

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

**RE: FIN Info Briefing
Hearing date: Thursday, January 14, 2021 @ 9:00 a.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 this 2022-2023 biennium. 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 Systems (“MHS”) in connection of its operation of the hospitals. Under HRS §323F-58 (and the terms of the Transfer Agreement) MHS may request support payments for its operating costs not to exceed the amount appropriated for the operating costs of the Maui Regional System for the 2014 fiscal year, which was \$38 million, including a 2% margin. 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 2021, we have been appropriated \$19.0 million. We are requesting \$19 million for the 2022 fiscal year and \$16 million for the 2023 fiscal year.

In the three and a half years since the transition, and with the support of the legislature, MHS has been able to reduce its need for subsidies by nearly half when compared to the last subsidy granted to the Maui Region. These drastic savings have occurred while MHS has been able to significantly increase quality scores, manage expenses, increase revenues, and recruit much needed physicians. MHS also continues its efforts to retain talented local healthcare professionals over the last few years, including the hiring of entire graduating classes of nurses from Maui Community College.

Although the Administration’s budget included a budget appropriation of \$11.5 million for fiscal year 2022 and \$8.9 million for fiscal year 2023 (which is a fairly drastic reduction), we feel the \$19 million/\$16 million request for this biennium is justified due to the tremendous and totally unprecedented challenges that MHS has faced to the COVID pandemic, including the following:

- MHS saw a decrease in Maui resident utilization of 13% and decrease in visitor utilization of 52% at MMMC.
- Like the hotel industry, our net revenue is supplemented by the visitors due to the favorable reimbursement from their insurance plans and travel insurance.
- The payer mix has changed from Commercial to QUEST (Medicaid) by at least 5%, therefore net patient revenue has been (and will continue to be) further reduced.

- Union negotiations with the largest bargaining unit is pending – hopeful we will be reaching agreement by January 31st of this year.
- While net patient revenues have declined, we were unable to decrease staffing to reduce expenses. As Maui's only hospital, we need to maintain adequate staffing so that the hospital stays operational and ready to serve during this COVID pandemic. In addition, we needed to retain adequate staffing levels to serve the community for emergent and elective needs as well as for continued COVID surges.
- Additional PPE will be required due to ongoing infection control and protection needs (N95, surgical masks, isolation gowns, gloves, etc.).
- Additional specialized equipment including ventilators, additional beds, HEPA filters, UV sterilization systems, storage containers, computer workstations, CAPR/PAPR units will be needed due to COVID.
- Additional cost related to COVID tests for employees, patients, contractors, etc. will be incurred.

In closing, MHS would like to emphasize that the \$19 million/\$16 million request is the bare minimum of what is anticipated that will be needed to continue to safely and effectively operate for our residents and visitors in this COVID environment. It is also that amounts that are needed to keep MHS on pace of eliminating subsidy requests within 10 years. Please also note, however, that MHS is very sensitive to the enormous budget shortfalls that the State is facing, and therefore, only asks for the lowest baseline notwithstanding that additional losses may be incurred.

We thank you for your service and hard work on behalf of the State of Hawaii and hope that you can support the full subsidy requests for this biennium.

Mahalo for your consideration,

Michael Rembis
Chief Executive Officer