Sub engagement

SUBSIDIUM® HEALTHCARE

Insight and Action for Value

PROPOSAL TO THE CITY OF LAKEWOOD AND THE BOARD OF TRUSTEES OF LAKEWOOD HOSPITAL ASSOCIATION TO SUPPORT STRATEGIC OPTIONS DEVELOPMENT AND EVALUATION

Submitted April 5, 2013

SUBSIDIUM® HEALTHCARE
Insight and Action for Value

April 5, 2013

Honorable Michael P. Summers
Chair – Select Committee,
Lakewood Hospital Association Board of Trustees
Mayor, City of Lakewood
12650 Detroit Avenue
Lakewood, OH 44107

Dear Mayor Summers:

On behalf of Subsidium Healthcare (Subsidium), I want to thank you for the opportunity to present our qualifications and proposed approach to assist you and the Select Committee in evaluating and recommending future strategies for Lakewood Hospital. This proposal includes the key elements you requested in the RFI, as well as providing a preliminary summary of how Subsidium views the challenges in today's health care market, especially as it pertains to a hospital such as Lakewood. We have worked extensively with hospitals and health systems before, during and after the process of complex strategic options analyses.

We are experienced.	20 to 30+ years of industry experience for each principal team member on this project. We plan to assign our three senior strategy partners to the Lakewood engagement. All team members have worked together for 10+ years, and all have "Big 4" consulting experience.
We bring a clear perspective.	We look for differentiation as a means of competitive advantage and view patient relationship strategy and physician strategy as the "drive trains" for health system strategy and growth.
We understand the context and your goals.	We have substantial experience with growth strategies, often led by ambulatory growth and physician strategy. Additionally we have worked with many health systems to navigate complex, multi-party relationships.
We have highly relevant experience.	We have worked extensively in the health care affiliations environment. We also worked last summer on a project with a hospital with similar replacement capital decisions to consider in a community they were deeply committed to serving.

As a result of this experience and other qualifications we will present in this document, we believe we are well positioned to help you and the Lakewood Hospital Association Board of Trustees develop an actionable strategic plan to enable Lakewood Hospital to fulfill its mission to provide for the healthcare needs of its community.

The project team we have assembled comes from areas within our multi-disciplinary team. Subsidium is comprised of consulting professionals with deep professional backgrounds in health care strategy, market planning, physician strategy as well as IT and operations/process change. This combination of skills allows us to approach health care strategy assignments with a unique perspective that incorporates the major strategic, functional and operational drivers of success.

We have arranged our proposal into the following components:

- ***Our Understanding*** of your situation
- ***Our Role and Scope of Work*** involved, including issues to be addressed in the process
- ***Project Approach and Project Team*** we will use to achieve project goals
- ***Professional Arrangements*** for the project
- ***References and Professional Bios*** for the project team

Again thank you for the opportunity to propose to assist you and the Lakewood Hospital Association Board of Trustees Select Committee with this important project. Please let us know if you need any additional information and we look forward to meeting you soon.

Sincerely,

Rich D'Amaro

Rich D'Amaro
Managing Partner,
Subsidium Healthcare, LLC

LKWD-PRR158_003406

SUBSIDIUM HEALTHCARE
Insight and Action for Value

OUR UNDERSTANDING OF YOUR SITUATION

We understand that the City of Lakewood and the Board of Trustees of Lakewood Hospital Association (the Board) recently formed a "Select Committee" to evaluate and recommend a set of strategies to ensure that Lakewood Hospital (Lakewood) can be positioned for a sustainable future and continue to provide for the healthcare needs of its community. We further understand that the Select Committee would like to ensure that you have thoroughly considered and evaluated all reasonable and available strategic options for Lakewood, and thus, is interested in engaging a professional advisory firm to support the Committee's efforts.

Subsidium Healthcare (Subsidium) specializes in working with Boards and executive teams of health systems to frame and navigate complex and unstructured issues to assess risks and opportunities and enable decision-making. We then help our clients to understand the path toward value based care and take the actions necessary to be successful in a post-Affordable Care Act environment.

Background Information

In order to propose an approach to support Lakewood's needs, we wanted to have a preliminary picture of Lakewood's key challenges and opportunities. You provided some background information in the RFI document, and in addition, we conducted preliminary market research using publicly available data and our proprietary analytics tools. Therefore, to inform our initial recommended project approach, our early understanding of Lakewood's situation includes the following observations:

- Lakewood is located in the midst of a very competitive health care marketplace, near several larger competitors, including Fairview Hospital and St. John Medical Center in Westlake.
- The demographics of the community Lakewood serves are challenging, but could also present opportunities for the future. Currently, over 14% of the population in Lakewood's service area are over age 65, and by 2017, that is projected to increase to 16%. (Note: Depending on Lakewood's profitability in the Medicare line of business, this could present a current opportunity. In the future, this could be an additional opportunity for Lakewood in thinking about additional types of services to specifically target the senior population, including medical home models, or even considering a lower-acuity hospital unit specifically focused on chronic care management for seniors.) The median household income in the service area is approximately $56,000 annually, which is higher than overall median for the State of Ohio, but is significantly lower than zip codes just to the west of Lakewood, which are included in Lakewood's secondary service area (e.g., Westlake, Bay Village, Avon and Avon Lake).

- Lakewood is the #3 player in its overall service area (primary and secondary service areas combined), behind Fairview and St. John, and even #2 in its own primary service area (based on Medicare discharge data).

Service Area	Inpatient Medicare Market Share		
	Lakewood	Fairview	St. John
Primary and Secondary Service Areas combined (zip codes 44011, 44012, 44070, 44102, 44107, 44111, 44116, 44126, 44135, 44140, 44145)	16.7	30.7%	20.9%
Primary Service Area only *zip codes 44102, 44107, 44111, 44116, 44135, 44145)	21.9%	30.3%	13.3%

- In certain service lines, Lakewood has disproportionate market share in excess of its overall average market share (based on available Medicare discharge data), including (share of combined service area in parentheses): Neurology (20.6%), Neurosurgery (29.0%), Ophthalmology (31.6%), Orthopedics (20.5%) and Rehabilitation (54.7%) This could be an indication that the Centers of Excellence strategy adopted by Lakewood as part of the Vision for Tomorrow initiative is having a positive impact on some of the targeted service lines.
- Lakewood's operating margins are probably its most significant issue. While margins have improved in recent periods, they are still negative, making the funding of capital needs extremely challenging for Lakewood.
- Lakewood is strongly supported by an involved, engaged community and key stakeholder groups.
- Lakewood is tightly integrated with and managed by the Cleveland Clinic, including some financial guarantees provided by the Clinic, which provides Lakewood with access to talented management and clinical resources, and to a large, high-quality medical group which makes up approximately one-half of its full medical staff.

The Hospital Strength Index™

The Hospital Strength Index™ is a proprietary scoring algorithm that allows us to assign each hospital a score from 0-100, and provides a comprehensive program for comparing all U.S. acute care hospitals (including Rural and Critical Access Hospitals, over 4,500 in all) across a continuum of financial, value-based and market driven performance indicators. The algorithm uses Benchmarks based on publicly available data sources, including Medicare Cost Reports, Medicare claims data and Hospital Compare Quality Reporting.

The score begins with 56 different measures across 8 categories, to show a hospital's position in the market, performance related to value-based measures and financial stability. Rankings are based on percentile scores compared to all U.S. hospitals in the study database. A score's color coding reflects national quartile performance, per the color scale shown below.

We've included Lakewood's overall Hospital Strength Index scores as compared to those of its competitors to provide a high-level snapshot of the market in which Lakewood competes. The chart below shows that Lakewood is in an intensively competitive market, and one which is in the third quartile in terms of market size and growth. Lakewood also scores very well on quality and outcomes indices, but that value doesn't yet seem to be reflected in patient perceptions. And finally, Lakewood is financially challenged, but is in the third quartile compared to hospitals across the country.

Alternatively, St. John is one of the best-positioned hospitals in the market when using this analytical lens.

Provider	Overall HSI Score	Overall HSI Score	Competitive Strength Index	Competitive Intensity Index	Market Size & Growth Index	Quality Index	Outcomes Index	Patient Perspective Index	Cost & Charge Index	Financial Stability Index
All Cleveland Clinic Affiliated Hospitals										
CLEVELAND CLIN	2nd	67.60	4th	Top	Top	3rd	3rd	Top	4th	2nd
EUCLID HSP	4th	22.70	4th	3rd	3rd	Top	3rd	3rd	4th	4th
FAIRVIEW HSP CLEVELAND	Top	91.43	2nd	2nd	2nd	3rd	Top	2nd	2nd	Top
HILLCREST HSP MAYFIELD HEIGHTS	Top	76.06	3rd	2nd	2nd	3rd	Top	4th	2nd	Top
LAKEWOOD HSP	3rd	27.84	3rd	4th	3rd	2nd	Top	3rd	4th	3rd
LUTHERAN HSP CLEVELAND	3rd	40.86	4th	2nd	2nd	2nd	Top	4th	3rd	3rd
MARYMT HSP GARFIELD HEIGHTS	2nd	54.56	3rd	2nd	2nd	2nd	Top	4th	3rd	2nd
MEDINA HSP	2nd	53.47	Top	2nd	2nd	3rd	Top	4th	4th	3rd
S POINTE HSP WARRENSVILLE HEIGHTS	3rd	36.48	3rd	2nd	3rd	3rd	Top	4th	2nd	4th
Other Competitor Hospitals										
METRO HLTH MC CLEVELAND	3rd	34.77	4th	2nd	2nd	3rd	3rd	3rd	Top	3rd
PARMA COMM GEN HSP	2nd	65.03	Top	Top	3rd	3rd	Top	4th	Top	4th
ST JOHN MC WESTLAKE	Top	95.19	2nd	3rd	2nd	Top	Top	2nd	Top	2nd
SW GEN HLTH CTR MIDDLEBURG HEIGHTS	Top	82.15	Top	2nd	3rd	3rd	Top	2nd	2nd	2nd

Quartile Color Scale

Top 2nd 3rd 4th

Additional details on the methodology are provided in the Appendix.

OUR ROLE AND SCOPE OF WORK

Our role in this assignment will be to act as an **independent and unbiased advisor** in the development of creative ideas, consistent themes, and identification/quantification of market opportunities. One of our most important roles will be to communicate to the various stakeholder groups the results of the analysis and to have a fact-based discussion of the implications and inferences. Here it will be important to portray the opportunities and challenges of each potential strategic option in light of fast occurring changes in the industry such as:

- The importance of scale;
- The requirements of clinical integration;
- Information technology challenges and opportunities; and
- New developments in value based contracting and other third party reimbursement developments

We also see our role as identifying and posing the **critical questions** needed to properly evaluate the existing strategic options being considered by the Board. Our role is to be a **cooperative working partner** with the Lakewood Select Committee to identify those components which are best suited for growth and development while also being an **objective advisor and analyst** for Lakewood as it considers long-range plans and capital budgets.

Our Scope of Work and deliverables follows the outline you provided in the RFI, but we are suggesting that we re-order the sequence of the three major parts of your requested scope:

- Review of the current work done to date by the Lakewood Hospital management team;
- Identify other strategies to consider for planning the future of the City's healthcare mission; and
- Apply critical thinking to the strategic options currently identified (and any additional options developed in the course of our engagement) in the context of Community Needs vs. Financial Viability.

The output of the planning process will be a comprehensive set of strategic options with potential benefits and risks for Lakewood, as well as recommendations to the Board and the City's leadership regarding the optimal options for Lakewood's future and the potential implications of the recommended path. The recommendations need to be connected to the emerging environment and be broadly understood and supported by your senior management team, Board, and other key stakeholders.

LKWD-PRR158_003410

PROJECT APPROACH

Subsidium's General Approach to Strategic Planning

In our experience, strategic planning should address four essential questions.

These questions are broad and basic by intention. When organizations jump to the conclusion or get lost in the trees, they in effect err by skipping foundational level thinking. This is where "what if" and "why not" get asked.

The Four Essential Questions of Strategic Planning	
How are we positioned today and is something missing?	*Is it the right positioning for the future? Is there a segment of the health care continuum (e.g., ambulatory), service line, demographic sub-market, geographic sub-market that could give us a competitive advantage?*
How are our competitors positioned?	*What is working for them? What isn't—and why?*
What moves are our competitors likely to make?	*How do our execution capabilities influence the relative attractiveness of any given strategy or initiative?*
What changes are likely to occur in the operating environment?	*What changes in physician community, patient community, reimbursement, regulations, or technology (clinical and information) will change how we will need to operate?*

We would use this framework (with drill down questions) in three ways:

- Board, Select Committee and Stakeholder interviews
- Board and senior management team strategy facilitation sessions
- Review of current strategies

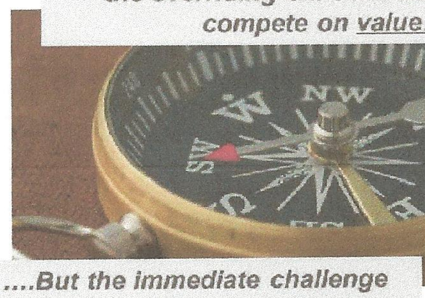
LKWD-PRR158_003411

Subsidium's Point of View about the Healthcare Market

We believe there are certain fundamental dynamics in today's turbulent healthcare market which will dictate many critical success factors that health systems must consider. We believe that these success factors could form an important lens to use in evaluating Lakewood's strategic options:

- Health system strategies must be **radically transformed** to make Medicare profitable
- Sophisticated business and clinical analytics must be a **core competency** within health systems
- Managing **physician practices** within a health system environment will be a requirement for effective integration
- Health systems' **ambulatory capability** must be enhanced
- Business and clinical **strategy** must be **integrated**
- Effectively leveraging business intelligence will require **organizational and cultural re-alignment**
- Inpatient utilization will be **under attack** from payers and health systems must address these trends to **reconfigure their delivery systems**
- **Population health management** will become a core competency within health systems and payers
- Revenue and margin **pressure** continue and **access to capital** will be a challenge for many health systems

Today, health systems compete on quality and volume; the overriding shift will be to compete on value.....



....But the immediate challenge is thriving while navigating the transition period

Summary:

It appears that the market is nearing an inflection point of (a) the beginning of the end of fee-for-service medicine and (b) the end of the beginning of value-based care. In other words, we are getting to the "difficult middle" where:

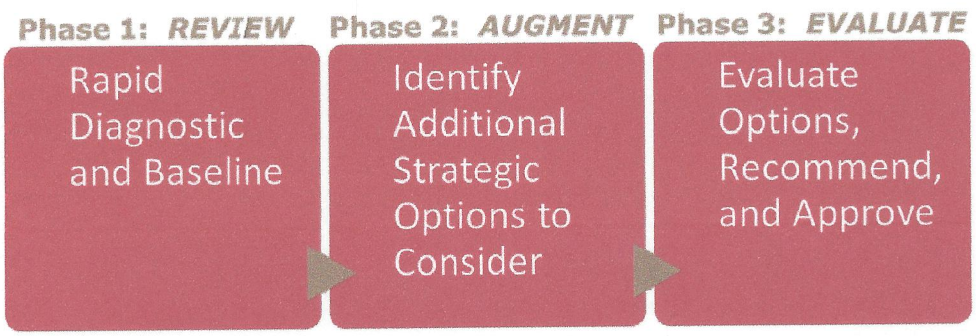
- Readmit penalties, value based contracting, and other mechanisms are making it clear that volume and rate alone are no longer the only keys to success; and
- Systems and data are now deployed to a sufficient extent to really enable providers to manage around quality and value.

However, most organizations aren't organizationally capable of fully managed the health of a population yet, and need expert guidance to help them prioritize the development of the necessary capabilities to be successful in a value-based future.

We feel that Lakewood has a tremendous opportunity in this strategic options process to evaluate the potential implications of this environment before making very significant capital investments......ensuring you invest in assets that will support your success in the future, instead of assets that support past paradigms.

Our Recommended Scope of Work

The three-phase process described below indicates how we would organize and execute to meet Lakewood's objectives and requested deliverables. These phases provide a simple and clear path for moving from the initial starting point of reviewing the existing Lakewood strategic options to the ultimate end of developing, recommending and approving the best potential strategy to sustain Lakewood's mission in the community going forward.



Phase 1: REVIEW **-- Rapid Diagnostic and Baseline**

The objective of this phase of the work will be to ensure that we clearly understand Lakewood's current strategy and the strategic options that have been developed and considered to date by the Board and the Select Committee. In addition, our goal will be to complete this phase with a comprehensive point of view about the health needs of the Lakewood community (current and expected future needs) and the current capabilities and gaps that Lakewood Hospital has in supporting those needs.

<u>Representative Questions to Consider in Phase 1:</u>

- What do we expect will be the major health needs of the Lakewood community in the future?
- What services would likely best be delivered locally for our specific population?
- How could we more effectively engage patients in their health in the future?
- What are the current capital needs for Lakewood under the current strategy and operating model?

<u>Major Work Steps and Deliverables for Phase 1:</u>

- Review the existing strategy, market position, geographic coverage and service offerings. Per the RFI, review the current work of the Lakewood management team.
- Review Lakewood's current five-year capital plan in light of the current market position and any potential projections that have been developed for the strategic options.
- Develop stakeholder input:
  - Collect confidential input from Select Committee members, Lakewood management team representatives, Cleveland Clinic leadership, key physicians, and other stakeholders as appropriate to understand Lakewood's view of the market,

LKWD-PRR158_003413

opportunities and threats, and potential risks and benefits of the options currently being considered.
    - Synthesize this input to be used in Phase 3 to provide a framework to establish evaluation criteria which can be used to filter strategic options as identified.
- Provide an informed perspective on the competitive environment and the potential implications for Lakewood in the future.

- <u>Deliverables:</u>
    - **Baseline assessment of current strategy and plans for Lakewood**, current geographic coverage, any applicable major operational challenges, and Lakewood's five-year capital investment plan.
    - An important Phase I deliverable will also be to **determine the key "building blocks" for future integration, patient engagement and growth**. Examples would include areas such as:
        - Physician alignment strategies
        - Outpatient delivery opportunities (e.g., large scale ambulatory aka "HealthPlex", urgent care, population health, medical home, etc.)
        - Continuum of care / sub-acute strategies
        - Operations and/or health care IT
    - **Progress meeting #1 with the Select Committee:** present initial market analyses, key insights and themes from stakeholder interviews begin to test initial hypotheses about future market scenarios (prep for Phase 2).

Market, Financial and Operational Data and Intelligence

For data and analytical support we anticipate using iVantage Health Analytics. iVantage provides a single source of business intelligence to aid in operating successfully under the complexities of the new healthcare environment. In particular, iVantage Health consolidates a variety of data sources and new measurements required under the PPACA. www.iVantageHealth.com We also have worked with a variety of other data and analysis products such as Sg2 and Advisory Board, and could leverage Lakewood's existing resources, if applicable. See below for additional information about our recommended data analytics approach.

***Phase 2: AUGMENT* – Identify Additional Strategic Options to Consider**

The objective of this phase will be to envision potential scenarios for what the critical success factors and local health care environment could look like in the future for Lakewood. We would then use those scenarios to ensure that we have developed a comprehensive set of strategic options to address each alternative scenario.

LKWD-PRR158_003414

Representative Questions to Consider in Phase 2:

- What would it take to draw additional patients, revenue and commercial payor mix to Lakewood vs. competitors?
- Have we considered all applicable physician affiliation models?
- Do our current strategic options consider innovative patient engagement strategies?
- Are we on a path to be successful in a value-based health care environment or do we need additional capabilities (e.g., additional services along the non-acute continuum, such as health centers focused on chronic condition management)?

Major Work Steps and Deliverables for Phase 2:

- Evaluate macro-level health care trends and develop a set of scenarios to account for potential future critical success factors.
- Perform market growth and opportunity assessments (opportunities by service line):
    - Review existing market share and competitor market share by service line for Lakewood (inpatient and outpatient services, if data is available).
    - Assess market share against growth projections by service line to identify highest priority services for potential investment.
    - Consider provider recruitment needs to support emerging strategy and growth areas. This step would consider existing providers and anticipated retirements and include possibilities to augment staffing needs with mid-level providers, urgent care, "e-visits" and other techniques for efficiently serving patient needs.
- Develop a descriptive vision that identifies the components required to grow service volumes, enhance quality and reduce cost.
- Organize and facilitate a strategy option formulation workshop with the Select Committee.
- Clearly articulate and describe any applicable additional strategic options for Lakewood, to be considered and evaluated by the Select Committee.
- **Deliverables:**
    - **Develop and document a set of alternative future visions** and the resulting implications for Lakewood.
    - **Document additional strategic options** to be included for consideration by the Lakewood Select Committee.
    - Facilitate a **strategy option formulation workshop with the Select Committee.**
    - **Progress Meeting #2 with the Select Committee** to finalize the complete list of strategic options to be considered and evaluated in Phase 3.

LKWD-PRR158_003415

Stakeholder Engagement and Communication

We recognize that diverse stakeholder groups are involved in this project, including The City of Lakewood, the Lakewood Hospital Association Board of Trustees, the Cleveland Clinic, the Lakewood management team and community physicians and medical staff. We understand and appreciate that the Lakewood stakeholders need to be involved in the process (as appropriate) to ensure their comfort with the analysis and results. We believe these stakeholder groups can be effectively engaged in a practical manner that satisfies the various stakeholders and their needs in this process. While we will recommend opportunities for input, we will also rely upon the experience and guidance of Lakewood's Select Committee leadership and the Mayor to help us to determine what that involvement should look like and when it's most appropriate.

***Phase 3: EVALUATE* --Evaluate Options, Recommend and Approve**

The objective of this phase of the project would be to identify and prioritize your criteria which will be used to evaluate the various strategic options identified, enabling an ultimate decision to be made about which strategy or strategies to pursue.

Representative Questions to Consider in Phase 3:

- What options best position Lakewood for long-term sustainability? What do you have to believe or assume about future market conditions in order to evaluate sustainable options?
- What should the hospital or "health center" of the future look like for the Lakewood community in terms of depth and breadth of services, continuum of care, etc.?
- Could the community embrace a different vision for Lakewood in the future (e.g., a smaller inpatient footprint, but broader, distributed non-acute services)?

Major Work Steps and Deliverables for Phase 3:

- Establish a set of criteria to evaluate all of the strategic options that have been developed for consideration; criteria will be based on input from multiple stakeholder groups, and could include factors such as:
  - Strategic/competitive
  - Community health needs
  - Financial
  - Physician considerations
- Apply the evaluative criteria to each strategic option and develop a document that describes the benefits and risks of each option.
- Develop a preliminary set of recommendations, through an iterative discussion process with the Select Committee; ultimately will present these recommendations to the full Board.

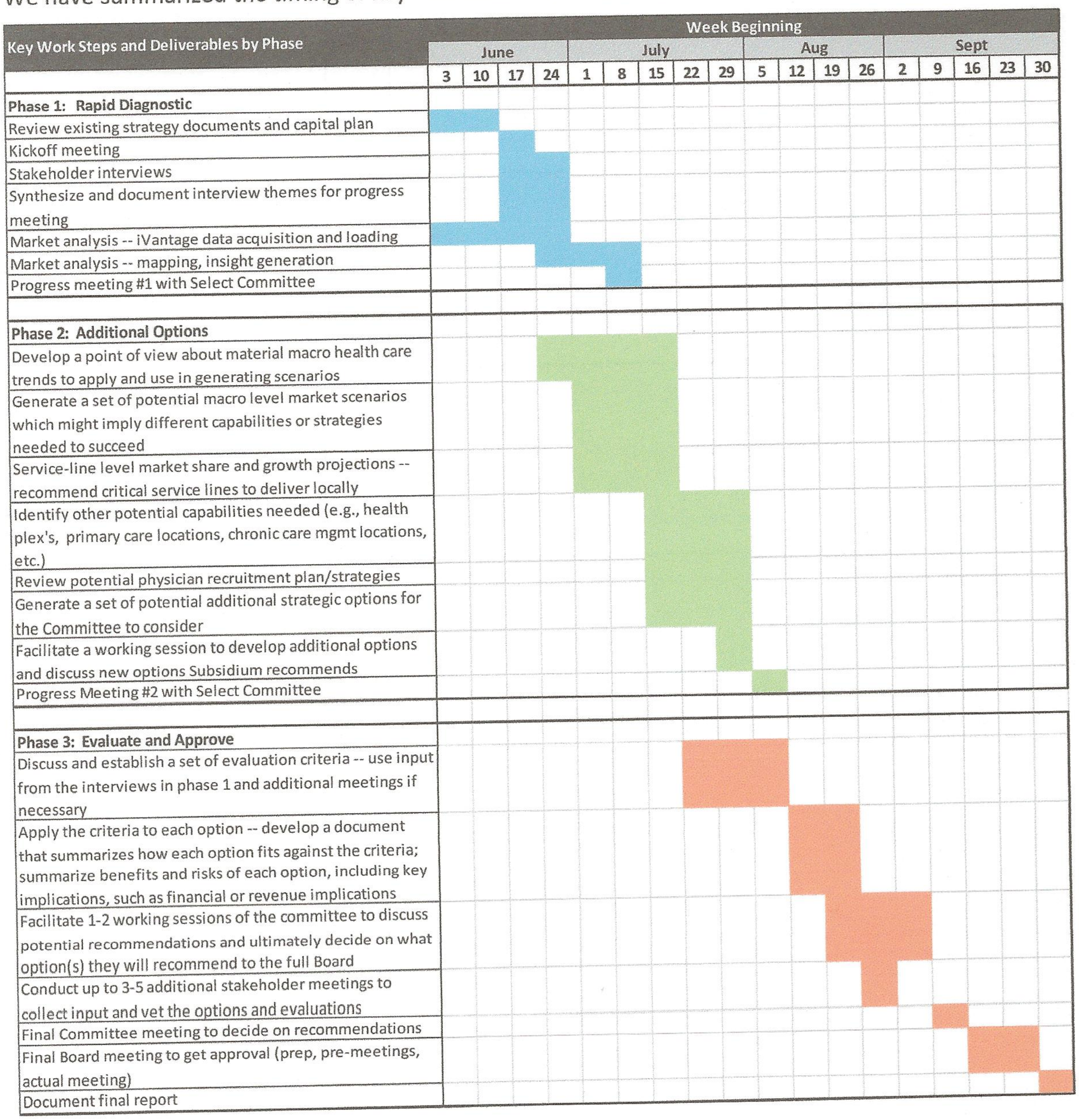
- Conduct 1-2 meetings with the Select Committee to ensure that all members clearly understand all of the options, the potential benefits and risks of each, and Subsidium's recommendations.
- Conduct up to 3-5 additional stakeholder meetings (if needed or appropriate) to collect input and vet the options and evaluations. *(Subsidium understands that taking the time to get appropriate stakeholder input will be important to the end goal of gaining approval for the new strategies, and we have scoped our approach to try to accommodate that. However, we do not currently anticipate supporting numerous rounds of community-wide/town hall-style meetings, etc. If that is something that the Select Committee or the Mayor feels is important to include, we will be happy to revise our approach accordingly.)*
- Organize and facilitate a meeting with the Select Committee to adopt a final set of recommendations for the full Board to consider.
- Organize and facilitate the Board meeting to present and discuss the Committee's recommendations.
- Provide a final report containing a summary of all the work to date (all as iteratively revised throughout the process).
- **Deliverables:**
  - Establish and document a **set of evaluation criteria** to each apply to each strategic option.
  - Document which **summarizes the risks and benefits for Lakewood of each strategic option.**
  - **Preliminary and final set of recommendations to the Board** for the strategic options to approve for Lakewood.
  - **Meetings with key stakeholders** to get input on the options evaluation and facilitations of **meetings with the Select Committee** to consider all the options and select the strategies to recommend to the Board.
  - Facilitation of the **Board meeting to approve strategic recommendations.**
  - **Final report** to summarize all of the key work completed during the project.

LKWD-PRR158_003417

Timeline and Summary-Level Work Plan

Subsidium's preliminary estimate is that this project will take approximately 4 months to complete, assuming that we begin on approximately June 3, 2013 (per the RFI), and end in late September. However, if the Select Committee has a different expected timeline or needs to complete the project more urgently, we can certainly discuss that and expedite the process according to your needs and goals.

We have summarized the timing of key milestones in the chart below:



Estimated Client Resources Needed

We have suggested a potential project organization below, and outline the typical time commitments we would be requesting from Lakewood staff and Board leaders, but we would expect to revise this organization upon further discussions and a more in-depth understanding of Lakewood's needs and resources.

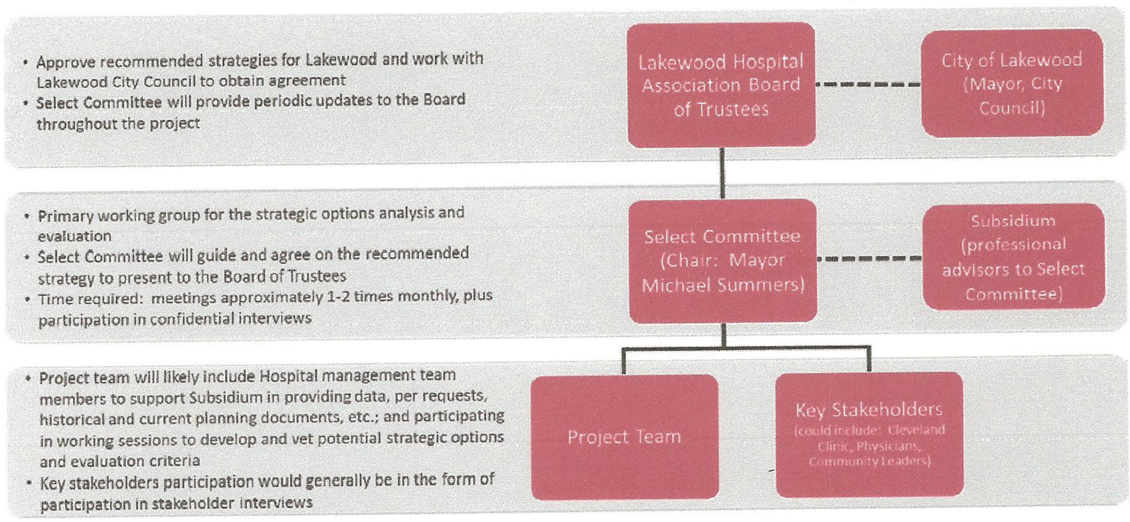


Figure 1: Suggested Project Organization

Data Needs and Capabilities

Phases 1 and 2 of the proposed project will require that we obtain and analyze quantitative data about the market – competitors, populations, physicians -- to develop key insights. We propose that we leverage Subsidium's relationship with our analytics partner, iVantage Health Analytics. Please refer to the Appendix for additional information about our analytics tools.

<u>Data Needs from Lakewood Hospital/Cleveland Clinic:</u>

The RFI requested that we list the items we would like to obtain from Lakewood for the project. Until we have our initial meetings, and have a better understanding of the details of the situation for Lakewood, it is difficult to provide a comprehensive data and information request list. However, we will typically request information such as:

- Hospital-specific inpatient and outpatient encounter data (including DRG, physician and related data) for the purposes of analysis of market share, detailed service line analyses, etc.
- Medical staff roster and any other available external physician data re: referral patterns, other admitting privileges, shared medical staffs, etc.
- Copies of current and historical strategic planning materials, current 5-year capital plan, financial/operating margin information by service line
- Operational/quality performance tracking dashboards
- All materials related to the strategic options development work leading up to this point in the process

LKWD-PRR158_003419

Data Needs, continued:

- Copies of the hospital lease agreement and the definitive agreement with the Cleveland Clinic
- Commitment to allow us to work with your data analytics team to run particular queries, if needed
- Copies of recent patient satisfaction survey results and/or brand tracking surveys

LKWD-PRR158_003420