

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



RYAN I. YAMANE
DIRECTOR
KA LUNA HO'OKELE

JOSEPH CAMPOS II
DEPUTY DIRECTOR
KA HOPE LUNA HO'OKELE

STATE OF HAWAII
KA MOKU'ĀINA O HAWAI'I
DEPARTMENT OF HUMAN SERVICES
KA 'OIHANA MĀLAMA LAWE LAWE KANAKA
Office of the Director
P. O. Box 339
Honolulu, Hawaii 96809-0339

TRISTA SPEER
DEPUTY DIRECTOR
KA HOPE LUNA HO'OKELE

March 15, 2025

TO: The Honorable Senator Joy San Buenaventura
Senate Committee on Health and Human Services

FROM: Ryan I. Yamane, Director

SUBJECT: **HB 1179 HD1– RELATING TO RURAL EMERGENCY HOSPITALS.**

Hearing: March 17, 2025, Time 1:00 p.m.
Conference Room 225 & Videoconference, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) appreciates the intent of the measure and offers comments.

PURPOSE: This bill creates a framework for the licensure of rural emergency hospitals by the Department of Health. Provides for the continuation of Medicaid policy protections for hospitals transitioning to a rural emergency hospital designation. Effective 7/1/3000. (HD1)

The House Committee on Health amended the measure by:

- (1) Changing the effective date to July 1, 3000, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for clarity, consistency, and style.

In its committee report, the House Committee on Health also requested that DHS seek federal guidance on the Rural Emergency Hospital designation in the Medicaid context.

The House Committees on Consumer Protection and Commerce and Finance passed this measure unamended.

DHS appreciates the intent to have hospital health care resources re-aligned to best serve their communities, and the rural emergency hospital is a positive opportunity to do so.

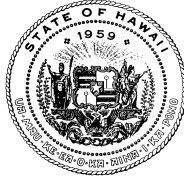
However, we provide comment on the proposed Medicaid reimbursement protections in Section 2 (3)(b), page 5, lines 6-14:

"For purposes of Medicaid reimbursement for services provided, any reference in Hawaii law or the Hawaii administrative rules to a critical access hospital, a hospital-based unit to a critical access hospital, or a sub-provider to a critical access hospital, shall be interpreted to also reference a rural emergency hospital, a hospital-based unit to a rural emergency hospital, or a sub-provider to a rural emergency hospital; provided that the rural emergency hospital was previously designated as a critical access hospital."

This section proposes considering a rural emergency hospital as the equivalent of a critical access hospital for reimbursement purposes. DHS notes that the federal Centers for Medicare and Medicaid Services has disagreed with this interpretation and disapproved of other states' Medicaid programs' payments to rural emergency hospitals as any type of hospital designation. In other words, the proposed state protections may be insufficient given the federal interpretation of the rural emergency hospital designation.

DHS Med-QUEST Division (MQD) is seeking guidance from federal officials regarding the Medicaid reimbursement protections outlined in the bill and provide feedback to this committee and other interested parties. Of note, as of this writing, due to the pause in communications with anyone external to CMS, MQD has only recently been able to initiate contact with relevant federal officials, but has not received guidance yet regarding their interpretation of Rural Emergency Hospital designation for Medicaid.

Thank you for the opportunity to provide comments on this measure.



STATE OF HAWAII
DEPARTMENT OF HEALTH
KA 'ŌIHANA OLAKINO
P. O. Box 3378
Honolulu, HI 96801-3378
doh.testimony@doh.hawaii.gov

Testimony in SUPPORT of HB1179 HD1
RELATING TO RURAL EMERGENCY HOSPITALS

SENATOR JOY SAN BUENAVENTURA, CHAIR
SENATE COMMITTEE ON HEALTH AND HUMAN SERVICES

Hearing Date/Time: Monday, March 17, 2025; 1:00 PM

Room Number: 225

- 1 **Department Testimony:** The Department of Health (DOH) supports HB1179 HD1 with
2 amendments necessary for implementation in Bill Section 2. DOH takes no position on Bill
3 Sections 3 – 9 and defers to the Department of Human Services regarding amendments to
4 chapter 346, Hawaii Revised Statutes.
- 5 DOH strongly recommends explicit authority to license an applicant seeking a Rural Emergency
6 Hospital designation if and only if the entity passes and inspection conducted by the
7 Department of Health and received a recommendation as such. As currently drafted, the
8 department is required to issue a license upon the applicant meeting certain criteria, even if
9 that applicant fails an inspection, which is not the intent nor the letter of applicable regulations.
- 10 Another requirement to receive the REH designation is for an entity to have operated as a
11 Critical Access Hospital (CAH) for some time. However, CAHs are not governed by Hawaii
12 Administrative Rules (HAR) since it is a federal program with very precise and specific
13 regulations for which DOH is only delegated enforcement authority on behalf of the Centers for
14 Medicare and Medicaid Services, thus CAHs are outside the jurisdiction for HAR. REHs are
15 identical in that respect, so rule-making authority for DOH is not necessary as proposed in new
16 subsection (c) of chapter 321, Hawaii Revised Statutes.

Offered Amendments:

Amend HB1179 HD1 to read as follows:

SECTION 2. Chapter 321, Hawaii Revised Statutes, is amended by adding a new section to part I to be appropriately designated and to read as follows:

"§321- Rural emergency hospitals; licensing. (a) The department of health ~~[shall]~~ may license a hospital as a rural emergency hospital if the hospital:

(1) Elects to receive the medicare designation as a rural emergency hospital;

(2) Provides emergency treatment and stabilization services for an average length of stay of twenty-four hours or less; [and]

(3) Meets the requirements of title 42 United States Code section 1395x(kkk) (2) [-] and;

(4) Passes inspection and receives a recommendation from the department to the United States Centers for Medicare and Medicaid Services to operate as a rural emergency hospital.

1 (b) For purposes of this section, "rural emergency
2 hospital" means a hospital licensed under this section that was
3 previously designated and operating as a critical access
4 hospital as of December 27, 2020."

5 ~~(c) No later than one hundred eighty days after the~~
6 ~~effective date of this section, the department of health shall~~
7 ~~adopt rules pursuant to chapter 91 necessary to implement this~~
8 ~~section; provided that the rules shall not conflict with, be~~
9 ~~more restrictive than, or prevent the application of,~~
10 ~~regulations promulgated by the United States Secretary of Health~~
11 ~~and Human Services under title 42 Code of Federal Regulations~~
12 ~~part 485.~~

13 Thank you for the opportunity to testify on this measure.

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March 12, 2025

Senator Joy San Buenaventura, Chair

Senator Henry Aquino, Vice Chair

Members of the Senate Committee on Health and Human Services

RE: H.B. 1179, HD 1 – Relating to Rural Emergency Hospitals
Hearing Date – March 17, 2025, at 1:00 p.m.

Aloha Chair San Buenaventura, Vice Chair Aquino, and Members of the Committee,

Thank you for allowing me the opportunity to submit testimony in **STRONG SUPPORT** of House Bill 1179, HD 1, which (i) provides a statutory framework for the licensure of rural emergency hospitals at the state level; and (ii) provides for the continuation of Medicaid policy protections for hospitals transitioning to a rural emergency hospital designation.

Pursuant to the Consolidated Appropriations Act of 2021 (Public Law 116, 260), Congress established a rural emergency hospital designation (REH), which creates a new type of Medicare provider to respond to nationwide increases in rural hospital closures. Through this designation, a hospital that is under financial pressure to eliminate high-cost services that their communities are not utilizing (including inpatient care) can refocus its resources on critical services that the rural population needs, including emergency department services, observation care and tailored outpatient medical and health services.

What does this mean for Hawaii? In many rural areas, patient demand is not keeping pace with the rising costs of staffing, equipment, and supplies needed to maintain an inpatient hospital. This designation is a Medicare reimbursement policy and allows REHs the opportunity to adapt to their community's needs while sustaining their budget. These hospitals will receive a fixed monthly payment equal to about \$3.2 million annually and a 5% higher Medicare payment for outpatient services like diagnostic. Also, patients do not pay additional fees or premiums for receiving services at an REH.

In Maui County, Lanai Hospital could benefit from this designation. Currently, Lanai Hospital is a Critical Access Hospital (CAH) that averages less than one patient per day in its acute inpatient care beds. Outside of inpatient care, the hospital provides emergency services along with thousands of days of nursing and skilled nursing care. To provide a more specific example, the average daily census in FY 2023 for emergency and skilled nursing needs was 10 and 965 residents, respectively. If Lanai Hospital surrenders its inpatient licensed beds, those beds will become available to expand long term care and skilled nursing bed availability, which is critically needed.

Before any of these benefits can be realized, however, the Hawaii legislature needs to enact legislation that would recognize the new REH designation and extend the Medicaid policy

protections that currently support the hospital and the services it provides on the island so that those protections would remain after a transition to REH status.

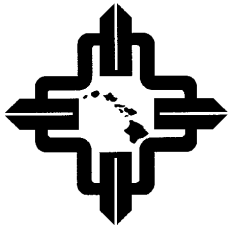
For the reasons outlined above, and with a strong commitment to ensuring quality healthcare for our rural communities, Maui Health System humbly asks for your support of this measure.

In kindness and appreciation,

A handwritten signature in black ink, reading "Lynn Fulton". The signature is fluid and cursive, with the first name "Lynn" and last name "Fulton" clearly distinguishable.

Lynn Fulton

Chief Executive Officer



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

"Quality Healthcare For All"

COMMITTEE ON HEALTH & HUMAN SERVICES

Senator Joy A. San Buenaventura, Chair

Senator Henry J.C. Aquino, Vice Chair

March 17, 2025

1:00 pm

Hawaii State Capitol

Room 225 & Via Videoconference

**Testimony in Support of H.B. 1179, H.D. 1
RELATING TO RURAL EMERGENCY HOSPITALS**

Creates a framework for the licensure of rural emergency hospitals by the Department of Health. Provides for the continuation of Medicaid policy protections for hospitals transitioning to a rural emergency hospital designation. Effective 7/1/3000. (HD1)

Edward N. Chu

President & 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 support of H.B. 1179, HD1 Relating to Rural Emergency Hospitals.**

Since the Rural Emergency Hospital (REH) program was announced by the Center for Medicare and Medicaid Services (CMS) in 2021, very few critical access hospitals across the country have implemented the conversion, primarily because the enabling federal statute that created the program did not amend the Medicaid statute to recognize REH's as hospitals in the Medicaid payment program. As a result, REH's now receive lower reimbursement rates from Medicaid than expected, making it unfeasible financially for most critical access hospitals to make the conversion. The Healthcare Association of Hawaii is currently working with a coalition at the national level to correct the necessary language in the federal statute. In the State of Hawaii, state licensure language does not currently recognize the Rural Emergency Hospital as a provider designation, which would need to be done prior to a hospital pursuing an REH designation from CMS.

HHSC currently operates five critical access hospitals within its regions and has an affiliate, Kahuku Medical Center, that operates a critical access hospital on the North Shore of Oahu. Preliminary analysis, performed by HHSC when the original REH designation was created, showed that some of HHSC's critical access hospitals could financially benefit from converting to an REH assuming that the State of Hawaii

recognized REH as a provider designation and the federal government was able to make the necessary corrections to the initial REH statute.

HHSC supports H.B. 1179, HD1 as a critical first step in the process of exploring the feasibility of implementing the REH designation for critical access hospitals across the State of Hawaii as a means to improve the long-term viability of healthcare services to those rural communities. HHSC will continue to update its preliminary analysis as further changes are made to both the state and federal statutes with regards to Rural Emergency Hospitals.

Thank you for the opportunity to provide testimony on this matter.



March 17, 2025 at 1:00 pm
Conference Room 225

Senate Committee on Health and Human Services

To: Chair Joy A. San Buenaventura
Vice Chair Henry J.C. Aquino

From: Paige Heckathorn Choy
AVP, Government Affairs
Healthcare Association of Hawaii

Re: **Support**
HB 1179 HD 1, Relating to Rural Emergency Hospitals

The Healthcare Association of Hawaii (HAH), established in 1939, serves as the leading voice of healthcare on behalf of 170 member organizations who represent almost every aspect of the health care continuum in Hawaii. Members include acute care hospitals, skilled nursing facilities, home health agencies, hospices, assisted living facilities and durable medical equipment suppliers. In addition to providing access to appropriate, affordable, high-quality care to all of Hawaii's residents, our members contribute significantly to Hawaii's economy by employing over 30,000 people statewide.

Thank you for the opportunity to testify in **support** of this measure, which seeks to establish a new licensure category in Hawaii for Rural Emergency Hospitals (REHs). Congress created this new provider type in 2021 to address the growing crisis of rural hospital closures nationwide. Since 2010, over 150 rural hospitals have closed, drastically reducing access to essential healthcare services for communities in need. The REH model was designed to provide a lifeline to these critical facilities by allowing existing Critical Access Hospitals and small rural hospitals to convert their operations to this new financial model, which seeks to support the continuation of emergency and outpatient services without the financial strain of maintaining inpatient care.

Creating an REH licensure category in Hawaii could help to ensure sustained access to emergency medical services, observation care, and outpatient treatment for residents in rural areas. Timely access to these services is vital for improving health outcomes, especially in geographically isolated areas. Additionally, the financial model of REHs offers more stability through enhanced Medicare reimbursement rates, including a five percent increase in payments for covered outpatient services and a fixed annual payment. This support addresses the economic challenges faced by rural hospitals, reducing the risk of closures and ensuring financial sustainability.

In Hawaii, the geographic isolation of our communities makes the implementation of this model even more pressing. Adopting the REH designation would enable rural hospitals to continue providing critical services, preventing closures and ensuring that residents in remote areas receive timely, life-saving care. Without such a measure, our rural healthcare infrastructure remains at risk, leaving many vulnerable populations without adequate medical support.

Establishing a licensure category for Rural Emergency Hospitals in Hawaii is a proactive and necessary step to protect and strengthen our healthcare system. It aligns with national efforts to address rural health disparities and ensures that Hawaii's rural communities have access to essential medical services. Thank you for the opportunity to provide testimony on this important matter.