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Summary of Testimony for:

“Post-Katrina Health Care in the New Orleans Region: Progress and Continuing Concerns”

Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
United States House of Representatives

Bridging Short-Term Needs with Long-Term Redesign: The combination of continued federal support with new state commitments in health care is improving the devastated health care system in the Orleans region. The state’s approach to short-term recovery has always included an eye towards long-term redesign. Louisiana’s vision for health care in our state is that it will be patient-centered, quality-driven, accessible to all citizens, and sustainable. It is with this vision in mind that we look to best deploy the assistance provided us by the federal government and to invest new state funds. The following outlines new federal support and the state’s new commitments:

- Primary Care Access and Stabilization Grant
- Establishment of the Health Care Redesign Fund
- Child Coverage Expansion
- Increase in Physician Rates
- Creation of Medical Homes
- Creation of the Louisiana Health Care Quality Forum
- Increase in funding for behavioral health care
- Increase in Home and Community Based Waivers
- Expansion of Federally Qualified Health Centers
- Continued funding for UCC pool for private hospitals serving the uninsured
- Implementation of health information technology initiatives
- Allocated state funds for land acquisition, planning and development of a new university teaching and research hospital in New Orleans as a joint venture with the Veteran’s Administration

Continuing Health Care System Needs: The following is a list of the unresolved issues as well as new needs that have evolved as recovery continues.

- Support in ensuring that the new primary care grant funds are leveraged to create coordinated systems of care through health information technology and standards;
- Support of the LSU-VA joint venture in downtown New Orleans;
- Extension of the exemption from the 3 year rolling average to assist Louisiana’s graduate medical education programs;
- Continued infrastructure, budget and staffing gaps in behavioral health;
- Gaining flexibility in Disproportionate Sharing Funding [waiver of Section 1902(a)(13)(A)] to support systems of care;
- Support for upcoming Medicaid state plan amendments; and
- The impact of increase labor and insurance costs on community hospitals.

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August 1, 2007

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Introduction: Mr. Chairman and members of the Committee, thank you once again for the opportunity to testify on the current status of Louisiana's health care system. I am Dr. Fred Cerise, Secretary of the Louisiana Department of Health and Hospitals (DHH). Today, I will share with you our progress to date highlighting the continued federal assistance and the commitments that the state has made towards short term recovery and long term health systems redesign. I will close my testimony by describing the continuing and most pressing needs in the New Orleans region health care system.

In the 2 years since Hurricane Katrina hit New Orleans, much has been accomplished through local, state and federal commitments towards remediation of the devastation to the health care system. Still, there are remaining issues which only steady work and support, building on the momentum already in place, can resolve. Recent federal action is helping to ameliorate the situation. This includes

- The allocation of the remaining Deficit Reduction Act (DRA) funds. These funds include \$35 million for workforce recruitment and retention; \$26 million for direct funding for provider stabilization to acute hospitals, psychiatric hospitals, skilled nursing facilities, and community mental health clinics; and \$100 million for primary care.
- The award of \$2.5 million in HRSA grants to increase access to health care services in New Orleans and Franklin Louisiana. The funding provided for these community health centers will expand services to over 13,600 additional patients.

- The extension of Social Services Block Grant funding to September 2009, allowing Louisiana to continue the recovery of primary and behavioral health services.

Louisiana is greatly appreciative of the federal assistance. In particular, I thank this committee for its role in securing the above assistance and for its continued interest in the recovery of the Orleans health care system.

Bridging Short-Term Needs with Long-Term Redesign: The combination of continued federal support with new state commitments in health care is improving the devastated health care system in the New Orleans region. The state's approach to short-term recovery has always included an eye towards long-term redesign. One example of this is the use of SSBG to create much stronger community-based programs for behavioral health across the state consistent with the Governor's long term vision expressed in her Executive Order in 2005. These funds have allowed us to better serve patients and to relieve the strain on inpatient facilities and emergency departments. The new and innovative programs established by the SSBG will be sustained with state funds. In essence, the state is trying to meet short-term needs while laying the groundwork for systemic changes that will improve the quality of health care. The goal of this approach is to ensure that our vision for health care in Louisiana is realized.

Louisiana's vision for health care in our state is that it will be patient-centered, quality-driven, accessible to all citizens, and sustainable. Creation of this system involves workforce development, much greater coordination among providers, greater

accountability for outcomes, and more rational reimbursement rules. It is with this vision in mind that we look to best deploy the assistance provided us by the federal government and to invest new state funds. In my remarks I will discuss progress towards this vision as well as ongoing challenges.

Primary Care Stabilization and Access Grant (PCASG)

On May 23, 2007, Louisiana received a letter from HHS regarding the availability of \$100 million Deficit Reduction Act (DRA) funds directed towards needs highlighted at the previous Subcommittee on Oversight and Investigations hearing on March 13, 2007. Louisiana's grant submission was submitted in early July and the grant award notice was made on July 23, 2007.

This grant will be used towards the overall administration of a clinic stabilization initiative with the bulk of the funding (\$90.5 million) for direct allocation to eligible provider entities for the provision of primary care over a three year period. Four million of the \$100 million is to be provided directly to the City of New Orleans Health Department.

These grant funds will assist in the restoration and expansion of access to outpatient primary care, including medical and mental health services, substance abuse treatment, dental care and eye care. With the receipt of grant funds, it is expected that clinics will facilitate the delivery of health services by increasing their staffing, expanding existing service delivery sites, extending hours of operation and/or developing satellite service delivery sites. By enhancing access to primary health care services, it is anticipated that

there will be a decrease in the dependence of the uninsured on hospital emergency departments for such care.

The current grant guidance does not allow explicit standards of accountability for systems performance for clinics to be eligible, nor the ability to use these dollars for health information technology (HIT). This large investment in primary care should be leveraged to create an improved delivery system through accountability for systems' performances as envisioned by the Redesign Collaborative model. The state, with its local partner, hopes that as we work through the details with HHS, the opportunity to place explicit requirements on system standards for access (e.g. evening and weekend hours for primary care as alternatives to EDs), care coordination and quality, and HIT will be permitted.

LSU –VA Joint Venture

A recent letter from Governor Blanco to Secretary Nicholson urging the Department of Veterans Affairs' (VA) continued collaboration with the Louisiana State University (LSU) to rebuild the VA facility in downtown New Orleans was cosigned by Louisiana's legislative leadership; the presidents of LSU and Tulane Universities and the chancellors of their medical schools; the mayor of new Orleans; the director of the downtown development district; and individuals representing veterans organizations. A copy of this letter is attached.

This new state of the art facility, in close proximity to the LSU and Tulane health sciences centers, will ensure that the veterans of the region are provided with the highest quality of care in an academic teaching and research environment. The state and the VA have similar visions for health care – to provide patient-centered, coordinated care that utilizes health information technology and improves health outcomes in the most efficient manner possible. The existing partnerships among the VA, Tulane, and LSU will only be strengthened through this proposed new model.

In the more than 18 months since the memorandum of understanding (MOU) was signed between LSU and the VA, an LSU/VA Collaborative Opportunities Study Group and a Collaborative Opportunities Planning Group have set up the basic framework for construction and operation of the hospital complex outlined in the MOU. In addition to providing high quality care of veterans, this joint venture will save the American taxpayers an estimated \$400 million in operational costs while serving as the centerpiece of a vibrant academic teaching center and a biosciences research zone. The VA's return to the city is a critical piece of the city's recovery.

The commitment from the VA to rebuild in the region, the commitment from the state and city to provide the necessary land, the partnership with LSU and Tulane to ensure ready access to high quality care for veterans, and the cooperative business plan that demonstrates hundreds of millions in savings over the life of the project as a direct benefit of the shared downtown model, show that Louisiana is ready to move forward on this project. I recommend an expedient decision to rebuild on the land currently being

acquired in New Orleans so both the VA and LSU can focus more directly on returning vital services to the region.

The State's Commitment to Health Care Recovery and Systems Redesign

The recent session of the state legislature continued the dual focus of responding to immediate needs while making investments to the long term redesign of Louisiana's health care. Governor Blanco, along with the legislature, pushed forward a health care agenda that ranges from addressing hospitals' uncompensated care to expanding health insurance coverage to the state's most vulnerable citizens. This includes the following:

- Expanding behavioral health care funding for mental health and addictive disorders, including the continuation of funding for SSBG programs - \$116 million;
- Continuing funding for the uncompensated care pool and increased Medicaid rates for hospitals - \$120 million;
- Ensuring ongoing access to care for patients in the Medicaid program by increasing physician rates to 90% Medicare levels - \$64 million;
- State funding for land acquisition, planning, and building of a new university teaching and research hospital in New Orleans as part of a joint partnership with the Veterans Administration - \$300 million;
- Investments in HIT including rural HIT and care networks - \$53 million;
- Pilot medical home system - \$25 million;
- Expanding federally qualified health center infrastructure - \$41 million; and

- Expansion of health insurance to uninsured children through LACHIP - \$30.9 million.

The state is actively moving forward in implementing initiatives to ensure better access to higher quality services for our citizens. Two fundamental building blocks for a higher performing system in Louisiana include the Louisiana Health Care Quality Forum (LHCQF) and investments in HIT.

Louisiana Health Care Quality Forum

In the 2007 regular legislative session, the Louisiana Health Care Redesign Collaborative's recommendation to establish a *Louisiana Health Care Quality Forum* was realized through an appropriation of \$1.07 million and the passage of House and Senate concurrent resolutions. The resolutions direct DHH to work with private stakeholders to create a private non-profit organization whose purpose is to plan, promote and conduct quality improvement activities. The newly incorporated LHCQF is a private non-profit organization governed by a 12 member Board of Directors and is dedicated to improving the quality of health and health care throughout Louisiana.

The LHCQF will collect and analyze population health measures across providers and insurers, promote national HIT standards in Louisiana, promote EMR adoption, facilitate health information exchange, and actively engage health care organizations to implement quality initiatives, to achieve better outcomes. Louisiana now joins other progressive states across the nation whose commitment to quality will lead to better health outcomes.

The LHCQF was recently recognized by Secretary Leavitt as a Community Leader for Value-driven Health Care.

Health Information Technology

The majority of Louisiana's 1.2 million citizens who were displaced due to Hurricane Katrina lost access to their physicians as well as their medical records. Recognizing the enormous challenge this presented, shortly after the storm, the DHHS Office of the National Coordinator (ONC) committed \$3.7 million to Louisiana to develop an electronic health information exchange (HIE) to recover and recreate electronic medical records.

Through this contract between ONC and DHH, a prototype of a statewide HIE was developed. This prototype demonstrated the ability to collect critical medical information for Louisiana citizens into a database that could be accessed in the event of another disaster. In addition, it demonstrated the utility of having the ability to share electronic information in the day to day care of patients. Governor Blanco and the legislature subsequently committed \$53 million dollars to strengthen its aggressive health information technology agenda.

These funds will build upon the federal funding from the ONC as well as a \$350,000 contract from DHHS/ONC and the Agency for Healthcare Quality and Research for work on Louisiana's Health Information Security and Privacy Collaborative to further develop the Louisiana HIT agenda. This agenda is focused on creating an interoperable health

information system that allows for seamless sharing of electronic information to improve patient safety, improve health care outcomes and increase efficiency in the provision of health care. Specific plans include:

- Developing regional health information organizations (RHIO) in 3 major regions of the state, including the New Orleans area - \$3 million;
- Supporting the adoption of electronic medical records in physicians' offices - \$7 million; and
- Promoting the use of electronic medical records systems in rural hospitals - \$13 million.

In addition, the Louisiana Legislature appropriated \$30 million for the Louisiana State University System Electronic Medical Records adoption. These funds will support the overall state's commitment to health information technology.

The state is moving forward with the recovery of the New Orleans health care system as well as redesign. To ensure continued progress and long-term success, the short-term health care system needs must be addressed.

Continuing Health Care System Needs: While much has been accomplished, as we approach the second anniversary of Katrina, much remains to be done. Subsequent to my last testimony before your committee, I put forth a response to HHS outlining many of our needs as we work towards reestablishing an improved system of care. The response from HHS was the allocation of the remaining DRA funds. The following is a list of the unresolved issues as well as new needs that have evolved as recovery continues.

Graduate Medical Education

In response to the previous hearing, I convened a Graduate Medical Education stakeholder group to formalize the issues regarding the placement and funding of resident slots. The concerns brought forth at this meeting represent two issues:

- 1) Financial relief is needed and could be achieved through an extended exemption from the “three year rolling average” for the medical schools and hospitals which stepped forth to assist residency programs post Katrina. HHS advised the state that federal legislation would be required to address the three year rolling average. Estimates from the hospitals place the cost of this at approximately \$10 - \$15 million over the next 4 years.
- 2) The GME programs do not have the ability to readily reassign residents in disaster programs. Creating stewardship would allow for greater flexibility and coordination of placements and payments in the event of a disaster. HHS advised the state that it may address this issue locally though that would not impact future emergency situations in other states. The state is currently exploring options on how to address this issue.

Workforce Shortages

Through two DRA grant opportunities, fifty million has been allocated to Louisiana to restore health care workforce capacity. The administration of this funding is being handled by the departmentally created Greater New Orleans Health Service Corps (GNOHSC). As of July 2007, the GNOHSC has obligated \$11 million for a total of 127

awards. The awards have gone to providers of primary care (62), mental health care (42), dental care (16), pharmacists (5), specialty care (2), as well as medical faculty. The GNOHSC is also working on placement opportunities for the providers awarded funding to practice in impacted areas of need. In total, 370 applications from physicians, dentists, mid-level providers, behavioral health providers, and pharmacists have been submitted since the program began accepting applications on April 5, 2007.

The GNOHSC began taking applications for nurse recruitment and retention in July 2007 and is aggressively targeting the recruitment of 150 nurses and the retention of 150 nurses. The GNOHSC is also targeting the recruitment of 98 allied health professionals and the retention of 98 allied health professionals. Most of these professionals will work in either hospitals or nursing homes. These targeted activities will assist in mitigating a percentage of the understaffing in these critical facilities.

Despite this infusion of funds, the state still expects that workforce shortages will persist, particularly in the nursing and allied health sectors.

Behavioral Health

In Louisiana, the pre-hurricane mental health infrastructure was overcommitted and inadequate to meet the needs of all those with serious mental illness. To date, the inpatient and outpatient mental health system is still significantly compromised, requiring major structural repairs as well as strategies for the recruitment and retention of professional and para-professional mental health care providers.

The damage to the mental health infrastructure in the New Orleans area following hurricane Katrina left the region with a net loss of 342 acute inpatient psychiatric beds – from a pre-hurricane level of 578 beds to the current number of 236 beds. The state has been working with all potential providers to reestablish inpatient capacity and there are an additional 80 beds that are expected to come on line within the next 3 to 6 months. In prior appeals, we requested a waiver of the federal Medicaid IMD exclusion to allow a stand-alone inpatient psychiatric facility to receive federal match for Medicaid services. This would allow the state to more quickly expand beds for psychiatric services in the New Orleans region. Last week, DHH was directed by the CMS to submit a brief concept paper for their consideration regarding this.

Inpatient capacity is just one aspect of the difficulty Louisiana has faced in reconstituting behavioral health services. SSBG funds have allowed us to implement greatly needed community-based services. The state recognized the benefit of the programs that had been initiated through the grant and dedicated significant new dollars to continue these services beyond the current funding.

In behavioral health, however, the challenges go beyond funding. The New Orleans region has been plagued by the inability to hire sufficient workers to implement services. While DRA workforce funds are being used to recruit and retain mental health professionals, the immediate need for behavioral health services far exceeds the supply of willing providers. To this end, Louisiana is exploring opportunities to work with the

United States Public Health Service Commissioned Corps (USPHS) to address some of its critical mental health workforce shortage issues.

In April 2007 we sent a follow up request to HHS in response to our March testimony outlining our current need. In that request we proposed to expand Medicaid eligibility to individuals with serious mental illness and we proposed a five year redevelopment and mitigation/prevention plan for behavioral health services. We did not receive a favorable response to these requests.

Community Hospitals

It was made clear during the March 2007 hearing that the hospitals in the New Orleans region were struggling with higher than their usual levels of uncompensated care (UCC). In response to this issue, the state revised its existing \$120 million community hospital UCC pool to allow the New Orleans hospitals to receive 85 percent of total UCC costs in FY 06-07 (UCC is defined as gross uninsured costs as a percent of total costs). The state has also committed to an \$80 million private hospital UCC pool for fiscal years 2007-2008 and \$40 million to increase Medicaid rates for hospitals. This shift in UCC funds to private hospitals puts their UCC percentages well below national averages.

However, the state was recently notified by the hospitals that they have a significant need for additional funding that goes beyond traditional UCC and prior Medicare wage index adjustment requests. The hospitals are reporting that their labor and insurance costs are outpacing what Medicare reimburses and causing extreme strain on their financial

sustainability. The state has not conducted a detailed analysis of individual hospitals profits and losses. I request that an independent third party entity, such as the U.S. Government Accountability Office, conduct a detailed analysis of hospital financial reports to identify documented needs and the best way to ensure viability of these important community resources.

Sustaining Systems of Care

The state is trying to ensure that the federal funds, in particular the PCASG funds, coming into Louisiana for health care system recovery are used to both provide immediate access to care and to help create systemic improvements in access, quality and efficiency. Above all, the state wants to ensure that its actions are sustainable.

Flexibility in the usage of Disproportionate Hospital Share (DSH) funds is necessary if the state is to provide greater emphasis on non-hospital based services.

The state continues to seek approval for a budget neutral solution to help support a primary care expansion and sustain the services being put in place with one time recovery funds. In order to support the delivery of appropriate services, the state again requests that section 1902(a)(13)(A) be waived to permit the use of DSH for payments for non-hospital and physician services provided to the uninsured. This is particularly relevant to provision of specialty physician services. The PCASG will enhance access and is expected to create more demand for specialty services not covered by this grant. The state seeks approval to use DSH funds to reimburse for these essential physician services.

The state has been informed by CMS that flexibility in the use of DSH funds will only be considered in the scope of a larger waiver request that ultimately shifts DSH funds to the purchase of insurance for uninsured individuals. Although coverage is a desirable goal, the state has done extensive analysis of this proposal and has concluded that there are insufficient funds in the DSH program to adequately cover the target population. The Center for Budget Policy and Priorities concurs, stating that "... the experience of Louisiana shows that even in states with higher DSH allocations, the Administration's approach would leave many state residents uninsured, would provide inadequate coverage to many who do obtain insurance, and would leave safety-net health care providers without the necessary support to provide care to people who remain uninsured or are underinsured." The Urban Institute also concluded that \$2.3 billion would be needed to insure the existing low-income uninsured population in Louisiana, which is well below the roughly \$1 billion in the state's DSH program.

Using the funds in a more flexible manner is a budget neutral solution that would allow the state to support physician and non-hospital (e.g., clinics) services and support the ultimate redesign of the health care system. Currently, the state is criticized for supporting a centralized, institutional-based system of care. However, federal DSH rules dictate this. The rule, which is waivable, results in more patients relying on emergency rooms for nonemergent care. DSH funds require a state match and have a cap on federal funds. This change in rule interpretation would allow us to provide greater access to care outside of institutional settings with no additional federal funding that is not already available to the state today.

Medicaid State Plan Amendments

The state legislature passed the Health Care Reform Act of 2007, which requires the DHH to implement a medical home system of care that is rooted in quality and utilizes HIT. The state will pilot this system of care in the two hurricane affected regions of the state – New Orleans and Lake Charles. Amendments to the state’s current Medicaid plan will be necessary to implement the legislation. In accordance with this legislation, DHH intends to present the concept for necessary Medicaid state plan amendments (SPAs) to the appropriate state legislative committees in the next 30-60 days.

These amendments will include a request for a Medicaid expansion for parents in the hurricane impacted regions. It is likely that, given the structure of the recent HHS primary care grant award, the state may request an unconventional benchmark plan that actually excludes a primary care benefit in Medicaid for the next three years since this is now being funded with the DRA grant in the New Orleans area. We do not want to duplicate funding for any services. We will be looking for favorable action on these SPAs as they are critical to the state implementing the redesign recommendations of the Louisiana Health Care Redesign Collaborative.

Conclusion: I want to thank this committee for its attention to our needs and the federal response over the past few months. I hope you can appreciate the level of commitment to immediate relief and long term recovery that has been made with new investments of state dollars. Still, we have ongoing needs, some of which will require additional funds

and some that can be substantially addressed with flexibility of existing federal rules. I greatly appreciate the opportunity to testify today as well as your ongoing commitment to our region's recovery.