

Faith Action for



Community Equity

Gamaliel Foundation Affiliate

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Executive Director

March 12, 2008

COMMITTEE ON HEALTH  
Josh Green, M.D., Chair

Relating to: SB 3083 SD2  
MAKING AN EMERGENCY APPROPRIATION TO THE HAWAII HEALTH SYSTEMS  
CORPORATION

TESTIFIER: Rev. Bob Nakata, President, FACE  
Clementina D. Ceria-Ulep, PhD, RN,  
Chair, Healthcare Committee, FACE

DATE: Wednesday, March 12, 2008  
TIME: 8:00 a.m..  
ROOM: 329

Chair Green and members of the Committees on Health:

We are Rev. Bob Nakata President of FACE and Clem Ceria-Ulep, the Chair of the FACE Healthcare Committee and we are in support of legislative intervention in the financial crisis of our hospitals. We support this measure.

On February 16, 2008, we held our first healthcare summit to address the crisis in the access and delivery of healthcare to Hawaii's people regardless of their socio-economic status. We are hearing from our members that this crisis is having a profound effect on their families, employers and employees. Two of the priority action items that resulted from the summit are to provide immediate financing mechanism(s) to keep our public and private hospitals solvent and open and to reasonably increasing the level of reimbursement to health care providers for Medicaid and Quest patients.

SB 3083, CD2, provides for an emergency appropriation for the Hawaii Health Systems Corporation, including the Maui Memorial Medical Center.

F.A.C.E., now a State wide entity has recently formed a Maui Unit. Our members on the Island of Maui are concerned about the financial security of their only hospital and they join in this request.

Please pass this measure with the language including the MMMC in the appropriation in the event an operating loan that is being negotiated does not close prior the effect date of this Act.

000410

House of Representatives  
Twenty-Fourth Legislature  
Regular Session of 2008

COMMITTEE ON HEALTH  
COMMITTEE ON HUMAN SERVICES & HOUSING

Hearing  
Wednesday, March 12, 2008  
8:00 a.m.

Testimony by: Ralph C. Boyea, Legislative Advocate, Hawai'i County Council

**Testimony in favor of SB 3083, SD2 MAKING AN EMERGENCY APPROPRIATION TO THE HAWAII HEALTH SYSTEMS CORPORATION**

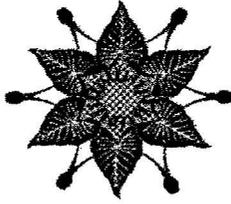
Chairperson Greem and Vice Chair Mizuno  
Chairperson Shimabukuro and Vice Chair Rhoads  
and Honored Representatives,

On behalf of the Hawai'i County Council, I urge you to pass Senate Bill 3083. Senate Bill 3083 appropriates general funds for fiscal year 2007-2008 to pay current, essential vendors, reduce accounts payable, and allow operation and provision of current levels of service in the Hawai'i Health Systems Corporation's facilities.

Hawai'i County is larger, in land mass, than all of the other counties combined. The continued operation of the five Hawai'i Health Systems Corporation hospitals on our island is essential in providing the majority of our residents with emergency services and other hospital related services. With the exception of the North Hawaii Hospital, the Hawai'i Health Systems Corporation [HHSC] operates the only hospitals on our island.

HHSC provides essential services for insured and uninsured residents. Many of the uninsured are unable to pay for these services. Some insurers barely cover the cost of services, while others such as Medicare pay even less. Regardless of the ability to pay, the HHSC must provide services to all. Until the problems of costs and reimbursements are resolved, the Legislature will continue to be asked to "bail out" the HHSC as well as private "safety net" hospitals. HHSC needs this appropriation now. Without this money, the health of Hawai'i's residents will be endangered.

We urge you to support HB 3083.



**Maui Memorial**  
MEDICAL CENTER

**March 10, 2008**

**TO: Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair**

**COMMITTEE ON HEALTH  
Wednesday, March 12, 2008, 8a.m.  
Conference Room 016**

**FROM: Wesley Lo  
Regional Chief Executive Officer**

**RE: SB 3083, SD2 -- Making an Emergency Appropriation to the Hawaii  
Health Systems Corporation**

Thank you for the opportunity to submit testimony in support of SB 3083, SD2. The purpose of SB 3083, SD2 is to make an emergency appropriation of general funds for fiscal year 2007-2008 to pay current, essential vendors, reduce accounts payable, and allow operation and provision of current levels of service in Hawaii Health Systems Corporation's facilities.

This will allow delivery of goods and services to these facilities to continue on a timely basis so that the facilities will be able to maintain operations. This emergency appropriation is necessary to ensure that vital healthcare services are provided to Hawaii's people through the HHSC system of hospitals.

I respectfully urge the committee to pass SB 3083, SD2, allowing essential operations to continue at HHSC.

**Respectfully submitted,**

**Wesley Lo  
Regional Chief Executive Officer  
Phone: (808) 442-5100**

000412



**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

*"Touching Lives Everyday"*

**THE HOUSE  
COMMITTEE ON HEALTH  
Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair**

**March 12, 2008, 8:00 a.m.  
Conference Room #329, Hawaii State Capitol**

**Testimony Supporting  
SB 3083, SD2 Making an Emergency Appropriation to the  
Hawaii Health Systems Corporation**

Testimony By:  
Thomas M. Driskill, Jr.  
President & Chief Executive Officer

The Hawaii Health Systems Corporation (HHSC) strongly supports SB 3083 SD2 Making an Emergency Appropriation to HHSC.

Due to external healthcare pressures beyond our control and our mandate to meet our safety net mission for the State of Hawaii, HHSC is in the worst cash crisis we have experienced since the corporation was formed. We are unable to pay many of our vendors within a reasonable time frame. We desperately need an emergency infusion of cash in order to pay vendors and thus continue to provide services to our communities. At several of our facilities, we are approaching situations in which we may soon lose control of the operations of the facilities, because of inability to pay vendors. Essentially, we will only be able to continue to fully operate the facilities for as long as vendors will continue to provide goods and services without being paid in a timely fashion.

The purpose of this FY08 Emergency Appropriation measure, in sync with the HHSC FY09 Supplemental request, is to pay current, essential vendors, thus reducing accounts payable days and insure operation and provision of current levels of service in HHSC facilities thus affording new HHSC Corporate and Regional Governance time to gain an understanding of this situation and work with management leadership to develop a long range plan to reduce the operational cost of HHSC while still providing essential healthcare services.

We have attached several references to underscore the urgency of the current crisis, including A SPECIAL MESSAGE 'FROM OUR CORP BOARD OF DIRECTORS' TO LAWMAKERS:

“HHSC REQUIRES AN EMERGENCY APPROPRIATION”, and the original spreadsheet analysis indicating our need for an Emergency Appropriation of \$25.4 million (attachment 1). This initial projection was based on budgeted revenues, expenses, and cash flow projections for fiscal year 2008, but did not take into account the possibility of a \$11 million commercial loan to Maui Memorial Medical Center. Subsequently, based on operations through November 2007, updated calculations indicate cash flow shortfall for fiscal year 2008 could be worse than previously forecast (please see updated spreadsheet analysis). In response to revised projections and with oversight by HHSC Governance, our five regions and corporate office are taking strong actions to improve cash flow now so that the emergency appropriation will still be adequate to cover our urgent cash requirements remaining in fiscal year 2008.

Chart ‘FY 2008 Emergency Appropriation \$25.4 Million By Region/Facility’ shows the amounts originally submitted for nine HHSC facilities. Although it appears likely now that the \$11 million commercial loan for Maui Memorial Medical Center may indeed be forthcoming, if that loan does not materialize then the total need for HHSC in fiscal year 2008 would still be at \$25.4 million. Any consideration for additional funding in this Emergency Appropriation would allow Maui Memorial Medical Center to use their loan, or part of their loan, for immediate implementation of the proposed open heart surgery program as opposed to use to offset current operational cost.

It is important to note that of the \$25.4 million total originally requested, almost all of it is just for our three larger acute care facilities Maui Memorial Medical Center, Hilo Medical Center, and Kona Community Hospital. The severe impacts of the several health care trends and crises we already described in testimony before the Senate Committee on WAM/House Committee on Finance have had a cumulative, increasingly detrimental impact on these three facilities over the last several years. The two charts attached indicate how the losses of these three facilities have dramatically increased over the years compared to the relatively steady financial performance of the smaller HHSC hospitals that have been converted to critical access hospital (CAH) status, so that these facilities now receive full reimbursement for costs from Medicare and Medicaid (attachment 2). However, these small rural hospitals now lose money not because of inadequate government reimbursements for services rendered, but because commercial payers do not pay the full costs of care provided.

We are compelled to advise the committee that, until something is done about the external and / or internal financial pressures impacting MMMC and HMC and KCH, there will be ongoing need for substantial, very likely increasing subsidies request from the state to continue to operate these three facilities. Attached chart lists the \$57 million FY09 Supplemental request HHSC submitted to the administration but that, unfortunately, has not been included in the supplemental budget request submitted to the legislature by the administration (attachment 3). This is a cumulative amount that includes the \$25.4 million originally requested as FY 08 Emergency Appropriation. Our FY 09 Supplemental request can be reduced by the amount of FY 08 Emergency Appropriation funding HHSC receives including consideration of the \$11 million Maui loan if indeed that transaction is ultimately culminated.

We respectfully request most rapid possible action on this emergency appropriation to enable continued operations of HHSC facilities and to prevent detrimental impacts on the communities we serve. In response to your additional EA and Supplemental consideration for HHSC, both governance and management are committed to develop and return to the Administration and the Legislature not later than June 30, 2008, a long term proposal to markedly reduce future requests for state support while still maintaining essential services to communities served by HHSC.

Attachments:

- 1 - A SPECIAL MESSAGE TO LAWMAKERS: HHSC REQUIRES AN EMERGENCY APPROPRIATION  
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY FISCAL YEAR 2008: FY 08  
EMERGENCY APPROPRIATION = \$25,442,000  
CASH FLOW SURPLUS(DEFICIT) BY FACILITY FISCAL YEAR 2008: Projected A/P @ 6/30/08 = \$70,687,000
- 2 – Historical Operating Income (Loss) Trending, Fiscal Years 1998-2008 and Historical % of Total Operating Loss, Fiscal Years 2001-2008
- 3 – FY 2009 \$57 Million Supplemental Operating Budget Submission

## A SPECIAL MESSAGE TO LAWMAKERS:

### HHSC REQUIRES AN EMERGENCY APPROPRIATION

1. In the spring of 2007, the Hawaii Health Systems Corporation, after negotiation with the State Budget and Finance Department, presented a biennium budget for approval, which had the support of the regional management and HHSC staff but which required that significant revenue gains were achieved and that costs were held at the level that existed at the time the budget was prepared. It was appreciated by all concerned that it was an aggressive budget.
2. In any event, the revenue gains were not achieved (see attached chart) and a series of unbudgeted costs had to be accommodated (see attached chart) and thus there is an unbudgeted cash deficit in the current fiscal year.
3. HHSC and regional management have reacted by slowing payment to suppliers thus bringing the accounts payable to an unacceptable level and putting basic supplies in jeopardy (see attached chart), cost reductions to the extent possible without reduction in patient care or patient safety and holding off all possible expenditures. However, the ability to manage these costs has now run out and the cash situation for the organization has reached a crisis point. The cash deficit to get accounts payable to an acceptable 30 days level is \$25.4M.
4. The Legislature, the Administration, and HHSC recognized this issue in 2006 and through legislative action, supported by HHSC and the Administration, a new board structure was proposed, planned, and recently executed. The new Corporate and Regional Boards believe this strategic direction and structure will allow the system to have both better control and simpler, transparent reporting, thus allowing the development of an optimum system that would be better able to respond to Hawaii's healthcare needs. However, it is appreciated by all involved that this occurs at a difficult time for health care in Hawaii, the USA, and worldwide. This evolution (of the new system) has commenced but it will take time.
5. In the meantime, Hawaii's public healthcare system, as directed and managed by HHSC, requires an urgent injection of cash (\$25.4 million) to allow it to keep operating. There may be some partial options as to the source of these funds (e.g., Maui Loan proposal), but the need is URGENT since the money cannot come from operating revenues.
6. HHSC management, as directed by the new Corporate and Regional Boards, undertakes to complete by June 30, 2008, a Corporate Strategic Plan, which will be supported by respective regional plans and budgets. This plan will be presented to the Administration and the Legislature for review, comment, and approval. The Plan will provide the means to measure results and assess "success/failure." It is apparent that there may be areas where HHSC has limited ability to influence critical issues, but these will be identified and possible approaches to change this will be proposed. It is likely that an "Interim Strategic Plan" may need to be implemented to provide clear direction for the next six months. At the same time, HHSC is assessing its ability to develop this as a matter of urgency.

## Hawaii Health Systems Corporation

### Summary of Cash Shortfall

After a review of the consolidated balance sheet, income statement and cash flow statement, we offer these comments for your consideration.

The problem with cash, or lack thereof, existed at the end of the prior fiscal year, 6/30/07. At that time, Accounts Payable and Accrued Liabilities account on the balance sheet had a balance of \$56,805,000. Of the \$56,805,000, Accounts Payable total was \$32,293,000. Aging of Accounts Payable was 75 days.

The cash problems were further exacerbated in the subsequent 4 months (through 10/31/07) by a loss of \$27.2 million. This loss exceeded budget by \$5 million.

At the end of November, HHSC had received \$53,612,232 general fund subsidy IN ADVANCE of budget in order to pay down the \$72.8 million balance of A/P and Accrued Expenses. After pay-down, the balance in the A/P and Accrued Expense account at 10/31 was \$47,052,000 and aging reduced only slightly from that of June, 2007.

HHSC's projected operating cash flow deficit of \$49,184,000 indicates there will be a need for an additional cash infusion of \$25.4 million.

FY 2008 Emergency Appropriation \$25.4 Million By Region/Facility	
• Oahu Region:	• East Hawaii Region:
- Leahi \$ 199,000	- HMC \$ 7,934,000
- Maluhia \$ 482,000	- HHH -0-
• Kauai Region:	- Kau \$ 6,000
- WKMC -0-	• West Hawaii Region:
- SMMH \$ 214,000	- KCH \$ 5,347,000
• Maui Region:	- Kohala \$ 84,000
- MMMC \$ 10,687,000	
- Kula -0-	
- Lanai \$ 489,000	

1/19/2008

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HAWAII HEALTH SYSTEMS CORPORATION  
 CASH FLOW SURPLUS/(DEFICIT) BY FACILITY  
 FISCAL YEAR 2008

	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	TOTAL
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
DHS Direct Payments to Hospitals	1,953	2,181	1,500							1,177	689			7,500
Payroll Cash Requirements	(72,791)	(85,332)	(37,475)	(18,376)	(6,326)	(3,564)	(3,496)	(13,076)	(2,028)	(17,550)	(14,165)	(10,140)	(7,256)	(291,575)
Non-Payroll Cash Requirements	(41,282)	(59,748)	(20,916)	(13,763)	(2,580)	(1,651)	(1,329)	(3,133)	(1,500)	(3,839)	(3,235)	(5,796)	(1,090)	(159,860)
<b>Operating Cash Flow Deficit</b>	<b>(9,844)</b>	<b>(3,270)</b>	<b>(5,091)</b>	<b>(5,657)</b>	<b>(1,210)</b>	<b>(1,355)</b>	<b>(794)</b>	<b>(1,189)</b>	<b>(1,548)</b>	<b>(5,052)</b>	<b>(4,686)</b>	<b>(1,536)</b>	<b>(7,852)</b>	<b>(49,184)</b>
Appropriations from State of Hawaii	13,123	7,979	6,892	6,363	2,031	1,396	900	1,618	1,460	5,310	4,823	1,717	-	53,612
Financing of All Community Care	(308)	(383)	(161)	(87)	(25)	(14)	(13)	(43)	(9)	(58)	(46)	(42)	-	(1,200)
<b>Noncapital Financing Cash Flow Surplus</b>	<b>12,815</b>	<b>7,596</b>	<b>6,731</b>	<b>6,276</b>	<b>2,005</b>	<b>1,382</b>	<b>887</b>	<b>1,575</b>	<b>1,451</b>	<b>5,252</b>	<b>4,777</b>	<b>1,675</b>	<b>-</b>	<b>52,412</b>
Repayments on Capital Lease Obligations-Current	(2,039)	(4,140)	(2,261)	(702)						(2)	(164)	(191)	(927)	(10,420)
Repayments on Capital Lease Obligations-Future	(158)	(277)	(92)	(60)						(29)				(616)
<b>Capital and Related Cash Flow Deficit</b>	<b>(2,197)</b>	<b>(4,417)</b>	<b>(2,353)</b>	<b>(762)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(31)</b>	<b>(164)</b>	<b>(191)</b>	<b>(927)</b>	<b>(11,042)</b>
Allocation of Corporate Office Costs	(2,251)	(2,872)	(1,177)	(636)	(193)	(101)	(97)	(315)	(67)	(425)	(339)	(306)	8,779	-
<b>Cash Flow Deficit by Facility</b>	<b>(1,577)</b>	<b>(2,973)</b>	<b>(1,890)</b>	<b>(779)</b>	<b>602</b>	<b>(74)</b>	<b>(4)</b>	<b>71</b>	<b>(164)</b>	<b>(256)</b>	<b>(412)</b>	<b>(358)</b>	<b>-</b>	<b>(7,814)</b>
A/P @ 6/30/07	9,750	12,592	5,179	192	121	68	189	125	441	259	336	307	2,734	32,293
Projected A/P @ 6/30/08	11,327	15,565	7,069	971	(481)	142	193	54	605	515	748	665	2,734	40,107
FY 08 Budgeted Non-Payroll Expenses	41,282	59,351	20,951	13,762	3,216	1,652	1,329	3,133	1,415	3,839	3,239	5,493	1,096	159,758
Divided by 365	365	365	365	365	365	365	365	365	365	365	365	365	365	
FY 08 Budgeted Non-Payroll Exp/Day	113	163	57	38	9	5	4	9	4	11	9	15	3	
Projected A/P @ 30 Days @ 6/30/08	3,393	4,878	1,722	1,131	264	136	109	258	116	316	266	451	90	13,130
<b>FY 08 Emergency Appropriation</b>	<b>7,934</b>	<b>10,687</b>	<b>5,347</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>84</b>	<b>-</b>	<b>489</b>	<b>198</b>	<b>482</b>	<b>214</b>	<b>-</b>	<b>25,442</b>
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
Annual Cash Collections Projected Based on Collections Experience from Jul 1, 07 to Nov 30, 07	94,142	134,208	46,907	23,592	6,763	4,244	4,608	16,599	2,133	20,139	16,144	12,367	1,806	363,652
Potential FY 08 Cash Collections Shortfall (Surplus)	8,034	5,421	4,893	2,890	933	(384)	(577)	(1,579)	(153)	(4,979)	(4,119)	2,033	(1,306)	11,107

NOTE: Shortfalls in collections could increase HHSC requirements for FY 08 emergency funding by up to \$11,107,000.

HAWAII HEALTH SYSTEMS CORPORATION  
 CASH FLOW SURPLUS/(DEFICIT) BY FACILITY  
 FISCAL YEAR 2008

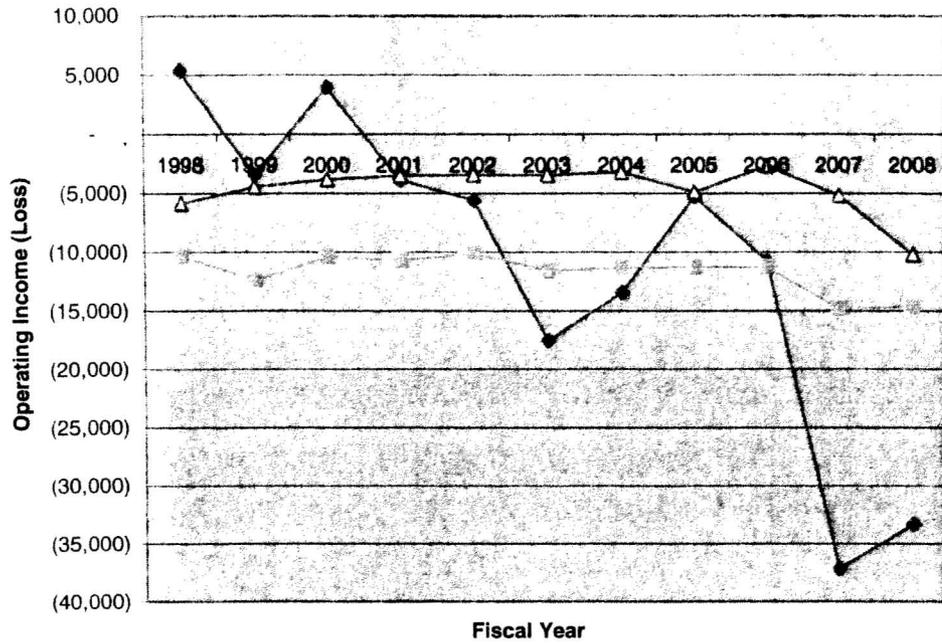
	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	HHSC TOTAL
Cash Collections (Budgeted 12/07-6/08)	59,346	75,359	31,300	16,236	4,489	2,242	2,401	8,764	1,145	8,835	7,025	8,400	292	225,834
DHS Direct Payments to Hospitals	930	1,111	619							590	216			3,466
Payroll Cash Requirements (Budgeted 12/07-6/08)	(43,029)	(49,777)	(21,975)	(10,870)	(3,690)	(2,079)	(2,044)	(7,626)	(1,183)	(10,415)	(8,265)	(5,915)	(4,235)	(171,103)
Non-Payroll Cash Requirements (Budgeted 12/07-6/08)	(24,359)	(34,853)	(12,616)	(8,317)	(1,505)	(959)	(769)	(1,827)	(875)	(2,289)	(1,925)	(3,381)	(640)	(94,315)
<b>Operating Cash Flow Deficit</b>	<b>(7,112)</b>	<b>(8,160)</b>	<b>(2,672)</b>	<b>(2,951)</b>	<b>(706)</b>	<b>(796)</b>	<b>(412)</b>	<b>(689)</b>	<b>(913)</b>	<b>(3,279)</b>	<b>(2,949)</b>	<b>(896)</b>	<b>(4,583)</b>	<b>(36,118)</b>
General Fund Appropriations from State of Hawaii	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective Bargaining Funding	1,413	1,770	700	313	122	72	83	285	45	388	291	188	62	5,732
Funding of All Community Care	(180)	(229)	(94)	(51)	(15)	(8)	(8)	(25)	(5)	(33)	(27)	(25)	-	(700)
<b>Capital Financing Cash Flow Surplus</b>	<b>1,233</b>	<b>1,541</b>	<b>606</b>	<b>262</b>	<b>107</b>	<b>64</b>	<b>75</b>	<b>260</b>	<b>40</b>	<b>355</b>	<b>264</b>	<b>163</b>	<b>62</b>	<b>5,032</b>
Payments on Capital Lease Obligations-Current	(1,709)	(2,400)	(1,441)	(627)	-	-	-	-	-	-	(96)	(111)	(505)	(6,889)
Payments on Capital Lease Obligations-Future	(92)	(161)	(54)	(35)	-	-	-	-	-	(17)	-	-	-	(359)
<b>Capital and Related Cash Flow Deficit</b>	<b>(1,801)</b>	<b>(2,561)</b>	<b>(1,495)</b>	<b>(682)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17)</b>	<b>(96)</b>	<b>(111)</b>	<b>(505)</b>	<b>(7,246)</b>
Allocation of Corporate Office Costs	(1,289)	(1,644)	(674)	(364)	(110)	(58)	(55)	(180)	(39)	(244)	(194)	(175)	5,026	-
<b>Cash Flow Deficit by Facility</b>	<b>(8,869)</b>	<b>(10,824)</b>	<b>(4,235)</b>	<b>(3,716)</b>	<b>(709)</b>	<b>(790)</b>	<b>(392)</b>	<b>(609)</b>	<b>(912)</b>	<b>(3,185)</b>	<b>(2,975)</b>	<b>(1,019)</b>	<b>-</b>	<b>(38,334)</b>
AP @ 11/30/07	8,705	13,321	5,090	1,188	250	85	52	600	45	135	191	328	2,363	32,353
<b>Projected A/P @ 6/30/08</b>	<b>17,674</b>	<b>24,145</b>	<b>9,325</b>	<b>4,903</b>	<b>959</b>	<b>875</b>	<b>444</b>	<b>1,209</b>	<b>957</b>	<b>3,320</b>	<b>3,166</b>	<b>1,347</b>	<b>2,363</b>	<b>70,687</b>
<b>Projected A/P @ 30 Days @ 6/30/08</b>	<b>3,393</b>	<b>4,878</b>	<b>1,722</b>	<b>1,131</b>	<b>264</b>	<b>136</b>	<b>109</b>	<b>258</b>	<b>116</b>	<b>316</b>	<b>266</b>	<b>451</b>	<b>90</b>	<b>13,130</b>
<b>Projected Days in A/P @ 6/30/08 (\$70,687K)</b>	<b>156</b>	<b>148</b>	<b>162</b>	<b>130</b>	<b>109</b>	<b>193</b>	<b>122</b>	<b>141</b>	<b>247</b>	<b>316</b>	<b>357</b>	<b>90</b>	<b>787</b>	<b>161</b>

**NOTE:**

Change in projection of accounts payable balance at 6/30/08 is due to:  
 FY 08 budget anticipated receiving \$10M from the start of the Maui Cardiovascular program. It does not appear that this program will be able to be implemented prior to the start of fiscal year 2009.  
 FY 08 budget anticipated receipt of the full \$53.6M in general fund appropriations in cash. With HHSC having to pay back \$10M out of its FY 08 general fund appropriations to repay an advance made to HHSC in June 2007, FY 08 projected cash flow is short by \$10M.  
 FY 08 operating revenues through November 2007 have been approximately \$11M behind budget, which has had a negative impact on cash collections through November 2007 and will continue to be felt through the rest of fiscal year 2008.

1/18/2008

Hawaii Health Systems Corporation  
 Historical Operating Income (Loss) Trending  
 Fiscal Years 1998-2008



- ◆ Acute Facilities
- ✱ CAH Facilities
- △ Oahu Region

**NOTES:**

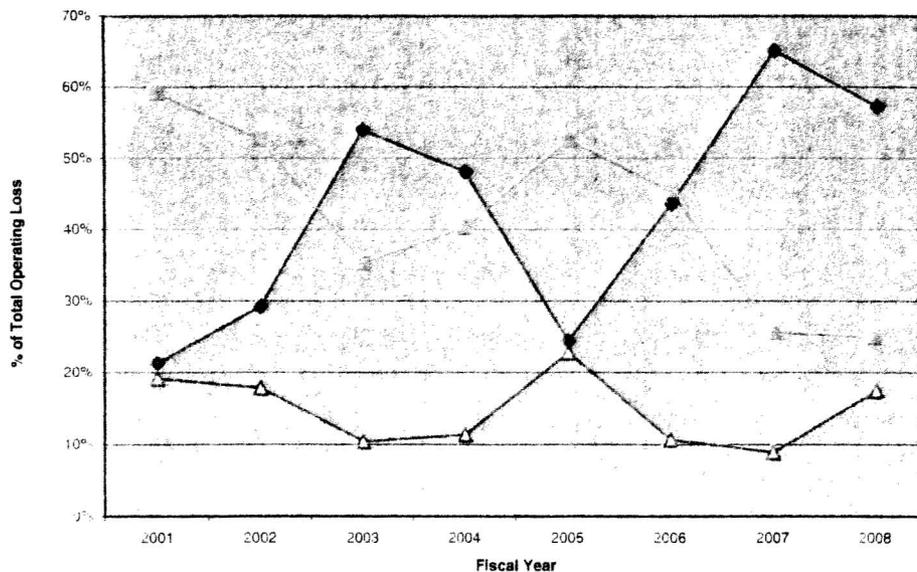
\*Acute Facilities=Hilo, Kona, Maui

\*CAH Facilities=Hamakua, Kau, Kohala, KVMH, SMMH, Kula, Lanai

\*Oahu Region=Leahi, Maluhia

\*2008 loss excludes

Hawaii Health Systems Corporation  
 Historical % of Total Operating Loss  
 Fiscal Years 2001-2008



- ◆ Acute Facilities
- ✱ CAH Facilities
- △ Oahu Region

**NOTES:**

\*Acute Facilities=Hilo, Kona, Maui

\*CAH Facilities=Hamakua, Kau, Kohala, KVMH, SMMH, Kula, Lanai

\*Oahu Region=Leahi, Maluhia

\*2008 loss excludes projected impact of Cardio Program for MMMC



**FY 2009 \$57 Million Supplemental Operating Budget  
Submission - Totals by Facility/Region**

HMC: \$17,528	MMMC: \$ 21,735	KCH: \$10,436
HHH: 443	KULA: 318	Kohala: <u>695</u>
KA'U <u>358</u>	LANA'I: <u>728</u>	
East HI: \$18,329	Maui Region: \$22,781	West HI Region: \$11,131
WKMC: \$ 1,684	LEAHI: \$ 975	
SMMH: <u>1,078</u>	MALUHIA: <u>1,017</u>	
Kauai Region: \$ 2,762	Oahu Region: \$ 1,992	



# **HAWAII HEALTH SYSTEMS**

C O R P O R A T I O N

"Touching Lives Every Day"

**BOARD OF DIRECTORS:**

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Gerald S. Tomory, M.D.  
Physician Rep.

Richard J. Vidgen  
West Hawaii

**THE HOUSE COMMITTEE ON HEALTH**  
**Representative Josh Green, M.D., Chair**  
**Representative John Mizuno, Vice Chair**

March 12, 2008, 8:00 a.m.  
Conference Room #329  
Hawaii State Capitol

**Testimony Supporting SB 3083 SD2**  
**Making an Emergency Appropriation to the Hawaii**  
**Health Systems Corporation**

Rick Vidgen, Chair  
Finance Information Systems and Audit Committee  
HHSC Corporate Board of Directors

Thank you for the opportunity to present information as a representative of the HHSC Corporate Board, and more particularly, as Chair of the Board's Finance Information Systems and Audit Committee (FISAC). The following has been approved by this committee.

1. The FISAC committee believes that the passage of this emergency bill to make up the unbudgeted cash flow deficit and get accounts payable in control is the most critical issue facing HHSC at present. This is needed to allow HHSC to operate over the next 6 months. We are assuming that the funding which this bill proposes will be supplemented by an operating loan which is being negotiated by Maui Memorial Medical Center and the Maui Region. In the unlikely event that this loan does not close then the funding from this EA will need to be increased by the amount of the proposed loan of \$11 million. In making the request for this funding the FISAC committee of HHSC is completely aware of its undertaking to the Administration and the Legislature to propose a new Strategic Plan for the corporation that will move us to improved fiscal control of operations and to

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000100

optimize the impact of the System Restructure enacted by law in 2007. We recognize that the necessary changes will take time and that funding to allow operations to continue in the meantime is urgently required.

2. We wish to address with you our current assessment of the overall position and to get what we see as the critical issues on the table.
3. First we need to briefly cover the issue of how we view our role, which we take very seriously and believe is critical to the survival of HHSC.

We have had many meetings as a committee since our appointment in November. In addition we have also had a significant amount of involvement in briefings, email and telephone discussion, and regional and corporate meetings and activities. It is fair to say we are alarmed at the critical financial situation in which we are now involved. While we want to say that we cannot accept any responsibility/accountability for the past activities except that 'blame' has to be accepted by ALL in Hawaii who have allowed the current structure and system to develop and decline. We are not attempting to assess blame as we can not effectively do this, and it would not be a fruitful exercise anyway. Suffice to say we have a structure and system that is currently not fitting the expected service and economic design and has not for some time. In fact it is very much a "square peg" situation that does not work and cannot work as it is. We see the situation as very serious and challenging but we do accept that it is our responsibility to propose ways in which it can be significantly improved. This will take time but the committee, as part of the Board of HHSC, is prepared to tackle it on the condition and assumption that we will have the strong support of both the legislature and the administration in this task. We have the assurance from HHSC Senior management that we have their support.

4. We have had both open and "Executive" sessions with the External Auditor Deloitte & Touche and have their assurance (which we accept) that there is no reason to believe that any of the financial reports are not reasonably representing the situation. We have some concerns about the resources for effective financial control (and they do as well) but to the extent of the reports currently available we accept that they are correct. We accept that there has been criticism of the recent use of only one Audit firm for the Corporation and it is our intent to encourage a change through the 'aggressive' use of the RFP process for this role.
5. We do believe that there is a problem which has been variously described as "communication", lack of transparency", "lack of information", which we think are merely symptoms of the real problem which is that the system structure (i.e. a Quasi State Department supposedly acting as a Private Business) has not fitted either the State or a Private Business model and is thus just a hybrid that uncomfortably tries to fill the State Health Care

role. It has all of the State Department restrictions, rules and limitations that tend to restrict productivity incentives and thus profit possibilities. The system has no effective Strategic Plan (and certainly not one that has been approved by the Leg or the Administration), and thus it is always difficult or impossible to judge what is/is not being achieved in the already difficult and changing world of health care. This leads us to identify some of the areas of greatest concerns and where the system 'misfit' is most apparent.

These are.....(not in any priority order)

- a. Salary Structure which is significantly higher than other State systems (and thus a great focus for its detractors) and yet it is well below national or other Hawaii Health Care comparatives. In fact the 2007 (independent) Mercer survey recommends a minimum 10% raise across the board which, given the financial situation, is obviously unacceptable. However we are recommending to the board that a careful and in depth review of this structure relative to the aims of a Strategic Plan be undertaken.
- b. The implications of a mainly (Government Employee union workforce. "Local knowledge" suggests, and an external (audit firm) review confirms, that in general the low productivity and no incentive structure has a significant limitation and major cost to the system. The vast majority of what are normally 'hourly paid' workers are regarded as 'salaried' (even though they qualify for overtime) and thus subject to extensive paid time off in a system which leaves itself open to abuse.
- c. Hospital Assets. These are generally old, mainly in poor condition, and, as part of the 'sugar legacy' largely located in the wrong areas.
- d. Reimbursements. Medicare, Medicaid, and private insurers inadequately reimburse for services rendered. We believe that this aspect of the operations requires a great deal more focus from both an internal control viewpoint and externally to change the system. It is apparent that this current situation puts HHSC in particular (and Hawaii in general) at a significant (impossible) disadvantage. In short, somebody has to pay the increasing costs of Healthcare and HHSC and Hawaii are starting out well behind!
- e. Focus. A review of the salary structure clearly confirms an assessment of the auditor that there is a lack of focus on Financial control and a shortage of effective resources to handle this. We have to believe that more focus and control in this area will significantly improve (d) above.

6. We do believe that the New Corporate Board and Regional Board structure that the legislature passed last year and the administration supported will lead to changes in the Corporate and Regional structures that will enhance operations. This will not happen quickly but it will happen with pressure from the Corporate board which we will undertake to maintain. The Strategic Planning Process has started and we will ensure that this is treated as a matter of extreme urgency so that a Plan is completed and approved ahead of our original (mid year) schedule.
7. As a start to this process we (FISAC Committee) have asked the HHSC Executive to require the Regional CEO's and the Corporate management to come up with their individual priority lists and actions to improve cash flow in the short term (6 months). This exercise has been completed and this committee, through the Internal Auditor and the Executive will be tracking progress against this plan and seeking further improvements in cash flow as we move along.
8. As above the Strategic Planning Process at a corporate level is underway and this will also allow Regional Boards to undertake Plans for their individual Regions. This committee and the Corporate Board strongly believes that the new regional System must take control and quickly to optimize its impact.

This is our position assessment at present. We do not have the answers but we are undertaking and working to get them and we do intend to completely involve all of the key players in this exercise. (Legislature, Administration, Regions, and Unions) In the meantime the emergency funding position is critical and we seek your support for this measure to allow us to move into a better future.

We request a swift passage of this emergency appropriation measure. Thank you.

Finance Information Systems and Audit Committee:

Rick Vidgen, Chair

Barry Mizuno

Barry Taniguchi

Avery Chumbley

Ray Ono

Roger Godfrey

**East Hawaii Region Board of Directors**



**THE HOUSE  
COMMITTEE ON HEALTH  
Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair**

March 12, 2008, 8:00 a.m.  
Conference Room #329  
Hawaii State Capitol

**Testimony in Support of SB 3083 SD2  
Making an Emergency Appropriation to the  
Hawaii Health Systems Corporation**

Robert Irvine, M.D.  
Chair, East Hawaii Regional Board of Directors  
Hawaii Health Systems Corporation

Dear Honorable Chair Green and Members of the House Committee on Health:

Thank you for this opportunity to offer support on SB 3083 SD2.

The East Hawaii Regional Board is newly formed and just getting our feet off the ground but it is apparent that the HHSC emergency appropriation being considered must be quickly passed if the HHSC facilities are to continue providing basic medical care for the people of East Hawaii. Over the next ten months the Regional Board will try to discuss and study and recommend ways to avoid repeated emergency requests for funding.

Your support and passage of SB 3083 SD2 is respectfully requested. Thank you.

Sincerely,  
Robert Irvine, M.D.



**THE HOUSE  
COMMITTEE ON HEALTH  
Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair**

March 12, 2008 – 8:00 a.m.  
Conference Room # 329  
Hawaii State Capitol

**Testimony Supporting SB 3083 SD2  
Making an Emergency Appropriation to the Hawaii Health Systems Corporation**

Ronald Schurra  
East Hawaii Region Chief Executive Officer

Good morning Chair Green and Members of the House Committee on Health. I am Ronald Schurra, CEO of the East Hawaii Region, serving rural communities on the Big Island of Hawaii in Hilo, Hamakua and Ka'u.

Thank you for this opportunity to support SB 3083 SD2 Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC). The purpose of this measure is to pay current, essential vendors, reduce account payable days, and allow operation and provision of current levels of service in HHSC facilities.

Healthcare throughout the USA and Hawaii is in crisis as public health care providers take on more and more of the burden of rising costs and inadequate reimbursements. Hawaii Health Systems Corporation is facing this challenge and is seeking an emergency appropriation.

The emergency appropriation will allow HHSC facilities to continue to provide the levels of services necessary to meet community health needs. Services of the safety-net hospital system have a tremendous impact on the public, in acute, long-term care and rural health care and HHSC would be unable to sustain services at current levels without additional funding. The situation is serious, we are experiencing difficulty with paying vendors for supplies, and are stressed for funds among regions in the system. The East Hawaii Regional facilities include Hilo Medical Center (HMC), Hale Ho'ola Hamakua and Ka'u Hospital; HMC and Hale Ho'ola Hamakua are particularly in serious condition requiring emergency appropriation.

We respectfully request your support and urgent passage of SB 3083 SD2 making an emergency appropriation to the Hawaii Health Systems Corporation. Thank you.



KONA  
COMMUNITY HOSPITAL

*Care You Can Count On*

West Hawaii Region Board of Directors

THE HOUSE  
COMMITTEE ON HEALTH  
Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair

March 12, 2008, 8:00 a.m.  
Conference Room #329  
Hawaii State Capitol

Testimony Supporting SB 3083 SD2  
Making an Emergency Appropriation to the Hawaii Health Systems  
Corporation

Liz Heiman Zagorodney, Chair  
West Hawaii Region Board of Directors, HHSC

Dear Chair Green and Members of the House Committee on Health:

On behalf of the Board of Directors of the West Hawaii Region of the Hawaii Health Systems Corporation, we would like to express our appreciation for your support of the Emergency Appropriation request, SB 3083 SD2. We want to bring to your attention how urgent the request for cash is. We are asking for you to expedite the approval process so that this appropriation can go to the Governor for release.

The West Hawaii Region's ability to pay vendors for essential goods and services is at a critical point. The Hospital is being put on credit hold virtually every other day by vendors, and we are "robbing Peter to pay Paul" as best we can. Vendors are refusing to provide goods and services without payment in advance. Our physicians that provide critical services to our Emergency Room had to go for a week without being paid. We have had to use our purchase credit cards to pay vendors in order to prevent cancellation of elective surgeries. Today, Hill-Rom (an equipment supplier) has refused to provide equipment for our Emergency



KONA  
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West Hawaii Region Board of Directors

Department until a past due bill has been paid (for which we do not have the money).

Please help us move this E.A. legislation forward as rapidly as possible, so that we can get an appropriation request to the Administration for immediate cash release to HHSC/KCH. We need your immediate help to sustain current levels of healthcare to our community.

Most sincerely,

Liz Heiman Zagorodney, Chair  
West Hawaii Regional Board of Directors

Representing the Board members:

Alistair Bairos, M.D.  
Barry Blum, M.D.  
John Cornillez  
James W. Higgins  
David B. Kaapu, Esq.  
Bruce Makarewicz  
Richard McDowell, M.D.  
Leon E. Pasker, Esq.  
Richard J. Taaffe



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**THE HOUSE  
COMMITTEE ON HEALTH  
Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair**

March 12, 2008, 8:00 a.m.  
Conference Room #329, Hawaii State Capitol

**Testimony Supporting SB 3083 SD2**  
**Making an Emergency Appropriation to the Hawaii Health Systems Corporation**

Donald Lewis  
West Hawaii Region Chief Executive Officer, HHSC

Thank you for this opportunity to offer testimony in strong support of SB 3083 SD2 Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC). The purpose of this measure is to pay current, essential vendors, reduce account payable days, and allow operation and provision of current levels of service in HHSC facilities. HHSC is in an urgent situation of financial deficit and seeks an emergency appropriation.

West Hawaii Region includes Kona Community Hospital and Kohala Hospital serving approximately 60,000 people on the West side of the island including the southern portion of the island of Hawaii.

West Hawaii Region is at a critical condition financially, with difficulty paying for necessary goods and supplies for essential levels of patient care and hospital operations. The situation was serious at the end of January, when Kona Community Hospital avoided being put on cash on delivery payment for drugs with help from what little money other regions could shift in a temporary and urgent action. The situation has escalated--vendors have now directed cash on delivery (COD) terms, the use of purchase card credit was necessary to pay vendors to prevent postponing elective surgeries, an equipment supplier has refused to provide equipment for our Emergency Department until a past due bill has been paid, and payment to physicians providing critical services to the Emergency Room were not paid for a week.

There is an urgent need for this emergency appropriation to allow HHSC facilities to provide current levels of essential acute, long-term care and rural health care services necessary to meet community health needs.

We respectfully request your support and passage of SB 30083 SD2 as quickly as possible.  
Thank you.



WEST KAUAI MEDICAL CENTER – MAHELONA MEDICAL CENTER  
WEST KAUAI CLINICS – WAIMEA, ELEELE, KALAHEO  
**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

*"Touching Lives Everyday"*

*Orianna Skomoroch  
Regional CEO*

**THE HOUSE  
COMMITTEE ON HEALTH  
Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair**

March 12, 2008 – 8:00 a.m.  
Conference Room # 329  
Hawaii State Capitol

**Testimony Supporting SB 3083 SD2**  
**Making an Emergency Appropriation to the Hawaii Health Systems Corporation**

Norman Akita, Chair  
Kauai Regional System Board of Directors, HHSC

Good morning Chair Green and Members of the House Committee on Health. I am Norman Akita, Chair of the Kauai Regional System Board of Directors. The Kauai Regional System Board of Directors was established in November 2007, pursuant to Legislative mandate in 2007. We are in the early stages of understanding the system-wide and regional organization, structure and operations, and are becoming oriented with our responsibilities in a newly authorized governance structure. Although very recently established, we have been apprised of the serious financial situation of the HHSC facilities and regions system-wide.

Thank you for this opportunity to offer support for SB 3083 SD2 Making an emergency appropriation to the Hawaii Health Systems Corporation (HHSC). The purpose of this measure is to pay current, essential vendors, reduce account payable days, and allow operation and provision of current levels of service in HHSC facilities.

The Kauai Regional System Board is dedicated to enhanced community-based governance for the Kauai Region in the State's healthcare safety-net system of acute, long-term care and rural community services and will support the development and advancement of its regional facilities in meeting community-wide needs. We are committed to efforts that will allow our facilities to continue to provide access to essential healthcare in the communities we serve.

We respectfully request your support and urgent passage of SB 3083 SD2. Thank you.

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WEST KAUAI MEDICAL CENTER – MAHELONA MEDICAL CENTER  
WEST KAUAI CLINICS – WAIMEA, ELEELE, KALAHEO  
**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

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*Orianna Skomoroch*  
*Regional CEO*

**THE HOUSE COMMITTEE ON HEALTH**  
**Representative Josh Green, M.D., Chair**  
**Representative John Mizuno, Vice Chair**

March 12, 2008 – 8:00 a.m.  
Conference Room # 329  
Hawaii State Capitol

Testimony Supporting SB 3083 SD2  
Making an Emergency Appropriation to the Hawaii Health Systems Corporation

Orianna Skomoroch  
Kauai Region Chief Executive Officer  
Hawaii Health Systems Corporation

Good morning Chair Green and Members of the House Health Committee. I am Orianna Skomoroch, Kauai Region CEO. The Kauai Region includes West Kauai Medical Center, an acute care facility located in Waimea on the Westside of Kauai and Samuel Mahelona Memorial Hospital, a long-term care facility located in Kapaa on the eastside of Kauai. Kauai Region serves 60,000 people on the island of Kauai.

Thank you for this opportunity to support SB 3083 SD2 Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC). The purpose of this measure is to pay current, essential vendors, reduce account payable days, and allow operation and provision of current levels of service in HHSC facilities. HHSC faces a serious situation of financial deficit and seeks an emergency appropriation.

Kauai Region facilities have critical access hospital designation benefits yet are facing the healthcare challenges of increasing costs and decreasing reimbursements along with the obligation of providing medical care for individuals who are uninsured or unable to afford care. Community needs have surpassed expenditures, exceeding anticipated, budgeted cash collections and during this financial crisis, although separated into regional systems, we have assisted each other by sharing resources with our sister hospitals as best we can to maintain critical levels of care throughout the system. But it is not enough and this emergency appropriation is urgently needed to allow our facilities to continue to provide access to essential quality healthcare in the communities we serve.

We respectfully request your support and urgent passage of SB 3083 SD2. Thank you.

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**OAHU REGION**  
**HAWAII HEALTH SYSTEMS CORPORATION**

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**THE HOUSE**  
**COMMITTEE ON HEALTH**  
**Representative Josh Green, M.D., Chair**  
**Representative John Mizuno, Vice Chair**

March 12, 2008, 8:00 a.m.  
Conference Room #329  
Hawaii State Capitol

**Testimony Supporting SB 3083 SD2**  
**Making an Emergency Appropriation to the Hawaii Health Systems Corporation**

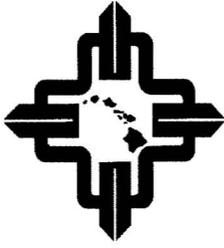
D. William Wood, MPH, PhD  
Chair, Oahu Regional Board of Directors  
Hawaii Health Systems Corporation

Good morning Chair Green and Members of the House Committee on Health. I am D. William Wood, Chair of the Oahu Regional Board of Directors, The Oahu Regional Board was established December 4, 2007, pursuant to the Legislative mandate of Act 290. Our Board has met three times and has formed its committees and started assuming its fiduciary role within the spirit of the Act. This Board is committed to the efficient and effective management of the state funds allocated to our region and to maintaining the quality and excellence of "safety net" facilities within the region. We strongly support this aspect of the Hawaii Health Systems Corporation mission and are well aware of the serious financial situation of the Corporation and its statewide facilities and regions.

Mahalo for this opportunity to submit testimony **in support** of the Emergency Appropriation for HHSC, SB3083 SD2. Without this appropriation your "safety net" facilities in all counties will not be able to pay their current essential vendors, reduce their accounts payable days to an acceptable level, and allow the uninterrupted operation and provision of current levels of service.

The Oahu Regional Board, representing the HHSC facilities of Leahi Hospital and Maluhia Hospital as well as the HHSC interests in Kahuku Medical Center is currently reaching out to its communities in an effort to involve them in the on-going assessment of community needs and the region's efforts in addressing those needs. As we move ahead with our strategic planning and strengthening of our already efficient operations we hope to earn the trust you the legislators of our state have placed in us to manage the public resources in a way that reduces the burden on the overall state budget while maintaining the quality of care available to our residents. As an

initial step, we urge your support of this emergency appropriation to allow us and the Boards of the other four regions of HHSC the time to reinforce the need for efficiency and effectiveness in the management of all HHSC facilities. Mahalo again for allowing me to testify on this essential emergency appropriation.



**OAHU REGION  
HAWAII HEALTH SYSTEMS CORPORATION**

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**THE HOUSE  
COMMITTEE ON HEALTH  
Representative Josh Green, M.D., Chair  
Representative John Mizuno, Vice Chair**

March 12, 2008, 8:00 a.m.  
Conference Room #329  
Hawaii State Capitol

**Testimony Supporting SB 3083 SD2  
Making an Emergency Appropriation to the Hawaii Health Systems Corporation**

Vincent Lee, FACHE  
Oahu Region CEO

Thank you for this opportunity to support SB 3083 SD2 Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC). The purpose of this measure is to pay current, essential vendors, reduce account payable days, and allow the continuation of operation and provision of current levels of service in HHSC facilities.

Healthcare throughout the USA and Hawaii is in crisis, healthcare in Hawaii has major unique problems, and public health care providers are taking on more and more of the burden of rising costs and inadequate reimbursements. HHSC is facing financial challenges, is in an urgent situation having reached a point of serious financial deficit, and is seeking an emergency appropriation.

Oahu Region includes Leahi Hospital and Maluhia which are acute and long-term care facilities in Honolulu. The Oahu region facilities continue to be challenged with rising costs of providing healthcare and inadequate reimbursements while serving individuals who are insured and uninsured. As a state authorized safety-net hospital system we are accessible to all, regardless of ability to pay for care and must rely on private insurance and public program reimbursements that are increasingly inadequate, and on state supplemental funding for those who cannot afford to pay for care.

The Hawaii Health Systems corporation facilities have a tremendous impact on the public, in acute, long-term care and rural health care and HHSC would be unable to sustain services at current levels without additional funding.

We respectfully request your support and passage of SB 3083 SD2. Thank you.

**HAWAII PSYCHIATRIC MEDICAL ASSOCIATION**

1360 S. Beretania Street, 2<sup>nd</sup> Floor, Honolulu, HI 96814

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COMMITTEE ON HEALTH  
Rep. Joshua Green, MD, Chair  
Rep. John Mizuno, Vice Chair

*Finance Hearing*  
*Wednesday, 3/12/08*  
*8:00 am*  
*Conference Rm 329*

Re: SB 3083 SD2  
Making an Emergency Appropriation to  
the Hawaii Health Systems Corporation

**SUPPORT**

The Hawaii Psychiatric Medical Association submits its testimony in support of SB 3083 SD2 for an emergency appropriation to the Hawaii Health Systems Corporation (HHSC). Funds are needed to allow continued operation of its current level of services.

The HHSC provides an essential health service to Hawaii's residents. Reimbursement levels have not kept up with rising costs for providing these services.

Thank you for your consideration to pass this measure.

**HAWAII PSYCHIATRIC MEDICAL ASSOCIATION**