

Testimony Summary of Mr. Gary Muller, F.A.C.H.E.
Chief Executive Officer, West Jefferson Medical Center
House Committee on Energy and Commerce
Subcommittee on Oversight and Investigation
August 1, 2007

West Jefferson Medical Center was in good financial standing before Hurricane Katrina with a projected profit of \$8 million in 2005. Since the hurricane, West Jefferson has incurred losses of \$54 million.

Major Points and Corresponding Notes:

- **Increased patient load and increased number of uninsured patients:**
Since West Jefferson was not flooded and because more than 1000 beds in the New Orleans area were closed, West Jefferson experienced a large increase in patient volume. The hospital has also seen a 50 percent increase in patients that are uninsured, while only being reimbursed for 45 percent of cost for treating those patients. The hospital loses money every time an uninsured patient is admitted.

- **Increased labor costs:**
To keep nurses and doctors from leaving the region, we have had to boost recruitment and retention packages by 25 percent. In addition, our use of agency nurses has cost us up to \$12 million annually- twice as much as we previously paid out. We recognize the need for a Wage Index Adjustment to help us manage the greatly increased cost of labor.

- **Other non-labor costs:**
I thank Congress for the CDL that we received in February 2006 as it enabled us to continue to provide services to the area. I also thank Congress for recent action allowing this loan to be forgiven. Unfortunately, we can not apply for this loan until 2009. We hope Congress will urge the Administration to grant forgiveness immediately to relieve the burden of interest costs over the next three years. In addition the whole area has seen increases in insurance rates, utilities, supplies and more.

We are now facing a Category Five financial storm. Even if ground were broken today on a new Charity Hospital, our hospital would still have to wait three to five years for the completion of this hospital until some of these costs are alleviated. Our future is uncertain if we have to wait that long.

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Mr. Chairman and members of the Subcommittee, thank you again for the opportunity to testify before you. Your continued support and dedication to our cause is truly appreciated. We are thankful for the work of your staff to maintain conversation with us with concern for our deepening wounds. Thank you, and the other members of Congress, for your visits to the area and your understanding of the full and long-lasting consequences of the most devastating natural disasters in American history.

West Jefferson Medical Center is a 451 bed community hospital located 10 miles from downtown New Orleans. After the storm, we were one of only three hospitals in the entire area to remain open- several hospitals, including Charity Hospital, still remain closed. West Jefferson Medical Center was in good financial standings before Hurricane Katrina with a projected profit of \$8 million in 2005. When I testified before you in March, West Jefferson had incurred \$48 million in Katrina-related operating losses. That number has since increased to \$54 million- an additional loss of more than \$6 million in only 4 months.

I want to assure you that I am here today to offer the facts regarding the operations at West Jefferson Medical Center. Our numbers have nothing to hide, our books are open and we are confident that we have done everything in our power to run our hospital in an efficient manner. We continue to pursue that cause intensively.

Currently, West Jefferson is operating at 2 percent under its 2007 budget and loosing money daily.

In fighting to provide the best possible care for our patients while spending our money in an efficient manner, we have implemented several business improvement plans and negotiated with doctors to create cost-saving programs. This month, West Jefferson Medical Center became the first hospital in Louisiana's history to receive the Energy Star award for energy efficiency awarded by the Environmental Protection Agency. We continue to make great strides in this direction.

Fortunately, The West Bank of Jefferson Parish was not flooded by Hurricane Katrina and West Jefferson Medical Center was spared from extensive physical damage. However, West Jefferson experienced a large increase in patient volume as more than 1000 patient beds were closed in the New Orleans area. To compound the problem with an increase in overall patient volume, our hospital has also seen a 50 percent increase in patients that are uninsured. So even as we struggle to accommodate the increased patient load, fewer of these are paying patients leaving us with much higher costs and more losses.

The healthcare situation in Louisiana has an uncertain future. However, these five hospitals testifying before you today will continue to provide high quality services as long as our doors remain open.

The other four CEOs and I, and all of the patients we serve, are extremely grateful for Congress's response on behalf of all America to Hurricane Katrina. However not enough of this support has reached our hospitals, our doctors, our nurses, and our patients to remedy our ongoing needs. We urge the congress to review these existing allocations made to Katrina Disaster Funds with the current healthcare crisis uppermost in mind.

I'd like to explain to you five of the issues that count for some major financial issues faced by these five hospitals from Orleans and Jefferson Parish.

We continue to suffer losses due to higher labor costs. Immediately after the storm, we were forced to hire contract laborers because so many of our healthcare workers evacuated. At one time, we employed almost 100 agency or temporary, out-of-region nurses to replace employees who left the area. In 2006 alone, these increased labor costs amounted to \$12 million – double our costs in 2005. In summary, our nurses are twice as expensive while the patients that we treat pay half the cost. This is exactly why we continue to lose money.

In order to keep nurses and doctors from leaving a region still struggling to reopen its schools, its stores and restore its quality of life, we have had to boost recruitment and retention packages by 25 percent. West Jefferson is also opening a new nurse training program on our campus as a long-term solution to the nursing shortage. While we have received a one time grant to cover some of this additional labor cost, we need an ongoing

fix for this ongoing problem. As requested before, we once again recognize the need for a Wage Index Adjustment to help us manage the greatly increased cost of labor.

Non-labor costs present unique issues for West Jefferson Medical Center, but similar issues are shared by all five hospitals. Because West Jefferson, as a public hospital, remained open through the storm and immediately incurred millions of dollars in losses, we received a Community Disaster Loan. I'd like to take this opportunity to thank Congress for the CDL that we received in February 2006 as it enabled us to continue to provide services to the area. We'd also like to say thank you for recent Congressional action allowing this loan to be forgiven. We now find that FEMA regulations require us to wait until 2009, three full years after the storm, to apply for forgiveness. We hope Congress will urge the Administration to grant forgiveness immediately to relieve the burden of interest costs over the next three years.

We have incurred further financial strains as West Jefferson Medical Center was recently declared in default of its bond insurance requirements. As we predicted, the operational losses since Hurricane Katrina, coupled with our unpaid business interruption insurance claim, have placed us in default with our bond insurers. This has resulted in the insurers placing a mortgage on our hospital and implementing other fees and restrictions on our operations. The impact of continuing to carry the CDL interest and the default of our bond insurance has added more than \$2 million a year to our costs. In addition, with other businesses in the area we share increases in insurance rates, utilities, supplies and more. The accumulation of these costs continues to contribute to our millions in losses.

My hospital has also seen a significant increase in non-paying Emergency Room patients. With overall patient volume increases, Emergency Room wait time has peaked at around 14 hours. In addition, the average length of stay for patients has increased from 6 to 7 days in just one year which further increased costs. Primary Care Clinics in our region received an additional \$100 million grant recently, which we support. You need to be aware that this assistance should greatly increase the number of clinic patients. You need to also realize that this will increase demand for inpatient and outpatient specialist care services in our 5 hospital, further adding to our financial losses from the uninsured.

Another shared concern is reimbursement associated with Graduate Medical Education. West Jefferson Medical Center became a teaching hospital after the hurricane in response to the needs of displaced medical students in the region. We have been supportive and understand the importance of our teaching program but, like others, are being penalized by the current GME reimbursement rules. Again, we lose money on every resident, but think it is vital to keep training medical personnel in our region as we depend on the vast majority remaining here after they complete their studies. We ask that the current reimbursement rules be reconsidered.

In line with strains felt nationwide concerning workforce issues, we also face a similar but more severe problem. Although we have felt these strains from physician shortages for many years, currently, physicians are leaving our area at a rapid rate. Our hospitals have to offer large recruitment and retention packages to keep doctors and staff

from leaving, and even still, keeping those highly trained workers has proven to be a very difficult task.

As mentioned earlier, West Jefferson is currently treating more than twice as many uninsured patients than before the hurricane, while only being reimbursed for 45 percent of our costs. Every time an uninsured patient is admitted into our hospital, we lose money as West Jefferson Medical Center is only partially reimbursed for the treatment of these patients. However, we have chosen to pay our doctors in full for their services. This causes a deep and direct cut to our bottom line, but our patients and community would suffer more without an adequate number of doctors. As a public hospital it is our charge to serve all those who come in our doors – but unlike many public district hospitals that you may be familiar with, we receive no dedicated revenue from our Parish government.

As Chief Executive Officer of West Jefferson Medical Center, I am faced with these and other financial issues everyday. While we continue to offer vital services to the community, I struggle with meeting the financial demands that pull my hospital in multiple directions. Roughly two years ago, Hurricane Katrina forced the closure of more than 1000 beds in New Orleans. We are now facing a Category Five financial storm which could result in the same. Even if ground were broken today on a new Charity hospital, our hospital would still have to wait three to five years for the completion of this hospital until some of these costs are alleviated.

Since the four months since I came before you in March, West Jefferson has lost an additional \$6 million. If I were allowed to make a presentation before you again in 4 months, unless changes are made, my story would be the same- more losses. Our hospitals can only serve the community so long while facing such mounting debt. I will leave it up to you to consider what actions will need to be taken if this continues.

Once again, I offer many thanks to you, Mr. Chairman and members of the subcommittee for your attentiveness and understanding.