Total	(\$4.7)	(\$5.2)	(\$5.7)

The base sensitivity was utilized for the financial impact analysis given it incorporates the average cost estimated for each increased cost range

Outstanding Tax-Exempt Bond \$ in millions	Overview	Base ¹
Option 1	Refinance all outstanding tax-exempt debt	(\$84.0)
Option 2²	Amend Current Debt Documents	(\$4.8)

Option 2 was assumed to be the best alternative and incorporated into the financial impact analysis

FQHC Designation Impacts \$ in millions	Status Quo / Affiliation Agreement			HOPD			Freestanding		
Year	2024	2025	2026	2024	2025	2026	2024	2025	2026
340(b) Enhanced Reimbursement from FQHC	0.0	0.0	0.0	(37.9)	0.0	0.0	(37.9)	(37.9)	(37.9)
Medicaid Reimbursement	0.0	0.0	0.0	(8.3)	(8.3)	(8.3)	(8.3)	(8.3)	(8.3)
Medicare Reimbursement	0.0	0.0	0.0	(1.7)	(1.7)	(1.7)	(2.7)	(2.7)	(2.7)
Total	\$0.0	\$0.0	\$0.0	(\$47.9)	(\$10.0)	(\$10.0)	(\$48.9)	(\$48.9)	(\$48.9)

A range of impacts was assumed for the financial impact analysis. The strategic, operational, and financial factors may be considered as LH evaluates the preferred

Note(s): (1) Base case is the average of the Worst and Best sensitivities. (2) Assumes \$3.8M is for administrative costs required and additional ~\$1M in annual expense is also incurred due to the loss of the BABs subsidy which is only eligible for public entities

Financial Pro Forma Conversion Impact Assumptions

Conversion Financial Impacts	Assumptions
Outstanding Tax-Exempt Debt Re-financing Expense	<ul style="list-style-type: none"> Option 2 was determined as the preferred alternative given the cost of re-financing the entire outstanding tax-exempt debt Financial impact for Option 2 is the sum of administration costs for amending the bond documents, which was estimated at 0.5% of total outstanding debt (~\$770M), and the loss of the BABs subsidy afforded to LH as a public hospital district
Impact to Low Income Pool Annual Payments	<ul style="list-style-type: none"> Lee Memorial Hospital would continue to be a Tier 2 Hospital as a Regional Perinatal Intensive Care Center, qualifying for 100% charity care reimbursement Cape Coral Hospital and Gulf Coast Medical center would qualify as Tier 1 hospitals (8.5% charity care reimbursement) The non-federal share of LH hospital LIP payments would need to be funded by a Local Provider Participation Fund ("LPPF") with Lee County and may be equal to the current payments as a public entity if executed
Public Hospital Physician & Physician Supplemental Payments	<ul style="list-style-type: none"> State directed payment program approved by CMS Under the program's current parameters, physicians must be employed by or under contract with public hospitals It is anticipated that these payments would be reduced to zero if LH pursues a potential conversion
Impact to Disproportionate Share Hospital Payments (DSH)	<ul style="list-style-type: none"> Florida's Medicaid DSH program currently makes payments to qualifying hospitals that meet the criteria of one of the following 8 categories: <ul style="list-style-type: none"> i. Public hospitals (state mental health hospitals and non-state, public hospitals) ii. Provider service network hospitals iii. Rural hospitals (including a separate amount for "state only" payments) iv. Statutory teaching hospital/GME v. Family practice GME vi. Mental health vii. Specialty hospitals viii. Specialty - children's hospitals. Currently, Lee Health hospitals qualify to only receive public hospital DSH payments. As a private nonprofit corporation, LH would not qualify for any of the other categories of DSH payments unless a LH hospital qualified under different eligibility, such as a statutory teaching hospital

Financial Pro Forma Conversion Impact Assumptions (continued)

Conversion Financial Impacts	Assumptions
Impact to IME Funding	<ul style="list-style-type: none"> Under the program's current parameters, certain statutory teaching hospitals, public teaching hospitals, children's hospitals, and certain academic medical centers (Groups 1 and 2) qualify for these payments Currently, LH would qualify only under the public teaching hospital category. As a community-focused nonprofit corporation, LH would not qualify for this level of funding LH can pursue re-qualification through statutory teaching hospital status at each of its hospital licenses to access similar levels of funding
Impact to GME Funding	<ul style="list-style-type: none"> LH would qualify for these payments as a private nonprofit corporation The intergovernmental transfers that LH has historically made when participating in this program could be replaced by participation in a LPPF with Lee County
Impact to Directed Payment Program Payments (DPP)	<ul style="list-style-type: none"> It is assumed that as a private nonprofit corporation, LH's hospitals would not, on net, materially impact their DPP payments for the following reasons: <ul style="list-style-type: none"> The intent of the DPP program is to eliminate a hospital's Medicaid managed care shortfall to the extent possible. This would remain true for LH hospitals if they moved to the private class of Region 8. It is also assumed that the applicable DPP reimbursement increase percentage would be set according to the same methodology and with the same end in mind as applies to LH's current categorization in the Region 8 public hospital class. In lieu of intergovernmental transfers, LH hospitals will pay a provider tax into the Lee County LPPF, which will fund the non-federal share of the DPP payments, and it is assumed that this tax assessment will be comparable to the amount of intergovernmental transfers currently paid to cover the non-federal share of LH hospitals' DPP payments
Impact to 340(b) Enhanced Reimbursement from FQHC Sites	<ul style="list-style-type: none"> Retrospective calculation for annual 340(b) benefits to LH equals the total revenues covered by 340(b) purchases minus the total spent to purchase the 340(b) medications dispensed to eligible patients during fiscal year 2022-2023

Financial Pro Forma Conversion Impact Assumptions (continued)

Conversion Financial Impacts	Assumptions
Impact to Medicaid Reimbursement from FQHC Sites	<ul style="list-style-type: none"> Retrospective calculation for enhanced Medicaid reimbursement benefits equals total Medicaid revenues from the current published FQHC Medicaid reimbursement rate minus the total Medicaid revenues received from similar non-FQHC practices
Impact to Medicare Reimbursement from FQHC Sites	<ul style="list-style-type: none"> Due to the complexities inherent in selecting the billing codes with the setting, a sample of highly utilized codes were selected and extrapolated for an annual impact This estimate represents the change when recoding the FQHC claims into the most frequently used evaluation and management codes ("E&M")
Insurance Impact from Loss of Sovereign Immunity	<ul style="list-style-type: none"> As a private nonprofit corporation, LH would expect to pay higher premiums for its professional liability insurance coverage, which is estimated to increase by \$2.2M to \$3.1M. These estimates are based on current program structure and market rates. Annual loss payments are estimated to increase by \$2.4M to \$2.5M. LH may pursue efforts to minimize this increase, including factors such as carrier involvement in claims adjustment. An increase of \$114k is also anticipated for premium costs related to commercial liability coverage

Financial Pro Forma Conversion Impact Assumptions (continued)

Conversion Financial Impacts	Assumptions
Reduction of Limits on Design and Construction Expense	<ul style="list-style-type: none"> Any project between \$200k and \$1M requires contractor bonding which increase LH's project cost by 1.0% - 1.5% <ul style="list-style-type: none"> 3 years of historical facility routine capital budgets were used to determine the average percent of capital utilized for projects between \$200k and \$1M Public bidding requirement for projects above \$4M yields an estimated \$50k - \$70k for administrative and staffing costs to solicitate, facilitate, and review public bids <ul style="list-style-type: none"> 3 years of historical facility routine capital budgets were used to determine the average number of projects per year that are above \$4M. That number was then multiplied by the average of the administrative cost range
Reduction in Sunshine Law Related Costs	<ul style="list-style-type: none"> Costs from legal services on public records requests are estimated to be \$5,355 based on the legal staff working for 86 hours Costs from media relations on public records requests are estimated to be between \$3.2k-\$5.9k based on the time to respond being between 45-81 hours. \$4.6k is the average used in the analysis. Costs from legal services for dispositions are \$12k Costs from health system originating department are estimated to be \$573k based on approximately 525 request forms submitted and processed annually Costs from health system paper storage are estimated to be \$748k based on fiscal year 2023 actual costs Meeting notice publication costs \$6.5k annually
Impact to Workers Compensation Savings for Drug Free Workplace	<ul style="list-style-type: none"> Management provided the savings received from 10/1/23 - 9/30/24, which was used across each pro forma year

Conversion Case Studies

Case Study: Kootenai Health Overview



ORGANIZATIONAL OVERVIEW AND KEY PARTNERSHIPS

- Kootenai Health (“KH”) is a regional health system based in northern Idaho that provides tertiary services and critical access care throughout the inland northwest with 25+ clinic specialties in more than 30 locations supporting the a 330-bed flagship regional referral center
- KH is the third-largest health system in Idaho and serves patients in eastern Washington, eastern Oregon, and western Montana
- KH has a strong track record of expansion and partnership activity with the acquisition of two Idaho hospitals from Essentia Health in 2020 and numerous specialty specific partnerships

FINANCIAL AND OPERATING BACKGROUND

Key Indicator	2010	2022
Number of Hospitals	1	4
Total Revenue	\$245M	\$845M
Operating Income	\$12M	(\$21M)
Operating Margin	4.8%	(2.5%)
EBIDA	\$25M	\$17M
EBIDA Margin	10.0%	2.0%
Credit Rating (M/S/F)	n/a	Baa2-/BBB+
Days Cash on Hand	n/a	99
Staffed Beds	246	392
Discharges	14.1k	16.5k

GEOGRAPHIC FOOTPRINT EXPANSION

H

Kootenai Health owned or managed hospitals (blue highlight indicates new hospital since 2010)

More than \$350M in strategic investment since 2012

Kootenai Health is the only full-service hospital in northern Idaho providing emergency medicine, Level II Trauma Center, intensive care, and behavioral health

2010 Service Area

2022 Service Area

Kootenai Health

Clearwater Valley Hospital

St. Mary's Hospital

Syringa Hospital (managed)

CONVERSION DECISION CONTEXT

- In 2022, Idaho legislature pass a bill that allowed district hospitals, like KH, to evaluate and pursue a private nonprofit conversion, a right already afforded to county hospitals
- Over the past two decades, numerous public governmental hospitals in Idaho pursued alternate ownership models, including conversion to private nonprofit status
- KH was the only district hospital in the state that did not exercise its taxing authority
- Originally mandated as a hospital for Kootenai County, KH had outgrown its limited service area to serve patients from four states; patients who had no representation in KH's governance
- Kootenai County remains one of the fastest growing counties in the country, emphasizing the need for KH to grow alongside it

MANAGEMENT'S EVALUATION

Strategic Rationale

- More nimble and proactive governance will allow KH to compete more effectively and achieve its vision
- Enhanced ability to expand services and partnerships to meet the needs of all KH patients

Benefits

- ✓ Governance continuity without 2-year election cycle limitation
- ✓ No longer bound by open meeting and public disclosures requirements
- ✓ Enhanced physician recruitment from more durable leadership construct
- ✓ Enhanced access to capital and diversified investment opportunities

Drawbacks

- × Loss of taxing authority, though, Kootenai had not exercised its taxing authority since 1955
- × Giving up sovereign immunity and eminent domain ability

Source(s): System website, S&P, Moody's, Fitch, EMMA, Definitive, Press Releases

Case Study: Kootenai Health Strategic Opportunities



- The hospital district's assets, liabilities and operations fully transferred to Kootenai Health, Inc., on midnight, December 31, 2023. Additional strategic opportunities have not been noted in the last month.

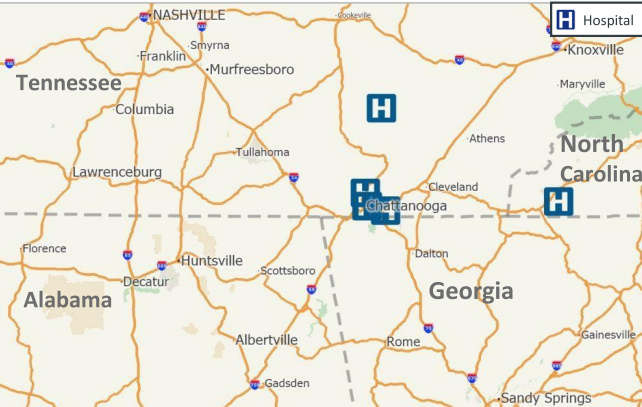


Case Study: Kootenai Health Governance Overview

- Directors: Odd number of at least nine (9) directors and not more than fifteen (15)
- Term: Three (3) years with limit of two consecutive (2) terms (one (1) year off then eligible for re-appointment)
- Qualifications
 - “[B]roadly representative of the public served”
 - “Possesses knowledge and understanding of health care and hospital operations and other relevant professional experience”
 - “[H]as not been disciplined, sanctioned, reprimanded or censured by a reputable organization”
- Election: Board nominates and then approved by a two-thirds (2/3) majority of Members of Corporation
- Removal: With cause by two-thirds (2/3) majority of the Board
- Committees: Executive; Executive & Physician Compensation; Finance & Audit; and Patient Safety & Experience



Case Study: Erlanger Health System

ORGANIZATIONAL OVERVIEW AND KEY PARTNERSHIPS		FINANCIAL AND OPERATING BACKGROUND			CURRENT GEOGRAPHIC FOOTPRINT	
<ul style="list-style-type: none">➤ Erlanger is a regional health system anchored by an academic medical center based in Chattanooga, Tennessee, with 57 clinic specialties, 28 primary care locations, and six hospitals (including a safety net hospital)➤ Erlanger provides its region’s only children’s hospital, Level I Trauma Center, and academic teaching center, serving more than one million patients every year➤ Key partnerships include a behavioral health hospital joint venture, an urgent care joint venture, an expansive partnership with University of Tennessee College of Medicine➤ Erlanger has expanded through acquisition as well with Murphy Medical Center in North Carolina in 2018		Key Indicator	2010	2022 ¹		
		Number of Hospitals	3	5		
		Total Revenue	\$493M	\$1,154M		
		Operating Income	\$9M	\$27M		
		Operating Margin	1.9%	2.3%		
		EBIDA	\$36M	\$77M		
		EBIDA Margin	7.3%	6.7%		
		Credit Rating (M/S/F)	A3/-/-	Baa2/-/BBB+		
		Days Cash on Hand	158	144		
Staffed Beds	563	874				
Discharges	26k	33k				
CONVERSION DECISION CONTEXT			MANAGEMENT’S EVALUATION			
<ul style="list-style-type: none">➤ Erlanger had expanded to serve patients across southeast Tennessee, northwest Georgia and western North Carolina, far outside its initial service area of Hamilton County and Chattanooga➤ In March 2022, Hamilton County Commission approved a resolution for the health system to evaluate and, if desired, convert to a private nonprofit entity➤ The resolution and ensuing legislation required Erlanger to maintain key service lines, its teaching hospital status, as well as continue to provide charity care to area residents post-conversion➤ Erlanger officials emphasized that the transparency required by their district status was a competitive disadvantage that negatively impacted their strategic vision			Strategic Rationale			
			Benefits			
			Drawbacks			
			<ul style="list-style-type: none">➤ Flexibility to sustain and grow services, support and invest in staff, improve quality and safety➤ Optimize finances and investment across the service area➤ Nimble governance better positioned to strategically compete			
			<ul style="list-style-type: none">✓ More flexibility to pursue partnerships✓ Positioned to receive more access to capital✓ Withdrawing from public disclosure requirements✓ Governance continuity and consistency			
			<ul style="list-style-type: none">✗ Loss of supplemental funds✗ Loss of sovereign immunity✗ Ongoing reporting requirements to governmental entities may cause additional administrative burden			

Source(s): System website, S&P, Moody’s, Fitch, EMMA, Definitive, Press Releases | Note(s): (1) Operating income, operating margin, EBIDA, and EBIDA margin excludes ~\$11.4M of provider relief fund revenue

Case Study: Erlanger Health Strategic Opportunities



July Erlanger Health completed its conversion to an independent nonprofit organization



August 29th Erlanger partnered with Shields Health Solutions to establish a new specialty pharmacy program focused on increasing access to specialized pharmacy services developed to lower costs, bolster treatment options, and enhance overall health

December 5th Erlanger behavioral health hospital announced a new satellite location as a part of its joint venture with Acadia



2023 July August September October November December Present

August 8th Erlanger announced a partnership with Realty Trust Group (full-service real estate advisory firm) to manage its real estate portfolio and act more efficiently as they continue to expand services



December 1st Expanded partnership with Tennessee Oncology to provide additional resources to oncology and hematology patients, such as clinical trials, therapeutics and predictive data analyses



December 14th Partnered with Blue Cross Blue Shield of Tennessee to create Network E, a new option aimed to enhance and expand access to high-quality care for self-insured residents



Source(s): Erlanger website

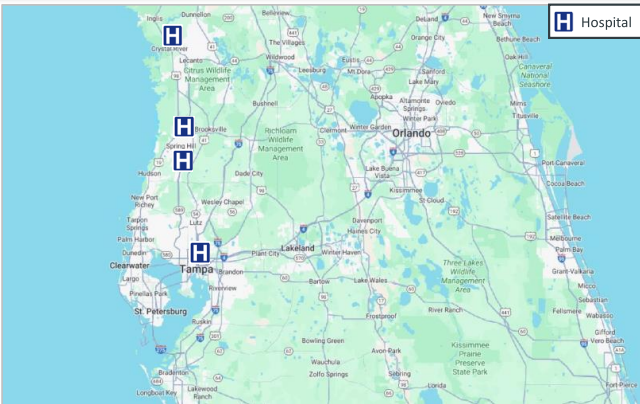
Case Study: Erlanger Health Governance Overview



- Directors: Odd number of at least nine (9) directors and not more than fifteen (15)
- Term: Three (3) years with limit of three (3) consecutive terms (one (1) year off then eligible for re-appointment)
- Qualifications
 - “Broad range of competencies, skills and experience”
 - “Broad representation from the region, employer, and patient communities”
 - “[I]nterest in and loyalty to the objectives, purposes, and mission of the Corporation”
- Election: Elected by majority of the Board
- Removal: With cause by majority vote and without cause by 2/3 majority
- Committees: Executive; Quality & Compliance; Planning, Finance & Audit; Governance



Case Study: Tampa General Hospital

ORGANIZATIONAL OVERVIEW AND PARTNERSHIPS	FINANCIAL AND OPERATING BACKGROUND	CURRENT GEOGRAPHIC FOOTPRINT																						
<div><ul style="list-style-type: none">➤ Tampa General Hospital (“TGH”) is a private, not-for-profit health system in west Florida that serves a dozen counties with a primary hospital campus that serves as a regional referral center➤ TGH converted to a private nonprofit corporation in 1995➤ TGH engages in a variety of partnership initiatives:<ul style="list-style-type: none">— In December 2023, TGH acquired three hospitals from Community Health Systems, significantly expanding their acute care presence beyond its initial single campus footprint— TGH has an academic affiliation with USF Health Morsani College of Medicine as well as recently created physician MSO that was jointly stood up</div>	<table><tr><th>Key Indicator</th><th>2023</th></tr><tr><td>Number of Hospitals</td><td>4</td></tr><tr><td>Total Revenue</td><td>\$2,619M</td></tr><tr><td>Operating Income</td><td>\$94M</td></tr><tr><td>Operating Margin</td><td>3.6%</td></tr><tr><td>EBIDA</td><td>\$213M</td></tr><tr><td>EBIDA Margin</td><td>8.2%</td></tr><tr><td>Credit Rating (M/S/F)</td><td>Baa1/A-/A</td></tr><tr><td>Days Cash on Hand</td><td>237</td></tr><tr><td>Staffed Beds</td><td>1,263</td></tr><tr><td>Discharges</td><td>71k</td></tr></table>	Key Indicator	2023	Number of Hospitals	4	Total Revenue	\$2,619M	Operating Income	\$94M	Operating Margin	3.6%	EBIDA	\$213M	EBIDA Margin	8.2%	Credit Rating (M/S/F)	Baa1/A-/A	Days Cash on Hand	237	Staffed Beds	1,263	Discharges	71k	
Key Indicator	2023																							
Number of Hospitals	4																							
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Credit Rating (M/S/F)	Baa1/A-/A																							
Days Cash on Hand	237																							
Staffed Beds	1,263																							
Discharges	71k																							
CONVERSION DECISION CONTEXT	MANAGEMENT’S EVALUATION																							
<div><ul style="list-style-type: none">➤ In 1990, the original conversion proposal was rejected by the hospital trustees due to intense public criticism regarding the potential impact on health care for the community’s poorest residents➤ The public hospital felt significant financial pressures due costs associated with its teaching status, lack of direct taxpayer support, and high levels of indigent patients served➤ At the time, Tenet Healthcare Corp. had been in discussions with a number of providers in the greater Tampa Bay and St. Petersburg area about the formation of an integrated delivery network➤ Interested in pursuing a joint operating agreement with Tenet, TGH moved to convert to a private nonprofit so they could contract with private companies</div>	<div><div>Strategic Rationale</div><div><ul style="list-style-type: none">➤ Provides TGH with the ability to contract with private companies or individuals➤ Offer ability to pursue strategies that are limited in the current structure➤ Greater flexibility to operate due to decreased public disclosures required</div></div>																							
	<div><div>Benefits</div><div><ul style="list-style-type: none">✓ USF partnership allows continued sovereign immunity for select physicians and providers✓ Expansion of services and programs while retaining safety net mission</div></div>																							
	<div><div>Drawbacks</div><div><ul style="list-style-type: none">× Previous evaluation processes were not received favorably by the community× Loss of supplemental funds</div></div>																							

Source(s): System website, S&P, Moody’s, Fitch, EMMA, Definitive, Press Releases

Case Study: Tampa General Hospital Strategic Opportunities



1997 The HCHA approved the conversion of Tampa General Hospital to a private, not-for-profit corporation



2010 LifeLink® physicians joined the TGH family as the Tampa General Medical Group and open the Jennifer Leigh Muma Neonatal Intensive Care Unit



2015 Tampa General Hospital and Florida Hospital announced West Florida Health, a new jointly owned, not-for-profit health care company.

2023 Tampa General Hospital and Kitson & Partners announced partnership to offer world-class care to residents of Babcock Ranch Community



2000

2005

2010

2015

2020

Present

2004 New outpatient surgery center opened and adds eight operation rooms



2007 The Bayshore Pavilion opened, beginning with the Emergency & Trauma Center, Neuroscience Intensive Care Unit and Trauma Intensive Care Unit



2013 Tampa General Hospital and AdventHealth Tampa (fka Florida Hospital Tampa Bay) agreed on a partnership to develop new clinical programs and services in the Tampa Bay area



2020 Creation of Tampa General Hospital InnoVentures, a venture capital fund dedicated to driving a culture of innovation through the support of direct investments in early-stage startups



Source(s): Tampa General Hospital website

Case Study: Tampa General Hospital Governance Overview



- Directors: At least eleven (11) directors and not more than sixteen (16)
- Term: Three (3) years with limit of three (3) consecutive terms; otherwise, one (1) year must lapse from the expiration of the prior term
- Qualifications
 - *Ex Officio*: Chief of Staff of the Hospital; Representative of the University of South Florida (“USF”); Representative of Tampa General Hospital Foundation; Immediate Past Chair
 - Community physician not on the faculty of USF
 - “[C]ulturally and ethnically diverse Board generally reflective of the population of Hillsborough County”
- Election: Nominating and Executive Committees propose slate to the Board and a majority is required to elect each new Director
- Removal: With or without cause by two-thirds (2/3) majority
- Committees: Audit & Compliance; Executive; Finance; Governance; Investment, Quality Improvement; Nominating; and Strategic Planning

Diligence Workstream Team Members

Project Committee

<div>Workstream Description</div> <div>Responsible for day-to-day project leadership and overall completion of the conversion evaluation including workstream oversight, project coordination, resource management, and conflict identification and management</div>		
Workstream Role	Team Member	Title
Member	Michael Nachef	Vice President of Government Relations
Member	Patty Duquette	Vice President of Finance
Counsel	Tracy Pyles	Vice President, Senior Deputy General Counsel
Advisor	Jesse Neil	Holland & Knight, Legal Advisor
Advisor	Ty Jackson	Holland & Knight, Legal Advisor
Advisor	Anu Singh	Kaufman Hall, Strategic and Financial Advisor
Advisor	Nick Bidwell	Kaufman Hall, Strategic and Financial Advisor
Advisor	Rob Gialessas	Kaufman Hall, Strategic and Financial Advisor
Advisor	Austin Brandt	Kaufman Hall, Strategic and Financial Advisor

Business and Community Strategy Workstream

<div><div>Workstream Description</div><div>Responsible for addressing how a potential conversion may impact strategic planning activities and supporting translation into broader pro forma analyses</div></div>		
Workstream Role	Team Member	Title
Executive Lead	Chris Simoneau	Chief Development, Marketing and Communications Officer
Project Manager	Regina Eberwein	System Director of Research and Strategic Analysis
Project Manager	Stephanie Wardein	System Director of Community Affairs
Support	Michael Nachev	Vice President of Government Relations
Support	Selynto Anderson	Chief Equity and Inclusion Officer
Counsel	Tracy Pyles	Vice President, Senior Deputy General Counsel

Operations Workstream

<div><div>Workstream Description</div><div>Responsible for identifying key operational benefits and challenges of the district model and determining the impact a potential conversion may have</div></div>		
Workstream Role	Team Member	Title
Executive Lead	Kristine Fay	Chief Officer, Community Based Care
Executive Lead	Jennifer Higgins	Chief Nursing Officer
Project Manager	Michael Nachev	Vice President of Government Relations
Project Manager	Dr. Iahn Gonsenhauser	Chief Medical Officer
Project Manager	Dana Begley	Vice President of Wellness and Recovery
Counsel	Teri Isacson	Vice President, Assistant Deputy General Counsel

Human Resources Workstream

<div><div>Workstream Description</div><div>Responsible for evaluating the impact on provider and employee benefits, recruitment and retention, and other personnel related questions</div></div>		
Workstream Role	Team Member	Title
Executive Lead	Mike Wukitsch	Chief People Officer
Project Manager	Carol Simonds	Director of Development
Project Manager	Kristy Rigot	System Director, Human Resources
Support	Michael Nacheff	Vice President of Government Relations
Support	Alison Thureau	System Director, Human Resources
Counsel	Tracy Pyles	Vice President, Senior Deputy General Counsel
Counsel	Lauren Harris	Legal Counsel

Governance & Structure Workstream

<div><div>Workstream Description</div><div>Responsible for evaluating potential conversion structures and governance models, providing education to the Lee Health Board of Directors</div></div>		
Workstream Role	Team Member	Title
Executive Lead	Mary McGillicuddy	General Counsel, Chief Legal Officer
Counsel	Tracy Pyles	Vice President, Senior Deputy General Counsel
Counsel	Jason Mather	Senior Associate Attorney
Support	Patty Duquette	Vice President of Finance

Legal Workstream

Workstream Description	Responsible for reviewing key due diligence areas (e.g., joint ventures, material contracts, sovereign immunity) and identifying the legal issues, alleviating factors, or solutions to guide other workstream activities	
Workstream Role	Team Member	Title
Executive Lead	Mary McGillicuddy	General Counsel, Chief Legal Officer
Project Manager	Tracy Pyles	Vice President, Senior Deputy General Counsel
Counsel	Teri Isacson	Vice President, Assistant Deputy General Counsel

Finance Workstream

Workstream Description	Responsible for identifying and quantifying impacts of the potential conversion by addressing key financial considerations and incorporating workstream feedback through the pro forma impact analysis	
Workstream Role	Team Member	Title
Executive Lead	Patty Duquette	Vice President of Finance
Project Manager	Ann Rose	Vice President, Revenue Cycle
Counsel	Blake Schofield	Senior Legal Counsel
Counsel	Bob Johns	Executive Director, Lee Community Healthcare
Support	Rachel Walter	Associate Director, Lee Community Healthcare

Communications Workstream

<div><div>Workstream Description</div><div>Responsible for developing a comprehensive stakeholder communications and engagement strategy to inform patients, providers, staff, and the broader community during the evaluation of a potential conversion</div></div>		
Workstream Role	Team Member	Title
Executive Lead	Chris Simoneau	Chief Development, Marketing and Communications Officer
Executive Lead	Mary Briggs	System Director, Strategic Communications & Public Relations
Project Manager	Lisa O’Neil	System Director, Marketing and Brand Management
Project Manager	Kali Kaye	Internal Communications Supervisor
Project Manager	Jaclyn Bevis	Media Relations Manager
Support	Michael Nacheff	Vice President of Government Relations
Counsel	Tracy Pyles	Vice President, Senior Deputy General Counsel

February 21, 2024

The foregoing conversion evaluation report proposal was prepared by Kaufman, Hall & Associates, LLC (“Kaufman Hall”) at the request of Lee Memorial Health System (“Lee Health”) in connection with Lee Health evaluating the best legal structure to execute its strategy and fulfill its mission as the safety net provider in Lee County and the surrounding communities. The evaluation report includes data, representations and analyses provided by Lee Health, upon which Kaufman Hall has relied to perform the scope of work in accordance with and subject to the engagement letter between the parties. Based upon such reliance, to the reasonable knowledge and belief of the undersigned, the contents and conclusions of the evaluation report are true and correct.

Sincerely,
Kate Guelich
Chief Executive Officer
Kaufman Hall

DocuSigned by:
Catherine Guelich
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Donna Clarke
Chair of the Board of Directors
Lee Memorial Health System

DocuSigned by:
Donna Clarke
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