



Community hospitals affiliated with KAISER PERMANENTE.

Representative Sylvia Luke, Chair
Representative Ty Cullen, Vice Chair
Members of the House Committee on Finance

RE: FIN Info Briefing
Hearing date: Thursday, January 6, 2022 @ 1:30 p.m.

Aloha Chair Luke, Vice Chair Cullen and members of the committee,

Thank you for allowing me the opportunity to submit testimony regarding our budget appropriation requests for the 2023 fiscal year. As you are aware, Act 103, SLH 2015, codified as HRS Chapter 323F, Part IV ("Act 103") provides for operating and capital subsidies for Maui Health System ("MHS") in connection with its operation of the hospitals. Under HRS §323F-58 and the terms of the Transfer Agreement signed January 14, 2016 between MHS and Hawai'i Health Systems Corporation, the State of Hawai'i, and the Maui Region of Hawai'i Health Systems Corporation (the "Transfer Agreement"), MHS may request operating support payments annually based upon the amounts needed to cover any operating losses of the Hospitals plus a 2% margin, but the amount requested in any year may not exceed the amount appropriated to subsidize the operating costs of the Maui Regional System for the 2014 fiscal year, which was \$38 million. Under HRS §323F-59 MHS may also request support payments for its capital expenditures during the first ten (10) years of MHS' operations of the hospitals in an amount not less than \$6 million.

The last subsidy the State provided to HHSC-Maui Region for the hospitals before the transition was \$36.8 million. For the current fiscal year of 2022, the appropriation for MHS' operating subsidy is \$11,585,000 in Coronavirus State and Local Fiscal Recovery Funds ("CSFRF"). While this was below our \$19 million request, MHS fully understood the fiscal challenges the State faced in 2020 and 2021 due to the COVID-19 pandemic and appreciates the financial assistance that was appropriated.

Unfortunately, MHS has been advised of risk in accepting these federal funds. On learning that the operating subsidy would be in the form of CSFRF federal funds rather than state general funds as has typically been the case, we sought the opinion of outside legal counsel who specializes in federal disaster recovery law. MHS learned that it would be a significant challenge to meet the requirements for a subgrantee under the CSFRF given the nature of MHS' role as a health care provider and its typical reimbursement structure. A CSFRF subgrantee must be able to clearly identify and itemize services and expenses that may be attributable to CSFRF funds vs. services and expenses attributable to other types of funds. Our hospitals are reimbursed for a wide spectrum of services from a variety of payors on a daily basis, and this makes it near to impossible to make this distinction. Similarly, CSFRF funds must be used for COVID-19 related services and expenses only. Again, the complexity of the hospitals' services and reimbursement structure creates a major logistical challenge in identifying COVID-19 related expenses that *have not been previously reimbursed*. The risk that MHS will be unable to satisfy the federal terms and conditions associated with the CSFRF funds carries an attendant risk of possible recovery by the U.S. Treasury, and therefore a huge liability for the system.

Fortunately, HHSC has graciously agreed to be the subgrantee of the 2022 CSFRF funds, and to provide these funds to MHS under terms appropriate to a contractor of the State. Such transfer is supported by the terms of the Transfer Agreement, and permissible under the CSFRF guidance and regulations.

For the 2023 fiscal year, we are requesting an appropriation of \$11,000,000 in general funds. We are requesting that the fiscal year 2023 subsidy come from general funds to (i) avoid the legal risks and administrative challenges noted above, and (ii) provide MHS flexibility to use the subsidy for general operations (as opposed to only COVID needs) as was originally intended in both Act 103 and the Transfer Agreement.

MHS is truly a community hospital and the only acute care hospital serving all of Maui, Molokai and Lanai. Prior to COVID, in the three and a half years since the transition and with the support of the legislature, MHS was able to reduce its need for subsidies by nearly half when compared to the last subsidy granted to the Maui Region. This significant savings occurred while MHS was able to significantly increase quality scores, manage expenses, increase revenues, and recruit much needed physicians and nurses.

We very much want to continue on that trajectory, and the proposed \$11,000,000 request is the minimum of what is anticipated that our system will need to continue to do so while safely and effectively operating for our residents and visitors in this COVID environment. MHS continues to face the following operational and fiscal challenges which have been exacerbated by COVID:

- As Maui's only hospital, we need to maintain adequate staffing so that the hospital stays operational and ready to serve its community's needs. Significant pay and benefit increases will be challenging to curtail as there is an increased need to successfully recruit and retain staff. Contingent or temporary staffing has become difficult to source and costs have significantly increased.
- A wage reopener with the largest bargaining unit will take place in the fall of 2022. In addition, the other two bargaining units will be entering into union negotiations in 2022.
- Ongoing PPE supplies will continue to be required due to ongoing infection control and protection needs (N95, surgical masks, isolation gowns, gloves, etc.).
- Additional cost related to COVID tests for employees, patients, contractors, etc. will continue to be incurred.

We thank you for your service and hard work on behalf of the State of Hawaii and hope that you can support our subsidy request and the funding source from which it may be derived.

Mahalo for your consideration,

Michael Rembis
Chief Executive Officer