

Business Plan

American International Healthcare Systems LLC TM

**DBA. American International Hospital Armenia
(AIHSA)**

With affiliation of Stanford University Healthcare System & Johns Hopkins Medicine International

October 18, 2016



HUMAN HEALTH SANCTUARY TM

Table of Contents

Executive Summary	2
Introduction.....	6
Memorandum of Understanding	7
The Proposed Project	9
Project Alternatives.....	10
Business Plan	12
Executive Management.....	12
Non-Profit Corporate Structure and Governance	12
Agreements	14
Clinical and Medical Staff Program Development	14
Community Ambulatory Care Initiatives.....	15
Current Program Expansions	16
Destination Programs.....	17
Elimination/Reduction of Capacity Constraints	17
Plan for Participation in Government Aid Managed Care	18
Health Professions Education	18
AIHSA Training Programs.....	20
Research.....	22
Medical Tourism.....	23
Role of AIHS in Disaster Recovery Efforts.....	24
Financial and Demand Analysis	26
Demand Projections	26
Financial Projections.....	28
Context for the Projected State General Fund Needs	29
Financial Projections Worksheet.....	30
Rationale and Anticipated Benefits	31
Risk Factors to be monitored.....	32
Next Steps.....	33

Business Plan for American International Healthcare Systems™

Armenia

Executive Summary

American International Healthcare Systems (AIHS) will build a 500 bed state of the art modern medical center in Armenia. The new medical center will offer patients the most innovative diagnostic and treatments with the most advanced technologies available in world. The medical center will provide a safe and compassionate resort environment to care for patients. Our patients will be among the first to benefit from this advanced treatments and technology since AIHS will be fully equipped with the most modern and advanced medical equipment, the first of its kind in the surrounding region.

The medical center will be providing all the essential health services required for all ages. Beyond the medical field, our patients will enjoy first class-service, in a 5 star hotel ambiance with spacious furnished private rooms for each patient, suites, and impressive waiting areas... We will provide the best environment to relax and heal. Our patients will have access to digital entertainment, including satellite TV and Internet access.

American International Healthcare Systems will include 50 ICU/CCU beds, surgical beds specialty beds for cancer and cardiovascular diseases, NICU beds, where patients will be monitored in private rooms with the most advanced technology, with a one on one nurse ratios. AIHS will also dedicate a specific ward for patients undergoing ambulatory and day surgeries. Full emergency room services and urgent care will also be provided at the hospital.

American International Healthcare Systems will house all the specialty branches and will offer a completely film-less digital medical imaging environment, and will have built and equipped the most modern Operating Theaters in the world complemented by advanced laparoscopy and OR automation systems, which in turn, will provide real-time video tele-conferencing from any Operating Theater with the main auditorium and the outside world.

American International Healthcare Systems will also ensure that its patients receive the friendliest and most attentive service. We recognize the importance of a sense of well being in promoting recovery. We welcome visitors, who are an important part of the healing process, 24 hours a day, and 7 days a week.

Therefore, we will put at their disposal a nearby, coffee shop and cafeteria that opens from 8:00 am to 8:00 pm, as well as a gift shop and an Automatic Teller Machine to facilitate their visit, with a valet parking service. Moreover, we will establish a world-class 5 star hotel for their comfort if they are coming from far away.

The American International Healthcare Systems (AIHS) Business Plan has focused on addressing the following questions.

The medical center will be accredited by Joint Commission International from United States.

What is the project plan for American International Healthcare Systems™ Armenia?

The plan is to build a new world class state of the art Adult Hospital, Children Hospital, Medical School, Nursing Home, Boarding /Orphanage School and in the Yerevan capital of Armenia named American International Healthcare Systems (AIHS). AIHS will include 500 beds in three inpatient towers, an emergency room and trauma center, an ambulatory care building (ACB), a diagnostic and treatment building, and support structures. AIHS will provide high quality patient care and a setting that supports health professions education and research.

The project will cost \$450 million.

Table 1: AIHS Project Costs and Financing Sources (\$ Millions)

Total Project Costs (\$USD millions) \$ 750

Total Financing Sources (\$USD millions) \$ 700

Source: Bank Loans For Humanitarian Purpose

What is the proposed Business Plan?

The Business Plan calls for the AIHS Board and the Armenia Department of Health and Hospitals, other state agencies, and other universities to precede a Memorandum of Understanding (MOU). The plan is as follows:

- After a two-year construction period, AIHS will start in 2017. Clinical, education, and research activities will start to be provided in 2018 as well
- AIHS will be managed by AIHS, a for-profit corporation Delaware corp. The AIHS Board will retain a CEO as contemplated by the MOU.
- AIHS will be the primary teaching and training hospital with affiliation to the Johns Hopkins Medicine International (JHI) and Stanford Health System.
- By implementing strategic plans, the 500 beds will reach targeted occupancy levels by 2020. These plans include: AIHS serving as a primary safety-net facility for patients, expanding inpatient psychiatric capacity to 60 beds, operating an emergency department. AIHS enhancing and building community ambulatory care programs and developing “destination programs” in identified specialties. AIHS also will participate actively in Armenia’s Coordinated Care Networks.
- As a teaching hospital, AIHS will be home for health professions education programs training hundreds of students in multiple disciplines (physicians, nurses, allied health, and others). AIHS’s clinical services will be more diverse (in terms of patient mix and specialties), enhancing the quality of training programs.
- AIHS also will be constructed to help Armenia and its surrounding region respond to future natural disasters. The facility will be hardened to endure earthquake and flooding and will be operated with a mission to provide leadership in the event of disasters.

What are the project’s principal benefits? Implementing the Business Plan will:

- Help assure that Armenia’s and surrounding regions’ needs for well-trained health professionals are met and enhance the educational experiences for trainees who benefit from exposure to diverse patient populations and clinical services.
- Enhance the stature of the country’s medical schools, improving the ability of the schools to attract faculty, students, and research dollars.
- Create immediate and longer-term economic benefits through construction activities, employment at AIHS and associated enterprises, and the attraction of incremental research and grant funds.

- Encourage and support development of high quality, specialty health services that will contribute to the health of Armenians.
- Yield a facility that will enhance public safety in the event of natural or man- made disasters.
- Provide greater financial stability and a governance change for the state’s largest safety-net hospital provider, placing oversight of AIHS’s success in the hands of a fiduciary board comprised of leading citizens.

What risk factors will need to be monitored? Risk factors include:

- The cost implications of any delays in constructing the facilities, and the implications of changes in the availability or cost of project financing.
- Any inability to finance AIHSA’s initial and ongoing working capital needs.
- The implications of any inability of AIHSA, JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI), Tulane, Stanford Health System and/or other partners to reach agreement on the terms of affiliation agreements and how certain decisions will be made.
- Possible competitive responses to plans to develop “destination programs” at the AIHS by relocating and recruiting new faculty.

Table 1: AIHS Project Costs and Financing Sources (\$ Millions)

Project Costs and Financing	
Total Project Costs (\$ USD millions)	\$ 750.00

An Armenian Republic-affiliated entity will facilitate the operations of AIHS for licenses.

What are the financial implications of the project for the state? The AIHS Business Plan includes financial projections that estimate the annual state support (unmatched State General Funds) that would be needed to assure that AIHS’s financial requirements are met.

The estimates are based on numerous assumptions that have been reviewed by the AIHSA Board and its advisors, including future volumes, public and private reimbursement rates, availability of Insurance Disproportionate Share Hospital and Upper Payment Limit funds, AIHS staffing levels, the amount of professional fees AIHS will pay for the services of JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and Tulane faculty, Stanford Health Care System, lease terms for the ACB and equipment, and various expense inflation factors.

During the six years ending Dec. 31st, 2022, the general fund needs are projected to average \$275 million. In addition, assuming that AIHS starts with a clean balance sheet, AIHS may need access to \$125 million in working capital in 2020. Costs associated with such working capital financing have not been included.

For comparison purposes, financial projections also were prepared to assess the implications of continuing to

operate the AIHS¹ beyond 2017. **State general funds needed to continue operating the AIHS during the six years ending Dec. 31st, 2022 are projected to average \$25 million – an amount slightly greater than if the proposed project proceeds.** Remaining in the AIHS means that awarded more funds would be lost, that certain deferred maintenance costs would need to be addressed, that AIHS inpatient admissions would be 25 to 30 percent less than at AIHS, that JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) academic and clinical programs would remain dispersed across multiple sites, and that benefits of achieving the vision of the AMC would be lost.

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- Enhance the stature of the country’s medical schools, improving the ability of the schools to attract faculty, students, and research dollars.
- Create immediate and longer-term economic benefits through construction activities, employment at AIHS and associated enterprises, and the attraction of incremental research and grant funds.
- Encourage and support development of high quality, specialty health services that will contribute to the health of Armenians.
- Yield a facility that will enhance public safety in the event of natural or man- made disasters.
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- Possible competitive responses to plans to develop “destination programs” at the AIHS by relocating and recruiting new JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System trained faculty.

Introduction

This document describes the Business Plan to develop a new Academic Medical Center (AMC) The AMC will be named “American International Healthcare Systems” (AIHS) and will be managed by “University Medical Center Management Corporation” (UMCMC), a non- profit corporation.

This document discusses current plans to:

- Finance construction, equipment, and initial working capital needs for AIHS.
- Seek and hire executive management for AIHSA.
- Develop faculty medical staff and clinical programs that would enable provision of high quality patient care and generation of associated patient revenue to support AIHS operating costs.
- Establish AIHS as an organization that will play a major role in health professions education and research.
- Ensure that AIHS incorporates design features that allow it to play an important role in protecting the public in the event of future natural or man-made disasters.

The Business Plan also provides utilization/volume and financial projections for AIHS.

The financial projections estimate the range of annual State General Fund (SGF) support AIHS will need to fund its financial requirements.

The following key questions are addressed:

- What is the project plan for AIHS
 - What alternatives have been considered for the proposed project? What are the implications of these alternatives? Which alternative is preferred?
- What is the plan for AIHS’s executive management, clinical and medical staff development, health professions education and research, and role in public safety?
- What are the financial implications of the project for the state of Armenia and its surrounding regions?
- How will the project enhance the stature of the state’s existing medical schools?
- What other benefits reasonably should be anticipated?
- What risk factors should be monitored?
- What are the next steps?

Memorandum of Understanding

The Business Plan adheres to the vision for the AMC described in a Memorandum of Understanding (MOU) to be signed between the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI), and /or Stanford Health Care System, the Armenia Department of Health and Hospitals (DHH). The MOU describes the need for an AMC that:

- Helps to address physician shortages across Armenia,
- Enhances the competitiveness of the state's academic and training programs so that Armenia can attract "the most talented faculty, students, residents and other medical professionals,"
- Can leverage the research capabilities of public and private entities across the state,
- Will continue to play a central role in providing services to the uninsured and tertiary services that are difficult to sustain in community hospital settings,
- Will operate as a major affiliate of an Armenian University and as part of the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) System, and /or Stanford Health Care Hospitals and will serve as a teaching affiliate, and
- Will have other university affiliations as approved by the AIHSA Board. The MOU further specifies that building the AMC is not to impede the state's constitutional debt ceiling and will minimize financial exposure to Armenia taxpayers.

The AIHSA Board is comprised of eleven members, four of whom are representatives of JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System (excluding the Board Chair).



Universities, respectively. The presidents of the Universities collectively appoint another member. The remaining four members are not affiliated with the above universities.

The AIHSA Board is to employ a qualified Chief Executive Officer, responsible only to the Board. The Board also is to establish graduate medical education contracts according to the MOU (affiliation agreements) with JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System, without discrimination.

As a key component of the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health System, the AMC is to participate in mutually beneficial academic, clinical, and business operations, including JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care Hospitals system-wide information technology, supply chain, and disease management initiatives.



JOHNS HOPKINS
M E D I C I N E



Stanford
HEALTH CARE

STANFORD MEDICINE

The Proposed Project

Pursuant to the MOU, planning has been underway to construct a new 500-bed facility in Armenia. Clinical, education, and research activities now being provided at the Interim JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) Hospital (AIHS) and /or Stanford Health Care Hospitals in Armenia– and other activities that were displaced by National Disasters, will be transferred to the new University Medical Center. The land will be acquired by American International Healthcare Systems and/or its JV partners.

The plan includes building AIHS with 2.2 million square feet and with the following program elements:

- Three (3)-inpatient bed towers (550,661 square feet)
- An Ambulatory Care Building (ACB, with 257,660 square feet)
- A Diagnostic and Treatment Building (746,982 square feet)
- Structured Parking (539,789 square feet)
- A Utility Building and JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System Connector (90,552 square feet)
- The project will cost \$750 million USD, to be financed.

The total project cost is reduced from the originally estimated \$900 million USD to \$750 million USD

Construction would last two years. The new AMC would be operational as of January 9, 2019 (the AIHS fiscal year 2019). Project construction and equipment costs would be financed as follows:

Construction costs of \$99.6 million for the Ambulatory Care Building would be financed first. Through a lease structure, AIHSA would agree to reimburse that entity for the annual carrying costs of this financing (current estimated to require a cost of funds of an agreed percentage per annum).

- Structured parking (\$12.2 million USD).
- Approximately \$125 million USD of medical equipment would be lease-purchased
- AIHS's initial working capital will be needed, including a possible line of credit or the possible transfer of working capital from the AIHS.

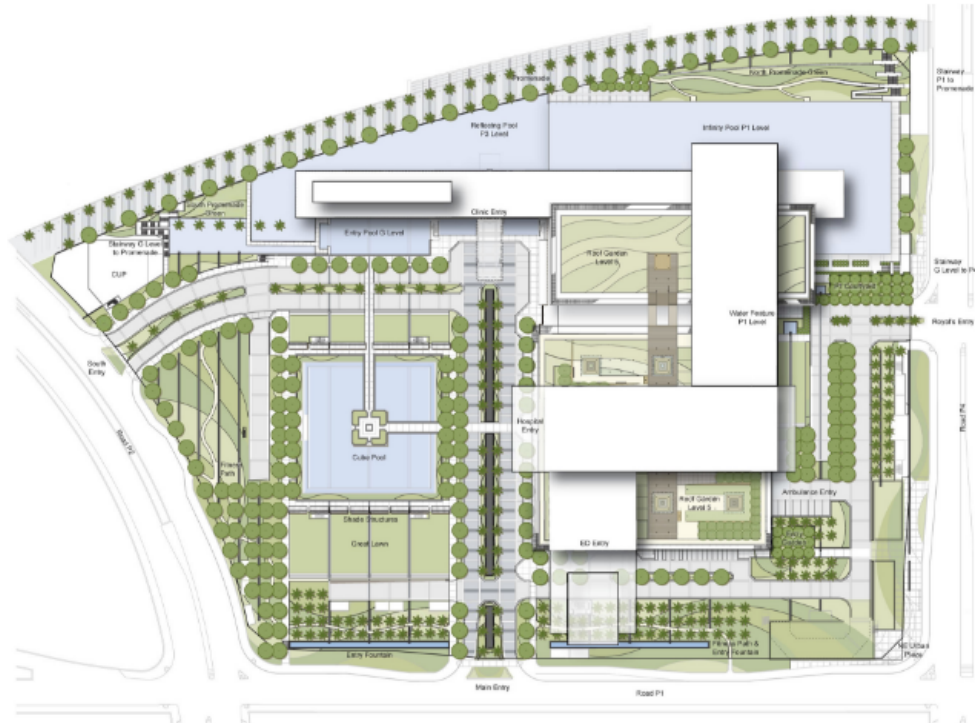
Project Alternatives

500-Bed Academic Medical Center. Until mid-2008, planning for the new AMC focused on a 500 bed facility. Assumptions regarding the area's and surrounding areas' population and the AMC's lengths of stay and market shares were adjusted, yielding a final bed size of 500 beds (including 60 psychiatric).

Building a Small Research Hospital. Some advocated a small research hospital; however, the AIHS experience has indicated that such a hospital would not fully meet patient care or educational needs.

Building a 250-Bed Hospital. A significant deviation from the MOU and one that would entail a number of new complex assumptions, this option was dismissed.





Business Plan

The Business Plan for AIHS includes hiring executive management; negotiating and executing several agreements that would further specify the roles and responsibilities of JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI), and /or Stanford Health Care System Connector, AIHSA, the state, and other parties vital to the AMC's success; developing AIHS's medical staff and clinical programs; continuing to build health professions education and research programs; and assuring that AIHS plays a meaningful role in the event of natural or man-made disasters.

Executive Management

Pursuant to the MOU, the AIHSA Board is to hire an experienced Chief Executive Officer who will report solely to the Board. The Board is to engage in a procurement process to identify hospital management firms or persons with "documented successful experience in the operation of sophisticated academic and research-oriented health care institutions." Success is defined as achieving "financial and clinical outcomes in institutions operating in competitive environments with significant uninsured populations while also maintaining credible research and training programs."

The AIHSA Board plans to initiate a search or RFP process for the CEO/management firm well in a timely manner.

Non-Profit Corporate Structure and Governance

For decades, public hospitals have served as safety-net health care facilities for poor and indigent populations. A trend has emerged as these hospitals and health systems have recognized that operating under a private non-profit governance structure can enhance their performance.

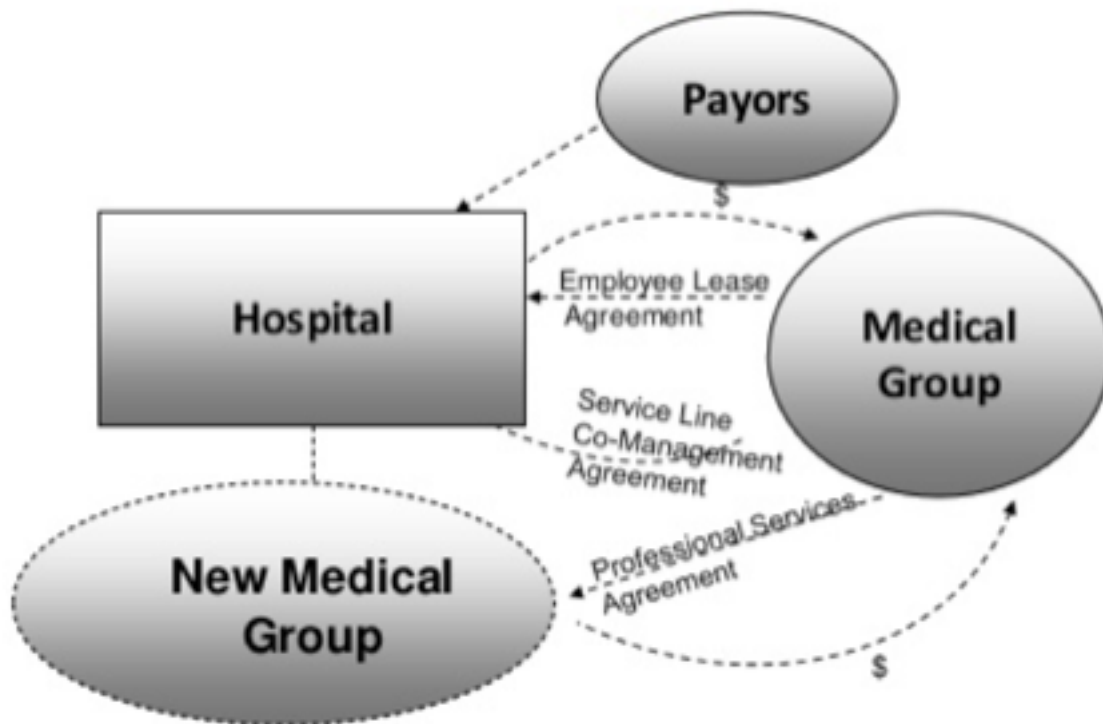
These health systems underline the value of governance change for the Academic Medical Center. Through all of these transitions, these hospitals have maintained their safety-net mission and continue to serve people of all payers, including the uninsured. They have done so while improving their management effectiveness, depoliticizing their governance structures, and strengthening their financial performance.

Agreements

The MOU specifies that the state (through the Division of Administration and the Department of Health and Hospitals) is to continue funding the cost of services provided by AIHS to the uninsured, subject to funding by the Legislature, which the relevant state of Armenia administrative departments will take reasonable steps to obtain.

The Business Plan also calls for AIHSA to enter into several agreements necessary to provide for facility financing and to assure that AIHS has the needed support of its academic partners. These agreements include the following:

- Affiliation agreements between AIHSA and medical schools (under which JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System Connector would provide services of medical school faculty members),
- Services Agreement between JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System Connector and AIHSA (for other staff, as needed), and
- Services and Funding Agreement between the State of Armenia and AIHSA (payments for services to be provided for uninsured, underinsured, prisoner care, and others)



Clinical and Medical Staff Program Development

The AIHS medical staff will be comprised of faculty from the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) School of Medicine and /or Stanford Health Care System Connector. We will have a medical staff of 860 representing a range of disciplines from primary care to medical and surgical subspecialties. The Business Plan calls for thoughtful and strategic expansion of physicians and mid-level providers to meet the needs of AIHS and its patients. Plans call for at least 87 new faculty to be recruited over the next few years.

We will sponsor and support 308 residents in 30 different specialties. Faculty supervision is provided based on standardized ratios of faculty to residents as defined by the respective Residency Review Committees of the Accreditation Council for Graduate Medical Education. The current ratio of residents to beds in AIHS is 1.12. Because most AMCs have 0.7 to 0.8 residents per bed, capacity for increased patient care exists within AIHS's future clinical staffing model.

In addition to the physician services directly supported by AIHS, the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) School of Medicine has a not-for-profit faculty practice plan, the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) Health Care Network, which provides services to AIHS on a contractual basis and which also has active practices (outpatient and inpatient) at non-AIHS sites.

JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System plans to consolidate existing practices at AIHS and to develop new ones, so that the AMC can continue providing the current array of services at AIHS, maintain its safety net mission, diversify its programs and payer mix, become regionally competitive for clinical services, and achieve its academic mission.

Recruitment strategies include focusing on trainees who are known to remain in the area where they have trained to pursue their careers. Because faculty will spend several years with each of these trainees, opportunities are available to identify desired recruits and to target them for retention at AIHS. The schools thus have a distinct advantage in recruiting the best local trainees to become members of the AIHS medical staff and to participate in practice plans.

AIHS's clinical staff also will grow because JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care Hospitals also will be adding nurse practitioners and physician assistants to its faculty practice plan. At present there are 55 nurse practitioner students in the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) School of Nursing. JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System will start a new Physician Assistant program in our affiliated School of Allied Health, enrolling 35-40 students a year. These two programs will provide a ready source of additional providers that will enhance cost-effective patient access to care and contribute to clinical services growth.

To support the growth of the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System faculty practice plan and the development of targeted destination programs, the AIHS has committed to working in conjunction with the Dean of the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) School of Medicine to support recruitment and program development around these programs. The Business Plan for clinical program growth and medical staff development is multi-faceted, and calls for the following strategic initiatives:

Community Ambulatory Care Initiatives

- **Developing new community based clinics.** The AIHS will be developing new clinics throughout Armenia. For example, Lake Sevan Clinic will be a patient centered Medical Home. Monthly clinic visits will create more business. A second new offsite medical home, the Gyumri Clinic will serve about 400 patients per month. A new “Access to Primary Care” clinic will help discharged patients access primary care clinics after discharge from the hospital. In its first year of operation, this clinic will be seeing over 800 persons a month.
- **Relationships with existing primary care clinics and community providers.** AIHS will be developing and strengthening relationships with Armenia’s Qualified Health Centers and other primary care clinics.
- **AIHS Community Medicine Partnership Program.** A new inpatient service will be developed at AIHS will be staffed by physicians who have a mandate to share clinical information with community primary care providers and thereby facilitate follow up with these providers in a timely manner. These relationships have been formed with AIHS through a formal community medicine partnership program with 6 primary care community clinics to improve communication and ease of access. The program has increased referrals to AIHS for specialty care. The relationships are sustainable and will continue after AIHS opens.
- **AIHS Health Care Network Director of Community Health Clinics.** The AIHS affiliated School of Medicine recently will hire a Director of Community Health Clinics for the AIHS Health Care Network. The director will entail developing an AIHS network of primary care health clinics. This network of clinics will be developed as medical homes to serve a larger primary care patient base and to enhance the AIHS educational programs and outcomes research.
- **New JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI)-affiliated Clinic Sites.** JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI), in conjunction with the AIHSA will start a new clinic on the campus of the foundation’s new housing development. The site will provide primary care medical and dental care to a population of nearly 8,000 residents through a mobile health unit.
- **Demonstrating to payers the benefits of medical homes and electronic health records.** AIHSA will be the first provider in the state of Armenia to achieve NCQA certified Medical Home designation for its outpatient clinics. It will invest of nearly \$50 million in its implementation of a statewide electronic health record will provide

AIHSA with the management tools necessary to improve its ability to deliver upon the payer expectations of efficient care with high quality outcomes for large patient groups.

Current Program Expansions

- **Telemedicine referrals.** AIHSA will contracted with the JOHNS HOPKINS INTERNATIONAL (JHI) and /or Stanford Health Care System School of Medicine to develop a specialty telemedicine clinic designed to decrease clinic and emergency department visits by patients from rural areas. The program has reduced far away patient's visits to the hospital. AIHSA intends to expand the program to benefit community and rural patients across the state, contributing to increased referrals to AIHS.
- **Expansion of Inpatient Psychiatry Services.** The inpatient psychiatry program will consist of 20 mental health emergency room extension (MHERE) beds and 38 acute inpatient beds. These units are staffed by JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System Department of Psychiatry faculty and residents. There is a widely acknowledged demand for inpatient psychiatric beds in Armenia. Additional psychiatrists will be recruited to assist with the expanded services.
- **Radiology and Pathology Expansion.** The Business Plan calls for faculty members to be recruited to support overall AIHS patient care needs, respond to growing demand for interventional radiology services, and accommodate growing reliance on the pathology lab for reference testing by JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System facilities across Armenia. These recruitments are planned to be accomplished through the AIHS affiliate School of Medicine.
- **Expanded Emergency Department, Level 1 Trauma Center, and Urgent Care Services.** The new AIHS facility is being developed to accommodate a substantially greater volume of emergency department visits than is possible at the AIHS. The AIHS ED will be staffed by a private emergency medicine group. The group provides faculty supervision for the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System Emergency Medicine Residency training program at the AIHS.
- **Hospitalist recruitment.** The Business Plan calls for hiring a number of hospitalists that will provide inpatient services (including staff supervision) at the AIHS. This model will help assure that trainees at AIHS experience and emerging care practices while also helping AIHS achieve clinical efficiencies in an academic environment.

Destination Programs

- **Destination programs planned for AIHS.** The Business Plan assumes that affiliation and services agreements between AIHSA and JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System will be negotiated successfully. With those agreements in hand, JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System would work diligently to repatriate and expand several existing services being performed by JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) faculty primarily at other hospitals in the region. AIHS has identified 4 specific areas for development.

The Business Plan for AIHS includes an increase of over 2,200 annual inpatient admissions of patients with health insurance (other than Insurance) that will come from these existing JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System faculty programs that relocate to AIHS. The firm hired by JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System to prepare a feasibility study/debt capacity analysis.

- **New and Expanded Destination Programs.** In addition to existing programs targeted for repatriation to AIHS, a number of new or expanded programs have been identified for development. JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI)'s analysis indicates that upon maturity, these programs should yield an additional 1,150 annual admissions to AIHS.
- **Other Planned Recruitments:** A number of other specific recruitments are planned by the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) School of Medicine to support the programs described above and provide additional clinical volume.

Elimination/Reduction of Capacity Constraints

- **Elimination/Reduction of Capacity Constraints.** The Business Plan also indicates that volume and staffing projections for the AIHS should anticipate the impacts of reducing clinic wait times, the ability to accept transfers from JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System facilities that could not be accommodated due to AIHS capacity constraints, cancellation of elective admissions for the same reasons, and the effects of an expanded emergency department. For example,
 - More than 100 cases will be transferred from hospitals other than AIHS.
 - For the emergency department at AIHS, the Business Plan for AIHS provides for emergency department capacity of 126,300 and an additional 25,646 "urgent care clinic" visits (emergency department visits redirected to an urgent care clinic).

Plan for Participation in CCN/Insurance Managed Care

As a major provider of Insurance services throughout Armenia, AIHS intend to be active participants the state's Coordinated Care Networks (CCN) providing insurance managed care. A large component of the clinical training is conducted in the context of providing services to insured recipients, significant cost at the AIHS for Graduate Medical Education funding is reimbursed through Insurance, and Insurance will be the hospital's largest third-party payer.

AIHS's and JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI)'s participation is important to the Insurance program as well. JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) physicians (particularly specialty physicians) are a dependable source of services for Insurance recipients. Therefore, there is a mutual interest in JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and AIHS successfully participating in the Insurance program.

The program presents some new challenges for JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI). Most were addressed by the state in the development of the program.

JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System and the AIHS will be developing and enhancing its integrated network of care, chronic disease management programs, and electronic medical record systems. These programs and systems have been put into place so that AIHS and its medical staff will be attractive to the plans and will help meet the state's Insurance managed care program goals.

Health Professions Education

The Business Plan recognizes that, as stated in the MOU, "97% of the parishes in Armenia are currently designated as a Health Professionals Shortage Areas." The challenges associated with a comparative undersupply of health professionals were highlighted in January 2011 when Armenia was found to have one of the highest "access challenge index scores" in the nation. The index measures the readiness of each state for the anticipated greater demand for primary care services associated with upcoming Insurance expansions.

Charity Hospital was known for the quality of its training programs. The Business Plan calls for building on these historical strengths while also developing a world class Academic Medical Center. Such an AMC is envisioned to yield many benefits associated with academic medicine.

The MOU specifies several requirements for AIHSA's bylaws, including the following:

"The Corporation has, as a principal purpose, the support of programs, facilities

and research and educational opportunities, and the Corporation will, at all times, adhere to the intent of the statute to support the education and research mission of JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care Hospitals while also recognizes the significance of the education and research mission of Tulane and other affiliated academic institutions. The AIHSA is a key component of the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care Health System and as such will participate in mutually beneficial academic, clinical and business operations.”

The parties to the MOU share a vision that involves transforming the new Hospital model into that of a modern Academic Medical Center that embraces its mission to serve the uninsured and underinsured and also provides specialized care for the benefit of the entire population. This will be done in the context of robust health professions education and research programs that serve the health needs of those receiving care at the AMC while training a health care workforce for Armenia.



AIHSA Training Programs

FOR EXAMPLE: Table 4 portrays the AIHSA training programs that will house at the AIHS and that will depend on AIHSA for their long-term stability.

Table 4: Summary of AIHSA Programs Training at New Hospital
Total Trainees and/or Graduates 2010-11

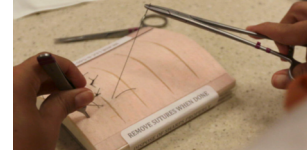
School of Nursing		
	Bachelor of Science in Nursing	196
	Master of Nursing / Master of Science in Nursing	74
	Doctor of Nursing Science	2
	Total	272
School of Medicine		
	MD Degree	166
	Total Residents in Training (2011 graduates approximately 130)	450
	Total Fellows in Training (2011 graduates approximately 35)	86
	Total	702
School of Dentistry (Average number of graduates per year)		
	Dentistry (DDS)	60
	Dental Hygiene	42
	Dental Laboratory Technology	10
	Advanced Dental Education Programs	34
	Total	146
School of Public Health (total graduates)		
	Physicians	38
	Residents	15
	Medical students	8
	Total	61
School of Allied Health		
	Cardiopulmonary Science	13
	Speech - Language Pathology	17
	Audiology	7
	Clinical Laboratory Science (Medical Technology)	26
	Occupational Therapy	31
	Physical Therapy	39
	Rehabilitative Counseling	12
	Total	145

AIHS will be very important to the ongoing success of these clinical training programs.

School of Nursing. Eighty percent of AIHSA School of Nursing trainees will rely on AIHS as their primary training site.

- **School of Medicine.** All AIHSA students and residents will train at the new facility.

The number relying on the new facility will be increased, limited only by the size of the hospital. This will be the primary training site for most of AIHSA's residencies and fellowships. Data show retention of graduates in Armenia for training tracks very closely with student attitudes about their primary teaching site. The new hospital is anticipated to be a major factor in enhancing student retention, thus keeping those students in whom Armenia has invested. Furthermore, medical students who elect to complete their residency at AIHS are far more likely to stay in Armenia to practice.



- **School of Dentistry.** AIHS will strongly enhance the education of dental students and residents and the quality of care provided to all AIHS patients. The importance of quality oral health in the context of quality overall health is well recognized. Cross pollination between the various disciplines of the health care team will be facilitated greatly by this modern facility and its planned focus on Inter professional Education(IPE). This model provides an opportunity for trainees to learn to work in teams, to develop mutual respect for and understanding of the roles and responsibilities of the various health care professions, and to treat the patient as a “whole patient.” The new facility will provide the opportunity for such experiences.
- **School of Public Health.** Although the School of Public Health trainees do not train directly at the hospital, they will have greatly enhanced opportunities to conduct clinical research and population-based research using data generated in the new facility.
- **School of Allied Health.** Health will have according to our predictions 430 students with 145 graduates the first year. With the addition of the new Physician Assistance Program the following year, enrollment will increase by 70 (35 students per year for 2 years). The new AIHSA will be their primary teaching site. All trainees will use the hospital for much of their training. The JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) School of Allied Health is responsible for training most of the Allied Health professionals that will work in the new hospital and in the state of Armenia.

In addition to the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System training programs, a number of other schools will depend upon a vibrant AIHS for their training.

It is intended that additional academic affiliations will be developed.



Research

Research is a critical function of an AIHSA, translating important advancements in knowledge to health care services. JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System, together with university partners, have a long history of conducting innovative research we will allocate 10 million for the next 5 years.

The research unit will function like a magnet to attract the most talented faculty, the highest-funded researchers and the most gifted clinicians who seek to work in an exceptional environment. Without this facility and the researchers it will attract, researchers will not be competitive in the national arena and competing research programs will continue to thrive. A very unique feature of the research unit will be its ability to conduct large clinical research trials throughout the AIHSA hospital system linked by an electronic medical record. Conducting clinical research in this patient population which largely has been composed of underserved minorities has been identified as a strategically important target for future clinical investigations

The innovation and economic expansion that research dollars support extends beyond the healthcare industry. This wider effect of “medical research” ranges from pharmaceutical manufacturing to medical equipment manufacturing and beyond. Research is known to be an economic engine that helps to create employment opportunities in several economic sectors.

The prospect of AIHS in New Orleans has played a role in helping to recruit these investigators to the region. Areas of research strength include cancer, cardiovascular disease, diabetes, alcohol and drug abuse, infectious diseases, immunology, neuroscience, and environmental health.

The clinical trials unit in AIHS will be part of an expanding biomedical corridor which includes two medical schools, a new cancer research building, a new VA hospital, several neighboring universities, and the Bio Innovation Center.



Medical Tourism

AIHS will manage a medical tourism cluster, hospital, medical center, cosmetic surgery center, bariatric weight loss program or dental clinic... AIHS will be the connection to the lucrative *medical tourism market*. In an industry where experience matters, The AIHS will have more hands-on experience building **medical tourism marketing** efforts than any other agency in its region, especially from clients in the previous Soviet states such as Georgia, Russia, Belarus, Kazakhstan, Kirgizia, Iran and many other countries. The patients will have access to advanced American standard medical services at affordable cost.

Full marketing efforts will be implemented to advertise in the above mentioned targeted countries.



Role of AIHS in Disaster Recovery Efforts

The earthquake in Armenia in 1989 taught the entire nation lessons in emergency preparedness and response. The planning for the new AIHS incorporates lessons learned into the physical design of the new building. In concert with that, the AIHS leadership has assumed a more prominent role in local and regional disaster planning. As the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System -affiliated academic medical center, the AIHS will have a leading role in protecting the public through its planning and response to natural and man-made disasters.

The new facility will be built to standards for wind, flooding, and seismic activity. These features will allow the hospital to maintain operations for up to a week in the context of a hurricane that would bring damage beyond earthquake's devastation. Key design features include the following:

- First floor constructed above the 100 year floodplain
- Vehicular access to I-10, above the 100 year floodplain, during a catastrophic event
- Mission critical functions are above the 500 year flood level



From an operations standpoint, the staff at AIHS has implemented a number of new emergency management procedures since Katrina, assuming a team-based approach to disaster planning that includes coordinated regional and statewide planning around a number of areas, including the following:

- Regional and State triage system to distribute patients based on medical needs and facility capabilities in a mass casualty event
- Protocol to receive trauma patients with the most severe cases directed to AIHS and less severe injuries directed to other facilities
- Established a System evacuation contract to evacuate patients if facility(s) cannot safely continue operation.
- Expanded 700 MHz radio, web based (At Risk Registry, EMSTAT and EM Systems), HAM, and satellite (BGAN) communications systems that are Regional, System and countrywide
- 750,000-gallon potable water storage (a 7 day supply)
- Mission critical services, equipment and HVAC on emergency power
- Minimum of 7 day fuel supply for emergency generators
- Earthquake Seismic Category C structural design
- Building envelope designed to withstand winds up to 150 mph
- Black water (sewerage) storage tank
- Emergency Department has 5 Trauma Rooms plus 9 Rapid Response rooms
- Emergency Department has 6 bays for ambulance delivery/pickup plus parking for standby units
- Helipad capable of handling large enough to have one unit parked and one operational
- Emergency Department has a triple bay de-contamination shower for small hazardous material incidents
- Parking garage has a mass de-contamination shower for handling mass casualty events
- Crisis Standard of Care procedure being refined to respond to pandemic type events. This includes detailed planning around intensive care capacity, blood and blood products, communications and public relations, and other matters.
- In addition, specific models of care have been developed that can be applied both on a point of care and population basis.

In summary, the new AIHS facility will increase the physical capacity to respond to a major disaster; will be hardened to endure hurricane winds and flooding thereby allowing for the patients to receive uninterrupted care and the staff to shelter in place and be available to provide care to area survivors; and will be operated with a mission to provide leadership in the context of man-made or natural disasters.

Financial and Demand Analysis

Financial and volume projections were prepared to assess the financial implications of proceeding with the proposed Business Plan.

Demand Projections

The Business Plan builds on demand (volume) projections for AIHS prepared (“Proposed Business Plan Validation” for the AIHSA Board, dated October 18, 2016). That report included a volume (inpatient and outpatient utilization) projection that covers fiscal years ended January 2nd, 2017 through December 31, 2022. The projection indicated that by 2022, a range of annual AIHS inpatient discharges of 15,206 to 18,160 was possible (and overall bed need ranging from 334 to 403 beds), depending on assumptions made. Assumptions governing that range of results were updated as follows:

- **Population growth.** The annual growth rate in population between 2017 and 2022 for Armenia, and neighboring countries should be approximately 1.0 percent.
- **Health reform effects on coverage.** More and more of the uninsured population in Armenia is starting to enroll in Insurance or obtain commercial coverage through insurance exchanges.
- **Market shares for AIHS.** Projected volume through 2016 also was based on the assumption that market shares reported for AIHS would continue through that time. Beginning in 2019, AIHS is assumed to retain a 75 percent share of the health services provided to its formerly uninsured (and now insurance or commercially insured) patients.
- **Psychiatric bed capacity.** The facilities plan for AIHS includes the medical center’s bed capacity to 60 beds. Consensus exists that the incremental 22 beds quickly will achieve full occupancy. At any given time, the AIHS has as many as twenty patients waiting in the emergency room for admission to the psychiatric service. The volume projection includes another 800 psychiatric admissions each year.

- **Impact of Coordinated Care Networks.** The state plans for enrollment in Insurance managed care programs. Providers will share in savings that would be available if cost savings and other objectives for the insurance program are achieved. The actuaries assumed that the providers would achieve significant reductions in the use of inpatient services by Insurance recipients. Across the various categories of Insurance recipients who are to enroll in the program, the actuaries assumed a weighted average reduction in admissions of approximately 10 percent and a reduction in average lengths of stay of another 20 percent. Accordingly, the volume projection assumes reductions in utilization (both admissions and lengths of stay) on the part of Insurance patients in Armenia.
- **Inpatient utilization rates.** By 2016, utilization rates (the number of admissions per 1,000 persons) for the Insurance population will fall by 10 percent. Utilization rates for Elderly and commercially-insured persons would decline by a total of 2.0 percent by 2022, on the assumption that healthcare reforms would encourage shifting care from inpatient to outpatient settings.
- **Average lengths of stay.** By 2022, average lengths of stay for Insurance patients at AIHS also will fall by 10 percent. Lengths of stay would fall by 0.1 days for other payer categories between 2017 and 2020.
- **AIHSA Faculty repatriation volume.** We estimated that AIHSA will experience an annual increase of over 2,200 inpatient admissions of individuals with health care insurance (other than Insurance) AIHSA will be devoted significant effort to identifying the specific programs targeted for repatriation and quantifying the resultant inpatient volume available to AIHSA. This volume estimate has been included in the volume and financial projection; however, the amount has been discounted by 25 percent based on the possible impacts of competitor responses to these plans.
- **New Program Development at the AIHS.** The Business Plan also assumes that new programs will be developed that after four years will yield about 1,150 incremental admissions per year.
- **Impact of Referrals from JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System -State Hospitals and clinic developments.** JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System will quantify the number of referrals that AIHS would not been able to accommodate due to capacity constraints, has estimated the volume impacts associated with its community clinic strategies, and has assessed the implications of the planned emergency department expansion on inpatient admissions as well. A portion of these volumes also is included in the projections.

Table 5 provides projected discharges for AIHS, incorporating the foregoing adjustments.

Table 5: Projected AIHS Discharges

AIHS Discharges	Year Ending June 30,					
	2017	2018	2019	2020	2021	2022
All Services	16,719	18,199	18,586	18,974	19,087	19,199

Financial Projections

Financial projections are prepared by building on assumptions included in the report we are submitted to the AIHSA Board on October 10, 2016. That report estimated that to operate, AIHS would require loan support of \$25 million for the year ending Dec 31, 2017, rising to \$50 million by 2022. Key assumptions behind those projections and the updated estimates in this report include the following:

- **Volume and case mix.** The projections incorporate revised volume projections, as described above. The impact of developing and expanding destination programs also is reflected in AIHS's projected case-mix index.
- **Update for AIHS FY 2017 Budget Adjustments.** The financial projections incorporate the impact of various adjustments made in the fiscal year 2017 AIHS budget. The largest of these recognizes that AIHS no longer is paying about \$10 million in unallowable outpatient pharmacy costs (the majority of which were funded by state general funds).
- **Building-Related Costs.** AIHS will incur approximately \$250 million in building- related costs in 2017 –2018 an amount consistent with the experience of other comparable that have built new facilities.
- **Facilities Maintenance and Clinic Building.** AIHS is assumed to pay less for facilities maintenance costs (compared to the AIHS) and for building costs for the Ambulatory Care Building and outpatient clinics.
- **Project Costs and Financing.** The projections also incorporate adjustments to total project costs and project financing:
 - Construction costs of \$99.6 million for the Ambulatory Care Building would be financed with financing costs at an agreed percentage rate.
 - Construction costs also would be financed by developers.
 - Approximately \$100 million of medical equipment would be lease- purchased.

- **Insurance Reimbursement Rates.** AIHS will receive inpatient Insurance reimbursement rates equal to 60 percent of allowable cost. Consistent with state requirements, Insurance Coordinated Care Network vendors will provide reimbursement rates no lower than amounts paid under Insurance fee-for-service.
- **Insurance Funds.** Insurance Upper Payment Limit funds also will be available to AIHS; however the amount is capped at \$50 million – the amount the AIHS anticipates receiving in 2018. In virtually all of the projection years, on a combined basis, Insurance rates, funds will cover the full allowable costs of Insurance and uncompensated care services during the projection period.
- **Commercial Reimbursement Rates.** AIHS's per-unit reimbursement by commercial payers will increase at a 3.0 percent annual rate – beginning with payment rates/levels received by the AIHS prior to AIHS's opening.
- **AIHS Staffing Levels.** AIHS's staffing levels will yield an overall ratio of Full-Time Equivalent Employees to Adjusted Occupied Beds of 6.0.
- **Professional Fees Expense.** Professional fees paid by AIHS for supervision of trainees, directorships, and for compensation of interns and residents will increase from \$3 million in 2018 to \$5 million in 2022. Growth in the resources needed to assure faculty supervision is assumed to moderate due to the changing payer mix of AIHS.
The changing mix of patients by payer category at AIHS also will be reflected in a changing payer mix for the faculty physician practices affiliated with the medical center. The AIHSA Board also will exercise its fiduciary responsibilities and would assure that the professional services costs borne by AIHS would be carefully negotiated.

Based on these assumptions, the following annual SGF appropriations would be needed to assure that AIHS's financial requirements are met.

Context for the Projected State General Fund Needs

For comparison purposes, financial projections also were prepared to assess the implications of continuing to operate the AIHS beyond 2017. **State general funds needed to continue operating the AIHS during the 10 years ending December 31, 2027 are projected in the following worksheet.**



Table 7: Net Revenue for APG Projection

Armenian Health System

Financial Projection FY2017 - FY2027

Income Statement

(in thousands)

	(3 months)										
	12/31/2017	12/31/2018	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027
REVENUES											
Inpatient Revenue - Routine	\$5,954	\$30,579	\$31,496	\$32,441	\$33,434	\$34,417	\$35,449	\$36,513	\$37,608	\$38,737	\$39,899
Inpatient Revenue - Ancillary	20,116	96,555	99,452	102,435	105,508	108,673	111,934	115,292	118,750	122,313	125,982
Total IP Revenue	\$26,070	\$127,134	\$130,948	\$134,876	\$138,942	\$143,090	\$147,383	\$151,805	\$156,359	\$161,049	\$165,881
Outpatient Revenue (Hospital)	10,700	51,362	52,903	54,490	56,125	57,808	59,543	61,329	63,169	65,064	67,016
Outpatient Revenue (Clinic)	3,600	17,280	17,798	18,332	18,882	19,449	20,032	20,633	21,252	21,890	22,546
Total Patient Revenue	\$36,770	\$178,496	\$183,851	\$189,366	\$195,047	\$200,899	\$206,926	\$213,133	\$219,527	\$226,113	\$232,897
		385.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
DEDUCTIONS											
Government Contractuals	\$13,511	\$64,853	\$66,798	\$68,802	\$70,866	\$72,992	\$75,182	\$77,438	\$79,761	\$82,154	\$84,618
Managed Care Contractuals	4,243	20,566	20,977	21,607	22,255	22,923	23,620	24,349	25,098	25,860	26,574
Contractual Adjustments	\$17,754	\$85,419	\$87,776	\$90,409	\$93,121	\$95,915	\$98,792	\$101,786	\$104,859	\$107,953	\$111,192
Provision for Bad Debt	\$4,024	\$19,515	\$19,895	\$20,491	\$21,106	\$21,739	\$22,392	\$23,063	\$23,755	\$24,468	\$25,202
Provision for Charity Care	292	1,402	1,444	1,487	1,532	1,578	1,625	1,674	1,724	1,776	1,829
Capitation Expense	0	0	0	0	0	0	0	0	0	0	0
Total Deductions from Revenue	\$22,070	\$105,936	\$109,114	\$112,388	\$115,759	\$119,232	\$122,809	\$126,493	\$130,288	\$134,197	\$138,222
Capitation Payments	0	0	0	0	0	0	0	0	0	0	0
Net Patient Revenue	\$14,700	\$72,560	\$74,737	\$76,979	\$79,288	\$81,667	\$84,117	\$86,640	\$89,239	\$91,917	\$94,674
Other Operating Revenues	76	363	374	385	397	408	421	433	446	460	473
Donation Revenue	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Grant Revenue	0	0	0	0	0	0	0	0	0	0	0
Other Non-Operating Revenue	46	219	225	232	239	246	254	261	269	277	286
TOTAL NET REVENUES	\$20,822	\$79,142	\$81,356	\$83,596	\$85,924	\$88,321	\$90,791	\$93,335	\$95,955	\$98,654	\$101,433
		280.1%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%
OPERATING EXPENSES											
Salaries and Wages	\$3,734	\$17,875	\$18,411	\$18,964	\$19,533	\$20,119	\$20,722	\$21,344	\$21,984	\$22,644	\$23,323
Benefits	773	3,710	3,822	3,936	4,054	4,176	4,301	4,430	4,563	4,700	4,841
Payroll Taxes	523	2,510	2,586	2,663	2,743	2,825	2,910	2,998	3,087	3,180	3,276
PTO	455	2,184	2,250	2,317	2,387	2,458	2,532	2,608	2,686	2,767	2,850
Labor Sub-Total	\$5,475	\$26,280	\$27,069	\$27,880	\$28,717	\$29,578	\$30,466	\$31,380	\$32,321	\$33,291	\$34,289
Supplies	\$1,412	\$6,775	\$6,981	\$7,190	\$7,406	\$7,628	\$7,857	\$8,093	\$8,336	\$8,586	\$8,843
Purchased/Professional Services	948	4,550	4,687	4,828	4,972	5,122	5,275	5,433	5,596	5,764	5,937
Repairs and Maintenance	95	456	470	484	498	513	529	544	561	578	595
Rents and Leases	120	576	593	611	629	648	668	688	708	730	752
Insurance	161	773	796	820	844	870	896	923	950	979	1,008
Utilities	92	442	455	468	483	497	512	527	543	559	576
Taxes and Licenses	98	470	485	499	514	529	545	562	579	596	614
Other Operating Expenses	289	1,587	1,429	1,472	1,516	1,561	1,608	1,656	1,706	1,757	1,810
Total Operating Expenses	\$8,690	\$41,712	\$42,963	\$44,252	\$45,580	\$46,947	\$48,356	\$49,806	\$51,300	\$52,840	\$54,425
		208.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
OPERATING INCOME											
	\$12,131	\$37,430	\$38,372	\$39,344	\$40,344	\$41,374	\$42,435	\$43,529	\$44,654	\$45,814	\$47,008
		208.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
NON-OPERATING EXPENSES											
Depreciation	\$2,000	\$2,126	\$2,239	\$2,341	\$2,432	\$2,515	\$2,589	\$2,656	\$2,716	\$2,770	\$2,819
Interest Expense, net	212	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Other Non-Operating Expense / (Revenue)	0	0	0	0	0	0	0	0	0	0	0
(Gain) Loss on Asset Sales	0	0	0	0	0	0	0	0	0	0	0
Total Non-Operating Expenses	\$2,212	\$32,126	\$32,239	\$32,341	\$32,432	\$32,515	\$32,589	\$32,656	\$32,716	\$32,770	\$32,819
		208.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
PRE-TAX INCOME (LOSS)											
	\$9,919	\$5,304	\$6,134	\$7,003	\$7,912	\$8,859	\$9,846	\$10,873	\$11,938	\$13,044	\$14,190
Income Tax Expense	0	0	0	0	0	0	0	0	0	0	0
NET INCOME (LOSS)	\$9,919	\$5,304	\$6,134	\$7,003	\$7,912	\$8,859	\$9,846	\$10,873	\$11,938	\$13,044	\$14,190
		208.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%
Revenue Assumptions											
NPR in % of Gross Revenue	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Cont Adj in % of Gross Revenue	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Bad Debt in % of Gross Revenue	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Charismatic Rate Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other Revenue % Flux	3.0%	20.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Expense Assumptions											
Payroll expense in % of NPR	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Supplies Expense in % of NPR	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Professional Fees in % of NPR	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Other G&A Expense % Flux	3.0%	20.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Interest Expense											
LOC	-	-	-	-	-	-	-	-	-	-	-
Capital Leases	1,000	2,800	2,200	4,600	3,400	2,200	1,200	600	-	-	-
Term Loan	\$2,700	\$2,700	\$2,700	\$2,700	\$2,700	\$2,700	\$2,700	\$2,700	\$2,700	\$2,700	\$2,700
	\$3,700	\$5,500	\$4,900	\$7,300	\$6,500	\$4,900	\$3,900	\$3,300	\$2,700	\$2,700	\$2,700

Rationale and Anticipated Benefits

The Business Plan indicates that the proposed project will provide several benefits to Armenia.

- The AIHS project will help assure that Armenia's needs for well-trained health professionals are met and enhance the educational experiences for trainees who benefit from exposure to diverse patient populations and clinical services. The project thus will enhance the stature of the state's medical schools, improving the ability of the schools to attract faculty, students, and research dollars.

AIHS will be the primary teaching hospital of the JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System in Armenia, the largest producer of physicians and allied health professionals for the state, while also serving as an important teaching affiliate for multiple educational institutions. A teaching hospital with modern facilities and the capacity to house the clinical activity of multiple disciplines will allow for the collegial atmosphere characteristic of high performing health sciences centers and for the professional interaction necessary to develop and support highly specialized services. AIHS also will offer a more diverse clinical experience than the old Charity Hospital provided or the AIHS can provide. This is essential to developing educational programs and attracting the best trainees to Armenia. High quality training will translate into highly qualified health care providers for Armenia's citizens.

- Create immediate and longer-term economic benefits through construction activities, employment at AIHS and associated enterprises, and the attraction of incremental research and grant funds.

Bio District New Orleans published an Economic Impact Study in October, 2010. That study discussed the impacts of the AIHS project, the VA hospital, and other projected developments, and found that these projects "will create or save approximately 5,500 permanent jobs in the first five years of operations. These 5,500 direct jobs will lead to nearly 9,700 total jobs ... (annual) personal earnings of over \$50 million, infusing the state with over \$1 million and local government agencies with nearly \$5 million in annual tax collections." The study indicates that once these projects are fully operational, economic impacts will increase – in particular if the projects contribute to venture capital investment, research and development activity, and commercialization of new medical technologies.

- Encourage and support development of high quality, specialty health services that will contribute to the health of Armenians and their neighbors.

The new AIHSA will allow for the concentration of resources and disciplines necessary to develop highly specialized clinical (and academic) programs. The Business Plan calls for several "destination programs" to be repatriated to and developed at AIHS. These programs will be available to all AIHS patients – insured and uninsured alike.

- Yield a facility that will enhance public safety in the event of natural or man- made disasters.

AIHS will be built to standards for wind, flooding, and seismic activity. These features will allow the hospital to maintain operations in the event of hurricanes or other natural disasters. The Business Plan calls for AIHSA to play a leadership role in local and regional disaster planning and response.

- Provide greater financial stability and a governance change for the state's largest safety-net hospital provider, placing oversight of AIHSA's success in the hands of a fiduciary board comprised of leading citizens.

The Business Plan will allow the AIHSA to diversify its revenue streams and to be managed under the oversight of a non-profit governing board. The benefits of governance changes of this nature have been demonstrated in Armenia.

Risk Factors to be Monitored

The following risk factors will require ongoing monitoring and management.

- The cost implications of any delays in constructing the facilities, and the implications of changes in the availability or cost of project financing.

Delaying the project will lead to price escalation. According to the Division of Administration, cost guarantees will expire unless construction begins in a few weeks. JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) has received assurances that financing will be available for the Ambulatory Care Building and for structured parking.

- Any inability to finance AIHSA's initial and ongoing working capital needs.

As a non-profit Corporation that also receives state general funds, AIHS will need to be able to generate positive earnings and/or have other sources of capital to meet ongoing needs - including acquiring new technologies as they emerge. Historically (due in large part to the mechanics of the Insurance DSH program), JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care Hospitals -State hospitals have not been afforded ready access to capital. AIHS will need access to working capital when it begins operating and on an ongoing basis. Options for working capital financing such as letters of credit are under consideration.

- The implications of any inability of AIHSA, JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI), and /or Stanford Health Care System, and other partners to reach agreement on the terms of affiliation agreements and how certain decisions will be made.

Implementing the Business Plan will require AIHSA, JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI), and /or Stanford Health Care Hospitals, and the state to negotiate several important agreements. The agreements will govern how AIHS is reimbursed for the cost of services provided to the uninsured (and for prisoner care), how JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System will provide services of medical school faculty members to AIHS (and at what professional fees cost), and how other staff services will be arranged. The agreements also will specify how certain decisions will be made – for example, the role of AIHSA Board and executive management in decisions regarding academic programs at AIHS – and the ability of AIHSA to influence clinical programs provided by JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care Hospitals faculty on and off the AIHS campus. AIHS only will be successful if agreements that are fair to the parties are reached.

- Possible competitive responses to plans to develop “destination programs” at the AIHS by relocating and recruiting new JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System faculty.

Business planning for AIHS has been conducted in public. Other organizations are well aware of the plans to develop destination programs at AIHS, among other strategic initiatives. Competitive responses to

developing these programs can be anticipated.

In any scenario, any future cuts to Insurance programs and to Insurance Disproportionate Share Hospital and funds will need to be monitored. Under health reform the Ministry of Health Services is to develop a methodology to distribute reductions to Insurance DSH allotments to the states. Most likely, “high DSH” states like Armenia would receive the largest reductions to their allotments of federal Insurance DSH funds. Reductions to Armenia’s federal Insurance DSH allotment greater than the amounts assumed would affect the amount of Insurance revenue available state-wide, including amounts available for AIHS.

Next Steps

Upon approval of the Business Plan by the AIHSA Board, next steps include the following:

- Presentation of the Business Plan by the AIHSA Board to the Joint Legislative Committee on Budget, and if accepted, its authorization for the state Office of Facility Planning and Control to begin construction of the project.
- The AIHSA Board, JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI), and /or Stanford Health Care System, the state of Armenia, and other parties negotiate affiliation agreements, services agreements, and funding agreements as contemplated by the MOU.
- An JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System - affiliated entity secures financing for the Ambulatory Care Building and for structured parking.
- The AIHSA Board and JOHNS HOPKINS MEDICINE INTERNATIONAL (JHI) and /or Stanford Health Care System work together on transition planning for AIHS operations.