

Testimony of Mark Peters, MD, CPE,
Chief Executive Officer, East Jefferson General Hospital

before the

Committee on Energy and Commerce
Subcommittee on Oversight and Investigations
U.S. House of Representatives

August 1, 2007

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

Good morning, Mr. Chairman and Committee Members. I am Mark Peters, M.D., president and chief executive officer of East Jefferson General Hospital in Metairie, Louisiana. I also serve as the chairman of the Metropolitan Hospital Council of New Orleans, as well as current chairman of the Coalition of Leaders for Louisiana Healthcare. This collaborative of healthcare stakeholders is interested in designing and implementing a modernized health care delivery and financing system for Louisiana. I also have been designated to present an overview of the specific problems facing five of the hospitals testifying here today. Thank you for the opportunity to testify before the Committee.

East Jefferson General Hospital is located on the east bank of Jefferson Parish, adjacent to Orleans Parish. We are a 450-bed tertiary care facility with more than 700 professionals on our medical staff. We employ more than 3,000 people, and are one of the largest employers in the parish. Our publicly owned, not-for-profit hospital offers the clinical expertise and cutting-edge technology that our community expects and deserves. We offer a range of outpatient services as well as numerous primary care services including cardiovascular, rehabilitative, oncology, and women and child services.

Hospitals Continue to Face Severe and Continuing Crisis

On behalf of the five hospitals represented here today from the greater New Orleans region, East Jefferson General Hospital, Ochsner Health System, Touro Infirmary, Tulane Medical Center, and West Jefferson Medical Center; we appreciate the opportunity to speak to you and your colleagues about the severe and continuing consequences of Hurricane Katrina on our five hospitals. These five hospitals represent the majority of the health care infrastructure in the immediate New Orleans area.

The region's healthcare infrastructure was decimated by Katrina and remains a very fragile shell. Due to the continued closure of Charity Hospital, as well as several other hospitals, these five hospitals provide 95% of hospital-based services in the metropolitan area. These five hospitals expect a combined loss of \$135 million in 2007. This loss will grow to \$405 million in losses by 2009.

Nearly two years after Katrina, we testify before you today to share with you one very simple message: **our five hospitals need your help**. None of these hospitals here today are financially secure. We are all coping with cash, cost, and staff crises on a daily basis. Our problems are similar even though we represent a broad spectrum of healthcare delivery in the community. East Jefferson General Hospital and West Jefferson Medical Center are community-owned, not-for-profit hospitals. Touro Infirmary is a faith-based, not-for-profit hospital. Tulane Hospital is a privately held, for-profit hospital. And Ochsner Health System is a private, not-for-profit academic multi-hospital system.

Despite our apparent differences, we stand together today to implore you to protect the patients of the New Orleans area from yet another crisis, one that is immediate, preventable, and that you can help us address.

Current State and Federal Funding is Insufficient to Sustain Fragile Infrastructure

Over the past two years, all five of our hospitals have testified before this committee and numerous other Louisiana and Congressional committees explaining the dire circumstances we face. We have all received some form of federal and state assistance. But, that assistance is simply not enough to sustain our hospitals and the region. As the primary economic engines of the area, the hospitals in this region are not only important because of the patients we serve but also the people we employ and the economy we support. Without continuing and sufficient federal assistance, these hospitals must all consider making very difficult decisions that are very likely to negatively impact the quality of care and services we provide as well as employment to many people in the region.

The combined financial statement of the five hospitals (attached to my testimony) shows a \$70 million decrease that begins with marginal revenues and ends in catastrophic losses when comparing the first five months of 2005 to the same time period of 2007. During this time period for these five hospitals,

- Salary and contract labor costs are up \$53 million (17%).
- Utility costs are up 32%.
- Insurance costs have increased 35%.
- Interest expense is up 20%.
- And, bad debt has increased by 30%.

It is noteworthy that financial analysts conclude that these cost pressures are not expected to flatten or diminish in the future.

Targeted Solutions Necessary to Sustain Hospitals

In the nearly two years since “The Storm,” our five hospitals have been working with Members of Congress; our State Department of Health and Hospitals, specifically, the Louisiana Redesign Collaborative; and the U.S. Department of Health and Human Services, as well as Chairman Donald Powell. There is no end to the kindness and sympathy that many of you have shared with us. In fact, I know that many Members of this committee visited our area, some in efforts to provide direct assistance, others to learn and study so that what happened to us never happens again on American soil. For these efforts, we are extremely grateful.

All five hospitals are active and supportive partners in a long-term redesign effort for our region’s health care; however, all who have analyzed our region’s needs have reached the same, logical conclusion -- redesign must first begin with immediate needs. While we have all worked with Congress to ask that you adjust current programs for our unique circumstances or to ask for specific, targeted funding, neither approach has begun to meet our needs. With that said, we five hospitals have identified five problem areas and potential solutions for the Committee’s or Congress’ overall consideration (below). I expect each of today’s witnesses to address in varying details each area of concern. We, of course, also gladly welcome your creative thoughts on how else we might begin to resolve these critical problems:

PROBLEMS/ISSUES

TARGETED SOLUTIONS FOR HOSPITALS

- Relief from Wage Costs Extend the wage index values for these specific areas
- Non-Labor Costs Increased funding to assist these hospitals
- Graduate Medical Education Suspend the 3 year rolling average for these hospitals
- Other Workforce Issues Nursing immigration relief, help recruiting, retaining nurses/physicians
- Uncompensated Care (UCC) Increase funds for multiple years to these hospitals

Wage Index/Uncompensated Care

For my part, I will focus on a few of these areas that are of the greatest concern to East Jefferson. The assistance from the Deficit Reduction Act (DRA) for uncompensated care and from the Centers for Medicare and Medicaid Services (CMS) to alleviate the wage index inadequacy to our hospitals was greatly appreciated. The hospital area wage index is used by CMS to adjust prospectively set Medicare payment rates for regional variation in labor costs. While this assistance was warmly welcomed, the funds were distributed equally across thirty-one parishes and sixty-five hospitals. Some of the hospitals that received funds are having very profitable years, while the hospitals in the New Orleans metropolitan area struggle to remain financially viable.

Our Medicare patients total approximately 60% of all EJGH hospital admissions. We lose money on each and every Medicare patient we care for. If the current Medicare wage index is not extended to reflect actual costs, East Jefferson will continue to lose \$ 2 to \$3 million a month. If the wage index were calculated using our current appropriate costs, my hospital would add \$1.5 million to its bottom-line every month or \$ 18 million annually. Our actual needs -- \$18 million annually for wage index -- are in very stark contrast to the one-time, \$5 million payment we received through the Deficit Reduction Act.

East Jefferson's payments from state and federal agencies for Katrina-related Uncompensated Care totaled \$22 million, including \$5.4 million from the Wage Index Grant payments. This amount also consists of UCC pools from HHS and CMS for care provided in the immediate aftermath of Katrina equaling \$2.3 million, and \$14 million from the Deficit Reduction Act. I feel this has been a reasonable response to the costs associated with Uncompensated Care of patients. Moving forward, my request is that the federal government and the state of Louisiana will make a multi-year commitment, instead of ad hoc payments, to help stabilize healthcare providers in the immediate New Orleans area.

Workforce/Labor Issues

Regarding our medical and nursing labor issues, a recent survey conducted by the Louisiana Health Works Commission reported 969 nursing and certified nurse aid vacancies in the region, over half of which were in hospitals. Although licensing data alone is not a good predictor of health care supply, the Louisiana Board of Nursing reports a 27% decrease in the number of nurses who renewed their license as of July 2006 in Region. Based on LHA and DHH hospital data and qualitative data reported from area hospitals, it is evident that there is insufficient operational acute hospital bed capacity in the region. Further, the supply of operational nursing homes beds in Region 1 is less than the national average.

Nurse Immigration

The Louisiana State Board of Nursing recently reported that 4,800 nurses changed the address on their license in the 10 months following Katrina and nearly half of them moved out of the state. Before Katrina, East Jefferson had a 2% nurse vacancy rate. Today, the vacancy rate is 12% - a loss of between 100 to 120 nurses. Nationally, hospitals report nurse vacancies at 116,000 (most recent data from Dec. 2006). HHS has projected that our nation will be 1 million nurses short by 2020. Even HHS has acknowledged that nursing programs would have to increase enrollment by 90% over the long-term in order to meet our nursing needs.

Many hospitals around the country are trying to bring in well-qualified American-trained nurses to help fill nurse vacancies. East Jefferson is not alone in this pursuit, but it is unique in its greater, immediate need. We sponsored 60 Filipino RNs in 2006 and need another 30 to fill current vacancies alone. Due to immigration issues and caps on visas, these nurses remain in the Philippines instead of in New Orleans where we desperately need their help.

EJGH has pleaded with Congress to lift immigration quotas and exempt the New Orleans area from taxes that would be imposed on employers who must rely on foreign nurses. However, this legislation has been stalled. With no fast-track immigration process for the 60 Filipino nurses hired by East Jefferson in 2006, we continue to use contract nurse labor, an additional \$300,000 per month cost. Filling all 90 positions with these nurses would save us \$450,000 per month, or \$5.4 million annually.

Consequences of Not Focusing on the Immediate Health Care Infrastructure

Every tragedy and disaster provides lessons to either avert the next one, or, if that is not possible, mitigate the consequences. This disaster is no exception. During the almost two years and, the past few weeks in particular, we have learned a number of valuable lessons and gained some insights on how best to work together toward solutions.

East Jefferson General Hospital, as well as the other four hospitals represented here today, maintained our commitment to serving the residents of our communities. I speak for the thousands of people who work at East Jefferson and live in our community, who are dealing with loss and tragedy, and through it all have remained steadfast in their mission of caring for the illnesses and injuries of their neighbors.

I am often asked by healthcare colleagues throughout the nation, "How can I help my hospital survive a disaster like this – a hurricane, an earthquake, a flood, a tornado?" Based on my

experience, I would advise them it's in their long-term economic interest to close their doors. Why would I offer such advice?

Looking at the situation from the perspective of our mission, it was in our community's best interest to stay open and provide the necessary services so desperately needed. However, looking at it from a financial perspective, my hospital would have been better off to close during Katrina.

Why? We would have been funded through business interruption insurance, slowly bring beds back into service based on the financial payments received. At least this way, we would not be in the tenuous financial situation our hospitals face today. This is a horrific dilemma we all faced -- choosing between providing necessary care for people in their time of greatest need and waiting patiently for help to arrive or serving as a financial steward for the long-term viability of the hospital for the entire community into the future. In this case, doing the right thing for our community meant that our hospital and the patients we serve may soon become another of Katrina's victims.

Mr. Chairman, I appreciate the opportunity to tell you about the situation in my community. I urge you to use the lessons learned from Katrina to not only protect our fragile health care infrastructure today, but to adopt policies that will improve disaster response in the future for all Americans.

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 Interruption, etc.)	\$ 15,565,095	\$ 21,077,574	35.4%
Interest Expense	\$ 14,087,738	\$ 16,925,303	20.1%
Depreciation and Amortization	\$ 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%

14.413516

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

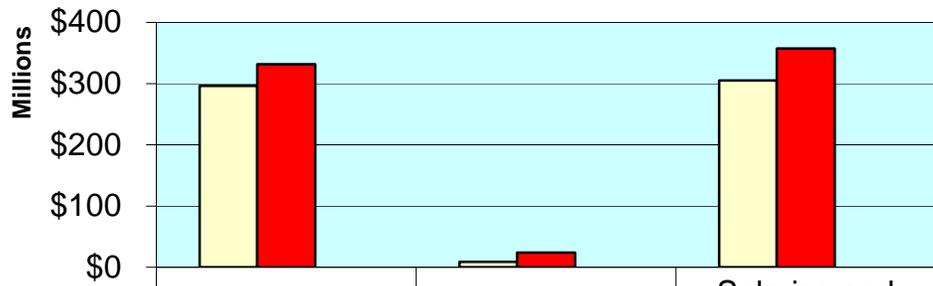
May 2007 period was included as net revenues.

Includes employed physician revenue and expenses.

Hospitals Included:

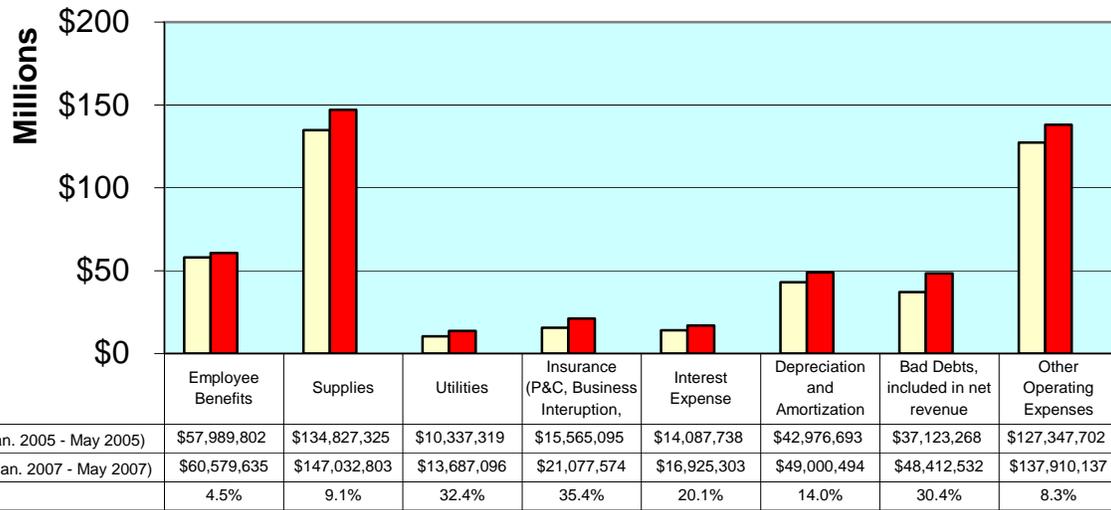
East Jefferson General Hospital
Ochsner Baptist Medical Center (included in 2007 only)
Ochsner Medical Center-Kenner
Ochsner Medical Center-West Bank
Ochsner Medical Center
Ochsner Clinic - South Shore
Touro Infirmary
Tulane University Hospital
West Jefferson Medical Center

Rising Costs 2005 vs. 2007

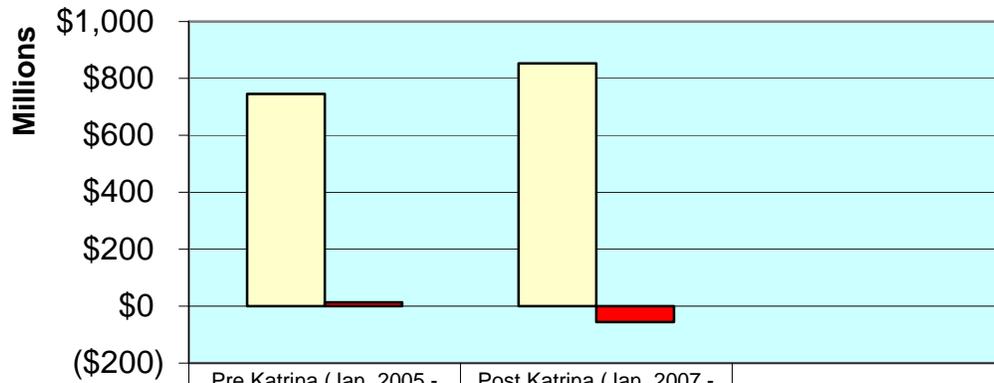


	Salaries	Contract Labor	Salaries and Contract Labor
Pre Katrina (Jan. 2005 - May 2005)	\$295,856,265	\$9,060,558	\$304,916,823
Post Katrina (Jan. 2007 - May 2007)	\$331,233,428	\$23,745,550	\$357,635,976
% Change	12.80%	162.60%	17.30%

Rising Non-Labor costs 2005 vs. 2007



Expenses vs. Net gain/Loss 2005 vs. 2007



	Pre Katrina (Jan. 2005 - May 2005)	Post Katrina (Jan. 2007 - May 2007)	% Change
■ Total Operating Expenses	\$745,171,764	\$852,261,550	12.70%
■ Net Gain/Loss from Operations	\$13,529,122	(\$56,352,947)	-516.50%