Subsidium Healthcare®

Insight and Action for Value

Lakewood Hospital Select Committee

Options Analysis

Follow-Up Documentation from October 9th Meeting

October 11, 2013

CONFIDENTIAL DRAFT – FOR DISCUSSION ONLY

PRELIMINARY WORK PRODUCT; NOT FOR DISTRIBUTION, EXCEPT TO SELECT COMMITTEE MEMBERS

Summary of Select Committee Meeting October 9, 2013

- Reviewed updates regarding discussions with external parties, including the revised Family Health Center Concept description from the Cleveland Clinic
- Defined and clarified the 10 strategic options to consider
- Applied the first "filter" to the options, discussed the evaluation of each option, and the Select Committee agreed on the recommended set of options to continue for further evaluation (see next page for summary)
- Remaining options for further evaluation will include:
  - Option 4: Family Health Campus (no IP beds, but push to include ambulatory surgery and a broad outpatient services continuum – see page 4 for details)
  - Option 5A: Family Health Campus with ambulatory surgery and general, acute care inpatient beds
  - Option 5B: Family Health Campus with ambulatory surgery and inpatient rehab beds

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Step 1: *Preliminary Screening*
Summary of Results

Options	Critical Success Factors				Overall Rating	Recommendation	Decision
	Market Trends	Competitive Landscape	Medical Staff/ Personnel	Facility Readiness			
1. Right Size Hospital	U	U	U	U	U	No Further Evaluation	No Further Evaluation
2. Lower-Acuity, Chronic Care Focused Hospital	N	N	N	N	N	For Discussion	No Further Evaluation
3. Hospital with Center(s) of Excellence	U	U	U	U	U	No Further Evaluation	No Further Evaluation
4. Family Health Campus (No IP)	F	F	F	F	F	Additional Evaluation	Additional Evaluation
5. Hybrid Family Health Campus (with IP)	N	F	F	N	F/N	Additional Evaluation	Additional Evaluation
6. Specialty Hospital: *Ortho*	U	U	N	N	U	No Further Evaluation	No Further Evaluation
7. Specialty Hospital: *Acute Rehab*	N	U	F	N	N	For Discussion	Hybrid with Option 5
8. Specialty Hospital: *Psych*	F	F	U	N	N	For Discussion	No Further Evaluation
9. Specialty Hospital: *LTAC and/or SNF*	F	U	N	N	N	For Discussion	No Further Evaluation
10. Transition Out of Health Care	U	F	U	F	N	For Discussion	No Further Evaluation

Legend: U Unfavorable; N Neutral; F Favorable

Specific Options Clarified / Defined:
Family Health Focus – *Revised per 10/9/13 Meeting*

Family Health Focus

4. Family Health Campus (No IP)

- Discontinue inpatient services and reconfigure the site to provide a family health campus; likely involves taking down the current hospital building(s)
- Outpatient services typically include: ED or urgent care, primary care (adult and peds), office-based specialty care, outpatient rehab/PT/OT, imaging and diagnostic services, lab, pharmacy, and likely would also include diagnostic procedural suites, such as endoscopy suites
- Would be critical to the community dialogue to be able to include ambulatory surgery capabilities in Lakewood (potentially relocate ASC services from Columbia Road)
- Remaining questions regarding other potential services such as dialysis and infusion therapy
- Would imply fewer employees than currently employed at the hospital
- Also implies a smaller land footprint, allowing for the potential development of additional health and wellness-related facilities on the existing land, or other attractive economic development element
- Would be intended to leapfrog the competition by developing an advanced medical home model, leveraging the use of leading-edge technology in remote care and online connectivity between patients, providers and information

Specific Options Clarified / Defined:
Family Health Focus – *Revised per 10/9/13 Meeting*

Family Health Focus

5A. Hybrid: Family Health Campus (With General IP Beds)

- Same outpatient services as Option 4, and in addition, would include a smaller inpatient hospital component on the same site (assume XX-YY beds – range to be determined)
- Would likely include many of the inpatient service lines that LKH offers currently, but may have to consider discontinuing some service lines
- Questionable whether the hospital could run cost-efficiently at a smaller bed count

5B. Hybrid: Family Health Campus (With IP Rehab Beds)

- Same outpatient services as Option 4, and in addition, would include a smaller, single-specialty hospital component on the same site, offering acute rehab services (assume XX beds – TBD)
- Questionable whether the hospital could run cost-efficiently at a smaller bed count
- Analysis required to determine whether existing inpatient rehab unit could be preserved or whether new building would be required
- Would require that the rehab unit draw patients from a much larger catchment area to provide adequate volumes and bed size

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Next Steps

- Confirm the definition of the revised options, based on our discussions at the meeting
- Once confirmed, complete the analyses of the three remaining options using the second filter (five Lakewood-specific criteria – see following pages)
- Next meeting of the Select Committee: October 29th; to discuss outcome of the evaluation of options and ideally, reach agreement on the recommendation(s) to bring to the full LHA Board on November 13th

Next Steps

Step 2: Begin to Apply the Second Filter to Reach a Recommendation

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Step 2: *Options Analysis*
Criteria Defined

Step 2:
Options Analysis

- Market Need
- Community Impact
- Financial Sustainability
- Pot. Partner Congruency
- Implementation Complexity

Recommended Options

During Step 2 of our evaluation process, we will analyze the options that remain after the preliminary screening and evaluate them relative to the most important criteria that are specific to Lakewood and Lakewood's key constituents and stakeholders

The slides that follow summarize the more detailed considerations that will be assessed for each of the five criteria listed above.

Step 2: *Options Analysis*
Criteria Defined (continued)

Specifically, we will consider each of the remaining options in terms of the following five **criteria**:

1. Market Need:
   - Population/Demographics: community health needs, volume projections for inpatient services, outpatient services, number of PCPs and specialists required to meet the health needs of the Lakewood population
   - Ensure convenient access (according to typical industry standards for drive times by service type) to services for Lakewood residents
   - Investing in a facility which can evolve with the health care market in the future – as best we can project/expect
2. Community Impact:
   - Jobs
   - Tax base/payroll taxes
   - Economic development/secondary benefits
   - Consistent with or supports the health mission for the City
   - Presents an opportunity or mechanism for the community to retain some influence over the services offered within the Lakewood city limits

Criteria Defined (continued)

Specifically, we will consider each of the remaining options in terms of the following five **criteria**:

3. Financial Sustainability:
   - Magnitude of initial capital investment required
   - Ongoing capital needs and adequate financial performance to allow for re-investment needs
   - Expected ROI
4. Potential Partner Congruency:
   - How well aligned is each potential option with Cleveland Clinic's strategy for the Cleveland market?
   - What are the potential deal terms with other potential partners?
   - Could another partner provide support for an option that might support Lakewood's health mission more significantly than the Cleveland Clinic option?
5. Implementation Complexity:
   - What has to be in place for the new strategy to be successful?
   - How realistic are the key assumptions for the new strategy?
   - How does each option compare to the others in terms of implementation risks and complexity?

Subsidium Healthcare®

Insight and Action for Value

Lakewood Hospital Select Committee

Options Analysis

October 29, 2013

REVISED: 10/31/13

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PRELIMINARY WORK PRODUCT; NOT FOR DISTRIBUTION, EXCEPT TO SELECT COMMITTEE MEMBERS

Agenda

- Provide project updates
- Summarize October 9, 2012 Select Committee Meeting
- Confirm understanding of the three options still under consideration
- Review and discuss results from Step 2 – Options Analysis
- Reach agreement on recommended option to bring to the full LHA Board on November 13th
- Determine next steps

Project Updates

- On October 9th (following the Select Committee meeting), Subsidium team met with Drs. Khuri and Crandell from Premier to better understand local physicians' points of view on Lakewood Hospital
- Conducted webex review of the supplemental data deck with members of the Steering Committee on October 16th
- Held a conference call with Dr. Bronson, Bill Keckan and Chris Soska of the Cleveland Clinic on October 25th to discuss project updates and next steps
- Received brief response regarding Statement of Strategic Interest from MetroHealth System on Monday, October 28th

Summary of Select Committee Meeting
October 9, 2013

- Reviewed updates regarding discussions with external parties, including the revised Family Health Center Concept description from the Cleveland Clinic
- Defined and clarified the 10 strategic options to consider
- Applied the first “filter” to the options, discussed the evaluation of each option, and the Select Committee agreed on the recommended set of options to continue for further evaluation (see next page for summary)
- Remaining options for further evaluation will include:
  - Option 4: Family Health Campus (no IP beds, but push to include ambulatory surgery and a broad outpatient services continuum – see page 4 for details)
  - Option 5A: Family Health Campus with ambulatory surgery and general, acute care inpatient beds
  - Option 5B: Family Health Campus with ambulatory surgery and inpatient rehab beds

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Step 1: *Preliminary Screening* Summary of Results

Options	Critical Success Factors				Overall Rating	Recommendation	Decision
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3. Hospital with Center(s) of Excellence	U	U	U	U	U	No Further Evaluation	No Further Evaluation
4. Family Health Campus (No IP)	F	F	F	F	F	Additional Evaluation	Additional Evaluation
5. Hybrid Family Health Campus (with IP)	N	F	F	N	F/N	Additional Evaluation	Additional Evaluation
6. Specialty Hospital: *Ortho*	U	U	N	N	U	No Further Evaluation	No Further Evaluation
7. Specialty Hospital: *Acute Rehab*	N	U	F	N	N	For Discussion	Hybrid with Option 5 (#5B)
8. Specialty Hospital: *Psych*	F	F	U	N	N	For Discussion	No Further Evaluation
9. Specialty Hospital: *LTAC and/or SNF*	F	U	N	N	N	For Discussion	No Further Evaluation
10. Transition Out of Health Care	U	F	U	F	N	For Discussion	No Further Evaluation

Legend: U Unfavorable; N Neutral; F Favorable

Specific Options Clarified / Defined:
Family Health Focus – *Revised per 10/9/13 Meeting*

Family Health Focus

4. Family Health Campus (No IP)

- Discontinue inpatient services and reconfigure the site to provide a family health campus; likely involves taking down the current hospital building(s)
- Outpatient services typically include: ED or urgent care, primary care (adult and peds), office-based specialty care, outpatient rehab/PT/OT, imaging and diagnostic services, lab, pharmacy, and likely would also include diagnostic procedural suites, such as endoscopy suites
- Would be critical to the community dialogue to be able to include ambulatory surgery capabilities in Lakewood (potentially relocate ASC services from Columbia Road)
- Remaining questions regarding other potential services such as dialysis and infusion therapy
- Would imply fewer employees than currently employed at the hospital
- Also implies a smaller land footprint, allowing for the potential development of additional health and wellness-related facilities on the existing land, or other attractive economic development element
- Would be intended to leapfrog the competition by developing an advanced medical home model, leveraging the use of leading-edge technology in remote care and online connectivity between patients, providers and information

Specific Options Clarified / Defined:
Family Health Focus – *Revised per 10/9/13 Meeting*

Family Health Focus

5A. Hybrid: Family Health Campus (With General IP Beds)

- Same outpatient services as Option 4, and in addition, would include a smaller inpatient hospital component on the same site (assume 55-80 beds – see next page for assumptions)
- Would likely include many of the inpatient service lines that LKH offers currently, but may have to consider discontinuing some service lines
- Questionable whether the hospital could run cost-efficiently at a smaller bed count
- Also need to evaluate whether 23-hour observation beds would adequately address the remaining community need for acute beds

5B. Hybrid: Family Health Campus (With IP Rehab Beds)

- Same outpatient services as Option 4, and in addition, would include a smaller, single-specialty hospital component on the same site, offering acute rehab services (assume 24-36 beds – see next page for assumptions)
- Questionable whether the hospital could run cost-efficiently at a smaller bed count
- Analysis required to determine whether existing inpatient rehab unit could be preserved or whether new building would be required
- Would require that the rehab unit draw patients from a much larger catchment area to provide adequate volumes and bed size

Key Assumptions for Options to be Considered

In order to complete our evaluation of the remaining options, and apply the criteria we've discussed, we must make several assumptions about the specific facilities we are considering under each option. *The underlying sources and supporting calculations for these assumptions are included in the Appendix.*

Option	# Beds	Cost to Build	Potential Jobs	Approx. Annual Payroll Tax
4. Family Health Campus	0	~$40-50M	~175-225	$160,000 - $200,000
5A. Family Health Campus with inpatient beds	55-80 beds	~$40-50M for outpatient, plus $35-70M for inpatient (depending on renovation or new building)	~450-500	$400,000 - $450,000
5B. Family Health Campus with acute rehab beds	24-36 beds	~$40-50M for outpatient, plus $5-20M for inpatient (depending on renovation or new building)	~295-345	$265,000 - $310,000
CURRENT	253 beds (Currently staffing for ~135); including 35 rehab	N/A	Approx. 950 full-time equivalents	2012 Actual: $936,000

Step 2: Apply the Second Filter to Reach a Recommendation

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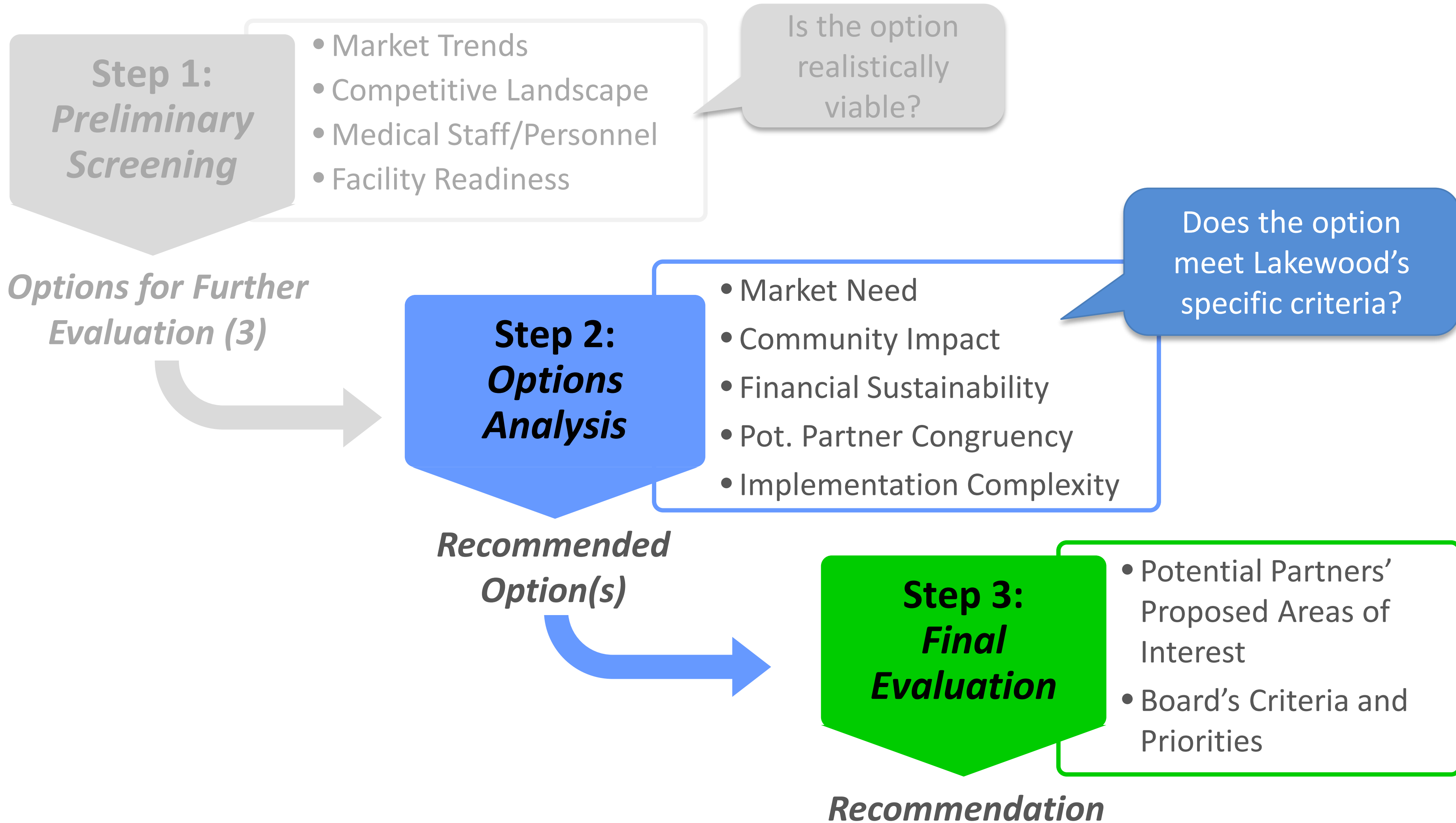
3-Step Evaluation Process



Step 2:
Options Analysis

- Market Need
- Community Impact
- Financial Sustainability
- Pot. Partner Congruency
- Implementation Complexity

Recommended Option

During Step 2 of our evaluation process, we will analyze the options that remain after the preliminary screening and evaluate them relative to the most important criteria that are specific to Lakewood and Lakewood's key constituents and stakeholders

The slides that follow summarize the more detailed considerations that will be assessed for each of the five criteria listed above.

Step 2: *Options Analysis*
Criteria Defined (continued)

Specifically, we will consider each of the remaining options in terms of the following five **criteria**:

1. Market Need:
   - Population/Demographics: community health needs, volume projections for inpatient services, outpatient services, number of PCPs and specialists required to meet the health needs of the Lakewood population
   - Ensure convenient access (according to typical industry standards for drive times by service type) to services for Lakewood residents
   - Investing in a facility which can evolve with the health care market in the future – as best we can project/expect
2. Community Impact:
   - Jobs
   - Tax base/payroll taxes
   - Economic development/secondary benefits
   - Consistent with or supports the health mission for the City
   - Presents an opportunity or mechanism for the community to retain some influence over the services offered within the Lakewood city limits

Step 2: *Options Analysis*

Criteria Defined (continued)

Specifically, we will consider each of the remaining options in terms of the following five **criteria**:

3. Financial Sustainability:
   - Magnitude of initial capital investment required
   - Ongoing capital needs and adequate financial performance to allow for re-investment needs
   - Expected ROI
4. Potential Partner Congruency:
   - Is there reason to believe that we could find an interested partner to support each strategy?
   - How well aligned is each potential option with Cleveland Clinic's strategy for the Cleveland market?
   - Could another partner provide support for an option that might support Lakewood's health mission more significantly than the Cleveland Clinic option?
5. Execution Risk/Implementation Complexity:
   - What has to be in place for the new strategy to be successful?
   - How realistic are the key assumptions for the new strategy?
   - How does each option compare to the others in terms of implementation risks and complexity?

Step 2: *Options Analysis*
Summary

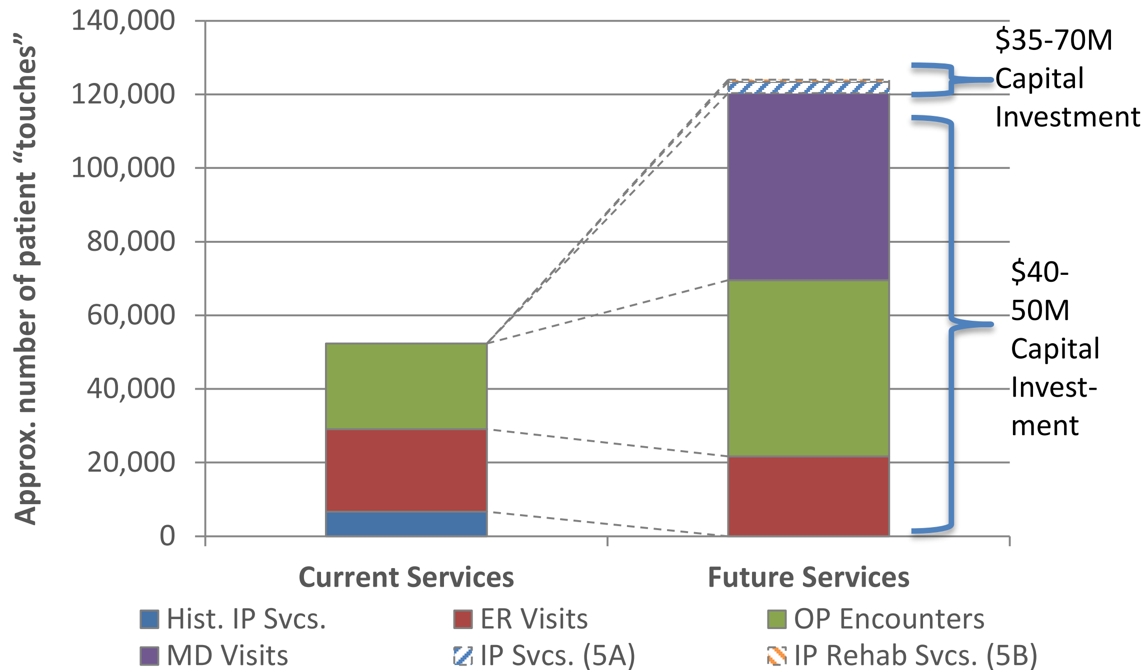
Keeping in mind our goal to ultimately recommend one option to the Board, we evaluated the remaining options relative to each other (ranked in order). At this point, we must also begin to discuss the relative priority of the various criteria, as some may impact the ultimate recommendation more heavily than others.

Options	Criteria				
	Market Need	Community Impact	Financial Sustainability	Potential Partner Congruency	Execution Risk/ Implementation Complexity
Option 4 – Family Health Campus (No IP)	2	3	1	1	1
Option 5A Hybrid – Family Health Campus (With General IP Beds)	2	1	3	3*	2
Option 5B Hybrid – Family Health Campus (With IP Rehab Beds)	2	2	2/3	2	3

*Subject to change, pending additional responses.

Market Need

Opportunity to Leapfrog the Market to Create a New Lakewood Health Care Experience



There is a tremendous opportunity to increase the number of people served by a Lakewood health care facility and to increase the frequency of interactions

Assumptions and Key Facts:

- **Lakewood Primary Service Area Population:** 153,911
- **IP Use Rate:** 130/1,000 popul
- **ER Visits:** 564/1,000 popul
- **OP Encounters:** 3,110/1,000 popul
- **# MD Visits/Person/Yr:** 3.3
- **IP Rehab Svcs.:** Mkt. Actual (LKH's 90% SA)

Lakewood Hospital served a total of 52,368 unique patients (for one or more services) in 2012. A more physician- and outpatient-focused facility in the future could greatly increase the number of patients served and the frequency of interactions with needed health care services. In addition, inpatient services alone result in relatively low number of "touches" with Lakewood community, but imply extremely high capital investment requirements.

Evaluation of Community Impact

- In terms of direct community impact, the implications for potential jobs and payroll taxes for the City are shown below:

Option	Potential Jobs	Approx. Annual Payroll Tax
4. Family Health Campus	~175-225	$160,000 - $200,000
5A. Family Health Campus with inpatient beds	~450-500	$400,000 - $450,000
5B. Family Health Campus with acute rehab beds	~295-345	$265,000 - $310,000
CURRENT	Approx. 950 FTEs	2012 Actual: $936,000

- Option 5A yields the greatest direct impact on employment and payroll taxes, however, the capital investments required for Options 5A and 5B may be prohibitive for the City and the community
- The near-term economic impact of a $40-50M+ construction project in Lakewood will likely be significant
- An additional longer-term impact of these options to consider is the impact on the physician community. According to a Lewin Group study, in Ohio, on average, an **office-based physician generates $1.4M of total economic output and 5.8 jobs** (including their own). So ensuring that each option keeps office-based physicians in the Lakewood community is critical to favorable longer-term community impact

See Appendix for data sources and supporting calculations.

Financial Sustainability

- For the purposes of ranking the remaining options relative to each other, Subsidium summarized several different sources of high-level estimates to determine likely "order of magnitude" capital investment requirements for each option

Option	# Beds	Cost to Build
4. Family Health Campus	0	~$40-50M
5A. Family Health Campus with inpatient beds	50-75 beds	~$40-50M for outpatient, plus $30-60M for inpatient (depending on renovation or new building)
5B. Family Health Campus with acute rehab beds	24-36 beds	~$40-50M for outpatient, plus $5-20M for inpatient (depending on renovation or new building)

- In addition, from an ongoing operations perspective, there is significant reason to question whether either Options 5A or 5B could be operated profitably at a small scale in order to generate enough cash to fund ongoing re-investment needs over time (although the rehab service line is currently one of LKH's most profitable service lines)
  - In other words, the potential ROI on the significant capital investments for Options 5A and/or 5B are questionable, although detailed pro forma calculations were outside the scope of Subsidium's engagement and further analysis would be required

Potential Partner Congruency

Ultimately, the agreements made with a potential partner will be subject to extensive negotiations. The summaries below are only directional in nature and should not be considered as formal proposals.

Option	Potential Partner: Cleveland Clinic (CCF)	Potential Partner: Premier Physicians	Potential Partner: MetroHealth System
4. Family Health Campus	• Well-aligned with CCF's overall market strategy • Received a preliminary concept document from CCF management	• Primary option supported by Premier in their response	• Primary option supported by MetroHealth in their response
5A. Family Health Campus with inpatient beds	• No interest from CCF in an option in Lakewood to include IP beds. • However, we could negotiate for 23-hour observation beds in conjunction with the emergency department	• Premier recommended further research to determine whether inpatient/ observation beds would be needed to serve the community needs	• Primary option supported by MetroHealth in their response (including only short-stay/ observation beds, not general IP acute beds)
5B. Family Health Campus with acute rehab beds	• May be some opportunity for negotiation with CCF to include acute rehab beds	• Premier's response did not strongly support LKH as a rehab facility (but didn't address the hybrid model)	• Unknown position; not mentioned in the MetroHealth response

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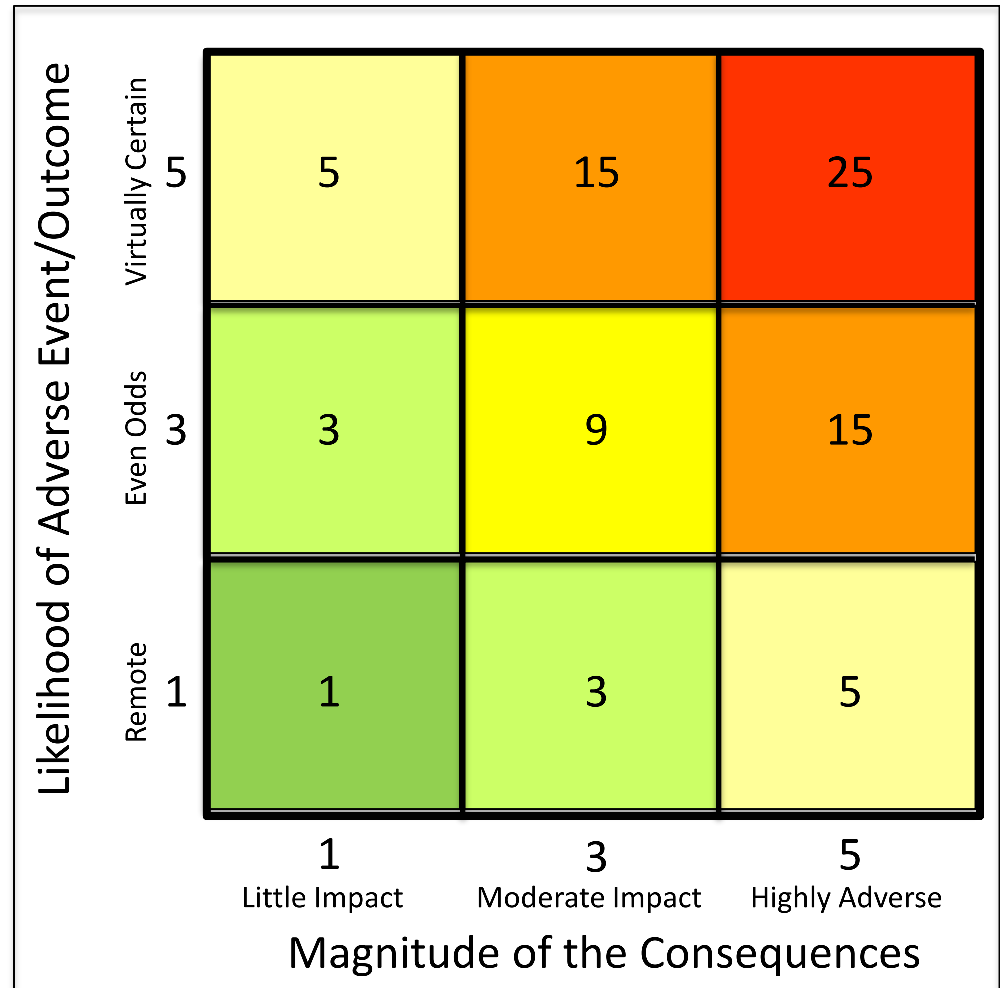
Execution Risk/Implementation Complexity

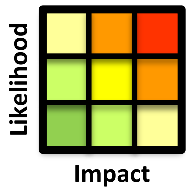
- Key considerations regarding evaluation of execution risk:
  - Most of the execution risk related to this decision is shorter-term in nature; much of it is related to the transition of the current facility to a new model
  - Much of the longer-term execution risk of this decision will be borne by the ultimate owner/operator of the new facility, although the City of Lakewood will also bear some of the risk related to the general economic health of the City
- We can compare the relative execution risk of each remaining option using the framework shown to the right



Execution Risk/Implementation Complexity

Overview of Key Categories of Potential Risks

Risk Category	Overview of Risks
Market Demand	Risk that the demand for Lakewood-based services continues to decline in excess of assumptions or that demand for new services is less than assumed
Competitors	Risk that a competitor builds a similar capability outside of Lakewood, but in the Lakewood primary service area, and successfully steals market share
Physician Strategy	Risk that a change in the scope of Lakewood Hospital's service offerings will result in significant numbers of physicians closing their practices in Lakewood; and/or not being able to recruit needed physicians to Lakewood
Staffing	Risk that current LKH staff will get nervous about possibly job losses and leave before we are ready to change the scope of the facility
Financial • Short-term: e.g., operating losses • Longer-term: e.g., economic base for Lakewood	Risk that once the community begins to understand the changes proposed to the scope of services, that they will stop coming to LKH right away and operating losses escalate significantly; or the construction process significantly disrupts operations, resulting in losses. In the longer-term, risk that other Lakewood businesses suffer as well under certain scenarios.
Partnership(s)	Risk that we cannot come to terms with a strategic partner to help us execute on the strategy
Timing	Risk that the public dialogue about this decision is prolonged and it increases the likelihood of other execution risks occurring



Potential Execution Risk Profile
Option Comparison

	Market Demand	Competi-tors	Physicians	Staffing	Financial	Partners	Timing	TOTAL RISK SCORE
Option 4: ***Family Health Campus***	3	9	25	15	15	5	15	87
Option 5A: ***Family Health Campus with inpatient beds***	25	3	15	9	25	15	5	97
Option 5B: ***Family Health Campus with acute rehab beds***	15	3	25	15	15	15	15	103

See Appendix for detailed option assessments.

Potential Risk Mitigation Strategies

Ideas to Develop the Future Lakewood Health Care Experience

In the course of our engagement, we have considered potential risk mitigation strategies that the Lakewood team could include as part of the formal implementation plan, when developed. This is not an exhaustive list, but provided as they have come up during the process to date

- Provide economic support for physicians to remain in Lakewood while construction of the new facility is underway
  - Create vehicle such as "The Lakewood Primary Care Initiative"
  - Provide City tax incentives, establish a fund for "retention bonuses", etc.
- In the longer-term, must negotiate with the partner to ensure an ongoing, active role for community-based physicians in the Lakewood facility
- Consider the facility as broader than a "Family Health Campus", such as the Lakewood Comprehensive Care Center – including physician and ambulatory services, surgery, and a 24/7 emergency department with observation beds

Recommended Option and Key Observations

- All three of the remaining options essentially represent a major evolution of health care in Lakewood toward more emphasis on ambulatory care
  - All three options represent an opportunity to significantly expand the breadth of the population served and the frequency of "touches" or engagement with the health care services in Lakewood
- The key differences between each of the three options is the breath of the service offerings included in a facility that is, at its core, an ambulatory-focused facility
- Our recommendation is that between now and 2026, we negotiate with potential partner(s) to jointly develop a Comprehensive Care Campus in Lakewood to include community health services, office-based physician services, comprehensive outpatient services (e.g., advanced imaging and diagnostics), ambulatory surgery services and a 24/7 emergency department with an appropriate number of 23-hour observation beds to stabilize Lakewood patients for potential transfer to a more comprehensive inpatient facility, if needed.

Next Steps

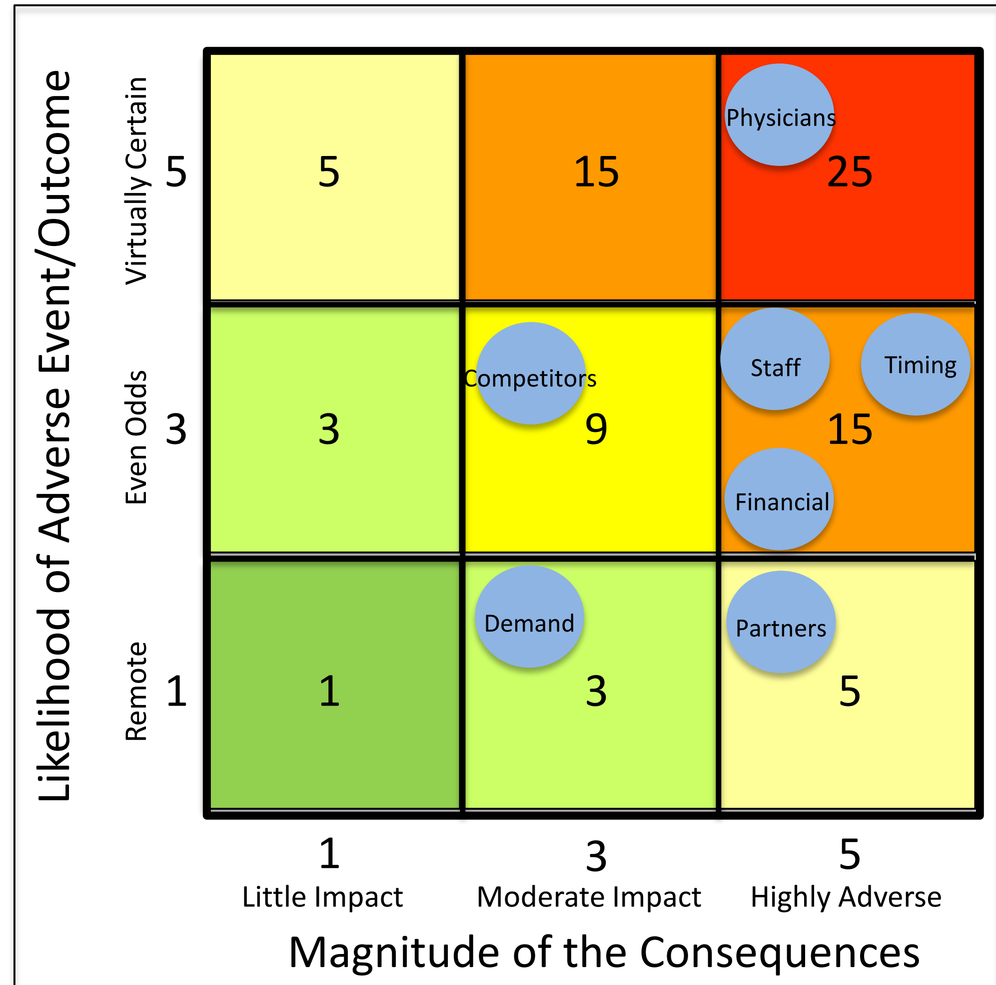
- Prepare the document for the Board meeting and review the draft document with Select Committee members to ensure we've positioned the Committee's recommendation(s) accurately
- Pre-meeting with Dr. Bronson prior to the November 13th Board meeting
- Communications planning – be prepared to address questions from the community
- Begin to identify risk mitigation strategies for the execution risks identified

Appendix

Option 4: Potential Execution Risk Profile

Approximate risk score: 87

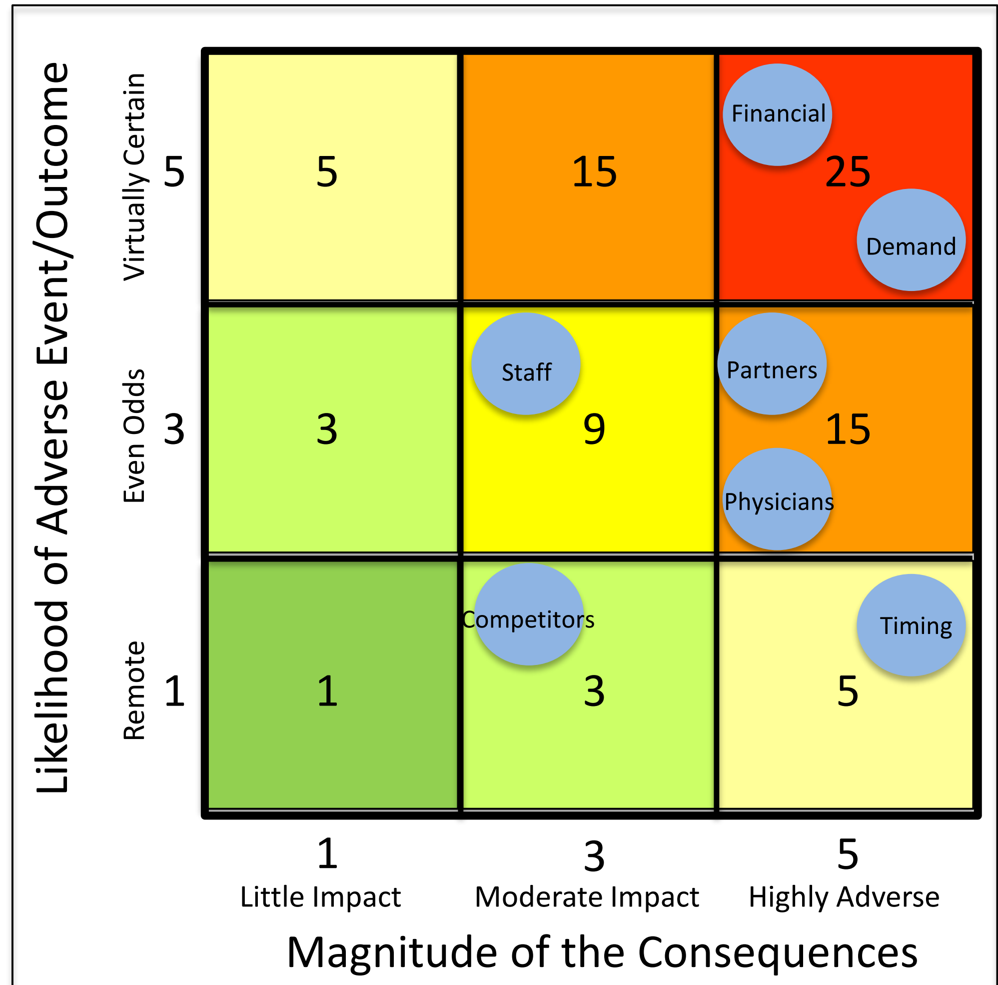
- High likelihood of losing significant physician presence in the community as hospital-based specialists have to re-locate their practices
- Moderate to high likelihood that hospital staff will begin to proactively seek other employment opportunities before the transition can be fully implemented
- Timing of implementation is a key risk for this scenario
- Low risks of shifting market demand and of not being able to find a willing partner



Option 5A: Potential Execution Risk Profile

Approximate risk score: 97

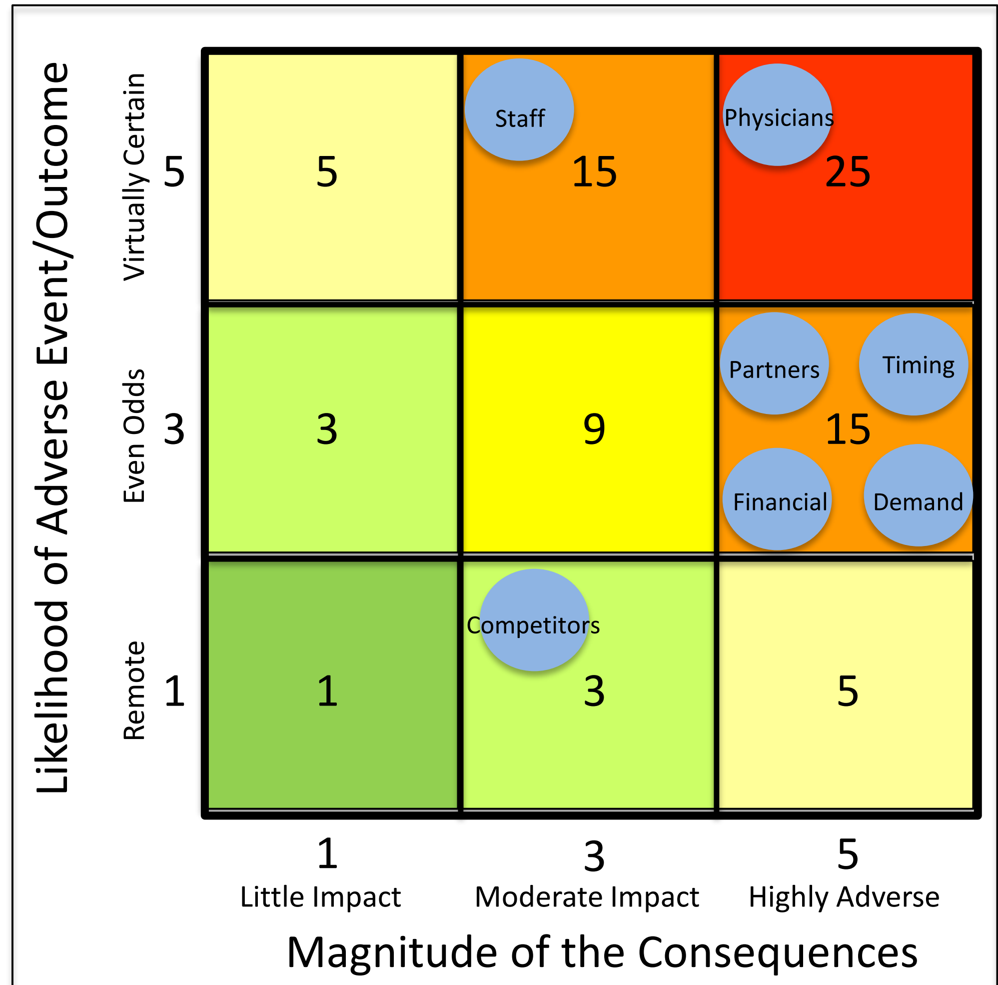
- High financial risk with this option; especially if operations are disrupted at any point during the construction/remodeling process
- Moderate likelihood of losing significant physician presence in the community as some hospital-based specialists may have to re-locate their practices, depending on what service offerings could remain
- Moderate risk that demand for inpatient services will decline even further than expected (expected fairly dramatic continued declines)
- Finding a willing partner will likely be challenging for this option



Option 5B: Potential Execution Risk Profile

Approximate risk score: 103

- High likelihood of losing significant physician presence in the community as most hospital-based specialists have to re-locate their practices
- High likelihood that hospital staff will begin to proactively seek other employment opportunities but may not be as significant in terms of adverse consequences
- Questionable regarding our ability to find a willing partner for this strategy
- Moderate risk of financial/ operating losses during the transition period
- Moderate risk that Lakewood is not able to maintain it's current market share and profitability levels in rehab



Options 5A and 5B: Estimated Bed Calculation

Option 5A: *Family Health Campus with Inpatient Beds*

	2012 # Admits	2012 LKH %	2012 LKH #	Next 5 Years: Market Growth	LKH % △	LKH # Admits	ALOS	Capacity	# Beds
PSA	24,948	22.2%	5,538	-10%	-20%	3,988	4	85%	51
SSA	45,287	4.2%	1,902	-10%	-20%	1,369	4	85%	18
						5,357	TOTAL		69

Total # Beds
(+/- 20%)
55 - 80

Option 5B: *Family Health Campus with Acute Rehab Beds*

	Rehab Admits ('12)	ALOS	Capacity	Mkt. # Beds	LKH %	LKH # Beds
90% SA	2,628	14	85%	119	25%	30

Total # Beds
(+/- 20%)
24 - 36

Source: Ohio Hospital Association database for 2012 admission data. Subsidium estimates based on historical market growth trends and Lakewood Hospital's specific market share trends. See Subsidium discussion document dated 10/9/13 for additional trend data.

Other Key Assumptions: Supporting Calculations and Sources for Page 8

On page 8, we outlined several key assumptions used in applying Lakewood's criteria to the remaining options. *Please note that these assumptions should be considered approximate ranges to show relative order of magnitude for options evaluation. Extensive additional analysis would be necessary for planning purposes.*

Option	Cost to Build Assumptions	Sources and Comments
4	Used cost assumption of $400-$500 per square foot for a building between 80,000 and 100,000 square feet	Current industry average development costs for large ambulatory centers are $400-$500 per square foot, depending upon equipment, scope of services and level of finishes. 2nd source: consistent with the CCF estimated provided in the Lakewood Family Health Center concept deck.
5A	Additional $35-$70M for 55-80-bed inpatient component. Assumed midpoint of 70 beds. Range represents potential costs due to either renovation of existing facility or new construction	Typical industry average for new hospital construction is approximately $1M/bed, depending on equipment, scope of services and level of finishes. Renovation costs were estimated used CCF estimates provided in the October 2012 document presented to the LHA Board. Total estimated renovation costs for the full hospital were approx. $91M (excluding equipment, furniture, etc.). Subsidium pro-rated this estimate for 70 beds (~$25M), and assumed additional approx. $10M for equipment.
5B	Wide range in current literature regarding capital costs of new construction. Example ranged up to $775,000 per bed. Renovation costs assumed to be $200/square foot for 25,000 feet (current approx. square footage for 35 beds).	High end of range in current literature source: Madonna Rehab Hospital, Lincoln, NE. As of 10/22/13 news release, current construction costs are $93M for 120 beds (200,000 square feet). Renovation cost estimates per CCF report to LHA Board in October 2012.

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Other Key Assumptions: Supporting Calculations and Sources for Page 8

On page 8, we outlined several key assumptions used in applying Lakewood's criteria to the remaining options. *Please note that these assumptions should be considered approximate ranges to show relative order of magnitude for options evaluation. Extensive additional analysis would be necessary for planning purposes.*

Option	Staffing Assumptions	Payroll Taxes Assumptions
4	Assumed 175-225 FTEs CCF management assumed approximately 175 full-time equivalent staff (FTEs) for a family health center with 80,000 square feet and no ambulatory surgery center (ASC component). Subsidium assumed ASC would add 20,000 square feet and increased the range of FTEs proportionally to 225.	$160,000 - $200,000 Used 2012 actual payroll taxes to calculate an approximate average payroll tax amount per FTE basis = $900/FTE. Therefore, 175 FTEs at $900/FTE = approx. $160,000 in taxes and 225 FTEs at $900/FTE = approx. $200K in taxes
5A	Assumed 450-500 FTEs Typical staffing ratio for inpatient facilities are approx. 4 FTEs per bed. FHC component (from Option 4): 175-225 FTEs Inpatient component based on ~70 beds: 275 FTEs	$400,000 - $450,000 Used same calculation as above, using average of $900/FTE for payroll taxes.
5B	Assumed 295-345 FTES Typical staffing ratio for inpatient facilities are approx. 4 FTEs per bed. FHC component (from Option 4): 175-225 FTEs Inpatient component based on ~30 beds: 120 FTEs	$265,000 - $310,000 Used same calculation as above, using average of $900/FTE for payroll taxes.

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Other Key Assumptions: Supporting Calculations and Sources for Page 15

- Calculations to support the bar chart showing representative opportunity for expanded "touches" with the Lakewood community:
  - The graphed current services bar chart on the left shows the actual data for 2012 – unique patients served by Lakewood Hospital (source: internal management reporting system)
  - The graphed data on the right is based on a series of assumptions using the average use rates for the services likely to be incorporated in the facilities described as parts of Options 4, 5A and 5B, combined with future Lakewood market share assumptions

Graphed					Graphed		Graphed
Category	**Lakewood Population**	153911	100% of Mkt	LWH%	**Current Services**	LWH%	**Future Services**
Hist. IP Svcs.	IP Use Rate	0.13	20,008	33%	**6,665**	0%	-
ER Visits	ER Use Rate	0.564	86,806	26%	**22,405**	25%	21,701
OP Encounters	OP Use Rate	3.11	478,663	5%	**23,298**	10%	47,866
MD Visits	# MD Visits/person/yr	3.3	507,906	0%	**-**	10%	50,791
IP Svcs. (5A)	IP Use Rate	0.13	20,008	0%	-	15%	3,001
IP Rehab Svcs. (5B)	Rehab Use Rate	n/a	2,628	0%	**-**	25%	644

- Data sources are continued on next slide

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Other Key Assumptions: Supporting Calculations and Sources for Page 15

Data Point	Source
Service Area population (for LKH current Primary Service area – 4 zip codes)	ESRI data. iVantage Health Analytics. 2012 total population by zip code.
Inpatient admissions: average utilization rate	Average inpatient admissions/1000 population for the state of Ohio, based on 2011 American Hospital Association Annual Survey data. Downloaded from kff.org (Kaiser Family Foundation website).
ER visits: average utilization rate	Average ER visits/1000 population for the state of Ohio, based on 2011 American Hospital Association Annual Survey data. Downloaded from kff.org (Kaiser Family Foundation website).
Outpatient encounters: average utilization rate	Average hospital-based outpatient visits/1000 population for the state of Ohio, based on 2011 American Hospital Association Annual Survey data. Downloaded from kff.org (Kaiser Family Foundation website).
Physician office visits: average utilization rate (primary care and specialty combined)	Table 1. Physician office visits, by selected physician characteristics: United States, 2010. Source: CDC/NCHS, National Ambulatory Medical Care Survey.
Actual acute rehab admissions volumes for 2012 for the LKH 90% service area	Ohio Hospital Association inpatient admissions database. 2012 data.

Additional Sources and Citations

Page #	Reference	Source
16	Lewin Group study regarding the economic impact of office-based physician practices	The State-Level Economic Impact of Office-Based Physicians. Report prepared for The American Medical Association by The Lewin Group. February 2011.

Lakewood Hospital Association Executive Committee Meeting 3/18/2015 466 of 746 Lakewood Hospital Association Executive Com...

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Lakewood Hospital Select Committee
Progress Meeting #1

August 21, 2013

CONFIDENTIAL DRAFT – FOR DISCUSSION ONLY
Preliminary data; additional validation in progress

Presentation Objectives

- Share interview insights to date
- Discuss status of data requests and preliminary observations
- Discuss draft evaluation criteria
- Identify next steps

Executive Summary

- Key points from interviews
- Preliminary SWOT analysis
- Framework for evaluation of options

Who did we interview?

Cleveland Clinic Staff and Clinicians	
David Bronson, MD – President, Cleveland Clinic Regional Hospitals	Ankit Chhabra – Senior Director, Financial Planning (Fairview and Lakewood Hospitals)
Robert Weil, MD – President, Lakewood Hospital	Mike Harrington – Chief Accounting Officer, CC
Steve Glass – Chief Financial Officer, Cleveland Clinic	Bill Keckan – Executive Director System Integration, CC Reg'l Hospitals and COO, Marymount Hospital
Select Committee (SC) and LHA Board Members	
Mike Summers – Mayor of the City of Lakewood (SC)	Tom Gable – Chairman of the Board, Lakewood Hospital Assoc. (SC)
Tom Bullock – City Council Member, Lakewood (SC)	Mary Louise Madigan – City Council Member, Lakewood (SC)
Bill Riebel, MD – Infectious Disease, Lakewood Hospital Executive, LHA Board Member (SC)	Ellen Brzytwa, RN – LHA Board Member (SC)
Ken Haber – President, Lakewood Hospital Foundation (SC)	Bill Gorton – Trustee, Lakewood Hospital Association (SC)
Carl Culley, MD – Internal Medicine, Lakewood Hospital Staff, LHA Board Member (SC)	Gary Pritts – LHA Board Member
Curt Brosky, LHA Board Member (SC)	Rebecca Patton – LHA Board Member
Mousab Tabaa, MD, Gastroenterologist, Lakewood Hospital Medical Staff, LHA Board Member	

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Areas of exploration in the interviews

1. Critical issues facing the City of Lakewood
2. Thoughts on the strategic options identified
3. Thoughts on the Cleveland Clinic relationship – current and future
4. Additional strategic options – partnership opportunities, etc.
5. Criteria for evaluation of strategic options
6. City ownership of the hospital and land

Key themes from the interviews

- Critical issues facing Lakewood Hospital
  - Steady loss of patient volumes
  - Aging medical staff
  - Growing population in younger age segments (migrating back into Lakewood)
  - Age of the buildings/physical plant is a major capital challenge
- Interviewees seemed to generally share a strong sense of urgency to act; the status quo is viewed as risky or unsustainable
- Most interviewees commented on the Family Health Center concept and their thoughts about it as a potential option for Lakewood
- There is a wide range of opinions about the other options that have been identified
- Several interviewees strongly believe that other partners should be explored
- Most believe that is not an imperative for the City to own the hospital in the future

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SWOT: Strengths, Weaknesses, Opportunities, and Threats

Strengths

- Current Cleveland Clinic relationship is considered to be strong.
- Community loyalty and emotional investment in Lakewood Hospital.

Weaknesses

- Continued loss of inpatient volumes to area hospitals, especially Fairview Hospital and Avon (future volumes) – retention of IP volumes.
- As of 2010, only 52% of Lakewood residents' total IP admissions were provided by LKH.
- Aging infrastructure: results in high operating expenses and capital costs.
- Physician relationships are now primarily controlled by CC; limits LKH's strategic options.

Opportunities

- Available land is opportunistic for creating an innovative new structure.
- Community support is high for development of an innovative health and wellness-oriented facility.
- Lakewood Hospital's primary service area (4 zip codes) generate 25,000 admissions per year to area hospitals

Threats

- Structure of the current lease with the CC limits the influence and viability of Lakewood Hospital as a separate entity.
- Competitors have been consolidating.
- LKH has experienced significant losses in share in recent years; often to Fairview's benefit.
- New Avon hospital will likely cannibalize significant inpatient volumes from LKH.

Framework for evaluation of options

Options		Criteria				
		Market Need	Community Impact	Capital Commitment	Potential Partner Congruency	Implementation Complexity
Selection of the Best Partner to support the recommended strategy	Right-size community hospital					
	Focus on Centers of Excellence					
	Family Health Center, no I/P					
	Hybrid IP/ Family Health Center					
	Acute rehab					
	Specialty hospital					

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Additional Interview Summaries

Risks and challenges to the future of the hospital*

- Declining volumes - these will be exacerbated by the opening of the new hospital in Avon.
- The city can't feasibly operate the facility without affiliation. Lakewood Hospital can't survive as an independent hospital.
- Lakewood is not a growing market.
- LKH is not running at a rate where they can re-capitalize.
- Time – there is a perception that the opportunity is now to transform the hospital, within a 3-year window.
- Older staff at LKH – Cleveland Clinic is half the staff at LKH – half of the remaining staff is within 5 years of retirement; with most of the younger docs going to Fairview.
- Competing interests regarding philanthropy between Cleveland Clinic and Lakewood Hospital Foundation.
- Community education required to understand the complex dynamics in the current health care environment.

*Note: All points on this page are based on direct comments from interviewees and while they reflect perceptions, in some cases, they are not consistent with the actual data.

Critical issues facing Lakewood Hospital (per interviewees*)

Loss of patient volumes

- Patient volumes have declined steadily, but financial losses have stabilized somewhat since 2010.
- The majority of acute admissions in LKH come through the ED (70-80%), but has declined.
- Avon: Opening of facility will cause the loss of ~1500 inpatient cases.
- Service line volumes in cardio were lost, and also affected other service lines.

Competitive market pressures

- LKH can't continue to compete in a crowded market with excess inpatient capacity.
- The market may be too small for two large Clinic hospitals.
- The current model of the community hospital as we know it is "dead" – need for change.

Staff and physician supply

- Older staff at LKH (half within 5 years of retirement).
- Many independent physicians will be retiring, with lots of CC and employed docs coming into the system.
- Gaps in specialty coverage due to the retirement of physicians.
- PCP supply is dwindling and "aging out".

*Note: All points on this page are based on direct comments from interviewees and while they reflect perceptions, in some cases, they are not consistent with the actual data.

Critical issues facing Lakewood Hospital*, continued

Demographics

- Lakewood is a transient community, with young people staying 1-2 years, then moving out.
- Lakewood is exhibiting some unfavorable socioeconomic characteristics; which is not attractive to primary care physicians.
- Only real growing segment is 25-44 year-olds, who don't really need LKH.

Other

- Neuro institute and the Lorain Institute have been the "engines of admissions" at LKH.
- Looming obsolescence of bed capacity for patients that may be entering the system once ACA takes effect.

High cost structure

- Higher than area hospitals, partly due to seniority of staff.
- No building is younger than 1973; high maintenance costs.

*Note: All points on this page are based on direct comments from interviewees and while they reflect perceptions, in some cases, they are not consistent with the actual data.

Opinions on Family Health Center (or Hybrid Family Health Center with ASC and/or Limited Inpatient Beds)

Favorable
Would meet the needs of the community – accommodate shifts from IP to OP
Consistent with the future vision of Lakewood as a wellness-oriented community
Congruent with Cleveland Clinic strategy
Most interviewees thought keeping an ED was important for Lakewood

Unfavorable
Loss of jobs
Loss of inpatient services generally viewed as a negative by the community
Would require a tear-down of the existing facility

* **Note**: whether an opinion was considered favorably depended on whether (or exactly) which services were included; e.g., ASC and ED

Opinions on other identified options

Specialty Hospital

- There's no real incentive for this – it would be challenging to bring docs there.
- This option "doesn't have legs" – the hospital wouldn't be able to recruit specialists.
- Could only survive if LKH becomes a specialty hospital in specific service lines. Transfer everything else – e.g., make LKH the city trauma center.

Acute Rehab Single Specialty

- Would most likely not meet the needs of the community, which is a primary criteria.
- A lot of uncertainty exists about reimbursement options.
- Wouldn't take too much to roll out this model, but wouldn't buy the city much either.
- Cleveland Clinic has evaluated this option and will likely centralize rehab at the main campus.

Center of Excellence

- May be too big of an idea, too late.
- There is no interest from CC to adopt COE as a system-wide strategy. However, if CC made COE a system-wide strategy, LKH may be viable.

Right-Sized Community Hospital

- Everyone's preferred option emotionally is for the hospital to maintain an inpatient capability and presence in Lakewood
- However, most interviewees voiced doubts about the long-term financial feasibility of this option

Additional options identified

Medical / teaching facility

- Become affiliated with a medical school and/or develop a teaching program.
- Building something like this might bring additional scale and economic value.
- Only makes sense if it's focused around genetics or forward-thinking specialties around primary care.
- Lots of grant money is available for progressive medical education.
- Opportunity in Lakewood for a pilot of Interprofessional Education? $10M is called for this, and is a priority for HRSA (serving the underserved). Money is also available for nurse residency programs.

Live / work facility

- If moving forward with the "family health center" concept, LKH could reorient a new facility toward Detroit Ave.
- Would allow the back half to be taken down, and reallocate space on the back side to access for a work/live development.
- Would engage the community, and continue to enhance wellness and prevention.
- Apply concepts from the Congress for the New Urbanism (www.cnu.org).

Additional economic opportunities

- If moving forward with the "family health center" concept, LKH could reorient a new facility toward Detroit Ave.
- Reallocate space on the back side of the facility to develop a healthcare-related or biotech research facility, or business incubator.
- Provides some opportunity to replace a portion of the City's lost revenue.

Other partnership options

	Benefits and options	Risk and challenges
University Hospital	• Pediatrics may be a good partnership • UH may need more presence on the west side.	
Metro General	• Could partner with Metro and Akron General: They had a wellness center that broke even in 13 months, 150K sq feet, with OP rehab; $38-40MM to build; • Staff at LKH gets along better with Metro docs than CC docs.	• Complex organization may present execution risks, according to some interviewees
Catholic Health Partners / Kaiser	• Does LKH have something that CHP needs? Need to define CHP needs. • Would this be a long-term sustainable option? • Would they shut it down in 5 years?	
Other partners: Summa		• May be a viable option, but they don't have much incentive to come to Lakewood, since they don't currently have a presence.

Interviewee opinions on city ownership

5	0
0	2
City ownership of the hospital	City ownership of the land
City Ownership of the Land and Assets	

Most believe that is not an imperative for the City to own the hospital in the future.

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Overview of Current Situation and Risks/Opportunities

SWOT: Strengths, Weaknesses, Opportunities, and Threats

Strengths

- Current Cleveland Clinic relationship is considered to be strong.
- Community loyalty and emotional investment in Lakewood Hospital.

Weaknesses

- Continued loss of inpatient volumes to area hospitals, especially Fairview Hospital and Avon (future volumes) – retention of IP volumes.
- As of 2010, only 52% of Lakewood residents' total IP admissions were provided by LKH.
- Aging infrastructure: results in high operating expenses and capital costs.
- Physician relationships are now primarily controlled by CC; limits LKH's strategic options.

Opportunities

- Available land is opportunistic for creating an innovative new structure.
- Community support is high for development of an innovative health and wellness-oriented facility.
- Lakewood Hospital's primary service area (4 zip codes) generate 25,000 admissions per year to area hospitals

Threats

- Structure of the current lease with the CC limits the influence and viability of Lakewood Hospital as a separate entity.
- Competitors have been consolidating.
- LKH has experienced huge losses in share in recent years; often to Fairview's benefit.
- New Avon hospital will likely cannibalize significant inpatient volumes from LKH.

- Status quo is not viable
- Loss of inpatient volumes to Avon will eradicate inpatient care at LKH.
- Specialist supply in *local* practices is aging out, which contributes to some of the volume losses at LKH.
- Contrary to the prevailing perception of the interviewees, the Lakewood population is shifting to an older base, with a particular increase in the 65+ year-old population.

Demographic landscape

Population trends have been toward growth in older Lakewood residents, both in the total primary and secondary service areas, and within the primary service area alone. Household income is increasing at in the middle class and higher earning households.

Total primary and secondary service areas

	2012	2017	Percent change
Under 25	99,581	95,686	-3.9%
25-44	88,108	85,762	-2.7%
45-64	91,107	87,779	-3.7%
65+	46,771	51,544	10.2%
Total	**325,567**	**320,771**	**-1.47%**

Total for zip 44107

	2012	2017	Percent change
Under 25	14,938	14,179	-5.1%
25-44	17,672	17,192	-2.7%
45-64	13,353	12,773	-4.3%
65+	5,913	6,480	9.6%
Total	51,876	50,624	-2%

Growth in household income

	2012	2017	Percent change
$0 - $24,999	35,978	31,043	-13.7%
$25,000 - $49,000	35,903	29,958	-16.6%
$50,000 - $99,999	40,307	48,506	20.3%
$100,000 +	25,499	28,166	10.5%

Zip codes in Primary service area (top 66% of patient origin)	
44107	Lakewood
44102	Cleveland
44111	Cleveland
44116	Rocky River
44145	Westlake
44135	Cleveland

Source: ESRI demographic data.

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Where are inpatient service line volumes going?

Lakewood' primary service area is a significant market (25K admissions/year)

Service Line	Cleveland Clinic	Fairview	Lakewood	MetroHealth	UH Case Med Ctr	St John Med Ctr	TOTAL
Cardiovascular Medicine	6%	33%	27%	15%	2%	5%	2,542
Psychiatry	3%	12%	11%	11%	2%	1%	2,509
Pulmonology	3%	29%	25%	21%	2%	4%	2,451
Obstetrics	1%	38%	17%	30%	5%	4%	2,385
Neonatology	1%	40%	17%	27%	5%	4%	2,211
Gastroenterology	8%	32%	21%	18%	3%	6%	1,940
Orthopaedics	9%	16%	26%	16%	4%	6%	1,371
Neurology	8%	22%	36%	17%	3%	3%	1,219
General Medicine	6%	33%	26%	20%	3%	3%	1,002
General Surgery	13%	21%	21%	20%	5%	4%	948
Nephrology	5%	26%	30%	15%	4%	5%	920
Endocrinology	6%	25%	25%	24%	3%	3%	768
Medical Oncology	14%	22%	19%	19%	10%	4%	703
Infectious Disease	7%	28%	22%	23%	4%	4%	680
Dermatology	4%	25%	24%	24%	2%	3%	561
Neurosurgery	16%	14%	18%	18%	7%	4%	526
Rehabilitation	0%	0%	73%	15%	2%	0%	426
Colorectal Surgery	18%	25%	18%	14%	6%	5%	298
Urology	22%	26%	14%	11%	5%	6%	263
Vascular Surgery	9%	34%	16%	19%	3%	8%	263
ENT	13%	21%	19%	23%	4%	6%	247
Gynecology	16%	28%	8%	27%	5%	3%	213
TOTAL	**6%**	**27%**	**22%**	**19%**	**4%**	**4%**	**24,936**

Source: 2009 Ohio Hospital Association; Data includes LKH's primary service area (4 zip codes: 44102, 44107, 44111, 44116)

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PCP retirement in LKH primary and secondary service areas

A very low proportion of physicians are within 5 years of retirement, particularly within the larger referral sources.

Group	Not retiring	Retiring	Percent within 5 years of retirement
Primary Service Area (top 60% of origin)			
CCF	15	2	12%
CCHS	13	2	13%
Metro	6		0%
Premier	40	7	15%
Neighborhood Group	5		0%
All other Primary	**13**	**19**	**59%**
Total Primary service area	**92**	**30**	**25%**
Secondary Service area (next 16% of origin)			
CCF	22	4	15%
Premier	4	1	20%
UHHS	28	2	7%
All other secondary	**34**	**19**	**36%**
Total secondary service area	**88**	**26**	**23%**
Total Primary and Secondary areas	**180**	**56**	**24%**

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Source: West Market PCP List; Cleveland Clinic Market Planning. Further validation pending.

Specialist Physician retirement in LKH primary and secondary service areas

Group	Retiring	Not Retiring	Percent within 5 years of retirement
Primary Service Area (top 60% of origin)			
CRP	8	9	47%
Premier	18	33	35%
CC Groups	1	7	13%
CCHS Regional		2	0%
Dermatology Associates	6		100%
All Other	21	29	42%
Total Primary service area	**54**	**80**	**40%**
Secondary Service area (next 16% of origin)			
UHHS	8	16	33%
CRP	4	10	29%
Orthopaedic Associates		12	0%
North Shore Gastroenterology		10	0%
Premier		8	0%
CC Groups	1	4	20%
CCHS Regional	1	1	50%
All other secondary	32	65	33%
Total secondary service area	**46**	**126**	**27%**
Total Primary and Secondary areas	**100**	**206**	**33%**

* Counts of physicians with no age entered were not included

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Source: West Market Specialist List; Cleveland Clinic Market Planning. Further validation pending.

Criteria for selected options

Interviewees' thoughts on criteria for evaluation of options

- Whatever is done, the population should not perceive a disparity in the level of care.
- Goals of the project shouldn't be about preserving the hospital, but about doing what's in the best interest of the city.
- Some interviewees thought the option chosen should get Lakewood out of the healthcare business.
- In keeping with the city's culture toward green initiatives and sustainability, the new model should allow Lakewood to continue to be "environmental" stewards.
- Some interviewees held that maintaining the right relationship with CC was the only viable options (and that the future of the hospitals rests with CC), whereas others were open to consideration of other partnerships.
- The city's health care model should be able to evolve as the general healthcare industry evolves.
- Financial viability

Criteria	Number agreeing
Meeting the community's needs	**7**
Financial sustainability / long-term viability	**4**
Jobs	**4**
Maintaining a primary care base	**3**
Secondary benefits / scale	**2**

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Framework for evaluation of options

Options		Criteria				
		Market Need	Community Impact	Capital Commitment	Potential Partner Congruency	Implementation Complexity
Selection of the Best Partner to support the recommended strategy	Right-size community hospital					
	Focus on Centers of Excellence					
	Family Health Center, no I/P					
	Hybrid IP/ Family Health Center					
	Acute rehab					
	Specialty hospital					

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Evaluation criteria: key elements to consider

- Market Need
  - Population/Demographics: volume projections for inpatient services, outpatient services, number of PCPs and specialists required to meet the health needs of the Lakewood population
  - Ensure convenient access (according to typical industry standards for drive times by service type) to services for Lakewood residents
  - Investing in a facility which can evolve with the health care market in the future – as best we can project/expect
- Community Impact
  - Jobs
  - Tax base/payroll taxes
  - Economic development/secondary benefits
  - Consistent with or supports the health mission for the City
  - Presents an opportunity or mechanism for the community to retain some influence over the services offered within the Lakewood city limits
- Financial Sustainability
  - Magnitude of initial capital investment required
  - Ongoing capital needs and adequate financial performance to allow for re-investment needs
  - Expected ROI

Evaluation criteria: key elements to consider, continued

- Potential Partner Congruency
  - How well aligned is each potential option with Cleveland Clinic's strategy for the Cleveland market?
  - What are the potential deal terms with other potential partners?
  - Could another partner provide support for an option that might support Lakewood's health mission more significantly than the Cleveland Clinic option?
- Implementation Complexity
  - What has to be in place for the new strategy to be successful?
  - How realistic are the key assumptions for the new strategy?
  - How does each option compare to the others in terms of implementation risks and complexity?

Next Steps

Additional meetings/interviews to be considered

Future planned interviews	
Shannon Ritchie -- COO, Lakewood Hospital	David Appel – CEO, Premier Physician Group
Mary Sauer -- Chief Nursing Officer, Lakewood Hospital	Fred DeGrandis – Chairman, Cleveland Clinic Community Physician Partnership and Quality Alliance
Toby Cosgrove – CEO, Cleveland Clinic	Ann Huston – Chief Strategy Officer, Cleveland Clinic
Akram Boutros -- CEO MetroHealth System	TBD – Executive from Catholic Health Partners
	Paul Tait – Chief Strategic Planning Officer, University Hospitals

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Lakewood Hospital Association Trustees Caucus
Discussion Document

January 9, 2014

Agenda

Agenda Item	Time
Review agenda and meeting objectives	10 minutes
Review overall project approach, work plan and key meeting schedule	30 minutes
Review the Lakewood concept document from the Cleveland Clinic	45 minutes
Discuss potential criteria for partner/investor selection and review the Preliminary Memorandum	40 minutes
Discuss guiding principles and minimum expectations for the Letter of Intent negotiations	60 minutes
Next steps	5 minutes

Proposed Project Approach: Four Primary Work Streams

Work Stream 1: Preliminary Due Diligence and Selection of Preferred Partner(s)

January 9 – approx. February 7 (5 weeks)

- Work with the Caucus to set criteria for partners selection and guiding principles for negotiation
- Identify additional potential investors and send Memorandum
- Meet with existing partnership candidates and discuss next steps
- Prepare for negotiations process (financial analyses)
- Review responses from other potential investors
- Work with the Step 2 Team (S2T) and the Caucus group to select parties to include in the Letter of Intent solicitation

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Proposed Project Approach: Four Primary Work Streams

Work Stream 2: Letter(s) of Intent and Negotiations

End of January – End of April (14 weeks)

- Send out a formal solicitation for proposed Letter(s) of Intent
- Allow 4 weeks for response time
- Negotiate with one or more bidders simultaneously
- Minimum of bi-weekly calls with the Step 2 Team and approximately monthly updates with the Caucus group
- Ad hoc financial analyses to support key negotiating points
- Prepare a summary of all key deal points for each LOI
- Work with the S2T and the Caucus group to ultimately make a formal recommendation to the LHA BOT for approval to recommend to Lakewood City Council

Proposed Project Approach: Four Primary Work Streams

Work Stream 3: Envisioning the Future Lakewood Health Care System

January 9 – Early April (13 weeks)

- Work with architect or engineer to understand facility options during possible transition period and options for alternative uses of existing physical plant and assets
- Seek input from all Trustees about community needs and options for future vision for Lakewood health care system, programs and services
- Document the overall vision and include in negotiations with potential investors to ensure alignment
- Deliverable from this would be the ability to clearly articulate to the community the benefits and specific services they will be able to access in the future

Proposed Project Approach: Four Primary Work Streams

Work Stream 4: Transition Planning

Mid-February to End of April (11 weeks)

- Develop a comprehensive communications plan and any necessary supporting materials to communicate to the community and all key stakeholders and audiences
- Develop the overall health care services transition plan (e.g., facilities transitions, staffing transitions, community physicians relationship planning, etc.)
- Conduct financial analyses to support the services transition plan and identify and negotiate regarding any key implications
- Work with both S2T and Caucus group to receive input on these plans and iterate during the development process

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Progress Update and Work Plan

Original Work Plan – Approximate Dates

Jan. 6 - Feb. 10	Jan. 27 – May 2	Jan. 6 – April 4	Feb. 17 – May 2
Preliminary Due Diligence	**Letter of Intent and Negotiations**	**Envisioning Future Lakewood Health Care System**	**Transition Planning**
• Establish guiding principles for negotiation • Identify additional potential investors and send Memorandum • Meet with existing partnership candidates and discuss next steps • Financial analyses to prepare for negotiations • Select parties to include in the Letter of Intent solicitation	• Send formal solicitation for proposed LOIs • 4 weeks for responses • Negotiate with one or more bidders • Regular updates to S2T and Caucus • Ad hoc financial analyses • Summarize deal points for each LOI • Work with S2T and the Caucus to prepare a recommendation to the LHA BOT for approval to recommend to Lakewood City Council	• Assess facility options during transition and options for alternative uses of existing physical plant • Seek input from all Trustees about community needs, options for future Lakewood health care system, programs, services • Document overall vision and ensure alignment with potential investors • Clear articulation for the community of the benefits and specific services they will be able to access in the future	• Develop a comprehensive communications plan and any necessary supporting materials • Develop the overall health care services transition • Conduct financial analyses to support the services transition plan • Work with S2T and Caucus to receive input and iterate during the development process

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Meeting Scheduling: Summary for Discussion

	Weeks																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Key Worksteps/Milestones/Meetings	1/6	1/13	1/20	1/27	2/3	2/10	2/17	2/24	3/3	3/10	3/17	3/24	3/31	4/7	4/14	4/21	4/28
Work Stream 0: Project Organization				Complete													
Work Stream 1: Preliminary due diligence & selection of preferred partner																	
Work Stream 2: Letter of Intent and Negotiations																	
Work Stream 3: Envisioning the Future Lakewood Health Care System																	
Work Stream 4: Transition Planning																	

Key Meetings: Step 2 Team LHA Caucus

Review the Lakewood Concept Document from the Cleveland Clinic

Discussion: Considering Other Potential Partners

- Who might we approach?
  - Typically privately-held investor groups or for-profit hospital operators
  - Other not-for-profit systems in the region/state
- What are we requesting?
  - Scope of interest – inpatient services
- What will we send? (review Preliminary Memorandum)
- Implications regarding our current strategic direction and a shared point of view

Discussion: Guiding Principles for Letter of Intent

- Scope of services
- Innovation/technology
- Physician relationships
- Financial terms
- Exclusivity and/or non-competes
- Charity care commitments
- Governance roles
- Timing/transition/implementation plans
- Fund-raising
  - Foundation
  - Collaboration
- Branding, Naming, and Look and Feel
- Prior liability "runout"/Indemnification

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Lakewood Hospital Association Trustees Caucus
Discussion Document

February 6, 2014

CONFIDENTIAL DRAFT – FOR DISCUSSION ONLY

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Agenda

- External Letter of Intent Process
  - Updates on the Preliminary Memorandum sent to additional external parties
  - Update on MetroHealth response
  - Profiles of respondents
  - Recommended next steps
  - Review key elements of the data book
- Guiding Principles for Evaluation of Letter(s) of Intent
  - External-facing request vs. internal evaluation criteria
  - Overview of input from Trustees
  - Discuss overall recommended evaluation criteria

Updates on External Letter of Intent Process

Initial Outreach to Local Parties

Expressed Interest	Declined Interest
• Cleveland Clinic • MetroHealth • Premier Physicians	• University Hospitals • Catholic Health Partners

Follow-up Outreach to Additional Parties (Blinded)

Expressed Interest	No Response
• Community Health Systems (CHS) • Universal Health Services (UHS) • Capella Healthcare • IASIS Healthcare	• Hospital Corporation of America (HCA) • Prospect Medical • Ohio Health

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Update on MetroHealth Response

- Emailed response to us on Wednesday, January 29th
- Notified us that they are still very interested and requested a meeting
- Have been meeting with Premier to collaborate related to Lakewood
- Now appears to be primarily interested in maintaining a hospital in Lakewood

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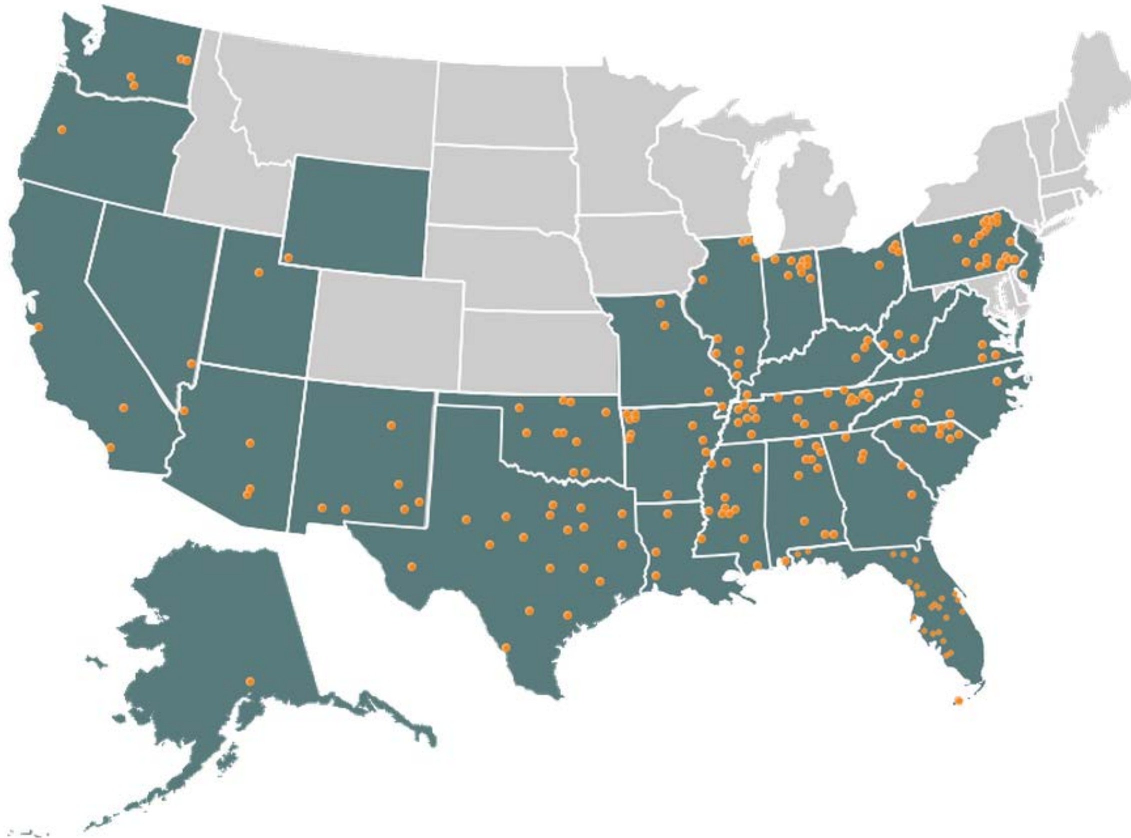
Community Health Systems

Community Health Systems (CHS)

- One of the nation's leading operators of general acute care hospitals, headquartered in Nashville
- Owns, operates or leases 206 hospitals in 29 states with 31,000 licensed beds
- 135,000 employees and 27,000 physicians on the medical staff
- 2011 revenue: $14 billion
- Based on the needs of each community, CHS hospitals offer a range of diagnostic, medical, and surgical services in inpatient and outpatient settings
- Tends to acquire small to mid-sized hospitals in secondary markets

CHS Locations



Ohio:

- Affinity Medical Center
  - Massillon, OH
  - 266 Beds
- Trumbull Memorial
  - Warren, OH
  - 311 Beds
- Hillside Rehabilitation Hospita
  - Warren, OH
  - 69 Beds
- Northside Medical Center
  - Youngstown, OH
  - 355 Beds

Most Recent Headlines: CHS

- CHS completed the acquisition of Health Management Associates, Inc. in January, adding approximately 70 hospitals to the organization.
  - $7.6 billion acquisition, making CHS the largest hospital system by volume in the country
- February 5, 2014: signed a definitive agreement to buy Sharon Regional Health System in Sharon, Pennsylvania
  - The Sharon system includes a 251 bed acute care hospital, outpatient centers and affiliated physician practices

Universal Health Services, Inc.

UHS

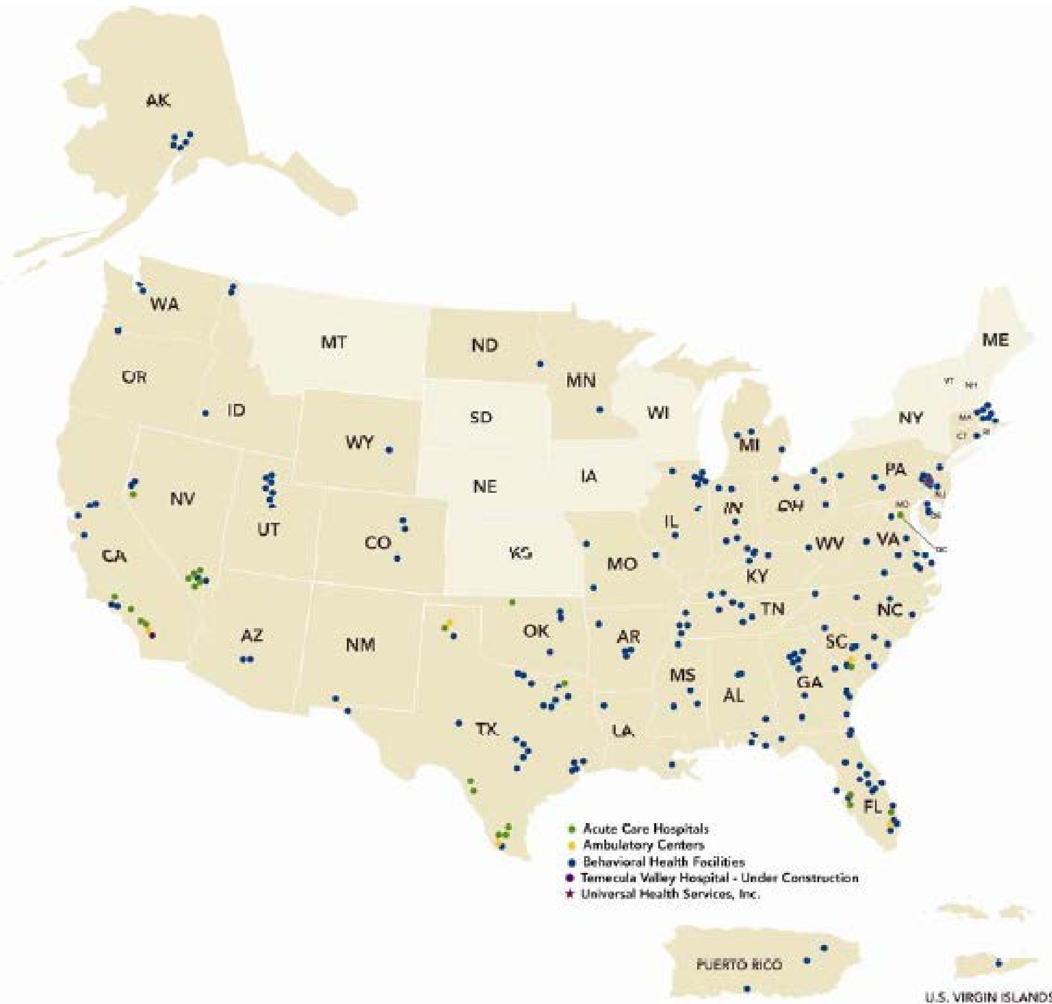
- Principal business is owning and operating (through subsidiaries) acute care hospitals, behavioral health centers, surgical hospitals, ambulatory surgery centers and radiation oncology centers; headquartered in King of Prussia, PA
- Owns or operates 23 acute care hospitals and 197 behavioral health centers located in 37 states, Washington, D.C., Puerto Rico, and the U.S. Virgin Islands
- UHS acute care hospitals average 244 licensed beds
- 2011 revenue: $7.5 billion
- Strategy: Build or acquire high quality hospitals in rapidly growing markets

UHS

- Invests in the people and equipment needed to allow each facility to thrive and become a dominant healthcare provider in its community
- UHS continually plans for added services and delivery locations
- Aggressively recruits top-notch physicians and develops provider networks to help establish UHS facilities as the most important sources of quality healthcare in their respective communities
- Ambulatory treatment division manages/owns or has partnerships with physicians, five surgical hospitals and surgery/oncology centers located in four states

UHS Geographic Locations and Diversity

Facilities in 37 States, DC, Puerto Rico, and the Virgin Islands



Ohio:

- Arrowhead Behavioral Health
  - Maumee, OH
  - 48 Beds
- Belmont Pines Hospital
  - Youngstown, OH
  - 102 Beds
  - Behavioral Health
- Foundation for Living
  - Mansfield, OH
  - 84 Beds
  - Youth treatment
- Fox Run Center for Children
  - St. Clairsville, OH
  - 100 Beds
  - Youth treatment
- Windsor Laurelwood Center
  - Wiloughby, OH
  - 106 Beds
  - Behavioral Health

Most Recent Headlines: UHS

- October 2012: acquired Ascend Health Corporation ("Ascend")
- $190 million dollar project to implement electronic health records at the company's acute care hospitals.
  - Goal: to be completed by the end of 2013
- October 2013: 48 facilities owned and operated by subsidiaries of UHS are recognized by The Joint Commission as a Top Performer on Key Quality Measures for 2012