Discussions on the New Academic Medical Center in New Orleans

You have likely seen news reports on the controversy surrounding governance of the existing as well as the proposed academic medical centers in New Orleans. Unfortunately, facts can be hard to come by in these public debates. Consider this.

LSU is attempting to work with Governor Jindal and others to modernize the model of health care associated with uninsured care and medical education. Louisiana has historically relied upon Charity Hospital for these functions in New Orleans. Thousands of dedicated physicians received their medical education and practiced there over the years gaining superior training experiences and providing exceptional care. The hospital itself has not been efficiently run over the years and because of the public financing processes, recapitalization has been limited and the physical plant deteriorated. In the meantime, places like Birmingham, Dallas, Houston, Jacksonville, and many others passed us by.

After Hurricane Katrina destroyed Charity Hospital, LSU worked with FEMA, the state Office of Facility Planning, Governor Blanco and now Governor Jindal to (1) stand up an Interim Hospital in the heavily damaged University Hospital and (2) transform the old Charity Hospital operation into a modern Academic Medical Center.

The state hired consultants to develop a business plan for the development of a new Academic Medical Center. The business plan described the components necessary to make the new operation an efficient, effective AMC that retains and strengthens LSU's commitment to indigent care and also attracts a modest increase in paying patients to lessen LSU's dependency on state funds and to allow the faculty to grow their practices and clinical research in the medical center. The business plan called for efficiencies in the operation and LSU has taken that point seriously. In the past year, a turn-around management firm was brought in, and following their advice, we have begun to implement significant changes including a $24 million reduction in budget for the next state fiscal year which we expect to achieve without a reduction in services. Governor Jindal has independently reviewed the business plan and expressed strong support for a new 424 bed academic medical center in downtown New Orleans.

LSU has a longstanding commitment to the care for the uninsured in this state. LSU operates a network of public hospitals and clinics that serve primarily the uninsured and Medicaid populations. That commitment is not diminished, rather it is strengthened in this model by increasing the volume of uninsured served and doing so in an integrated setting. Doctors do not like to alter care patterns based on insurance status. This model allows our physicians to care for insured and uninsured in a common setting.

This model will allow for a much more efficient and well-rounded educational experience for our students as well, allowing them access to a wider variety of clinical cases and a more diverse patient demographic mix at their main teaching hospital. Residents will have access to greater numbers of clinical cases to assure their ability to become board certified upon completion of their training.

Why is it important for the new AMC to be affiliated with LSU?

You will hear that LSU wants to run the hospital and won't agree to include other academic institutions, primarily Tulane. This is simply not true. Tulane has 185 residency training slots assigned to them. Their contracts for resident salaries, faculty supervision, medical direction, and professional services total nearly $20 million. In addition to the LSU and Tulane students and residents, there are 118 Xavier pharmacy students, 472 Delgado nursing and tech students, 5 Dillard nursing students, and many other affiliations for student training. LSU's Health Care Services Division pays Tulane nearly $20 million in contracts at the Interim Hospital, despite the fact that national benchmarks indicate we have more residents than we should be supporting in the current facility. The excess comes at an additional expense to the state estimated at $9.5 million per year. LSU has included Tulane in major decisions such as selection of a medical director and hospital CEO as well as the planning for the new AMC.

In order for the business model of the new AMC to work, there must be a connection of the faculty to the hospital and these faculty members must operate their clinics in close proximity and admit their patients (insured and uninsured) to the hospital. This is the model that has made our hospital in Shreveport successful and is replicated in major cities throughout the country. It is not a novel idea but rather a common and essential component of a successful AMC. In addition, for the hospital to support the specialty services associated with AMCs (like Level 1 trauma) and in order for the faculty to admit patients of all payer categories to the hospital, it must have sufficient scale. If it is too small, it will fill with uninsured patients and attempts to support the wide range of training for two medical schools and many other institutions will result in great inefficiencies. For reference, the average AMC in the U.S. is over 600 beds; the proposed AMC in New Orleans is 424 beds. It is already at the low end of the scale necessary to succeed.

The state has appropriated $300 million for the construction of a new AMC. The Governor has made it clear that the state does not have the ability to invest any additional dollars into the new AMC. We expect to receive $492 million from FEMA. We will need to borrow roughly $400 million to complete the project. The bonds can be paid according to the business plan with revenue generated from state payments for uninsured care, Medicaid, Medicare, and commercial payments.

The state, however, does not have the funds to capitalize the entire medical center and cannot issue the bonds under the current state debt limit. The bond issuers will be looking for confidence in an effectively run business operation. That is why LSU has proposed to help effect the creation of an LSU-affiliated private non-profit to manage the new AMC. The purpose of the non-profit is to support the LSU academic enterprise and it would retain the traditional mission of Charity to serve the uninsured and other special health needs of the population. Our lawyers have researched this extensively and have identified no other mechanism that can bridge the public funds and support with the need to acquire capital and operate as an efficient business.

LSU has acknowledged the longstanding relationship of Tulane with Charity Hospital and has pledged to respect that by retaining the historical number of training slots for residents and students and to include Tulane in decision making surrounding graduate medical education.

It is clear, however, that Tulane cannot substantively contribute to the success of the business plan to diversify the payer mix for this new AMC. As part owner of their own hospital, Tulane has a substantial financial interest that will conflict with its ability to intentionally develop and support the growth of insured business in the new AMC. Any change in payer mix, and therefore the operational model for the new AMC to make it look like other successful AMC's across the country, must be driven by the LSU faculty. ***In order for this new facility to obtain bond financing, the bond agencies will have to believe that the faculty physicians have a commitment to move their private patients into that facility (as indicated in the business plan). With this hospital being run by an "independent, politically appointed Board", there is little likelihood that bond financing would be available. New Orleans would be left without any prospect of building a new AMC.***

LSU desires to provide a system of care for the uninsured and insured alike and to develop an environment that supports the development of a high quality health care workforce for the state. That's really all there is to this issue. Successful AMC's across the country bring opportunities not only for the academic enterprise but also for other hospitals and health care related enterprises. In this debate, LSU has been characterized as driven by selfish motives and unwilling to work with others. I can assure you that LSU's motivation is to provide the best care for our state's residents, to provide the best health care workforce for our state, to contribute to the advancement of science through strong research programs, and to reduce the movement of patients, students, residents, and research dollars away from Louisiana and back into our state. A model currently under consideration by the legislature does not get us to that vision. Fortunately, the Speaker of the House has indicated a willingness to work with us to address our concerns.

LSU has proposed an alternative plan that depends upon the creation of a private non-profit entity with a purpose of supporting the LSU academic enterprise. To address concerns relative to management and control of the entity and consistent with the LSU statutory authority, we have proposed a board structure that would include 11 members, 5 of which would be appointed by the President of LSU, the President of Xavier, the President of Tulane, one member representing Delgado, Dillard, and SUNO on a rotating basis, and three community members. All would be subject to the consent of the LSU Board of Supervisors.

This structure will foster the development of a true AMC in New Orleans that can operate efficiently, take on debt, support research, and grow our patient care services with the strong support of our faculty. We have presented a Memorandum of Understanding which outlines our description of the model we propose to the Secretary of Health and Hospitals and to the Speaker of the House. We hope to work with the Governor and the Speaker to reach an agreement that will create the framework that allows us to grow into a top notch AMC. When that day comes, and we think it will come, you will be critically important to the success of this exciting new operation.

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by DOA OFPC

Proposed New LSU Academic Medical Center Compared to FHL / RMJM Hillier Proposal

- Decision to replace Charity was made long before Hurricane Katrina inflicted storm damages on the building with funding for a master plan in the capital outlay act as far back as 2003 and funding for the hospital originating in 2004. The state through planning and appropriation made a decision as far back as 2004 to replace Charity Hospital. That was a given pre-Katrina
- FHL / RMJM proposal is an historic preservation group saying that you can gut the interior of an existing high rise building in New Orleans and force fit a hospital into the exterior skin, beef up the structure, add on to the facility, move the mechanical systems up to the 4th floor and thereby create a new academic medical center. The same can be said of any high rise building in New Orleans. But does that make it make sense? No it does not.
- FHL / RMJM proposal is not a renovation of Charity; it is a gutting of the facility to the shell with a complete interior build out.
- RMJM Hillier agreed with FPC's position that the facility could not be repaired to provide temporary medical care, which was the true focus of the House Resolution.
  - Only four building elements are slated for salvage in the FHL proposal – (Foundation, Structural System, Skin and Roof) but their report acknowledges that these will require additional testing, validation and possible remediation before they can be considered for reuse. All of this testing will take time and remediation of any problems will cost additional dollars not accounted for in their estimates
- **Timing:** Six months of design is not feasible for an undertaking of this size especially with the amount of additional investigation suggested by the study.
  - There are five phases to a design contract, Program Completion, Schematic Design, Design Development, Construction Contract Documents and Bidding and Contract Phase. To suggest that all of these phases can be completed in six months is irresponsible.

Will it be more cost effective to gut and rebuild in the Charity shell?

- **Gut and Renovate is Seldom the Most Cost Effective Solution**
  - **Supreme Court** - Original AFC: **$14,250,000** date 1/20/1983, final Construction: **$36,712,184** date 12/1/2003 (Completion of last major phase.)
  - **Old Charity Nursing** -, 19-64N-99B-03: Original AFC: **$8,491,382** date 9/22/1998, final Construction: **$19,248,807** date 6/15/2005 (Completion of last major phase.)
  - **Education Building and the Land and Natural Resources Building** - were both originally intended to be complete gut and renovate projects. Architects were hired and documents were prepared through the Schematic Design Phase. At that point it was determined that the buildings could be renovated at slightly

little less than the replacement costs but we would end up with old buildings with very poor layouts. LNR started at $7.5 million and ended up at about $14 mil when the plug was pulled. Education was similar.

What are the true comparative costs?

- FHL / RMJM proposal does not include basic program requirements with no justification for leaving them out other than possibly the fact that they could not fit within the existing building shell. That does not change the fact that these program requirements are business plan needs that must be met. The following required program requirements and estimates of costs that are not accounted for in the RMJM proposals are as follows:

Ambulatory Care Building	$104M
Parking	$ 44M
Connectors	$ 8.4M
Medical Equipment	$ 93.8M
Furniture	$ 24M
IT	$ 66M
Total Not Included	$340.2M

- **If you add these items at these costs to the FHL / RMJM Hillier proposal, their costs would be $842M compared $754M for the proposed new hospital**
- If one left out the same basic program requirements of the new hospital as was done in the RMJM Hillier report, the proposed new hospital would cost less than the FHL / RMJM Hillier proposal. If we were to attempt to compare the proposed new hospital to the FHL / RMJM proposal, we would use the following parts:

Hospital	$344, 365,960
Site work	$ 41,731,200
Central Energy Plant	$ 27,048,000
Signage	$ 750,000
Approximate Total	$414,000,000

- **This would equate to about $70M less than the Hillier Estimate**

Summary:

- **We reviewed both alternatives in detail and made a decision based on all available information.**
- **We did not take this lightly as we knew the final decision would affect healthcare and medical education for the LSU, the New Orleans area and the state for decades to come.**
- **If the facilities are required to comply with the building program as dictated by the Business Plan, the FHL / RMJM proposal will not be cheaper and quicker than the replacement facility, which be designed as a modern academic medical center for the delivery of health care and medical education for the citizens of our state for generations to come**