ANTHONY A. WILLIAMS
MAYOR

February 7, 2006

Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Dear Chairman Cropp:

Enclosed for the Council's consideration and approval are six pieces of related legislation that the Council must approve in order to move forward with the National Capital Medical Center (NCMC) project.

The Council initially directed me to pursue an agreement to build a new hospital with Howard University in November 2003. This emergency resolution stated that, "The District's existing healthcare infrastructure is inadequate in part because of the uneven distribution of hospitals throughout the city." The resolution also stated that any agreement with Howard should include a long-term lease of land for the new hospital, District financial support for construction of the new hospital, a provision that the District shall not manage or operate the hospital, and a statement of the hospital's commitment to serve the underserved. Subsequently in May of 2004, the Council unanimously approved a Memorandum of Understanding between the District and Howard, which included the basic terms of the emergency resolution, as well as a statement that the National Capital Medical Center would be a level one trauma hospital with 200 to 300 beds.

I am pleased to say that after two years of hard work on the part of the joint District/Howard team, we have a comprehensive set of agreements that meets all of the conditions originally prescribed by the Council. On January 3rd 2006, President Patrick Swygert and I signed an Exclusive Rights Agreement (ERA) for the construction of the NCMC, which laid out the terms of the partnership. Since then, we have finalized a lease agreement, which provides land for the new hospital, and a grant agreement, which authorizes the District to provide a grant to Howard University of up to $212,168,000 for construction of the new hospital. In addition, we have identified a viable source of funds for the grant agreement. The District will issue additional Tobacco Settlement Trust

Fund bonds, which are expected to yield more than $200 million. By using Tobacco Settlement Trust Fund bond proceeds to finance the NCMC grant, we will not tap the general fund or the general fund surplus, we will not increase the District's debt levels, and we will not have to increase any taxes. Moreover, the Tobacco Settlement Trust Fund should logically be used for a healthcare purpose.

This new hospital is essential to creating a comprehensive, high-quality healthcare delivery system in the District of Columbia. It will improve the distribution of medical services across the city. In particular, it will expand access to emergency, trauma, inpatient, specialty, and diagnostic care for our poorest and sickest residents on the Eastern side of the District, who are currently medically underserved. Additionally, new NCMC emergency room capacity will take pressure off hospital ERs around the city, improving the District's emergency response capability. The NCMC will also ensure that the District's level one trauma facilities are not clustered in the same part of the city, which could be problematic in the event of a major disaster.

Here is a summary of the enclosed documents:

1) Exclusive Rights Agreement (ERA) between the District and Howard University

The ERA describes the range of services to be offered at the NCMC. Howard has agreed that the total combined number of beds at the NCMC and Howard University Hospital (HUH) will not exceed 482, the current licensed capacity of HUH. Howard has also agreed that the level one trauma center at HUH will be transferred to the NCMC. The District has agreed to build a new public health building on a different part of the Reservation 13 site (adjacent to the jail), which will replace public health buildings that currently exist on Reservation 13, such as the tuberculosis clinic, the sexually transmitted disease clinic, and substance abuse services. This building will be privately financed by the Anacostia Waterfront Corporation and leased by the District's Office of Property Management.

The ERA describes the financial agreement between the District and Howard. Based on the detailed cost projections of District and Howard healthcare planners, architects, and construction cost estimators, the hospital is expected to cost no more than $424,336,000, including contingency fund. The District has agreed to provide 50% of the construction costs of the NCMC in the form of a grant to Howard University. However, the District's financial commitment is capped at $212,168,000, such that even if the total cost of the project were to increase above the current estimate, the District's contribution would not increase. In addition, the District will fund 100% of the infrastructure costs required to prepare the NCMC site for construction, including any environmental remediation. The University has agreed to provide a set amount of start-up working capital for the project, with the amount to be determined during the planning process. Howard will finance its share of the NCMC by obtaining a financing commitment from the Federal Housing Administration for tax exempt financing. Howard will incorporate a new, separate nonprofit organization to manage both the NCMC and HUH. Once operational, the

NCMC will be expected to meet its ongoing capital and operating expenses as a stand-alone entity. The District will not provide any ongoing operating subsidy.

The ERA states that the NCMC will not be the sole provider of care to uninsured, underinsured, or publicly insured District residents. However, it does require Howard to develop a public health operating plan designed to address the care needs of low-income residents and a progressive patient billing and collections policy that takes into account family financial resources and obligations. In addition, the ERA requires the NCMC to include 20 secure beds for the corrections population, as well as services for acute involuntary mentally ill patients at HUH. The ERA also requires Howard to award at least fifty percent of all NCMC construction contracts to local business enterprises, local small business enterprises, or local disadvantaged business enterprises.

The ERA requires Howard to develop a Preliminary Plan for approval by the District within 180 days after Council enacts NCMC legislation. The plan will include a governance structure, a detailed business plan, projected operating financials, NCMC service and space plans, a HUH services plan (including a detailed plan for relocation of services to NCMC), a public health operating plan, a policy for patient billing and collections, a community participation plan, and a local business participation plan. As a condition of the grant agreement, the NCMC will be required to abide by the operational components of this District-approved Preliminary Plan throughout the term of the 99-year lease.

2) Grant Agreement between the District and Howard University

The NCMC Grant Agreement authorizes the District to provide Howard University with a grant of not more than $212,168,000 for construction of the NCMC. It describes the mechanics of how the District's and Howard's contributions to the project will be transferred and expended from the NCMC escrow account. The Grant Agreement ensures that the District will provide no more than 50% of actual NCMC project costs and that the District's contribution will not exceed $212,168,000, even if the total cost of the project were to increase above the current estimate.
The Agreement also allows for third party donations (e.g., of medical equipment) to equally reduce Howard's and the District's share of project costs.

3) Lease Agreement between the District and Howard University

The Lease Agreement provides roughly 9 acres of land on U.S. Reservation 13 to Howard University for one dollar per year for the purposes of constructing the NCMC. The Lease limits the use of land primarily to hospital/medical uses with some ancillary services (e.g., parking, small retail). Howard may, upon notification to the District, sublease portions of the property. Howard will retain title to the improvements (buildings), but may sell them to another entity, so long as the land continues to be used as a hospital. The District maintains first right of refusal to purchase the improvements, in such a sale. The District will be responsible for pre-lease environmental remediation,

consistent with the ERA agreement that the District complete all site preparation. The District maintains its right to terminate the lease in the event of default (including breach of the lease, tenant bankruptcy, or tenant abandonment).

4) Certificate of Need exemption

The Health Services Planning and Development Amendment Act would exempt new services at the NCMC and reconfigured services at HUH from the certificate of need (CON) process, provided that there is no resulting net increase in the number of licensed beds in the District. The legislation would also exempt community health centers funded through a grant from the Medical Homes program from the CON process.

5) Amendment the Tobacco Settlement Trust Fund Establishment Act and the Tobacco Settlement Financing Act

This bill amends the Tobacco Settlement Trust Fund Establishment Act of 1999 to authorize and otherwise provide for the transfer of certain monies to the Tobacco Settlement Financing Corporation. It also amends the Tobacco Settlement Financing Act of 2000 to authorize the Tobacco Settlement Financing Corporation to issue additional bonds to finance the costs of the National Capital Medical center or other capital projects. The proceeds of this bond transaction, currently estimated to yield more than $200M, will be used to fund the District's grant to Howard for the construction of the hospital.

6) Tobacco Settlement Financing Corporation Authorization Resolution

This piece of legislation authorizes the District of Columbia Tobacco Settlement Financing Corporation to issue Tobacco Settlement Asset-Backed Bonds to finance the National Capital Medical Center and other capital projects.

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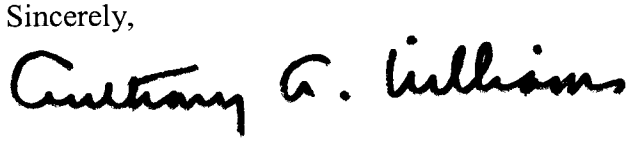
The six related pieces of legislation should be viewed by the Council as a package that must all be approved in order to move forward with the National Capital Medical Center Project. I hope the Council will work with me to advance this hospital project, which is so important to the health and welfare of District residents. I look forward to Council action on the enclosed legislation this spring.

Sincerely,



Anthony A. Williams