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Washington, DC 20548

July 17, 2008

The Honorable John D. Dingell
Chairman
The Honorable Joe Barton
Ranking Member
Committee on Energy and Commerce
House of Representatives

The Honorable Bart Stupak
Chairman
The Honorable John Shimkus
Ranking Member
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
House of Representatives

Subject: Hurricane Katrina: Trends in the Operating Results of Five Hospitals in New Orleans before and after Hurricane Katrina

New Orleans faces many challenges in the aftermath of Hurricane Katrina including the challenge of reestablishing the health care system and hospitals within the system. Hurricane Katrina, which made landfall on August 29, 2005, and the subsequent flooding caused by the failure of the New Orleans levee systems, resulted in the sudden closure, damage, or disruption in services at many of the New Orleans hospitals. On August 1, 2007, officials representing five New Orleans hospitals that have been the main health care providers in the region since the hurricane,[1] testified before the House Committee on Energy and Commerce's Subcommittee on Oversight and Investigations. The officials stated that since the hurricane they have experienced significant operating losses and that they expect the losses to continue.

The official from one of the hospitals that was designated to present an overview of the specific problems facing the five hospitals stated in his testimony that the hospitals expected to experience a combined operating loss of $135 million in calendar year 2007. This operating loss estimate was calculated using operating revenue and expense amounts for all five hospitals for January through May 2007 and then annualized for the year. The official also testified that the combined operating loss for the five hospitals would equal $405 million by 2009. The hospital official cited several reasons for operating losses, including increased labor costs and Medicare

[1]The five hospitals are West Jefferson Medical Center, East Jefferson General Hospital, Touro Infirmary, Tulane University Hospital and Clinic, and Ochsner Health System.

reimbursements that do not take into account the increased labor costs since the hurricane. The hospital official appealed to Congress for additional federal financial assistance.

The subcommittee asked us to review the extent to which Hurricane Katrina adversely affected the hospitals' operating results. To that end, Congress asked us to analyze

1) the operating results of the five hospitals before and after Hurricane Katrina and

2) the factors contributing to changes in hospital operating results and whether those factors would have a continuing impact.

For information on hospital operating results before and after Hurricane Katrina, we requested the hospitals' audited consolidated financial statements for the 8-year period 2000 through 2007. All of the audited financial statements for 2000 to 2007 received unqualified or "clean" opinions from independent public accounting firms.[2] For Touro Infirmary, we used the 2007 unaudited consolidated financial statements because audited statements were not completed by the end of our review. We also used hospital budgeted financial statements for 2008.[3]

The hospitals' financial statements include a Statement of Operations which shows revenues, expenses, gains, and losses. The Statement of Operations includes the operating income or loss[4] and net income or loss[5] for the year. We relied on amounts in the Statement of Operations for our analysis. Our analysis includes the calculation of three profitability measures that are derived from the Statement of Operations--operating income or loss, net income or loss, and earnings before interest, depreciation, and amortization (EBIDA). We used these three measures to evaluate changes in hospital operating results.

We conducted site visits at the five hospitals and met with their chief financial officers and other financial staff to discuss hospital operating results, including operating income or loss, net income or loss, EBIDA, and other information presented in the financial statements. We obtained data from the hospitals on occupancy rates, the percentage of gross patient revenue from different payer

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[2]Auditors express an unqualified (clean) opinion on financial statements when they have determined that the financial statements are presented fairly in all material aspects, in accordance with U.S. generally accepted accounting principles.
[3]We relied on the budgeted financial statements as provided by the hospitals for 2008. We did not independently verify the assumptions and amounts that these budgets were based upon.
[4]Operating income or loss is the amount of profit or loss calculated as the hospital's operating revenues, such as revenues from patient services minus all operating expenses, for example, salaries and wages.
[5]Net income or loss is the "bottom-line" profit or loss when all revenues from both operating and nonoperating sources minus all expenses and losses are considered. One of the five hospitals is a for-profit hospital and reports net income or loss in its Statement of Operations. The other four hospitals are not-for-profit hospitals and in accordance with financial reporting for not-for-profit entities, they use the terms changes in net assets or increase/decrease in unrestricted net assets in place of net income or loss.

sources (payer mix), and data on the amount of state and federal assistance provided as uncompensated care funds and wage index grant payments.

To obtain information on factors contributing to hospital operating results, we reviewed hospital audited financial statements for changes in revenue and expense amounts that contributed to changes in hospital operating results. We also reviewed any available management discussion and analysis sections in the hospital financial statements. We discussed factors contributing to the hospital operating results with the hospital officials during our site visits. We held discussions with state officials in the Louisiana Department of Health and Hospitals (LDHH) to obtain their assessment of factors contributing to the hospital operating results. We also held discussions with credit analysts to obtain their views on the hospitals' operating results and their assessment of the continuing impact of certain factors on the hospitals' operations. See enclosure I for more information on our scope and methodology.

We incorporated as appropriate, comments received from the five hospitals and the Secretary of LDHH. See our "Agency Comments and Evaluation".

We conducted our work from November 2007 through June 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

Operating results of all five hospitals significantly declined in 2005, the year of Hurricane Katrina, based on the three measures of profitability we used to illustrate differences in the hospitals' operating results before and after the hurricane—operating income or loss, net income or loss, and earnings before interest, depreciation and amortization. However, four out of the five hospitals showed some improvement in their operating results for 2006, 2007, and projected for 2008. For the fifth hospital, the amounts for the three profitability measures for 2007 and projected for 2008 declined from 2005 amounts. In viewing these trends, it is important to consider the amount and timing of special payments that the hospitals received to cover Hurricane Katrina-related losses for 2005 through 2008. These special payments included insurance payments from private insurers for business interruption and property and casualty claims, wage index grants from the Department of Health and Human Services (HHS) to cover some of the increases in labor costs experienced by the hospitals and funds from the state of Louisiana for uncompensated care to cover the increased costs for providing health care to the uninsured. They also included Federal Emergency Management Agency (FEMA) and National Flood Insurance Program (NFIP) reimbursements to cover losses due to flooding and federally declared disasters. Despite the improvements in operating results for four of the five hospitals we examined, the financial position for these four hospitals has weakened, as evidenced by declines in net asset balances since 2004. Such declines indicate that the hospitals have been either using their assets, incurring additional debt to support operations or both.

Increased expenses have contributed to changes in hospital operating results since Hurricane Katrina. Increases in operating expenses have generally been greater than increases in operating revenues, thereby negatively affecting operating results. Hospitals have experienced higher labor costs since the hurricane. A nursing shortage and reduction in the physician base and workforce, exacerbated by the hurricane, forced hospitals to hire staff at salaries and wages that were higher than before the hurricane. Generally, revenue from patient services has not kept pace with increased expenses. Hospital officials believe that revenues will continue to lag behind expenses until some of the increased labor costs are covered in Medicare reimbursement rates through changes to the wage index. However, this relief is not fully expected until 2010. Like hospital officials, officials in LDHH believe that increased operating expenses contributed to the decline in hospital operating results and that labor costs were a major driver of decreased operating results. The state health officials developed an estimate and requested $50 million in funding that the five hospitals need to cover operating losses in 2007. Credit analysts with whom we spoke also cited the increase in labor costs as a factor. The analysts said that the decline in hospital operating results since Hurricane Katrina could be a factor in increasing the hospitals' costs of raising funds in the bond market.

We provided a draft of this report to the Secretary of the Department of Health and Human Services and the Secretary of LDHH. Health and Human Services did not provide comments on the report. The Secretary of LDHH commented that the sections of the report related to LDHH were accurate. We also included the comments received from the five hospitals in enclosures III through VII, as appropriate.

Background

Hurricane Katrina and the resulting flooding of nearly 80 percent of New Orleans significantly affected the city's economy, labor market dynamics, and individual businesses. All the major industry sectors lost jobs in Louisiana, with the largest losses occurring in health services, education, and leisure and hospitality, among others. Job losses were due primarily to the destruction of the city's infrastructure and businesses, thereby eliminating places of employment. The destruction of homes and the subsequent public health crisis forced large segments of the employed population to leave the city.

Among the challenges facing the greater New Orleans area in the aftermath of the hurricane is the significant damage to hospital facilities, the loss of hospital staff who relocated to other areas, and the associated disruption of hospital inpatient care and emergency services. Other challenges include changes in the population and overall economic pressures on nonprofit hospitals. We previously reported that before Hurricane Katrina, 16 hospitals operated in the greater New Orleans area.[6] These included the Charity and University Hospitals together known as the Medical Center

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[6]GAO, *Hurricane Katrina: Status of Hospital Inpatient and Emergency Departments in the Greater New Orleans Area,* GAO-06-1003 (Washington, D.C.: Sept. 29, 2006).

of Louisiana at New Orleans (MCLNO). MCLNO is part of a statewide system of 10 public hospitals that served as the primary safety net hospital for many local residents. About half of its patients were uninsured, and about one-third were covered by Medicaid. Charity has remained closed. The state of Louisiana is currently discussing options for replacing Charity, as well as developing plans for changes to the health care system in New Orleans and the entire state. University Hospital closed after the hurricane but has reopened at reduced capacity.

Three of the five hospitals in our review, West Jefferson Medical Center, East Jefferson General Hospital, and Ochsner Health System, remained open during Hurricane Katrina. All three hospitals incurred facility and equipment damage even though they were able to stay open. The other two hospitals closed after the hurricane for varying periods. Touro Infirmary closed temporarily on September 1, 2005, and reopened on September 28, 2005. Tulane University Hospital and Clinic received major storm damage at its main campus and closed after the hurricane. Tulane's main campus hospital reopened at partial capacity in February 2006. Tulane's Lakeside hospital received minor damage and reopened in late 2005.

All five hospitals offer a variety of health care services to the populations they serve. The following briefly describes each hospital and its services.

West Jefferson Medical Center (West Jefferson)

West Jefferson is a not-for-profit hospital located in Marrero, Louisiana, and operates under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana, as Jefferson Parish Hospital Service District No. 1. The hospital is exempt from federal and state income taxes. West Jefferson operates an acute care hospital, physician clinics, medical office buildings, and a health and fitness center. The medical center is a full-service community hospital that offers emergency services; an aero medical helicopter flight program; neuroscience services, including a dedicated stroke unit; orthopedic services; diagnostic imaging; a cancer program; open heart and cardiac services; and women's services. West Jefferson also has pediatric and neonatal intensive care units as well as a pediatric emergency room. It also provides programs in occupational health, stroke, and spinal cord injury rehabilitation.

East Jefferson General Hospital (East Jefferson)

East Jefferson is a not-for-profit hospital located in Metairie, Louisiana, and operates under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana, as Jefferson Parish Hospital Service District No. 2. The hospital is exempt from federal and state income taxes. East Jefferson includes a PET Scan Center, a physician network, an ambulatory surgery center, a radiation oncology center, and a cardiovascular practice. It is a community hospital that offers cardiovascular services; emergency services; neuroscience services, including sleep studies; orthopedic services, including joint replacement; diagnostic imaging; a cancer program; and special care including coronary and neonatal intensive care units. It also provides programs in occupational health, physical therapy, and speech and language pathology.

Touro Infirmary (Touro)

Touro is a not-for-profit, faith-based community teaching hospital located in the Garden District in Uptown New Orleans. The hospital provides cardiovascular services, emergency services, neurosciences, oncology services, orthopedic services, nuclear medicine services, rehabilitation services, wound care, and special services such as neonatal intensive care and intensive care. Touro subsidiaries include Touro Infirmary Foundation; Woldenberg Village, Inc.; the hospital's wholly owned for-profit subsidiaries, Metrolab, Inc., and Crescent City Physicians, Inc.; and its 50 percent interest in Choice Healthcare, Inc. Woldenberg operates a 120-bed nursing home, a 60-unit assisted living facility, and a 60-unit independent living facility.

Tulane University Hospital and Clinic (Tulane)

Tulane is a partnership between Tulane University and the Hospital Corporation of America (HCA, Inc.). Tulane is a for-profit, limited liability company. Tulane has two facilities in the New Orleans metropolitan area, including its main campus and a secondary campus at Tulane-Lakeside Hospital in Metairie, Louisiana, which was purchased just before Hurricane Katrina, on July 1, 2005. Between these two campuses, Tulane provides a full range of medical services, including cardiovascular services, emergency services, neurosciences, oncology services, orthopedic services, nuclear medicine services, rehabilitation, and special services, such as neonatal intensive care and intensive care.

Ochsner Health System (Ochsner)

On August 31, 2001, Alton Ochsner Medical Foundation merged with Ochsner Clinic, L.L.C., to become Ochsner Clinic Foundation (OCF), which included Ochsner Health Plan, Inc. (OHP), a managed care organization that provided comprehensive medical services to members. Then in April 2004, OCF sold OHP. Ochsner Community Hospitals (OCH) and Ochsner Health System were created in 2006. Ochsner Health System is the not-for-profit, parent company of OCF and OCH. In October 2006, OCH acquired three former Tenet Healthcare Corporation hospitals in the greater New Orleans area: Ochsner Medical Center Kenner, L.L.C., formerly Kenner Regional Medical Center; Ochsner Medical Center Westbank, L.L.C., formerly Meadowcrest Hospital; and Ochsner Baptist Medical Center, L.L.C., formerly Memorial Medical Center.

Ochsner consists of six hospitals located on seven campuses and operates more than 30 clinics in the New Orleans and Baton Rouge areas. OCF also includes the Elmwood Fitness Center and its wholly-owned not-for-profit subsidiaries, the Brent House Corporation, Ochsner Home Health Corporation, and Ochsner Bayou, L.L.C. Ochsner Clinic Foundation Hospital owns and operates a 510-bed acute care hospital known as Ochsner Medical Center/Ochsner Foundation Hospital. The services offered by the Ochsner hospitals and clinics include cardiovascular, emergency, neurosciences, oncology, orthopedic, organ transplant, nuclear medicine, rehabilitation, wound care, intensive care, coronary intensive care, neonatal intensive care, and pediatric intensive care.

Operating Results Declined with Hurricane Katrina, but Some Improvement Noted for Most of the Hospitals

In analyzing the operating results of the five New Orleans hospitals for the period from 2000 to 2007 and projected for 2008, we used three measures of profitability to illustrate how the hospitals' operating results changed from the period before Hurricane Katrina: (1) operating income or loss, (2) net income or loss, and (3) EBIDA.

- Operating income or loss is the hospitals' profit or loss from operations excluding such nonoperating items as investment earnings and gains and losses on sale of assets used in business. It is the result of hospital operating revenues, such as net patient-service revenue, minus operating expenses, such as salaries and wages. The measure thus focuses strictly on a hospital's core business.
- Net income or loss is the bottom-line profit or loss: the result of all revenues from operating and nonoperating sources and gains minus all expenses and losses. The hospitals need to generate bottom-line profits to remain viable.
- EBIDA is another measure of hospital profitability that adds the interest, depreciation, and amortization expense back to the net income. This measure helps to provide a baseline or comparison of profit or loss across hospitals by excluding the effects of different rates used for interest expense and different accounting methods used to calculate depreciation and amortization.

Operating results for all five hospitals significantly declined in 2005, the year of Hurricane Katrina, based on all three profitability measures. Since then, the operating results for four out of the five hospitals have improved. For these four hospitals, the operating income or loss, net income or loss, and EBIDA amounts for 2006, 2007, and projected for 2008 were better than the amounts in 2005. Tulane is the only hospital for which the amounts for the three profitability measures for 2007 and 2008 were worse than the 2005 amounts.

Contributing to the improved hospital operating results since 2005 are the amounts and timing of special payments or revenue received by the hospitals to cover hurricane-related losses. For example, in varying amounts and in different years, the hospitals received insurance proceeds from private insurers for business interruption, property and casualty claims, or both. The hospitals also received wage index grant payments from HHS to cover some of the increases in labor costs experienced by the hospitals that would not otherwise be reimbursed through the Medicare wage index until 2010.[7] In addition, the hospitals received funds from the state of Louisiana for uncompensated care to cover increased costs for providing health care to the uninsured. Also, the hospitals received FEMA and NFIP reimbursements to cover losses due to flooding and federally declared disasters.

[7]The Centers for Medicare & Medicaid Services (CMS) adjusts the labor-related share of hospital Medicare Part A payments by the wage index applicable to the statistical area in which a hospital is located. To calculate wage indexes, CMS uses wage data collected from hospitals' Medicare cost reports 4 years earlier. For example, hospital wage amounts from 2005 will be used to calculate the 2009 wage index, 2006 wage amounts will be used for the 2010 wage index, and so on.

Despite the improvements in operating results, four of the five hospitals have weakened financial positions, as evidenced by declines in their net asset balances since 2004. Such declines indicate that the hospitals have been using their assets, incurring additional debt, or both to support operations.

Hospital Operating Income or Loss

All five hospitals had operating losses during most of the 5 years before Hurricane Katrina with four of the five hospitals having 1 to 2 years of operating income. The operating losses increased significantly in 2005, the year of Hurricane Katrina (see table 1).

Table 1: Operating Income (Loss), Calendar Years 2000–2008
Dollars in millions

Hospital	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
West Jefferson	($3.8)	($5.0)	($10.1)	($1.1)	$1.9	($39.1)	($17.6)	($5.8)	($3.5)
East Jefferson	(19.8)	(8.4)	(28.3)	(10.9)	(10.5)	(40.4)	(10.2)	(29.6)	(23.9)
Touro[c]	(3.2)	(6.5)	(1.8)	(2.5)	0.8	(40.7)	4.9	(36.4)	(15.0)
Tulane	(8.5)	(2.1)	3.6	0.1	(4.4)	(18.9)	3.1	(42.2)	(37.6)
Ochsner	18.7	(1.1)	(11.2)	(13.3)	(10.8)	(73.4)	(8.9)	(31.6)	(23.0)
Total	**($16.6)**	**($23.1)**	**($47.8)**	**($27.7)**	**($23.0)**	**($212.5)**	**($28.7)**	**($145.6)**	**($103.0)**

Source: GAO analysis based on audited, unaudited, and budgeted financial statements.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on hospital budgeted financial statements.
[c]Touro amounts for 2007 are from unaudited financial statements.

During the year of the hurricane, the hospitals collectively had operating losses of about $212.5 million. Combined operating losses continued in 2006 and 2007 totaling $28.7 million and $145.6 million, respectively. Except for Tulane, the operating income or loss amounts for 2006, 2007, and projected for 2008 are an improvement over those for 2005. Our calculation of operating income or loss amounts for 2005 through 2008 includes special payments received by the hospitals to cover hurricane-related losses, including insurance proceeds for business interruption and property and casualty claims, federal wage index grant payments, and uncompensated care funds.[8] The amount of these special payments received by each hospital varied, with special payments included in operating income or loss ranging from about $36 million to about $168 million. Collectively, the five hospitals reported about $389.2 million in special payments from 2005 through 2008 that were included in calculating operating income or loss; $73.5 million in 2005, $183.2 million in 2006, $118.8 million in 2007, and a projected $13.7 million in 2008. See enclosure II for a schedule of all special payments received by the hospitals in 2005 through 2008 to cover hurricane-related losses.

The amount of special payments received by the hospitals may increase depending on the ultimate treatment of the community disaster loans (CDL) that West Jefferson and East Jefferson received in 2006. West Jefferson and East Jefferson received loans of $30.7 million and $61 million, respectively. West Jefferson officials said that

[8]Although the special payments were provided to address losses incurred in 2005, accounting principles allow recording of the payments on a cash basis in the year received.

they used the loans to cover operating losses and East Jefferson officials reported that they used the loans to pay for operating expenses such as salaries. Our calculation of operating income or loss does not include these amounts as they were properly recorded as liabilities instead of operating revenues. Officials at both hospitals told us that their obligation to repay the loans might be forgiven if they meet certain requirements under the CDL program. If the CDLs are canceled or forgiven, the loan balances and any accrued interest payable would be treated as revenue in the year in which the loans are forgiven. See enclosure II for more information on the CDL program and these loans amounts.

The amounts we present as each hospital's operating income or loss from 2005 through 2008 projections are affected by the amounts and timing of the special payments received by each hospital to cover hurricane-related losses. For example, Tulane, which received about $168 million in special payments, received more than 80 percent of those payments in 2005 and 2006, which contributed to the hospital having comparatively more favorable operating income or loss amounts for these years than if the payments had been deferred. The other four hospitals received the bulk of their special payments in 2006 and 2007, contributing to their improved operating results in those years. The bottom line is that the trends in hospital operating income or loss amounts could have been different had the special payments been received in other periods, earlier or later. (See detail on the payments received by each hospital in enclosures III through VII).

The hospitals' projected operating losses for 2008 show improvement over 2005 operating losses despite including the smallest total amount of projected revenue from special payments of any year since the hurricane. Hospitals therefore expect to improve their operating income or loss with less support from special payments.

Hospital Net Income or Loss

All five hospitals reported positive net income in multiple years during the period before Hurricane Katrina. Then in 2005, all five hospitals reported net losses. The collective net loss for all five hospitals was $165 million in 2005 (see table 2).

Table 2: Net Income (Loss), Calendar Years 2000–2008
Dollars in millions

Hospital	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
West Jefferson	$7.3	$2.8	($3.3)	$4.5	$2.4	($37.6)	($12.6)	$6.3	$3.1
East Jefferson	4.4	16.1	(14.1)	(2.7)	(4.6)	(30.8)	4.6	(12.2)	(14.0)
Touro[c]	4.5	(9.7)	(8.5)	11.1	11.4	(33.5)	22.8	(20.3)	(8.9)
Tulane	(8.5)	(2.1)	3.6	0.1	(4.4)	(18.9)	3.1	(42.2)	(37.6)
Ochsner	16.3	(7.8)	(71.2)	41.3	102.6	(44.2)	34.7	5.6	(18.1)
Total	**$24.0**	**($0.7)**	**($93.5)**	**$54.3**	**$107.4**	**($165.0)**	**$52.6**	**($62.8)**	**($75.5)**

Source: GAO analysis of the hospitals' audited, unaudited, and budgeted financial statements.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on hospital budgeted financial statements.
[c]Touro amounts for 2007 are from unaudited financial statements.

The net income or loss amounts include revenues and expenses from nonoperating sources, such as investment earnings and gains and losses on assets. Four of the five hospitals had positive nonoperating amounts from 2006, 2007, and projected for 2008, and thus the net income or loss for those hospitals shows a more positive result than operating income or loss for that same period. Since 2005, the net income or loss amounts for four of the five hospitals have improved.[9] In fact, West Jefferson reported net income for 2007 that is greater than the net income reported for 2004 the year before the hurricane, and that is within the range of the net income or loss amounts for the 5 years before Hurricane Katrina. Ochsner and East Jefferson also reported net income or loss amounts for 2007 that are in the range of the net income or loss amounts for the 5 years before the hurricane (see table 2).

<u>Hospital Earnings before Interest, Depreciation, and Amortization</u>

All five hospitals consistently reported positive EBIDA during the 5 years before Hurricane Katrina, except for Ochsner in 2002. In the year of the hurricane, two of the five hospitals reported negative EBIDA, and the others reported positive EBIDA that was generally lower than for the 5 years before the hurricane (see table 3).

Table 3: EBIDA, Calendar Years 2000–2008
Dollars in millions

Hospital	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
West Jefferson	$18.1	$16.8	$13.2	$21.6	$20.8	($15.2)	$10.0	$30.4	$27.2
East Jefferson	30.7	47.6	18.1	30.1	27.1	6.6	34.3	21.7	17.9
Touro[c]	20.2	6.3	11.6	31.6	32.7	(13.2)	43.5	0.7	12.7
Tulane	7.3	15.7	20.1	18.5	14.5	1.8	22.7	(16.1)	(11.9)
Ochsner	51.8	37.8	(10.0)	99.1	162.4	18.3	104.0	82.2	64.8
Total	**$128.1**	**$124.2**	**$53.0**	**$200.9**	**$257.5**	**($1.7)**	**$214.5**	**$118.9**	**$110.7**

Source: GAO analysis of the hospitals' audited, unaudited, and budgeted financial statements.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on hospital budgeted financial statements.
[c]Touro amounts for 2007 are from unaudited financial statements.

[9]Tulane net income and loss amounts are the same as its operating income or loss amounts because the hospital does not have additional nonoperating revenues and expenses that would be included when calculating net income or loss.

Since 2005, the EBIDA amounts for four of the five hospitals have improved. The 2006, 2007, and projected 2008 EBIDA amounts for East Jefferson and Ochsner are within the range of the EBIDA amounts for the 5 years before Hurricane Katrina (see table 3).

Despite the improvements that we noted in the operating income or loss and the other profitability measures that we present, four of the five hospitals have weakened financial positions, as evidenced by declines in their net asset balances since 2004. Such declines indicate that the hospitals have been using their assets, taking on additional debt, or both to support operations. One of the hospitals, Touro, told us that although its operating losses are lower in the years since the hurricane, its financial position is weaker because cash and investment balances have declined from levels before Hurricane Katrina as shown in its financial statements for 2004 and 2007. According to Touro hospital officials, they have had to use their cash and investments to cover operating expenses in years that they had operating losses. Touro's cash and investment amounts declined by approximately $23 million from 2004 to 2007 or about 22 percent. Touro officials reported that using hospital cash for operating expenses will affect their ability to make future expenditures for capital improvements, such as new technology and equipment.

Increased Expenses Continue to Affect Hospital Operating Results

Increased operating expenses have contributed to changes in hospital operating results, particularly labor costs. Hospital officials attribute the increase in labor costs to the added costs to hire and retain staff. Also, revenue from patient services generally has not kept pace with increased expenses. Hospital officials cited insufficient Medicare reimbursement and shifts in revenues from commercial insurance and government payees and in some cases more uninsured patients.

State health officials within LDHH also told us that labor costs have affected hospital operating results. The Secretary of LDHH and his staff developed an estimate of funding that the hospitals would need to cover operating losses for 2007 resulting from increased labor costs and requested funding from Congress.[10] Credit analysts that we spoke with also cited increased labor costs as a factor that will continue to affect hospital operating results. They also cited other factors, including the increased costs that hospitals will incur to raise funds in the bond market because of declining operating results since the hurricane.

<u>Contributing Factors Based on Hospital Officials and Hospital Information</u>

Hospital officials told us that they are experiencing higher labor costs because of higher employee salaries and wages and the contract labor costs to overcome a nursing shortage along with the reduction in the workforce and physician base that were exacerbated by the hurricane. The hospitals' labor costs included the added costs to hire and retain staff. The hospital financial statements also showed increases in nonlabor expenses, including bad-debt expenses. For example, one hospital reported that the displacement of residents after the storm made it difficult to collect

[10] April 8, 2008 letter to Congressman Rodney Alexander requesting supplemental health care funds.

outstanding debts, requiring increases in the provision for bad debts. This hospital's provision for bad debt increased 135 percent from 2004 to 2005.[11]

Generally, revenue from patient services has not kept pace with increased expenses. Hospital officials reported that current Medicare reimbursement rates do not cover the increased labor costs, which is a primary factor contributing to the lag in operating revenues. They expect that changes in the Medicare wage index will ease some of the strain on revenues. Several hospitals stated that changes might also be needed in the rates from commercial insurance payees. The hospitals provided trend data which in some cases show shifts in revenues between commercial and managed care payees, government payees, and the uninsured. See hospital payer mix data in enclosures III to VII.

The hospital officials discussed the impact that their declining operating results have had on their ability to meet bond agreement requirements. With the exception of Tulane, each of the hospitals has bonds outstanding. Operating losses in 2005 and 2006 resulted in three of the four hospitals with bond issuances failing to meet conditions of their bond agreements. These agreements generally require that the hospitals maintain a certain debt-service coverage ratio (DSC). This is the ratio of adjusted net income to debt payments or the amount of cash flow available to meet annual interest and principal payments on the debt. The three hospitals did not maintain the required DSC although they were current in their bond payments. As a result, the hospitals had to obtain waivers of the bond covenants and this resulted in a variety of actions. For example, bond agreements required the hospitals to hire consultants to make recommendations to improve hospital operations. One hospital had a mortgage placed on its assets as a condition of the waiver.

<u>State Health Officials' Views on Factors Affecting Operating Results and Their Estimate of Funding Needed to Cover Hospital Losses</u>

We discussed the operating results of the five hospitals with officials within LDHH, including the Secretary. LDHH officials cited increased labor costs as a factor affecting hospital operating results that could be directly tied to changes caused by Hurricane Katrina in the labor market. The Secretary explained that his staff reviewed the information the hospitals provided to Congress and did some limited analysis of changes in the expenses and revenues of the hospitals, particularly focusing on changes in labor costs.

The objective of the LDHH analysis was to isolate problems caused by the hurricane from those related to regional economic trends to determine the level of assistance the hospitals need from Congress to cover 2007 losses. LDHH officials explained that they used the financial information that the hospitals provided to Congress at an August 1, 2007, hearing as the basis for their analysis. Their analysis included revenue and expense amounts for all five hospitals for the first 5 months of 2005 and the first 5 months of 2007. They told us that their analysis focused on increases in salary and

[11]The hospital's 2006 and 2007 provision for bad debts decreased back to amounts more in line with its 2004 bad debt amounts because of uncompensated care funding that is recorded as a reduction of bad debt and other reasons, including assisting uninsured patients to apply and qualify for Medicaid benefits.

wages and contract-labor expenses. The LDHH staff calculated these increases as a percentage of patient-service revenues before and after the hurricane. LDHH officials said that their analysis showed increases in the amount of patient-service revenues that all five hospitals had to use to cover labor costs since the hurricane. In an April 8, 2008, letter to Congress, LDHH asked for $50 million in grants for the New Orleans hospitals to provide cash flow stabilization for 2007. The Medicare Wage Index will not begin to cover the increases in wage and labor rates after Hurricane Katrina until it is adjusted in 2010.

Views of Credit Analysts

Credit analysts told us that the costs the New Orleans hospitals are experiencing for utilities, insurance, and labor are atypical in any market and this has created challenges for the hospitals. They also told us that the hospitals have lost staff who are hard to replace. Given the elevated costs of housing and the loss of core services and businesses in the area, recruitment and retention of both administrative and medical staff have become difficult.

Credit analysts also noted that health care is a high-fixed-cost business. Plant and labor costs are high, and health care providers are very sensitive to changes in patient volume. Although the population is down in New Orleans from pre-Katrina levels, the analysts noted that the five hospitals likely have regained much of their patient volume because of hospital closures.

The analysts provided insights about the impact that operating losses will have on future operations of the hospitals including the increased costs that the hospitals' may face in raising funds through bond issuances. They noted that with the magnitude of the hospitals' losses in consecutive years, and the requirement to make bond payments, the hospitals may try to preserve cash by not investing in new facilities and equipment and making fewer repairs. As the average age of hospital facilities rises over a period of years, capital needs can become larger and more difficult to address.

Concluding Observations

Approximately 3 years after Hurricane Katrina, five New Orleans hospitals that have been the main health care providers in the region since the hurricane are trying to recover from a decline in their operating results that has included multiple years of financial losses greater than losses experienced before the hurricane. Some of the hospitals are showing more improvement than others, but all suffer from increased costs associated with a shortage of health professionals in the region and four of the five have weakened financial positions. Continuing financial losses can impair the ability of these hospitals to remain viable entities that can provide health care to the residents of New Orleans. State health officials are developing plans for how the future health care system in New Orleans and the state of Louisiana should be configured. Further because future population growth in New Orleans is uncertain, it is unclear how competition among the five hospitals to maintain adequate patient volumes and operating revenues to cover operating expenses will affect their ongoing financial viability. While the five hospitals have generally shown some improvement in their operating results with the assistance of federal funding, insurance, and other special payments, it is also unclear whether these five hospitals will be able to make continued improvements while the New Orleans region is still going through the recovery process. Also, the economic pressures affecting nonprofit hospitals nationally are adversely affecting these New Orleans hospitals.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of the Department of Health and Human Services and the Secretary of LDHH. Health and Human Services did not provide comments on the report. The Secretary of LDHH provided comments and indicated that the sections of the report related to LDHH were accurate. We also provided each hospital with a draft of the enclosure related to it for review. We included the comments received from the hospitals in the enclosures, as appropriate.

We are sending copies of this report to the Secretary of Health and Human Services, the Secretary of the Louisiana Department of Health and Hospitals, and other interested parties. We will also make copies available to others on request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any question about this report, please contact me at 202-512-9471 or franzelj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were Kimberly Brooks, Assistant Director; Lisa Crye; Lisa Galvan; and Jeffrey Isaacs. Maxine Hattery provided assistance and Barbara Hills developed the report's graphics.

Jeanette M. Franzel
Director, Financial Management and Assurance

Enclosures – 7

Enclosure I: Scope and Methodology

For information on hospital operating results before and after Hurricane Katrina, we obtained the hospitals' audited consolidated financial statements for the 8-year period 2000 through 2007. All of the audited financial statements for 2000 to 2007 received unqualified or "clean" opinions from independent public accounting firms.[12] For Touro Infirmary, we used the 2007 unaudited consolidated financial statements because audited statements were not completed by the end of our review. We also used hospital budgeted financial statements for 2008.[13]

The hospitals' financial statements include a Statement of Operations which shows revenues, expenses, gains, and losses.[14] The Statement of Operations includes the operating income or loss[15] and net income or loss[16] for the year. We relied on amounts in the Statement of Operations for our analysis. Our analysis includes the calculation of three profitability measures that are derived from amounts included in the Statement of Operations--operating income or loss, net income or loss, and earnings before interest, depreciation, and amortization (EBIDA). We used these three measures to evaluate changes in hospital operating results.

The Statement of Operations for the five hospitals included different categories of revenue and expense in the calculation of operating income or loss. We reclassified categories of revenue and expense so that we could consistently report operating income or loss across hospitals for comparison. For example, we reclassified insurance payments as operating revenue to calculate operating income or loss for all five hospitals, although two of the five hospitals had included insurance payments as nonoperating revenue. We also reclassified hospital investment income, Federal Emergency Management Agency (FEMA) reimbursements, and interest expense. Accordingly, certain revenue and expense amounts included in operating income or loss that we report are different from the amounts as reported in the hospital financial statements.

The net income or loss amounts we include in our analysis are as reported on the hospitals' Statement of Operations. The EBIDA amounts that we include in our analysis are calculated using the net income, interest, depreciation, and amortization amounts as reported on the hospitals' Statement of Operations.

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[12]Auditors express an unqualified (clean) opinion on financial statements when they have determined that the financial statements are presented fairly in all material aspects, in accordance with U.S. generally accepted accounting principles.
[13]We relied on the budgeted financial statements as provided by the hospitals for 2008. We did not independently verify the assumptions and amounts that these budgets were based upon.
[14]The Statement of Operations also includes discontinued operations and an overall change in net assets.
[15]Operating income or loss is the amount of profit or loss calculated as the hospital's operating revenues, such as revenues from patient services minus all operating expenses, for example, salaries and wages.
[16]Net income or loss is the bottom-line profit or loss when all revenues from both operating and nonoperating sources minus all expenses and losses are considered. One of the five hospitals is a for-profit hospital and reports net income or loss in its Statement of Operations. The other four hospitals are not-for-profit hospitals and under accounting methods for not-for-profit entities, they use the terms changes in net assets or increase/decrease in unrestricted net assets in place of net income or loss.

We conducted site visits at the five hospitals and met with their chief financial officers and other financial staff to discuss hospital operating results, including operating income or loss, net income or loss, EBIDA, and other information presented in the financial statements. We obtained data from the hospitals on occupancy rates, the percentage of gross patient revenue from different payer sources (payer mix), and data on the amount of state and federal assistance provided as uncompensated care funds and wage index grant payments. We did not independently verify data on hospital occupancy, payer mix, and uncompensated care. We compared the hospital-reported wage index grant payments with information obtained from the Louisiana Department of Health and Hospitals (LDHH) and the Department of Health and Human Services (HHS)for reasonableness.

To obtain information on factors contributing to hospital operating results, we reviewed each hospital's audited financial statements for changes in revenue and expense amounts that could contribute to changes in hospital operating results. We also reviewed any available management discussion and analysis sections. We discussed factors contributing to the hospital operating results with the hospital officials during our site visits. We held discussions with state officials in LDHH to obtain their assessment of factors contributing to the hospital operating results and to discuss the extent to which they have analyzed the operating results of the five hospitals. We also held discussions with credit analysts to obtain their views on the hospitals' operating results and their assessment of the continuing impact of certain factors on the hospitals' operations.

We provided a draft of this report to the Secretary of the Department of Health and Human Services and the Secretary of LDHH. Health and Human Services did not provide comments on the report. The Secretary of LDHH provided comments and indicated that the sections of the report related to LDHH were accurate. We also provided each hospital with a draft of the enclosure related to it for review. We included the comments received from the hospitals in the enclosures, as appropriate.

We conducted our work from November 2007 through June 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Enclosure II: Special Payments Received by the Five New Orleans Hospitals

Table 4: Special Payments Received by the Five New Orleans Hospitals from 2005 to 2008 to Cover Hurricane Katrina Losses

Dollars in millions

Type of special payment	2005	2006	2007	2008	Total All Years
Private insurance	$73.5	$134.7	$21.0	$1.4	**$230.6**
Wage index grant payments	0	0	29.1	0	**$29.1**
Uncompensated care funds	0	48.5	68.7	12.3	**$129.5**
Total included in operating income (loss)	**$73.5**	**$183.2**	**$118.8**	**$13.7**	**$389.2**
FEMA/NFIP reimbursements included in nonoperating revenue	$3.4	$11.1	$15.7	$0.5	**$30.6**
Community disaster loans					
West Jefferson Medical Center		$30.7			**$30.7**
East Jefferson General Hospital		61.0			**$61.0**
Total community disaster loans		**$91.7**			**$91.7**

Source: Hospitals' audited and budgeted financial statements and other hospital information. Touro 2007 amounts are from unaudited financial statements.

The largest component of special payments received by the hospitals was from private insurance companies for business interruption and property and casualty claims. The hospitals reported that they received $230.6 million in these payments. In terms of federal and state assistance received by the hospitals, wage index grant payments and uncompensated care funds totaled $158.6 million, and the hospitals also received $30.6 million in FEMA and the National Flood Insurance Program (NFIP) reimbursement.

The special payments also include the Community Disaster Loans (CDL) that West Jefferson Medical Center (West Jefferson) and East Jefferson General Hospital (East Jefferson) received during 2006. However, these amounts are not included in operating or nonoperating revenues of the two hospitals because the amounts were recorded as liabilities. The total amounts of special payments from the federal government may increase depending on the ultimate treatment of these loans. The CDL program is a program of federal aid available to local government entities specifically to replace revenue lost as the result of a natural or man-made disaster. The CDL program is unique in permitting local governments struck by a disaster to borrow directly from the federal government. It has also been unique in giving the federal administrators of the loan program the authority to cancel the borrower's obligation to repay the loan under specified local budget conditions. The obligation to repay the loan shall be canceled if the locality's revenue in the 3 fiscal years following the disaster is deemed insufficient by FEMA; however, the current regulations provide that FEMA cannot cancel the obligation to repay a loan until at least three years following a disaster.

West Jefferson officials stated that they used the loan to pay for operational expense, mainly payroll costs. The terms of the loan call for interest to be accrued at 2.74 percent annually to be repaid with the principal when the loan becomes due in 2011. Hospital officials told us they plan to request cancellation of this obligation.

East Jefferson officials stated that they used the loan to pay for operational expenses, mainly payroll costs. The terms of the loan call for interest to be accrued at 2.68 percent for approximately $45.5 million and 3.0 percent for the remaining balance. Approximately $45.5 million of the loan plus accrued interest is due in January 2011, with the remainder due in August and September 2011. Hospital officials told us they plan to request cancellation of this obligation.

If the CDL loans are canceled or forgiven, the loan balances and any accrued interest payable would be treated as revenue in the year in which the loans are forgiven.

Enclosure III: West Jefferson Medical Center (West Jefferson)

HOSPITAL DESCRIPTION

West Jefferson is a not-for-profit hospital and health system located in Marrero, Louisiana. West Jefferson operates under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana, as Jefferson Parish Hospital District No.1 and is exempt from federal and state income taxes. West Jefferson has 451 licensed beds and 341 total staffed beds. West Jefferson is a full-service community hospital that offers emergency services; an aero medical helicopter flight program; neuroscience services, including a dedicated stroke unit; orthopedic services, diagnostic imaging; a cancer program; open heart and cardiac services; and women's services. West Jefferson also has pediatric and neonatal intensive care units as well as a pediatric emergency room. It also provides programs in occupational health, stroke, and spinal cord injury rehabilitation.

West Jefferson was one of three hospitals that remained open in the New Orleans metropolitan area during Hurricane Katrina and the only hospital open in the west bank at the time of Hurricane Katrina.

RESULTS OF REVIEW

Table 5: West Jefferson Operating Income (Loss), Net Income (Loss), and EBIDA, 2000-2008
Dollars in millions

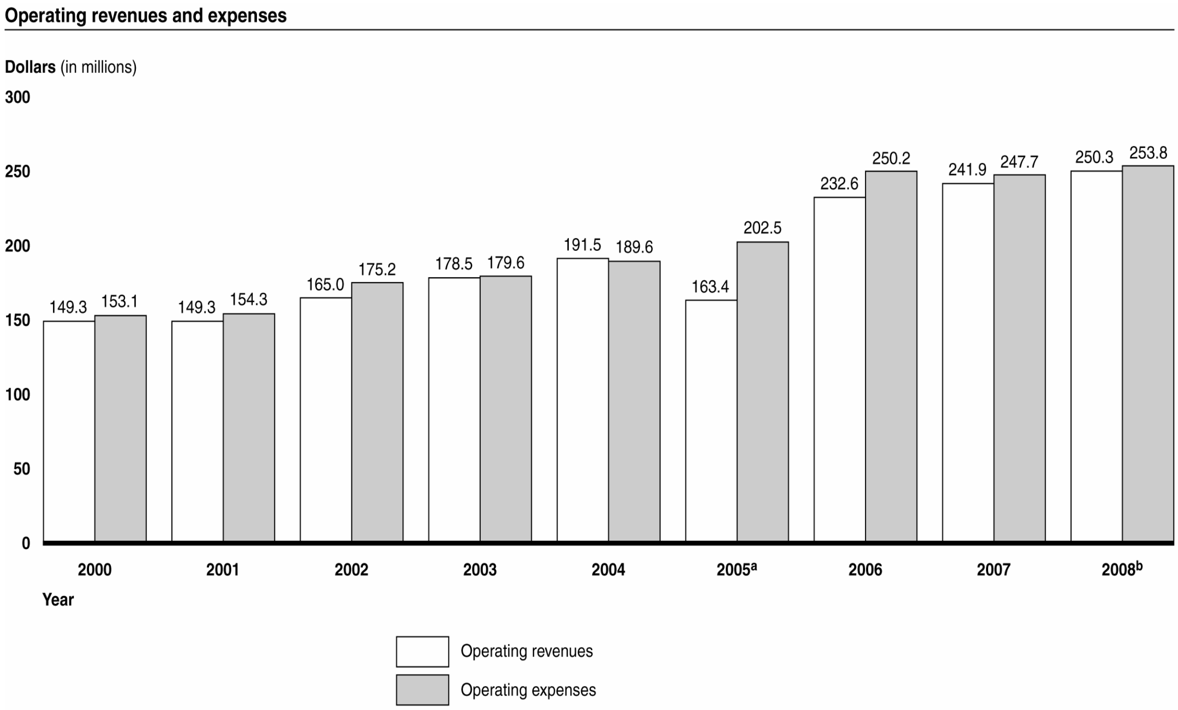
	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Operating income (loss)	($3.8)	($5.0)	($10.1)	($1.1)	$1.9	($39.1)	($17.6)	($5.8)	($3.5)
Net income (loss)	7.3	2.8	(3.3)	4.5	2.4	(37.6)	(12.6)	6.3	3.1
EBIDA	18.1	16.8	13.2	21.6	20.8	(15.2)	10.0	30.4	27.2

Source: GAO analysis, based on audited and budgeted financial statements of West Jefferson Medical Center
[a] Year of Hurricane Katrina.
[b] Calculations for 2008 are based on amounts from hospital budgeted financial statements.

West Jefferson Operating Income (Loss)

West Jefferson had operating losses in 4 of the 5 years before Hurricane Katrina and operating losses in 2005 through 2007. West Jefferson estimates that it will also have an operating loss in 2008. Our calculation of operating income or loss is the result of operating revenues minus operating expenses. West Jefferson operating loss amounts for 2006 and 2007 include special payments that the hospital received. In 2007, West Jefferson received insurance payments to cover losses from the hurricane and wage index grant payments to cover some of the increase in labor costs. West Jefferson received uncompensated care funds to cover some of the costs associated with the volume of uninsured patients in 2006 and 2007. (See figs. 1 and 2 and table 6.)

Figure 1: West Jefferson Operating Revenues and Expenses 2000-2008



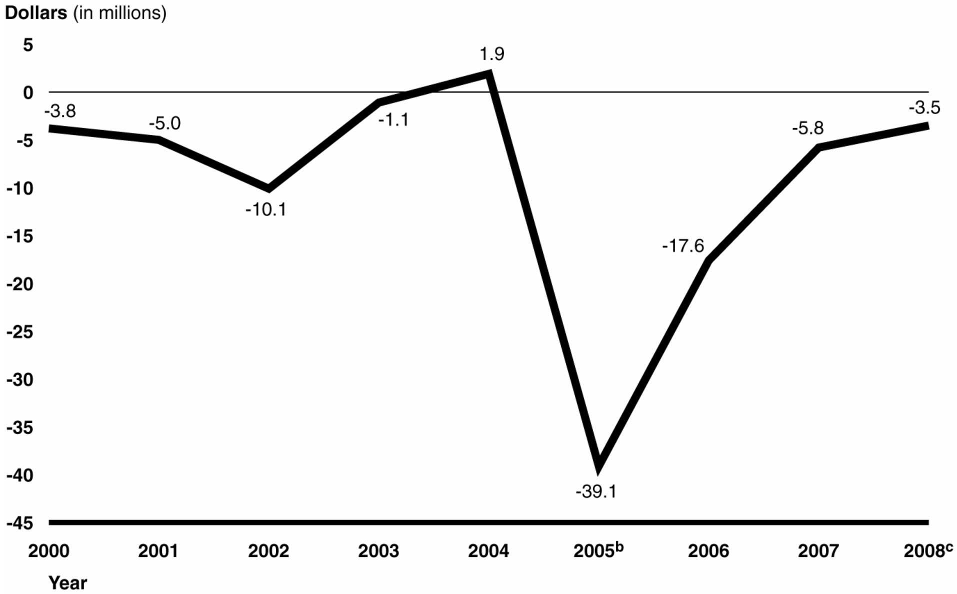
Source: GAO analysis, based on audited and budgeted financial statements of West Jefferson Medical Center.

Note: Amounts in figure may not reconcile to reported operating income (loss) amounts due to immaterial rounding differences.
[a]Year of Hurricane Katrina.
[b]Year 2008 amounts are based on hospital budgeted financial statements.

Notes: Operating revenues include net patient service revenues, other operating revenues, and the provision for bad debt, which is included in net patient service revenues for years 2001 through 2008. Operating revenues for 2006 and 2007 also include special payments that West Jefferson received, including payments from private insurance, wage index grants, and uncompensated care funds.

Operating expenses include direct operating costs, such as salaries, purchased services, depreciation, interest expense, and bad debt expense for 2000 only. West Jefferson financial statements for 2005 through 2008 included interest expenses as a nonoperating expense, but for consistency with the other hospitals in our study, we included interest expenses as an operating expense.

Figure 2: West Jefferson Operating Income (Loss), 2000-2008[a]
Operating income (loss)



Source: GAO analysis, based on audited and budgeted financial statements of West Jefferson Medical Center.

[a]The financial statements report different operating income (loss) amounts for years 2005-2007 than our amounts in the figure above due to our reclassification of certain operating and nonoperating amounts to calculate operating income (loss) for consistency with other hospitals in our study.
[b]Year of Hurricane Katrina.
[c]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 6: West Jefferson Special Payments Received from 2005 to 2008 to Cover Hurricane Katrina Losses
Dollars in millions

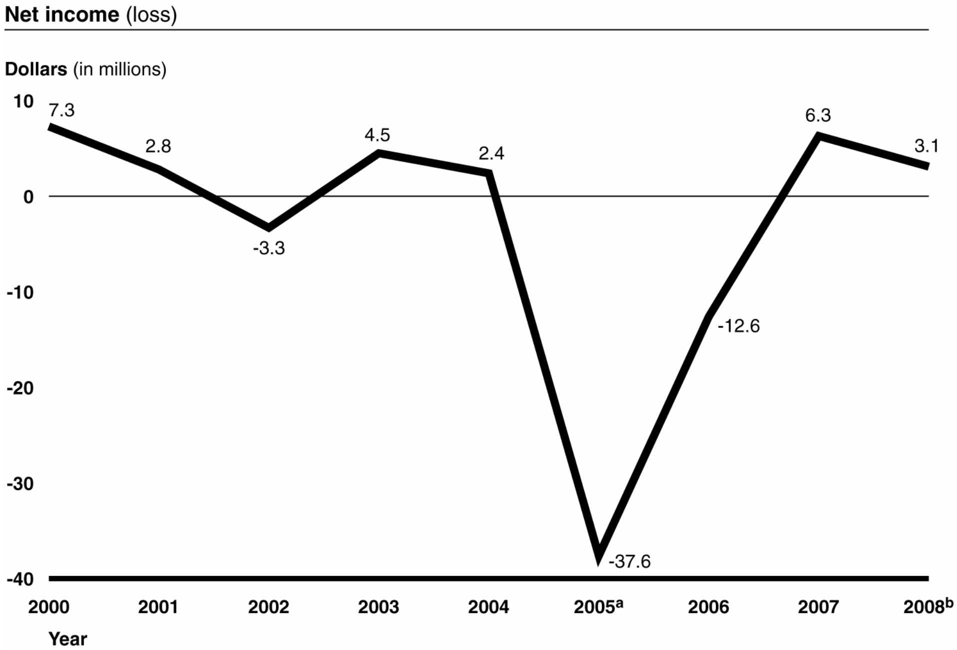
Type of payment	2005[a]	2006	2007	2008	Total all years
Private insurance			$4.8		**$4.8**
Wage index grant payments			3.7		**$3.7**
Uncompensated care funds		$19.0	8.2		**$27.2**
Total included in operating income (loss)		**$19.0**	**$16.7**		**$35.7**
FEMA reimbursements included in nonoperating revenue		1.5	1.5		**$3.0**
Total		**$20.5**	**$18.2**		**$38.7**

Source: West Jefferson Medical Center.
[a]Year of Hurricane Katrina.

West Jefferson Net Income (Loss)

West Jefferson had net income in 4 of the 5 years before Hurricane Katrina but had net losses in 2 of the 3 years from 2005 to 2007. West Jefferson estimates that it will also have net income for 2008. Net income or loss includes nonoperating revenues including investments and reimbursements that West Jefferson received from FEMA. (See fig. 3 and table 7.)

Figure 3: West Jefferson Net Income (Loss), 2000-2008



Source: GAO analysis, based on audited and budgeted financial statements of West Jefferson Medical Center.

[a] Year of Hurricane Katrina.
[b] Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 7: West Jefferson Calculation of Net Income (Loss), 2000-2008
Dollars in millions

	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Operating income (loss)	($3.8)	($5.0)	($10.1)	($1.1)	$1.9	($39.1)	($17.6)	($5.8)	($3.5)
Nonoperating revenues and gains (losses):									
Investment income	$8.8	$9.7	$5.5	$3.4	$2.9	$2.1	$5.9	$8.6	$6.6
FEMA reimbursements							1.5	1.5	
Other nonoperating revenue and gains (losses)[c]	2.3	(1.9)	1.3	2.2	(2.5)	(0.6)	(2.3)	2.0	0.0
Total nonoperating revenues and gains (losses)	**$11.1**	**$7.8**	**$6.8**	**$5.6**	**$0.4**	**$1.5**	**$5.1**	**$12.1**	**$6.6**
Net income (loss)	**$7.3**	**$2.8**	**($3.3)**	**$4.5**	**$2.4**	**($37.6)**	**($12.6)**	**$6.3**	**$3.1**

Source: GAO analysis, based on audited and budgeted financial statements of West Jefferson Medical Center.
Note: Amounts in table may not add to net income (loss) amounts due to immaterial rounding differences
[a] Year of Hurricane Katrina.
[b] Calculations for 2008 are based on amounts from hospital budgeted financial statements.
[c] Includes the assessment by Jefferson Parish except for 2008.

West Jefferson EBIDA

West Jefferson had positive EBIDA in the 5 years before the hurricane but had negative EBIDA in 2005, the year of the hurricane. West Jefferson had positive EBIDA in 2006 and 2007 and estimates that it will also have positive EBIDA for 2008. In calculating EBIDA, the interest, depreciation, and amortization amounts are added back to net income.

Table 8: West Jefferson Calculation of EBIDA, 2000-2008
Dollars In millions

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Net income (loss)	$7.3	$2.8	($3.3)	$4.5	$2.4	($37.6)	($12.6)	$6.3	$3.1
Interest, depreciation, and amortization	10.8	14.0	16.5	17.1	18.4	22.4	22.6	24.1	24.1
EBIDA	18.1	16.8	13.2	21.6	20.8	(15.2)	10.0	30.4	27.2

Source: GAO analysis, based on audited and budgeted financial statements of West Jefferson Medical Center.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Summary of Operating Results before Hurricane Katrina

- **2000-2004.** West Jefferson reported operating losses for 4 out of the 5 years before Hurricane Katrina but had net income for 4 out of the 5 years before Katrina as a result of investments and other nonoperating revenues and gains. West Jefferson had positive EBIDA in all 5 years before Hurricane Katrina. West Jefferson had a large operating loss in 2002 due mostly to the insolvency of a health maintenance organization which resulted in a one-time charge to operations for losses incurred.

Summary of Operating Results after Hurricane Katrina

- **2005.** West Jefferson was one of three hospitals that remained open in the New Orleans metropolitan area during Hurricane Katrina and the only hospital open in the west bank at the time of the hurricane. West Jefferson had a $39.1 million operating loss for 2005 due to a 15 percent decline in operating revenues and a 7 percent increase in operating expenses. Revenues declined primarily because of the evacuation of the surrounding population. Operating expenses increased for several reasons, including an across-the-board market increase in salaries to the majority of West Jefferson employees as a result of the hurricane, professional fees paid to emergency physicians' groups that provided services to the medical center's emergency room, and financial assistance provided to physicians who practice at the medical center and experienced business interruption because of the hurricane. West Jefferson had to obtain a waiver under Medicare policy to be able to provide the financial assistance to the physicians. West Jefferson also had a net loss of $37.6 million and negative EBIDA of $15.2 million.

- **2006.** West Jefferson operating results improved over 2005 in all three profitability measures. West Jefferson reduced its operating loss to $17.6 million from the $39.1 million operating loss in 2005. West Jefferson's net loss was $12.6 million down from $37.6 million in 2005 and EBIDA was a positive $10 million as compared to a negative $15.2 million for 2005. Contributing to the positive change in 2006 operating results was the amount of special payments that West Jefferson received, including $19 million in uncompensated care funds that were a part of operating revenues and $1.5 million in FEMA reimbursements included in nonoperating revenues. West Jefferson experienced an increase in patient volumes because of the reduced availability of health care in the region during the year. Increases in contract labor expenses contributed to increased operating expenses. According to West Jefferson hospital officials, contract labor expense increased 695 percent in 2006 compared to 2005 as the region experienced an acute nursing shortage resulting from Hurricane Katrina.

West Jefferson also received a CDL for $31 million in 2006 that has not been reflected in revenues because it is recorded as a liability. This amount was used to cover operating losses and is currently due in 2011. Under FEMA regulations, the obligation to repay the loan could be forgiven if certain conditions are met. West Jefferson officials told us that they will apply for forgiveness of this loan. If the loan is cancelled or forgiven, the loan balance and any accrued interest payable would be treated as revenue in the year in which the loan is forgiven. See Enclosure II for additional information.

- **2007.** This was a year of continuing progress for West Jefferson as it moved forward in its recovery from the effects of Hurricane Katrina. Operating losses in 2007 were less than 2006. West Jefferson had an operating loss of $5.8 million in 2007 versus an operating loss of $17.6 million for 2006. Contributing to the decline in operating losses was about $17 million in special payments that West Jefferson received. For example, net patient service revenue included $8.2 million in uncompensated care funds and the $3.7 million wage index grant that West Jefferson received to partially offset the increased labor costs since the hurricane. In addition, other operating revenue included $4.8 million in business interruption and property damage payments from private insurance. Operating expenses were greater than operating revenues, but the expenses decreased by $2.5 million from the prior year due in part to a decrease in purchased services expenses, which includes contract labor costs. West Jefferson reported that it reduced contract nursing expenses by 52 percent in 2007 as compared to those in 2006. West Jefferson intensified its recruitment and retention efforts to reduce its reliance on contract labor resulting in a reduction from about 100 contract full-time equivalents (FTE) in 2006 to just over 10 contract FTEs at year-end 2007.

  West Jefferson also improved its bottom-line net income or loss. West Jefferson reported net income of $6.3 million in 2007, which was greater than the net income reported for 2004, the year before the hurricane, and that is within the range of the net income or loss amounts for the five years before Hurricane Katrina. Nonoperating revenues, including $8.6 million in investment income and $1.5 million in FEMA reimbursements, contributed to the net income amount.

- **2008.** West Jefferson projected continued improvement in its operating results. West Jefferson projected an operating loss of $3.5 million dollars with operating revenues coming closer to covering operating expenses. West Jefferson did not budget for any special payments in 2008, thus indicating that it expects to make improvements with less support from special payments. West Jefferson also projected $3.1 million in net income and has a projected positive EBIDA of $27.2 million.

Impact on Hospital Bonds

As a result of changes in its operating results since the hurricane, in 2005 and 2006 West Jefferson did not meet requirements of its bond agreements to maintain a debt service coverage ratio of greater than 1.2 times its maximum annual debt service. The debt service coverage ratio is the ratio of adjusted net income to debt payments or the amount of cash flow available to meet annual interest and principal payments on debt. This ratio should ideally be over 1.0, meaning the entity is generating enough net income to pay its debt obligations. A ratio below 1.0 indicates that there is not enough cash flow to cover debt payments.

West Jefferson bond insurers granted the hospital a waiver for not maintaining the debt service coverage ratio for 2005, but West Jefferson had to agree to an increase in the debt service coverage ratio requirement from 1.2 times maximum annual debt service to 1.5 times for 2006. For 2006, West Jefferson's bond insurers granted the hospital a waiver for not attaining the increased debt service coverage ratio but required West Jefferson to engage consultants and provide a detailed plan to improve operating performance. The hospital is working with consultants as required by its bond agreements and is implementing actions to cut certain services.

In May 2007, one of West Jefferson's bond insurers directed, under the terms of the trust indenture, that a mortgage be recorded for substantially all of the medical center's property and equipment.

Impact on Hospital Financial Position

West Jefferson has a weakened financial position as shown by declines in its net asset balances. This indicates that the hospital has been using its assets or taking on additional debt to support operations, or both. For example, West Jefferson had net assets of $186 million in 2004 before the hurricane and net assets of $142 million in 2007.

West Jefferson Trends in Other Financial Information

Table 9: West Jefferson Staffed Beds, 2000-2007

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Beds	Unavailable	Unavailable	323	317	323	323	323	341

Source: West Jefferson Medical Center.
[a]Year of Hurricane Katrina.

Table 10: West Jefferson Occupancy Rates, 2000-2007
Percentages

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Rates	Unavailable	Unavailable	66.9	68.5	68.9	71.6	79.7	69.7

Source: West Jefferson Medical Center.
[a]Year of Hurricane Katrina.

Table 11: West Jefferson Payer Mix, 2000-2007
Percentages

Payer[a]	2000[b]	2001	2002	2003	2004	2005[c]	2006	2007
Managed care/commercial	N/A	34.9	34	33	33	32	31	31
Medicare	N/A	25.7	27	30	30	29	27	26
Medicare HMO	N/A	12.9	11	9	9	11	13	15
Medicaid	N/A	11.4	13	13	14	18	17	18
Self-pay/other	N/A	15.1	15	15	14	10	12	10

Source: West Jefferson Medical Center.
[a]Payer mix data for 2000 through 2004 represent information at the time of patient registration or point of service.
[b]N/A—Data were not available.
[c]Year of Hurricane Katrina. For 2005 forward, the data represent information on the patient account at year-end.

Enclosure IV: East Jefferson General Hospital (East Jefferson)

HOSPITAL DESCRIPTION

East Jefferson is a not-for-profit hospital located in Metairie, Louisiana, approximately 7 miles from downtown New Orleans. East Jefferson operates under the jurisdiction of the Parish Council of Jefferson Parish, Louisiana, as Jefferson Parish Hospital Service District No. 2 and is exempt from federal and state income taxes. In 2007, East Jefferson had over 450 licensed beds, with a total of 413 staffed beds. East Jefferson includes a PET Scan Center of East Jefferson, LLC; East Jefferson Physician Network, LLC; East Jefferson Ambulatory Surgery Center, LLC; East Jefferson Radiation Oncology, LLC; and East Jefferson Cardiovascular Venture, LLC. East Jefferson is a community hospital that offers cardiovascular services; emergency services; neuroscience services, including sleep studies; orthopedic services, including joint replacement; diagnostic imaging; a cancer program; and special care, including coronary and neonatal intensive care units. It also provides programs in occupational health, physical therapy, and speech and language pathology.

East Jefferson was one of three hospitals that remained open in the New Orleans metropolitan area during Hurricane Katrina.

RESULTS OF REVIEW

Table 12: East Jefferson Operating Income (Loss), Net Income (Loss) and EBIDA, 2000-2008
Dollars in millions

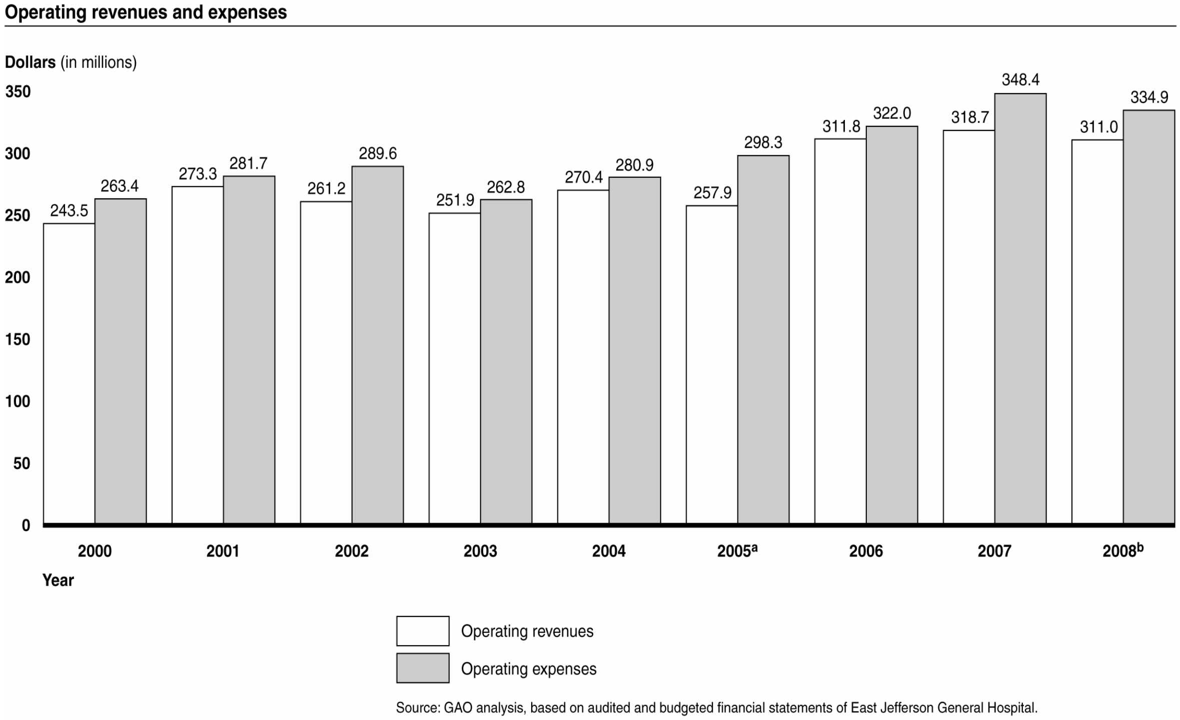
Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Operating income (loss)	($19.8)	($8.4)	($28.3)	($10.9)	($10.5)	($40.4)	($10.2)	($29.6)	($23.9)
Net Income (Loss)	4.4	16.1	(14.1)	(2.7)	(4.6)	(30.8)	4.6	(12.2)	(14.0)
EBIDA	30.7	47.6	18.1	30.1	27.1	6.6	34.3	21.7	17.9

Source: GAO analysis, based on audited and budgeted financial statements of East Jefferson General Hospital.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

East Jefferson Operating Income (Loss)

East Jefferson had operating losses in all of the 5 years before Hurricane Katrina and operating losses in 2005 to 2007. East Jefferson estimates that it will also have an operating loss in 2008. Our calculation of operating income or loss is the result of operating revenues minus operating expenses. East Jefferson operating revenues for 2005 through 2008 include special payments that the hospital received or expects to receive from private insurance to cover losses from the hurricane, wage index grant payments to cover some of the increase in labor costs, and uncompensated care funds to cover some of the costs associated with uninsured patients. (See figs. 4 and 5 and table 13.)

Figure 4: East Jefferson Operating Revenues and Expenses, 2000-2008

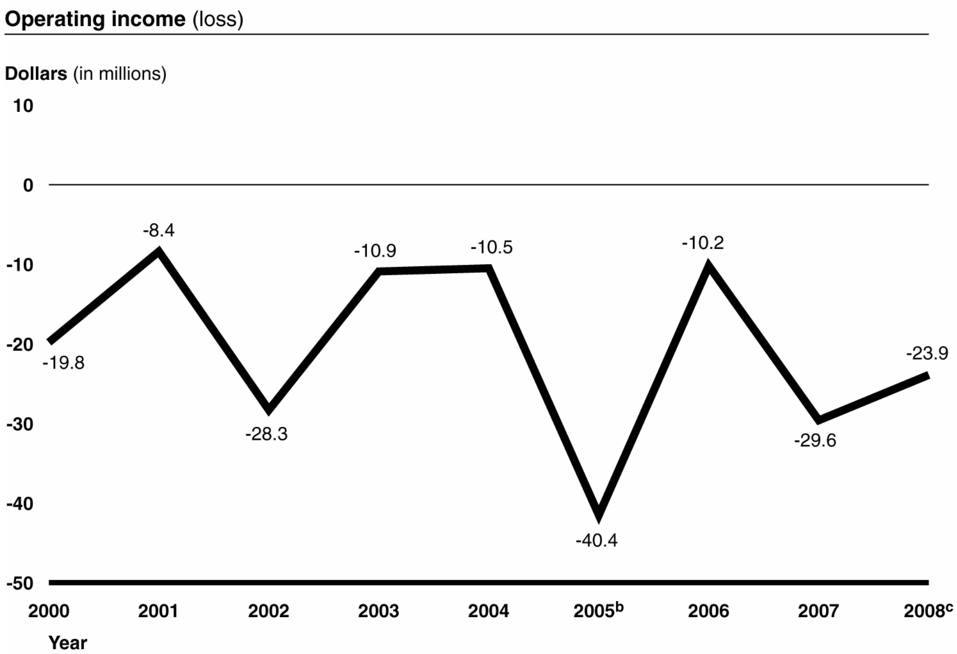


Note: Amounts in figure may not reconcile to reported operating income (loss) amounts due to immaterial rounding differences.
[a]Year of Hurricane Katrina.
[b]Year 2008 amounts are based on hospital budgeted financial statements.

Notes: Operating revenues include net patient service revenues, other operating revenues, and the provision for bad debt which is only included in net patient service revenues for years 2003 through 2008. Operating revenues for 2005 through 2008 also include special payments that East Jefferson received, including payments from private insurance, wage index grants, and uncompensated care funds. East Jefferson financial statements for 2005 and 2006 included payments from private insurance in nonoperating revenue, but for consistency with the other hospitals in our study; we included insurance payments in operating revenue. Also, 2008 operating revenues exclude rental income from leases that we reclassified as nonoperating revenues to be consistent with how these amounts were reported in other years.

Operating expenses include direct operating costs, such as salaries, purchased services, depreciation, supplies, interest expense, and provision for bad debt, which is only included for years 2000 through 2002.

Figure 5: East Jefferson Operating Income (Loss), 2000-2008[a]



Source: GAO analysis, based on audited and budgeted financial statements of East Jefferson General Hospital.

[a] The financial statements report different operating income (loss) amounts for years 2005, 2006, and 2008 than our amounts in figure above due to our reclassification of certain operating and non-operating amounts to calculate operating income (loss) for consistency with other hospitals in our study.
[b] Year of Hurricane Katrina.
[c] Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 13: East Jefferson Special Payments Received from 2005 to 2008 to Cover Hurricane Katrina Losses
Dollars in millions

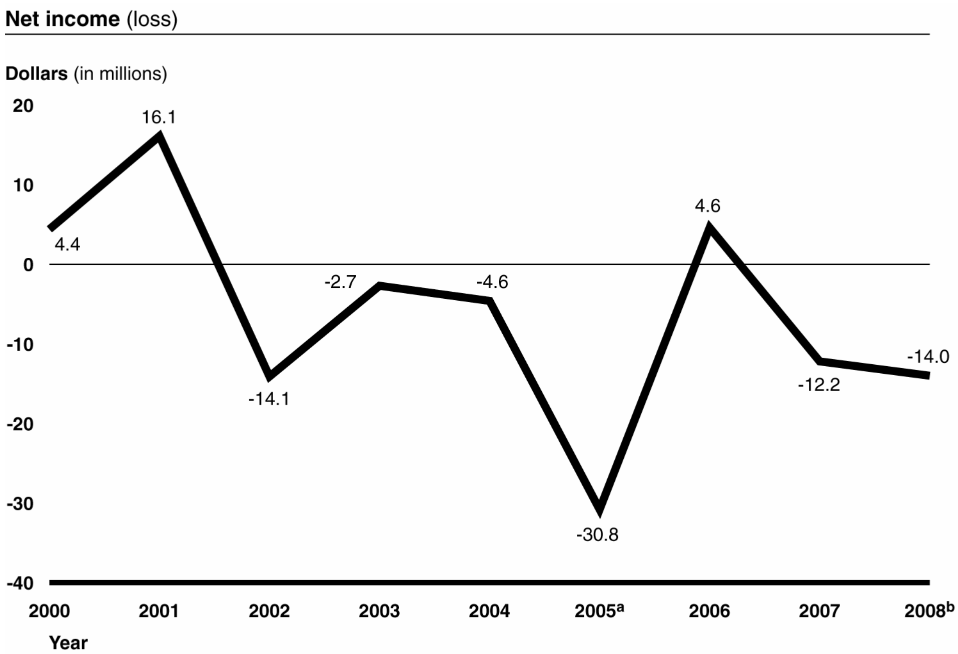
Type of payment	2005[a]	2006	2007	2008[b]	Total All Years
Private insurance	$1.1	$22.8			**$23.9**
Wage index grant payments			5.5		**$ 5.5**
Uncompensated care funds		9.3	8.8	6.0	**$24.1**
Total included in operating revenue	**$1.1**	**$32.1**	**$14.3**	**$6.0**	**$53.5**
FEMA reimbursements included in nonoperating revenue		2.3	3.2	.5	**$6.0**
Total	**$1.1**	**$34.4**	**$17.5**	**$6.5**	**$59.5**

Source: East Jefferson General Hospital.
[a] Year of Hurricane Katrina.
[b] Year 2008 amounts are based on hospital budgeted financial statements.

East Jefferson Net Income (Loss)

East Jefferson had net losses in 3 of the 5 years before Hurricane Katrina and net losses in 2 of the 3 years from 2005 to 2007. Also, East Jefferson estimates that it will have a net loss for 2008. Net income or loss includes nonoperating revenues net of nonoperating expenses, including investments and reimbursements that East Jefferson received from FEMA. (See fig. 6 and table 14.)

Figure 6: East Jefferson Net Income (Loss), 2000-2008



Source: GAO analysis, based on audited and budgeted financial statements of East Jefferson General Hospital.

[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 14: East Jefferson Calculation of Net Income (Loss), 2000-2008
Dollars in millions

	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Operating income (loss)	($19.8)	($8.4)	($28.3)	($10.9)	($10.5)	($40.4)	($10.2)	($29.6)	($23.9)
Non-operating revenues and gains (losses):									
Investment income	$24.5	$23.5	$19.0	$7.3	$4.3	$8.7	$10.9	$15.0	$6.0
FEMA reimbursements							2.3	3.2	0.5
Other nonoperating revenue and gains (losses)[c]	(0.2)	1.0	(4.8)	0.8	1.6	0.9	1.6	(0.7)	3.4
Total nonoperating revenues and gains (losses)	**$24.3**	**$24.5**	**$14.2**	**$8.2**	**$6.0**	**$9.6**	**$14.8**	**$17.5**	**$9.9**
Net income (loss)	**$4.4**	**$16.1**	**($14.1)**	**($2.7)**	**($4.6)**	**($30.8)**	**$4.6**	**($12.2)**	**($14.0)**

Source: GAO analysis, based on audited and budgeted financial statements of East Jefferson General Hospital
Note: Amounts in table may not add to net income (loss) amounts due to immaterial rounding differences.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.
[c]Includes the transfer to Jefferson Parish except for 2008.

East Jefferson EBIDA

East Jefferson had positive EBIDA in the 5 years before the hurricane and also had positive EBIDA in 2005, the year of the hurricane. East Jefferson had positive EBIDA in 2006 and 2007 and estimates that it will also have positive EBIDA for 2008. In calculating EBIDA, interest, depreciation, and amortization amounts are added back to net income.

Table 15: East Jefferson EBIDA, 2000-2008
Dollars in millions

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Net income (loss)	$4.4	$16.1	($14.1)	($2.7)	($4.6)	($30.8)	$4.6	($12.2)	($14.0)
Interest, depreciation, and amortization	26.3	31.5	32.2	32.8	31.7	37.4	29.7	33.9	31.9
EBIDA	30.7	47.6	18.1	30.1	27.1	6.6	34.3	21.7	17.9

Source: GAO analysis, based on audited and budgeted financial statements of East Jefferson General Hospital.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Summary of Operating Results before Hurricane Katrina

- **2000-2004.** East Jefferson had operating losses in all 5 years before Hurricane Katrina. In 2002, operating losses increased by $20 million from 2001 because of several issues. Operating revenue was down about $12 million because of a reduction in admissions while operating expenses increased $7.9 million. The increase in expenses was due to increased salaries, wages, and benefits in addition to an increase in bad debt expense from the bankruptcy of several managed care organizations. East Jefferson had net income in 2 years before the hurricane because of investment income and other nonoperating revenues and gains. East Jefferson also had positive EBIDA in all 5 years before Hurricane Katrina.

Summary of Operating Results after Hurricane Katrina

- **2005.** East Jefferson operating results declined from pre-Katrina levels. East Jefferson suffered disruption of business and damage to its structures from the effects of Hurricane Katrina, although it was one of three hospitals that remained open in the New Orleans metropolitan area during the hurricane. East Jefferson had a decline in net patient revenues and this decline along with an increase in operating expenses contributed to the $40.4 million operating loss. East Jefferson officials said that some patients were staying in the hospital longer because of the lack of suitable homes or subacute services post discharge, such as home health or skilled nursing care and nursing homes. East Jefferson officials said that they lose money for certain Medicare patients where reimbursement becomes limited after a certain length of stay. East Jefferson reported a $30.8 million net loss for the year and had positive EBIDA of $6.6 million.

- **2006**. East Jefferson's operating results improved mainly because of special payments from private insurance and uncompensated care funds. East Jefferson had a $10.2 million operating loss, which was about $30 million less than the operating loss from 2005. The $10.2 million operating loss included $22.8 million in insurance payments and $9.3 million in uncompensated care funds. East Jefferson reported that its operations faced challenges because of the higher cost of living resulting in an increase in salaries, wages, benefits, and contract labor; difficulty recruiting and maintaining the professional staff of physicians, nurses, and other allied health professional and support staff; and the shortage of health care resources that put a strain on the delivery of available beds and emergency room services.

East Jefferson generated net income of $4.6 million because of $10.9 million in investment income, FEMA reimbursements of approximately $2.3 million, and other nonoperating revenues and gains. East Jefferson also had positive EBIDA of $ 34.3 million.

East Jefferson received a CDL for $61 million in 2006 that has not been reflected in revenues because it is recorded as a liability. This amount was used to cover operating expenses and is currently due in 2011. Under FEMA regulations, the obligation to repay the loan could be forgiven if certain conditions are met. East Jefferson officials told us that they will apply for forgiveness of this loan. If the loan is cancelled or forgiven, the loan balance and any accrued interest payable would be treated as revenue in the year in which the loan is forgiven. See enclosure II for additional information.

- **2007.** East Jefferson operating results were an improvement over 2005 levels. East Jefferson had an operating loss of $29.6 million. While 2007 operating revenues increased over 2006 revenues, they included a smaller amount of special payments. Special payments included $5.5 million in wage index grant payments and $8.8 million in uncompensated care funds. Increased operating revenues also resulted from increased volumes in the hospital clinics and emergency rooms and new lines of service, such as the Da Vinci Robot. Operating expenses also increased primarily because of increasing labor costs in the market.

  East Jefferson's reported a net loss of $12.2 million in 2007 that included nonoperating revenues, such as $15 million in investment income and $3.2 million in FEMA reimbursements. This net loss amount is generally in the range of net income or loss amounts for all years before the hurricane. East Jefferson also had positive EBIDA of $21.7 million.

- **2008.** East Jefferson projected continued improvement in its operating results over 2005 levels. East Jefferson projected an operating loss of $23.9 million, which includes $6 million in uncompensated care funds. East Jefferson received a smaller amount of special payments in 2008 than in the 2 prior years, indicating that it expects to make improvements with less support from special payments. East Jefferson also projected a $14 million net loss and has a projected positive EBIDA of $17.9 million.

Impact on Hospital Bonds

Although East Jefferson remained current in its bond payments in 2005, it was not in compliance with its bond covenants. The covenants require that East Jefferson maintain a certain debt service coverage ratio each year. The debt service coverage ratio is the ratio of net income to debt payments or the amount of cash flow available to meet annual interest and principal payments on debt. This ratio should ideally be over 1.0, meaning the entity is generating enough net income to pay its debt obligations. A ratio below 1.0 indicates that there is not enough cash flow to cover debt payments. The hospital received waivers from its bond insurers for the covenant noncompliance after meeting conditions that included depositing approximately $8.5 million of short-term investments in a reserve account fund and hiring a management consultant to assist with improving the hospital's financial results.

Impact on Hospital Financial Position

East Jefferson has a weakened financial position as shown by declines in its net asset balances. This indicates that the hospital has been using its assets, taking on additional debt, or both to support operations. For example, East Jefferson had net assets of about $288 million in 2004 before the hurricane and $249 million in 2007.

East Jefferson Trends in Other Financial Information

Table 16: East Jefferson Staffed Beds, 2000-2007

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Beds	482	471	436	436	430	443	429	413

Source: East Jefferson General Hospital.
[a]Year of Hurricane Katrina.

Table 17: East Jefferson Occupancy Rates, 2000-2007
Percentages

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Rates	67.9	70.8	76.5	68.5	68.6	71.9	75.2	78.3

Source: East Jefferson General Hospital.
[a]Year of Hurricane Katrina.

Table 18: East Jefferson Payer Mix, 2000-2008
Percentages

Payer	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Managed care/commercial	43	42	43	43	40	38	35	35	33
Medicare (Medicare HMO, combined)	45	44	41	40	41	44	44	47	50
Medicaid	8	9	11	12	13	12	14	15	14
Self-pay/other	5	5	5	5	6	5	7	3	4

Source: East Jefferson General Hospital.
[a]Year of Hurricane Katrina.
[b]The 2008 year to date only includes discharges coded as of May 1, 2008.

Enclosure V: Touro Infirmary and Subsidiaries (Touro)

HOSPITAL DESCRIPTION

Touro is not-for-profit, faith-based community teaching hospital located in the Garden District in Uptown New Orleans. Touro includes Touro Infirmary (Hospital); Touro Infirmary Foundation; Woldenberg Village, Inc.; the hospital's wholly owned for-profit subsidiaries, Metrolab, Inc., and Crescent City Physicians, Inc.; and its 50 percent interest in Choice Healthcare, Inc. Woldenberg operates a 120-bed nursing home, a 60-unit assisted living facility, and a 60-unit independent living facility. The hospital's services include cardiovascular, emergency, neurosciences, oncology, orthopedic, nuclear medicine, rehabilitation, wound care, and special services such as neonatal intensive care and intensive care.

Touro temporarily closed on September 1, 2005 and, reopened on September 28, 2005. It was the first hospital to reopen after Hurricane Katrina in Orleans Parish.

RESULTS OF REVIEW

Table 19: Touro Operating Income (Loss), Net Income (Loss), and EBIDA, 2000-2008
Dollars in millions

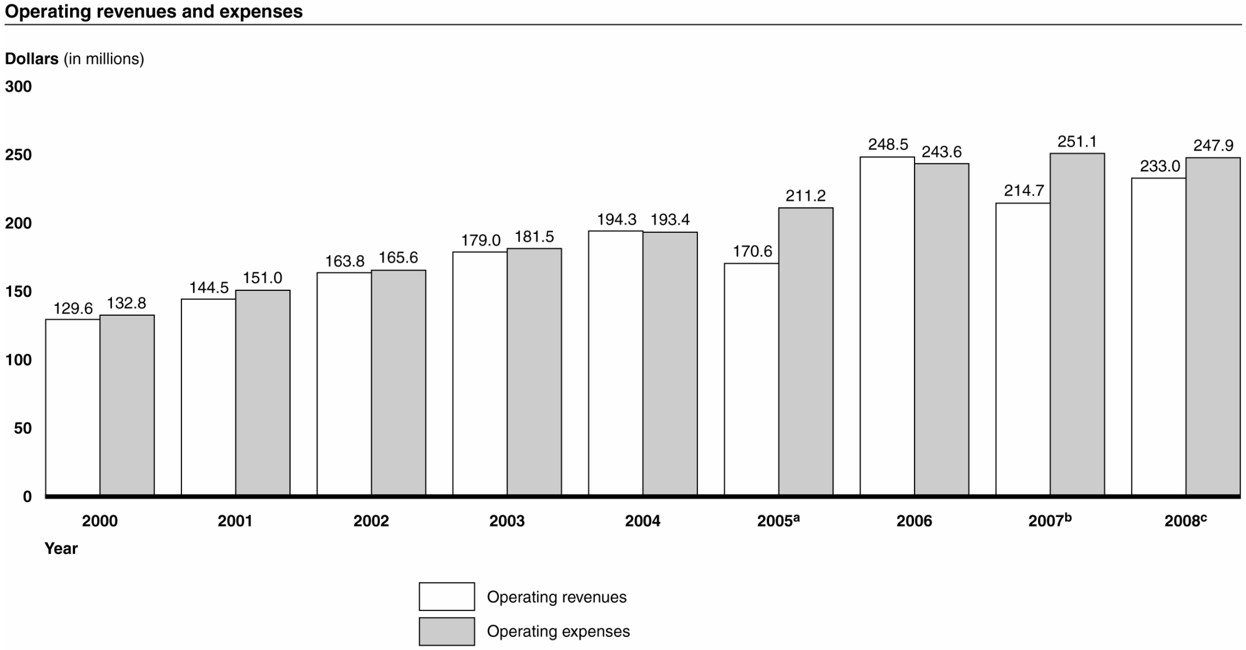
Year	2000	2001	2002	2003	2004	2005[a]	2006	2007[b]	2008[c]
Operating income (loss)	($3.2)	($6.5)	($1.8)	($2.5)	$0.8	($40.7)	$4.9	($36.4)	($15.0)
Net income (loss)	4.5	(9.7)	(8.5)	11.1	11.4	(33.5)	22.8	(20.3)	(8.9)
EBIDA	20.2	6.3	11.6	31.6	32.7	(13.2)	43.5	0.7	12.7

Source: GAO analysis, based on audited, unaudited, and budgeted financial statements of Touro Infirmary and subsidiaries.
[a] Year of Hurricane Katrina.
[b] The 2007 data are based on unaudited financial statements.
[c] Year 2008 amounts are based on hospital budgeted financial statements.

Touro Operating Income (Loss)

Touro had operating losses in 4 of the 5 years before Hurricane Katrina and operating losses in 2 of the 3 years from 2005 to 2007. Touro estimates that it will also have an operating loss in 2008. Our calculation of operating income or loss is the result of operating revenues minus operating expenses. Touro's operating income for 2005 through 2008 include special payments that the hospital received from private insurance to cover losses from the hurricane, wage index grant payments to cover some of the increase in labor costs, and uncompensated care funds to cover some of the costs associated with the increased volume of uninsured patients. (See figs. 7 and 8 and table 20.)

Figure 7: Touro Operating Revenues and Expenses, 2000-2008



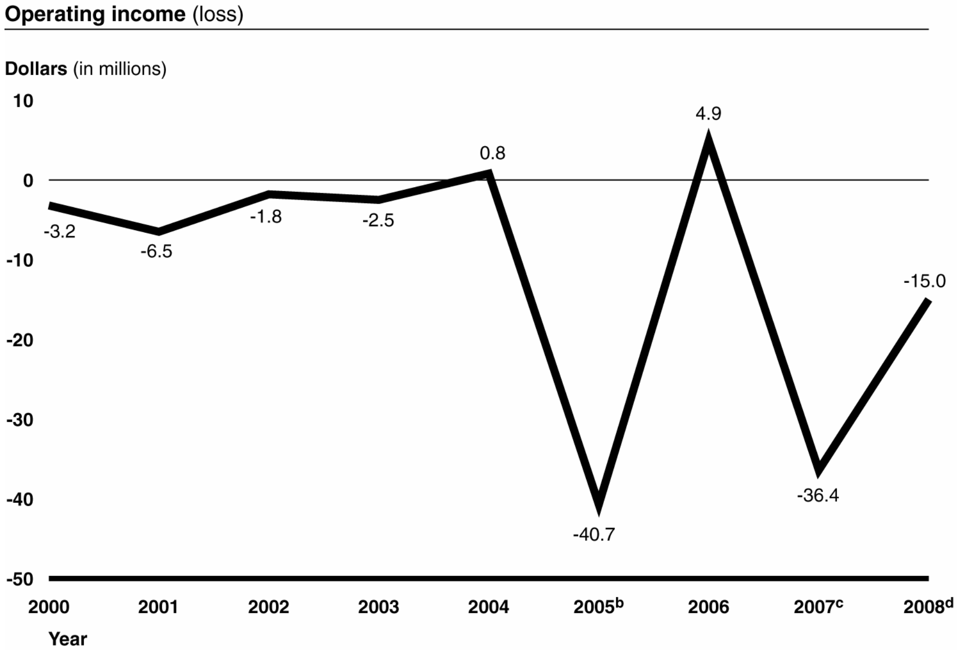
Source: GAO analysis based on audited, unaudited, and budgeted financial statements of Touro Infirmary and subsidiaries.

Note: Amounts in figure may not reconcile to reported operating income (loss) amounts due to immaterial rounding differences.
[a] Year of Hurricane Katrina.
[b] The 2007 data are based on unaudited financial statements.
[c] Year 2008 amounts are based on hospital budgeted financial statements.

Notes: Operating revenues include net patient service revenues, other operating revenues and net assets released from restrictions for operations. Operating revenues for 2005 through 2008 also include special payments that Touro received, including payments from private insurance, and wage index grants. Touro financial statements for 2005 through 2008 included payments from private insurance in non-operating revenue, but for consistency with the other hospitals in our study, we included insurance payments in operating revenue. Further, the financial statements included investment income in operating revenue, but for consistency with the other hospitals in our study, we reclassified investment income as nonoperating revenue.

Operating expenses include direct operating costs such as salaries, purchased services, impairments of assets, depreciation, provision for doubtful accounts which includes an offset of uncompensated care funds, and interest expense. Touro's 2005 financial statements included some insurance payments as an offset against operating expenses, but for consistency with the other hospitals in our study, we included all insurance payments in operating revenue.

Figure 8: Touro Operating Income (Loss), 2000-2008[a]



Source: GAO analysis based on audited, unaudited, and budgeted financial statements of Touro Infirmary and subsidiaries.

[a] The financial statements report different operating income (loss) amounts for years 2000-2008 than our amounts in figure above due to our reclassification of certain operating and nonoperating amounts to calculate operating income (loss) for consistency with other hospitals in our study.
[b] The year of Hurricane Katrina.
[c] The 2007 data are based on unaudited financial statements.
[d] Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 20: Touro Special Payments Received from 2005 to 2008 to Cover Hurricane Katrina Losses
Dollars in millions

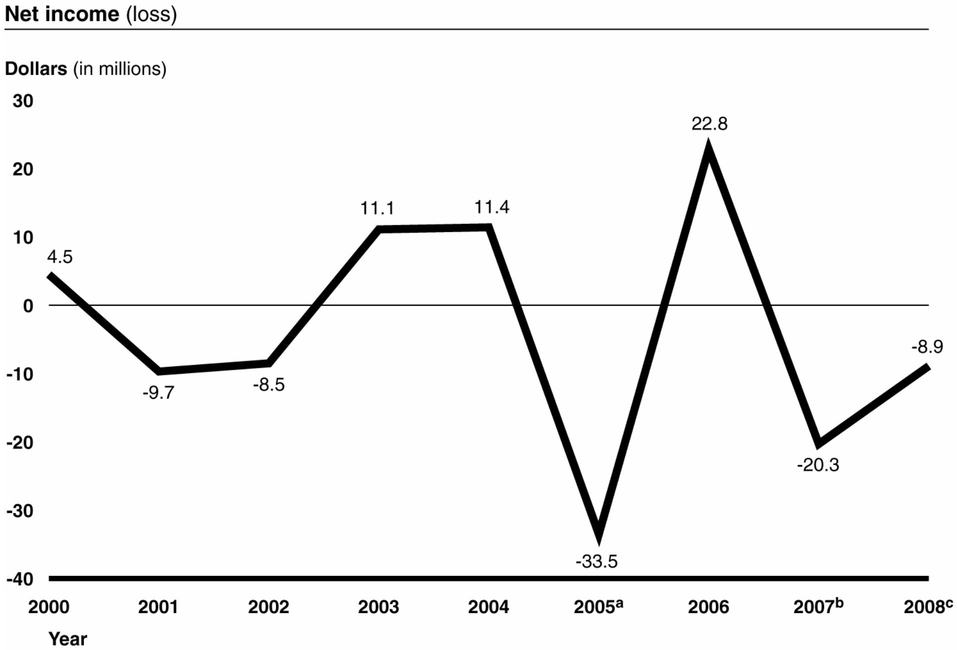
Type of payment	2005[a]	2006	2007	2008[b]	Total all years
Private insurance	$16.0	$33.7	$1.5	$1.4	**$52.6**
Wage index grant payments			3.6		**$3.6**
Uncompensated care funds		1.5	9.1	3.3	**$13.9**
Total included in operating revenue	**$16.0**	**$35.2**	**$14.2**	**$4.7**	**$70.1**
FEMA reimbursements included in nonoperating revenue		3.8	4.8		**$8.6**
Total	**$16.0**	**$39.0**	**$19.0**	**$4.7**	**$78.7**

Source: Touro Infirmary and subsidiaries.
[a]Year of Hurricane Katrina.
[b]Year 2008 amounts are based on hospital budgeted financial statements.

Touro Net Income (Loss)

Touro had net income in 3 of the 5 years before Hurricane Katrina but had net losses in 2 of the 3 years from 2005 to 2007. Touro estimates that it will have a net loss for 2008. Net income or loss includes nonoperating revenues net of nonoperating expenses including investments and reimbursements that Touro received from FEMA. (See fig. 9 and tables 19 and 20.)

Figure 9: Touro Net Income (Loss), 2000-2008



Source: GAO analysis based on audited, unaudited, and budgeted financial statements of Touro Infirmary and subsidiaries.

[a]Year of Hurricane Katrina.
[b]The 2007 data are based on unaudited financial statements.
[c]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 21: Touro Calculation of Net Income (Loss), 2000-2008
Dollars in millions

Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005 [a]**	**2006**	**2007 [b]**	**2008[c]**
Operating income (loss)	($3.2)	($6.5)	($1.8)	($2.5)	$0.8	($40.7)	$4.9	($36.4)	($15.0)
Nonoperating revenues and gains (losses):									
Investment income	$5.9	($6.8)	($7.5)	$13.0	$8.3	$8.5	$12.9	$8.8	$5.6
FEMA reimbursements						0.0	3.8	4.8	0.0
Other nonoperating revenue and gains (losses)	1.9	3.6	0.8	0.6	2.2	(1.3)	1.2	2.6	0.5
Total nonoperating revenues and gains (losses)	**$7.8**	**($3.2)**	**($6.7)**	**$13.6**	**$10.5**	**$7.2**	**$17.9**	**$16.2**	**$6.1**
Net income (loss)	**$4.5**	**($9.7)**	**($8.5)**	**$11.1**	**$11.4**	**($33.5)**	**$22.8**	**($20.3)**	**($8.9)**

Source: GAO analysis, based on audited, unaudited, and budgeted financial statements of Touro Infirmary and subsidiaries.
Note: Amounts in table may not add to net income (loss) amounts due to immaterial rounding differences.
[a]Year of Hurricane Katrina.
[b]Calculations for 2007 are based on unaudited financial statements.
[c]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Touro EBIDA

Touro had positive EBIDA in the 5 years before Hurricane Katrina but had negative EBIDA in 2005, the year of the hurricane. In 2006 and 2007, Touro had positive EBIDA, and estimates that it will also have positive EBIDA for 2008. In calculating

EBIDA, the interest, depreciation, and amortization amounts are added back to net income. (See table 22.)

Table 22: Touro Calculation of EBIDA, 2000 –2008
Dollars In millions

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007[b]	2008[c]
Net income (loss)	$4.5	($9.7)	($8.5)	$11.1	$11.4	($33.5)	$22.8	($20.3)	($8.9)
Interest, depreciation, and amortization	15.7	16.0	20.1	20.5	21.3	20.3	20.7	21.0	21.6
EBIDA	20.2	6.3	11.6	31.6	32.7	(13.2)	43.5	0.7	12.7

Source: GAO analysis, based on audited, unaudited, and budgeted financial statements of Touro Infirmary and subsidiaries.
[a]Year of Hurricane Katrina.
[b]Calculations for 2007 are based on unaudited financial statements.
[c]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Summary of Operating Results before Hurricane Katrina

- **2000-2004.** Touro had operating losses 4 out of 5 years before Hurricane Katrina, but reported net income in 3 of those years because of investment income and other nonoperating revenues and gains. Touro also had positive EBIDA in all 5 years before Hurricane Katrina.

Summary of Operating Results after Hurricane Katrina

- **2005**. Touro operating results declined from pre-Katrina levels. Touro had a $40.7 million operating loss. Touro received $16 million in payments from private insurance but had a significant decline in net patient revenues because the hospital was closed for 1 month after the hurricane and reopened at a significantly reduced capacity. Touro also reported a $33.5 million net loss for the year and had negative EBIDA of $13.2 million.

- **2006.** Touro operating results improved over 2005 levels. Touro had operating income of $4.9 million with $33.7 million in insurance payments and $1.5 million in uncompensated care funds included in operating revenues. Touro also had net income of $22.8 million due to $12.9 million in investment income, FEMA reimbursements of approximately $3.8 million, and other nonoperating revenues and gains. Touro also had positive EBIDA of $43.5 million.

- **2007.** Touro operating results were an improvement over 2005 levels. Touro had an operating loss of $36.4 million. While operating revenues increased, they included a smaller amount of special payments than in 2006. Special payments included $1.5 million in insurance payments, $3.6 million in wage index grant payments, and $9 million in uncompensated care funds. Touro's unaudited financial statements show a net loss of $20.3 million after including $8.8 million in investment income and other nonoperating revenues. Additionally, according to Touro officials the hospital also received $4.8 million in FEMA reimbursements. Touro also has positive EBIDA of $0.7 million.

- **2008.** Touro projected improvement in its operating results over 2005 levels.

Touro projected an operating loss of $15 million, which includes about $3 million in uncompensated care funds and $1.4 million in insurance payments. Touro received a smaller amount of special payments in 2008 than in the 3 prior years. The projected improvement in operating results indicates that Touro expects to continue to make improvements over 2005 levels with less support from special payments. Touro also projected an $8.9 million net loss and has a projected positive EBIDA of $12.7 million.

Impact on Hospital Bonds

As result of operating losses, in 2005 Touro did not meet its bond covenants, which require that the hospital maintain a debt service coverage ratio of greater than 1.1. The debt service coverage ratio is the ratio of net income to debt payments or the amount of cash flow available to meet annual interest and principal payments on debt. This ratio should ideally be over 1.0, meaning the entity is generating enough net income to pay its debt obligations. A ratio below 1.0 indicates that there is not enough cash flow to cover debt payments. Touro management retained a consultant to make recommendations to improve the operating results of the hospital. According to hospital officials, Touro was not in compliance with these requirements in 2007 and is in discussions with its bond trustee about this matter.

Impact on Hospital Financial Position

Touro has a weakened financial position as shown by declines in its net asset balances. This indicates that the hospital has been using its assets to support operations. Touro had net assets of about $144 million in 2004 before the hurricane and net assets of $118 million in 2007.

Touro officials told us that although their operating losses are lower in 2006 through 2008 than losses in 2005, their financial position is weaker because their cash and investment balances have declined from levels before Hurricane Katrina. Touro cash and investment balances were about $105 million in 2004 and about $82 million in 2007, a decline of about $23 million or about 22 percent. Touro officials said that they have had to use their cash and investments to cover operating expenses in years that they had operating losses. They also said that using their cash for operating expenses will affect their ability to make future expenditures for capital improvements, such as new technology and equipment.

Touro Trends in Other Financial Information

Table 23: Touro Staffed Beds, 2000-2007

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Beds	352	369	375	355	359	302	337	345

Source: Touro Infirmary and subsidiaries.
[a]Year of Hurricane Katrina.

Table 24: Touro Occupancy Rates, 2000-2007
Percentages

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Rates[b]	56.2	60.7	59.0	67.5	71.0	66.7	66.8	61.4

Source: Touro Infirmary and subsidiaries.
[a]Year of Hurricane Katrina.
[b] Rates are based on acute care.

Table 25: Touro Payer Mix, 2000-2008
Percentages

Payer	2000[a]	2001	2002	2003	2004	2005[b]	2006	2007	2008[c]
Managed care/commercial	N/A	32.5	29.6	33.7	33.5	33.9	29.4	28.1	27.2
Medicare	N/A	41.5	43.3	40.3	38.6	38.1	30.5	30.1	31.4
Medicare HMO	N/A	6.5	5.1	4.8	4.5	5.8	16.4	20.2	21.7
Medicaid	N/A	16.8	17.8	16.2	18.9	16.6	15.2	16.8	15.2
Self-pay/other	N/A	2.7	4.3	5.0	4.5	5.6	8.6	4.9	4.6

Source: Touro Infirmary and subsidiaries.
[a]N/A–Data were not available.
[b]Year of Hurricane Katrina.
[c]Data are through February 2008.

Enclosure VI: Tulane University Hospital and Clinic (Tulane)

HOSPITAL DESCRIPTION

Tulane is a partnership between Tulane University and Hospital Corporation of America (HCA) and is a for-profit, limited liability company. Tulane has two facilities in the New Orleans metropolitan area: its main campus and a secondary campus at Tulane-Lakeside Hospital in Metairie, Louisiana, which was acquired just before Hurricane Katrina, on July 1, 2005. Between these two campuses, Tulane provides a full range of medical services, including cardiovascular, emergency, neurosciences, oncology, orthopedic, nuclear medicine, rehabilitation, and special services, such as neonatal intensive care and intensive care. Following the hurricane, the Lakeside campus, which received minor storm damage, reopened in 2005. In February 2006, after being closed for almost 6 months, the Tulane main campus reopened its emergency room, several operating rooms, 63 beds, an adult and pediatric intensive care unit, a pharmacy, and several cardiology labs. At its reopening, the main campus was about one-fourth of its pre-Katrina size and had about half of its pre-Katrina staffing. In 2007, Tulane had 288 staffed beds.

RESULTS OF REVIEW

Table 26: Tulane Operating Income (Loss), Net Income (Loss), and EBIDA, 2000-2008

Dollars in millions

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Operating income (loss)	($8.5)	($2.1)	$3.6	$0.1	($4.4)	($18.9)	$3.1	($42.2)	($37.6)
Net income (loss)[c]	(8.5)	(2.1)	3.6	0.1	(4.4)	(18.9)	3.1	(42.2)	(37.6)
EBIDA	7.3	15.7	20.1	18.5	14.5	1.8	22.7	(16.1)	(11.9)

Source: GAO analysis, based on audited and budgeted financial statements of Tulane University Hospital and Clinic.

[a]Year of Hurricane Katrina.

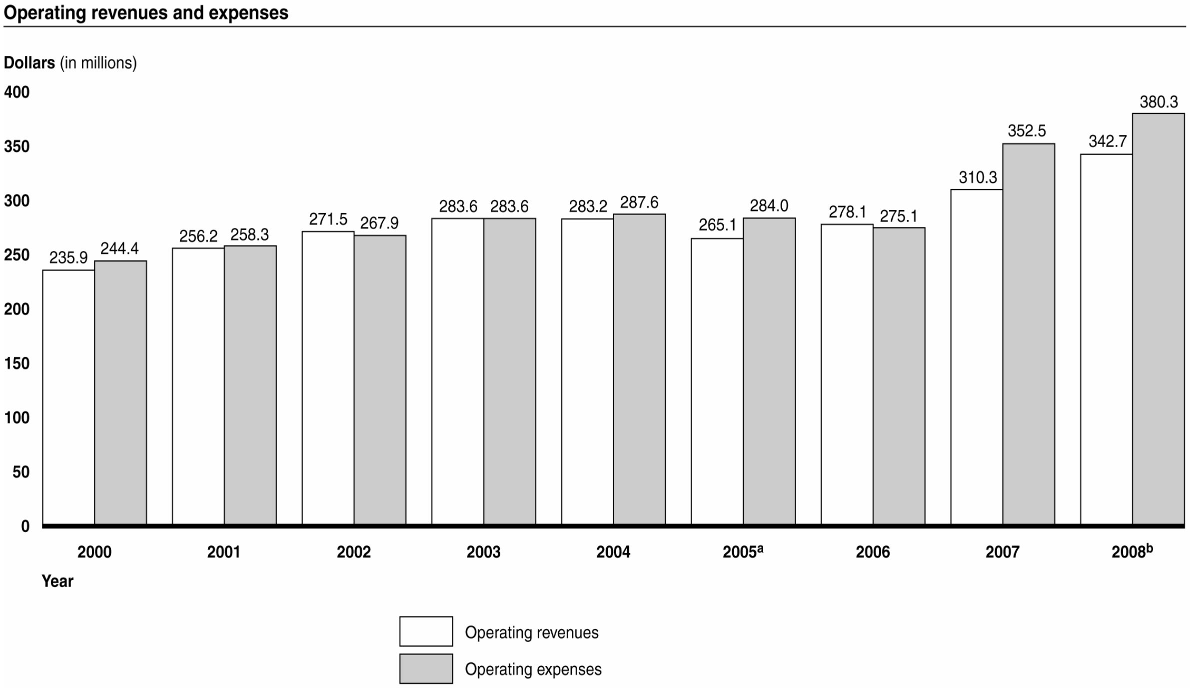
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

[c]Net income (loss) is the same as operating income (loss) because Tulane does not have nonoperating revenue and expenses.

Tulane Operating Income (Loss)

Tulane had operating losses in 3 of the 5 years before Hurricane Katrina and operating losses in 2 of the 3 years from 2005 to 2007. Tulane estimates that it will also have an operating loss in 2008. Our calculation of operating income or loss is the result of operating revenues minus operating expenses. Tulane operating revenues for 2005 through 2008 include special payments that the hospital received from private insurance to cover losses from the hurricane, wage index grant payments to cover some of the increase in labor costs, and uncompensated care funds to cover some of the costs associated with the volume of uninsured patients. (See figs. 10 and 11 and table 27.)

Figure 10: Tulane Operating Revenues and Expenses, 2000-2008



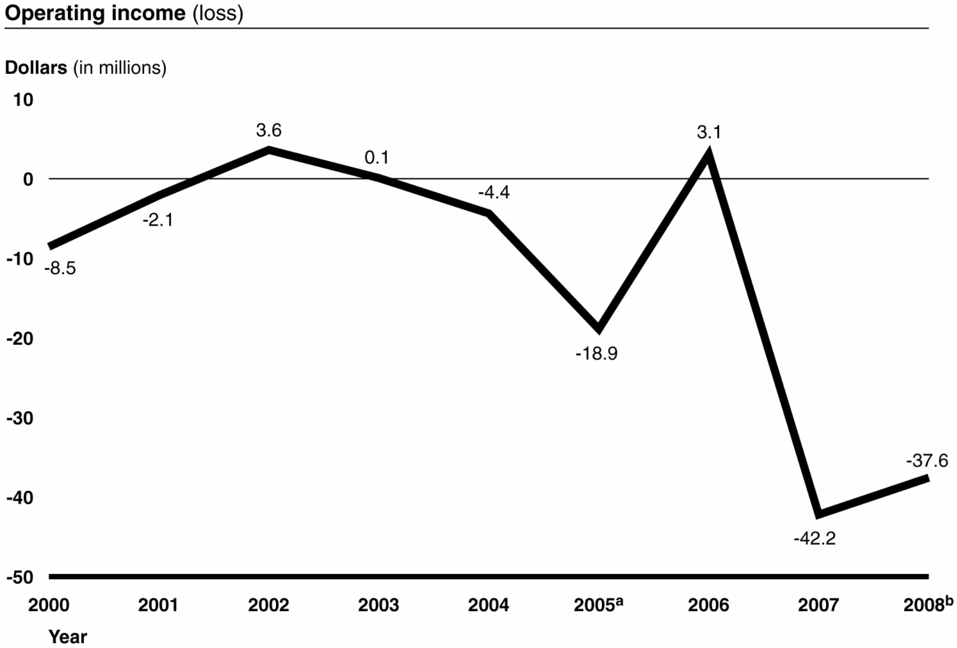
Source: GAO analysis, based on audited and budgeted financial statements of Tulane University Hospital and Clinic.

Note: Amounts in figure may not reconcile to reported operating income (loss) amounts due to immaterial rounding differences.
[a] Year of Hurricane Katrina. Tulane acquired Lakeside Hospital on July 1, 2005.
[b] Year 2008 amounts are based on hospital budgeted financial statements.

Notes: Operating revenues include net patient service revenues and other operating revenue. Operating revenues for 2005 through 2008 also include special payments that Tulane received including payments from private insurance, wage index grant payments, and uncompensated care funds.

Operating expenses include direct operating costs, such as salaries and wages and benefits, other operating expenses (which include professional fees, and contract services), supplies, provision for doubtful accounts, depreciation and amortization, management fees, and interest expense (interest income, net).

Figure 11: Tulane Operating Income (Loss), 2000-2008



Source: GAO analysis, based on audited and budgeted financial statements of Tulane University Hospital and Clinic.

[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 27: Tulane's Special Payments Received from 2005 to 2008 to Cover Hurricane Katrina Losses
Dollars in millions

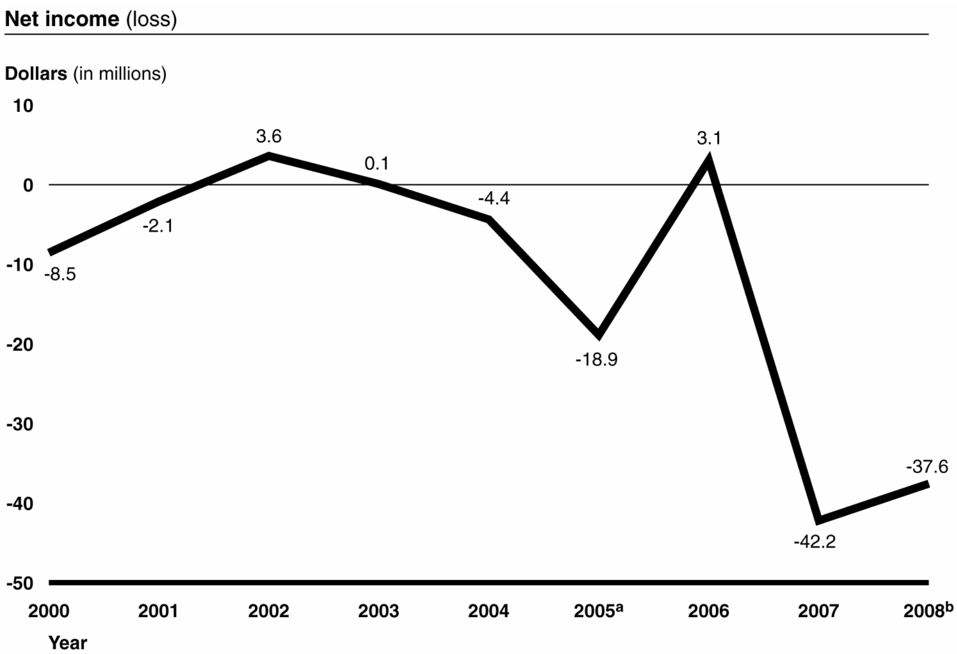
Type of payment	2005	2006	2007	2008[a]	Total all years
Private insurance	$56.4	$74.0	$4.6		**$135.0**
Wage index grant payments			4.6		**4.6**
Uncompensated care funds		5.6	20.2	3.0	**28.8**
Total included in operating revenue	**$56.4**	**$79.6**	**$29.4**	**$3.0**	**$168.4**
FEMA reimbursements included in nonoperating revenue					
Total	**$56.4**	**$79.6**	**$29.4**	**$3.0**	**$168.4**

Source: Tulane University Hospital and Clinic.
[a]Year 2008 amounts are based on hospital budgeted financial statements.

Tulane Net Income (Loss)

Tulane does not report amounts from nonoperating sources in its audited financial statements when calculating bottom-line net income or loss. Therefore, the net income or loss amounts are the same as the operating income or loss amounts. (See fig. 12.)

Figure 12: Tulane Net Income (Loss), 2000-2008



Source: GAO analysis, based on audited and budgeted financial statements of Tulane University Hospital and Clinic.

[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Tulane EBIDA

Tulane had positive EBIDA in the 5 years before the hurricane, lowered but positive EBIDA in 2005, positive EBIDA in 2006, and negative EBIDA in 2007. Tulane estimates that it will also have negative EBIDA for 2008. In calculating EBIDA, the interest, depreciation, and amortization amounts are added back to net income. (See table 28.)

Table 28: Tulane Calculation of EBIDA, 2000-2008
Dollars in millions

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Net income (loss)	(8.5)	(2.1)	3.6	0.1	(4.4)	(18.9)	3.1	(42.2)	(37.6)
Interest, depreciation, and amortization	15.8	17.8	16.5	18.4	18.9	20.7	19.6	26.1	25.7
EBIDA	7.3	15.7	20.1	18.5	14.5	1.8	22.7	(16.1)	(11.9)

Source: GAO analysis, based on audited and budgeted financial statements of Tulane University Hospital and Clinic.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Summary of Operating Results before Hurricane Katrina

- **2000-2004.** Tulane had operating losses in 3 of the 5 years before Hurricane Katrina. The largest one-year loss was $8.5 million. The hospital's operating revenue increased annually from 2000 to 2003 primarily because of increased charges, increased patient days, and an increase in organ transplant volumes. Operating expenses also increased during this period for a variety of reasons, including increased costs of collecting fees, increased emergency room physician coverage, and increased transplant compatibility costs. As noted earlier, net income or loss for all years was the same as operating income or loss because Tulane does not have nonoperating sources of income, such as investment income. Also, Tulane had positive EBIDA in all 5 years before Hurricane Katrina.

Summary of Operating Results after Hurricane Katrina

- **2005**. Tulane had an operating and net loss of $18.9 million. Tulane recognized $56 million in special payments from insurance for damages and business interruption, allowing it to hold its losses to $18.9 million. Tulane's operating expenses remained about the same as those in 2004 even though Tulane's main campus was closed after the hurricane. On July 1, 2005, Tulane acquired Lakeside Hospital in Metairie, Louisiana. Tulane had positive EBIDA of $1.8 million.

- **2006.** Tulane had operating income and net income of $3.1 million. The $74 million in insurance payments and $5.6 million in uncompensated care funds contributed to the positive results. Due to Hurricane Katrina and the resulting operating issues, Tulane entered into a line of credit with an HCA affiliate and had approximately $28 million in borrowings outstanding on December 31, 2006.

- **2007.** Tulane had an operating and net loss of $42.2 million, which was worse than the amounts for 2005 and 2006 mainly because Tulane received less in special payments. For example, in 2005 and 2006, Tulane received special payments from private insurers of $56.4 million and $74 million, respectively, but only $4.6 million in 2007. Tulane had increases in net patient service revenue due in part to increased patient volume. However, increases in operating expenses were greater. Increases in operating expenses were due in part to recruitment of medical staff, increases in the cost of oncology supplies, organ transplant services, and a $4.2 million transaction fee for a hemophilia drug. At the same time, the hospital continued to add staff, with physician FTEs rising from 66 to 91 in 2007 and nursing department FTEs also rising from 321 to 452. At the end of 2007, Tulane still owed the HCA affiliate approximately $24 million.

- **2008.** Tulane projected operating losses of $37.6 million. Operating revenues are estimated at $342.7 million for 2008, which represents an increase of 10 percent over 2007. Operating revenues include the lowest amount of special payments since 2005, including $3 million in uncompensated care payments as of March 2008. Tulane officials expect operating expenses to rise by 8 percent to $380.3 million. Projected increases in operating expenses include estimated increases of $11 million in supplies for the continuing increase in the cost of oncology supplies, $7 million in salaries, and $7 million in bad debt. Contract labor is expected to drop by $1.3 million and contract services are also projected to drop by $5 million. Also, Tulane estimates that it will continue to experience a decline in gross charges to managed care/commercial payers and an increase in uninsured patients as shown by its 2008 payer mix amounts.

Impact on Hospital Financial Position

Tulane has a weakened financial position since 2004, as shown by declines in its net asset balances. This indicates that the hospital has been using its assets, taking on additional debt, or both to continue operating. For example, Tulane had net assets of about $168 million in 2004 before the hurricane and net assets of about $133 million in 2007.

Tulane Trends in Other Financial Information

Table 29: Tulane Staffed Beds, 2000-2007

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Beds	342	353	353	341	341	354	254	288

Source: Tulane University Hospital and Clinic.
[a]Year of Hurricane Katrina.

Table 30: Tulane Occupancy Rates, 2000-2007
Percentages

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007
Rates	65.7	63.6	67.0	68.1	64.5	43.2	46.9	56.3

Source: Tulane University Hospital and Clinic.
[a]Year of Hurricane Katrina.

Table 31: Tulane Payer Mix, 2000-2008
Percentages

Payer	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Managed care/commercial	43.2	41.7	37.1	34.2	36.1	37.4	32.3	28.6	27.0
Medicare	25.9	26.4	28.3	29.9	29.8	27.9	26.0	23.9	21.1
Medicare HMO	0.0	0.0	0.0	0.0	0.0	0.0	3.1	4.1	5.2
Medicaid	25.6	27.1	28.1	31.0	29.5	29.3	25.6	30.2	28.6
Self-pay/other	5.3	4.7	6.6	4.9	4.6	5.4	12.9	13.2	18.1

Source: Tulane University Hospital and Clinic.
[a]Year of Hurricane Katrina.
[b]Data is through February 29, 2008.

Enclosure VII: Ochsner Health System (Ochsner)

HOSPITAL DESCRIPTION

On August 31, 2001, Alton Ochsner Medical Foundation merged with Ochsner Clinic, L.L.C to become Ochsner Clinic Foundation (OCF), which included Ochsner Health Plan, Inc. (OHP), a managed care organization that provided comprehensive medical services to members. Then in April 2004, OCF sold OHP. Ochsner Community Hospitals (OCH) and Ochsner Health System (Ochsner) were created in 2006. Ochsner is the not-for-profit, parent company of the OCF and OCH. In October 2006, OCH acquired three former Tenet Healthcare Corporation hospitals in the greater New Orleans area: Ochsner Medical Center Kenner, L.L.C., formerly Kenner Regional Medical Center; Ochsner Medical Center Westbank, L.L.C., formerly Meadowcrest Hospital; and Ochsner Baptist Medical Center, L.L.C., formerly Memorial Medical Center.

Ochsner is made up of six hospitals located on seven campuses and operates more than thirty clinics in the New Orleans and Baton Rouge areas. OCF also includes the Elmwood Fitness Center and its wholly owned not-for-profit subsidiaries, the Brent House Corporation, Ochsner Home Health Corporation, and Ochsner Bayou, LLC. OCF Hospital owns and operates a 510-bed acute care hospital known as Ochsner Medical Center/Ochsner Foundation Hospital. The services offered by the Ochsner hospitals and clinics include cardiovascular, emergency, neurosciences, oncology, orthopedic, organ transplant, nuclear medicine, rehabilitation, wound care, intensive care, coronary intensive care, neonatal intensive care, and pediatric intensive care.

RESULTS OF REVIEW

Table 32: Ochsner Operating Income (Loss), Net Income (Loss), and EBIDA for 2000-2008
Dollars in millions

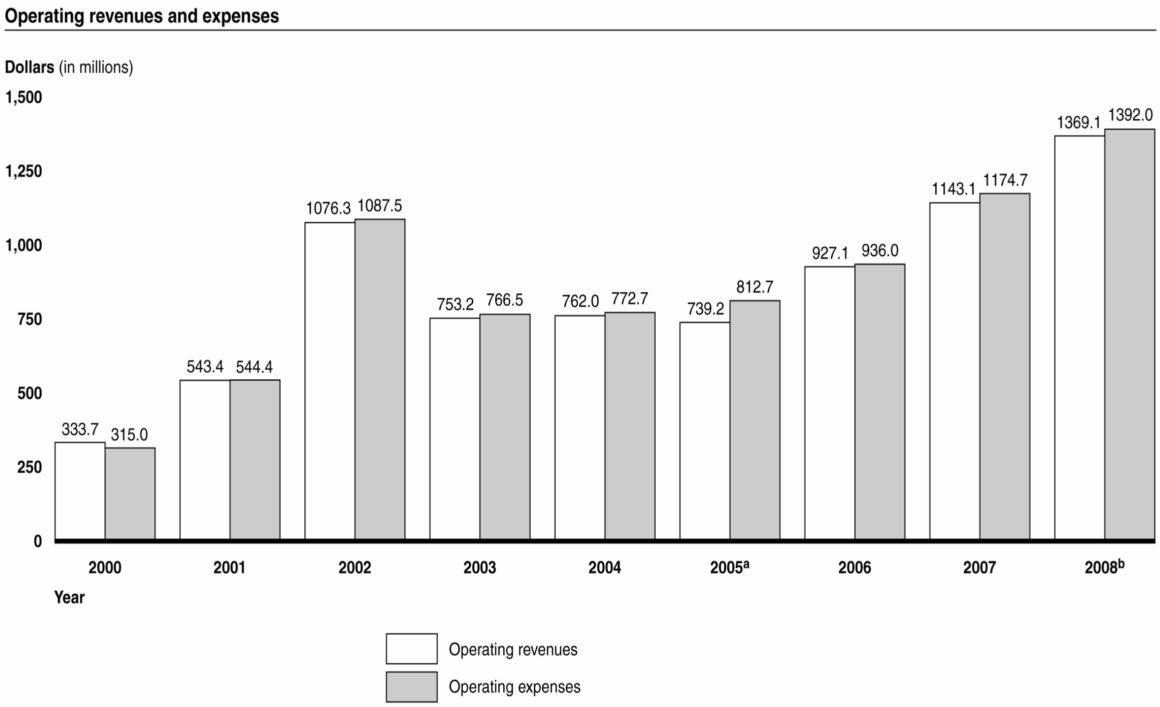
Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Operating income (loss)	$18.7	($1.1)	($11.2)	($13.3)	($10.8)	($73.4)	($8.9)	($31.6)	($23.0)
Net income (loss)	16.3	(7.8)	(71.2)	41.3	102.6	(44.2)	34.7	5.6	(18.1)
EBIDA	51.8	37.8	(10.0)	99.1	162.4	18.3	104.0	82.2	64.8

Source: GAO analysis, based on audited and budgeted financial statements of Ochsner Health System.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Ochsner Operating Income (Loss)

Ochsner had operating losses in 4 of the 5 years before Hurricane Katrina and operating losses in all years from 2005 through 2007. Ochsner estimates that it will also have an operating loss in 2008. Our calculation of operating income or loss is the result of operating revenues minus operating expenses. Ochsner operating revenues for 2006 to 2007 include special payments that the hospital received. In 2006 and 2007, Ochsner received insurance payments to cover losses from the hurricane and also received wage index grant payments in 2007 to cover some of the increases in labor costs. Ochsner received uncompensated care funds to cover some of the costs associated with the increased volume of uninsured patients in 2006 and 2007. (See figs. 13 and 14 and table 33.)

Figure 13: Ochsner Operating Revenues and Expenses, 2000-2008



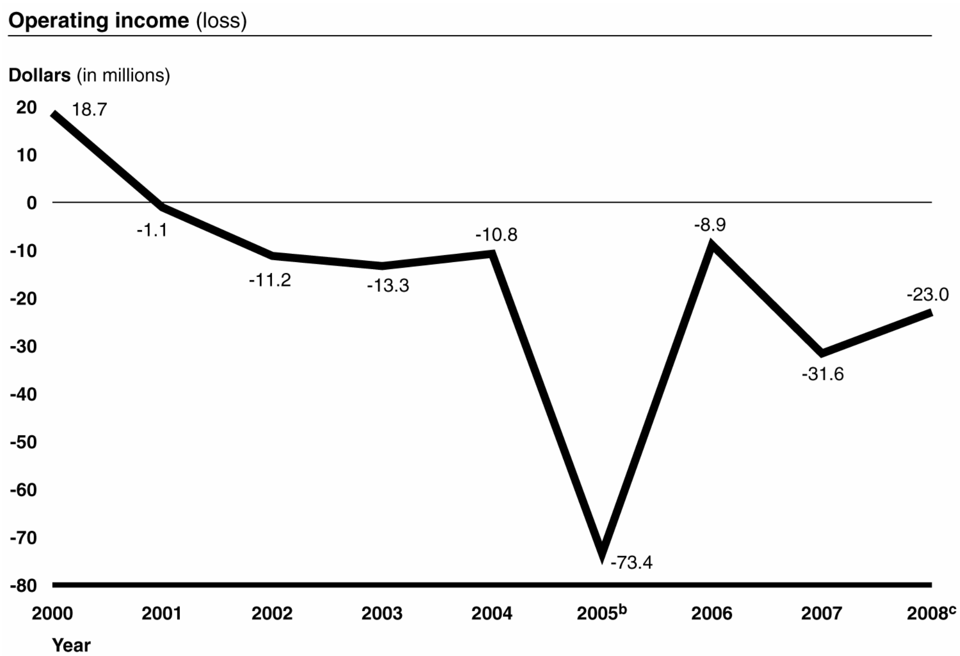
Source: GAO analysis, based on audited and budgeted financial statements of Ochsner Health System.

Note: Amounts in figure may not reconcile to reported operating income (loss) amounts due to immaterial rounding differences.
[a]Year of Hurricane Katrina.
[b]Year 2008 amounts are based on hospital budgeted financial statements.

Notes: Operating revenues include net patient service revenues, other operating revenues, and net assets released from restrictions for operations. Operating revenues for 2006 and 2007 also include special payments, including payments from private insurance, wage index grants, and uncompensated care funds. Ochsner's audited financial statements included FEMA and NFIP reimbursements in operating revenue. For consistency in presentation with the other hospitals in our study, these amounts were removed from operating revenue and reclassified as nonoperating revenues and gains.

Operating expenses include direct operating costs, such as salaries, depreciation and amortization, provision for bad debt, medical services, interest expense, and other operating expenses.

Figure 14: Ochsner Operating Income (Loss), 2000-2008[a]



Source: GAO analysis, based on audited and budgeted financial statements of Ochsner Health System.

[a]The financial statements report different operating income (loss) amounts for years 2005-2007 than our amounts in figure above due to our reclassification of certain operating and nonoperating amounts to calculate operating income (loss) for consistency with other hospitals in our study.
[b]Year of Hurricane Katrina.
[c]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 33: Ochsner Special Payments Received from 2005 to 2008 to Cover Hurricane Katrina Losses
Dollars in millions

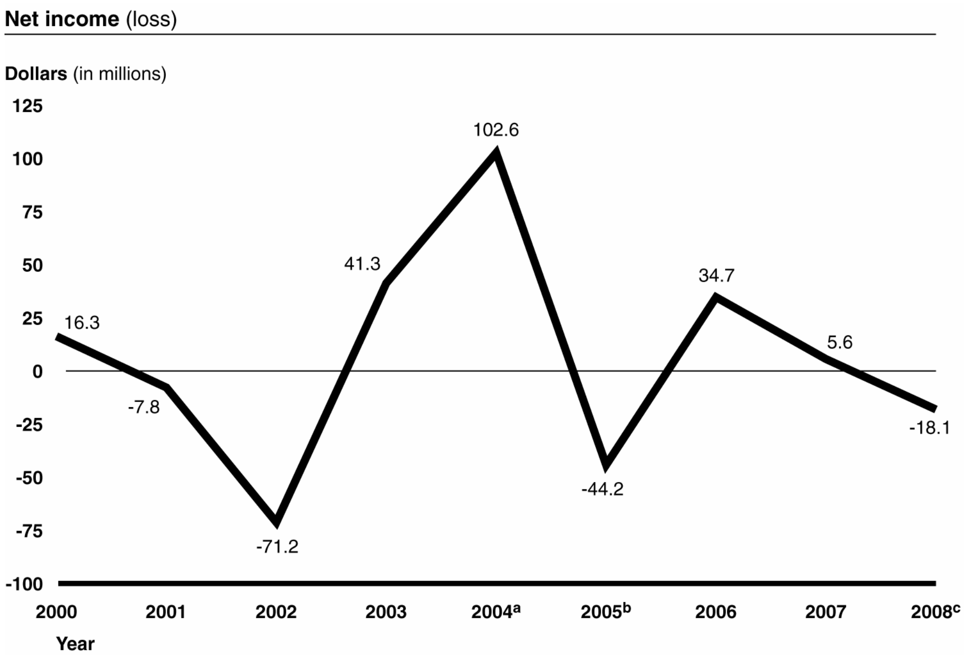
Type of payment	2005[a]	2006	2007	2008	Total all years
Private insurance		$4.2	$10.1		**$14.3**
Wage index grant payments			11.8		**$11.8**
Uncompensated care funds		13.1	22.3		**$35.4**
Total included in operating income (loss)		**$17.3**	**$44.2**		**$61.5**
FEMA reimbursements included in nonoperating revenue	$3.4	3.5	6.2		**$13.1**
Total	**$3.4**	**$20.8**	**$50.4**		**$74.6**

Source: Ochsner Health System.
Note: Wage index grant payments do not include payments made to Ochsner's Baton Rouge facility.
[a]Year of Hurricane Katrina.

Ochsner Net Income (Loss)

Ochsner had net income in 3 of the 5 years before Hurricane Katrina, but had a net loss in 2005, followed by net income in 2006 and 2007. Also, Ochsner expects that it will have a net loss for 2008. Net income or loss included nonoperating revenues including investments and reimbursements that Ochsner received from FEMA. (See fig. 15 and table 34.)

Figure 15: Ochsner Net Income (Loss), 2000-2008



Source: GAO analysis, based on audited and budgeted financial statements of Ochsner Health System.

[a]The net income includes approximately $85 million recorded as nonoperating revenue/gain on the sale of OHP.
[b]Year of Hurricane Katrina.
[c]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Table 34: Ochsner Calculation of Net Income (Loss), 2000-2008
Dollars in millions

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Operating income (loss)	$18.7	($1.1)	($11.2)	($13.3)	($10.8)	($73.4)	($8.9)	($31.6)	($23.0)
Nonoperating revenues and gains (losses):									
Investment income	$17.9	$0.5	($2.6)	$2.8	$28.2	$43.0	$17.5	$27.4	$4.9
FEMA reimbursements and NFIP proceeds	0.0	0.0	0.0	0.0	0.0	3.4	3.5	6.2	0.0
Other nonoperating revenue and gains (Losses)	(20.3)	(7.2)	(57.4)	51.8	85.2	(17.1)	22.6	3.5	0.0
Total nonoperating revenues and gains (losses)	**($2.4)**	**($6.7)**	**($60.0)**	**$54.6**	**$113.4**	**$29.2**	**$43.6**	**$37.1**	**$4.9**
Net income (loss)	**$16.3**	**($7.8)**	**($71.2)**	**$41.3**	**$102.6**	**($44.2)**	**$34.7**	**$5.6**	**($18.1)**

Source: GAO analysis, based on audited and budgeted financial statements of Ochsner Health System.
Note: Amounts in table may not add to net income (loss) amounts due to immaterial rounding differences.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Ochsner EBIDA

Ochsner had positive EBIDA in the 4 of the 5 years before the Hurricane Katrina and also had positive EBIDA from 2005 to 2007. The hospital also projects positive EBIDA in 2008. In calculating EBIDA, interest, depreciation, and amortization are added back to net income.

Table 35: Ochsner Calculation of EBIDA, 2000-2008
Dollars in Millions

Year	2000	2001	2002	2003	2004	2005[a]	2006	2007	2008[b]
Net income (loss)	$16.3	($7.8)	($71.2)	$41.3	$102.6	($44.2)	$34.7	$5.6	($18.1)
Interest, depreciation, and amortization	35.5	45.6	61.2	57.8	59.8	62.5	69.3	76.6	82.9
EBIDA	51.8	37.8	(10.0)	99.1	162.4	18.3	104.0	82.2	64.8

Source: GAO analysis, based on audited and budgeted financial statements of Ochsner Health System.
[a]Year of Hurricane Katrina.
[b]Calculations for 2008 are based on amounts from hospital budgeted financial statements.

Summary of Operating Results before Hurricane Katrina

2000-2004. Ochsner had operating losses in 4 of the 5 years before Hurricane Katrina. However, Ochsner had net income for 3 of the 5 years after considering nonoperating revenues, including investment income, gain on sale from the sale of OHP in 2004 of approximately $85.3 million, and other nonoperating revenues and gains. Ochsner had positive EBIDA amounts in 4 of the 5 years before Hurricane Katrina.

Summary of Operating Results after Hurricane Katrina

- **2005**. Ochsner had an operating loss of approximately $73.4 million. Operating revenues declined 3 percent and operating expenses increased 5 percent. The decline in revenues was primarily due to the closure of the Clinic operations around the metropolitan New Orleans area; the Clinic suffered minimal to extensive damage and business interruption. According to hospital officials, as a result of changes in its financial results post Hurricane Katrina, Ochsner was faced with challenges in meeting bond covenants to maintain a debt service coverage ratio of greater than 1. According to hospital officials, to remain current with bond interest payments and maintain compliance with its debt service coverage ratio, Ochsner sold investments, which approximated realized gains of $29.2 million and are included in nonoperating revenues. Nonoperating revenues, including investments and FEMA/NFIP reimbursements, contributed to Ochsner's bottom-line net loss of $44.2 million. Also, Ochsner had positive EBIDA of $18.3 million.

- **2006.** Ochsner acquired three hospitals in the greater New Orleans area from Tenet Healthcare Corporation–renamed Ochsner Medical Center Kenner, Ochsner Medical Center Westbank, and Ochsner Baptist Medical Center. On a consolidated basis, Ochsner's operating loss was approximately $8.9 million. Hospital officials told us the operating income (loss) for Ochsner Foundation Hospital and Ochsner Community Hospitals was approximately $23.8 and $(14.3) million, respectively for the year ending December 31, 2006. While the operating income of the Ochsner Foundation Hospital and other subsidiaries was offset by operating losses of the three new hospitals, operating results improved in 2006 over 2005. Operating revenues increased by about 26 percent. This increase included about $13 million in uncompensated care funds and $4.2 million in insurance payments. At the same time, operating expenses increased by about 15 percent. Ochsner also improved its bottom line net income or loss. Ochsner reported net income of $34.7 million in 2006 versus a net loss of $44.2 million in 2005. The net income was due in part to non-operating revenues including investment income, FEMA reimbursements of $3.5 million, and other nonoperating revenues and gains. Also, Ochsner had positive EBIDA.

- **2007**. Ochsner's operating results were an improvement over 2005 results. For 2007, Ochsner reported operating losses of $31.6 million and net income of $5.6 million, respectively. Hospital officials told us that the operating income (loss) for Ochsner Foundation Hospital and Ochsner Community Hospitals for the year ending December 31, 2007 was approximately $27.1 million and ($35.7) million, respectively. Ochsner had an operating loss of $31.6 million in 2007 compared to an operating loss of about $73.4 million in 2005. Ochsner operating revenues included about $44 million in special payments: $11.8 million in wage index grant payments; $22.3 million in uncompensated care funds; and $10.1 million in insurance payments. Ochsner operating revenues also increased because of increases in payment rates and outpatient services offset by weaknesses in inpatient volumes. However, operating expenses increased about 26 percent with a significant portion of the increase due to the replacement of staff who left the region during this period. Further, Ochsner continued using contract nurses.

Ochsner reported net income of $5.6 million although it was lower than the net income amount for 2006. The net income was due to nonoperating revenues, including investments and FEMA/NFIP reimbursements of approximately $37.2 million. Ochsner's net income amount is in the range of the net income or loss amounts for all years before the hurricane. Also, Ochsner had positive EBIDA.

- **2008.** Budgeted operating losses are projected at approximately $18.1 million. This operating loss is an improvement over 2005 amounts. Operating revenues for 2008 are projected to increase by approximately 20 percent over the prior year while operating expenses are projected increase by approximately 19 percent. Nonoperating revenues are expected to decline due to decreased investment income. Ochsner has a projected positive EBIDA of $64.8 million.

Impact on Hospital Bonds

Ochsner met its bond agreements to maintain a debt service coverage ratio of greater than 1.0, from 2005 to 2007. The debt service coverage ratio is the ratio of net income to debt payments, interest and principal. If the ratio is 1.0 or greater than 1.0, it means that the hospital has sufficient income to cover its annual debt payments. A ratio below 1.0 indicates that there is not enough income to cover annual debt payments.

Ochsner remained current with its bond payments and was in compliance with its bond covenants in the years after Hurricane Katrina. In 2006, Ochsner took on long-term debt in the form of the 2006 Ochsner Community Hospital Revenue Note Series 2006 to acquire the Ochsner Community Hospitals. In addition, according to Ochsner officials, during 2005 the company sold investments to meet its bond covenants.

In 2007, Ochsner took on long-term debt in the 2007A and B series that will be used to refund outstanding 2002A and B bonds, fund capital expenditures, and refinance a portion of the $100 million loan to purchase the Tenet facilities in 2006.

Impact on Hospital Financial Position

Ochsner's financial position has shown some improvement as evidenced by small increases in its net asset balances. Ochsner had net assets of $530 million in 2004 before the hurricane and net assets of $534 million in 2007.

Ochsner Trends in Other Financial Information

Table 36: Ochsner Foundation Hospital and Ochsner Community Hospitals Staffed Beds, 2000-2007

Year	2000	2001	2002	2003	2004	2005[a]	2006[b]	2007
Ochsner Foundation Hospital	430	434	436	475	454	404	502	511
Ochsner-Kenner	-	-	-	-	-	-	63	57
Ochsner-Westbank	-	-	-	-	-	-	133	154
Ochsner-Baptist	-	-	-	-	-	-	10	15

Source: Ochsner Health System
[a]Year of Hurricane Katrina.
[b]In October 2006, Ochsner acquired three New Orleans hospitals from Tenet Healthcare Corporation.

Table 37: Ochsner Foundation Hospital and Ochsner Community Hospitals Occupancy Rates, 2000-2007
Percentages

Facilities	2000	2001	2002	2003	2004	2005[a]	2006[b]	2007
Ochsner Foundation Hospital	67.1	64.9	70.4	70.3	72.2	64.4	69.4	66.8
Ochsner-Kenner	-	-	-	-	-	-	60.0	52.9
Ochsner-Westbank	-	-	-	-	-	-	47.4	52.4
Ochsner-Baptist	-	-	-	-	-	-	8.9	22.7

Source: Ochsner Health System
[a] Year of Hurricane Katrina.
[b]In October 2006, Ochsner acquired three New Orleans hospitals from Tenet Healthcare Corporation.

Table 38: Ochsner Payer Mix for Ochsner Foundation Hospital, 2000-2008
Percentages

Payer	2000[a]	2001	2002	2003	2004	2005[b]	2006	2007	2008[c]
Managed care/commercial	N/A	32.2	32.8	33.3	33.3	31.1	28.7	30.4	31.2
Medicare	N/A	20.8	19.6	21.8	23.3	24.1	22.9	23.6	23.5
Medicare HMO	N/A	24.2	24.1	22.7	19.4	19.7	18.8	17.7	18.5
Medicaid	N/A	8.3	8.8	9.2	9.7	10.1	12.7	10.9	10.3
Self-pay/other	N/A	14.5	14.7	13.1	14.3	15.0	16.9	17.4	16.5

Source: Ochsner Health System.
[a]N/A–Data were not available.
[b] Year of Hurricane Katrina.
[c] Data are through February 29, 2008.

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