



Kahuku Medical Center

Friends and Family Taking Care of Friends and Family

**Hawaii Health Systems Corporation (HHSC)
2025 Legislative Budget Briefing**

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COMMITTEE ON HEALTH

**Representative Gregg Takayama, Chair
Representative Sue Keohokapu-Lee Loy, Vice Chair**

Wednesday, January 8, 2025

2:00 p.m.

**Hawaii State Capitol
Conference Room 308**

KMC's Mission

The mission of Kahuku Medical Center is to provide quality healthcare and promote wellness in our community in a professional, caring, culturally sensitive, and financially responsible manner.

Background

Kahuku Medical Center serves a patient population that spans the North Shore and Ko'olauloa regions. As the only hospital for more than 30 miles in either direction, KMC is the emergency safety net during a health crisis and the area's leading provider of primary care services. We specialize in family and internal medicine, pediatrics, dental health, physical and occupational rehabilitation, mental health, preventive care, and more.

KMC plays a critical role in the healthcare delivery system for the North Shore and Ko'olauloa regions of Oahu. In fiscal year 2024, emergency department recorded 7,549 visits, outpatient clinic visits totaled 21,283, hospital outpatient services experienced double-digit growth compared to FY2023, and our 21 Critical Access Hospital (CAH) beds maintained an 87% occupancy rate.

Healthcare Landscape

Healthcare providers operate in a complex, highly regulated, and rapidly evolving environment. There is continuous pressure from payors to deliver higher-quality care at lower costs. Success in this landscape requires investments in health information technology, physician networks, quality improvement programs, regulatory compliance, and revenue cycle management. While private hospitals have made significant advancements in these areas, KMC faces challenges in keeping pace due to limited resources.

Historical Challenges

KMC has encountered several ongoing challenges, including:

- A high percentage of Medicaid/QUEST and uninsured patients.
- Insufficient government and third-party reimbursements for services provided.
- Rising labor costs over the past two years to remain competitive with industry standards.
- Difficulty attracting and retaining specialized healthcare professionals in rural areas due to high living costs and limited education and training opportunities.
- Reliance on costly contracted nursing and clinical personnel to address staffing shortages.
- Small-scale operations that are expensive to sustain.
- The need for capital investment in modern medical technology.
- Aging facilities requiring upgrades to meet life and safety codes, along with deferred maintenance exceeding national averages.
- Impacts of national healthcare policy changes, federal mandates, and budget reductions.

Accomplishments

Despite significant challenges, Kahuku Medical Center (KMC) remains dedicated to providing high-quality healthcare to the North Shore and Ko'olauloa communities. Over the past year, KMC has achieved important milestones in several key areas:

- **Expanding Revenue-Generating Services to Improve Community Care:** KMC experienced substantial outpatient revenue growth in fiscal year 2024—an 11% increase from FY2023 and a 27% increase from FY2022. This upward trend continues, driven by key factors such as:
 - **Service Expansions:**
 - Clinic capacity expanded from 4 to 10 rooms.
 - Behavioral Health services increased from 4 to 7 rooms, resulting in a 51% rise in visits compared to 2023.
 - Dental services added 2 new chairs, enabling a 29% increase in visits compared to 2023.
 - **New Programs and Services:**
 - Introduced an infusion program and podiatry services to address growing community needs.
- **Maximizing Federal Funding Opportunities:** KMC secured \$812,000 in Congressional Directed Spending grant through collaboration with Hawaii's Congressional delegation. These funds will support the expansion of outpatient services, further strengthening KMC's capacity to serve the community.

KMC remains committed to sustaining growth, optimizing resources, and delivering exceptional care to the communities it serves.



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Federal Funds

KMC’s primary source of federal funding is reimbursement from the Medicare program, which represents approximately 41% of the organization’s gross revenue. However, ongoing efforts by the Centers for Medicare & Medicaid Services (CMS) to reduce hospital reimbursements present a significant challenge for KMC. This situation may be further compounded by pressures to curb Medicare spending in response to the growing federal budget deficit.

In light of these challenges, KMC must remain focused on improving operational efficiencies, optimizing reimbursement opportunities, and expanding services to generate additional revenue and sustain financial stability.

Kahuku Medical Center Fiscal Years 2026-2027 Budget Request (HTH 211)

A summary of the amounts appropriated for fiscal years 2024 and 2025, the total funding requested by Kahuku Medical Center for fiscal years 2026 and 2027, and recommended by the Governor for fiscal years 2026 and 2027 are summarized below.

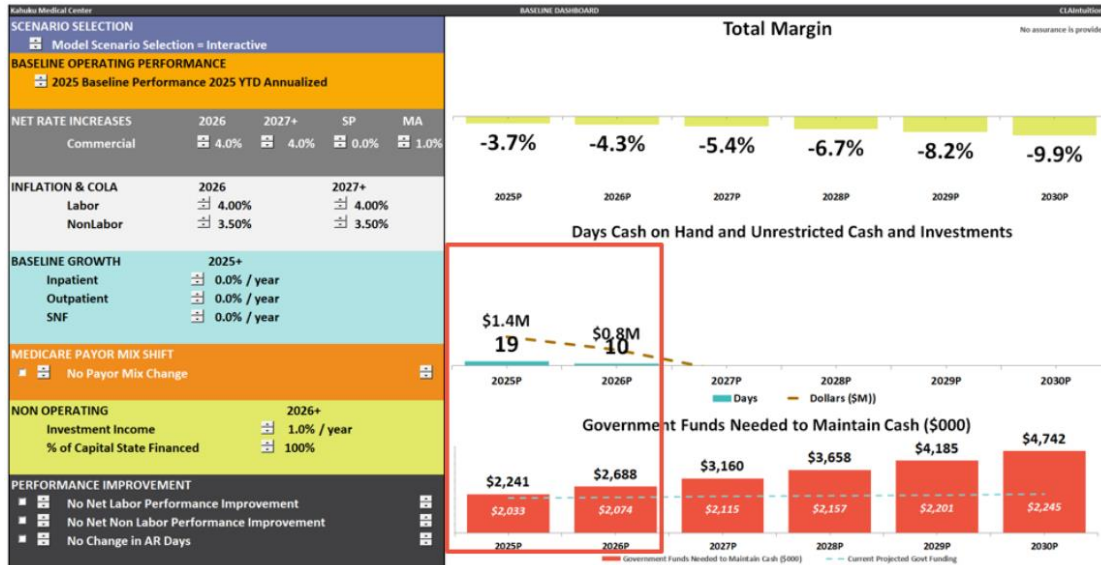
HTH 211: KAHUKU MEDICAL CENTER								
Funding Type	FY 2024	FY 2025	KMC FY 26 Request	KMC FY 27 Request	FY 2026 Gov Rec	FY 2027 Gov Rec	FY 2026 Gov Dec	FY 2027 Gov Dec
General Fund Appropriations for Operations (A Funds)	1,800,000	2,032,500	4,422,500	3,932,155	2,157,500	2,032,500	2,157,500	2,032,500
CIP APPROPRIATIONS								
General Obligation Bonds	-	-	13,135,000	36,000,000	5,800,000	5,000,000	5,800,000	5,000,000
General Funds	1,000,000	5,000,000	-	-	-	-	-	-
TOTAL CIP APPROPRIATIONS	1,000,000	5,000,000	10,000,000	36,000,000	5,800,000	5,000,000	5,800,000	5,000,000

Kahuku Medical Center (KMC) is experiencing financial strain due to several key external factors, with cash on hand dropping to 18 days as of November 2024—well below the 2023 nonprofit hospital national average of 200 days.

Key challenges include:

- **Cyberattack Impact (February 2024):** A nationwide cyberattack on Change Healthcare severely disrupted electronic claims processing, forcing KMC to rely on manual submissions. The recovery process spanned several months, prompting KMC to transition to the Trizetto platform. However, integrating local payers into the new system took nearly six months, causing further delays in claims processing. As a result, KMC experienced significant payment delays, missed deadlines, and a rise in claim denials, exacerbating financial strain. KMC was not eligible for accelerated and advance payments from CMS.
- **Payer Issues:** Denial rates have more than doubled, with Medicare Advantage plans rejecting claims due to missing prior authorizations, out-of-network challenges, and repeated requests for previously submitted records. These delays have extended payment timelines up to three months or longer, necessitating additional staff to manage ongoing appeals and follow-ups.

Kahuku Medical Center (KMC) faces an urgent and dire financial crisis, underscoring the immediate need for external support to stabilize operations and preserve essential healthcare services for our community. Current projections indicate that KMC will exhaust its cash reserves by March 2027—potentially sooner due to ongoing payer denials, which continue to erode revenue. Without immediate intervention, KMC will be forced to cut critical services and implement staff layoffs in the near future. While efforts are underway to mitigate losses, these actions are reactive and focused solely on survival rather than long-term strategic growth and sustainability. Immediate assistance is essential to prevent devastating impacts on our patients, staff, and community.



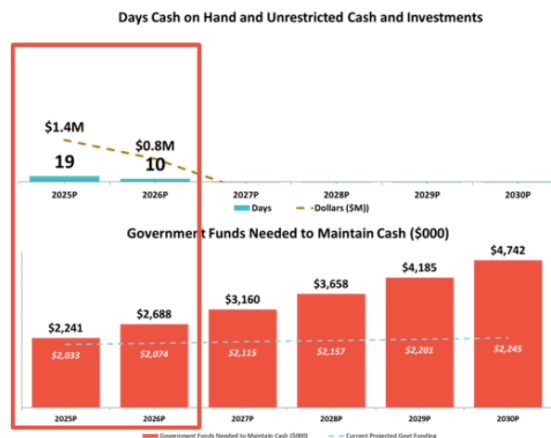
Projected Financial Outlook for KMC

- Total Margin Decline: Margins are projected to deteriorate from -3.7% (2025P) to -9.9% (2030P).
- Days Cash on Hand: Expected to decline from 19 days (2025P) to negative levels by 2027, indicating significant liquidity challenges.
- Government Funding Requirements: Anticipated reliance on external funding increases from \$2.2M (2025P) to \$4.7M (2030P) to sustain operations.

Current Five Year Outlook Situation

The current situation is unsustainable:

- Run out of cash on March 27th 2027
- Due to negative financial pressures amount of support needed will continue to increase





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KMC respectfully urges the Legislature to approve the requested general fund appropriations to provide essential financial relief. This support will enable us to stabilize operations and focus on implementing strategic initiatives aimed at achieving self-sufficiency over the next 3–5 years. These funds are critical to sustaining high-quality care while we address ongoing financial challenges and position ourselves for long-term growth.

We sincerely appreciate the CIP appropriations, which will play a vital role in advancing our long-term goal of financial independence. As these projects come to fruition, they will enhance our ability to meet the evolving healthcare needs of our community and further strengthen our operational foundation.

Conclusion

Despite our achievements in financial and operational performance, as outlined in the “Accomplishments” section above, KMC continues to face challenges in keeping pace with collective bargaining pay increases and rising healthcare costs while also managing the financial strains caused by external disruptions to claims processing. Numerous media reports have highlighted the growing need for access to high-quality healthcare services in Hawaii’s rural communities. KMC, in partnership with HHSC, is uniquely positioned to fulfill the State of Hawaii’s constitutional responsibility to provide these essential services to its citizens. Therefore, KMC strongly urges the Legislature to approve the general fund appropriation levels requested by KMC to ensure our facilities can sustain the vital care we provide to the rural communities that rely on us.