COMMITTEE ON WAYS AND MEANS
Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

Testimony Index

Date: Tuesday, January 10, 2008
Time: 9:00 a.m.
Place: Conference Room 211

Hawaii Health Systems Corporation

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
CORPORATION

Hawaii Health Systems Corporation, HHSC
Informational Briefing

Supplemental Information

Presented to

The Senate
Committee on Ways and Means

Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

January 10, 2008, 9:00 AM
Conference Room # 211
Hawaii State Capitol

Program I.D. and Title: HTH 210 – Hawaii Health Systems Corporation

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 $25.4 million.

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:
  - Leahi $ 199,000
  - Maluhia $ 482,000
- Kauai Region:
  - WKMC -0-
  - SMMH $ 214,000
- Maui Region:
  - MMMC $ 10,687,000
  - Kula -0-
  - Lanai $ 489,000
- East Hawaii Region:
  - HMC $ 7,934,000
  - HHH -0-
  - Kau $ 6,000
- West Hawaii Region:
  - KCH $ 5,347,000
  - Kohala $ 84,000

Hawaii Health Systems Corporation
Summary Consolidated Income Statement
Period Ending October 31, 2007

	Approved Accrual Budget Thru 10/31/07	Actual Accrual Results Thru 10/31/07	Variance Thru 10/31/07
Total Revenues	$ 134,184,000	$ 126,865,000	$ 7,319,000)
New Physician Arrivals Delayed			
Total Expenses	$ 156,873,000	$ 154,466,000	$ 2,407,000
Under-budgeted Physician Expenses			
Non Operating Income(Loss)	$ 22,689,000)	$ (27,601,000)	$ (4,912,000)
Interest Expense		$ (1,208,000)	
Other Non-Operating Income		$ 1,602,000	
Income(Loss) Before State Subsidy		$ (27,207,000)	
Needed Emergency Appropriation		$ 25,400,000	
Outstanding A/P as of 06/30/07 Days in A/P at 06/30/07 = 75		$ 32,293,000	

Forecast Outstanding Accounts Payable as of June 30. 2008 = $40,107,000

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	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)	(1,096)	(159,868)
Operating Cash Flow Deficit	**(9,944)**	**(3,270)**	**(5,091)**	**(5,657)**	**(1,210)**	**(1,355)**	**(794)**	**(1,189)**	**(1,548)**	**(5,052)**	**(4,686)**	**(1,536)**	**(7,852)**	**(49,184)**
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 Alii Community Care	(308)	(393)	(161)	(87)	(26)	(14)	(13)	(43)	(9)	(58)	(46)	(42)	-	(1,200)
Noncapital Financing Cash Flow Surplus	**12,815**	**7,586**	**6,731**	**6,276**	**2,005**	**1,382**	**887**	**1,575**	**1,451**	**5,252**	**4,777**	**1,675**	**-**	**52,412**
Repayments on Capital Lease Obligations-Current	(2,039)	(4,140)	(2,261)	(702)						(2)	(164)	(191)	(927)	(10,426)
Repayemnts on Capital Lease Obligations-Future	(158)	(277)	(92)	(60)	-	-	-	-	-	(29)	-	-	-	(616)
Capital and Related Cash Flow Deficit	**(2,197)**	**(4,417)**	**(2,353)**	**(762)**	**-**	**-**	**-**	**-**	**-**	**(31)**	**(164)**	**(191)**	**(927)**	**(11,042)**
Allocation of Corporate Office Costs	**(2,251)**	**(2,872)**	**(1,177)**	**(636)**	**(193)**	**(101)**	**(97)**	**(315)**	**(67)**	**(425)**	**(339)**	**(306)**	**8,779**	**-**
Cash Flow Deficit by Facility	**(1,577)**	**(2,973)**	**(1,890)**	**(779)**	**602**	**(74)**	**(4)**	**71**	**(164)**	**(256)**	**(412)**	**(358)**	**-**	**(7,814)**
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
FY 08 Emergency Appropriation	**7,934**	**10,687**	**5,347**	**-**	**-**	**6**	**84**	**-**	**489**	**199**	**482**	**214**	**-**	**25,442**
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	383,652
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)
Operating Cash Flow Deficit	**(7,112)**	**(8,160)**	**(2,672)**	**(2,951)**	**(706)**	**(796)**	**(412)**	**(689)**	**(913)**	**(3,279)**	**(2,949)**	**(896)**	**(4,583)**	**(36,118)**
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
Financing of Alii Community Care	(180)	(229)	(94)	(51)	(15)	(8)	(8)	(25)	(5)	(33)	(27)	(25)	-	(700)
Noncapital Financing Cash Flow Surplus	**1,233**	**1,541**	**606**	**262**	**107**	**64**	**75**	**260**	**40**	**355**	**264**	**163**	**62**	**5,032**
Repayments on Capital Lease Obligations-Current	(1,709)	(2,400)	(1,441)	(627)						-	(96)	(111)	(505)	(6,889)
Repayments on Capital Lease Obligations-Future	(92)	(161)	(54)	(35)	-	-	-	-	-	(17)	-	-	-	(359)
Capital and Related Cash Flow Deficit	**(1,801)**	**(2,561)**	**(1,495)**	**(662)**	**-**	**-**	**-**	**-**	**-**	**(17)**	**(96)**	**(111)**	**(505)**	**(7,248)**
Allocation of Corporate Office Costs	**(1,289)**	**(1,644)**	**(674)**	**(364)**	**(110)**	**(58)**	**(55)**	**(180)**	**(39)**	**(244)**	**(194)**	**(175)**	**5,026**	**-**
Cash Flow Deficit by Facility	**(8,969)**	**(10,824)**	**(4,235)**	**(3,715)**	**(709)**	**(790)**	**(392)**	**(609)**	**(912)**	**(3,185)**	**(2,975)**	**(1,019)**	**-**	**(38,334)**
A/P @ 11/30/07	8,705	13,321	5,090	1,188	250	85	52	600	45	135	191	328	2,363	32,353
Projected A/P @ 6/30/08	**17,674**	**24,145**	**9,325**	**4,903**	**959**	**875**	**444**	**1,209**	**957**	**3,320**	**3,166**	**1,347**	**2,363**	**70,687**
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
Projected Days in A/P @ 6/30/08 ($70,687K)	**156**	**148**	**162**	**130**	**109**	**193**	**122**	**141**	**247**	**316**	**357**	**90**	**787**	**161**

NOTE:
Change in projection of accounts payable balance at 6/30/08 is due to:
[1] 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.
[2] 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.
[3] 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.

	September and Earlier	October	November	December	January	Total
Corporate	1,514,889.03	98,704.06	40,750.03	(65,888.27)		1,588,454.85
Hamakua	798.67		18,250.84	67,834.91	50,727.53	137,611.95
Hilo	2,540,754.23	2,459,345.02	2,258,695.79	1,359,274.57	129,125.98	8,747,195.59
Kau			12,547.71	78,791.36	24,747.87	116,086.94
Kohala			8,152.86	10,268.28	158.24	18,579.38
Kona	1,547,201.25	1,310,567.10	1,153,938.00	536,061.33	134,620.06	4,682,387.74
Kula	112,138.14	121,655.91	222,814.10	169,249.93	1,927.54	627,785.62
KVMH	3,089.15	64,327.28	36,445.57	199,416.45	13,657.15	316,935.60
Lanai	3,610.42	39,567.85	101,330.37	34,793.13		179,301.77
Leahi	2,388.79	41.71	1,642.51	39,301.16	27,807.00	71,181.17
Maluhia				31,743.57	25,100.99	56,844.56
Maui	3,264,471.70	3,518,623.91	4,204,934.26	3,596,328.85	182,506.58	14,766,865.30
SMMH	626.29	7,948.59	115.60	42,143.85	1,032.00	51,866.33
	8,989,967.67	7,620,781.43	8,059,617.64	6,099,319.12	591,410.94	31,361,096.80

*Invoices that are posted on or after January 9, 2008 (approx. 7:48 a.m.) are not included in the report.

Source: AS 400 - HBOC

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
CORPORATION

Hawaii Health Systems Corporation, HHSC
Informational Briefing
Fiscal Year 2009

Presented to the

The Senate
Committee on Ways and Means

Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

January 10, 2008, 9:00 AM
Conference Room # 211
Hawaii State Capitol

Program I.D. and Title: HTH 210 – Hawaii Health Systems Corporation

I. Introduction:

A. Summary of program objectives.

To maintain and enhance the levels of accessible service and quality of care for the communities we serve in the most effective and cost-efficient fashion thus providing better healthcare for the people of Hawaii, with emphasis on support for our rural acute and Long Term Care (LTC) facilities.

Hawaii Health Systems Corporation (HHSC) facilities include: Hilo Medical Center, Hale Ho'ola Hamakua, and Ka'u Hospital (East Hawaii Region); Kona Community Hospital and Kohala Hospital (West Hawaii Region); Maui Memorial Medical Center, Lanai Community Hospital and Kula Hospital (Maui Region); Leahi Hospital and Maluhia (Oahu Region); Kauai Veterans Memorial Hospital and Samuel Mahelona Memorial Hospital (Kauai Region) as well as State Veterans Home, Hilo; Roselani Place Assisted Living Center, Maui; and Management control for Kahuku Hospital, Oahu.

B. Description of program objectives.

System. Following direction set by the HHSC Board of Directors, and with advice provided by both the Regional Public Health Facility Management Advisory Committees and the Physician Advisory Group, as we transition to a structure that includes Regional System Boards, the HHSC President/CEO and staff, in collaboration with our Regional CEO's; coordinate and implement planning, policy formulation, hospital system operation, business development, quality assurance, corporate compliance, coordination, financial management, legal counsel, public affairs, personnel management, materials management, information systems operation and technical services support for regions and their respective community hospitals, as well as interaction with the State administrative government agencies, the Hawaii Legislature, Hawaii's Congressional Delegation, community advisors, labor leaders, employees, medical staff and all other key stakeholders.

Regions and Facilities. HHSC manages and operates, for the State of Hawaii, the largest community hospital system in the State that is the 25th largest business in Hawaii and the 4th largest public health system in the nation. HHSC's Community Hospitals are organized into five regions and the HHSC sole member not-for-profit 501 (c) 3's across five different islands. The major activities and services provided by the five regions and fifteen community facilities constitute the primary hospital acute, long term care (LTC) and rural health care on the Neighbor Islands with a large LTC presence on Oahu.

Essentially, HHSC provides the hospital "safety-net" for community acute and long term care services on the neighbor islands plus additional levels of specialty service in select locations. Collectively, through operations of our eleven emergency departments, HHSC hospitals are the largest provider of emergency services in the State, far surpassing the annual number of ER visits logged by Queen's Medical Center, the State's Trauma Center. Collectively, HHSC hospitals are the single largest provider of LTC services in the State. In this regard, HHSC essentially also serves as the LTC "safety net" for the State of Hawaii. Inpatient services include surgical, medical, critical care, obstetrics, pediatrics, and psychiatric care. Outpatient care services include ambulatory surgery, home health, and emergency room services. Clinical services include nursing, anesthesiology, central supply, radiology, oncology, pathology, cardiology, pediatrics, obstetrics, home health, respiratory therapy, physical and occupational therapy, social services, pharmacy, and dietary. Support services include administration, admitting, business, personnel, data processing, medical records, logistics, housekeeping, and maintenance.

Identification of important system relationships. As a public hospital system, HHSC depends heavily on input and support from our local communities. Over this past year, hundreds of community volunteers Statewide donated over 100,000 service hours to our facilities. Generous benefactors donated many hundreds of thousands of dollars to our nine hospital foundations. This close collaboration between HHSC and community organizations is essential to the long-term success of HHSC.

During the aftermath of the Big Island earthquake disaster on October 15, 2006, maintenance, engineering, and other staff from non-affected HHSC facilities (i.e., Hilo Medical Center, Kauai Veterans Memorial, Leahi Hospital, and Samuel Mahelona Memorial Hospital) provided immediate and intermediary support in the recovery and assessment phases. Equally important, members of the respective, affected communities were immediately at hand to provide additional support. Collaborative efforts will continue with Home Land Security, state and county civil defense, department of health, and the military in preparation for future disasters. Although this event occurred in October 2006, the recovery aftermath continues.

The five statutorily created, regional Public Health Facility Management Advisory Committees (MACs) provided valuable input to the President and CEO in the first part of this fiscal year on the needs of the communities. *Pursuant to Act 290, SLH 2007, Public Health Facility Management Advisory Committees (MACs) are abolished as Regional System Boards are established in each region.*

The Physicians Advisory Group (PAG) now reconstituted as Physician Leadership Group (PLG) includes physicians throughout the islands who volunteer their time and talents to come together on a periodic basis with the President and CEO to discuss the clinical and medical staff issues facing our hospitals. The PLG represents approximately 1,000 HHSC medical staff members who are essential to operations and success of HHSC. The continuing guidance and support of the PLG is tremendously important to both the successful functioning of the system and establishment of strategic direction for the system.

HHSC management has worked to obtain donations and grants to both enhance services provided and to offset the cost of operating our system under the provisions of State civil service collective bargaining in predominately rural areas. In this regard, HHSC has promoted the development of foundations at our hospitals and incorporated the Hawaii Health Systems Foundation (HHSF) as a wholly owned subsidiary 501(c)(3). The HHSF is working in coordination with eight other foundations associated with HHSC facilities to maximize donations and grants for the system and for respective facilities. Nine years ago, there were three foundations supporting HHSC facilities of which only two were active. Today there are nine separate foundations and multiple hospital auxiliaries supporting one or more HHSC hospitals.

C. Explain how your system intends to meet its objectives within the upcoming fiscal biennium. (Supplemental fiscal year?)

HHSC hopes to meet FY 08 and FY 09 program and budget objectives by collecting patient revenues to meet approximately 85 percent of expense requirements resulting in minimized general fund requirements. HHSC will execute its operations in the most efficient manner possible to ensure continued provision of access to quality safety-net services to all the communities served by HHSC hospitals, HOWEVER, HHSC will need $25.4 million Emergency appropriation (EA) from either the Legislature or some other source to successfully operate through the full FY 2008.

II. Program Performance Results:

A. Discuss the performance results achieved by each program in FY07 and FY08

Quality "patient safe", accessible and affordable healthcare efficiently provided by HHSC facilities to all communities served. Details available upon request.

B. Explain how these results relate to the program's objectives and department's mission.

Mission accomplished. Successfully fulfilled HHSC Safety-Net mission with quality outcomes.

Program activities were accomplished in the past year (FY07), with 22,240 in-patient admissions and 113,859 acute care patient days, 1,184 long-term care admissions, 283,242 long-term care patient days, 3,790 babies born, and 98,140 emergency room visits.

C. Explain how the effectiveness of the program is measured and discuss the performance results achieved during the past two years.

All 15 HHSC facilities are fully certified and have maintained their licensure by both State & National standards. All HHSC facilities are certified annually by Medicare/Medicaid and all have successfully passed those surveys.

HHSC also continues its long-standing participation with Hawaii Medical Services Association (HMSA) Hospital Quality and Service Recognition program that offers financial incentives for meeting performance indicators related to patient care quality.

Since its successful system accreditation in 2005, HHSC's four accredited facilities continue to focus its efforts on anticipated changes in the accreditation process and emphasis as it prepares for re-accreditation in 2008.

In relation to the Joint Commission's newly implemented unannounced survey process, HHSC facilities have initiated activities to achieve constant survey readiness. Maui Memorial Medical Center has integrated Joint Commission preparedness and daily readiness that traces the patient from admission to discharge with its routine management practice.

In addition, HHSC annually has a detailed independent third party financial audit conducted for the entire system. HHSC has just received its tenth consecutive "clean" unqualified audit with no material weaknesses and no reportable conditions. Furthermore, HHSC has a myriad of internal reporting / performance measures that are utilized by the board of Directors and management to insure compliance, quality and financial efficiency in all system work. Details available upon request. HHSC has hired a second internal auditor to further enhance and ensure our commitment to compliance and quality / financial efficiency throughout our system.

D. Discuss actions taken by each program to improve its performance results.

Facilities have used past survey results and recent changes in survey guidelines to establish monitoring and process improvement initiatives that are actively being managed. The results of these efforts should be seen in the outcomes of CMS licensure surveys and findings. Although there are occasional short term set backs, long term aggregate results are very positive.

E. Please identify all modifications to your system's performance measures and discuss the rationale for these modifications.

As necessary, HHSC internal reporting / performance measures are continually adjusted and revamped to meet the ever-changing needs of today's fluid healthcare environment. Some examples are in annual reporting measures on workers compensation; new revenue enhancing measures; and additional quality measures involving patient safety.

Annually, HHSC focuses on new national patient safety goals most recently approved by Joint Commission as it relates to hospitals and critical access hospitals. Details available upon request.

III. Problems and Issues:

A. Discussion of problems and issues encountered if any.

1. National Health Care Challenges

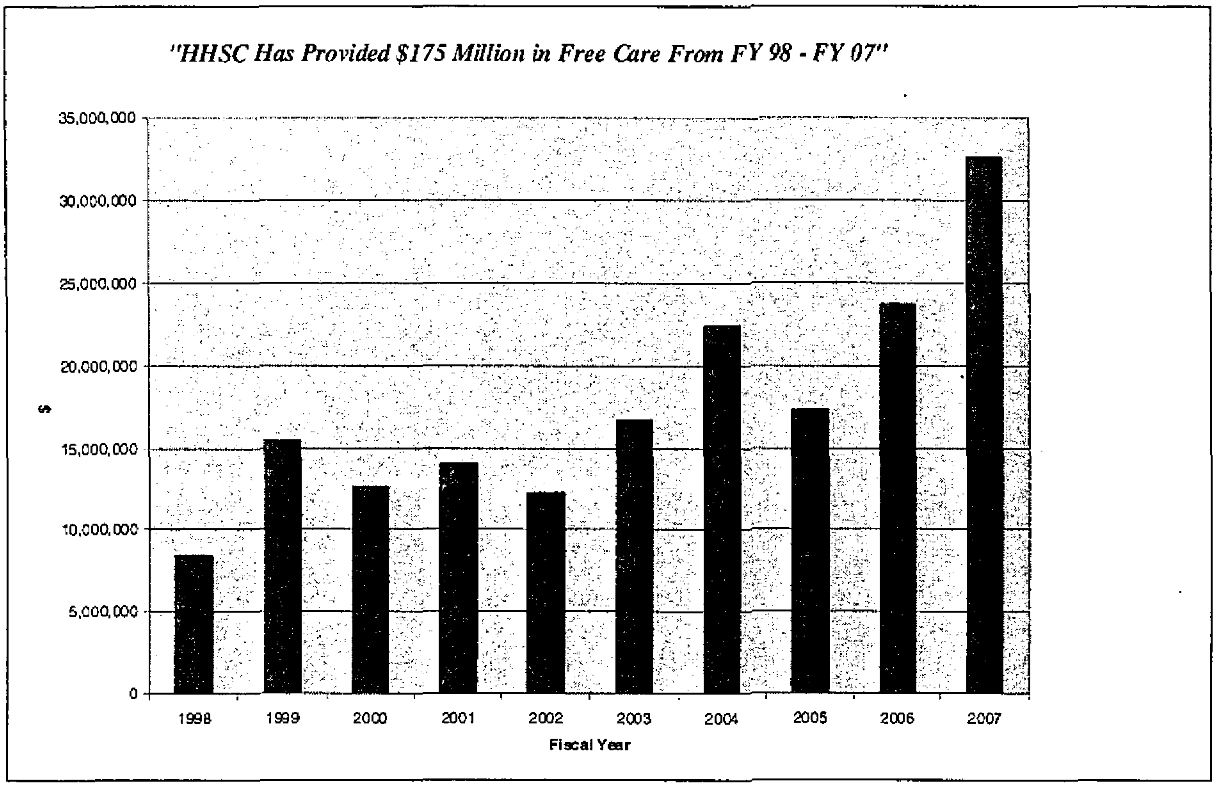
- Decreasing reimbursements for all providers
- Increasing pressures on physicians
- Increasing charity care/bed debt
- Skilled healthcare labor shortage
- Nice providers skimming profitable services
- Expensive malpractice insurance
- Cost of compliance

2. <u>Hawaii Healthcare Challenges</u>

- Only state in USA with no regular Medicaid "DSH" payment
- One of only two states in USA that tax (GET) medical services
- Ranked #50 in USA for not keeping up with hospital capital requirements
- Ranked #50 in USA for Average Reimbursement % of Cost
- Long-term care (LTC) crisis

3. <u>HHSC Specific Healthcare Challenges</u>

- High cost of labor and benefits with no corresponding input in collective bargaining negotiations
- Procurement code
- Levels of service mandated by legislature
- Inherited liabilities
- LTC Wait List problem in HHSC acute facilities
- Lack of physician specialists on neighbor islands medical staffs
- No level playing field for third party payer negotiations
- Outdated facilities
- Inadequate investment in Information Technology infrastructure and software
- Medicaid Equity Reimbursement Act 294 will cost HHSC (and ultimately the State) over $13 million per year in lost reimbursement
- Geographically dispersed
- Remote population served
- Diverse community needs
- Labor force shortage exacerbated on neighbor islands
- Housing (not affordable/available) on neighbor islands
- Communities are depending upon HHSC – sometimes no other option



Financial Trends of Hawaii's Hospitals, Nursing Facilities, Home Care and Hospice

Providers have been experiencing losses consistently since 2000

- Total costs exceeded payments for Hawaii's hospitals in 2006 by $150,000,000 ($150 million)
- Contributing to those losses are costs not covered by government payors and community benefits including medical education, community programs, bad debt and charity care, waitlist patients and trauma care
- Investment income and other revenues have helped to reduce the overall losses for some hospitals
- Hospitals without significant investments and other revenue sources operate at an overall loss
- Cumulative losses since the implementation of the Balance Budget Act of 1999, have depleted reserves the hospitals had saved for future capital projects and serving the community

HAH Healthcare Association 26

Payments to Hawaii Hospitals

Hawaii's overall payment as a percentage of costs is the lowest in the United States

- Hawaii payments are primarily from Medicare, Medicaid, commercial payors (HMSA, UHA, HMAA, etc.) and others (Workers' Compensation, No-Fault, etc.)
- Medicare and Medicaid do not pay for the full cost of hospital services provided to beneficiaries in most states
  - Over 50% of all inpatients hospitalizations are covered by Medicare or Medicaid/Quest
  - 2006 Medicare losses for hospitals were approximately $181,200,000
  - 2006 Medicaid/Quest losses for hospitals were approximately $63,500,000
- In many states, private insurance covers the shortfall from the government payors

Calendar Year 2006
Percent of Costs Paid by:

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

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)

HAH Healthcare Association of Hawaii 6

B. Program change recommendations to remedy problems.

The HHSC Board of Directors and management are committed to continuing the transformation of HHSC's structure into a healthcare system that enhances excellent access to highest-quality healthcare for all patients in our communities regardless of their ability to pay. In order to continue being the quality system that our communities deserve, and reduce State's payments for services provided by HHSC, HHSC must be afforded much more autonomy, with support to address concerns beyond HHSC control.

In order to continue to provide the levels of services needed in rural communities and as a necessity for maintaining the essential, emergency room services in rural communities HHSC is seeking an emergency appropriation of $25.4 million to help cover Accounts Payable for this fiscal year. If this level of support is not forthcoming, then HHSC hospitals will be put in jeopardy of being closed by vendors who we can not pay.

FY 2008 Emergency Appropriation $25.4m By Region/Facility

- Oahu Region:
  - Leahi $ 199,000
  - Maluhia $ 482,000
- Kauai Region:
  - WKMC -0-
  - SMMH $ 214,000
- Maui Region:
  - MMMC $ 10,687,000
  - Kula -0-
  - Lanai $ 489,000
- East Hawaii Region:
  - HMC $ 7,934,000
  - HHH -0-
  - Kau $ 6,000
- West Hawaii Region:
  - KCH $ 5,347,000
  - Kohala $ 84,000

1

FY 2009 Supplemental Budget Submission

- Supplemental Operating Budget Submission: $ 57 Million
- Supplemental CIP Budget Submission: $ 99.8 Million

2

FY 2009 Supplemental Operating Budget Submission – Totals by Facility/Region

HMC:	$17, 528	MMMC:	$ 21,735	KCH:	$10,436
HHH:	443	KULA:	318	Kohala:	695
KA'U	358	LANA'I:	728		

East HI: $18,329 | Maui Region: $22,781 | West HI Region: $11,131

WKMC:	$ 1,684	LEAHI:	$ 975
SMMH:	1,078	MALUHIA:	1,017

Kauai Region: $ 2,762 | Oahu Region: $ 1,992

4

FY 2009 Supplemental CIP Budget Submission – Totals by Facility/Region

HMC:	$12,344,841	MMMC:	$28,920,956	KCH:	$18,450,969
HHH:	4,936,012	KULA:	8,177,132	Kohala:	4,420,767
KA'U	4,269,062	LANA'I:	4,709,815		

East HI: $17,381,000 | Maui Region: $36,539,000 | West HI Region: $20,940,000

WKMC:	$ 2,718,711	LEAHI:	$ 4,487,367
SMMH:	$ 1,709,314	MALUHIA:	4,654,054

Kauai Region: $ 3,010,000 | Oahu Region: $ 7,929,000

5

C. **Identify any program issues or problems that have affected or will affect the implementation of the program, and the corrective measures or remedies established or planned.**

Please note that all problems mentioned in paragraph III A do have an impact on implementation of the HHSC program. However the following three points deserve special concern and comment.

- Operating under the State Procurement Code continues to add millions of dollars (approximately $5 million per year) to HHSC operating costs and continues to negatively affect our ability to procure goods and services in timely and appropriate manner. HHSC incurs other non-tangible costs from operating under the procurement code, such as lost opportunity for savings and new revenues because of the limitations imposed by the code and State Procurement Office requirements. While it is not a current HHSC legislative initiative to re-establish HHSC's exemption from the procurement code, it will be necessary, in the long term, to exempt HHSC from the procurement code to provide effective, efficient, cost-effective procurement services and to sustain timely, efficient access to healthcare for the communities we serve.
  According to Act 290, SLH 2007, the regions are not subject to procurement code as well as other state agency laws relating to other contract restrictions and sunshine law, i.e., chapters 103-53, tax clearance, 102 vendor concessions, 92 Part I, public meetings law however, the procurement exemption provision does not take effect until Regional System Boards are "fully" constituted..

- Compensation for Physician On-Call coverage at the HHSC hospitals will greatly increase overall operational costs by a projected amount of approximately $15 million in FY 08 and $16 million in FY 09. HHSC is compensating for the situation by recruiting, hiring and contracting with physician specialists to provide coverage for our Emergency Rooms. This situation has significantly worsened over the past year and been a major factor in necessitating a FY09 Supplemental Request of $57 million (amount includes the FY08 $25.4 m EA).

- Uniform provision of specialty medical care on the Neighbor Islands has been increasingly difficult to maintain. HHSC's engagement with NBBJ master planners is a major initiative that is intended to provide the State with a new comprehensive integrated system master plan. This plan will be developed from the bottom up with input from communities, physicians, nurses and management at the facility, region, and system levels in that order. Part of the concept involves establishing a referral center on Maui focused on quality outcomes serving as a disaster management center and Level II trauma center, with open heart surgery and other specialty services that will interact with robust HHSC Community Hospitals, LTC facilities, Critical Access Hospitals and other partners throughout the State of Hawaii. The master planning process also anticipates establishing level III trauma centers at Kona Community Hospital and Hilo Medical Center plus many other regional initiatives such as a health science center at Hilo Medical Center, some type of chronic/facility in West Hawaii, enhanced surgical capabilities on Kauai, enhanced long term care (LTC) capability on Oahu, and increased physician specialty emergency care capability throughout the system.

IV. Expenditures for Fiscal Year 2007-2008

	Act 213/2007 FY 2008	C/B	Net Allocation	Est. Total Expenditures
(posn count)	(2836.25)		(2836.25)	(2836.25)
Personal Svcs	291,575,000	11,194,015	302,769,015	302,769,015
Current Exp.	141,691,232	-	141,691,232	141,691,232
Equipment		-	-	
Motor Vehicles		-	-	
TOTAL	433,266,232	11,194,015	444,460,247	444,460,247

(posn count)	(2836.25)		(2836.25)	(2836.25)
Special	379,654,000		379,654,000	379,654,000
General	53,612,232	11,194,015	64,806,247	64,806,247
Other			-	
	433,266,232	11,194,015	444,460,247	444,460,247

V. Supplemental Budget Request for Fiscal Year 2008-2009:

	Act 213/2007 FY 2009	Supplemental Request	Est. Total Expenditures
(posn count)	(2836.25)		(2836.25)
Personal Svcs	296,024,763		296,024,763
Current Exp.	161,058,198		161,058,198
Equipment			-
Motor Vehicles			-

TOTAL	457,082,961	-	457,082,961
(posn count)	(2836.25)		(2836.25)
Special	403,460,000		403,460,000
General	53,622,961		53,622,961
	457,082,961	-	457,082,961

Workload or Program Request:

HHSC is not submitting a workload or program request.

VI. Capital Improvement Requests for Fiscal Year 2008-2009

1. X-RAY SYSTEM REPLACEMENT, STATEWIDE

DESIGN, CONSTRUCTION, AND EQUIPMENT TO REPLACE EXISTING X-RAY SYSTEM AT SMMH, MALUHIA, KOHALA, KULA, HALE HO'OLA HAMAKUA, AND KAU HOSPITALS, STATEWIDE

	FY 2009
Design	324 C
Construction	2154 C
Equipment	6 C

Explanation and Scope of Project

To replace the existing x-ray system with a new digital x-ray system.

Justification for the Project

The existing x-ray system uses chemicals to develop the x-ray film and the chemicals are deteriorating the sewer lines. A digital x-ray system at SMMH, Maluhia, Kohala, Kula, Hale Ho'ola Hamakua, and Kau hospitals will eliminate the use of chemicals.

Senate District (Statewide) **House District** (Statewide)

2. LANAI COMMUNITY HOSPITAL, UPGRADE PLUMBING, LANAI

DESIGN AND CONSTRUCTION TO UPGRADE THE PLUMBING IN THE HOSPITAL, LANAI

	FY 2009
Design	151 C
Construction	1167 C

Explanation and Scope of Project

To upgrade the plumbing system at Lanai Community Hospital.

Justification for the Project

The hospital building and plumbing are over 38 years old and many of the fixtures and pipes need to be assessed and upgraded to ensure the health and safety of our patients.

Senate District 004 **House District** 007

3. KULA HOSPITAL, SEWER AND GREASE TRAP SYSTEM UPGRADE, MAUI

DESIGN, CONSTRUCTION, AND EQUIPMENT TO UPGRADE THE SEWER AND GREASE TRAP SYSTEM FOR THE HOSPITAL, MAUI

	FY 2009
Design	1 C
Construction	1298 C
Equipment	1 C

Explanation and Scope of Project

To install a wastewater treatment system to replace the existing large capacity cesspools and replace the dietary grease trap.

Justification for the Project

Federal law requires the elimination of large capacity cesspools by April 2005. The hospital is in non-compliance but has apprised the EPA of our commitment to convert the existing cesspools to a compliant wastewater treatment system. EPA will monitor our progress of the conversion.

Senate District 006 **House District** 012

4. KONA COMMUNITY HOSPITAL, SEISMIC MITIGATION, HAWAII

DESIGN AND CONSTRUCTION TO IMPLEMENT SEISMIC MITIGATION MEASURES, HAWAII

	FY 2009
Design	1 C
Construction	999 C

Explanation and Scope of Project

Seismically anchor all overhead lighting, ceiling grids, overhead plumbing, electrical pipes and conduits, as well as all overhead air handling HVAC units. All equipment over 300 pounds shall be anchored.

Justification for the Project

Following the October 15, 2006 earthquake, items were dislodged and only certain critical items were later anchored. An evaluation was conducted and most of the items listed were identified as not having any seismic supports or anchoring.

Senate District 003 **House District** 005

5. KAUAI REGION, MASTER PLANNING, KAUAI

PLANS TO IMPLEMENT A MASTER PLANNING DOCUMENTATION FOR THE KAUAI REGION HOSPITALS.

	FY 2009
Plans	1000 C

Explanation and Scope of Project

To develop and implement a master plan for the Kauai Region Hospitals.

Justification for the Project

None of the facilities have a master plan to assist them in future planning and development for their campuses.

Senate District 007 **House District** 013 and 014

6. NURSE CALL SYSTEM REPLACEMENT, STATEWIDE

DESIGN, CONSTRUCTION, AND EQUIPMENT TO UPGRADE THE EXISTING NURSE CALL SYSTEMS AT HILO, LEAHI, HALE HO'OLA HAMAKUA, AND KAU HOSPITALS, STATEWIDE

	FY 2009
Design	328 C
Construction	2224 C

Equipment 4 C

Explanation and Scope of Project

To replace the existing nurse call systems as the equipment is old and some replacement parts obsolete.

Justification for the Project

When the nurse call systems are being repaired, some patients are left without a nurse call service, which could endanger the health and safety of our patients.

Senate District (Statewide) **House District** (Statewide)

7. MAUI MEMORIAL MEDICAL CENTER, DIALYSIS UNIT, MAUI

DESIGN FOR A DIALYSIS UNIT AT MAUI MEMORIAL MEDICAL CENTER, MAUI

	FY 2009
Design	400 C

Explanation and Scope of Project

To design a new dialysis unit utilizing existing space in the Surgi-Center department. The new unit will have 8 stations and will be properly designed and built for dialysis.

Justification for the Project

The current dialysis site has been cited by the Department of Health partially due to space constraints. In-patient dialysis is a crtical service Maui Memorial Medical Center must provide for their acute care patients. The hospital provided over 1,700 dialysis treatments per year and the number continues to trend upwards.

Senate District 005 **House District** 009

8. MALUHIA, UPGRADE ELECTRICAL SYSTEM, OAHU

DESIGN AND CONSTRUCTION TO UPGRADE THE ELECTRICAL SYSTEM TO TIE IN THE EMERGENCY POWER TO THE DIETARY DEPARTMENT AND TO ADD EMERGENCY POWER OUTLETS IN EACH PATIENT ROOM, OAHU

FY 2009

Design	112 C
Construction	813 C

Explanation and Scope of Project

To upgrade the electrical system to provide emergency power for areas in the dietary and nursing departments.

Justification for the Project

Currently, when there is an extended power outage, extensions cords are run between rooms to keep critical life support equipment running. The extension cords pose a tripping hazard. For the dietary department, there is a potential for food spoilage if the refrigeration units are not on emergency power.

Senate District 014 **House District** 027

9. LEAHI HOSPITAL, SECURITY RENOVATIONS FOR LONG TERM CARE UNTIS, OAHU

DESIGN AND CONSTRUCTION TO RENOVATE THE LTC UNITS TO SECURE EXITS, OAHU

	FY 2009
Design	45 C
Construction	254 C

Explanation and Scope of Project

To renovate the entrances to the long term care unit to prevent patients from wandering out of the unit.

Justification for the Project

Some of the patients have Alzheimer's and require constant supervision. The existing security system has not worked.

Senate District 010 **House District** 019

VIII. Proposed Lapses of Capital Improvement Program Projects:

None

"Touching Lives Everyday"
HAWAII HEALTH SYSTEMS
CORPORATION

Informational Briefing on Kahuku Hospital

Presented to the

The Senate
Committee on Ways and Means

Senator Rosalyn H. Baker, Chair
Senator Shan S. Tsutsui, Vice Chair

January 10, 2008, 9:00 AM
Conference Room # 211
Hawaii State Capitol

Program I.D. and Title: HTH 211 – Kahuku Hospital

I. Introduction:

Kahuku Hospital has been serving the residents of the north shore of Oahu from Kualoa to Waimea Bay, with a population of about twenty-seven thousand, since 1929. Kahuku Hospital is a twenty-five bed facility that has provided an array of health care services, including emergency care, general acute care, skilled nursing, ancillary care, and health education. It is one of nine hospitals in Hawaii with a federal Medicare designation as a critical access hospital, which allows it to annually receive higher reimbursements.

In the public interest to keep Kahuku Hospital operating to serve the residents of the north shore of Oahu, the legislature and governor enacted Act 113. Act 113 authorized the Hawaii Health System Corporation to bring Kahuku Hospital under its governance through formal affiliation with the corporation and to provide for transitional facilitation by the Director of Health. A sum of 3.9 million was appropriated for fiscal year 2007- 2008 to carry out the purpose of the Act. Additionally, 1.5 million was appropriated for operational shortfalls for 2008 and 2009.

Hawaii Health Systems Corporation (HHSC) facilities include: Hilo Medical Center, Hale Ho'ola Hamakua, and Ka'u Hospital (East Hawaii Region);

Kona Community Hospital and Kohala Hospital (West Hawaii Region); Maui Memorial Medical Center, Lanai Community Hospital and Kula Hospital (Maui Region); Leahi Hospital and Maluhia (Oahu Region); Kauai Veterans Memorial Hospital and Samuel Mahelona Memorial Hospital (Kauai Region) as well as State Veterans Home, Hilo; Roselani Place Assisted Living Center, Maui; and Management control for Kahuku Hospital, Oahu.

II. Current Status

- Transition is pending.
- New entity, Kahuku Medical Center, established.
- Bankruptcy Court approval of purchase of Kahuku Hospital obtained October 29, 2007.
- HHSC and Kahuku Hospital are awaiting opinion of Special Counsel regarding prior compliance issues.
    - There is a possibility of government claim for prior compliance violations against an entity that assumes the prior provider's Medicare agreement
    - For that reason, parties jointly retained Special Counsel and will adhere to her recommendations:
        - If self report recommended, funds will be set aside by Seller to (hopefully) resolve government potential claim.
        - If self report not required, parties will have a legal opinion to that effect.
        - In either case, HHSC would be insulated from liability exposure by maintaining Kahuku Medical Center as separate legal entity with its own board, by-laws, separate accounts, employees, etc
- Once purchase sale agreement is executed, Kahuku Medical Center will apply for transfer of Medicare Provider agreements and Department of Health will issue new hospital and skilled nursing facility licenses.

III. Accomplishments to date since Oahu Region HHSC Involvement

- Licenses/ Provider Numbers
    - Received several licenses for Kahuku Medical Center- Pharmacy, Controlled Substances, DEA, Industrial Wastewater Discharge, all other applications submitted- awaiting purchase sale agreement and effective date
    - CMS provider applications completed, pending sale date for submission
- Certificate of Need
    - Approval for purchase received for Kahuku Medical Center
    - CON for Kahuku Medical Center to convert SNF to dual license verbally approved
    - Letter to convert Kahuku Hospital SNF to dual license verbally approved
- Equipment
    - Purchased- defibrillator/monitor/pacer for ER, wheelchair scale
    - Purchased computer server and PC's

- Computer Network established
- Established lines of communication
    - DOH Director, legislators, and community
- Liability coverage in place
- Provision of Oahu Region Expertise
    - Nursing, Infection control, wound care, mock OHCA survey
- Re-establishment of a utilization management function
- Creation of patient admission handbooks for Kahuku Medical Center
- Corporate compliance education for physicians
- Centralized all contracts and creation of "contract inventory"
    - Assignment of essential contracts completed
- Human Resources
    - creation of Employee handbook, pension and benefit plans
    - preliminary meeting with unions and written or verbal contract extensions
    - established an authorization process
    - added a clerk with plans to centralize HR processes

IV. Problems and Issues:

A. Immediate Challenges

- Drain on Oahu Region/HHSC resources – by extended assistance, region is spread thin
- Fiscal management challenges including effect of inaccessible bankruptcy monies
- Resolution of past compliance issues as it relates to transition to Kahuku Medical Center
    - Community Health Center storage, compliant leases, licensing for ICF, etc
    - Dealing with software contractual issues r/t confidentiality of data to load software to network
- Monitoring of contracts and licenses that expire due to extended transition.
- Atmosphere of "unknown" transition date affects HHSC and Kahuku staff, physicians, and community. Delays plans for changes

B. Facilities and Operational Issues

- Establishment of a procurement system
- Contract templates, fair market value, legal review
- Aging Facility
    - Failing AC system, leaking roof, elevators, nurse call, fire alarms, helipad, etc
- Additional computer hardware and educational needs
- Culture Change
    - Currently decentralization of functions

        - Employee practices
- Human Resources/Labor
    - Kahuku Medical Center to negotiate new contracts with HNA & UPW after acquisition of assets completed
    - Record keeping
- Infrastructure Development
    - Flattening of organizational structure
    - Corporate compliance
    - Medical record storage, management

IV. Financials

- $ 2.9 million has been released for the acquisition of physical assets and ground lease of Kahuku Hospital. In addition, $ 1 million has been released for the transition costs for a total of $ 3.9 million.
- The $ 1 million transition fund has been disbursed as follows:
    1. $ 812,000 to Kahuku Hospital to cover payroll.
    2. $ 123,000 for legal fees
    3. $ 57,000 for IT equipment.
    4. $ 8,000 for Certificate of Needs application and licenses.
- Half of the $ 1.5 million annual subsidy fund has been released and the majority of the funds have been used to cover Kahuku Hospital operational expenses including payroll and attorney fees.
- For the 5 month period ended November 30,2007, Kahuku Hospital incurred $ 1,246,358 loss from operation.

V. Capital Improvement Requests for Fiscal Year 2008-2009

A grant in aid request for $4.3 million is in process for submission for capital improvements related to the air conditioning system, re-roofing; replacing balcony doors, helipad renovations, nurse call system; kitchen improvements, ventilation system, fire code, life safety, and repainting.

LATE TESTIMONY

Honorable Senator Rosalyn H. Baker, Chair

Senate Ways and Means Committee

Dear Senator Baker,

Thank you for the opportunity to meet with you today as Representatives of the HHSC Corporate Board, and more particularly, as members of the Board's FISAC Committee. I would like to go through this presentation and Messrs Godfrey and Tanaguchi will also give their observations and perspective. We will, of course, be most happy to answer any questions

1. As the FISAC committee we believe that the passage of an 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 to enable HHSC to operate over the next 6 months. However, our understanding is that this issue needs first to be proposed by the Administration before it can be considered by this (WAM and Finance) body and we will leave it to the Executive Staff to present a summary of the current, and very concerning financial position.

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 just one 'regular' meeting as a committee since our appointment in November. However we have also had a significant amount of involvement in briefings, email and telephone discussion, and with 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. 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 we, as part of the Board of HHSC, are 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 Deloittes 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.

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 which tend to eliminate productivity incentive 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 Mercer survey recommends a minimum 10% raise across the board which, given the financial situation, is obviously unacceptable.

   b. The implications of a mainly union workforce. "Local knowledge" says, 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 and this unfortunately seems to occur.

   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 will not pretend to fully understand this as yet since it is very complicated but we have been convinced that this 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 which 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.

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 is to be completed for review and execution by the Corporate Board at its meeting on Jan 17th. It will give the regional boards a very critical and necessary (though very difficult) task and focus as they move to establish their regional roles. This activity is part of an Interim Strategic Plan for the organization. In this process the Board is very conscious of its relationship and role relative to

the new Regional Boards and indeed of our requirement (and now strong desire!) to somewhat 'work ourselves out of a job'. We would like to advise you of 2 initiatives (from Maui and Kona Regions) for which we take no credit but which we are encouraging and supporting. The first is the Maui Operating Loan which, while not a done deal, looks promising and I will ask Wes Lo (the Regional CEO) to tell you about it. It represents a way to handle the Maui cash deficit somewhat independent of State 'handouts'. The second is the Kona ASC proposal which we will recommend for Board approval on Jan 17th. This is a Joint Venture with Hawaii Pacific Health which will use a 'non-recourse' Loan to finance the development of a much needed ASC in Kona to supplement the Hospital facilities, attract physicians, and provide a low risk profit improvement. We believe it is exactly the type of low cost (<$200,000) and 'for profit' initiative we need to move forward. The Joint Venture structure allows some necessary staffing alternatives to make costs competitive.

8. While this is proceeding the Corporate Board is working to get a Strategic Plan in place by mid year which we would want to be approved by the Legislature and the Administration to ensure we are all aiming at the same goal......this is not currently clear. We are committed to completing this task and on time. It will be a relatively concise 'top down' direction for the Regional Boards to give them the parameters they need to establish their own plans and future structure.

This is our position assessment at present. We do not have the answers but we are undertaking to get them and we do intend to completely involve all of the key players in this exercise. (Legislature, Administration, Regions) We appreciate that the Unions will also need to be involved but believe this is an Executive (not Board) activity. In the meantime the emergency funding position is critical and we will, in due course, be seeking your support of this, assuming we can convince the Administration to put forward a Bill to achieve this.