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# MCLNO Business Plan Review

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Update

June 17, 2008

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# Summary

- Governor Jindal requested a review of the MCLNO business plan to assess sustainability and to provide decision-makers with updated information as the project heads into design and financing phase
  - DHH, Tulane and LSU leadership participated fully in this review process and input from additional stakeholders was solicited
  - Revisions to the demographics in the plan suggest the need for 364 acute care beds and 60 mental health beds, for a total of 424 beds:
    - Decreases in the expected average length of stay in 2016 while keeping admission rates constant
    - Decreases in the expected percentage of the population without insurance
    - Decreases in the expected number of uninsured using MCLNO relative to initial projections
  - The original financial pro-forma was revised to account for:
    - Changes in the state-wide allocation of Disproportionate Share Hospital funding post-Katrina and a “cap” on available DSH funding statewide
    - Other revenue changes based on new demographics
    - Inflation logic changed and increased to 4% vs. previously assumed 2%
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## Summary (continued)

- These revisions to the pro-forma and new analyses indicate:
    - MCLNO must be run more efficiently to manage cost and attract private patients
    - The state should expect to subsidize the new hospital with state general fund in addition to that already allocated for DSH match
    - The data supports the notion that the cost of “doing nothing” is higher than the cost of the new hospital
  
  - The project must be now packaged for financing, which requires:
    - A detailed strategic plan by LSU which outlines how it will achieve increases in efficiency, attract private patients and manage the new hospital effectively
    - Detailed “bottom-up” financial analysis for each service line and cost center
    - State determination of financing
  
  - Continued implementation of health system reform is necessary to increase use of outpatient vs. inpatient care, decrease over-reliance on emergency rooms and increase the percentage of the population with health insurance
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# Why it is important to “get this right”?

- We must spend our money wisely to begin improving our state’s poor health rankings – both in the insured and uninsured populations
- Louisiana needs a destination, technologically advanced teaching facility capable of attracting residents and research, which also draws outside dollars. Failure to train adequate numbers of physicians will be more costly in the future, and derail efforts to improve health outcomes
- At \$1 billion+, this project represents a major investment by the State. The associated debt and commitment to ongoing support will be a major state budget issue for future generations
- MCLNO replacement represents a significant policy decision: the hospital will rely on federal disproportionate share funds which are widely known to be capped. We must manage future cost growth from within this cap
- Once Louisiana approaches Wall Street for bond financing the project will receive significant scrutiny: we want to minimize surprises which could derail or delay the project
- If MCLNO does not improve efficiency and attract new patients, increases in state subsidy or a shift of DSH funding into Region 1 will be required to make ends meet; the consequences of failure are substantial

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# Process is important to build consensus

- Convened a team of DHH Secretary, Commissioner of Administration, Governor's Office, Presidents of Tulane and LSU, and leadership of Tulane and LSU Hospitals and Medical Schools; and met several times over 60 days.
- Tulane and LSU consultants developed and analyzed over 40 detailed questions regarding business plan assumptions with consultants who developed the original plan – in writing, by phone, and in person
- Tulane and LSU consultants interviewed several outside stakeholders to incorporate their differing perspectives and concerns
- Leadership team identified key policy questions
- Reviewed Louisiana DSH mechanics, and other reports on MCLNO, Region I and Louisiana health care reform
- Performed new modeling and risk analysis considering new assumptions and assessing what it will take for the Business Plan to be realized

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**BED SIZE**

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# Initial MCLNO Bed Sizing

<b>ORIGINAL</b>						
<b>Payor Category</b>	<b>2005 SA Discharges</b>	<b>2005 MCLNO Market Share</b>	<b>2005 MCLNO Discharges</b>	<b>2016 SA Discharges</b>	<b>2016 MCLNO Market Share</b>	<b>2016 MCLNO Discharges</b>
Medicare/Commercial	86,416	2.6%	2,232	78,992	5.2%	4,094
Medicaid	32,050	21.5%	6,888	24,295	29.1%	7,065
Indigent, Self Pay, Other	12,714	63.3%	8,048	9,811	84.1%	8,255
<b>Total</b>	<b>131,180</b>	<b>13.1%</b>	<b>17,168</b>	<b>113,098</b>	<b>17.2%</b>	<b>19,414</b>
Inmigration			3,858			4,703
<b>Total MCLNO Discharges</b>			<b>21,026</b>			<b>24,117</b>

<b>Sizing</b>	
ALOS 2016	5.86
Patient Days	141,326
ADC	387
<b>Med Surg Bed Need</b>	<b>416</b>
<b>Psych Bed Need</b>	<b>68</b>
	484

- Initial business plan suggested the new facility be built with 484 beds

# Revised Bed Sizing – Step 1

<b>Revised - Step 1 - Increase population</b>						
<b>Payor Category</b>	<b>2005 SA Discharges</b>	<b>2005 MCLNO Market Share</b>	<b>2005 MCLNO Discharges</b>	<b>2016 SA Discharges</b>	<b>2016 MCLNO Market Share</b>	<b>2016 MCLNO Discharges</b>
Medicare/Commercial	86,416	2.6%	2,232	82,454	5.2%	4,274
Medicaid	32,050	21.5%	6,888	25,360	29.1%	7,375
Indigent, Self Pay, Other	12,714	63.3%	8,048	10,241	84.1%	8,617
<b>Total</b>	<b>131,180</b>	<b>13.1%</b>	<b>17,168</b>	<b>118,054</b>	<b>17.2%</b>	<b>20,265</b>
Inmigration			3,858			4,909
<b>Total MCLNO Discharges</b>			<b>21,026</b>			<b>25,174</b>

<b>Sizing</b>	
ALOS 2016	5.86
Patient Days	147,520
ADC	404
Med Surg Bed Need	434
Psych Bed Need	71

505

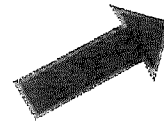
- Increase expected population in 2016 by 30,000 over previous estimates in Orleans Parish
- + 21 bed effect

# Revised Bed Sizing - Step 2

<b>Revised - Step 2 - Decrease LOS</b>						
<b>Payor Category</b>	<b>2005 SA Discharges</b>	<b>2005 MCLNO Market Share</b>	<b>2005 MCLNO Discharges</b>	<b>2016 SA Discharges</b>	<b>2016 MCLNO Market Share</b>	<b>2016 MCLNO Discharges</b>
Medicare/Commercial	86,416	2.6%	2,232	82,454	5.2%	4,274
Medicaid	32,050	21.5%	6,888	25,360	29.1%	7,375
Indigent, Self Pay, Other	12,714	63.3%	8,048	10,241	84.1%	8,617
<b>Total</b>	<b>131,180</b>	<b>13.1%</b>	<b>17,168</b>	<b>118,054</b>	<b>17.2%</b>	<b>20,265</b>
Immigration			3,858			4,909
<b>Total MCLNO Discharges</b>			<b>21,026</b>			<b>25,174</b>

<b>Sizing</b>	
ALOS 2016	5.35
Patient Days	134,681
ADC	369
Med Surg Bed Need	397
Psych Bed Need	65
	461



- Decreased expected Average Length of Stay to 5.35 days in 2016
- - 44 bed effect

# Revised Bed Sizing – Step 3

<b>Revised - Step 3 Decrease MKT Share</b>						
<b>Payor Category</b>	<b>2005 SA Discharges</b>	<b>2005 MCLNO Market Share</b>	<b>2005 MCLNO Discharges</b>	<b>2016 SA Discharges</b>	<b>2016 MCLNO Market Share</b>	<b>2016 MCLNO Discharges</b>
Medicare/Commercial	86,416	2.6%	2,232	82,454	5.2%	4,274
Medicaid	32,050	21.5%	6,888	25,360	29.1%	7,375
Indigent, Self Pay, Other	12,714	63.3%	8,048	10,241	73.0%	7,476
<b>Total</b>	<b>131,180</b>	<b>13.1%</b>	<b>17,168</b>	<b>118,054</b>	<b>16.2%</b>	<b>19,124</b>
Inmigration			3,858			4,633
<b>Total MCLNO Discharges</b>			<b>21,026</b>			<b>23,757</b>

<b>Sizing</b>	
ALOS 2016	5.35
Patient Days	127,099
ADC	348
Med Surg Bed Need	374
Psych Bed Need	61

435

- Decreased MCLNO share of uninsured patients in the market in 2016 from 84% to 73%
- - 26 bed effect

# Revised Bed Sizing – Final Step

Revised - Step 4 - Indigent Population							
Payor Category	2005 SA Discharges	2005 MCLNO Market Share	2005 MCLNO Discharges	2016 SA Discharges	2016 MCLNO Market Share	2016 MCLNO Discharges	
Medicare/Commercial	86,416	2.6%	2,232	83,123	5.2%	4,308	
Medicaid	32,050	21.5%	6,888	25,566	29.1%	7,434	
Indigent, Self Pay, Other	12,714	63.3%	8,048	9,366	73.0%	6,837	
<b>Total</b>	<b>131,180</b>	<b>13.1%</b>	<b>17,168</b>	<b>118,055</b>	<b>15.7%</b>	<b>18,580</b>	
Inmigration			3,858			4,501	
<b>Total MCLNO Discharges</b>			<b>21,026</b>			<b>23,081</b>	

Sizing	
ALOS 2016	5.36
Patient Days	123,714
ADC	339
Med Surg Bed Need	364
Psych Bed Need	59

424

- Project less uninsured, and more Medicaid, Medicare, and Commercial in the market in 2016
- - 11 bed effect
- **Final size: 364 acute beds, 60 psychiatric beds**

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## Questions about size

- What if the projected size is too small or too big?
  - Expected market bed need in 2016 was revised down from original estimate of 966 beds to 862 beds. Important to leave some capacity for growth of the other hospitals in the market as well, since 100 percent of the market's growth is highly unlikely to use the new hospital
  - The hospital will be built with "shell" space for expansion if needed

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# PRO-FORMA

# Summary of changes and new analysis

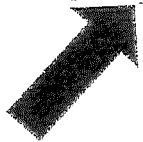
- The state funds care for the uninsured primarily through Disproportionate Share Hospital funding. The federal government matches state funds 70/30
- This type of funding has several limitations:
  - Cannot be used for physician services, prisoner care and other “non-allowables”
  - Capped at approximately \$1 billion annually and does not increase year to year
- The original pro-forma assumed that DSH funding at MCLNO would continue to grow year to year which is not realistic
  - Maximum DSH at MCLNO in the future can be expected to range from a low of \$189 million to a high of \$246 million annually – and even this range could require redistribution of existing DSH dollars from other hospitals
- Inflation was adjusted and raised from 2% annually to 4% annually. Medical inflation consistently outpaces general inflation. 4% remains conservative
- Operational efficiencies required of LSU were explicitly built into the model
- An analysis of the cost of operating the interim LSU hospital was conducted in order to compare its costs to the cost of a new facility – this “incremental analysis” is critical to sound decision making

# Incremental analysis

## Continue operating Interim Hospital

## New \$1.2 billion facility \$189 million DSH funds

	Continue operating Interim Hospital					New \$1.2 billion facility \$189 million DSH funds				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
<b>Results Summary</b>										
Operating Revenue	\$ 323	\$ 337	\$ 353	\$ 358	\$ 363	\$ 379	\$ 410	\$ 445	\$ 475	\$ 507
Operating Expense	\$ 437	\$ 471	\$ 506	\$ 526	\$ 547	\$ 501	\$ 521	\$ 541	\$ 567	\$ 595
Operating Income (Loss)	\$ (114)	\$ (133)	\$ (153)	\$ (168)	\$ (184)	\$ (122)	\$ (111)	\$ (96)	\$ (92)	\$ (88)
State Appropriation	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41
Non-Operating Income (Loss)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)
Net Income	\$ (84)	\$ (103)	\$ (123)	\$ (138)	\$ (153)	\$ (92)	\$ (80)	\$ (66)	\$ (62)	\$ (58)
EBITDA	\$ (74)	\$ (93)	\$ (113)	\$ (127)	\$ (143)	\$ (2)	\$ 8	\$ 22	\$ 25	\$ 29
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51	\$ 51	\$ 51	\$ 51	\$ 51
EBITDA "Gap"	\$ 74	\$ 93	\$ 113	\$ 127	\$ 143	\$ 64	\$ 53	\$ 39	\$ 36	\$ 32



Original business plan EBDITA showed surplus:

\$ 60 \$ 72 \$ 85 \$ 98 \$ 108

*The revised pro-forma requires significantly more SGF than the original, but is still better than not building and continuing to operate the Interim Hospital*

# “\$189m” DSH, 20 percent efficiency gains

	Actual		Budget	Projected - Current Facility				Projected - New Facility				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Key Assumptions</b>												
Adjusted Discharges	32,963	7,843	12,580	15,624	17,577	19,530	21,483	29,799	31,927	34,056	35,120	36,184
<b>Payer Mix</b>												
Medicare/Commercial	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	15.0%	17.1%	19.1%	21.2%	23.2%
Medicaid	40.1%	40.1%	40.1%	40.1%	40.1%	40.1%	40.1%	40.1%	40.1%	40.1%	40.0%	40.0%
Indigent/Self Pay	46.9%	46.9%	46.9%	46.9%	46.9%	46.9%	46.9%	44.9%	42.8%	40.8%	38.8%	36.8%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Inpatient Discharges</b>												
Medicare/Commercial	2,734	627	1,006	1,296	1,458	1,620	1,782	2,858	3,477	4,152	4,738	5,352
Medicaid	8,436	1,935	3,104	3,998	4,498	4,998	5,498	7,622	8,162	8,701	8,968	9,235
Indigent/Self Pay	9,857	2,261	3,626	4,672	5,256	5,840	6,424	8,527	8,726	8,870	8,695	8,494
Total	21,026	4,823	7,736	9,966	11,212	12,457	13,703	19,008	20,365	21,723	22,402	23,081
Total Project Cost (\$MM)												
Equity Contribution (\$MM)									\$ 1,200			
Debt Financing (\$MM)									\$ 400			
Annual Debt Service (\$MM)									\$ 800			
									\$ 51			
<b>Inflation Factors</b>												
Patient Revenue (Per Unit)												
Operating Expense				3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
				4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Projected Efficiency Gains (Versus 2005)</b>												
								15.0%	17.5%	20.0%	20.0%	20.0%
Cost per Adjusted Discharge	\$ 13,478	\$ 28,626	\$ 16,507	\$ 20,549	\$ 19,910	\$ 19,492	\$ 19,239	\$ 16,803	\$ 16,318	\$ 15,891	\$ 16,158	\$ 16,448
Inflation Adjustment				1.04	1.08	1.12	1.17	1.22	1.27	1.32	1.37	1.42
Inflation Adjusted				\$ 19,759	\$ 18,408	\$ 17,328	\$ 16,446	\$ 13,811	\$ 12,896	\$ 12,076	\$ 11,807	\$ 11,556
<b>Medicaid DSH Funding (\$MM)</b>												
Total Funds in Region 1 (Acute Care)				\$ 246	"High" Value			\$ 189	\$ 189	\$ 189	\$ 189	\$ 189
Certified Public Expenditures				\$ (43)								
Federal DSH at Public Hospitals with CPEs				\$ (14)								
Total Funds Net of CPEs				\$ 189	"Low" Value							

# "\$189m" DSH, 20 percent efficiency gains

	Actual		Budget	Projected - Current Facility				Projected - New Facility				
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Results Summary</b>												
Operating Revenue	\$ 481	\$ 192	\$ 215	\$ 272	\$ 285	\$ 300	\$ 315	\$ 379	\$ 410	\$ 445	\$ 475	\$ 507
Operating Expense	\$ 444	\$ 225	\$ 208	\$ 321	\$ 350	\$ 381	\$ 413	\$ 501	\$ 521	\$ 541	\$ 567	\$ 595
Operating Income (Loss)	\$ 37	\$ (33)	\$ 7	\$ (49)	\$ (65)	\$ (81)	\$ (98)	\$ (122)	\$ (111)	\$ (96)	\$ (92)	\$ (88)
State Appropriation	\$ 14	\$ 38	\$ 35	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41
Non-Operating Income (Loss)	\$ (36)	\$ (8)	\$ (41)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)	\$ (11)
Net Income	\$ 15	\$ (3)	\$ 1	\$ (19)	\$ (34)	\$ (50)	\$ (68)	\$ (92)	\$ (80)	\$ (66)	\$ (62)	\$ (58)
EBITDA	\$ 25	\$ 8	\$ 11	\$ (9)	\$ (24)	\$ (40)	\$ (58)	\$ (2)	\$ 8	\$ 22	\$ 25	\$ 29
Debt Service								\$ 51	\$ 51	\$ 51	\$ 51	\$ 51
EBITDA "Gap" at 1.2 Coverage								\$ 64	\$ 53	\$ 39	\$ 36	\$ 32
State Appropriation	\$ 14	\$ 38	\$ 35	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41	\$ 41
Replace CPEs with SGF								\$ -	\$ -	\$ -	\$ -	\$ -
State General Funds	\$ 14	\$ 38	\$ 35	\$ 41	\$ 41	\$ 41	\$ 41	\$ 105	\$ 94	\$ 80	\$ 77	\$ 73