LSU Health Care in New Orleans

Plans For A Replacement Hospital
In A Redesigned Health Care System

Report to the
Louisiana Recovery Authority

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CEO, Health Care Services Division

October 5, 2006

Charity Hospital
Principles and Assumptions

Louisiana’s Health Coverage

- **A Small-Business State**
  - An employer-based system of coverage that leaves ~41% without insurance
  - A Medicaid program that makes up a little less than half of the gap, leaving ~21% uninsured, pre-K
  - Two-thirds of the uninsured are employed, which is not uncommon in other states

- **Providers deal with the effects of an large uninsured population**
  - LSU is a network of doctors, clinics and hospitals working to assure access with only a fraction of the revenues insurance coverage would require
  - LSU provides high quality of care within its allocated budget
  - LSU embraces Health Care Redesign as a means to extend quality care to a greater share of the uninsured
**HCSD Vision for the future of the LSU Hospitals**

The November 1, 2005, Request for Federal Assistance, reflecting the first statement of the HCSD Vision.

The March 1, 2006 HCSD Recovery Plan containing the core elements of the HCSD Vision for the hospital system.


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**Key Principles For Rebuilding The LSU Hospital In New Orleans**

*JANUARY 2006*

A national panel of experts met with LSU leadership in Washington to develop a set of Key Principles to guide rebuilding efforts in New Orleans. They helped form the Vision for Health Care in the post-hurricane environment.
**Key Principles For Rebuilding The LSU Hospital In New Orleans**

**JANUARY 2006**

1. Diversify sources of financing and decrease reliance on Medicaid Disproportionate Share
2. Align clinical faculty physicians with the hospital system to create linked destiny
3. Strengthen relationships with community physicians
4. Deliver excellence in patient care, emphasize ambulatory
5. Design physical plant to promote quality, efficiency, customer service
6. Explore strategies to promote more equitable distribution of Uncompensated Care among LA hospitals
7. Invest in Information Technology to achieve excellence and to compete
8. Consider balance between regionalization, centralization
9. Explore opportunities with the VA in New Orleans
10. Contribute to revived economy through links with life sciences, biotech firms

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**Core Elements of LSU Health Care Vision**

1. Rebuild and Improve Infrastructure
2. Restore, Stabilize and Redistribute Specialty Services for a Dispersed Population Through a Multi-Hub Model
3. Disperse primary-care to sites close to the patient population
4. Extend Quality and Operational Improvement Strategies
5. Prepare to Sustain Dual Mission in a Redesigned Health Care System
1 Rebuild and Improve Infrastructure

- New Orleans
- Baton Rouge
- Alexandria/Pineville

- A small hospital system
- A huge outpatient (clinic) system

2 Restore, Stabilize and Redistribute Specialty Services

Envisioned System-wide Distribution of Specialty Services

Tertiary and Referral Hospitals
MCLNO and Earl K. Long

Secondary and Specialty Hospitals
Leonard J. Chabert, University Medical Center, Bogalusa Medical Center, Huey P. Long

Foundation Hospitals
W. O. Moss and Lallie Kemp
3 Decentralize Primary Care

Mobile Clinics
1. Douglas Senior High/Drew Elementary
   3820 St. Claude
2. Henderson Middle
   1912 L B Landry
3. Martin Behrman Elementary
   715 Opelousas
4. McDonough 28 Junior High
   2733 Esplanade
5. Jackson Barracks
6. 1300 Myrtle Street - Kenner (not shown)

Facility-Based Clinics
7. O. Perry Walker
   2832 General Meyer
8. Oakwood
   128 Wright

One remaining mobile clinic may serve as specialty care clinic at University Hospital

4 Extend Quality and Operational Improvement Strategies

- **Health Care Effectiveness - Top Quality**
  - Continue and expand nationally recognized Disease Management program
  - Develop Electronic Medical Record
  - Continue and expand initiatives to improve ER, Clinic operations

- **Operational Improvement - Work Smarter**

- **Information Technology - Invest for Quality**
Quality – Examples of Excellence

Congestive Heart Failure Program

- National Award Winner — National Association of Public Hospitals
- Published Study Showing Improved Outcomes for Racial Minorities and Women (Elimination of Disparities)
- Louisiana would rank 4th in the nation on Medicare Quality Indicators for CHF if the other state providers achieved similar outcomes

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Quality – Examples of Excellence

LSU Hospital Ranking on Acute MI

Median LA score = 89
Median USA score = 91

Compliance With Recommended Treatments

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Score</th>
<th>Rank in LA</th>
<th>Rank in USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>EKL</td>
<td>97</td>
<td>★★★★★</td>
<td>★★★★★</td>
</tr>
<tr>
<td>MCL</td>
<td>95</td>
<td>★★★★★</td>
<td>★★★★★</td>
</tr>
<tr>
<td>LJC</td>
<td>98</td>
<td>★★★★★</td>
<td>★★★★★</td>
</tr>
<tr>
<td>UMC</td>
<td>94</td>
<td>★★★★★</td>
<td>★★★★★</td>
</tr>
<tr>
<td>HPL</td>
<td>92</td>
<td>★★★★</td>
<td>★★★★</td>
</tr>
<tr>
<td>BMC</td>
<td>77</td>
<td>★</td>
<td>★</td>
</tr>
</tbody>
</table>

USA Today, 9/06, Based on CMS Data

5 Stars = Highest Quintile
**Quality – Another Example of Excellence**

% With Mammogram in Past Two Years

The LSU Hospitals had a higher percentage of patients Receiving mammograms in the past two years, compared to other Medicaid providers.

**SOURCE:** DHH

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5 **Prepare for Health Care Redesign**

- Expanded clinics providing primary care nearer patients
- Stronger and closer relationships with community clinics and physicians, including electronic access to patient information
- The concept of a “medical home” for every patient in the form of an appropriate physician to oversee all the patient’s care
- Payment of physicians for care to the uninsured
- Expanded coverage through Medicaid
Planning Assumptions
Factors Bearing On Hospital Size

Population Size and Composition

- Broad service region, not Orleans only
- 50-year decision, not just for next few years
- "Uninsurance" rate and the poverty cycle
- Need to handle specialty referrals from outside region, i.e., Trauma
- Proximity of other facilities

Planning Assumptions
Factors Bearing On Hospital Size

Population Size and Composition

- Comparison to LSU’s University Hospital in Shreveport
  - Beds: 450 capacity
  - Population
    - Caddo – Bossier: 350,000
  - Total in Primary Service Region: 480,000
- Specialty Referrals come from across North Louisiana
- 90% occupancy
Planning Assumptions
Factors Bearing On Hospital Size

Population Size and Composition

<table>
<thead>
<tr>
<th></th>
<th>LSU-Shreveport (Current)</th>
<th>N.O. Pre-K (Planned - 2010)</th>
<th>N.O. Post-K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parish Population</td>
<td>350,000</td>
<td>515,000</td>
<td>350,000</td>
</tr>
<tr>
<td>(Caddo-Bossier)</td>
<td>350,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Region</td>
<td>480,000</td>
<td>1,138,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Beds – Existing/Needed</td>
<td>450</td>
<td>591</td>
<td>350</td>
</tr>
</tbody>
</table>

Pre-Katrina Estimates of Uninsurance, Total Population

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US*</td>
<td>16.0%</td>
</tr>
<tr>
<td>LA**</td>
<td>21.7%</td>
</tr>
<tr>
<td>NO Region**</td>
<td>23.5%</td>
</tr>
</tbody>
</table>

Insurance coverage among adults has been declining over the past several years in both Louisiana and the nation.

**DHH, Louisiana Health Insurance Survey, 2005; Small Area Health Insurance Estimates (SAHIE), US Census 2000 confirms 2% higher N.O. area and state rates.
% Uninsured in Louisiana
By Area of Work

<table>
<thead>
<tr>
<th>Area of Work</th>
<th>Uninsurance Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Admin.</td>
<td>7.7</td>
</tr>
<tr>
<td>Education</td>
<td>8.9</td>
</tr>
<tr>
<td>Professional</td>
<td>10.4</td>
</tr>
<tr>
<td>Information</td>
<td>10.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.5</td>
</tr>
<tr>
<td>Finance</td>
<td>11.8</td>
</tr>
<tr>
<td>Health Care</td>
<td>15.6</td>
</tr>
<tr>
<td>Utilities</td>
<td>18.7</td>
</tr>
<tr>
<td>Arts</td>
<td>22.3</td>
</tr>
<tr>
<td>Retail</td>
<td>22.6</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>23.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>23.1</td>
</tr>
<tr>
<td>Agriculture</td>
<td>29.6</td>
</tr>
<tr>
<td>Services - Oth.</td>
<td>29.9</td>
</tr>
<tr>
<td>Construction</td>
<td>31.0</td>
</tr>
<tr>
<td>Hotel</td>
<td>36.7</td>
</tr>
</tbody>
</table>

State Average: 36.7

Uninsurance Rate
Source: DHH Health Insurance Survey, 2004

Planning Assumptions
Factors Bearing On Hospital Size

Why Only 350 beds?

- Other LSU Hospitals located in South Louisiana
  - Houma, Baton Rouge, Northshore
  - Earl K. Long planned as major Academic Medical Center

- Location of training programs
  - Hospitals depend on relationship with training programs
  - Those programs also affected by Katrina

- Effects of Health Care Redesign
Planning Assumptions
Factors Bearing On Hospital Size

- Opportunity for a more competitive business plan
  - Clinical research
  - BioTech magnet
  - Diversified payor mix

- 350 beds
  - Subject to detailed planning
  - Need sufficient beds to support a more competitive business plan
    - Clinical research, BioTech magnate, diversified payor mix
    - Support Trauma and specialty care
  - Design should be scalable to respond to changes in population, rate of insurance coverage, delivery system redesign, emerging market needs

If too small, the facility will revert to the “same old charity hospital”
LSU/VA Collaboration

LSU/VA Collaborative Opportunities Study Group
LSU and the VA - Natural Partners

- Long history of collaboration through purchase of services
- Both are public mission hospitals
- Both provide more extensive outpatient than inpatient care
- Both have integrated delivery systems with documented High Quality
- Both had facilities effectively destroyed by Katrina

The LSU/VA Memorandum of Understanding

“...conduct an analysis to determine what, if any, mutually beneficial consolidation should occur between the New Orleans Veterans Affairs Medical Center (VAMC) and LSU-HCSD.”

Consider . . . .
- Service, quality, access, cost, efficiency, management, practicality, legal and regulatory, logistics
- Clinical areas
  - Lab, Radiology
  - Operating Rooms
- Facility Sharing
  - Parking
  - Power Plant
- Support Service Sharing
  - Food service, Housekeeping
  - Information Systems

Also . . .
Consider the alternative of developing no cooperative relationship with the VA.
The Focus of the Collaborative Opportunities Study Group

- Construction of a single campus
  - Separate VA and LSU “towers”
  - Shared functions, services, areas
- Site in current medical district
- Separate hospital identities maintained
- “Sharing” defined by contractual relationships

Potential Purchase of Services

<table>
<thead>
<tr>
<th>Services the VA would purchase from the LSU Hospital in N.O.</th>
<th>Services the N.O. Hospital would purchase from the VA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pulmonary/Respiratory</td>
<td>EEG</td>
</tr>
<tr>
<td>Cardiology (including cardiac cath)</td>
<td>Orthopedics</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>Dental</td>
</tr>
<tr>
<td>Physical and Occupational Therapy</td>
<td>Audiology/Speech</td>
</tr>
<tr>
<td>Oncology</td>
<td>Dialysis</td>
</tr>
<tr>
<td>Emergency Room Services</td>
<td>MRI</td>
</tr>
<tr>
<td>Dietary excluding cafeteria</td>
<td>Nuclear Medicine</td>
</tr>
<tr>
<td>Housekeeping</td>
<td>Interventional Radiology</td>
</tr>
</tbody>
</table>
Project Delivery Comparison Schedule
LSU/VA Joint Medical Center

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>LSU Land Acquisition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LSU Planning and Programming</td>
<td></td>
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<td>VA Planning and Programming</td>
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<tr>
<td>Design</td>
<td></td>
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<tr>
<td>Construction</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Occupancy</td>
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</tr>
</tbody>
</table>

Anticipated cost of 350 bed facility will be ~$630 million

Possible Sources
- $300 million in CDBG funds through the LRA
- FEMA reimbursement not yet known
- Debt Financing of remainder
  - Alternatives include various public financing mechanisms
**Operational Financing**

- Business plan under revision
- Payor mix will improve compared to pre-K hospital
  - Emphasis on trauma, funded research, specialty care
  - Envision business plan akin to “Shreveport Model” and less reliance on state dollars

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**The Business Case for the N.O. Hospital**

- Shreveport model currently generates approx. $28mil in cash available for debt service each year
- Detailed economic analysis will be completed to project future debt service coverage for MCLNO

<table>
<thead>
<tr>
<th>LSU Shreveport (in $000's)</th>
<th>2005 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admissions</td>
<td>17,830</td>
</tr>
<tr>
<td>Staffed Beds</td>
<td>371</td>
</tr>
<tr>
<td>Medicare Case Mix</td>
<td>1.59</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Gross Revenue</td>
<td>440,927</td>
</tr>
<tr>
<td>Deductions</td>
<td>203,200</td>
</tr>
<tr>
<td>Net Patient Revenue</td>
<td>237,727</td>
</tr>
<tr>
<td>Other Revenue*</td>
<td>216,525</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>454,252</td>
</tr>
<tr>
<td>Revenue/Admit</td>
<td>25,477</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
</tr>
<tr>
<td>Total Operating Exp</td>
<td>374,608</td>
</tr>
<tr>
<td>Non-Oper Exp</td>
<td>66,140</td>
</tr>
<tr>
<td>Total Exp</td>
<td>442,748</td>
</tr>
<tr>
<td>Expense/Admit</td>
<td>24,832</td>
</tr>
<tr>
<td>Net Income</td>
<td>11,504</td>
</tr>
<tr>
<td>Depreciation (incl above)</td>
<td>17,305</td>
</tr>
<tr>
<td>EBITDA (NI + Depr)</td>
<td>28,809</td>
</tr>
</tbody>
</table>

*Source: American Hospital Directory*
The "New" Charity
Postcard, circa 1939

Possible Configuration
A Good Investment

- Healthcare workforce supply
- Quality healthcare
- Redevelopment of urban core
- Bio-Sector magnate
- Jobs growth
- Purchased goods and services