HAWAII HEALTH SYSTEMS
C O R P O R A T I O N
Quality Healthcare For All

Oahu Regional Health Care System, Hawaii Health Systems Corporation (HHSC)
2024 and 2025 Legislative Budget Briefing

HOUSE COMMITTEE ON FINANCE
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HOUSE COMMITTEE ON HEALTH & HOMELESSNESS
Representative Della Au Belatti, Chair
Representative Jenna Takenouchi, Vice Chair

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1:30 P.M.
State Capitol, Room 308

Oahu Regional Health Care System: Vision and Mission

Our Vision is to be a proud center of long-term care excellence – to inspire hope, aloha, and a feeling of ohana to those entrusted to us.

Our mission is to provide the highest quality of life in long term care.

Background

The Oahu Regional Health Care System (hereinafter, “Oahu Region”) plays a vital role in our local community as an important safety net provider of long term care and adult day health services. The Oahu Region almost exclusively serves Medicaid patients, a group that is overwhelmingly underserved by private facilities because of the high cost of their care. Leahi Hospital and Maluhia generally accounts for approximately 11% of the total inpatient licensed skilled nursing/intermediate bed capacity for the island of Oahu and 16% of the total number of Medicaid beds.

In addition to inpatient care, Maluhia and Leahi also operate two of the four remaining Adult Day Health Centers on Oahu. These programs enable families to keep their loved ones at home while providing a therapeutic and recreational place to send them when they are at work or otherwise unavailable.

For many of our nursing home residents and day health participants – especially those receiving Medicaid benefits due to a lack of personal assets (approximately 80% of our inpatients), the Oahu Region's facilities are often the only options for quality post-acute and community-based health care services.

In an additional effort to serve our local population, the Oahu Region began partnering with Hawaii Meals on Wheels from 2019 to provide hot meals for disabled elders on Oahu, which enables them to sustain their independence at home and in the community.

Challenges

Residents Financially Vulnerable and Dependent on Medicaid

As noted above, approximately 80% of the Oahu Region's residents are financially deficient and dependent on Medicaid. Given the historically low rate of Medicaid reimbursements – the primary reason why private facilities do not admit Medicaid patients – our revenues require legislative subsidies to sustain the costs of our labor, supplies and other necessary overhead.

COVID-19 Impact

For nearly three (3) years, the impact of the COVID-19 virus on society, the economy and businesses has been significant and continues to pose challenges for our facilities. Overall, in November, seniors accounted for nearly 90% of US COVID-19 deaths. Through extensive outreach and pro-vaccination campaigns, we continue to encourage our residents, families and staff to receive the Bivalent booster. The many issues brought by this pandemic primarily center around residents' and employees' safety and health, the financial impact and stability of the facilities, and a multitude of operational difficulties such as staffing and supply chain challenges.

Thus far, although a number of staff had contracted the COVID-19 virus, very few Leahi and Maluhia residents have been infected. We attribute this primarily to the infection control protocols implemented by our clinical leadership with a particular emphasis on strict hand hygiene and the proper use of personal protective equipment (PPE). Additionally, staff training and monitoring on infection prevention procedures are conducted regularly, as well as routine cleaning and disinfection of equipment and areas throughout the facilities.

The mental health of our residents, their families and our staff were negatively impacted due to the restrictive visitation protocols in place to protect everyone's health. While we recognize the importance of socialization for our residents with their families and each other, especially during the holidays, tempering the risks of infection has remained a difficult challenge. This has been particularly complicated during the latter part of 2022 due to the increasing number of flu and RSV cases.

Securing adequate staffing is another operational challenge that our facilities continue to face during this pandemic. Healthcare facilities locally and around the nation are currently struggling to fill significant staffing shortages, especially in clinical positions like Certified Nurse Aides and Licensed Nurses. To alleviate some of the strain, we have repurposed employees from other departments to assist in clinical care, approved overtime for existing nursing staff, and sought agency staff when necessary.

From a financial standpoint, this pandemic has adversely affected our facilities' revenues and expenditures in several areas. For example, our facilities continue to maintain unoccupied patient rooms to temporarily quarantine new admissions, re-admissions, and all residents who may have had a possible exposure to COVID-19. While this safety measure greatly aids in reducing the risks of infection to our general resident population, it also results in a significant decrease in the available bed space at our facilities because the number of residents assigned to the designated isolation and quarantine (ISOQ) unit has been much less than the overall capacity of the unit. This decrease led to contraction of our daily resident census which, in turn, has decreased our revenue. The pandemic has also caused an increase in expenditures due to the additional funds required for COVID-19 testing and purchase of supplementary PPE and other infection prevention supplies.

Needless to say, as a consequence of continuing important COVID-19 prevention efforts and treatment of potential COVID-19 infections, the Oahu Region's operating revenue and expenditures will continue to be negatively affected and we will require much needed assistance to cover the resulting shortfalls.

Other Challenges

- Escalating costs related to clinical staff recruitment and retention.
- Labor costs well above industry norms
- Increasing demand for long term care services from aging population
- The need for capital investment in new medical technology.
- Aging facilities, with life and safety code issues and deferred maintenance, well beyond the average for similar facilities across the country.
- The impact of national changes to healthcare policy, federal mandates, and federal budget reductions.

Accomplishments

In spite of its many challenges, the Oahu Region continues to provide high quality healthcare to the communities it serves and is making progress in key areas. The following are some of the major accomplishments over the past year:

- Through a collaboration amongst the Oahu Regional Healthcare System, HHSC, the State of Hawaii, Department of Defense on behalf of its State Office of Veterans Services (DOD), Department of Accounting and General Services (DAGS), legislation was successfully passed to facilitate the transfer of the Daniel K. Akaka State Veterans Home (DKA SVH), a new 120 bed facility with single occupancy rooms being constructed in Kapolei, from the DOD to the Oahu Region once construction is completed. Specifically, HB 1893 (signed into law as Act 285, SLH 2022), transfers control, operational contract responsibility, and long-term oversight of the DKA SVH from DOD to the Oahu Region.

- The DOD, Oahu Region, and DAGS group convenes regularly to discuss and address issues relating to the construction and equipping of the DKA SVH. Types of services that will be offered: Skilled Nursing Care, Rehabilitation Therapies, Hospice Care, Long-Term Care, Geriatric Mental Health, Alzheimer's Care, Dementia, Adult Day Health and Respite Care for Hawaii's Veterans, their spouses, and Gold Star parents.

- Pursuant to SB 628 (signed into law as Act 212, SLH 2021), a working group led by the Department of Health Director, Adult Mental Health Deputy Director, and Oahu Region, completed a thorough analysis of the continued feasibility of transitioning the Oahu Region from HHSC into the Department of Health. Through this analysis, which was described in detail through a report completed in tandem with a sophisticated management consulting firm (RGP), the working group was able to determine that the costs inherent in effectuating the transition unfortunately outweighed the anticipated benefits. At the same time, the working group was able to develop approaches to realizing many of the same goals through alternative and more cost-efficient means.

- For example, one of the central goals of the transition was to more freely enable the DOH to utilize space at Leahi for mental health and substance use related services. Through our collaboration as part of the working group, the Palekana behavioral health program, which started in December 2019 as a pilot program with the DOH to provide lower acuity mental health and substance use treatment for Hawaii State Hospital patients, we were able to expand the bed space from the initial 6 to its current capacity of 28 beds. Based on the current capacity of participants, the Palekana program at Leahi yields the Hawaii State Hospital annual savings of over $15 million in comparison to housing such participants at the Hospital. It is our intent to continue to develop our relationship with the DOH to expand Palekana further or otherwise utilize space for new projects.

- The Oahu Region partnered with Beyond Green Partners (BGP), a consulting firm committed to training facilities to develop a healthy, prosperous food system that promotes scratch-cooked foods, local food sourcing and minimizing waste. The vision of the program focused on improving the well-being, mental health and comfort of the residents, Day Health participants and the Meals on Wheels recipients. Other program benefits included culinary techniques training to the food service employees and better utilizing kitchen space to manage on-time and quality food production, resulting in decreased food costs per meal. As a result of our experience with BGP, the percentage of our locally sourced foods have increased tremendously and the quality of our dishes at both facilities (as evidenced by resident/staff responses) have greatly improved.

Federal Funds

The Oahu Region's primary source of federal funds is Medicaid reimbursements, which account for approximately 86% of the Oahu Region's patient gross revenues. Over the past years, the Oahu Region received additional federal funds through the Paycheck Protection Plan, the American Rescue Plan Act (ARPA) and Phase 4 grants available through the Health & Human Services Provider Relief Fund in the amounts of $2.7 million, $2.6 million and $550 thousand, respectively. In fiscal year 2022, the legislature provided the Oahu Region with its annual subsidy directly through the ARPA funding program rather than through HHSC and a disbursement from the General Fund. This amount was appropriated through SB 628 (Act 212, SLH 2021), which commenced the transition of the Oahu Region from HHSC into the DOH.

Non-General Funds

HHSC's non-general funds report is attached to this memo.

OAHU REGION REQUEST

Emergency Appropriation

The Oahu Region does not anticipate requiring an emergency appropriation in fiscal year 2023, assuming that the Governor will release the 10% general fund restrictions of $1.6 million that the Administration imposed. The Oahu Region is only able to do this because we plan to rely upon existing working capital to fund our anticipated cash flow deficit in fiscal year 2023. Of course, this will ultimately leave the Oahu Region with low cash balances going into fiscal year 2024. While the Oahu Region generally exhausts all of its available funds to support its operations, we currently have a limited amount of working capital as a result of the Provider Relief Fund grants and Paycheck Protection Program Loans.

Fiscal Years 2024 and 2025 Biennium Budget Request (HTH 215)

In the 2022 Legislative Session, due to the unique nature of HB1600 HD1 SD2 CD1 (Act 212, SLH 2021), the Legislature appropriated the Oahu Region's fiscal year 2023 subsidy of $16,320,000 directly to the Oahu Region under Program ID 215, but designated the appropriation as "non-recurring." Thus, while the Oahu Region received its necessary funding for fiscal year 2023, the Oahu Region's base general funds for fiscal years 2024 and 2025 are currently set at $0.

For fiscal years 2024 and 2025 operations, the Oahu Region is requesting a total General Fund appropriation of $22,389,000 and $23,372,000, respectively, as follows below:

	FY 2023	FY 2024	FY 2025
General Fund Appropriation Non-Recurring FY 2023	**$ 16,321,000**	**16,321,000**	**$ 16,321,000**
- Prior Fringe Benefit increase (50.75% to 62.78%) from FY 2023 for which roll-forward funding was not provided		2,589,000	2,589,000
- Prior Collective Bargaining Pay Raises from FY 2023 for which roll-forward funding was not provided		1,695,000	1,695,000
- Collective Bargaining Pay Raises FY 2024		1,847,000	1,847,000
- Collective Bargaining Pay Raises FY 2025			1,857,000
- Inflation and Other, Net of Rev Increases		(63,000)	(937,000)
TOTAL GENERAL FUND APPROPRIATION REQUESTED	$ 16,321,000	22,389,000	$ 23,372,000

JUSTIFICATION FOR ADDITIONAL FUNDING REQUEST:

As noted above, the Oahu Region received a total appropriation of $16,320,700 for fiscal year 2023. While this amount did not include any funding to address the increased fringe benefit rate and collective bargaining pay raises applicable to fiscal year 2023, the Oahu Region was able to continue operations and cover these additional expenses without a reduction in force by exhausting the residual working capital remaining from Provider Relief Fund grants and Paycheck Protection Program Loans.

For fiscal years 2024 and 2025, the Oahu Region anticipates having little to no working capital. Accordingly, the amount needed by the Oahu Region to sustain our operations for fiscal years 2024 and FY 2025 are as follows:

- FY 2024
  - FY 2023 base amount of $16,320,700
  - Funding for fringe benefit rate increase from 50.75% to 62.78% ($2.6 million);

- Funding for FY 2023 collective pay raises ($1.7 million); and Funding for FY 2024 collective bargaining pay raises ($1.8 million).

- FY 2025
  - FY 2023 base amount of $16,320,700
  - Funding for fringe benefit rate increase from 50.75% to 62.78% ($2.6 million);
  - Funding for FY 2023 collective pay raises ($1.7 million);
  - Funding for FY 2024 collective bargaining pay raises ($1.8 million); and
  - Funding for FY 2025 collective bargaining raises ($1.8 million).

Here, it is important to note that the Oahu Region is not asking for any increases to the base amount requested over the past several years.

The reasons for the higher requests for fiscal years 2024 and 2025 are solely to address the collective bargaining and related fringe benefit increases. Unlike other State agencies, where the costs of collective bargaining and fringe benefits increases are funded by Budget & Finance, such costs must be paid for out of HHSC Oahu Region's own cash collections from patient services. Given the nature of our safety net services and limited reimbursement levels, however, there is simply not enough revenue that can be generated from our operations to cover these increased expenses.

Specifically, given that over 80% of the Oahu Region's residents lack financial means and are dependent on Medicaid, the revenues we are able to bring in from Medicaid reimbursements fall significantly short of that necessary to cover the costs of labor, supplies and other overhead. As such, our annual legislative subsidy is absolutely vital to our ability to continue providing quality long-term care and Adult Day Health Care services for the community. Our funding request reflects the minimum amount necessary to stay operational and avoid any decreases in safety net services we provide.

Here, it should be emphasized that, for as long as the threat of COVID-19 persists, the Oahu Region will strive to adhere to the laws, regulations and guidance issued by the Centers for Disease Control & Prevention (CDC), Centers for Medicare and Medicaid Services (CMS) and DOH to mitigate the spread of COVID-19 in our facilities and protect our vulnerable residents. As mentioned above, however, these efforts have, and will continue to negatively impact our operating revenues and increase our overtime costs much more than in pre-COVID years.

Through the support of the legislature, coupled with our efforts to decrease costs and develop alternative means to raise revenues, we are confident that the Oahu Region's facilities will be able to weather the challenges posed by COVID-19 and continue providing a safe environment for long term care, adult day health, and targeted mental health treatment.

In regard to the Oahu Region's infrastructure needs, the Oahu Region has separately submitted CIP appropriation requests to the Legislature for fiscal years 2024 and 2025 of $6.05 million and $6.55 million, respectively. Details on the individual projects can be provided upon request.

A summary of the amounts: (1) appropriated for fiscal years 2022 and 2023; (2) requested by the Oahu Region for fiscal years 2024 and 2025; and (3) recommended by the Governor for fiscal years 2024 and 2025 for operations and CIP are summarized below. Please note that the amount recommended by the Governor (Ige) is limited to the base amount for fiscal year 2023 and does not include the minimum amount needed to fund the additional costs of collective bargaining and fringe benefit increases in fiscal years 2024 and 2025.

Funding Type	FY 2022	FY 2023	FY 2024 Request	FY 2025 Request	FY 2024 Governor Recommendation	FY 2025 Governor Recommendation
Appropiations for Operations:						
General Fund Appropriations		$ 16,320,700	$ 22,389,000	$ 23,372,000	$ 16,320,700	$ 16,320,700
American Rescue Plan Funds	$ 16,320,700					
Total	**$ 16,320,700**	**$ 16,320,700**	**$ 22,389,000**	**$ 23,372,000**	**$ 16,320,700**	**$ 16,320,700**
CIP Appropiations:	**$ 2,500,000**	**$ 3,000,000**	**$ 6,050,000**	**$ 6,550,000**	**$ 3,000,000**	**$ 3,000,000**

Conclusion

The Oahu Region provides an invaluable safety net service to the community in the forms of long term care, adult day health, and targeted mental health treatment. In order to sustain these services while faced with the challenges of COVID-19, collective bargaining pay increases, mandated increases in the fringe rate for pension and retiree health insurance cost (OPEB), and limited Medicaid revenues, we must rely on the legislature for crucial financial support. Absent the same, the unfortunate reality is that our only immediate alternatives would include reductions in personnel and services at great cost to the community and the families we serve. Thank you for your continued support of the Oahu Region and our mission.