

Rebuilding Louisiana's Health Care System

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ALLIANCE FOR
HEALTH REFORM

Though the flood waters have long since receded, the debate continues over how to rebuild Louisiana's health infrastructure in the wake of Hurricane Katrina. Negotiations have stalled between the federal government and the state, stymied by profound differences over how reform should be financed and what role the publicly funded safety net providers should play in a new system. And basic questions remain: How much of Louisiana's old system should be rebuilt, and with what should it be replaced?

Where we are today

Two years after Katrina ravaged the Gulf, only two of the nine full-service hospitals that had previously served downtown New Orleans and the eastern section of the city remain open at their prior capacity—Ochsner Medical Center and Touro Infirmary. Two of the nine have shrunk; five remain closed.

Facilities fortunate enough to have survived the storm face severe staffing problems. Approximately half of New Orleans' pre-Katrina physicians no longer practice in the area. It is unclear how many will return; high demand for medical professionals in other areas of the country is making it difficult for Gulf area clinics and hospitals to lure back health care workers.

As a result of infrastructure damage and a displaced medical workforce, Louisianans continue to experience diminished access to care. Thirty-six percent of New Orleans residents report that their access to health care has been compromised. Nineteen percent feel their physical health is worse than before the storm. "In terms of primary care, we've had great difficulty just meeting

the needs of the population...we've got emergency rooms that are crowded, more so than before Katrina," said Dr. Fred Cerise of the Health and Hospitals Department.

Mental health is perhaps the most significant challenge facing the health care system in post-Katrina Louisiana. Inpatient and emergency crisis psychiatric facilities were destroyed and mental health professionals have left. At the same time, mental health clinics report higher rates of depression, post-traumatic stress disorder, substance abuse, acute psychosis, domestic violence and even suicide. At some facilities, an estimated 50 to 60 percent of adults and 20 percent of children have clinical depression.

LSU's Dr. Howard Osofsky noted that "45 percent of kids this past fall, returning to the devastated areas, could qualify for mental health services. Twelve percent...asked for counseling...Over 30 percent of parents [with younger children] requested counseling for themselves and their children."

In the months immediately after Katrina, the federal Substance Abuse and Mental Health Services Administration (SAMHSA) coordinated the temporary mobilization of 1,200 workers to provide mental health and substance abuse services in affected areas. However, SAMHSA stopped providing these services in June 2006. Today there is an urgent need for better community-based services and crisis care for the mentally ill.

Post-Katrina Relief

The federal government and the state of Louisiana responded with several temporary relief measures after the hurricane

Fast Facts

- ▲ Almost two years after Katrina, more than half of all hospitals that existed before the storm remain closed.
- ▲ Almost one of every four individuals from the New Orleans area report that post-Katrina stress affects their temper, alcohol consumption and marital relations.
- ▲ There are insufficient psychiatrists, social workers and psychiatric nurse practitioners to meet residents' behavioral health needs.
- ▲ Current options for rebuilding the health infrastructure in Louisiana range from rebuilding the old Charity system to scrapping it entirely in favor of a subsidized private sector approach.
- ▲ In May 2007 the State of Louisiana unveiled a \$1.2 billion plan to rebuild the flagship "Big Charity" hospital while using demonstration programs to experiment with insurance-based subsidies.

In May 2007 the Alliance for Health Reform, with support from the Robert Wood Johnson Foundation, held a Capitol Hill briefing to examine the current state of Louisiana's health care system and to lay out considerations for planning its restructuring. Panelists were Dr. Fred Cerise, Louisiana Department of Health and Hospitals; Diane Rowland, Kaiser Family Foundation and Dr. Howard Osofsky, Louisiana State University. Dr. John Lumpkin represented the Foundation. This issue brief draws from information presented at that briefing and from recent policy developments.

New Orleans Health Care By the Numbers

▲ Pre-Katrina MD population still practicing in the city	approx. 50%
▲ Children returning to devastated areas needing mental health services	45%
▲ Residents reporting compromised access to health care	36%
▲ Residents who feel their health is worse than before Katrina	19%
▲ Full-service hospitals serving downtown and eastern New Orleans before Katrina	9
▲ Hospitals still open at pre-Katrina capacity	2
▲ Years for Charity Hospital to be rebuilt	5 to 7
▲ Operational psychiatric crisis units	0

struck. Congress appropriated \$2 billion for the health care of affected individuals via the Deficit Reduction Act of 2005 (DRA), of which Louisiana has received \$918 million (and had spent just under \$778 million as of March 8, 2007).

DRA funding was used in several ways. The Centers for Medicare and Medicaid Services (CMS) issued waivers allowing flexibility in eligibility and enrollment requirements for evacuees enrolled in Medicare, Medicaid and the State Children's Health Insurance Program (CHIP). Thus states could enroll individuals without the usual documentation. Certain conditions of participation for providers were also waived. Also, for five months after Katrina, CMS allowed Medicaid eligibility for individuals displaced by the storm who were not previously enrolled. In addition, the DRA enabled participation in an uncompensated care pool in several states, including Louisiana, to pay providers serving the uninsured.

More money came from Social Services Block Grant (SSBG) supplemental funds. In FY 2006, HHS provided Louisiana \$221 million in SSBG supplemental funds for Katrina relief. The block grants support safety net primary care services and the implementation of electronic medical records.

Some providers have complained that these funds are being held up by third parties, such as risk pool administrators, and are not reaching providers. As of March 2007, Louisiana had spent only \$78 million of the \$221 million it received in SSBG funds. SSBG funding is available to be spent until September 30, 2007. To try to retain those funds, the state is requesting a one-year, no-cost extension of SSBG. In 2006 Congress authorized and appropriated approximately \$600 million for a replacement VA hospital in the New Orleans area, but construction has not yet begun.

The state of Louisiana also tried to facilitate access to care for Katrina victims who fled the state. The Louisiana Department of Health and Hospitals permitted these former residents to continue coverage under Louisiana's Medicaid system as long as they said they intended to return. Despite this, the state has seen a decline in the number of Medicaid enrollees. The state has had difficulty tracking down displaced enrollees, many of whom are in other states. New citizenship documentation requirements for Medicaid have also contributed to enrollment declines in Louisiana.

Considerations for Rebuilding the Infrastructure

Rectifying past problems. Prior to Katrina, Louisiana was one of the poorest states in the nation and had an already-troubled health care system. Twenty-three percent of Louisianans lived in poverty. One of five non-elderly residents of Louisiana lacked health insurance.

And in 2004, the state had the fourth highest emergency department use per capita among all states. The system was characterized by high costs, but ranked low on assessments of quality. It ranked first in Medicare spending per capita but last in one assessment of Medicare quality. Said Dr. John Lumpkin of the Robert Wood Johnson Foundation, "Even before the hurricanes hit, 12 percent of all children in Louisiana were uninsured. That's 140,000 kids [and] three quarters of a million adults."

Prior to Katrina, the state-operated "Charity" system run by Louisiana State University (LSU) was the largest provider of care for the uninsured. The system comprised 10 inpatient hospitals and more than 250 clinics. In New Orleans, Charity and University hospitals were the primary sources of care for low-income individuals. Charity Hospital has remained shuttered since Katrina and a replacement facility will likely take five to seven years to rebuild. (University Hospital was renovated, and reopened in November 2006.) Compounding these difficulties, Louisiana's health system had been criticized for inefficiently driving the uninsured toward hospital care rather than care in the community—a particular problem in the face of closed hospitals.

Population. Efforts to rebuild the health infrastructure in New Orleans are also complicated by the uncertain future of the city. As of March 2007, the city had approximately 62 percent of its pre-Katrina population level. How many resi-

dents will return and what type of services will they require? Today an influx of large numbers of the construction laborers has changed the racial and ethnic mix in Louisiana. In New Orleans it is estimated that 50 percent of these workers are Latino; many are undocumented and lack health insurance.

Financing. Louisiana relies heavily on Medicaid Disproportionate Share Hospital (DSH) funding to finance care for its uninsured. These payments are made to hospitals that serve a disproportionate number of patients who receive Medicaid or are low-income. In 2005 nearly 20 percent of Medicaid spending in the state was Medicaid DSH. Nationally the figure was only six percent.

Louisiana has \$1 billion in available DSH funds for fiscal year 2007. Because DSH funds can go only to hospitals (or hospital-based clinics), physicians or other health care professionals not affiliated with a DSH hospital cannot collect payment for services to the uninsured.

As a result, Louisiana's dependence on DSH dollars prior to Katrina encouraged costly use of hospital-based services such as ER visits and discouraged visits to less costly primary care clinics. And since DSH funds are primarily allocated to the LSU system and its affiliated clinics, the state faces challenges financing access for the uninsured to services available outside the public system.

The loss of volume at the closed Charity Hospital means that the state cannot generate sufficient hospitalizations to draw down federal DSH funds. With significant damage to Charity facilities, private hospitals, clinics and health systems that are ineligible for DSH funds are providing services to patients traditionally served by the Charity system.

Options for Rebuilding

Current options for rebuilding the health infrastructure in Louisiana range from rebuilding the old Charity system, to scrapping it entirely in favor of a subsidized private sector approach, with many variations in between.

The Louisiana Healthcare Redesign Collaborative was a 40-person work group charged by legislative resolution to propose recommendations for rebuilding the health care system. Working with CMS, the Collaborative created a conceptual framework for a redesigned health care system. The Collaborative proposed a primary care-based model that would provide a "medical home" to Louisianans, i.e., a provider or entity that would be responsible for coordinating all of an individual's care, including

specialty care, inpatient care and primary care.

The proposal called for increasing coverage through a combination of public program expansions and private insurance subsidies. The state of Louisiana asked for an additional \$200 million above current federal Medicaid funding to cover the costs of these expansions.

In response to the Redesign Collaborative's plan, the U.S. Department of Health and Human Services proposed a statewide coverage proposal that would help 319,000 uninsured residents purchase private insurance. The expansion would be financed by making Medicaid more efficient and redirecting DSH funds away from the public hospital system and toward the purchase of private insurance. Negotiations between the state and the federal government stalled at one point over disagreements on a range of issues including even the number of uninsured—the feds argue there are 160,000 fewer uninsured than the state estimates—and how to pay for their care.

Areas for Federal Policy Action

Relief funding. In May 2007 the federal government released the last \$195 million dollars of DRA grants to states affected by Hurricane Katrina. Of this, \$100 million is set aside for clinics that provide primary care to the poor and uninsured in greater New Orleans area. The money may be used for primary care clinics that serve the poor and uninsured, medical workforce recruitment and hospital and provider subsidies.

In addition, Congress in May approved \$8 billion for Katrina relief as part of the Iraq war funding bill, some portion of which will be allocated to rebuilding New Orleans' health infrastructure. How these funds will ultimately be used depends on the progress of federal and state negotiations; at press time, the state was developing a restructuring plan to be considered by its legislature that will ultimately need to be approved by HHS.

Coverage. One option federal policy makers may consider is expanding Medicaid to some individuals who are currently ineligible. The Collaborative plan called for statewide SCHIP and Medicaid expansions of coverage for children and adults not currently covered. Diane Rowland of the Kaiser Family Foundations said at the May briefing, "I think it is important to note that in Louisiana [Medicaid and SCHIP] primarily covered children and pregnant women...but in comparison left other adults, especially working parents and childless adults, uncovered."

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The Alliance is a nonpartisan, not-for-profit group committed to the education of journalists, elected officials and other shapers of public opinion, helping them understand the roots of the nation's health care problems and the trade-offs posed by various proposals for change.

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Workforce. Medical workforce labor costs have escalated as demand has outstripped the supply of qualified health professionals in the region. The state is seeking an adjustment to the current Medicare payment method for providers to account for increased labor costs. CMS has indicated a willingness to work with the state to address this matter. Of the recently released DRA funds, \$35 million is for recruiting medical personnel and \$26 million is for helping hospitals and mental health centers offset the cost of rising wages.

Where do we go from here?

Almost two years after the hurricane, there is much that needs to be accomplished in order to improve the health care delivery system for the people of Louisiana. The competing interests of stakeholders must be reconciled. Physicians and community-based providers want to redirect DSH care and funding away from hospitals so they can receive payment directly. Private hospitals want to increase their market share by tapping into the old Charity system's patient base and financing. LSU is looking to reconstitute at least part of the Charity system with a rebuilt Charity hospital in New Orleans, new community based clinics and a potential alliance with a new VA facility.

At the same time, many residents—many

of whom were served outside the Charity system—support rebuilding Charity Hospital and a new system of Charity clinics, which critics say would only build on a system that was inadequate.

And while no comprehensive plan yet exists to determine what roles the old Charity system and the private sector will play in a rebuilt health care system. The shape of the region's health care system is already shifting. Several private hospitals and hospital systems seem to be banking on claiming a larger market share in whatever system evolves; West Jefferson Medical Center, Oschner Medical Center and St. Tammany Parish hospitals are all planning \$50 to \$60 million expansions.

At the same time, the state in May unveiled a \$1.2 billion plan to rebuild the flagship "Big Charity" hospital while using demonstration programs to experiment with insurance-based subsidies.

If a comprehensive plan for restructuring Louisiana's health care system is not soon developed, long-term planning efforts may ultimately be overtaken by events on the ground.

For the sources used in writing this issue brief, please email to info@allhealth.org

Expert Sources

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Websites

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- ▲ **Robert Wood Johnson Foundation** www.rwjf.org

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