



**Maui Memorial**  
MEDICAL CENTER

Hawaii Health Systems Corporation—Maui Region

June 2, 2008

TO: Thomas Driskill President and Chief Executive Officer  
Hawaii Health Systems Corporation

FROM: Wesley Lo Regional Chief Executive Officer  
Maui Region

**SUBJECT: Maui Contingency Plan**

As requested, attached is a spreadsheet of the Maui Region "Contingency Plan", which represents the financial budget for Maui Region for fiscal 2009.

As background, as it relates to the Maui Region, this ultimately should not be viewed as a true "contingency plan" as the operating shortfalls for fiscal years 2008 and 2009 were anticipated during the development of the HHSC FY2007 budget. As such, the Maui Region anticipated that additional funding would be needed to supplement the General Fund distribution in fiscal years 2008 and 2009. Accordingly, this plan is in essence the "Budget" for the Maui Region, and not a contingency plan.

The "action plan" by the Maui Region to address the cash flow deficit from operations (including general fund distributions) is the utilization of outside financing from JP Morgan.

In summary, Maui Region has contemplated financing of approximately \$30 million from JP Morgan. The original estimate of the use of these funds was as follows: (in millions)

Pay down of A/P and Working Capital needs For fiscal 2008	\$11.0
Working Capital and Predevelopment costs for Cardiovascular Service Line (1)	<u>19.0</u>
Total	<u>\$30.0</u>

(1) These costs have been factored into the fiscal 2009 Budget numbers

Maui Region has closed the \$11.0 million facility and has had preliminary approvals related to an additional \$19.0 million loan. Final approvals are currently being processed.

The Maui Region initially estimated the additional \$19 million loan for fiscal 2009 based on certain assumptions related to the methodology of the general fund distribution related to a "proviso" in the budget requiring that "any amounts allocated for collective bargaining pay increases shall be distributed appropriately and equitably to each of the healthcare facilities of the corporation".

Maui Region's assumption was that this related to collective bargaining pay increases that were provided to HHSC since 2002; however it appears that HHSC has interpreted to mean only for fiscal 2009. This resulted in approximately \$2.0 million less in general fund distributions to Maui Memorial Medical Center than initially assumed.

Based on this new general fund distribution methodology, an additional \$1.2 million in funding is required for the Maui Region facilities. We have been in contact with JP Morgan about separately funding Kula and Lanai deficits, since, as part of the collateral package, mortgages over Kula and Lanai have been provided as part of the security package.

At this point in time, we do not anticipate problems obtaining the additional financing.

As a final point, the Maui Region plan was to obtain financing to cover operating deficits for fiscal 2008 and 2009, to allow time for the Maui Region to address structural issues related to the financing, including but not limited to the following:

- Change of product mix to include a new cardiovascular service line, which generates improved margins.
- Renegotiation of Payor contracts, which historically have been negotiated on a system-wide basis without regard to individual needs of hospitals.
- Re-positioning of relationship with State of Hawaii Legislature to provide for funding of "safety-net long term care deficits" which are a function of the changing demographics in the State.
- Re-engineering of top 10 service lines, which make up approximately 77% of our Revenues, to gain efficiencies and improvements in patient care.
- Implement structural changes to allow for better access to capital markets.

It should be noted that the subject budget and "contingency plan" has not yet been approved by the Maui Region Board since the methodology for the distribution of General Funds has only recently been determined by HHSC Management.

Please let me know if any further information is needed.

HAWAII HEALTH SYSTEMS CORPORATION  
 CASH FLOW SURPLUS/(DEFICIT) BY FACILITY  
 MAUI CONTINGENCY PLAN CASH FLOW  
 FISCAL YEAR 2009

	MAUI	KULA	LANAI	TOTAL
Cash Collections	147,348	14,268	2,172	163,788
DHS Direct Payments to Hospitals	2,276	88	5	2,369
Payroll Cash Requirements	(109,716)	(15,888)	(2,268)	(127,872)
Non-Payroll Cash Requirements	(71,994)	(4,212)	(1,536)	(77,742)
<b>Operating Cash Flow Deficit</b>	<b>(32,086)</b>	<b>(5,744)</b>	<b>(1,627)</b>	<b>(39,457)</b>
Appropriations from State of Hawaii	13,520	2,337	803	16,660
Collective Bargaining Funding	7,802	1,234	195	9,231
Financing of Alii Community Care	(405)	(44)	(8)	(457)
<b>Noncapital Financing Cash Flow Surplus</b>	<b>20,917</b>	<b>3,527</b>	<b>990</b>	<b>25,434</b>
Repayments on Capital Lease Obligations-Current	(4,034)			(4,034)
Repayemnts on Capital Lease Obligations-Future	(245)	(14)	(3)	(262)
<b>Capital and Related Cash Flow Deficit</b>	<b>(4,279)</b>	<b>(14)</b>	<b>(3)</b>	<b>(4,296)</b>
Allocation of Corporate Office Costs	(3,047)	(334)	(63)	(3,444)
<b>Cash Flow Deficit by Facility</b>	<b>(18,495)</b>	<b>(2,565)</b>	<b>(703)</b>	<b>(21,763)</b>
<b><u>Contingency Plan</u></b>				
External Financing	18,495	2,565	703	21,763
Contingency Cash Flow by Facility	0	0	0	0

**NOTE:**

Appropriations from State of Hawaii allocated based on Version C of distribution proposal from Tom Driskill/Kelley Roberson dated 5/20/08