Maui Region

Hawaii Health Systems Corporation

Presentation to

Committee on Ways and Means

&

Committee on Finance

August 11, 2008

Agenda

- Discuss fiscal 2009 situation
- Propose Alternatives to potentially provide intermediate-term relief to financial situation (and potentially short-term relief)
- Discuss Alternative Model for longer-term solution to health care in rural areas of the State

Current Situation

- HHSC $62 million shortfall
  - Requested $29 million loan from Administration – *denied*
  - Requesting $21 million advance on FY09 general fund appropriation to paydown Accounts Payable at Hilo Medical Center, Kona Community Hospital and Maui Memorial Medical Center – *submitted 8/8/08*
- HHSC Accounts Payable at all-time high
  - $40.3 million as of 8/11/08 (~ 90 days)
    - Facilities working on contingency plans
      - Kona Community Hospital announced layoff of 54 employees
  - Maui Memorial Medical Center at $15.7 million (~ 100 days)
    - Fighting off vendors to avoid “credit holds”

Historical Perspective

- External financing to provide temporary relief
  - $11 million loan in FY2008
    - Avoided Emergency Appropriation request for Maui Memorial Medical Center
    - Paid HHSC ~$5.5 million – to be used by other facilities
  - FY2009 – currently working on $19 - $21 million loan
    - This would cover budgeted cash flow deficits for the current fiscal year
    - Assuming loan is closed, the system-wide HHSC deficit is reduced from $62 million to $41 - $43 million

Issues

- In 2007, SB1792 originally proposed the formation of separate regional corporations. The bill that passed, Act 290, did not provide for that…as a result:
  - One of the major commercial payors will not negotiate with MMMC separately. It sees HHSC as one entity, not 12 individual facilities
  - Limits the ability to see other options for working capital and other forms of financing

Proposals

- Enabling Legislation for Acute Care Hospitals to form Separate Corporation(s)
  - Provide for ability to transfer assets into these corporation(s)

- Restructure HHSC to become a network of Critical Access Hospitals (CAH) and Long Term Care facilities (LTC)
  - Fully fund these entities
    - ~ $30 million per year

- Address issue of Work Rules and cost of benefits in collective bargaining agreements

Proposals

- Regional Boards and Regional Management to examine and determine corporate services and service levels

- Repeal portion of Act 290 (2007) which provides that Regional Chief Executive Officers (CEO) report to Regional Board **and** HHSC CEO as of 1/1/09

- Direct collective bargaining funding support
  - Going back to FY2002, results in additional ~$18 million to MMMC (through FY2009) annually

Rationale – Enabling Legislation

- HHSC's three acute care hospitals, in total, are only equivalent to one medium-sized hospital
  - Approximately 400 acute care beds
    - Maui Memorial Medical Center is largest at 209 beds
    - Hilo Medical Center – approximately 130 beds
    - Kona Community Hospital – approximately 60 beds
  - Queen's Medical Center has 505 beds
  - Scripps Health System in San Diego, CA is a medium-sized health system in the San Diego market
    - Approximately 1,300 beds in multiple facilities
    - Much better economies of scale
    - Much more critical mass

Rationale – Enabling Legislation

- Questions
  - How do we compete and provide care when we are not much more than a medium-sized acute care hospital?
  - How can we be neighbor island “centered”?
  - Driving factors (Stroudwater & Associates)
    - Historical image leading to outmigration
    - Gaps in management expertise
    - Operating imperatives to increase efficiencies
    - Ability to access capital for facilities and information technology
    - Ability to recruit Medical Staff
  - “*Too often, decisions to evaluate affiliation options are made too late….as rural hospital financial performance declines, negotiating position deteriorates*” (Stroudwater & Associates)

Rationale – Enabling Legislation

- Provides additional flexibility to access outside capital
  - Philanthropy
  - Public/Private partnership
  - Joint Venture
  - Ability to look at different regional methods of financing
    - Community Facilities Districts?
    - Tax Increment Financing?
  - Sale of all or portion

- Provides ability to look at different operating models
  - Different affiliations
  - HHSC's three acute care hospitals combined is smaller than Queen's Medical Center
  - Long term management agreements
    - Banner Health System in Colorado
  - Joint Operating Agreements

- Ability to look at other Affiliations

Rationale – Enabling Legislation

- Other benefits
  - Possible ability to have separate collective bargaining agreement(s)
  - Mandates separate Payor contract negotiations based on regional needs

- Flexibility
  - Does not eliminate the ability to work together
    - Group purchasing
    - Information technology
  - Just allows for different solutions to be accessed

Different Possibilities

- Philanthropy
- Different Affiliations/Ownership
  - Sole Member Direct System
  - 100% Asset Sale
  - Joint Venture
  - Lease
  - Joint Operating Agreement
  - Mayo-Clinic Model

Rationale – CAH/LTC Network

- Critical Access Hospitals (CAH) and Long-Term Care facilities (LTC) are "critical, yet underfunded" services
- Appropriate funding will ease the deficits on the acute care hospitals
  - Access to care
  - "Waitlist"
- Improved Focus on CAH's and LTC should improve operating efficiencies and quality of care
- Delivery of services in CAH's and LTC are distinctly different than acute care hospitals
  - Clinical Integration
  - Technology Integration
  - Physician Integration
  - Management Support
  - Strategic initiatives

Longer Term Considerations

- Financially getting HHSC facilities out of current financial situation does not solve the problem…
  in fact, depending on strategies, it could exacerbate it

- Other consideration is Health Care Reform

Commonwealth Fund – The 2008 National Scorecard on U.S. Health System Performance
** FINDINGS **

- Study finds disturbing evidence that the health system is on the wrong track.
- In nearly every area measured, the health system fares worse than it did two years ago
- The scorecard results make "*a compelling case for change in the way U.S. health care is financed, organized, and delivered*"

State of Hawaii Rural Health Care Issues
** GENERAL ASSUMPTIONS **

- Lack of Access in Rural Areas
- No coordination in care across continuum or across rural communities
  - Lots of duplication
  - Lack of focus on diseases
- Poorer Quality of Care

State of Hawaii Rural Health Care Issues
** REFORM **

- Disease-based focus on delivery of care in rural areas
  - Provide better access
  - Coordination in care
- Providers understood their role in the delivery of care (not trying to be all things to all people)
  - Importance of access
  - More thoughtful delivery of care in rural settings
  - Specialization only where critical mass exists
  - Eliminate redundancies
  - Use of tele-health
- Will Payors (commercial and government) be willing to spread around the money appropriately to pay appropriately, if quality of care and outcomes improved?
- Government (Federal and State) funded capital directly related to improved outcomes

Key Stakeholders

- Government
  - Federal
  - State
  - County
- Commercial Payors
- Community Health Centers
- Hospitals
- Education

Interest (to date)

- Federal Government
  - Senator Inouye's office – Jennifer Sabas/Pat Deleon
- State Government
  - Senator Roz Baker
- Commercial Payor's
  - HMSA – Jim Walsh
  - Aloha Care – John McComas
- Community Health Centers
  - Hawaii Primary Care Association – Beth Giesting

Questions?