

**Lee Memorial Health System Response to the
Florida Commission on Review of Taxpayer Funded Hospital Districts
December 28, 2011**



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CAPE CORAL HOSPITAL

GULF COAST MEDICAL CENTER

HEALTHPARK MEDICAL CENTER

LEE MEMORIAL HOSPITAL

THE CHILDREN'S HOSPITAL

THE REHABILITATION HOSPITAL

LEE PHYSICIAN GROUP

LEE CONVENIENT CARE

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Lee Memorial Health System submits the following information to clarify information shared with the Florida Commission on Review of Taxpayer Funded Hospital Districts. The following information includes facts to ensure the public record is fully accurate.

FISCAL PRUDENCE

LMHS is the largest public health system in Florida with no taxing authority and no local tax support. Our obligation to the community is to operate in a fiscally prudent manner so we can continue to serve the health care needs of residents and visitors to our area. Since only about one fifth of the patients in our community in need of hospitalization have commercial insurance, LMHS provides significant safety net services.

As a result of many decades of prudent financial investments, Lee Memorial Health System maintains an investment portfolio with a cash position necessary to comply with bond covenants and to maintain favorable bond ratings. Although the investment portfolio ended the fiscal year with a balance of \$458 million, the health system's debt totaled \$692 million which translates to a cash-to-debt ratio of 70.1%. The health system will continue to focus on significant efforts to improve the cash-to-debt ratio but what is most important is that it is inappropriate to look solely at our investment portfolio without matching it against our debt obligations.

LEADERSHIP PAY PLAN

Lee Memorial Health System has offered its management team an incentive pay plan for many years, called the Leadership Pay Plan (LPP). The plan, which is approved by the IRS as deferred compensation, was developed by the Board of Directors to attract and retain high performing leaders. The incentive plan is particularly important because, as a further demonstration of fiscal responsibility, total compensation for LMHS leadership is typically budgeted at the 50th percentile for comparable positions. Approximately 90% of hospital systems have incentive plans for leadership.

Unlike many plans which cover only top executives, the LMHS LPP includes front line supervisors and managers – *a total of approximately 580 employees*. Also, unlike most plans, the LMHS plan is only funded when LMHS exceeds its budgeted financial goals. In addition, the plan's "banking" feature defers payouts to future years if the health system does not achieve specific financial, quality or patient satisfaction goals. The banking feature incentivizes leadership to focus on achieving longer term strategic goals. Due to the banking feature, when the goals were reached and triggered a distribution in 2010, the payouts included three years of banked amounts. Of course the health system was obligated by federal tax rules to make this distribution to avoid its employees facing tax penalties. Thus, unlike other systems that might have individuals eligible for incentive payments, the LMHS plan has been fully self funded by exceeding actual system-wide goals as opposed to individuals receiving incentive payments while their organizations may not have had a successful year.

In keeping with its fiduciary responsibilities, in 2010 the LMHS Board of Directors requested an independent, comprehensive review of the LPP. Integrated Healthcare Strategies (IHS), a national health care compensation and human resource consulting firm with more than 30 years experience, was engaged by the Board of Directors to conduct an analysis of the pay plan and compare it to other comparable-sized health care organizations. IHS determined that the plan is extremely conservative relative to other comparable health systems and also IHS affirmed that the LPP is important in the recruitment and retention of high-performers.

TAX REFERENDUM

A tax referendum was held in Lee County about ten years ago to consider funding for a broad range of health care services including preventative care, behavioral health services and enhancing emergency services and the trauma system, which includes the Regional Trauma Center at Lee Memorial Hospital. A ½ cent sales tax was proposed by a task force of county government leaders, physicians, medical and behavioral health community leaders, and emergency and disaster preparedness experts who analyzed the need, studied the costs and reviewed state and national alternatives. The referendum did not include capital projects for Lee Memorial Health System nor would the money have gone directly to LMHS as it would have been administered through Lee County government specific for the multiple purposes stated in the referendum. While Lee County residents ultimately did not pass the measure, it was supported by 43% of voters.

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