Kona Community Hospital Legislative Presentation

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August 14, 2008

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Agenda

- Current Situation and Cash Flow
- Budgets for 2009, 2010, 2011
- State Support for 2009, 2010, 2011
- The Future: Our Strategic Plan

Challenges as a State Entity

- Declining insurance reimbursement rates.
- Civil Service: Limitations and Challenges
- “Fixed” labor costs - about 65% of budget (vs. 50% typical for not-for-profit hospitals / 45% in for-profits)
- Disproportionate share to support state retirement program.
- Limited representation when negotiating contracts with labor unions.

Expenses & Revenues - FY 2009

Budget Before Contingency Plan Implementation

	Expenses	Income	
Operating Exp	66,592,600		
Corp Overhead	1,083,000		
Operating Rev		53,912,100	
State Appropriation		6,230,019	*
Collective Bargaining		3,085,000	
Oth Non-Op Rev		479,000	
TOTAL	67,675,600	63,706,119	
Net Loss		(3,969,481)	

* Reflects 4% reduction from $6,489,000

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FY09 Debt

- $5.8MM in Accounts payable from last FY.
- KCH takes 120-180 days to pay its bills.
- Penalties associated with late payment.
- Loss of discounts for not paying early.
- AP should be closer to $2-3MM.
- Should be paying bills within 45-60 days.
- HHSC has asked Governor for help.

FY09 Operating Revenue

Payor	Cost	Est Rev	Loss	Gain
Medicaid	18,360,000	9,300,000	9,060,000	
Medicare	12,240,000	8,200,000	4,040,000	
Uninsured	2,040,000	135,000	1,905,000	
Medicare HMO	5,440,000	3,700,000	1,740,000	
Other	1,360,000	1,050,000	310,000	
Commercial	7,480,000	7,500,000		20,000
Kaiser	7,480,000	8,600,000		1,120,000
HMSA	13,600,000	15,600,000		2,000,000

Cost Reduction

- Suspended discretionary travel.
- Delayed major operating expenses.
- "Frozen" most unfilled positions.
- Expanded case management services to reduce unnecessary days in the hospital – days that are not reimbursed by insurance.

Revenue Improvement

- Focus on Revenue cycle operations.
- Recruited a seasoned CFO.
- Exploring partnership opportunities to expand services, offer more choice to our patients and generate income.
- Expanded our medical staff to meet the needs of our community.
- Kona Hospital Foundation continues to raise money to support capital programs.

Labor Expenses

- Labor costs are significantly higher when compared to non-civil service hospitals.
- 60% of total operating cost is for labor – a typical community hospital like KCH is 50% (making KCH 20% higher than the average).
- Fringe benefit rate is 41% - a typical community hospital generally 25% or less.

Workforce Reduction

- 55 positions identified. Will reduce payroll costs by approximately $1.9MM.
- Most positions are clerical, administrative and support services.
- No licensed, direct care providers; no employees involved with revenue cycle.
- Most employees provided 90 day notice.
- Following complex Civil Service rules addressing "bumping" and other rights.

Quality Care

- No reduction in nurse-patient ratio.
- Reduction of clerical and support positions will require KCH to be more efficient.
- Will continue to provide the same high-quality care and services 24/7.

Transition Long-Term Care to Swing LTC/Acute

- LTC expensive / inefficient in hospital setting.
- High cost – Poor reimbursement.
- Population increase – greater demand for Acute Care
- Realignment will better serve sicker patients.
- Services will evolve as community changes.
- Will improve bottom line by $1.5 - 2MM.
- Current Employees will retained; will need more RNs
- Will work with families and other facilities to place ICF patients.
- Requires CON approval – may take several months.

Status Quo Approach

	FY09	FY10	FY11	Assumptions
Operating Expenses	66,592,600	69,789,045	73,138,919	(6% salary growth; 3% inflation)
Corp Overhead Allocation	1,083,000	1,115,490	1,148,955	(3% increase each year)
Total Hospital Revenue	53,912,100	55,529,463	57,195,347	(3% growth each year)
Other Non-Op Income	479,000	490,000	500,000	
Operating Income (Loss)	-13,284,500	-14,885,072	-16,592,527	
Collective Bargaining Funding	3,085,000	3,239,250	3,401,213	(5% increase each year)
State Appropriation	6,230,019	6,541,520	6,868,596	(5% increase each year)
Income (Loss) After all Funding	**-3,969,481**	**-5,104,302**	**-6,322,718**	

Contingency Plan

	FY09	FY10	FY11
Operating Expenses	62,600,000	65,500,000	67,500,000
Corp Overhead Allocation	1,083,000	1,115,490	1,148,955
Total Hospital Revenue	53,912,100	56,500,000	58,700,000
Other Non-Op Income	479,000	490,000	500,000
Operating Income (Loss)	-9,291,900	-9,625,490	-9,448,955
Collective Bargaining Funding	3,085,000	3,239,250	3,401,213
State Appropriation	6,230,019	6,541,520	6,868,596
Income (Loss) After all Funding	**23,119**	**155,280**	**820,854**

Strategic Plan Shaped by…

- Quality and patient safety on the national "agenda,"
- Growing and aging population will stretch resources.
- Inadequate continuum of care infrastructure limits access to the appropriate level of care which increases costs.
- Inadequate payments from insurance companies and public programs limits our ability to upgrade/expand and recruit/retain employees and physicians.
- As a "Safety-Net" facility we provide significant services to the uninsured, Medicaid, and other vulnerable patients.
- Civil service creates significantly higher operating costs compared to private sector, not-for-profit hospitals.

Lack of Primary Care Services

- People seek care later in the ER vs. earlier in a clinic.
- Thus, they're "sicker" (higher intensity and complexity of illnesses).
- Which increases demand for and use of ER beds,
- Which increases inpatient admissions from ER,
- Results in even longer acute stays.
- Doctors reluctant to discharge patients due to lack of sufficient outpatient follow-up care (clinics, home health, hospice, etc).
- Patients await SNF/LTC placement due to insufficient long-term care infrastructure (few physicians willing to accept LTC patients given poor reimbursement)
- Lack of physician specialists increases inappropriate admissions
- Impacts length of stay -- increase costs that are not reimbursed

KCH Bed Supply

- KCH has 94 inpatient beds divided into the following functional units:
  - General Medical/Surgical 33
  - Intensive Care 9
  - Obstetrics 7
  - Psychiatric 11
  - Long-Term Care 34
- Currently, KCH has 49 acute care beds (vs. need of 51-70)
- By 2020, the need will reach 74-109 beds
- By 2030, the need will reach 88-157 beds

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Financial Challenges

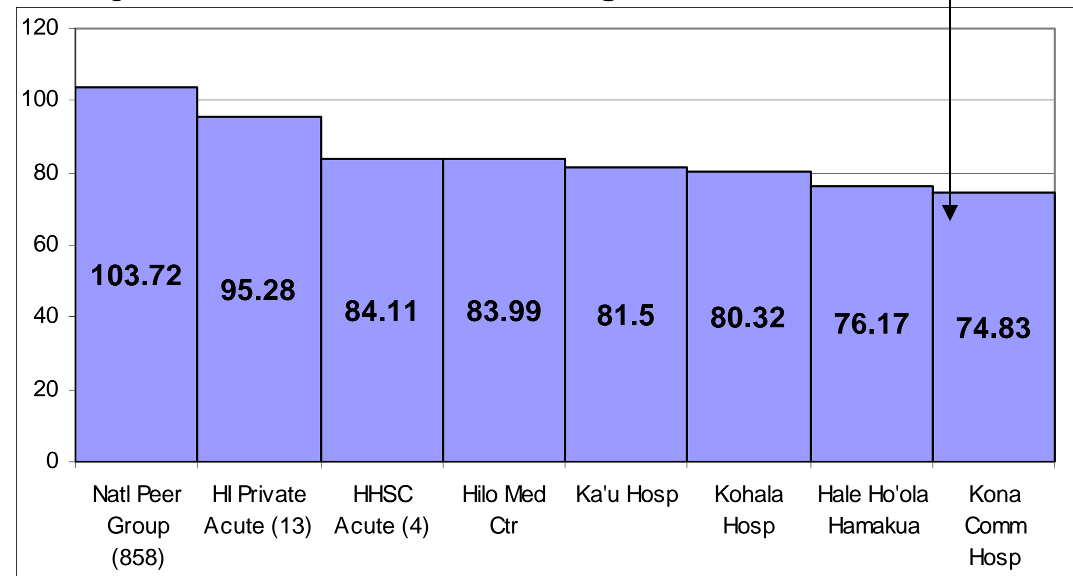
Overall Payments as a Percentage of Cost – FY 2007

	Medicare	Medicaid	Commercial & Other	Overall
Hawaii	79.77	80.02	111.24	92.39
Lowest State	66.65	32.93	101.80	92.39
US Average	80.36	75.30	124.89	104.32
Highest State	101.03	105.46	145.94	115.62

Hawaii's overall payment rate is the lowest in the US.

KCH payment rate lowest in HHSC!

Overall Payment as a Percentage of Cost



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Strategic Plan Highlights

1 - Define Role in Regional Health Service Delivery

- As community grows, there will be opportunities for KCH to expand and address healthcare needs.
- Continuously scan market and explore alternatives to enhance community access and financial performance.
  - Representative Herkes sponsored legislation for a mobile medical unit for FY'09.
  - Public-private joint-venture opportunities to establish clinics in new communities (Palamanui and La'i 'Opua) during FY'09-10.

2 - Enhance Local Health Service Delivery

- Kona and Kohala facilities are aging and lack sufficient space.
- Opportunity to improve service delivery, patient flow, efficiency and effectiveness.
- Explore alternative financing, public-private partnerships and joint ventures.
  - Convert the nursing cottage to physician office space in FY09.
  - Complete the foundation-sponsored Adopt-a-Room project in FY08-09.
  - Upgrade the operating room in FY09.
  - Develop plans and explore funding opportunities for new ER during FY09-10.
  - Build a new ER during FY10/FY11.
  - Renovate, expand and modernize the Kohala ER.
  - Build new hospitals in both Kona and Kohala by FY15.

3 - Enhance Portfolio of Clinical Services

- Improve financial position by expanding "profitable" services
  - Re-License SNF/ICF Beds: Increasing demand for Med-Surg beds. Hospital-based LTC has high-cost and poor reimbursement; KCH could gain $1.5-$2.2 million per year by realigning SNF/ICF to Swing Acute/SNF.
    - Increase acute capacity by re-licensing ICF beds in FY09.
    - Increase acute capacity by re-licensing SNF beds in FY09/10.
  - Increase SNF volume at Kohala Hospital by working with rehab service providers to admit more SNF patients (vs. ICF patients).

6 – Patient & Quality Focus

- Concentrate PI efforts to address evidence-based medicine standards and improve performance on JCAHO Core Measures
- In FY08-9 we will continue to engage physicians and staff and revise tools to improve our performance on all core measures.
- Implement customer service training focused on improving caregiver attitude, responsiveness, teamwork and communication.
- In FY09 we will develop a formal customer service initiative. Staff training and education will occur throughout FY09. By early FY10 we expect to see a significant improvement in patient satisfaction scores.

7 - Upgrade Clinical Technology and Physical Plant

- Current equipment is aging.
- Acquiring state-of-the art equipment will improve clinical quality, enhance our ability to recruit physicians and add revenue generating services.
- Technology that will require future upgrades:
  - CT Scanning,
  - MRI
  - Radiation Oncology
- Feasibility studies will be conducted during FY09 and technologies added throughout FY09-FY12.

9 - Workforce Development

- Collective bargaining agreements cover other state entities (i.e., Departments of Justice, Public Health, and Education) with language intended for a 9-5, M-F operation.
- HHSC has just one vote at the table and negotiations tend to be competitive and positional, not collaborative.
- Work with unions to modify work rules and pay structures to provide productivity and performance incentives that improve morale and reduce overall costs.
- Work to carve-out the HHSC hospitals from the various state-wide agreements into separate HHSC-specific or even hospital-specific contracts.

10 - Enhance Physician Recruitment and Retention

- WHR will continue to recruit specialists (via different models, such as the recently implemented Alii Health Center) that will address community need and enhance financial performance.
- Review physician demographics and identify "smart growth" opportunities.
- Continue efforts to recruit the following: cardiologist, gastroenterologist, general surgeon, two internists / family practitioners, neurologist, orthopedic surgeon, and a psychiatrist.
- Adjust the Alii Health structure to recruit and retain quality physicians and other technical resources by allowing them the opportunity to earn nationally competitive incomes that also improves the hospital's revenue base.

12 - Develop Strategic Partnerships and Joint Ventures

- Given our limited resources and high fixed costs associated with our status as a state entity, opportunities to partner with others (including other hospitals, health systems, etc.) will be explored.
- Currently under exploration is a free standing ambulatory surgery center - it is expected to be completed by June 2009.
- Another opportunity worthy of exploration is to partner with private companies to expand long-term care services
- Private partners should be sought out when we move forward with our efforts to build a state-of-the-art hospital (by FY15) rather than reliance on state funding.

13 - Aggressive Cost Management Program

There are several opportunities to reduce costs – some possibilities:

- Expand Case Management Program: Payers continue to reduce reimbursement; we must aggressively manage patient length of stay and use of intense/acute resources. In FY08 we took steps to enhance case management; these efforts will continue during FY09.
- Automated Time-and-Attendance System: Such systems have been proven to reduce costs, improve payroll operations and enhance decision-making by providing better data. The goal is to implement this during FY10.
- Explore Supply-Chain Management Improvement Initiatives: Aggressive supply / inventory control and management can reduce costs. This will be explored in FY09.
- Shift Time-off Benefits to PTO Program: Current civil service vacation (21 days), sick (21) and holiday (14) benefits are "generous" compared to other systems. This too would require legislative action.

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Mahalo!

Any Questions?

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