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May 18, 2008

The Honorable Bobby Jindal
Governor of Louisiana
P.O. Box 94004
Baton Rouge, LA 70804-9004

Dear Governor Jindal:

New Orleans and the State of Louisiana are poised to make momentous decisions that will set the stage for one of two trajectories that will dramatically influence our future and that of our children and grandchildren. Either we will rise to a new and more effective health system and a more vibrant economy or we will muddle along in an economic and healthcare backwater. Sadly, Hurricane Katrina has thrust upon us both a tragedy and an opportunity. The tragedy is counted in lost lives, homes, and treasure. The opportunity is a unique once-in-a-lifetime chance to leap from last place to first place.

As representatives of the Downtown Development District in New Orleans, we want to encourage a path forward that creates a top-tier system of medical training, research, and health care service that attracts the best and brightest from around the world and that improves the health status of our fellow citizens. With this objective in mind, we engaged the independent health care consulting firm Health Planning Source, Inc. of Durham, North Carolina, to evaluate the business plan used as the basis for proposals by Louisiana State University (LSU) to build a new academic medical center in New Orleans in partnership with the Veterans Administration.

Health Planning Source (HPSI) is an experienced health care consulting firm with extensive skill and depth in helping communities solve complex health delivery questions. A copy of their review of the proposal for a new LSU academic medical center is enclosed.

After careful study, it is our conclusion that the LSU academic medical center being proposed with 484 beds at a cost of \$452 million and a total project cost including contingencies and financing of \$1.2 billion is a reasonable proposal and that it is even very possible that the proposal is too small for the future of the region and the state.



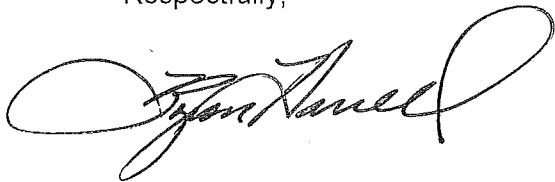
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Our conclusions are based on careful assessment of the population estimates for the area, the projected number and demand for hospital beds, the payor mix, utilization rates, and trends in hospital design and usage.

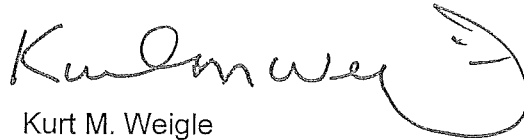
A review of similar projects around the country also confirms that the cost estimates for the LSU project compare favorably with the cost of other new replacement teaching hospitals.

We think you will find this review of great interest and we hope that you will not hesitate to call on us if we can answer any questions.

Respectfully,



Byron Harrell, Sc.D.
Chairman



Kurt M. Weigle
President & CEO

Encl.

Cc: Mr. Alan Levine, Louisiana Department of Health & Hospitals
Mr. Jay Lapeyre, New Orleans Business Council
Ms. Sandra Gunner, New Orleans Chamber of Commerce
Dr. Fred Cerise, LSU
Dr. Larry Hollier, LSU
Dr. John Lombardi, LSU
Mayor C. Ray Nagin
New Orleans City Council
Louisiana State Legislature New Orleans Delegation
Louisiana U.S. Congressional Delegation

Medical Center of Louisiana -New Orleans Business Plan Review

Prepared for:

Downtown Development District of New Orleans

Submitted by:



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MEDICAL CENTER of LOUISIANA - NEW ORLEANS
BUSINESS PLAN REVIEW

EXECUTIVE SUMMARY

The Downtown Development District of New Orleans has engaged Health Planning Source (HPS) to review the Medical Center of Louisiana - New Orleans (MCLNO) Strategic and Campus Master Plan Update (Business Plan) and provide an independent assessment of the Business Plan assumptions and recommendations as to whether they were valid and/or reasonable within the framework of general conditions of New Orleans at the time they were drafted. In addition, HPS was requested to analyze the impact of changes since the Business Plan's creation and suggest areas in which the Business Plan might be improved. HPS has completed its review and this document presents its findings and recommendations.

Based on its review of the Business Plan, HPS believes that there is a need for additional acute care bed capacity in New Orleans and that the proposal to build a new teaching hospital to meet that need is sound. HPS believes that the larger hospital proposed under the Likely scenario in the Business Plan is more reasonable than the smaller hospital proposed under the Baseline scenario from both a financial and community health care need standpoint. Moreover, HPS believes that it is probable that a larger facility than proposed under the Likely scenario is needed given HPS' review of the financial information provided in the Business Plan and the potential that the State of Louisiana will redesign its health care system, which will result in a greater need for health care services.

HPS believes that a larger facility could be self-sustaining if the MCLNO can achieve its plan of transforming from a Charity Hospital to a University Medical Center. However, given the limited scope of this engagement, HPS has not had the opportunity to ascertain the ability of the leadership and staff of MCLNO to successfully achieve this strategy, which includes the creation of Centers of Excellence and an increased market presence. Moreover, MCLNO leadership envisions strong tertiary and quaternary services, as well as national leadership in clinical research areas, all of which could

generate additional financial success. Given the information provided in the Business Plan, there is insufficient evidence to confirm or deny the ability of the MCLNO to carry out this plan. Based on its limited interviews with key leaders, HPS cannot determine whether MCLNO has the depth of organizational and clinical talent needed to succeed. In order to more definitively answer this question, HPS would recommend that the Downtown Development District of New Orleans consider additional research on current market conditions and interviews with MCLNO faculty physicians and administrators. Such research could also help to confirm and/or narrow the results of the sensitivity analyses conducted by HPS; such analyses should include current data on average length of stay, hospital occupancy rates throughout the market, hospital market share—overall, by service, and by payor, updated capacity needs of the proposed MCLNO, and physician practice patterns for the region.

SUMMARY TABLE OF BUSINESS PLAN REVIEW

<i>Assumption</i>	<i>"Likely" Scenario for 2016</i>	<i>"Baseline" Scenario for 2016</i>	<i>HPS Assessment*</i>
Number of Beds Necessary to Meet Community Need and Create a Self-Sustaining Facility	484 beds and facility is self-sustaining	363 beds and facility is <u>not</u> self-sustaining	358 to 561 beds without health care reform; 419 to 696 beds with health care reform. Ability to be self-sustaining is possible, but uncertain and requires additional research.
Population Estimate	Service area population reaches 798,664 or 82 percent of pre-Katrina	Service area population reaches 798,664 or 82 percent of pre-Katrina	Service area population reaches one to ten percent above projections
Projected Number of Hospital Discharges	113,098 discharges	121,098 discharges	Discharges are 108,181 to 110,639, two to four percent below "Likely" projections
Projected Demand for Hospital Beds	890 new beds needed excluding MCLNO	890 new beds needed excluding MCLNO	405 to 727 new beds needed excluding MCLNO
Projected MCLNO Share of Hospital Discharges	17.2 percent market share	12.4 percent market share	14.4 to 19.5 percent market share
Projected MCLNO Payor Mix	21% Medicare/ Comm. 36% Medicaid 43% Indigent	13% Medicare/ Comm. 35% Medicaid 52% Indigent	Dependent upon market share. Most feasible: 28% Medicare/Comm. 33% Medicaid 39% Indigent
Projected Indigent Utilization Levels	9,811 indigent discharges in SA; 8,255 served by MCLNO (84% share)	17,811 indigent discharges in SA; 7,748 served by MCLNO (44% share)	Indigent projections are reasonable, but MCLNO share is 63% to 84% if reform is enacted requiring 61 to 135 more beds for indigent patients than in Projected Demand for Hospital Beds Assessment
Construction and Other Development Costs	\$1.2 billion with \$452 million for building alone	Not provided	Construction costs are reasonable, but understated due to one year delay in project start to date.

*HPS Assessment of Number of Beds Necessary to Meet Community Need and Create a Self-Sustaining Facility is based on a cumulative sensitivity analysis of all the major assumptions in the business plan. All other HPS Assessments are based on analyses conducted independently of other assumptions.

MEDICAL CENTER of LOUISIANA - NEW ORLEANS BUSINESS PLAN REVIEW

The following report is organized by the major assumptions and recommendations of the Business Plan.

- Population Estimates
- Projected Number of Hospital Discharges
- Projected Demand for Hospital Beds
- Projected MCLNO Share of Hospital Discharges
- Projected MCLNO Payor Mix
- Projected Indigent Utilization Levels
- Construction and Other Development Costs
- Number of Beds Necessary to Meet Community Need and Create a Self-Sustaining Facility

Population Estimates

- The Business Plan projects that the population of the proposed service area, which includes Jefferson, Orleans, and St. Bernard parishes, will reach 798,644 in 2016 or 82.1 % of pre-Katrina levels through a repopulation rate of 1.5 percent annually.
- Recent reports from the Greater New Orleans Community Data Center (GNOCDC) and GCR & Associates suggest that the Orleans parish population is currently above Business Plan baseline projections and near 2016 projections. However, repopulation has not been as strong in Jefferson and St. Bernard parishes as expected in the Business Plan. Reported repopulation rates have slowed in the most recent six months but remain above the projected Business Plan rates.
- HPS believes that the Business Plan population projections are likely understated, given more recent data. HPS conducted a sensitivity analysis for the 2016 population for the service area that resulted in an estimated range between one percent and ten percent above the Business Plan projections. See the Appendix for the population sensitivity analysis.

Projected Number of Hospital Discharges

- The Business Plan projects 113,098 discharges in the region for 2016 based on population estimates and the assumption that future use rates will be equal to 2005 levels. The Business Plan also includes a scenario with increased discharges due to the impact of health care reform in Louisiana, which is addressed more specifically below.
- The Business Plan recognizes that: 1) use rates in Louisiana and the service area have historically been significantly higher than national averages; 2) changes in demographics, particularly the projected aging of the service area population, significantly impact use rates; and 3) advances in technology and practice patterns have caused age-adjusted use rates to decline over time.
- HPS believes that it is likely that use rates in the service area, as is expected nationally, will decline somewhat over time due to advances in technology and changing practice patterns, but will not reach the national average by 2016. While health care practice patterns do not usually change rapidly, the high turnover in physicians as a result of Katrina is likely to accelerate any potential shift. The comparatively high use rates in the service area represent a significant opportunity for such a decrease in the intensity of hospital use. HPS conducted a sensitivity analysis for discharges in the region in 2016 based on estimated decreases in hospital use rates resulting from technology and practice pattern changes. These analyses suggest that use rates could be two to four percent below the Business Plan projections. See the Appendix for the discharge sensitivity analysis.

Projected Demand for Hospital Beds

- The Business Plan projects demand for 890 new acute care beds in the region based on the assumption that hospital use rates and average lengths of stay (ALOS) will not change from 2005 levels and that bed occupancy will be 70 percent. The Business Plan also includes a scenario with increased bed need due to the impact of health care reform in Louisiana, which is addressed in a later analysis.

- PricewaterhouseCoopers (PwC) and the Government Accountability Office (GAO) have stated that New Orleans does not need new acute care beds based on the assumption that hospital use rates will decline to the national average and that the beds will achieve an occupancy rate of 75 to 80 percent. HPS disagrees with the assessments and conclusions of PwC and the GAO; specifically, the assumption that local use rates will decrease to national levels by 2016 is too aggressive.
- HPS believes that it is likely that the ALOS for the region will decline somewhat over time, due to advances in technology and the potential for changes in practice patterns resulting from the high physician turnover since Katrina. Using the results of the preceding discharge sensitivity analysis, HPS conducted a bed need sensitivity analysis based on estimated decreases in ALOS and assuming an overall market occupancy rate of 70 percent; the result is a range of 405 to 727 additional beds needed in the region, excluding those currently in operation at the interim MCLNO. HPS assumed the same occupancy rate as the Business Plan because it believes that assumption to be conservatively reasonable. (HPS recommends occupancy rates that vary based on the size of the facility, as larger facilities can generally accommodate higher occupancy rates than smaller ones. An overall market assumption of 70 percent occupancy is reasonable, but somewhat generous; an overall market occupancy rate of 75 percent might be a more effective target.) The sensitivity analysis uses the existing bed supply as provided in the Business Plan; however, HPS believes that there have been changes since that time and has requested updated bed supply numbers. See the Appendix for the bed need sensitivity analysis.

Projected MCLNO Share of Hospital Discharges

- The Business Plan projects that MCLNO will achieve 12.4 percent and 17.2 percent share of discharges in the service area in 2016 under the Baseline and Likely scenarios, respectively. The Baseline scenario assumes that the MCLNO's market share and payor mix will be consistent with pre-Katrina levels. The increase in market share under the Likely scenario assumes three factors: 1) LSU faculty will repatriate some Medicare and Commercial patients to MCLNO, who were treated

at other facilities prior to the storm; 2) shifting demographics in service area have led patients to seek alternative sites of care; and 3) patients will be redistributed within market due to the closure of several acute care providers. HPS interviewed Mike Romano of Phase 2 Consulting who stated that each of these three factors contributed approximately one-third to the projected market share increase assumed under the Likely scenario.

- In interviews with HPS, Dr. Dwayne Thomas, CEO of MCLNO, and Dr. Larry Hollier, Chancellor of LSU Health Sciences Center, expressed confidence that LSU faculty will repatriate Medicare and Commercial patients to MCLNO, assuming that there is sufficient capacity (both for beds and operating rooms) for those patients at the facility. HPS believes that the projected repatriation is likely *if MCLNO has sufficient capacity to accommodate the Medicare and Commercial patients of the LSU faculty*. If sufficient capacity exists, HPS believes that the associated volume may exceed the Business Plan projections due to the convenience for LSU faculty and the quality of the facility proposed in the Business Plan.
- HPS believes that it is likely that patients will be redistributed in the market due to the closure of hospitals, but there is some uncertainty about the degree to which MCLNO's market share will be affected by repatriation (dependent on capacity) and shifting demographic factors. HPS conducted a sensitivity analysis to determine the extent to which changing assumptions about repatriation and shifting demographics would alter MCLNO's market share. The analysis resulted in a range of 14.4 percent to 19.5 percent market share or 2.7 percentage points below and 2.4 percentage points above the Business Plan's projections under the Likely scenario. This range of market share estimates results in a range of 3,612 discharges below and 3,586 discharges above the Business Plan's projected discharges under the Likely scenario. Using the Business Plan's ALOS and bed occupancy assumptions, this variation of MCLNO discharges results in a range of bed need at MCLNO from 72 fewer to 72 more beds. See the Appendix for the share of hospital discharges sensitivity analysis. This analysis excludes the potential impact of health care reform in Louisiana which will be addressed below.

Projected MCLNO Payor Mix

- The Business Plan projects that MCLNO will achieve the following payor mix under the Baseline and Likely scenarios:

<i>Payor</i>	<i>Baseline Mix</i>	<i>Likely Mix</i>
Medicare/Commercial	13.0%	21.1%
Medicaid	35.4%	36.4%
Indigent, Self-Pay, Other	51.6%	42.5%

- Interviews with Dr. Hollier, Dr. Thomas, and Mike Romano cited above provided information about the potential changes to MCLNO's payor mix due to the three factors that might also drive increased market share: 1) LSU faculty will repatriate some Medicare and Commercial patients to MCLNO, who were treated at other facilities prior to the storm; 2) shifting demographics in the service area have led patients to seek alternative sites of care; and 3) redistribution of patients in the market due to the closure of several acute care providers.
- HPS believes that MCLNO's payor mix is dependent upon its ability to increase its share of hospital discharges in the region. Therefore, HPS used the results of the three scenarios explored in the share of hospital discharges sensitivity analysis discussed in the previous section to estimate MCLNO's payor mix. The following table presents the results by scenario:

<i>Payor</i>	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>
Medicare/Commercial	14.7%	27.7%	26.0%
Medicaid	39.2%	33.2%	34.2%
Indigent, Self-Pay, Other	46.1%	39.1%	39.9%

If MCLNO has sufficient capacity to accommodate the Medicare and Commercial patients of LSU faculty, HPS believes that Scenario 2 is the most likely scenario. Scenario 2 assumes that: 1) LSU faculty physicians will repatriate more Medicare and Commercial patients than projected in the Business Plan due to the convenience for LSU faculty and the quality of the proposed facility; and, 2) that there will be a redistribution of patients in the market due to hospital closures. Scenario 2 represents a significant enhancement of MCLNO's payor mix, compared with the Business Plan; however, it is heavily dependent on sufficient capacity at the facility

to accommodate the LSU faculty's repatriated Medicare/Commercial patients and their willingness to serve those patients at the new facility. Also, Scenario 2 assumes a similar volume of indigent patients as the Business Plan; however, the share of indigent patients is lower as a result of overall higher volume assumptions in the HPS review.

Projected Indigent Utilization Levels

- The Business Plan projects 17,811 and 9,811 indigent discharges in the region for 2016 under the Baseline and Likely scenarios, respectively. The Baseline scenario includes an estimate of the impact of health care reform in Louisiana and the potential for increased hospital use rates among the indigent. Additionally, the Baseline scenario assumes that an increase in indigent care utilization under health care reform will be accompanied by a redistribution of those patients among hospitals.
- HPS conducted interviews with Dr. Thomas and Dr. Hollier, who both suggested that health care reform has a reasonable chance of enactment. However, both leaders believe that such reform will result in lower reimbursement rates for indigent care, which in turn would not lead to a redistribution of indigent patients among hospitals, contrary to the assumption in the Business Plan.
- HPS believes that the Business Plan reasonably projects the degree of indigent utilization in the region under the two potential scenarios: no health care reform and health care reform is enacted. However, HPS believes that little to no redistribution of indigent patients will occur under health care reform, which will result in increased indigent utilization at MCLNO as compared to the Business Plan assumptions. In addition to the reimbursement disincentive cited in the interviews, such redistribution would require a change the patients' knowledge of available access points, as well as adequate transportation to other facilities. HPS believes these factors are not likely to occur, especially with the development of MCLNO as the area's newest hospital facility. In order to determine the potential impact of health care reform on MCLNO without any redistribution of indigent patients, HPS conducted an indigent utilization sensitivity analysis based on

MCLNO's historical share of indigent patients and the Business Plan's projected share of indigent share. This analysis suggests a range of 11,274 to 14,979 indigent discharges served by MCLNO or 61 to 135 additional beds required to serve indigent patients than projected in the Likely scenario. See the Appendix for the indigent utilization sensitivity analysis. These additional discharges and required beds assume that health care reform will be enacted in Louisiana, and, as a result, inpatient utilization among the indigent will increase.

Construction and Other Development Costs

- The Business Plan projects a capital cost of \$1.0 Billion and \$1.2 Billion for MCLNO, under the Baseline and Likely scenarios, respectively. However, the Business Plan only provides detailed construction costs for the Likely scenario and thus HPS' analysis is confined to that data. According to the Program Opinion of Probable Construction Cost, the following costs are expected:

<i>Component</i>	<i>Total</i>	<i>Per Sq Ft</i>	<i>Per Bed</i>
Hospital building excluding escalation	\$452 m	\$276	\$0.9 m
Hospital building including escalation	\$499 m	\$304	\$1.0 m
Hospital building plus sitework and parking including escalation	\$613 m	\$374	\$1.3 m
Hospital building plus sitework and parking including escalation and New Orleans premium (28%)	\$784 m	\$478	\$1.6 m

As the table demonstrates, the hospital building alone is projected to cost \$452 million. However, the Business Plan adds escalation costs of 10.4 percent to the total project not to the individual project components. HPS estimates the cost of the MCLNO building, including escalation, to be \$499 million or \$1.0 million per bed. The cost of the MCLNO building plus sitework and parking and including escalation is estimated to be \$613 million. Finally, the Business Plan assumes a New Orleans market premium of 28 percent which brings the total construction cost of the project to \$784 million.

- The Business Plan master schedule begins in January 2007 with land acquisition, planning, and design. Given that the project has not yet begun, HPS believes that

the construction schedule for project is at least one year behind as of May 2008. As a result, the Business Plan is understated by the escalation cost associated with this one-year delay in construction or at least five percent.

- HPS reviewed construction costs from publicly available comparable projects recently planned in the Southeast. According to the analysis of these comparable projects provided in the Appendix, the projected cost determined in the Business Plan is within the range provided. The per bed estimates are also consistent with current industry expectations in most markets. However, HPS believes that the construction costs provided in the Business Plan are now understated due to the delay, which currently stands at one year.

Number of Beds Necessary to Meet Community Need and Create a Self-Sustaining Facility

- Based on the assumptions used in the upper range and lower range estimates in all of the preceding sensitivity analyses, HPS conducted a cumulative sensitivity analysis that results in a range of beds needed at MCLNO of 358 to 561, if health care reform is not enacted, and 419 to 696 if health care reform is enacted. The Business Plan projects a range of 362 to 484 beds needed at MCLNO, under the Baseline and Likely scenarios, respectively. See the Appendix for the cumulative sensitivity analysis.
- HPS believes that the smaller-range facility is likely to require significant financial assistance from the state in order to remain operational. Specifically, HPS believes that MCLNO will retain the majority share of indigent patients under all scenarios. Therefore, in order to develop a self-sustaining organization, MCLNO must have adequate facility capacity, beyond the needs of the indigent population, to attract Medicare and Commercial patients of LSU faculty. HPS believes that the larger-range facility has the potential to be self-sustaining, with an enhanced financial position due to a larger share of repatriated Medicare and Commercial patients by LSU faculty and the development tertiary and quaternary clinical research programs. However, HPS has not been engaged to evaluate whether or not MCLNO has the ability to transform itself to a University Medical Center—a key

driver in its ability to achieve financial success. Such a change is a massive undertaking requiring talented leadership, physicians, and staff. The Business Plan does not provide enough evidence for HPS to conclude whether MCLNO has the resources and capabilities to execute its strategy and achieve the notable vision of its leadership. Additional market research and interviews with MCLNO faculty physicians and administrators would be required in order to better determine the organizational abilities of MCLNO.

Appendix

Downtown Development District of New Orleans
MCLNO Business Plan (BP) Population Sensitivity Analysis

		Scenario 1	Scenario 2	Scenario 3
	HPS 2008 Estimate [^]	2016 using BP CAGR (0.1%)	2016 using GNOCDC CAGR from most recent 6 mos. (-0.01%)	2016 using BP 2008 Pop. and GNOCDC CAGR from most recent 6 mos. (-0.1%)
Jefferson	428,797	432,112	428,350	446,289
Variation below (above) BP estimates		17,628	21,390	3,451

[^]Census in July 2007 estimated Jefferson population at 94% of 2005 - extrapolated to 2008 equals 95%; GNOCDC estimates 98.1% of 2005 residences receiving mail in 2008; HPS assumes average of two estimates and applied to BP pre-Katrina population.

		Scenario 1	Scenario 2	Scenario 3
	HPS 2008 Estimate [^]	2016 using BP CAGR (1.5%)	2016 using GNOCDC CAGR from most recent 6 mos. (3.5%)	2016 using BP 2008 Pop. and GNOCDC CAGR from most recent 6 mos. (3.5%)
Orleans	305,229	343,073	400,687	355,027
Variation below (above) BP estimates		(39,095)	(96,709)	(51,049)

[^]Census in July 2007 estimated Orleans population at 53% of population - extrapolated to 2008 equals 60%; GCR estimated 2008 Orleans pop at 66% of 2005; GNOCDC estimates 71.5% of 2005 residences receiving mail in 2008; HPS assumes average of three estimates applied to P2C pre-Katrina population.

		Scenario 1	Scenario 2	Scenario 3
	HPS 2008 Estimate [^]	2016 using BP CAGR (1.1%)	2016 using GNOCDC CAGR from most recent 6 mos. (8.5%)	2016 using BP 2008 Pop. and GNOCDC CAGR from most recent 6 mos. (8.5%)
St. Bernard	28,374	31,058	54,364	78,638
Variation below (above) BP estimates		13,868	(9,438)	(33,712)

[^]Census in July 2007 estimated St. Bernard population at 31% of 2005 - extrapolated to 2008 equals 44%; GNOCDC estimates 43% of 2005 residences receiving mail in 2008; HPS assumes average of two estimates and applied to P2C pre-Katrina population

	HPS 2008 Estimate Total	Scenario 1	Scenario 2	Scenario 3
Total SA	762,400	806,243	883,400	879,954
Variation below (above) BP estimates	(4,620)	(7,599)	(84,756)	(81,310)
Percent Variation		0.9%	9.6%	9.2%

Source: Greater New Orleans Community Data Center (GNOCDC), The New Orleans Index, April 16, 2008; GCR & Associates, New Orleans Population Surpasses 300,000

Downtown Development District of New Orleans
MCLNO Business Plan (BP) Discharge and Bed Need Sensitivity Analysis

	Scenario 1	Scenario 2
	Pre-Katrina Use Rate and ALOS decreased by 50% of expected decline in use rate and ALOS per HPS estimates^	Pre-Katrina Use Rate and ALOS decreased by expected decline in use rate and ALOS per HPS estimates^
BP 2016 Population	798,644	798,644
Discharges / 1,000	141.6	135.5
SA Discharges	113,098	108,181
Variation below (above) BP estimates	2,459	4,917
Percent Variation	2.2%	4.3%
ALOS	5.78	5.41
SA Days	653,350	585,494
In-migration (22.5%)	147,095	131,736
Total Market Days	800,080	717,230
Total Market ADC	2,192	1,965
Occupancy	70%	70%
Bed Need	3,132	2,807
Bed Supply	2,242	2,242
New beds required	890	565
Variation below (above) BP estimates	163	325
Percent Variation	18%	36%

^HPS estimates that national discharges per 1,000 population will fall 4.3% and ALOS will fall 6.4% over the next ten years based on changing practice patterns and technology.

Note: According to 2008 AHA Hospital Statistics, the national average is 118.2 discharges per 1,000 population.

Downtown Development District of New Orleans
MCLNO Business Plan (BP) MCLNO Share of Hospital Discharges and Payor Mix

2005 Market Share	13.1%
BP Likely Scenario Market Share	17.2%
Difference	4.1%

	Each factor contributes one-third of 4.1% market share increase
Factor 1: Contribution of LSU faculty ¹	1.4%
Factor 2: Shifting demographics	1.4%
Factor 3: Redistribution due to hospital closure	1.4%

¹HPS believes that Factor 1 may be understated and estimates that as much as 90% of LSU Faculty Share of Medicare/Commercial will repatriate.

LSU Faculty Medicare/Commercial Discharge	2005
Total Medicare/Commercial Discharges	5,410
LSU Faculty Share of Medicare/Commercial	86,416
90% of LSU Faculty Share of Medicare/Commercial	6.3%
90% of LSU Faculty Share as % of Total Market	5.6%
	3.7%

	BP Likely Scenario	Scenario 1 Factor 3 only	Scenario 2 Factor 3 plus 90% of LSU Faculty Share (3.7%)	Scenario 3 Factor 2 and Factor 3 plus 90% of LSU Faculty Share (3.7%)
Increase over 2005 Share	4.1%	1.4%	5.1%	6.4%
Estimated Market Share	17.2%	14.4%	18.2%	19.5%
Variation below (above) BP estimates	-	2.7%	-1.0%	-2.4%
BP SA Discharges	113,098	113,098	113,098	113,098
MCLNO Discharges	19,414	16,339	20,537	22,074
In-migration (22.5%)	4,703	4,166	5,237	5,629
Total MCLNO Discharges	24,117	20,505	25,774	27,703
Variation below (above) BP estimates	-	3,612	(1,657)	(3,586)
Percent Variation	-	15.0%	6.9%	14.9%
Bed Need variation (5.86 ALOS and 80% occup.)	-	72	-33	-72

Medicare/Commercial Mix	21.1%	14.7%	27.7%	26.0%
Medicaid Mix	36.4%	39.2%	33.2%	34.2%
Indigent, Self-Pay, and Other Mix	42.5%	46.1%	39.1%	39.9%

Downtown Development District of New Orleans
MCLNO Business Plan (BP) Indigent Utilization Sensitivity Analysis

	Business Plan (BP) Likely Scenario	Scenario 1 Pre-Katrina Market Share of Indigent Patients	Scenario 2 BP Market Share of Indigent Patients under Likely Scenario
BP 2016 Indigent Discharges	9,811	17,811	17,811
MCLNO Market Share	84.1%	63.3%	84.1%
MCLNO Indigent Discharges	8,255	11,274	14,979
Variation below (above) BP estimates		(3,019)	(6,724)
Percent Variation		36.6%	81.5%
ALOS	5.86	5.86	5.86
MCLNO Indigent Days	48,374	66,068	87,777
MCLNO Beds Needed for Indigent	166	226	301
Variation below (above) BP estimates		61	135

Downtown Development District of New Orleans
Construction Cost Analysis

	MCLNO ^A	Hospital A	Hospital B	Hospital C	Hospital D
<u>Building Construction Costs (includes escalation)</u>					
Bldg SF	\$ 499,118,400	\$ 13,896,213	\$ 64,621,536	\$ 59,500,000	\$ 26,665,708
\$/SF	1,640,131	53,991	209,412	184,323	77,248
	\$ 304.32	\$ 257.38	\$ 308.59	\$ 322.80	\$ 345.20
Beds	484	27	50	70	96
\$/Bed	\$ 1,031,236	\$ 514,675	\$ 1,292,431	\$ 850,000	\$ 277,768
<u>Building plus Sitework and Parking (includes escalation)</u>					
\$/SF	\$ 612,720,000	\$ 14,795,464	\$ 71,457,306	\$ 71,850,000	\$ 26,665,708
\$/Bed	\$ 373.58	\$ 274.04	\$ 341.23	\$ 389.80	\$ 345.20
	\$ 1,265,950	\$ 547,980	\$ 1,429,146	\$ 1,026,429	\$ 277,768
<u>MCLNO-specific additions</u>					
New Orleans Market Premium (28% of pre-escalation cost)	\$ 171,600,000				
Building, Sitework, Parking plus escalation and market premium	\$ 784,400,000				
\$/SF	\$ 478.25				
\$/bed	\$ 1,620,661				

Notes	Includes ambulatory services building, off-site materials distribution center, central energy plant, enclosed connector to parking garage, bridge connector to adjacent building	Bed tower addition to existing outpatient facility	New 50-bed hospital on site without utilities	New hospital, new site. Includes central energy plant	Academic Medical Center. Four additional floors on existing bed tower

^AThe Business Plan adds escalation costs to the total project and not to the individual components. For comparison purposes, HPS estimated Building Construction Costs and Building plus Sitework and Parking Costs when escalation is included at 10.4% as assumed in the Business Plan

Downtown Development District of New Orleans
MCLNO Business Plan (BP) Cumulative Sensitivity Analysis

	Lower Range Estimate	Upper Range Estimate
2016 Population	806,243	883,400
Discharges per 1,000	135.5	138.5
Cumulative SA Discharges	109,210	122,381
ALOS	5.41	5.60
Cumulative SA Days	591,065	684,855
In-migration (22.5%)	132,990	154,092
Cumulative Market Days	724,054	838,947
Bed Occupancy	70%	70%
Cumulative Bed Need	2,834	3,284
Bed Supply	2,242	2,242
Cumulative New Beds Required	592	1,042
MCLNO Market Share	14.4%	19.5%
Cumulative MCLNO Market Days	104,603	163,745
MCLNO Bed Occupancy	80%	80%
Cumulative MCLNO Bed Need	358	561
Incremental Bed Need if health care reform is enacted in Louisiana	61	135
Total Bed Need if health care reform is enacted in Louisiana	419	696