

**HAWAII HEALTH SYSTEMS**

**C O R P O R A T I O N**

*"Touching Lives Every Day"*

**Informational Briefing**  
**Senate Ways & Means Committee**  
**House Finance Committee**

**July 11, 2008**



# HEALTHCARE CONCERNS TODAY AND TOMORROW

- Healthcare is in crisis today in the USA and its not going to get better
- Delivery of healthcare in Hawaii has major unique problems
- Public healthcare is taking on more and more of the burden
- Quality/Patient Safe Care is HHSC's business

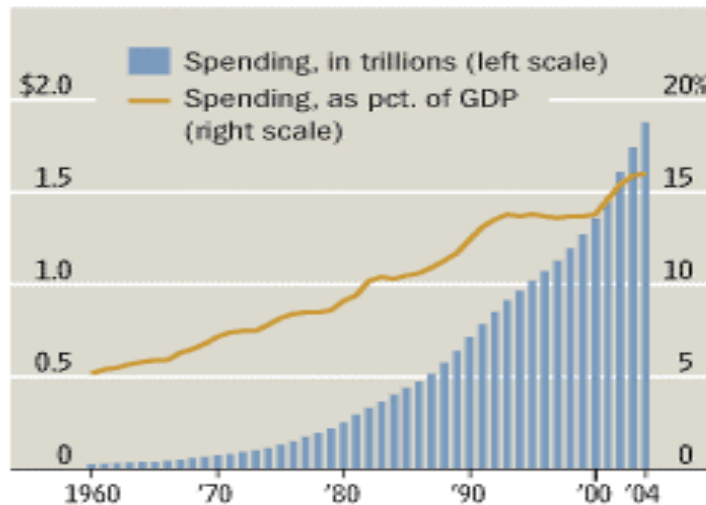
# WHY ARE WE HERE?

# Rising Costs of Healthcare

- **Private Health Care Insurance Up 35 % 1996 – 2000**  
*(vs. 12% social security COLA adjustments)*
- **By 2015 Total U.S. Healthcare Spending Expected to Double to \$4 Trillion**

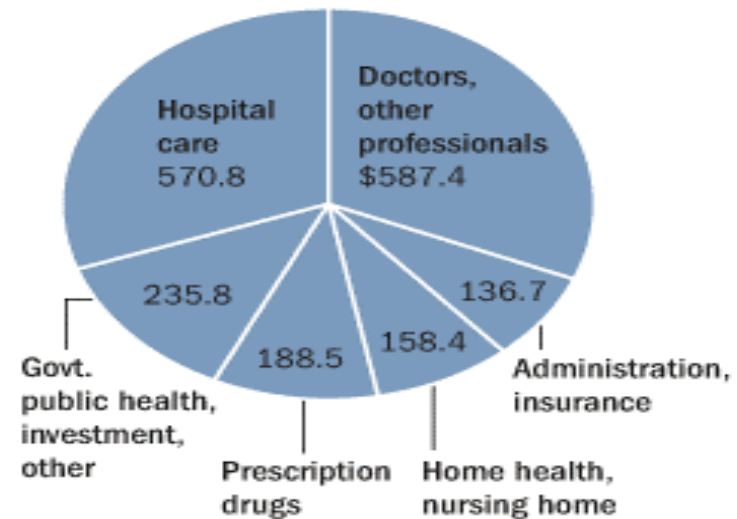
## Health-Care Spending, American-Style

### Up, up and still up



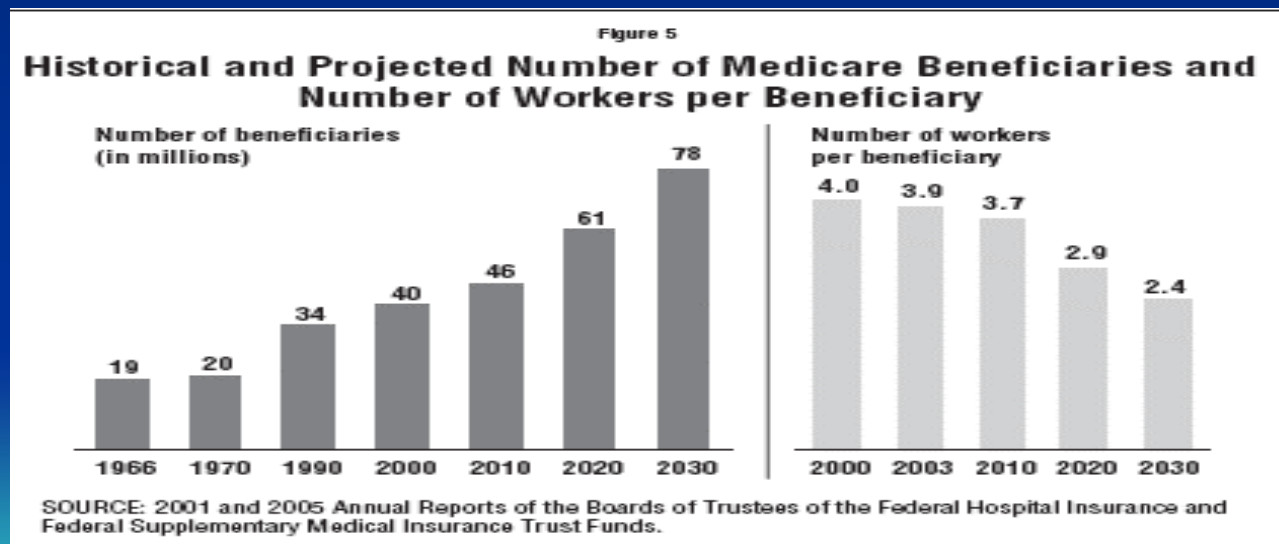
Source: Centers for Medicare & Medicaid Services

### Where the money goes, in billions

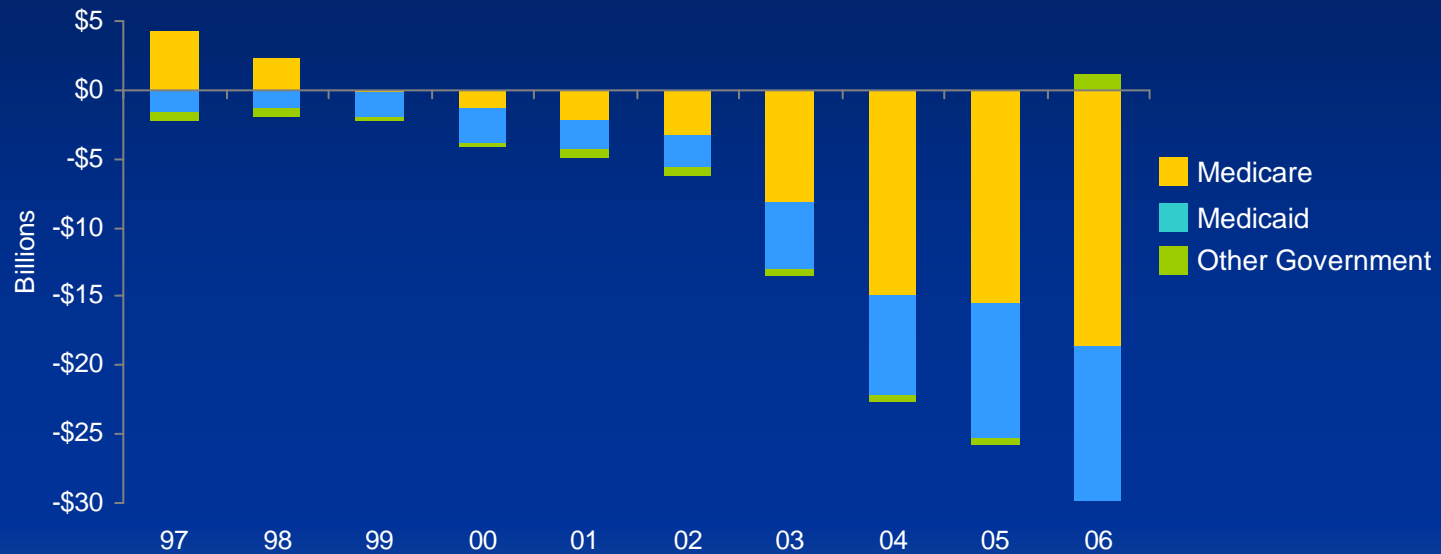


# Medicare to Go Broke by 2018

- Increased Costs
- New Medicare Drug Benefit (Part “D”)
- Medicare Eligibles Growing/Payers Shrinking



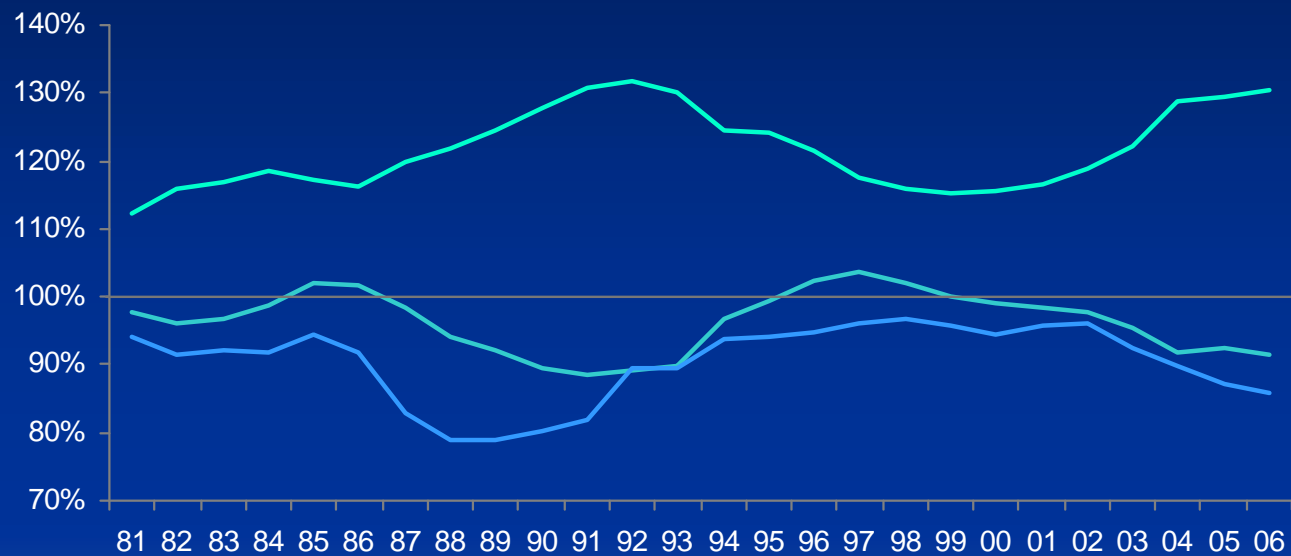
## Hospital Payment Shortfall Relative to Costs for Medicare, Medicaid, and Other Government, 1997 – 2006<sup>(1)</sup>



Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.

<sup>(1)</sup>Costs reflect a cap of 1.0 on the cost-to-charge ratio.

## Aggregate Hospital Payment-to-cost Ratios for Private Payers, Medicare, and Medicaid, 1981 – 2006



Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.

(1) Includes Medicaid Disproportionate Share payments.



- Made it through FY07 with \$10 million from FY08
- Made it through FY08 with \$14 million EA + \$11 million loan





- Briefed on \$57 M FY09 Supplemental
  - October 16 - Administration
  - October 22 – Six HHSC Boards
  - November 14 - Senate WAM/House FIN
  - December 18 - UPW
  - December 19 - HGEA
  - January 10 - Senate WAM/House FIN + Corp Board on Plan by June 30
  - January 18 - Senate HTH
  - January 25 - House HLT
  - Other hearings throughout last session



- NO supplemental for FY09 = \$62 million shortfall + 4% cut

## Five Primary Reasons HHSC is Losing \$

1. **No Disproportionate Share Hospital** – Approx \$33M per year
2. **Under-Reimbursement** – Approx \$90M per year
3. **Wait-List Problem** – Approx \$30M - \$50M per year
4. **Physician Call Coverage and Recruitment Cost** – Over \$15M per year
5. **Cost of Operating as a State Agency** – Approx \$50M Fringe + Salary vs Hourly + Time off

# 1. No Disproportionate Share Hospital - DSH

- 1994 State rolled approx \$40M DSH into Quest
- Speculate that cumulative impact may be as high as approx \$1B since 1994
- Hawaii one of two states with no DSH
- Have “Partial” DSH For Private Hospitals
- “DSH Like” Payment for HHSC approx \$7M per year
- Current annual DSH loss to HHSC of approx \$33M



# Partial DSH Payments for PVT HI Hospitals Using State General Fund Match

■ Federal	\$10.0M		
■ State	<u>\$7.7M</u>		
	\$17.7M		FY08

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■ Federal	\$7.5M		
■ State	<u>\$5.8M</u>		
	\$13.3M		FY09

Act 229 (08) SB2041HD1CD1.



# HI “DSH Like” Payments for HHSC Using HHSC Certified Medicaid, Quest & Uninsured Losses as State’s Matching Share

## ■ HHSC

- \$8.8 FY06
- \$6.9 FY07
- \$6.9 FY08
- \$6.9 (Projected) FY09



# H.R. 6331 The Medicare Improvement for Patients and Providers Act for 2008

- Partial DSH Payments for PVT HI Hospitals Using State General Fund Match
- Federal \$15.0M Jul 08 – Dec 09
- State \$12.2M
- Total \$27.2M
- MEDICARE Sole Community Provider Rate

## 2. Under-Reimbursement

- FY07
  - Free Care \$33M
  - Government Under-Reimbursement \$54M
  - Total \$87M
- FY09 Estimate Over \$100M



## Payments to Hawaii Hospitals

**Hawaii's overall payment as a percentage of costs is the lowest in the United States**

- Hawaii payments are primarily from Medicare, Medicaid, commercial payors (HMSA, UHA, HMAA, etc.) and others (Workers' Compensation, No-Fault, etc.)
- Medicare and Medicaid do not pay for the full cost of hospital services provided to beneficiaries in most states
  - Over 50% of all inpatients hospitalizations are covered by Medicare or Medicaid/Quest
  - 2006 Medicare losses for hospitals were approximately \$181,200,000
  - 2006 Medicaid/Quest losses for hospitals were approximately \$63,500,000
- In many states, private insurance covers the shortfall from the government payors

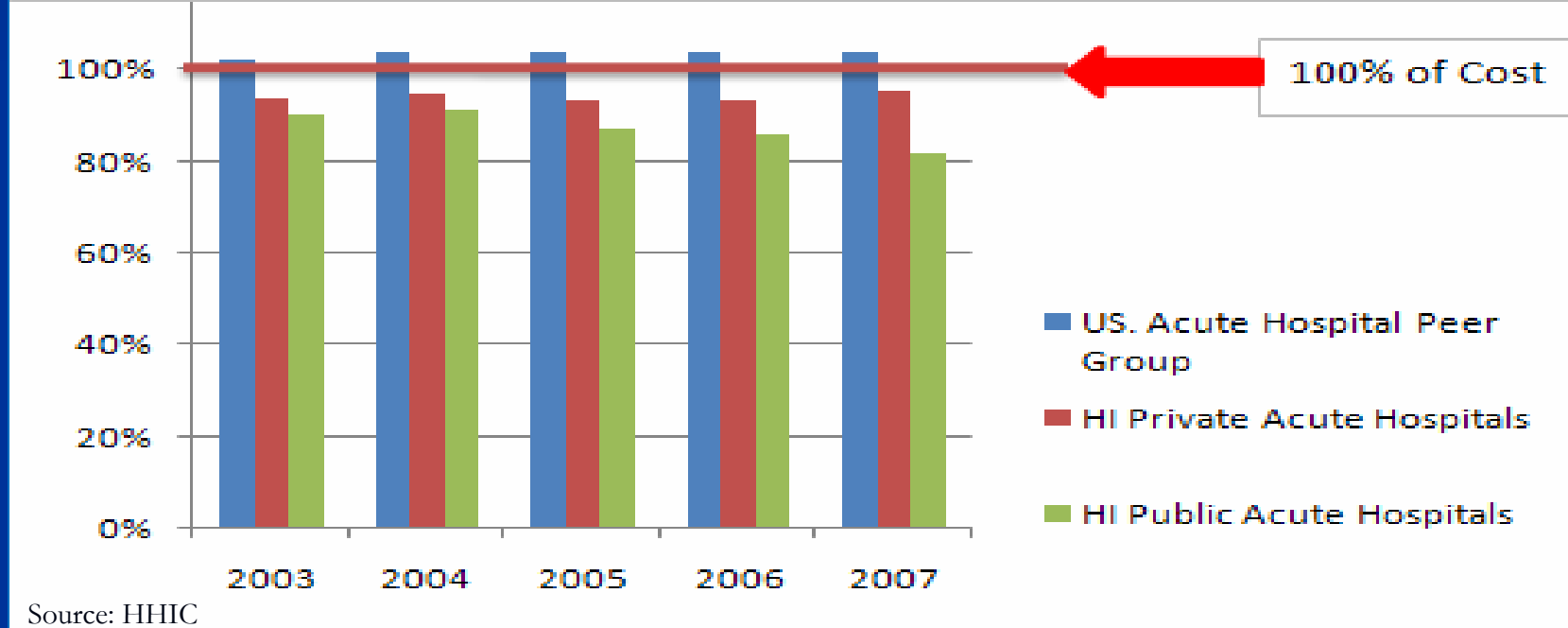
**Calendar Year 2006  
Percent of Costs Paid by:**

	<u>Medicare</u>	<u>Medicaid/ Quest</u>	<u>Commercial and Other</u>	<u>Overall</u>
<b>Hawaii</b>	79.77 %	80.02 %	111.24 %	<b>92.39 %</b>
<b>Lowest Overall State</b>	66.65 %	32.93 %	101.80 %	<b>92.39 %</b>
<b>Average for US</b>	80.36 %	75.30 %	124.89 %	104.32 %
<b>Highest Overall State</b>	101.03 %	105.46 %	145.94 %	115.62 %

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)

# Are Hawaii's hospitals being paid less than it costs to provide the care?

## Comparison of US vs HI Private & Public Acute Hospitals, Payment as % of Cost All Payers, 2003-2007



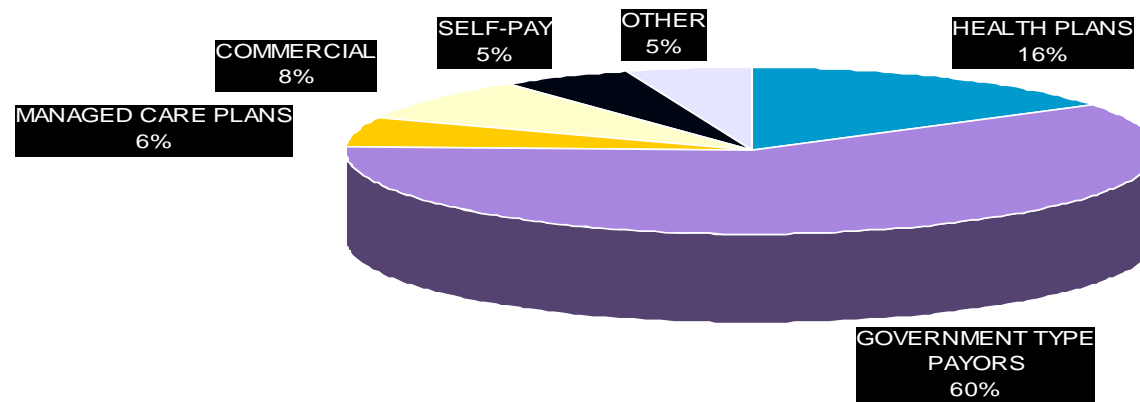
Note: Payments to HI Private & Public Acute Hospitals are similar but HI Public Acute Hospitals have a larger share of Government payers and higher labor expense thus payment as a % of cost is lower for HI Public Acute Hospitals.



# HHSC Gross Revenue Payer Mix

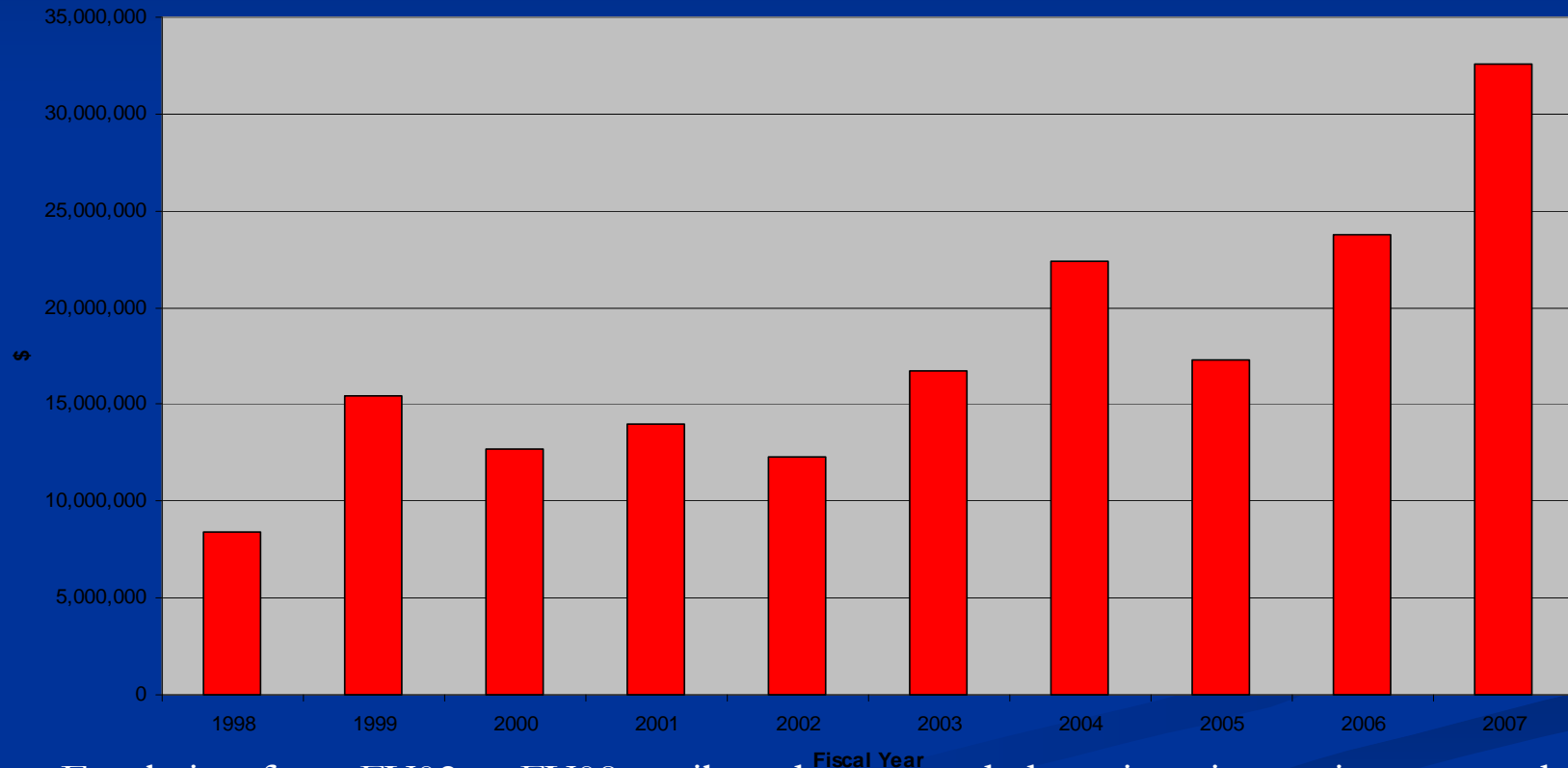
## Fiscal Year 2007

All HI Hospitals Average Patient Mix = 50% Government Payer, HHSC = 60% Government Payer



# HHSC Has Provided \$175 Million in Free Care From FY98-FY07 (FY08 will be = or greater than FY07)

*"HHSC Has Provided \$175 Million in Free Care From FY 98 - FY 07"*

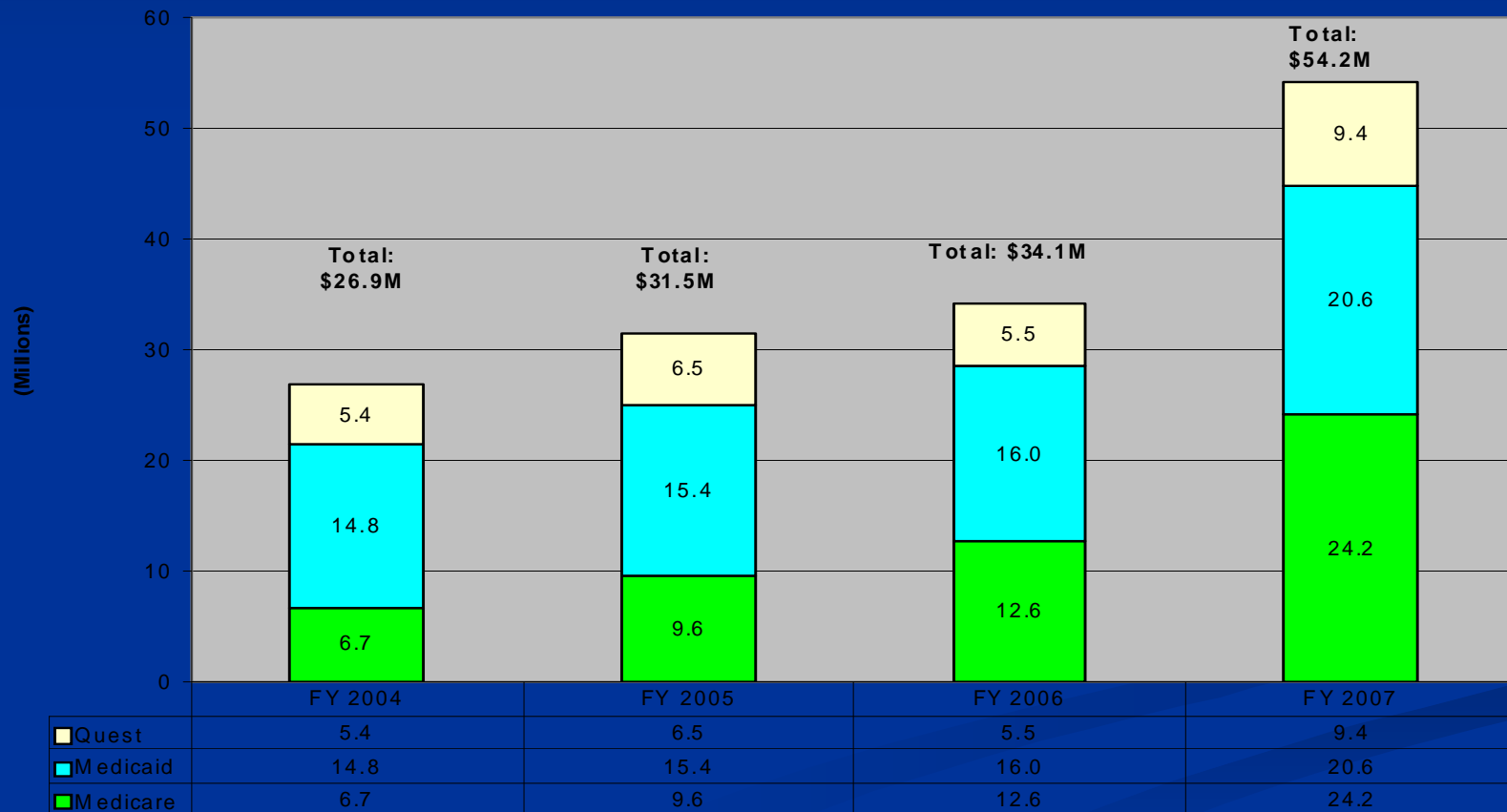


Escalation from FY02 to FY08 attributed to expanded services, increasing cost and growing inability of people to pay their bills.



# Medicaid/Medicare Under-Reimbursement FY 04 – FY07

"HHSC Losses from Medicare, Medicaid & Quest Program FY 04-07"



### 3. HHSC Average Daily LTC Wait List

- MMMC      41 per day
- HMC        40 per day
  
- Denial of acute beds to acute patients
- Wrong level of care for LTC patients
- Lost opportunity cost \$30 to \$50 million
- Much effort to resolve, but problem remains



## 4. Physician Call Coverage and Recruitment Cost

Facility	FY2008	FY2009
■ Kona Community Hospital	\$ 2,342,060	\$ 2,342,060
■ Kohala Hospital	569,400	569,400
■ Hilo Medical Center	4,839,500	4,944,500
■ Hale Ho'ola Hamakua	700,000	700,000
■ Ka'u Hospital	700,000	700,000
■ Kauai Region	1,290,774	1,302,159
■ Maui Memorial Medical Center	3,319,830	4,069,830
■ Lanai Hospital	414,000	476,100
■ Kula Hospital	890,000	917,000
<b>TOTAL</b>	<b>\$15,065,564</b>	<b>\$16,021,049</b>

Note: This is a complex issue, numbers are very conservative estimate, and can be readily defended. These are projections made in 2006.



## 5. Cost of Operating as a State Agency

with a mission to provide “Safety Net”  
healthcare for rural/underserved areas on the  
neighbor islands and LTC on Oahu + other?

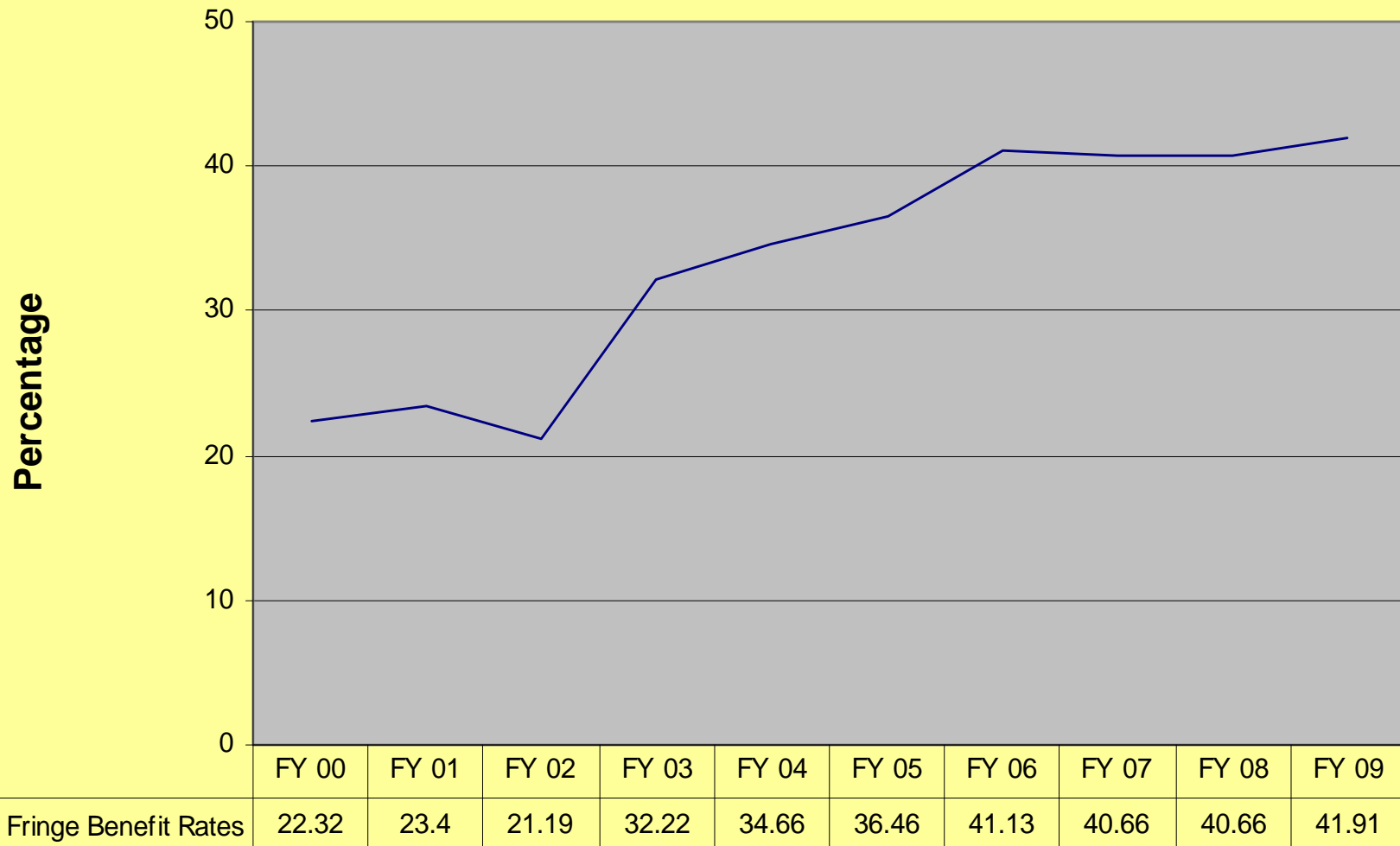




## Act 290

Good for Governance BUT no relief on  
financial/management constraints

## State of Hawaii Composite Fringe Benefit Rates

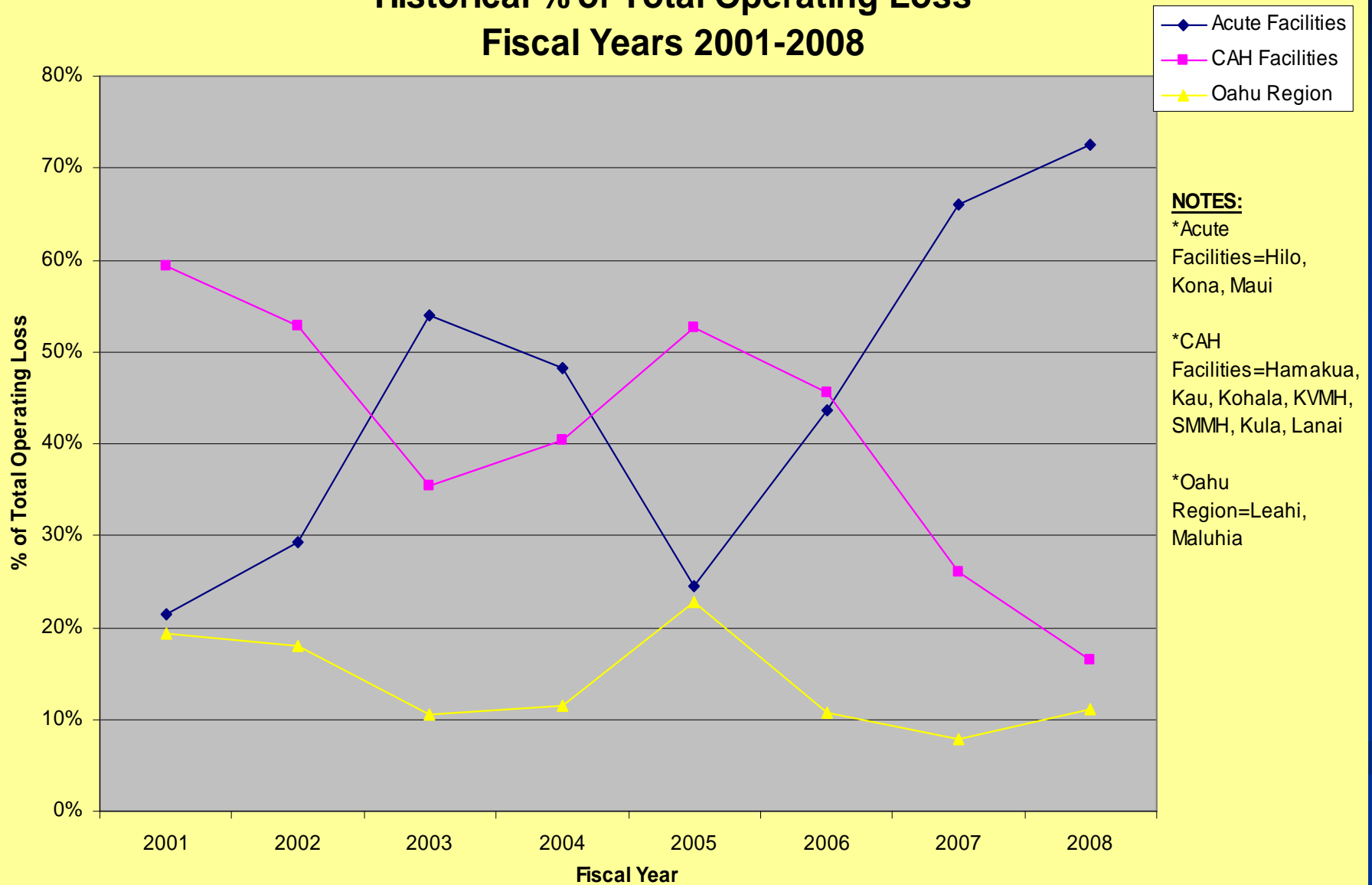


• ERS 15% \$37.4m • EUTF Retirement Benefits 8.5% \$21.2m • Overall Fringe at 41.9% \$104.6m

## Hawaii Health Systems Corporation Historical Operating Income (Loss) Trending Fiscal Years 1998-2008



## Hawaii Health Systems Corporation Historical % of Total Operating Loss Fiscal Years 2001-2008





## FY09 No Supplemental

# Short Term - FY09 - \$62 Million Deficit for Five Regions

- East HI \$26.9 million
  - Kauai \$ 4.2 million
  - Maui \$21.8 million
  - Oahu \$ 1.5 million
  - West HI \$ 7.6 million
- 
- 83% of the \$62 million FY09 Shortfall for MMMC/HMC/KCH

# Long Term – FY10 and Beyond – Must Have Significant Change

- “Task Force/Panel”



# Members of the Governor's Task Force on the Establishment of an Agency for Community Hospitals 1994

- Abraham Choy, Retired Hospital Administrator, Division of Community Hospitals
- Dennis K. Goda, MAC Member, Oahu County
- Fred Holschuh, M.D., Hilo Medical Center; President, Hawaii Medical Association
- Myrna Kai, MAC Member, Kauai County, Mahelona Memorial Hospital
- Gary K. Kajiwara, CEO, Kuakini Medical Center
- Loiuse L. Liang, M.D., Vice President, Clinical Operations and COO, Straub Clinic & Hospital, Inc.
- Wayne Lu, MAC Member, Maui Memorial Hospital
- Richard E. Meiers, President & CEO, Healthcare Association of Hawaii
- Thelma Mitsuda, Retired Nursing Administrator, Hilo Medical Center
- Roy Nagle, M.D., Medical Director, Kona Community Hospital
- Randy Perreira, Field Services Officer, Hawaii Government Employees' Association
- Gary Rodrigues, State Director, United Public Workers
- Clifton Tsuji, Vice President, Central Pacific Bank
- Jonathan Weisul, M.D. Former Chief-of-Staff, Maui Memorial Hospital



# HHSC Corporate Board Strategic Plan

## Proposed Task Force Members

- Unions - 3 (1 each from UPW, HGEA, ILWU)
- Regions - 5 (1 from each Region)
- Key Business Leaders - 3 (1 each appointed by Governor, House & Senate)
- Medical Staff Leaders - 2 (Selected by HHSC Physician Leader Group)
- Legislature - 2 (1 each from House and Senate Leaders)
- Department of Health - 1
- Healthcare Association of Hawaii – 1
- Corporate – 1

- 
- Consider Increase Legislators 2 to 4 or 6
  - Consider Increase Corp 1 to 2
  - Consider add JABSOM 1





# “Blue Sky” Strategic Alternatives

- Sale of Major HHSC Acute Facilities, Then Only Ask State to Help Fund Safety Net CAH and LTC Facilities
- Sale of Entire System
- Establish Ability for HHSC to Move from Current Posture to a Regional Based Joint Venture in Public/Private Partnerships Posture
- HHSC 501C3
- Modify Act 290, SLH 2007, to Allow Facilities/Regions to Separate (with Retention of Group Purchasing Organization, Insurance Coverage, etc.) from HHSC if they will Establish a Structure that will Not Require Any Future State Funding

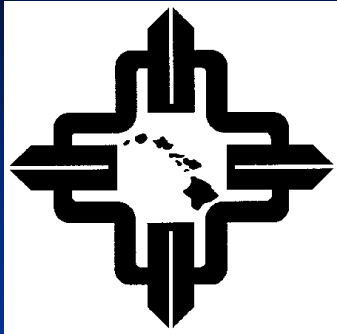


# “Blue Sky”

## Strategic Alternatives

(Continued)

- Transition HHSC Facilities to Counties with Counties Picking up the Cost of Care Above Reimbursements as County Hospital Systems (with Retention of Group Purchasing Organization, Insurance Coverage, etc.) for System Savings
- Return to Department of Health
- Set in Place a Carved Percentage of General Excise Tax (GET) for HHSC so Whole System can Operate as a Mainland Style County Hospital



# Oahu Region, HHSC

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# Oahu Region, HHSC

- Summary of Oahu Region Contingency Plan
  - Control overtime and sick leave
  - Consolidate functions
  - Not fill certain vacant positions
  - Restructure certain departments and control waste
  - Automate certain processes with the help from the IT support group



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Q & A

Thank You