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

"Touching Lives Everyday"

House Committee on Health
Representative Della Au Belatti, Chair
Representative Dee Morikawa, Vice Chair

March 19, 2014
Conference Room 329
8:30 a.m.
Hawaii State Capitol

Testimony Strongly Supporting Senate Bill 2866 SD1, Making an Emergency Appropriation to the Hawaii Health Systems Corporation.

Alice M. Hall
Acting President and Chief Executive Officer
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony in strong support of Senate Bill 2316, Making an Emergency Appropriation to the Hawaii Health Systems Corporation.

HHSC has not pursued an emergency appropriation with the Legislature since the end of the 2009 Legislative Session. Since that time, general fund appropriations for HHSC that were appropriated by the Legislature were $96.8 million in 2010, $82.1 million in 2011, $82.1 million in 2012, $82.1 million in 2013, and $82.9 million in 2014. However, HHSC has not received the full amount of these appropriations, as the State Administration restricted $1.6 million in 2011, $10.3 million in 2012, and $3.7 million in 2013. HHSC has managed to survive these lower appropriation levels through fiscal year 2013, but the result of the combination of basically flat operational appropriations with Administration restrictions has left HHSC with dangerously low levels of cash on hand and dangerously high levels of accounts payable as of June 30, 2013.

FISCAL CHALLENGES FOR HHSC IN FISCAL YEAR 2014

During the 2013 Legislative Session, HHSC informed the Legislators about HHSC's precarious financial position in its budget briefing testimony. During the preparation of HHSC's fiscal year 2014 budget, it became clear that the severity of HHSC's financial condition would be exacerbated by collective bargaining pay increases and Medicare reimbursement reductions as a result of federal deficit reduction legislation.

During the 2013 Legislative Session, the State Administration and the public sector unions agreed on collective bargaining pay increases for bargaining units 1, 2, 3, and 4 of approximately 4% for fiscal year 2014. Further, the result of interest arbitration for bargaining unit 10 resulted in a 3.2% pay increase and the result of interest arbitration for bargaining unit 9 resulted in an effective wage increase of approximately 11%. Although HHSC only has one vote out of thirteen in these negotiations, the State Administration proposed funding HHSC's share of these wage increases through special funds, which would not provide any additional cash to HHSC to cover these wages. However, the Legislature passed Act 283, which provided HHSC with $12 million in general fund appropriations in fiscal years 2014 and 2015 to pay for collective bargaining cost increases. During the 2013 Special Legislative Session, the State Administration and public sector unions 10 and 13 agreed on collective bargaining pay increases of approximately 4% annually for fiscal years 2014-2017, which is projected to cost HHSC approximately $2.7 million in fiscal year 2014. However, the Legislature appropriated only special fund appropriations for these raises, not general fund appropriations. Even with the $12 million in general fund collective bargaining appropriations provided by the Legislature, HHSC still faces an unfunded amount of collective bargaining cost increases of $11.2 million in fiscal year 2014. It should be noted that this amount does not include any amounts for the negotiated settlement for bargaining unit 9, which has yet to be approved or funded by the Legislature. Should funding for bargaining unit 9 be denied or approved via special funds, HHSC would need to add the cost of the collective bargaining increase for bargaining unit 9 for fiscal year 2014 to the amount of this emergency appropriation, which is estimated to be approximately $3.6 million.

HHSC also has informed legislators about the $4.6 million negative impact of Medicare payment reductions as a result of federal deficit legislation. The American Taxpayer Relief Act of 2012 resulted in specific Medicare reimbursement cuts of 2.3% to HHSC's major acute facilities totaling $2.6 million. Federal sequestration also mandated a 2% across-the-board Medicare reimbursement cut to hospitals, amounting to $2.0 million for HHSC's facilities. These two pieces of federal legislation continues the trend of downward adjustments to Medicare reimbursements since the establishment of the Patient Protection and Affordable Care Act.

CONTINUANCE OF KAUAI REGION OPERATIONS

In addition, the Kauai Region respectfully requests an emergency appropriation of $2.4 million to pay overdue accounts payable to enable the region to continue to operate and provide services at current levels. The difficulty of operating efficiently in a rural setting and not resolving the cash shortage will affect patient care. If Kauai Region does not pay its vendors, staff, and others, the Kauai Region cannot sustain its hospital operations.

COST SAVINGS AND REVENUE ENHANCEMENTS DONE BY HHSC

While HHSC is asking for an emergency appropriation to fund items that are beyond its control, HHSC wanted to let this Committee know that it has done or plans to initiate numerous cost savings and revenue enhancement measures, showing that management is doing its best to minimize the need for subsidy from the State of Hawaii within the constraints of HHSC's structure. These cost savings and revenue enhancement measures are attached as appendices to the end of this testimony.

CONCLUSION

In summary, HHSC is asking the Legislature to support an emergency appropriation for fiscal year 2014 of $18,200,000 to pay for collective bargaining shortfalls, Kauai Region operations, and reductions to Medicare reimbursement as a result of federal deficit reduction measures. The justification of this request is as follows:

Reason	Amount
Unfunded Collective Bargaining Pay Increases	$11,200,000
Medicare Reimbursement Reductions from Federal Deficit Reduction Legislation	$4,600,000
Kauai Region Operations	$2,400,000
Total	**$18,200,000**

The consequence of not receiving this emergency appropriation is that six of HHSC's twelve facilities will run out of funds to pay payroll and accounts payable before the end of fiscal year 2014, some as soon as April 2014.

Thank you for the opportunity to testify before this committee. We would respectively recommend the Committee's strong support of this measure.

APPENDIX 1: HHSC COST SAVINGS AND REVENUE ENHANCEMENTS

HOSPITAL	OPPORTUNITY	ACTION	RESULTS
Corporate Office and Kauai Region	Reduce overhead costs by sharing administrative personnel	Examine areas where expertise can be shared instead of hiring full time FTEs for both offices.	Shared compliance officer, saves $170k per year.
Corporate Office and Oahu Region	Reduce overhead costs by sharing administrative personnel.	Examine areas where expertise can be shared instead of hiring full time FTEs for both offices.	Shared CFO saves approx. $220k per year.
Hilo Medical Center	Reduce administrative write-offs	Improve revenue cycle review process	Reduced administrative adjustments $75,000 per year.
Kauai and Oahu Regions	Reduce overtime expense.		15% reduction in Kauai; 28% in Oahu
Kauai Veterans Memorial Hospital	Increase outpatient services	Hire physician manager/recruiter; remarket clinics.	Clinics have expanded, 33 physicians, about $1M revenue per month.
Kauai Veterans Memorial Hospital	Improve physician recruitment efforts	Hire a full time physician recruiter and a full time physician practice manager	Specialty physician gaps were filled in anesthesia and orthopedics.
Kona Community Hospital	Request low volume adjustment in cost report (Medicare).	Applied for and approved for FY 2011-13. Program ended 9/30/13 due to sequestration.	$1.1Million realized.
Kona Community Hospital	Review staffing and determine if staffing levels are appropriate.	Used a consultant to review the productivity and benchmarks. Identified opportunity to reduce staffing by 60 people.	Saved $1MM in FY ’14 by utilizing attrition to reduce staffing. Anticipate another $400k next year.
Maui Memorial Medical Center	Recapture lost inpatient market share	Cardiovascular program implemented. Surgical areas will be worked on next.	Market share greatly increased from FY 10 to FY 13 (68%) in CV discharges.
Maui Memorial Medical Center	Reduce administrative adjustments	Revenue cycle improvement project initiated prior to the Stroudwater report, which transformed the whole revenue cycle.	Reduced administrative adjustments from 4% to 1%.
Maui Memorial Medical Center	Improve upfront self pay collections	Already implemented before Stroudwater study.	Increased point of service cash collections by $80k per month.
Maui Memorial Medical Center	Increase “point of service” collection to improve self-pay collection	Implement “point of service” collection	Increased patient collections $1,500,000 per year.
System Wide	Increase vendor rebates by better compliance on GPO contracts; improve contract prices.	Improve utilization of GPO contracts through greater education and monitoring; new contracts for office supplies, freight, exam gloves, and drugs reduced costs.	Increase rebates by $500,000 per year and increased group purchasing savings by $795k per year.

System Wide	Implement coding software to improve coding.	Solicitation of proposals and contract entered into with EM for DRG coding software. Installed and working.	Gross A/R decreased significantly, which helped with cash flow.
System Wide	Increase money paid by the federal government for Medicaid losses.	Agree with private hospitals to stay out of the sustainability program and instead receive the full certified loss reimbursement from the federal government. In the past, the money was shared with the private hospitals, with most of it going to the private hospitals, even though it was based on HHSC losses.	$17MM in FY 13; similar amounts anticipated for FY 14 and 15.
System Wide	Reduce use of agency clinical personnel		Decreased registry nurse usage by 12% system-wide ($700K expense decrease)
Hilo Medical Center	Optimize Revenue Cycle Processes	Implemented Region-wide Electronic Medical Record (EMR) with an integrated Patient Accounting, Health Information Management and Coding, Patient Registration and Scanning/Archiving system.	Reduced A/R days to 58 days in FY13. Reduced outstanding accounts receivable dollars from $50M to $38M on a monthly basis.
Hilo Medical Center, Ka'u Hospital, and Hale Ho'ola Hamakua	Reduce overhead costs	Implemented Region-wide PBX (Phone Communication System)	Resulted in savings of over $45K per month for all hospitals.
Hilo Medical Center	Reduce administrative write-offs	Improve revenue cycle review process	Reduced administrative adjustments $75,000 per year.
Hilo Medical Center, Ka'u Hospital, and Hale Ho'ola Hamakua	Reduce overtime expense.	East Hawaii Region has an automated Time & Attendance system that requires all employees to swipe biometrically at the start and end of their shifts.	15% reduction in OT in FY13.
Hilo Medical Center	Advanced Clinical Documentation in MEDITECH EMR	Implemented required data elements to improve charge capture for certain medications e.g. IV bags.	Improved IV bag charge capture by 50%. An increase of $1M of cash collections annually.
Hilo Medical Center	Health Information Management & Coding	Implemented integrated 3M coding system to MEDITECH EMR	Reduced Discharge Not Final Coded to less than $1M on a daily basis.
Hilo Medical Center	Increase Patient Co-payments during patient visit	Implemented MEDITECH EMR Cash Drawer module	$500K additional in annual cash

			collections.
Hilo Medical Center	Decrease patients leaving East Hawaii Region for specialty services	Expanded clinical outpatient services e.g. Urology, Cardiology, and Orthopedic.	Decreased outmigration by 30% for East Hawaii. Increasing revenue by 5%.
Hilo Medical Center, Ka'u Hospital, and Hale Ho'ola Hamakua	Leverage ARRA Meaningful Use Funds – Stage 1 and Stage 2	Implemented the Region-wide Integrated MEDITECH EMR System and successfully attested for Meaningful Use Stage 1	East Hawaii Region received approximately $2.5M Medicare incentive funds.
Hilo Medical Center	Emergency Room Patient Flow Improvement	Changed Emergency room process through applied analytics that reduced wait times to an average of 17 minutes and produced top third to top quartile patient satisfaction	Absorbed an ER volume increase of 5% a year since 2011 without adding significant new resources or infrastructure
Hilo Medical Center	Nurse Staffing Improvement	Developed flexible staffing models that improved the ability to match patient numbers with efficient numbers of caregivers	Approximate 3% in nurse labor cost avoidance
Hilo Medical Center	HMSA Quality Inventive Program	Met benchmarked quality standards for patient care in areas such as harm prevention, advanced care planning and readmission prevention	Earned $2,036,000 in quality incentive in 2013
Hilo Medical Center	CMS Pay for Performance	Met CMS standards for evidenced based care, harm avoidance and readmission prevention	$79,000
Leahi Hospital	Reduce utilities – average monthly expense = $80,000.00	The facility is looking to install a Photo Voltaic System (PV) later this year with an anticipated savings of $.32 on the dollar. In the meantime, the facility will trial 900kw generator for possible cost savings during the weekends with the potential to look at week days.	Projected savings of $25,000/month.
Leahi Hospital	Reduce overtime and regionalize new hires	Fill department vacancies and look to regionalize new hires to effectively allocate resources where needed as opposed to hiring a new employee for each facility to fulfill the same responsibility.	Savings to be determined based on attrition.
Kauai Region	Reduce overtime expense.	Review OT use by department monthly and reduce or eliminate OT by adjusting schedules and reviewing work flows.	40% target reduction or $400K per year (amount included fringe benefits)
Kauai Region	Increase outpatient services	Better utilization and scheduling of	Clinics have expanded,

		current provider staff will increase quality, patient access and lower cost.	13 FT MD's and 2 PT APRN's, about $1M gross charges per month. Our goal is increase utilization rate from 86 percent to 90 or higher to increase billable charges.
Kauai Region	Collect co-payments in ER and "point of service collections"	Hospitals will begin collecting co-payments in ER and co-pays in clinic	Increase in cash collections
Kauai Region	Integrating hospitalists into the clinic setting.	Deferred hiring of 1 MD in hospitalists program. Currently restructuring work hours, establishing physician expectations and end Locums contract.	Build larger primary care base and increase productivity and value added to the hospitalists program and the community we serve. Cost savings of $250 – 300K per year
Kauai Region	Implement new AR/Revenue Cycle System	Implemented new AR system (MARS) in October of 2013.	Reduced the overall AR from 15 million to 13 million in 6 months, collectable AR from 7 million to 5.5 million in 6 months (better collections and follow-up). Reduced DNFB from an average 1.7 million to an average of 900k in 6 months. Updates Accounts Receivable and collection efforts daily compared to previous monthly updates Online and automated in comparison to utilizing paper/excel account follow-up. Monitors billing and follow-up daily to instantly show trends and identify issues.
Kauai Region	Evaluate operations.	Evaluating current operations and looking to reduce overall expenses. Freeze recruitment of CFO and HR recruitment positions $250K savings per year. SMMH redescription of Physical Therapy position $10K	Reduce overall expenses by up to $6 million dollars.

		savings per year.	
Kauai Region	Reduce purchased services	Star protection security contract modified for reduced services. Terminated Hale Lea lease. Bio waste contract changed. Termed Air filter replacement contract, new water treatment process estimated to save $200K for Kauai region. Co-share of Tech center space lease with Corp. $1,100.00 per month. Currently re-negotiating Laundry services contract aiming to lower cost by $180K	Reduced purchased services costs.
Kauai Region	Increase employee meal costs.	Increased the meal price for employees from $2.50 to $5.00.	Increase in dietary revenues
Kauai Region	Physician compensation study and evaluation.	Establishing a compensation model that is based on productivity, quality and performance. 9/2/14 New Orthopedic surgeon hired at reduced salary from previous incumbent.	Higher physician revenues with less overhead. $200K reduction annually
Kauai Region	PCMH patient centered medical home.	Implemented PCMH patient centered medical home in the clinic.	Increase reimbursement by per member per month fee. Additional Revenue potential of $200K per year.
Kauai Region	Mid-level management positions to become regional as opposed to per facility when applicable.	1/14 regionalization of emergency department management (cost savings of $100K per year) and reworking job descriptions when able to encompass region in comparison to individual facilities or clinics.	Gain increased efficiency; consistency in care delivered; reduce duplication of efforts and cost savings on wages/benefits.
Kona Community Hospital	Physician Recruitment	Over the past 2 years Kona has recruited an Urologist, 2 OB Physicians and an Orthopedic Surgeon. This has increased our Surgery cases from 150 surgeries per month to 250 surgeries per month with basically the same OR staff.	Increased net revenue by $2.5M per year.
Kona Community Hospital	Huron Healthcare Engagement	In March 2014 Kona contracted with Huron Healthcare to help the hospital change processes and implement best practices over the next 8 months.	These measures will enable the hospital to decrease expenses and increase revenues totaling $5M annually.

APPENDIX 2: MAUI REGION LETTER ON STROUDWATER INITIATIVES

November 4, 2013

TO: Alice Hall, Interim Chief Executive Officer, HHSC

FROM: Wesley Lo

SUBJECT: Follow-up to Stroudwater Report

Pursuant to your e-mail request on 10/29 regarding follow-up to the Stroudwater Report, I am providing the following responses.

For purposes of this response, I am organizing this by providing a summary, followed by a narrative of each of the areas.

Summary

The Stroudwater Report was completed in December of 2009. In reviewing the report, much of their financial analysis was based on Audited 2008 financial statements, and "unaudited" financial statements for 2009.

In the summary that you provided to us, the total savings that Stroudwater identified was $13,855,650. An analysis of Operating performance comparing 2013 to fiscal 2009 and 2008, reflect that MMMC improved its performance by $18.7 million and $14.1 million, respectively during that time frame.

During the study, the Maui Region had informed Stroudwater of the many initiatives that were in progress, some of which were identified as well as others. We had informed Stroudwater that many initiatives would result in incremental savings or improvements over the next several years.

In general, some of the initiatives that we were in the midst of included our efforts to change our product mix and expand service, in particular in the Cardiothoracic and Vascular Surgery areas. We were confident that if we were successful in starting these programs we would see increases in other categories due to the "halo" affect that is often times associated with "successful" cardiothoracic programs. As you may recall, we had started these efforts several years prior to 2009, and we anticipated that financial results would see an affect during the building of these programs and we had arranged for financing to best manage through the growth period.

As you know, now our Cardiothoracic Surgery program is "hitting its stride" and is now the most profitable service line in the hospitals. In addition, we are seeing the results of this and other initiatives that we have started.

In reviewing our operating performance (exclusive of OPEB calculations which are largely uncontrollable by the facility), our results reflect that our Operating performance for the year ended 6/30/2013 (unaudited) has substantially exceeded the $13,855,650 identified in the Stroudwater report.

	Operating Loss	Difference from 2013
2013(1)	$(13,760)	
2009(2)	$(32,470)	18,710
2008(2)	$(27,832)	14,072

(1) Unaudited financial statements exclusive of OPEB
(2) Audited financial statements exclusive of OPEB
(3) Audited financial statements exclusive of OPEB

Details

The following is a listing of opportunities identified in the Stroudwater report and our response

Opportunity

Recapture lost inpatient market share $1,414,700

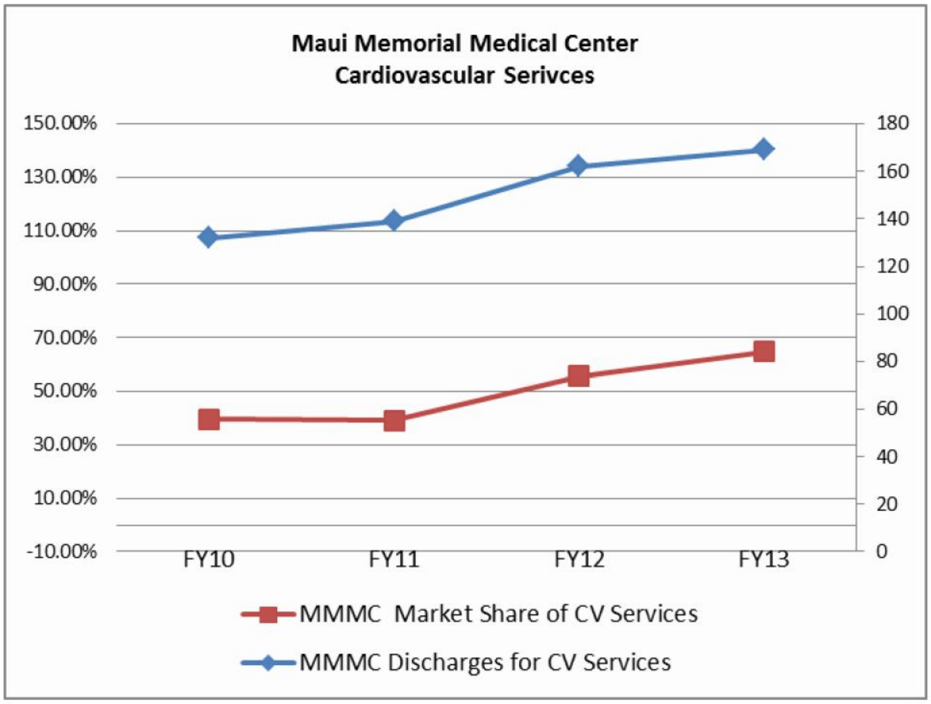
Response

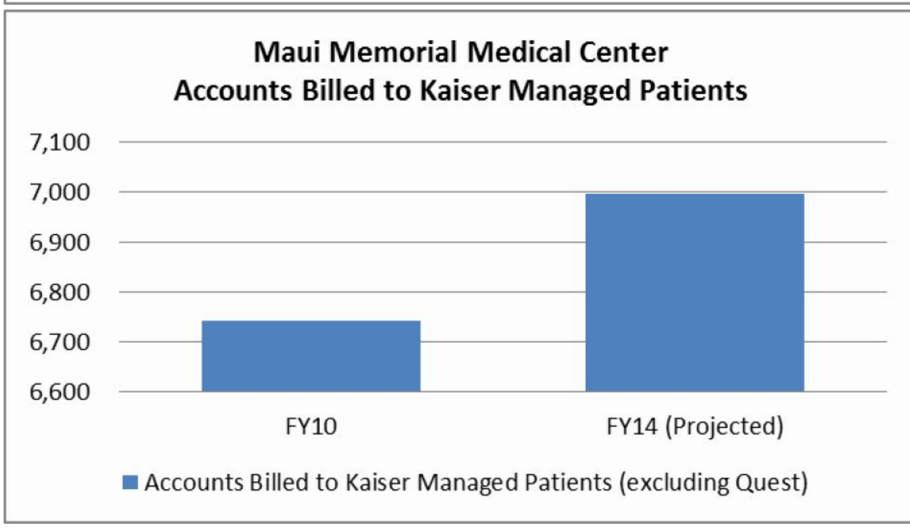
MMMC has completed the implementation of the first phase of the Cardiovascular Services Service Line. We are now engaged in evaluating its progress, quality metrics and ability to expand related services.

From a financial stand point, using the cost to charge methodology, Cardiovascular and the related services are the only profitable services lines at MMMC.

Overall, MMMC's CV service line is thriving and quality measures are good. The program has expanded and provides certain cardiology related services to other islands.

	FY13 Compared to FY10
% Increase of CV Discharges	28.0%
% Increase of MMMC Maui Market Share	63.8%
% Increase of CV CMI	0%





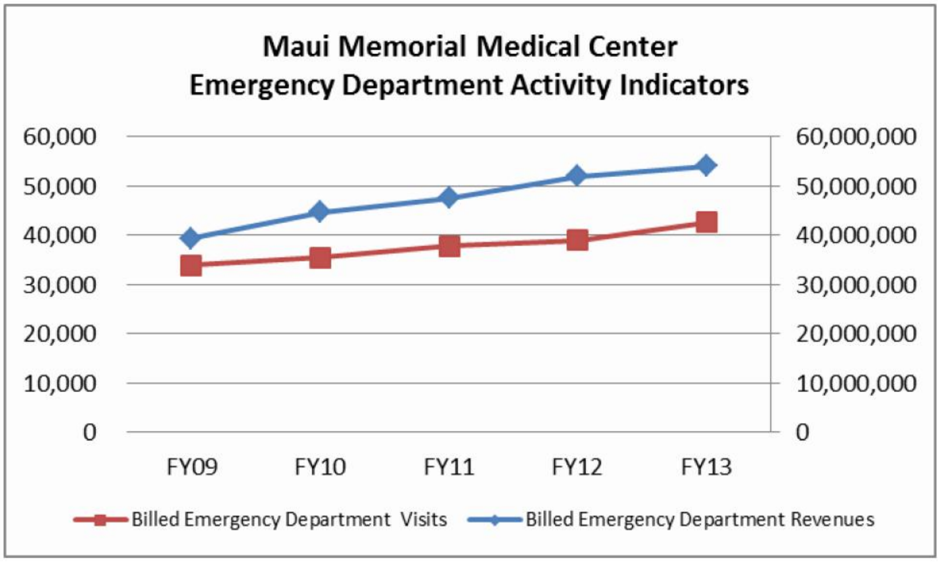
Opportunity

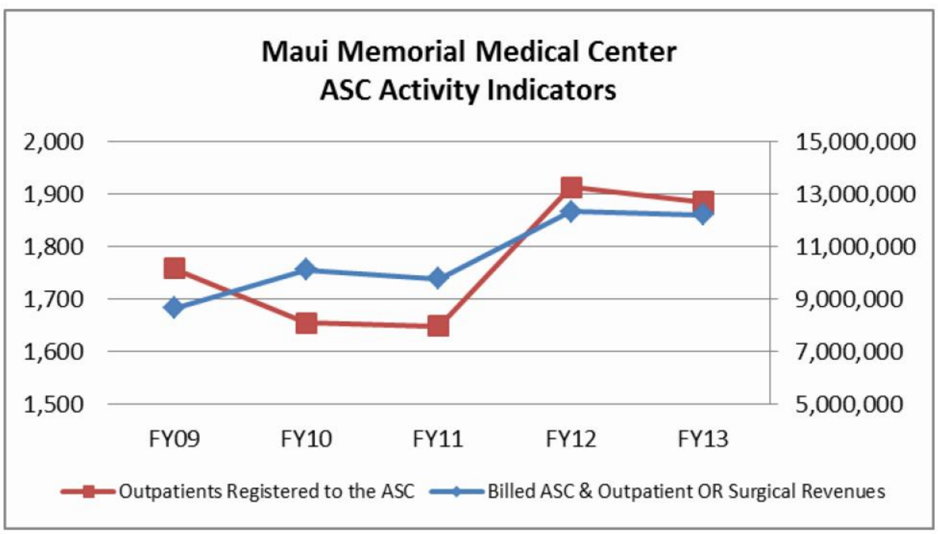
Grow outpatient/ambulatory services by 8% $2,057,000

Response

	FY13 Compared to FY09
% Increase in Billed Emergency Department Revenues	37%
% Increase in Billed Emergency Department Visits	25%

	FY13 Compared to FY09
% Change in Billed ASC Outpatients Revenues	137%
% Change in Billed Outpatient Surgical Revenues	41%
% Change in Billed ASC & Outpatient Surgical Revenues	**41%**
% Change in Billed ASC Outpatients Visits	7%





Opportunity

Reduce administrative adjustments $969,000

Response

We are still working on ensuring consistent revenue cycle management.

Description	FY10	FY11	FY12	FY13
Gross Revenue	387,650,425	407,014,573	460,149,622	479,594,239
Admin Allowances	8,257,178	15,166,213	7,509,653	12,398,404
Admin Allowances as a % of Gross Revenues	2%	4%	2%	3%

Opportunity

Freeze hiring on 65 vacant positions $2,925,000

Response

This initiative is more of a cost avoidance versus a cost savings. MMMC has implemented a more robust staffing assessment and justification process to help ensure hires are operationally necessary. Additionally, MMMC has reviewed its HR roster and eliminated positions that had not filled.

Opportunity

Cost Report Findings: Nursing Admin Costs $175,000

Response

We have not followed up on this item, and need to do further research

Opportunity

Cost Report Findings: Home Office Cost Reports $262,500

Response

This initiative was implemented for cost report FY2011. The financial impact is undetermined the time of the writing of this response.

Opportunity

Implement 3M Coding software to improve coding and improve CMI $1,950,000

Response

MMMC has completed the implementation of 3M and the product is currently in use. We would like to stress that coding reflects the documentation in the chart which is provided by the Physicians. Implementation of a new coding system will not provide for new revenues and a higher CMI if the documentation in the charts does not support it.

MMMC is currently working on development of a CDI program to support a successful implementation of ICD10. Overtime, this program should help physicians code more accurately and more completely and where legal and appropriate can increase MMMC's CMI and overall compensation for the care provided to its patients.

The financial impact of implementing 3M is undetermined the time of the writing of this response.

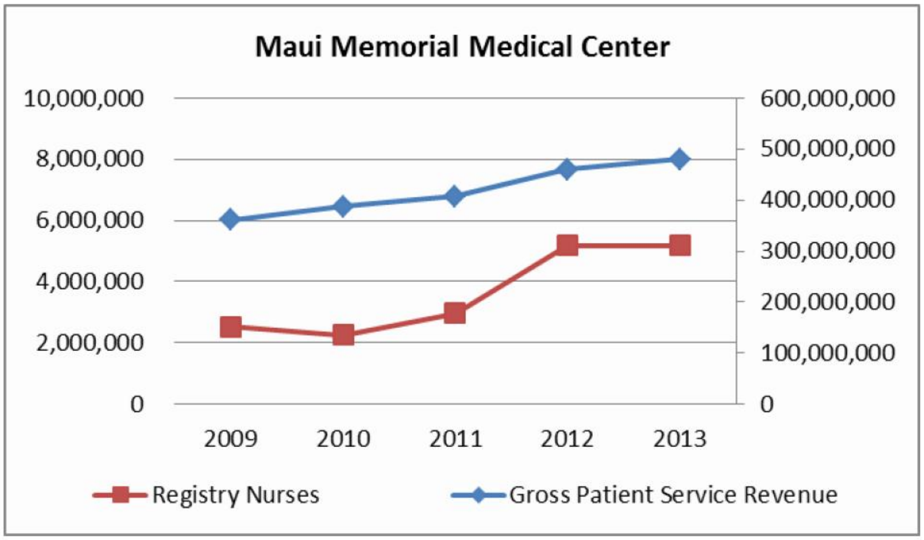
Opportunity

Reduce contract labor costs by 30% $1,512,000

Response

We are still working on ensuring consistent labor management. Due to the increase in specialized services, we continue to struggle to get experience in these areas, but over the last year, we have stabilized our use of registry despite continued increases in Revenues.

	2009	2010	2011	2012	2013
Registry Nurses	2,526,247	2,254,360	2,970,853	5,170,504	5,176,990



Opportunity

Reduce acute length of stay to Pacific benchmark $403,000

Response

As it relates to additional long term care beds, as you know, because of the age of Kula Hospital, when we replaced our boiler, it was required that we replace all of the plumbing in the building. We are in the final stages of that project, but we have been down approximately 19 beds for over a year. Upon completion, we will be increasing our bed count in Kula as follows:

- Mid December 13 beds
- Mid February 12 beds
- Mid July 9 beds

This coupled with new strategies related to the waitlist and Medicaid eligibility should improve our length of stay.

Opportunity

Implement electronic time & attendance $350,000

Response

Project was delayed due to the EMR implementation. It is an ongoing objective.

Opportunity

Eliminate Perot systems contract; add 10 FTE's to PFS $682,500

Response

Consideration was delayed due to the EMR implementation. The new system is being designed with the intent of reducing the amount of business outsourced.

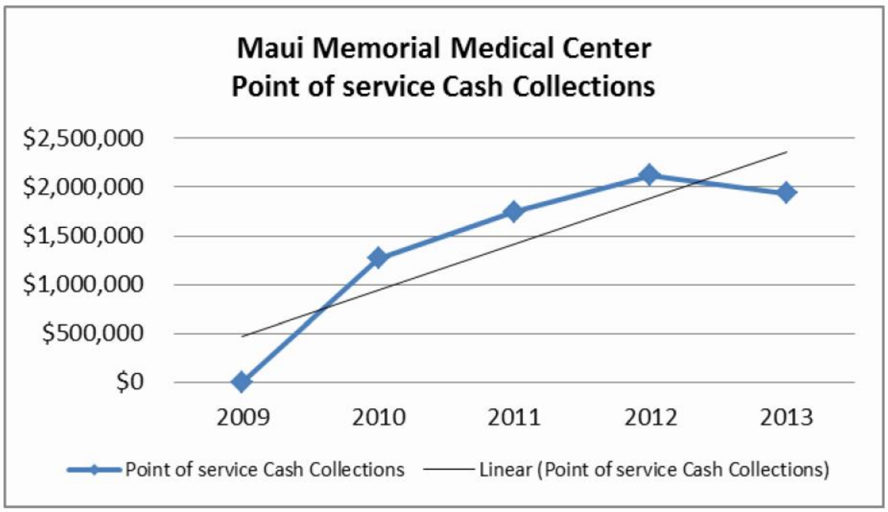
Opportunity

Upfront collections implemented improving self-pay collections $641,200

Response

MMMC has seen significant success of its point of service cash collections program.

	FY13 Compared to FY10
% Increase of Point of service Cash Collections	53%



Opportunity

Convert psych unit to Medicare certified unit $513,750

Response

This initiative is still being evaluated.

The House of Representatives
The Twenty-Seventh Legislature
Regular Session of 2014

Committee On Health
Representative Della Au Bellati, Chair
Representative Dee Morikawa, Vice Chair

NOTICE OF HEARING
Wednesday, March 19, 2014
8:30 am
Conference Room 329

Testimony in support of SB 2866 SD1, making an emergency appropriation to the Hawaii Health Systems Corporation.

On behalf of our East Hawaii Regional Board of Directors, I am submitting testimony in support of SB 2866 SD1 which makes an emergency appropriation to the Hawaii Health Systems Corporation.

HHSC and our regions need the emergency appropriation of $18.2 million to continue to provide services within our respective geographical and operational locations.

I take this opportunity to provide information specifically related to our East Hawaii Region. The East Hawaii Region's geographic area of responsibility encompasses the east side of the Big Island stretching from Kau-Volcano-Puna-Hilo-Honokaa with four acute and long care facilities, and seven clinics.

Our East Hawaii Region is in need of approximately $5 million of emergency appropriate funds to offset the following:

1. 2% decrease (approx. $1.7 million) in Medicare reimbursements due to Federal Sequestration and Federal Deficit Reduction Act.
2. Pay down accounts payable and additional funding for collective bargaining adjustments in FY13 and FY14 (approx. $3 million)

Medicare and Medicaid reimbursement reductions have significantly impacted our region as Medicare and Medicaid patients make up approximately 76% of our patients.

Patient volumes are up in FY14. We are experiencing:

4% increase in volume in the HMC Emergency Room,
2% increase in acute inpatient visits, and
5% increase in outpatient volumes.

In response, internally we continue to review and reduce operational expenditures, delay major initiatives where possible and delay payments to vendors.

Patient service volumes are up, reimbursements are down, expense cutting measure are implemented, expenses continue to raise, and payables are delayed. The emergency appropriation is a short term measure to continue provision of accessible quality healthcare within our regions.

We ask for your support of SB 2866 SD1. Thank you very much.

GARY YOSHIYAMA
Chairperson
HHSC East Hawaii Regional Board

KAUAI REGION
WEST KAUAI MEDICAL CENTER
(DBA KAUAI VETERANS MEMORIAL HOSPITAL AND WAIMEA & PORT ALLEN CLINICS)
MAHELONA MEDICAL CENTER
(DBA SAMUEL MAHELONA MEMORIAL HOSPITAL)
WEST KAUAI CLINIC – KALAHEO

HAWAII HEALTH SYSTEMS CORPORATION

Scott E. McFarland
Interim Regional CEO

Tuesday, March 18, 2014

HOUSE COMMITTEE ON HEALTH
Representative Della Au Belatti, Chair
Representative Dee Morikawa, Vice Chair

Wednesday, March 19, 2014
Conference Room 329
8:30 a.m.
Hawaii State Capitol
415 South Beretania Street

Testimony STRONGLY SUPPORTING Senate Bill 2866, SD 1 (SSCR 2655), Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC).

Scott E. McFarland
Interim Regional CEO – Hawaii Health Systems Corporation, Kauai Region
West Kauai Medical Center/Kauai Veterans Memorial Hospital
West Kauai Clinics – Waimea, Port Allen, Kalaheo
Mahelona Medical Center/Samuel Mahelona Memorial Hospital

On behalf of the Hawaii Health Systems Corporation (HHSC) Kauai Region Board of Directors, thank you for the opportunity to present testimony in **STRONG SUPPORT** of Senate Bill 2866, SD 1 (SSCR 2655), Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC).

As expected and reported during last November's Special Session, the HHSC **Kauai Region is expected to run out of cash in late March 2014**. The Kauai Region respectfully requests an Emergency Appropriation of $2.4 million to pay overdue accounts payable to enable the Region to continue to operate and provide services at current levels. The difficulty of operating efficiently in a rural setting and not resolving the cash shortage will affect patient care. If Kauai Region does not pay its vendors, staff, and others, the Kauai Region cannot sustain its hospital operations.

What are the immediate, near-term fiscal challenges facing HHSC Kauai Region?

Historically Low In-Patient Hospital Admissions for KVMH and SMMH and Low Long Term Care Census for SMMH. **Our Region's two (2) Critical Access Hospitals (CAH) and one (1) of its Licensed Long Term Care Facilities (SMMH)** have had persistently low patient and resident censuses since November 2013. The Region is approaching nearly 150 days of this low in-patient hospital census reality which likely means the trend is going to hold for the two (2) HHSC CAHs on the Island. When you "back out" the our Region's Long Term Care Residents (68 in total) from the census, our hospital-based physicians have only been seeing between 45 and 50 patients on a typical day, with nearly half of those patients being seen by the Emergency Department at SMMH which is in close proximity to our Island's densest and largest population base.

This is not necessarily bad news. If fewer people are in need of hospital services, it likely means the overall health of our communities is IMPROVING and is being BETTER managed by Primary Care Providers.

The great news is that our Region's **Primary Care Clinics** are consistently seeing over **150 patients per day** and over **200 patients on busier days** when colds and flus are prevalent in our neighborhoods. In the months ahead, the Kauai Region is consolidating its Primary Care service locations to achieve operating and financial efficiencies as existing third party leases expire. Also on a positive note, both the Region's Emergency Departments (KVMH and SMMH) continue to perform well and be viewed as core medical services that our Kauai Westside and Eastside communities value, appreciate, and expect. The Region's Obstetrics and Gynecology team is strongly performing, and KVMH's Licensed Long Term Care Facility is at maximum resident capacity (20 beds) with a waiting list.

Conversely, SMMH's Licensed Long Term Care Facility (64 beds) has struggled to keep its resident census above 50 given the site's aging physical plant and its institutional, multi-resident (2 to 4 resident patients) room constraints.

The early trend on Kauai appears to be that the Island's Primary Care Physicians are keeping more patients out of the Island's two (2) CAHs with Population Health Management/Patient Centered Medical Homes and are being rewarded with the Quality Payments and Capitated Payments that accompany these patient management strategies. This is actually a really good thing…and an underlying purpose to the Affordable Care Act (Obama Care). Our Region's HHSC-employed Primary Care Physicians are having much early success with Population Health Management approaches.

Long story short…the Fee For Service "heads in hospital beds" model of the past is quickly going away…especially for Kauai's HHSC-owned and operated CAHs. There are encouraging early indications that Population Health Management, Accountable Care Organizations, and Patient-Centered Medical Homes are performing well on Kauai. The Region took this new "low census" reality and Population Health Management into consideration as it developed its new Living Strategic Plan as it promised it would during last November's testimony for the $7.3 million Emergency Appropriation for which the Kauai Region is especially grateful. We can report today that the Kauai Region's new Living

Strategic Plan is complete and has been ratified and endorsed by the HHSC Kauai Region Board.

FISCAL CHALLENGES FOR HHSC IN FISCAL YEAR 2014

HHSC has not pursued an Emergency Appropriation with the Legislature since the end of the 2009 Legislative Session. Since that time, general fund appropriations for HHSC that were appropriated by the Legislature were $96.8 million in 2010, $82.1 million in 2011, $82.1 million in 2012, $82.1 million in 2013, and $82.9 million in 2014. However, HHSC has not received the full amount of these appropriations, as the State Administration restricted $1.6 million in 2011, $10.3 million in 2012, and $3.7 million in 2013. HHSC has managed to survive these lower appropriation levels through fiscal year 2013, but the result of the combination of basically flat operational appropriations with Administration restrictions has left HHSC with dangerously low levels of cash on hand and dangerously high levels of accounts payable as of June 30, 2013.

During the 2013 Legislative Session, HHSC informed the Legislators about HHSC's precarious financial position in its budget briefing testimony. During the preparation of HHSC's fiscal year 2014 budget, it became clear that the severity of HHSC's financial condition would be exacerbated by collective bargaining pay increases and Medicare reimbursement reductions as a result of federal deficit reduction legislation.

During the 2013 Legislative Session, the State Administration and the public sector unions agreed on collective bargaining pay increases for bargaining units 1, 2, 3, and 4 of approximately 4% for fiscal year 2014. Further, the result of interest arbitration for bargaining unit 10 resulted in a 3.2% pay increase and the result of interest arbitration for bargaining unit 9 resulted in an effective wage increase of approximately 11%. Although HHSC only has one vote out of thirteen in these negotiations, the State Administration proposed funding HHSC's share of these wage increases through special funds, which would not provide any additional cash to HHSC to cover these wages. However, the Legislature passed Act 283, which provided HHSC with $12 million in general fund appropriations in fiscal years 2014 and 2015 to pay for collective bargaining cost increases. During the 2013 Special Legislative Session, the State Administration and public sector unions 10 and 13 agreed on collective bargaining pay increases of approximately 4% annually for fiscal years 2014-2017, which is projected to cost HHSC approximately $2.7 million in fiscal year 2014. However, the Legislature appropriated only special fund appropriations for these raises, not general fund appropriations. Even with the $12 million in general fund collective bargaining appropriations provided by the Legislature, HHSC still faces an unfunded amount of collective bargaining cost increases of $11.2 million in fiscal year 2014. It should be noted that this amount does not include any amounts for negotiated settlements for bargaining unit 9, which has yet to be approved or funded by the Legislature.

HHSC also has informed legislators about the $4.6 million negative impact of Medicare payment reductions as a result of federal deficit legislation. The American Taxpayer Relief Act of 2012 resulted in specific Medicare reimbursement cuts of 2.3% to HHSC's major acute facilities totaling $2.6 million. Federal sequestration also mandated a 2% across-the-board

Medicare reimbursement cut to hospitals, amounting to $2.0 million for HHSC's facilities. These two pieces of federal legislation continues the trend of downward adjustments to Medicare reimbursements since the establishment of the Patient Protection and Affordable Care Act.

CONCLUSION

In summary, the HHSC Kauai Region Board is asking the Legislature to support an Emergency Appropriation for Fiscal Year 2014 of $18,200,000 to pay for collective bargaining shortfalls, Kauai Region operations, and reductions to Medicare reimbursement as a result of federal deficit reduction measures. The justification of this request is as follows:

Reason	**Amount**
Unfunded Collective Bargaining Pay Increases	$11,200,000
Medicare Reimbursement Reductions from Federal Deficit Reduction Legislation	$4,600,000
Kauai Region Operations	$2,400,000
Total	**$18,200,000**

The consequence of not receiving this Emergency Appropriation is that six of HHSC's twelve facilities will run out of funds to pay payroll and accounts payable before the end of fiscal year 2014, some as soon as March 2014.

Thank you for the opportunity to testify before this committee. We would respectively recommend the Committee's **STRONG SUPPORT** of Senate Bill 2866, SD 1 (SSCR 2655), Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC).

Wednesday– March 19, 2014 – 8:30 am
Conference Room 329
COMMITTEE ON HEALTH

To: Rep. Della Au Belatti, Chair
Rep. Dee Morikawa, Vice Chair

From: Mr. and Mrs. Thomas Russi

Re: Testimony for SB2866,SD1 (SSCR2655)

We are neither for or against this bill except to make sure that HHSC is using their tax dollars wisely. My wife, Christine and I are always very concerned with the use, and misuse, of tax dollars.

In 2013, a state employee working for HHSC, hired a family member to work at HHSC, to badger us, to the point of the employee being removed from his position. He held his position at HHSC, for only eight months, at which time, he was removed because of complaints filed against him that could not be investigated without holding him accountable. He was paid $78,567.52, including vacation pay, when he was removed. This is a serious violation of the public's trust and a misuse of tax dollars within the hospital system. If HHSC is going to work like it was set up to work, this type of personal agenda needs to be stopped. If any legislator checks the work product of this HHSC employee, in the Risk Management Position from Jan 2013 to Sept 2013, it will definitely shed some light on this situation.

Thank you for your consideration.

morikawa2-Joanna

From:	mailinglist@capitol.hawaii.gov
Sent:	Tuesday, March 18, 2014 1:31 PM
To:	HLTtestimony
Cc:	psgegen@hotmail.com
Subject:	*Submitted testimony for SB2866 on Mar 19, 2014 08:30AM*

LATE

SB2866
Submitted on: 3/18/2014
Testimony for HLT on Mar 19, 2014 08:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
pat gegen	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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morikawa2-Joanna

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 18, 2014 9:18 PM
To: HLTtestimony
Cc: paulakomarajr@yahoo.com
Subject: *Submitted testimony for SB2866 on Mar 19, 2014 08:30AM*

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SB2866
Submitted on: 3/18/2014
Testimony for HLT on Mar 19, 2014 08:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
Paul A. komara, Jr.	Individual	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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