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Subcommittee on Oversight and Investigations
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Hearing: Post-Katrina Health Care in the New Orleans Region: Progress and Continuing Concerns – Part II

Mr. Chairman and members of the subcommittee thank you for inviting me here today and for your continued interest in the healthcare crisis that exists in New Orleans. As President and CEO of Touro Infirmary, a 155 year-old not-for-profit, faith-based community teaching hospital and one of the very few fully functioning hospitals currently operating in New Orleans, I have direct insight about this crisis. I recently testified before this committee in March, and am here today along with my colleagues to update about the distressed financial condition of the hospitals in Orleans and Jefferson Parishes, and Touro Infirmary in particular. It is nearly two years since Katrina devastated the New Orleans area causing the worst natural disaster in the history of our country. Unfortunately, we are far from being fully recovered. Because of Touro's commitment as a safety net provider we have suffered severe financial consequences. The future viability of Touro and the hospital system in Orleans and Jefferson Parishes is in real jeopardy if we continue on the present course! We truly need your help!

Touro Infirmary temporarily closed on September 1, 2005, just three days following Katrina, and after safely evacuating 238 patients, as well as hundreds of staff and family members, and remained closed for twenty-seven days. It was my eleventh day as Touro's new CEO. Touro reopened its doors on September 28, 2005 and in less than a year re-established operations to pre-Katrina levels. We were the first hospital to reopen in Orleans Parish and played a critical role in the City's ability to reopen. We were also the only adult acute care hospital in operation in the City for five months following the storm.

When it was time to pick up the pieces after Katrina, we made the decision to forge ahead as quickly as possible with the hiring of staff and other necessary expenditures without hesitation. We needed to move quickly to keep up with the heavy demands of caring for a rapidly growing patient population in need of medical treatment, and those demands have never eased. We did not have a real business plan and we did not have the time to stop to consider the possible consequences of moving forward without one. For us it was simply a matter of mission and, doing the right thing,

Two years later, Touro continues to play a vital role in supporting New Orleans' recovery, but the cost of doing so to say the least, has been devastating. Since Katrina, Touro has experienced unprecedented operating losses amounting to many millions of dollars. This negative trend continues in 2007 at a rate of approximately $1.3 million per month. Our bond and credit rating has been negatively impacted causing a substantial increase in borrowing costs. To sustain current operations we have been forced to deplete precious cash reserves critical to Touro's present and future financial stability, and at a pace that is unsustainable. We simply cannot go on with the present course without at some point making the kind of changes that will impact the level of services provided to the community. In retrospect one has to ask, "Was doing the right thing, the right thing to do? At this point I'm not certain about the answer to this question given the present circumstance in which we find ourselves. I believe the answer to this question in large part depends on the outcome of these proceedings.

During the last hearing several Committee members asked why does there continue to be ongoing financial problems and what financial assistance has been provided to assist the hospitals?

I have been in health care administration for nearly thirty years and have never been in a more challenging health care market especially from a financial standpoint. The economic fundamentals of the post Katrina New Orleans market are broken. Touro's cumulative cost of uncompensated care, labor, property and casualty insurance, and utilities has dramatically increased in an aberrant way and at a markedly faster pace than any rate increases granted by Medicare and Medicaid during the same period. The usual wage index methodology utilized by Medicare won't recognize the extraordinary increase in labor costs that has occurred in the New Orleans area until 2009 or 2010. In the interim we cannot raise our rates to governmental payers to offset these significant cost increases. Also, exacerbating the problem is that Medicare and Medicaid do not pay hospitals their full cost; therefore beneficiaries of these government programs are really an *under-insured* patient population. Revenues from other payers such as commercial insurance companies and managed care organizations are dictated by contract and must be renegotiated to achieve higher rates. Rate increases are not guaranteed.

The key issues negatively impacting Touro's present financial status are discussed in greater detail below.

COST OF LABOR and OTHER WORKFORCE ISSUES

Prior to Katrina Louisiana was designated by the federal government as a health manpower shortage area. Shortages of critical health manpower in the New Orleans metropolitan area post Katrina are significantly more acute. These shortages have caused labor costs to rise sharply. Recruiting and retaining qualified nurses, physicians and other allied health professionals is a daily struggle for Touro and other hospitals in the area.

While there is a shortage of Registered Nurses nationally, Katrina exacerbated the problem in New Orleans. Touro's total labor cost per man-hour paid increased 18.7% from 2005 to 2007. This increase was driven largely by the cost of contract labor the vast majority of which is for nursing. For example, from January to June 2005, Touro's cost of contract labor was $1.3 million compared to $5.9 million for same period in 2007, an increase of $4.6 million or 366%. Touro's cost per full time equivalent Registered Nurse is substantially higher than the cost of salary and benefits for an RN that is employed by us. This issue is a very costly one for Touro and all of the other hospitals in Orleans and Jefferson Parishes, and has had a severe negative impact on our financial situation. However, with respect to the use of contract labor, there are a number of other associated issues in addition to the excessive cost, not the least of which includes issues related to continuity of patient care.

Various studies and news reports have noted the exodus of physicians from the New Orleans area post Katrina. This has caused shortages in many specialties and particularly in the supply of physicians trained in certain "hospital-based" specialties such as Emergency Medicine, Radiology and Anesthesiology. Similar to the situation with respect to nursing and other health care personnel noted above, these shortages have substantially driven up Touro's cost for the services provided by hospital-based physicians by hundreds of thousands of dollars annually.

COST OF OTHER NON-LABOR EXPENSES

Touro's cost of property and casualty insurance post Katrina has severely increased and is up 342% from pre Katrina levels and now costs approximately $2 million annually. At the same time our coverage has declined from $337 million to $230 million. Touro's cost for utilities has also increased dramatically by 48% since 2005, an annualized rate of $1.3 million.

We are very grateful for the support that we have received from FEMA in reimbursing Touro for storm related damage and other mitigation projects. I am very pleased to recognize the efforts of U.S. Secretary of Homeland Security, Michael Chertoff; FEMA Director, David Paulison; and FEMA Deputy Director-Gulf Coast, Gil Jamieson, all of whom have been of great assistance to us.

However, while not an issue that has contributed to Touro's present financial condition, we are greatly concerned about a recently announced change to FEMA's policies with respect to future funding of disaster grants and the treatment of insurance deductibles. We believe that these changes if permitted to be the policy of FEMA will effectively deny New Orleans private not-for-profit institutions, such as Touro, Stafford Act relief if we have another hurricane.

The wording on FEMA Disaster Assistance Fact Sheet DAP 9580.3, Revised effective June 4, 2007, states, "however, a deductible is not eligible for the same facility in a subsequent disaster of the same type." This change to the fact sheet wording has major implications for Touro and others—another hurricane could cause an extreme financial hardship for Touro of a catastrophic magnitude that could potentially cause its demise.

Graduate Medical Education (GME)

After Katrina,Touro and some other local hospitals expanded their residency training programs to absorb as many resident physicians as possible, thereby supporting and protecting the future of graduate medical education in New Orleans. Touro more than doubled the size of its GME program from eighteen to fifty-two residents. Our decision to help secure the future of graduate medical education in New Orleans has been very costly one because of a federal rule that does not permit hospitals to be fully reimbursed for allowable costs in the first year by Medicare. Instead these costs must be averaged over a three-year period. In effect, hospitals expanding their GME programs are financially penalized during this initial period and must absorb these added costs. The *three-year averaging rule* clearly did not envision the hardship created by Katrina.

Our understanding is that CMS attempted to address this concern through a partial waiver of the *three-year averaging rule* for an initial period that ended on June 30, 2006, however CMS denied a waiver of the *three-year averaging rule* beyond that date. Consequently, Touro and other hospitals that stepped up to support and protect the future of GME in the aftermath of Katrina without regard to the negative financial consequences are being penalized financially to a substantial extent over a period of three years. If left unchecked Touro's incremental support of GME post Katrina, as revised would cost approximately $3.8 million dollars. Consequently to help defray some of this cost we have reduced the number of residents for the 2007-08 academic year by twelve slots.

Uncompensated Care (UCC) and the Uninsured

Nationally, the uninsured population has been reported at about 16%. Even prior to Katrina the percentage of the uninsured population in Louisiana and New Orleans significantly exceeded the national rate. Post Katrina this situation has dramatically worsened. A report by the Louisiana Public Health Institute prior to

Katrina indicated that the rate of uninsured in Orleans Parish was 26.1% (see Table 1.) Orleans Parish also had the largest increase in adults without insurance in the State of Louisiana. The high concentration of uninsured in Touro's immediate service area continues to put us at significant financial risk.

Since Hurricane Katrina devastated the healthcare delivery system in the New Orleans area Touro and the other hospitals in Orleans and Jefferson Parishes have provided an unprecedented amount of uncompensated care. Pre-Katrina, Touro was marginally profitable and was better able to sustain uncompensated care at a rate of 4.5% (see Table 1.) However, a spike in uncompensated care to 8.5% in 2006 dealt Touro a huge financial blow from which we still have not recovered. Thus far in 2007 we have seen some downward movement in the rate of UCC to under 6% however, this amount of UCC is still a very heavy burden to carry even though Touro and other community hospitals are now receiving some limited financial support from the State of Louisiana as noted below. When considering the fact that Medicaid and Medicare do not pay hospitals their full cost this is another form of uncompensated care that is not reflected in the figures presented above.

To date there has been some financial support from the state of Louisiana and the federal government, to help address Touro's and other hospitals' negative financial condition and is outlined below.

STATE SUPPORT FOR HOSPITALS

The State of Louisiana's budget in FY 06/07 for the first time included funding of $120 million to provide an Uncompensated Care (UCC) pool for community hospitals that when fully expended will provide funding for a significant portion of each respective community hospitals' approved UCC cost. Touro has received $5.9 million thus far from this fund and expects to receive an additional $1.8 million. In the State's 07/08 budget another UCC pool of approximately $87 million has been approved that will provide for some partial payment to community hospitals for their approved UCC costs. The amount Touro will receive from this fund is yet to be determined but we anticipate that it will be at a rate of about 50% of our approved UCC costs. The State's FY 07/08 also provides for a 4% increase in hospital in-patient Medicaid rates equal to about $33 million and an increase of about $68 million to increase physician Medicaid fees, to about 90% of Medicare. These are certainly positives steps in the right direction and are greatly appreciated. However, Touro and especially the community hospitals in Orleans and Jefferson Parishes need the security of knowing that funding for UCC will be provided over the long term without having to be concerned with this issue on a year-to-year basis. Sound financial planning cannot occur otherwise and without a constant funding mechanism for UCC we continue to be at great risk especially considering how tenuous the economic environment is here. Secondly, it is important to note that both Medicaid and UCC pay an amount substantially below cost.

FEDERAL SUPPORT FOR HOSPITALS

We very much appreciate the federal funding that has been provided thus far and particularly the efforts of U.S. Secretary of Health and Human Services, Michael Leavitt. But the impact of the funds that have been approved to date on improving Touro's financial position and that of the other hospitals in Orleans and Jefferson Parishes has been very limited.

Several grants utilizing Deficit Reduction Act (DRA) funds have been awarded to help Louisiana. A grant of $100 million was recently awarded to increase access to primary care. Two grants totaling $50 million have been awarded to help recruit and retain health care professionals including physicians, nurses, technologists and other healthcare personnel. Both of these grants are specifically earmarked for Region 1 (Orleans, Jefferson, Plaquemines and St. Bernard Parishes), the areas hardest hit by Katrina.

Several appropriations of DRA funds have been made for hospitals in the form of a Section 1115 Waiver ($123 million) to provide short-term UCC relief for a brief period following Hurricanes Katrina and Rita, and two Provider Stabilization Grants ($71.6 million and $26 million) to provide funding to help offset the wage increases experienced by hospitals. Of the combined amount of the stabilization grants (approximately $98 million) hospitals received just less than $90 million and the balance was distributed to nursing homes.

In retrospect, given the present financial distress of the hospitals in Orleans and Jefferson Parishes, one has to question the methodology by which the $90 million in Provider Stabilization Grants was distributed and wonder whether these grants really achieved what should have been the intended purpose, that being to provide relief for hospitals with the greatest need. Collectively, the hospitals in Orleans and Jefferson Parishes are presently operating at a substantial loss. For the period of January to May 2007 the hospitals there combined had an operating loss of $56.4 million compared to an operating surplus of $13.5 million for the same period in 2005 pre Katrina (see Table 3.) On an annualized basis this would amount to a projected aggregate operating loss in 2007 of $135 million.

Unlike the other grants noted above that were specifically earmarked for Region 1, the Provider Stabilization Grants were distributed to more than sixty (60) hospitals in the thirty-one (31) parishes designated as disaster areas by FEMA. Many hospitals in parts of the State that were not nearly devastated by Katrina and Rita the way we were in Orleans and Jefferson Parishes received substantial sums of money this year from these grants. At the same time, some of these hospitals continue to operate profitably.

Touro received two Stabilization Grants totaling $3,567,000 and we are grateful for having received these funds. But the magnitude of the challenge we face goes well beyond the potential impact of this one time grant. As previously noted, the Medicare Wage Index will not catch up for three years. If Touro's Medicare wage index were to be adjusted for current salary costs this would have an annual positive impact of approximately $10 million per year.

In conclusion, the present situation facing Touro, as well as the other hospitals in Orleans and Jefferson Parishes is very critical. While I do not speak for the other institutions, I can say that if some change in our financial condition does not occur and/or if some other relief is not provided soon we will be forced to reevaluate the level of services provided to the community. We simply will be unable to sustain ourselves long term if we do not take some action soon to alleviate the situation.

We respectfully offer the following recommendations for the Committee's consideration.

Recommendations

Given the magnitude of the operating losses projected over the next three years we are asking that a relief package of as much as $400 million be funded for the hospitals in Orleans and Jefferson Parishes, and in consideration of the following issues:

- **Medicare Wage Index Adjustment**: To provide relief from the substantial growth in wage costs, extend the current wage index values for Region 1 hospitals.

- **Non-Labor Costs**: Provide funding to off-set the extraordinary costs that Region 1 Hospitals have experienced for property and casualty insurance, and utilities.
- **Other Workforce Issues**: Provide additional funding for Region 1 for manpower recruitment and retention, particularly to increase the number of Nursing Educators needed to increase the annual number of nursing school graduates. Provide flexibility in the rules governing immigration to allow greater numbers of foreign trained nurses to immigrate to the U.S.
- **GME Three Year Averaging Rule**: Approve a waiver of the three-year averaging rule so that hospitals that have stepped up in support of graduate medical education during this time of need will not suffer adverse financial consequences.
- **Uncompensated Care (UCC)**: Provide additional federal assistance in collaboration with the State of Louisiana to fund a greater percentage of the cost of uncompensated care for hospitals in Region 1.

Appendix:

Table 3: LHA/MHCNO Hospital Survey (7/27/07)

Region 1 Totals

Financial Statement (Pre vs. Post Katrina)	Pre Katrina (Jan. 2005 - May 2005)	Post Katrina (Jan. 2007 - May 2007)	% Change
REVENUES			
Total Net Patient Revenue	$ 738,276,993	$ 770,246,257	4.3%
Other Operating Revenue	$ 20,423,893	$ 25,662,346	25.6%
Total Operating Revenue	$ 758,700,886	$ 795,908,603	4.9%
EXPENSES			
Salaries	$ 295,856,264	$ 333,842,427	12.8%
Contract Labor	$ 9,060,558	$ 23,793,549	162.6%
Salaries and Contract Labor	$ 304,916,822	$ 357,635,976	17.3%
Employee Benefits	$ 57,989,802	$ 60,579,635	4.5%
Supplies	$ 134,827,325	$ 147,032,803	9.1%
Utilities	$ 10,337,319	$ 13,687,096	32.4%
Insurance (P&C, Business Interuption, etc.)	$ 15,565,095	$ 21,077,574	35.4%
Interest Expense	$ 14,087,738	$ 16,925,303	20.1%
Depreciation and Amoritization	$ 42,976,693	$ 49,000,494	14.0%
Bad Debts, included in net revenue	$ 37,123,268	$ 48,412,532	30.4%
Other Operating Expenses	$ 127,347,702	$ 137,910,137	8.3%
Total Operating Expenses	$ 745,171,764	$ 852,261,550	14.4%
Net Gain/Loss from Operations	$ 13,529,122	$ (56,352,947)	-516.5%

Notes:

Includes adjustments for one-time revenues and expenditures. The HHS Wage Stabilization grant funds were excluded as one-time revenues. Uncompensated care funding recorded during the January through May 2007 period were included as net revenues. Includes employed physician revenue and expenses.

Hospitals Included:

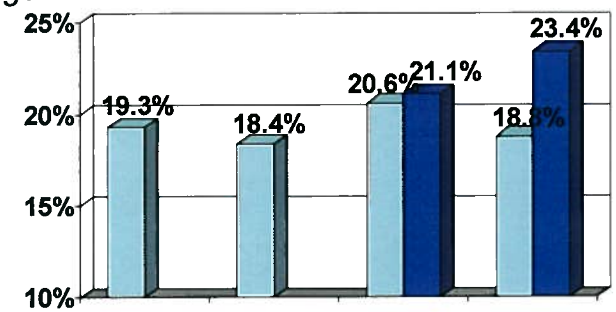
Ochsner Baptist Medical Center (included in 2007 only)
Ochsner Medical Center – Kenner
Ochsner Medical Center – Westbank
Ochsner Medical Center
Ochsner Clinic – South Shore

East Jefferson General Hospital
Touro Infirmary
Tulane University Hospital
West Jefferson Medical Center

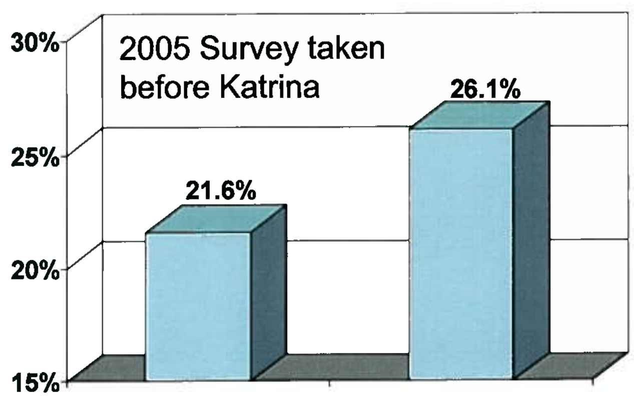
* PREPARED IN CONJUNCTION WITH CONGRESSIONAL HEARING

Table 1: Self Pay on Admission

Louisiana Uninsured – *Orleans Parish has the largest increase in adults without health insurance*

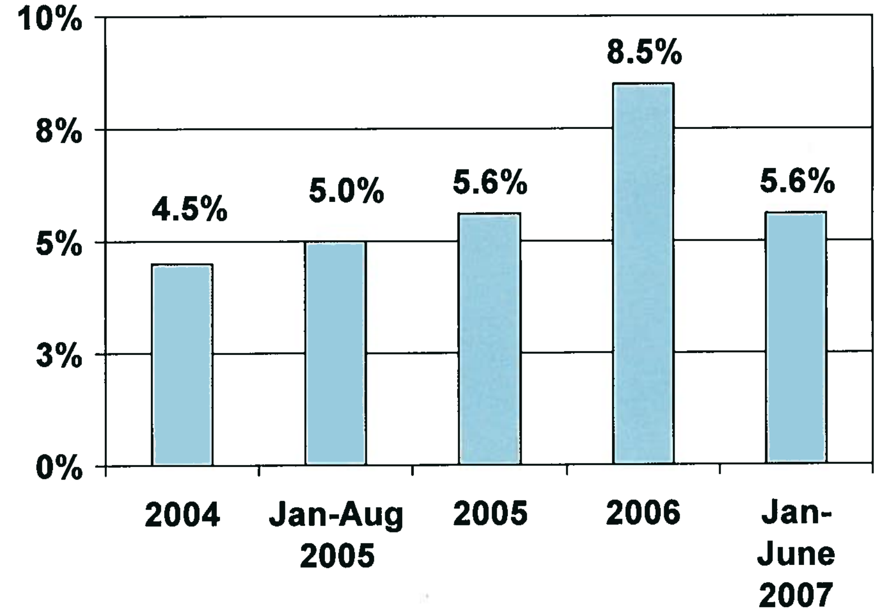


Orleans Parish Uninsured Adults



Orleans Parish had the largest increase in adults without insurance in the state of Louisiana, according to the 2005 DHH Louisiana Health Insurance Survey

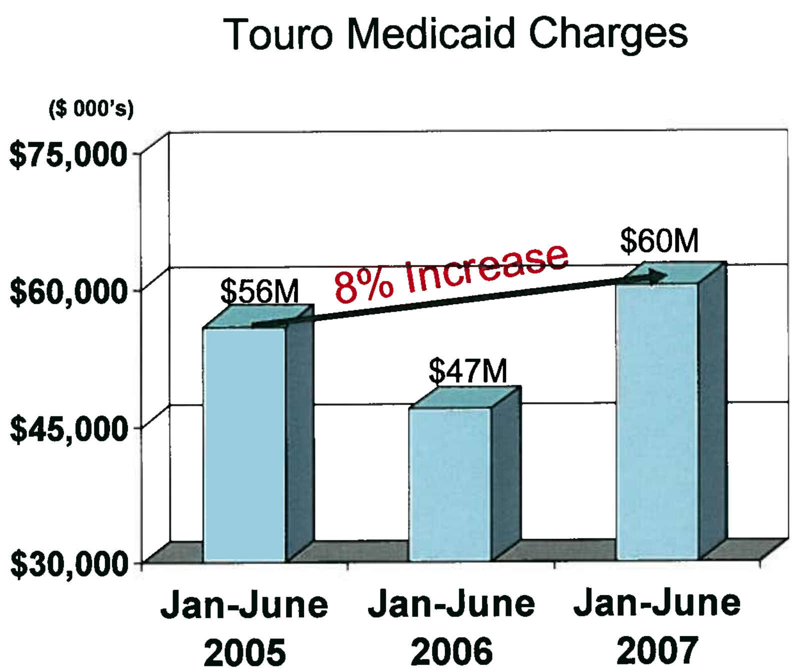
Touro Self Pay Percentages by Year



- Pre-Katrina, Touro averaged 4-5% self pay and is currently averaging 6% self pay.

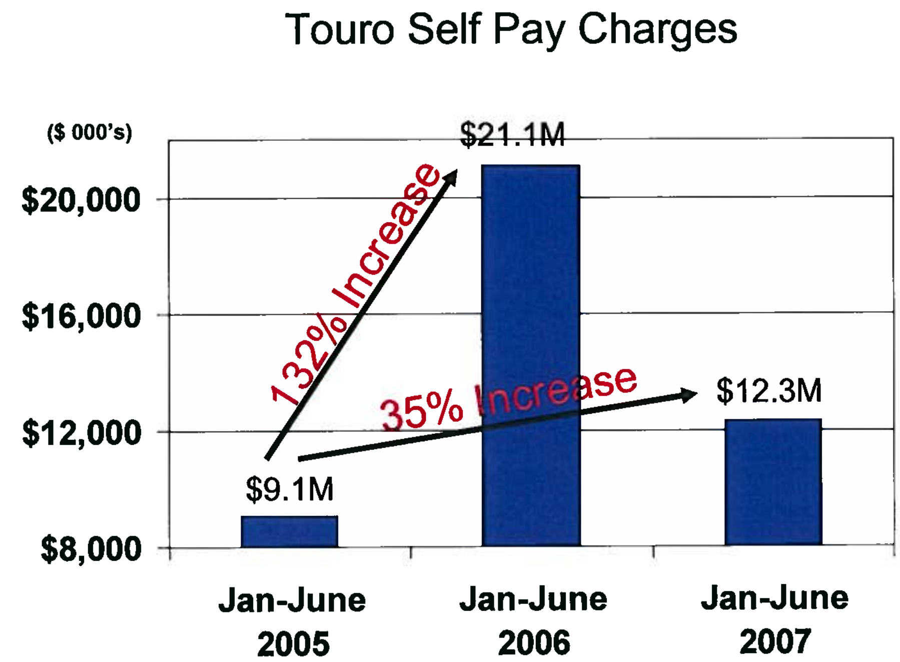
SOURCE: Touro Financial Statements, US Census Bureau, 2005 DHH LHIS Survey adults 19-65

Table 2: Touro Self Pay and Medicaid



Touro has seen an 8% increase in Medicaid charges from the first 6 months of 2005 as compared to the same time period 2007.

SOURCE: Touro Financial Statements, Patient Accounting, 2007 Budget



Self Pay account balances increased from $9.1M for the first 6 months of 2005 to $12.3M for the same period in 2007.

Approx. **87%** of Touro Self Pay originates in the ED in which **9%** are admitted as inpatients.