

Bobby Jindal
GOVERNOR



Alan Levine
SECRETARY

State of Louisiana
Department of Health and Hospitals
Office of the Secretary

May 11, 2010

Honorable Bobby Jindal
Governor of Louisiana
P.O. Box 94004
Baton Rouge, Louisiana 70804

Dear Governor Jindal:

Several months ago, DHH was asked to conduct a thorough review of the business plan related to the new Academic Medical Center in New Orleans, with the goal being to incorporate the most current information available. In response to this request, I have worked with our consultant and leadership from LSU to update the assumptions, incorporate assumptions from the recent reforms signed into law by the President, and develop the most realistic projections for the expected financial performance of the Medical Center. The attached report summarizes these assumptions and puts forth our most realistic estimates.

There are two significant issues that create challenges for the hospital, and which will require state general fund commitments beyond that which is currently provided and in order to service the debt. First, the federal DSH Audit rule imposed by the Centers for Medicare and Medicaid Services has a significant impact on the hospital, and as you can see in the analysis in Table 1 of the report, this issue begins to affect the hospital this July. This impact is more than \$30 million annually. Second, the effect of the reforms that were recently signed into law by President Obama will begin to have an impact in 2014, and secondarily, will have a significant impact beginning in 2018. The analysis necessarily forecasts the financials through 2016, and thus, the larger impact beginning in 2018 is not woven into the financials. However, the highlighted section on page 5 of the report explains the impact of reform. The bottom line is that the DSH program will face significant reductions. We cannot accurately forecast how much of a reduction Louisiana will face, as the reform bill does not detail how it will be implemented. The Secretary of Health and Human Services will develop rules in accordance with guidelines established in the bill. The plain language of the bill appears to target high DSH states, which Louisiana has historically been. So, while we do not have a high degree of confidence exactly how much the reduction will be, we do believe it will be significant. The report makes assumptions that we believe make sense. This is relevant, since lenders will likely want to understand what the hospital's cash flow will look like well beyond 2018.

It is important to note that virtually every major teaching hospital throughout the country enjoys state financial support. The report highlights the percentage of state support provided to most teaching hospitals, and it would appear the level of state support expected at this facility would fall within a range not unexpected in most major safety net teaching institutions.

I will gladly make our consultant available to answer any questions. I am forwarding this report to the members of the proposed hospital board whom have been appointed and to LSU. I suspect the board members will want to use this report as they develop their financing plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Alan Levine".

Alan Levine