

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
200 Independence Avenue, SW  
Washington, DC 20201



**Office of the Administrator**

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Frederick P. Cerise, M.D., M.P.H., Secretary  
State of Louisiana  
Dept of Health & Hospitals  
628 North 4<sup>th</sup> Street  
P.O. Box 91030  
Baton Rouge, LA 70821-9030

**MAY 23 2007**

Dear Dr. Cerise:

I have been asked by Secretary Leavitt of the Department of Health and Human Services to announce the availability of an additional \$60 million in grant funds among three States impacted by Hurricane Katrina, under the authority of section 6201 of the Deficit Reduction Act (DRA), and to provide you with information on how to apply for such funds. In particular, Section 6201(a)(4) of the DRA provides authority to the Secretary, Department of Health and Human Services (DHHS), to make payments to States to restore access to health care in communities impacted by Hurricane Katrina. The Secretary has determined that this additional funding should be available to States for payment to general acute care hospitals, inpatient psychiatric facilities (IPFs), community mental health centers (CMHCs) and skilled nursing facilities (SNFs) in impacted communities that may face financial pressures because of changing wage rates that are not yet reflected in Medicare payment methodologies.

This would be a supplement to the previous grant issued under the title of "Deficit Reduction Act – Hurricane Katrina Healthcare Related Provider Stabilization Grant" and contains two modifications based on knowledge gained from administering that grant and State staff involved with its implementation effort.

For this purpose, the Secretary is defining impacted communities to refer to counties/parishes located in the States of Alabama, Louisiana, and Mississippi that the Federal Emergency Management Agency (FEMA) has designated to receive both individual and public assistance for Hurricane Katrina relief, as authorized by Section 408 of the Robert T. Stafford Act. (See Enclosure A for a list of these designated communities.)

Since Hurricane Katrina hit the United States in 2005, hospitals and skilled nursing facilities in these impacted communities may have had difficulty hiring and retaining staff due to changes in wage rates among employers competing for health care workers. As described below, payments under Medicare prospective payment systems (PPS) do not currently reflect those changes in wage rates. Payments to be made by States with grant funds to general acute care hospitals, IPFs, CMHCs, and SNFs would relieve some of the financial pressures these facilities face in hiring and retaining staff until such time as Medicare PPS methodologies recognize post-storm wage rates being paid.

Medicare uses the inpatient PPS (IPPS) to pay for inpatient services provided in general acute care hospitals, IPF PPS for inpatient psychiatric facilities; the outpatient PPS (OPPS) for outpatient mental health services provided in CMHCs, and the SNF PPS, to pay for extended care services provided in SNFs. Under all four of these Medicare prospective payment systems, Medicare establishes a national payment rate that is adjusted for area differences in wages using a wage index. The wage index provides a measure of local area wages relative to the national average (i.e., prevailing wage rates in an area with a wage index of 0.95 are 5 percent less than the national average while a wage index of 1.10 means area wages are 10 percent greater than the National average). The wage index is updated annually and is based on historical data reported by general acute care and psychiatric hospitals subject to the IPPS (the IPPS wage index data are also used for the IPF PPS, SNF PPS and the OPPS for CMHCs).

Medicare uses a uniform national process to update the IPPS wage index. The law requires that changes to the wage index must be budget neutral. Therefore, under the IPPS for instance, any increase to the wage index for the storm affected hospitals would have to be offset by decreases in payments to other hospitals. For a variety of reasons, wage data reported by a hospital does not become part of the IPPS wage index until the fourth year succeeding the fiscal cost reporting year (i.e., fiscal year (FY) 2006 cost report data will not be used in the IPPS wage index until FY 2010). The statutory budget neutrality requirement and the use of a national uniform process to update the wage index preclude Medicare's IPPS wage index from being able to recognize the post-storm wage costs currently being incurred by hospitals and SNFs in Hurricane Katrina affected areas. Hurricane Katrina occurred late in FY 2005. Therefore, the IPPS wage index will not reflect the post-storm wages being paid in the Hurricane Katrina affected counties until FY 2010.

For these reasons, the Secretary is invoking his authority to restore health care in impacted communities affected by Hurricane Katrina by offering this unique grant funding opportunity to enable States to make payments to assist not only general acute care hospitals and SNFs, but also IPFs and CMHCs that participate in Medicare, and are paid under a PPS, with the financial pressures that may result from increased wage rates in those impacted communities, until the Medicare PPS methodologies (the IPPS wage index data) can reflect post-storm wage rates paid in these areas. No State contribution to the payments to providers is required for this grant.

The Secretary has authorized an additional \$60 million in grant funds available to all three States. Based on the share of each eligible IPPS general acute care hospital, IPF, CMHC and SNF of total Medicare inpatient payments in the FEMA designated counties in calendar year 2006 (the latest and most complete year of Medicare billing data available to us), this funding is being allocated for each State in the following proportions: 44 percent to Louisiana (\$26,223,040), 39 percent to Mississippi (\$23,243,995) and 17 percent to Alabama (\$10,532,965).

The grant funds must be used by the State to make payments to all Medicare participating general, acute care hospitals, IPFs, CMHCs, and SNFs that are currently paid under a Medicare PPS in the impacted communities. The payment methodology the State uses to make these payments must be based on each provider's share of total Medicare payments during a specified time period. Grant funds may not be distributed to general acute care hospitals, IPFs, CMHCs and SNFs that are not in operation. States' payment methodologies should specify the relevant time periods, and any other factors that will continue to be considered, if any, in distributing available grant funds according to the principles specified above, and are subject to approval by CMS. Upon request, CMS will make available to each State the list of Medicare-participating PPS general acute care hospitals, IPFs, CMHCs and SNFs in the State and the 2006 Medicare payments, which the Secretary used in allocating the available funds to each State.

States have the same flexibility as before in determining the methodology to determine the timing and amount of provider payments, but the methodology must continue to reflect each provider's share of total Medicare payments during a specific time period. One methodology that would be acceptable would be to use the 2006 data that were the basis for the Secretary's allocation among States to distribute some or all of the pool of available funding among qualified providers. A state could also use the same approved weighting factors it was allowed to use as part of its original grant award as long as the presence of CMHCs and IPFs is accounted for within the State's method. (For instance, if a given provider's Medicare payments for the four Medicare PPS provider services are 2 percent of total Medicare payments for these services among all eligible providers in a State for this time period, the payment to the provider would equal 2 percent of available grant funds.) States would need to make adjustments, however, to take into account general acute care hospitals, IPFs, CMHCs and SNFs that are no longer operating, or may wish to make adjustments to recognize new providers that may have opened since the occurrence of Hurricane Katrina. Further, States may wish to reserve up to 20 percent of the grant funds for payments to potential new providers that start business operations during the project period. And all payments under this grant must be made by the end of federal fiscal year 2009. States may suggest alternative mechanisms for distributing available grant funds according to the principles specified above with the approval of CMS. (See Enclosure B for specific requirements for the grant.)

Payments to general acute care hospitals, IPFs, CMHCs and SNFs under this program are not to be considered payments for Medicare, Medicaid or other specific services, and are not available as the non-Federal share of expenditures or for supplemental disproportionate share hospital payments. Payments cannot be made conditional on the provision of any particular items or services by the facilities. Grant applications requesting funds to be used for the non-Federal share of Medicaid or other federal grant expenditures or for supplemental Medicaid disproportionate share hospital payments will not be considered. (See Enclosure C for instructions on how to submit a State grant application.)

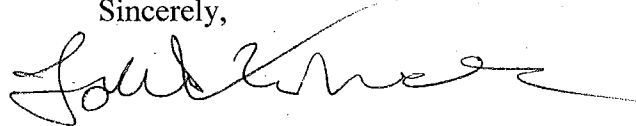
A State wishing to be considered for a grant must submit an application to the Centers for Medicare & Medicaid Services (CMS) by June 5, 2007. Notification of grant awards will be made by June 18, 2007. Grants will become effective June 18, 2007.

Grant determinations are not subject to appeal. Grant reporting will be made in accordance with instructions provided by CMS, and funding will be available on an advance basis through an account for each State established under the Department's Payment Management System (PMS), and through which each State will be authorized to "draw down" funds. Furthermore, payments under this grant will be conditioned on the submission of an annual report by the State. Details will be outlined in the terms and conditions.

The required annual report must include information on the following: a description of how all of the Provider Stabilization grant funds awarded to the State are being used to restore access to healthcare and a description of the specific impacted communities and the specific impacted providers receiving grant funding. Financial information will also be required including the distribution of grant funds by the four provider types.

We strongly encourage you to consider this supplemental grant opportunity to develop proposals to enhance wages being paid for health care workers in the Katrina-affected counties in your State. The CMS contact for administrative assistance for this grant is Louise Amburgey @ 410-786-3061 ([louise.amburgey@cms.hhs.gov](mailto:louise.amburgey@cms.hhs.gov)). The CMS contact for programmatic technical assistance for this grant is Ms. Wendy Taparanskas. She may be reached at 410-786-5245 ([wendy.taparanskas@cms.hhs.gov](mailto:wendy.taparanskas@cms.hhs.gov)). Please do not hesitate to contact us if you require additional assistance.

Sincerely,



Leslie V. Norwalk, Esq.  
Acting Administrator

Enclosures

**DEFICIT REDUCTION ACT HURRICANE KATRINA HEALTHCARE  
RELATED PROVIDER STABILIZATION GRANT-SUPPLEMENT**

**LIST OF KATRINA IMPACTED COUNTIES/PARISHES  
DESIGNATED BY FEMA TO RECEIVE BOTH  
INDIVIDUAL AND PUBLIC ASSISTANCE<sup>1</sup>**

**Alabama**

*FEMA Eligibility for Individual and Public Assistance:* Pickens, Tuscaloosa, Greene, Hale, Sumter, Marengo, Choctaw, Clarke, Washington, Mobile, Baldwin. (11 counties)

**Louisiana**

*FEMA Eligibility for Individual and Public Assistance:* St. Helena, Tangipahoa, Washington, St. Tammany, Livingston, East Baton Rouge, West Baton Rouge, Iberville, St. Martin, Iberia, St. Mary, Terrebonne, Assumption, Ascension, St. John the Baptist, St. James, St. Charles, Lafourche, Jefferson, St. Bernard, Plaquemines, Orleans, Calcasieu, Cameron, Jefferson Davis, Acadia, Lafayette, Vermilion, Pointe Coupee, West Feliciana, East Feliciana. (31 parishes)

**Mississippi**

*FEMA Eligibility for Individual and Public Assistance:* Humphreys, Holmes, Attala, Choctaw, Oktibbeha, Lowndes, Winston, Noxubee, Yazoo, Madison, Leake, Neshoba, Kemper, Warren, Hinds, Rankin, Scott, Newton, Lauderdale, Claiborne, Copiah, Simpson, Smith, Jasper, Clarke, Jefferson, Adams, Franklin, Lincoln, Lawrence, Jefferson Davis, Covington, Jones, Wayne, Wilkinson, Amite, Pike, Walthall, Marion, Lamar, Forrest, Perry, Greene, Pearl River, Stone, George, Hancock, Harrison, Jackson. (49 counties)

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<sup>1</sup> **FEMA eligibility criteria for Individual and Public Assistance**

The Katrina affected parishes and counties above were determined by the Federal Emergency Management Agency (FEMA) to meet the eligibility criteria for *Individual Assistance* (assistance to individuals and households) and *Public Assistance* (assistance to State and local governments and certain private nonprofit organizations for the repair or replacement of disaster-damaged facilities). These actions were made, as authorized by Section 408 of the Robert T. Stafford Act.

Enclosure B

**DEFICIT REDUCTION ACT HURRICANE KATRINA HEALTHCARE RELATED  
PROVIDER STABILIZATION GRANT (SUPPLEMENT) REQUIREMENTS**

This supplemental award to the grant program, as it was done before, is to fund State payments to general acute care hospitals and skilled nursing facilities (SNFs) in impacted communities that may face financial pressures because of changing wage rates that are not yet reflected in Medicare payment methodologies. Additionally, these funds may now be used to fund inpatient psychiatric facilities (IPFs) and community mental health centers (CMHCs), as well.

Additional funding under this grant program must be used by the State to make payments to all Medicare participating general acute care hospitals, IPFs, CMHCs and SNFs that are currently paid under a Medicare PPS in the impacted communities. Impacted communities are those counties/parishes located in the States of Alabama, Louisiana, and Mississippi that the Federal Emergency Management Agency (FEMA) has designated to receive Individual and Public Assistance as authorized by Section 408 of the Robert T. Stafford Act. The payment methodology the State uses to make these payments must be based on each provider's share of total Medicare payments during a specified time period. Upon request, CMS will make available to each State the list of Medicare-participating PPS general acute care hospitals, IPFs, CMHCs and SNFs in the State, and the 2006 Medicare payments, that the Secretary used in allocating the available funds to each State.

As stated before, States may use this information to determine each provider's share of available grant funds. Grant funds may not be distributed to general acute care hospitals, IPFs, CMHCs and SNFs that are not in operation. States' payment methodologies should specify the relevant time periods, and any other factors that will be considered in distributing available grant funds, according to the principles specified above, and are subject to approval by CMS. If States use the information provided by CMS to determine each provider's share of available grant funds, the States would need to make adjustments to take into account general acute care hospitals, IPFs, CMHCs and SNFs that are no longer operating. All payments must be made under this grant program by the end of federal fiscal year 2009.

It is possible that there are general acute care hospitals, IPFs, CMHCs and SNFs that may have opened since the occurrence of Hurricane Katrina. For this reason, CMS is still suggesting that up to 20 percent of the grant funds be reserved for payments to potential new providers that start business operations during the project period. States may suggest alternative mechanisms for distributing available grant funds with the approval of CMS. Any alternative mechanism for distributing the available grant funds must recognize that only Medicare providers that are currently in operation are eligible for funds and the funds are intended to help relieve the financial pressures facilities face in hiring and retaining health care workers. If a State decides to formulate independent calculations or other ways to distribute this funding, the methodology, calculations, and proposed distribution of funding must be submitted with the grant application for approval by CMS.

Payments to general acute care hospitals, IPFs, CMHCs and SNFs under this program are not to be considered payments for Medicare, Medicaid or other specific services, and are not available as the non-Federal share of expenditures or for supplemental disproportionate share hospital payments. Payments cannot be made conditional on the provision of any particular items or services by the facilities. Grant applications requesting funds to be used for the non-Federal share of Medicaid or other federal grant expenditures or for supplemental Medicaid disproportionate share hospital payments will not be considered.

The grant application will be evaluated on its anticipated effectiveness in addressing the grant purposes and the proposed grant program should be designed to maximize the intended distributions and minimize administrative costs.

**DEFICIT REDUCTION ACT HURRICANE KATRINA HEALTHCARE RELATED  
PROVIDER STABILIZATION GRANT**

**APPLICATION INSTRUCTIONS FOR FY 2007, FY 2008, FY 2009**

**Schedule of Processing**

Announcement Date:	May 23, 2007
CMS Teleconference:	TBD <sup>1</sup>
Due Date of Application:	June 5, 2007
Award Announcements:	June 18, 2007
Effective Date:	June 18, 2007

**Supplemental Grant Application Requirements/Content and Submission**

**Requirements:**

1. Proposal requests must be from the State Medicaid agency;
2. Proposals must have approval of the State Medicaid Director;
3. Proposals must be for federal funding that will be used by identified States to restore access to health care in communities impacted by Hurricane Katrina by assisting general acute care hospitals, inpatient psychiatric facilities (IPFs), community mental health centers (CMHCs) and skilled nursing facilities (SNFs) with financial pressures that may result from changing wage rates under the Medicare program.

Eligible health care communities are only those Hurricane Katrina affected counties/parishes in Alabama, Louisiana, and Mississippi designated by the Federal Emergency Management Agency to receive both individual and public assistance as authorized by Section 408 of the Robert T. Stafford Act. (See Enclosure A for a list of these designated communities.)

4. Grant funds must only be used to make payments to assist general acute care hospitals, IPFs, CMHCs and SNFs that are paid under Medicare's prospective payment system (PPS) until such time as Medicare's hospital inpatient prospective payment system (IPPS) recognizes post-storm wage rates being paid in Hurricane Katrina affected counties, and in administering such payments. Grant funds may only be for payments to general acute care hospitals, IPFs, CMHCs and SNFs participating in the Medicare program at the time the grant funds are disbursed; that means that grant funds may not be distributed to general acute care hospitals, IPFs, CMHCs and SNFs that are not in operation.
5. All payments to general acute care hospitals, IPFs, CMHCs and SNFs under this grant program must be made by the end of federal fiscal year 2009.

