

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEES ON HEALTH AND FINANCE
ON
HOUSE BILL NO. 3

October 28, 2013

MAKING AN APPROPRIATION TO THE HAWAII HEALTH SYSTEMS
CORPORATION

House Bill No. 3 appropriates \$2.5 million in general funds for FY 14 to the Kauai Regional Health Care System of the Hawaii Health Systems Corporation (HHSC) to provide stopgap funding to sustain operations through the start of the Regular Session of 2014.

HHSC indicates that without the stopgap funding, the Kauai Regional Health Care System will not be able to sustain operations thereby placing the health care of Kauai's residents and visitors in jeopardy. HHSC and its Kauai Region management team should be better prepared to outline the specific purposes of the \$2.5 million funding and what minimal alternatives are available to the facilities short of additional funding. The Department of Budget and Finance, therefore, defers to testimony offered by HHSC and its Kauai Region.



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

"Quality Health Care for All"

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

House Committee on Finance
Representative Sylvia Luke, Chair
Representative Scott Y. Nishimoto, Vice Chair
Representative Aaron Ling Johanson, Vice Chair

Monday, October 28, 2013
Conference Room 309
1:30 p.m.
Hawaii State Capitol

Testimony Supporting House Bill 3, Making an Appropriation to the Hawaii Health Systems Corporation. Makes an 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 HB 3 that makes an appropriation to support the Kauai Region of HHSC.

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. General fund appropriations represent about 14% of the current operational budget of HHSC.

CONTINUANCE OF KAUAI REGION OPERATIONS

The hardest hit of the regions by the financial condition of HHSC is the Kauai Region. Various factors have contributed to this situation, including lower than anticipated census, and other factors outlined in the Kauai Region testimony. I respectfully request

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that this Committee support an emergency appropriation for the benefit of the Kauai hospitals to pay overdue accounts payables and loans, and to enable the Region to continue to operate and provide services at current levels.

It should be noted that \$2.5 million will not be sufficient to cover the overdue bills and obligations of the Region. Kauai has already spent its first two quarters of general funding allocations, borrowed \$2 million from Maui Region, not paid its share of the system wide obligations to the corporate office (over \$2 million owed), has very high account payables and does not project enough money to meet payroll and other obligations without a further infusion of cash. The failure of Kauai to pay its share of the system wide expenses affects all of the hospitals in the system because the corporate office pays for the system wide contracts, like information technology, insurance, etc., and then allocates the amounts to the various hospitals. If one region does not pay its share, the burden falls on the others to make up for it. Unfortunately, none of the hospitals have the extra cash to make up for Kauai's shortfall. If the corporate office cannot pay the bills, the system wide contracts for services and supplies will become further behind, thereby affecting the hospitals' ability to treat patients. Giving the Kauai region \$2.5 million is a start, but it will not give them enough to pay for the system wide obligations, and the overdue accounts payables, and stay afloat with current obligations.

Based on current information, Kauai will stop getting deliveries of some needed supplies and not be able to meet payroll by the end of the calendar year, with only a \$2.5 million appropriation. Therefore, it is respectfully requested that \$7.3 million be appropriated to get the Region to the spring of next year when an emergency appropriation may be considered or, \$9.7 million to get the region thru the fiscal year.

Kauai region operates two critical access hospitals, the only inpatient psychiatric unit on the island, long-term care, and 3 physician clinics on the island. Operating efficiently in a rural setting is challenging. The failure to resolve the cash shortage will affect patient care. If the Kauai Region does not pay vendors, staff, and lessors, it cannot sustain hospital operations as they currently exist in the Kauai region. Even if services are cut and operations are curtailed, it will take a year to fully realize the savings.

FISCAL CHALLENGES FOR HHSC IN FISCAL YEAR 2014

Although this EA is specifically intended to support Kauai operations, it is important that the legislature understand the financial situation of HHSC. The problems affect all the facilities, and also impact the ability of the regions to loan money to other regions that are in financial trouble.

Earlier this year, 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. Despite this funding, HHSC still faces an unfunded amount of collective bargaining cost increases of \$8.5 million in fiscal year 2014. It should be noted that this amount does not include any amounts for negotiated settlements for bargaining units 9, 10, and 13, which have yet to be funded by the Legislature. In the

other bills being heard today, bargaining unit 10 and 13 raises are being considered. Yet, HHSC is slated to NOT get general fund appropriations for this additional \$9 million obligation, which further exacerbates the financial situation.

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 million for HHSC's facilities. These two pieces of federal legislation continue the trend of downward adjustments to Medicare reimbursements since the establishment of the Patient Protection and Affordable Care Act.

In conclusion, costs continue to go up, and reimbursements continue to go down. With very little cash on hand, HHSC is facing some difficult decisions relating to the provision of services or restructuring for a more cost effective organization. Kauai is the first region to be in this position; others will follow unless we get more funding or reorganize in a fashion that changes our cost structure.

Thank you for the opportunity to testify before this committee. We respectfully recommend the Committee's strong support of this measure, with amendments as noted.



WEST KAUAI MEDICAL CENTER – MAHELONA MEDICAL CENTER
WEST KAUAI CLINICS – WAIMEA, PORT ALLEN, KALAHEO, KAPAA
HAWAII HEALTH SYSTEMS

C O R P O R A T I O N

"Touching Lives Everyday"

House Committee on Health
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Kauai Regional Board of Directors
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation Kauai Region Board of Directors, we greatly appreciate this opportunity to present testimony in strong support of HB 3 with amendments.

The Kauai Region recognizes the urgent need for an additional appropriation to support the needs and services that the region provides. The Kauai Veterans Memorial Hospital will be recognized in a few weeks by the National Organization of State Offices of Rural Health and iVantage Health Analytics for reaching the top quartile performance status in Quality, Outcomes, Patient Satisfaction, Efficiency and overall performance compared to all acute care hospitals in the nation. The rankings have been designated by the Hospital Strength Index, the first rating system in the country to include all rural providers. Although we have pressing financial issues both facilities maintain 4 and 5 star rating with CMS, KVMH is accredited by the Joint Commission, KVMH has the highest patient satisfaction scores in the state. In order to continue to achieve its high quality of care and service the Kauai Region needs \$9.7 million in order to sustain its operations until June 30, 2014.

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The \$9.7 million will be sufficient provided that Kauai receives a proportionate share of the certified losses from FY 2013 (\$2.5 Million). Kauai was counting on an additional \$2.5 million from 2012 certified losses that never materialized so in addition to its normal share of 2013, it will need \$2.5 million additional from 2013.

The Kauai Regional Board believes that the passage of an appropriation bill to support the Kauai Region is one of the most critical issues facing not only the region but also the entire system. This is desperately needed to allow the Kauai Region to sustain operations and pay off obligations it has to Maui and to the corporate office in addition to reducing accounts payable to 30 days from its current level over 110 days.

Need

Maui Loan Repayment	\$1.983M
Corporate Overhead & Shared System Expenses	\$2.100M
Payables to 30 Days	\$3.917M
<u>Cover 4th Quarter Draw</u>	<u>\$1.700M</u>
Total	\$9.700M

Issues

- The Kauai Region recognizes it has had significant problems in our coding and billing departments with antiquated billings based on excel spreadsheets, lack of follow up processes, thus causing major issues with our revenue cycle ultimately impacting our ability to timely pay our Employee Payroll at the end of June 30, 2013 and the rising accounts payable.
- We had very key personnel taken out of operations to assist with HHSC's electronic medical records project. We don't have a deep bench and the loss of this intellectual capital hurt the operations and overall efficiencies. In hindsight, we should not have supported the project with these individuals, as regionally we couldn't afford their absence.
- The daily census in the Long Term Care facility at SMMH is below sustainable levels. We are working to increase referrals for these beds, but our aging facility coupled with the ward-like environment does not appeal to families looking to place their loved ones, despite the stellar care that is provided in the facility. Home and community based care has also driven down the demand. The low census has contributed to a \$2m+ shortfall. As current rules do not permit flexing staff to census, it is not an additional cost to the region to increase the census.
- Loss of Medicare revenue due to 2% reduction in Medicare payments despite our cost based reimbursement for Medicare.

Solutions

- While it has taken far too long to resolve the billing and coding issues, the region was able to hire two highly qualified people to fix these critical areas. John Marnell has created a computer based tracking and workflow system that has been instituted to correct the billing dept. We're very confident that John's work will yield excellent results and will improve our revenue stream. Freddie Woodward is working tirelessly on the coding issues and we believe that he too is making great strides in this area. The results of his work will also enhance our ability to bill correctly and without delay.
- HPH (Wilcox) and HHSC (Kauai Region) participated in a joint study conducted by an outside consultant (ECG) to review areas where we could both improve services to the patients of Kauai. The initial areas to seek improvement were behavioral health, surgical call coverage, and recruitment of specialists, and establishment of a working committee, alignment with Ho'ola Lahui Hawaii to provide the primary care base and possible clinic alignment with HPH to assure access but avoid unnecessary duplication of clinic services on Kauai.
- The region will also be updating its strategic plan, reviewing programs to determine long-term viability, reviewing staffing, energy management programs (photo voltaic), master plans for both facilities (have CIP funds), continue working with HPH, integrating services, implementing new electronic medical records and accounting system, developing new service model for the Affordable Care Act, continuing to implement the medical home model in all clinics, and working with other regions and other local care providers on public/private partnerships.

Thank you for the opportunity to testify before this committee. We respectfully recommend the committee's strong support of this measure and ask for the additional support of 7.3 Million to get the region through until the end of March 2014 and 9.7 million to get the region through till the end of June.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Twenty-Seventh Legislature, State of Hawaii
Second Special Session of 2013

House of Representatives
Committee on Health
Committee on Finance

Testimony by
Hawaii Government Employees Association
October 28, 2013

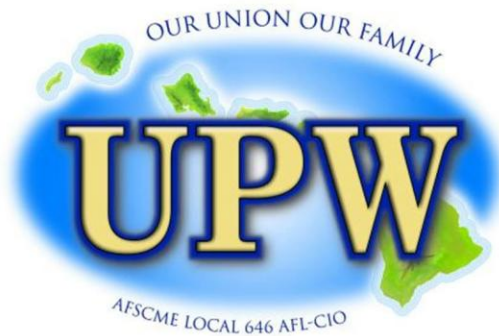
**H.B. 3 – MAKING APPROPRIATIONS TO
THE HAWAII HEALTH SYSTEMS CORPORATION**

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports H.B. 3 which provides funding for the Kauai Regional Health Care System in order to sustain its operations.

Thank you for the opportunity to testify in support of the above legislation.

Respectfully submitted,

Randy Perreira
Executive Director



THE HAWAII HOUSE OF REPRESENTATIVES
The Twenty-Seventh Legislature
Second Special Session of 2013

COMMITTEE ON HEALTH

The Honorable Rep. Della Au Belatti, Chair
The Honorable Rep. Dee Morikawa, Vice Chair

COMMITTEE ON FINANCE

The Honorable Rep Sylvia Luke, Chair
The Honorable Rep. Scott Y. Nishimoto, Vice Chair
The Honorable Rep. Aaron Ling Johanson, Vice Chair

DATE OF HEARING: Monday, October 28, 2013
TIME OF HEARING: 1:30 p.m.
PLACE OF HEARING: Conference Room 309

**TESTIMONY ON HB3 MAKING APPROPRIATIONS TO THE HAWAII HEALTH
SYSTEMS CORPORATION**

By DAYTON M. NAKANELUA,
State Director of the United Public Workers, AFSCME Local 646, AFL-CIO

My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive representative for approximately 11,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 01 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

The UPW supports HB3 that makes an appropriation to the Hawaii Health Systems Corporation to sustain the operations of the Kauai regional health care system.

Thank you for the opportunity to testify on this measure.

morikawa2

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, October 24, 2013 7:04 AM
To: HLTtestimony
Cc: toddhairgrove@hotmail.com
Subject: *Submitted testimony for HB3 on Oct 28, 2013 13:30PM (Written Only)*

HB3

Submitted on: 10/24/2013

Testimony for on Oct 28, 2013 13:30PM in Conference Room 309

Submitted By	Organization	Testifier Position	Testifying in Person
Todd Hairgrove	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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