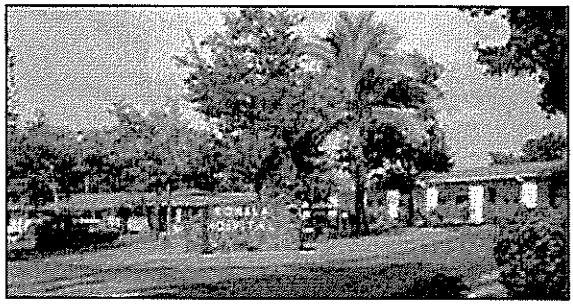
Kona Community Hospital

Kohala Hospital

West Hawaii Region
Hawaii Health Systems Corporation

STRATEGIC PLAN
2008 – 2013



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Hawaii Health Systems Corporation

Mission Statement
(Why We Exist)

Providing and enhancing accessible, comprehensive health-care services to our community that are: quality-driven, customer-focused and cost-effective.

Vision
(What We Want to Become)

Be the Provider of Choice for the Community.
Be the Employer of Choice for Our Staff.
Be the System of Choice for Our Medical Staff.

Values
(The Foundation of Our Organization)

Integrity - We act openly and truthfully in everything we do.

Collaboration - We work together cooperatively, recognizing that our combined efforts exceed what we can accomplish individually.

Caring - We treat those we serve with concern, kindness and respect.

Commitment - We are dedicated to provide excellence in every aspect of our work.

Innovation - We believe that new ideas and timely access to information will lead to better health care.

Community - We recognize and respect the importance of our community's health care needs.

WEST HAWAII REGION
(KONA COMMUNITY HOSPITAL AND KOHALA HOSPITAL)

STRATEGIC PLAN
2008 – 2013

PART I
OVERVIEW AND ACTIONS

Introduction

This strategic plan has been developed to align our vision, mission and values with long- and short-term goals and objectives. Factors in the political, economic, social and technological environment constantly influence and change health care's dynamic environment. This document outlines our strategic priorities for a five-year period, with the understanding that it will be updated annually.

The West Hawaii Region (WHR) recognizes that simply being a "safety net" hospital is not a viable option in the short- or long-term since it will only continue the current downward spiral in financial performance. WHR will advance from its "defender" strategy of being a "safety net" facility and adopt a "prospector" strategy and become a comprehensive community resource. To do this, HHSC and WHR will develop a system that facilitates the recruitment and retention of highly qualified professionals, and move it beyond the limitations typically imposed by state control and government service unions.

The Health Care Environment

There are numerous complex, inter-related factors that shaped this plan, including:

- Quality and patient safety have emerged as major priorities for hospitals, insurance companies and the general public. Health care providers are expected to provide quantitative information (quality, safety, satisfaction, outcomes and cost) to evaluate performance.
- Hawaii County demographics point to a growing and aging population; this will further increase demand and continue to stretch scarce resources.
- The Big Island's existing continuum of care infrastructure is inadequate. This results in limited access to the appropriate level of care and increases costs.
- There are pervasive shortages of skilled workers in general and healthcare workers in particular. Competition for talent in this tight labor market is national.
- Inadequate provider payments from insurance companies and public programs will continue to be a challenge and will limit our ability to fund upgrades and expansions and recruit and retain employees and physicians.
- As a "Safety-Net" provider we provide a significant level of healthcare services to the uninsured, Medicaid, and other vulnerable patients including those in long-term care facilities and in rural areas.
- As a state entity subject to civil service and procurement code requirements, our operating costs are significantly higher than private sector, not-for-profit hospitals.
- The civil service culture presents other unique challenges for healthcare organizations, such as the acceptance and speed on change and ability to innovate.

Summary of Strategies

The West Hawaii Region Board of Directors and Management team have developed fifteen broad strategies, under four inter-related "pillars" to meet the evolving medical needs of our community. These are listed below (in no particular order), briefly described in the following pages and then explored in greater detail in Part II.

Service
1. Define Role in Regional Health Service Delivery
2. Enhance Local Health Service Delivery – to include building new hospitals.
3. Enhance Portfolio of Clinical Services
4. Enhance Community & Government Relations

Quality
5. Enhance Patient Safety Practices
6. Build Customer and Quality Focused Team
7. Upgrade Clinical Technology and Physical Plant
8. Achieve Constant Accreditation and Licensing Readiness

People
9. Workforce Development
10. Enhance Physician Recruitment and Retention
11. Enhance Employee Recruitment and Retention

Finance
12. Develop Strategic Partnerships and Joint Ventures
13. Aggressive Cost Management Program
14. Enhance Revenue Cycle Management Activities
15. Enhance Data-Driven Decision-Making Capabilities

Successful implementation of these broad strategies will help achieve the following desired future-state goals:

- Provide comprehensive services that meet community need and demand,
- Enhance value by improving services and outcomes,
- Enhance revenues by adding clinical services and administrative programs that improve our financial position, and
- Minimize the State's financial burden in the long-term.

Description of Strategies

Strategy #1: Define Role in Regional Health Service Delivery
As the community continues to grow, we will explore alternatives to enhance community access to healthcare and financial performance; e.g. by establishing clinics in expanding communities.

- State Representative Herkes sponsored legislation to secure funds for a mobile medical unit for FY'09.
- We are currently exploring public-private joint-venture opportunities to establish clinics in new communities (Palamanui and La'i 'Opua) during FY'09-10.

Strategy #2: Enhance Health Service Delivery
Both facilities are aging and lack sufficient space. There are many short- and long-range opportunities to improve service delivery, patient flow, efficiency and effectiveness. Given limited state resources, we will explore alternative financing, public-private partnerships and joint ventures. Our goals are to:

- Convert the nursing cottage to physician office space in FY08-09.
- Complete the foundation-sponsored *Adopt-a-Room* project in FY08-09.
- Upgrade the operating room in FY09.
- Develop plans and explore funding opportunities for new ER during FY09-10.
- Renovate, expand and modernize Kohala ED.
- Replace Kona ED during FY11/FY12.
- Build a new hospital in Kona by FY15.
- Build a new hospital in Kohala by FY15.

Strategy #3: Enhance Portfolio of Clinical Services
To improve our financial position, we will expand services that make a positive financial contribution. For example, given the high-cost and poor reimbursement for hospital-based long-term care KCH could improve financial performance by $2.2 million per year by re-licensing SNF/ICF beds as acute, medical-surgical beds.

- Increase acute capacity by re-licensing KCH ICF beds in FY09.
- Increase acute capacity by re-licensing KCH SNF beds in FY09/10.
- Explore feasibility of free-standing satellite rehab center in FY09.
- Increase Kohala SNF bed availability and preserve critical access hospital status.

Strategy #4: Enhance Community and Government Relations
Maintaining good community relations is important for many reasons (from healthy behaviors to donations) – we will continue efforts to keep the general public, elected government officials and other high-profile individuals informed of WHR achievements and needs. During FY09 we will develop a formal approach for legislative engagement.

Strategy #5: Enhance Patient Safety Practices
Patient safety is paramount and a JCAHO focus – KCH will continue on-going efforts to address patient safety recommendations of the JCAHO and similar organizations.

Strategy #6: Build Customer and Quality Focused Team
Concentrate performance improvement efforts to address evidence-based medicine standards and improve performance on JCAHO Core Measures. Improve customer service by improving employee attitude, responsiveness, teamwork and communication.

- In FY08-9, KCH will continue to engage physicians and staff and revise tools to improve our performance on all core measures.
- In FY09, KCH will develop a formal customer service initiative. Staff training and education will occur throughout FY09. By early FY10 we expect to see a significant improvement in patient satisfaction scores.

Strategy #7: Upgrade Clinical Technology and Physical Plant
Acquiring state-of-the art equipment will improve clinical quality, enhance our ability to recruit and retain physicians and add revenue generating services.

- Kohala Hospital is over forty-four years old and in need of significant repairs and upgrades to address patient privacy and dignity issues.
- As the Kohala market area continues to grow, so does the demand and need for new technology such as imaging (CT Scan and RIS/PACS in particular).
- Some possibilities for KCH include: Mammography, Bone Density and Sleep studies, Upgraded CT Scan, MRI and Radiation Oncology. Feasibility studies will be conducted during FY09 and technologies added throughout FY09-FY12.

Strategy #8: Achieve Constant Accreditation and Licensing Readiness
JCAHO and Department of Health surveys are unannounced and their focus is on staff performance. Efforts were initiated in FY08 and will continue to develop and implement an "always ready" approach throughout FY09.

Strategy #9: Workforce Development
There are numerous challenges inherent with our civil-service, organized-labor environment. During FY09 and FY10 we will work with the unions to develop structures to enhance productivity and performance, improve morale and reduce overall costs.

Strategy #10: Enhance Physician Recruitment and Retention
WHR will review physician workforce demographics to identify "smart growth" opportunities and continue to recruit specialists that will address community need and enhance financial performance. This will require the ongoing development of a structure that attracts and maintains quality physicians and other technical resources by allowing them the opportunity to earn nationally competitive incomes that also improves the hospital's revenue base. The recent creation of the Alii Health Center was an important first step in implementing this strategy.

Strategy #11: Enhance Employee Recruitment and Retention
Our workforce is aging with many employees approaching retirement age. We will continue efforts to improve employee morale (Town Hall meetings and the *Working with Aloha* initiative. In FY09 we will develop a formal plan to identify and fill short and long-term needs.

Strategy #12: Develop Strategic Partnerships and Joint Ventures
Given our limited resources and high fixed costs associated with our status as a state entity, opportunities to partner with others (including other hospitals, health systems, etc.) will be explored. Currently under exploration is a free standing ambulatory surgery center – it is expected that this project will be completed by mid-FY09. Private partners could help expand non-hospital-based long-term care services in Kona and specialty clinics in Kohala – these will be explored in FY09. A public-private partnership could also help build state-of-the-art hospitals (by FY15) in both Kona and Kohala, rather than relying on state funding.

Strategy #13: Aggressive Cost Management Program
There are numerous opportunities to reduce costs – some require a modest capital and/or operating investment; others require systemic change. In FY08 we took steps to enhance case management program; these efforts will continue during FY09. Other opportunities include: the Kronos time-and-attendance system (the goal is to implement this during FY09), supply-chain management initiatives (FY09) and restructuring of support services and a shift to a paid-time-off (PTO) benefit program (these would require legislative change, so the goal is to implement by FY10/FY11.)

Strategy #14: Enhance Revenue Cycle Management Activities
In FY08 efforts were initiated to improve critical elements of the revenue cycle: patient registration, point-of-service collection of co-payments or deposits, electronic coding of diagnostic data for billing purposes, claims management, accounts receivable management and denials management. These efforts will continue in FY09-FY10.

Strategy #15: Enhance Data-Driven Decision-Making Capabilities
To improve management's ability to access the data and information required to make real-time decisions that impact the bottom line, the existing finance and decision-support information systems must be upgraded. The goal is to implement a decision-support system in FY09.

WEST HAWAII REGION
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PART II
OPPORTUNITY ANALYSIS AND EXPLORATION

Key Environmental Factors

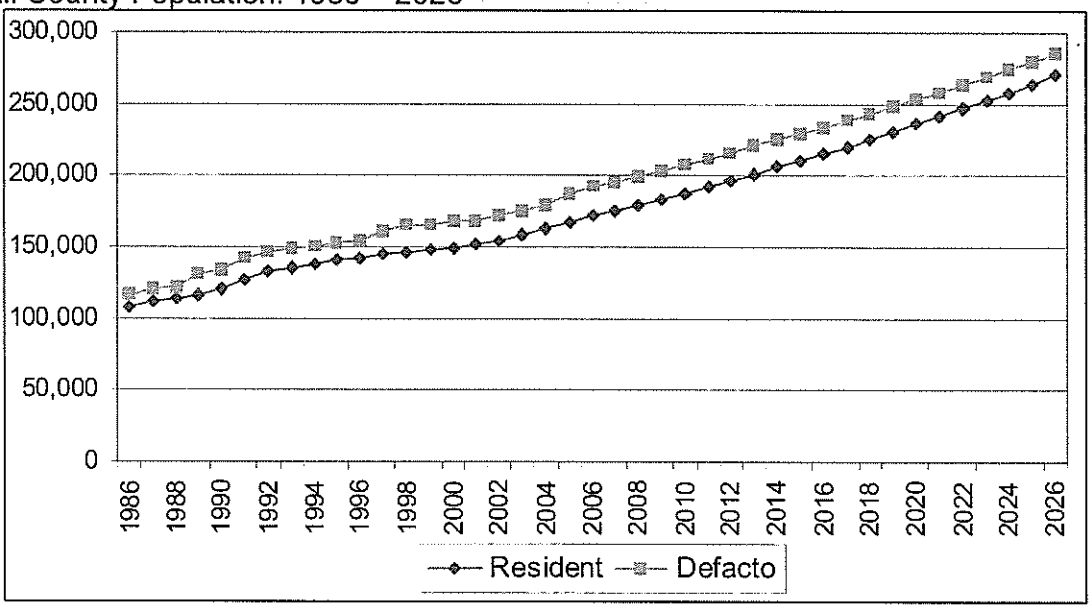
Demographics / Population Trends

Population growth drives health care demand. This growth influences the number, type, and geographic distribution of health care resources required to meet population need.

The estimated resident population for Hawaii in 2006 was 1.28 million. The resident population of Hawaii grew 16% between 1990 and 2006, slightly slower than that of the United States over the same period (20%). The Hawaii State Department of Business, Economic Development and Tourism estimates that Hawaii's resident population will reach 1.35 million by 2010, reflecting a population growth rate averaging 1.1% annually between 2003 and 2010.

Neighbor island counties are growing at a much faster rate than Honolulu. Between 1990 and 2006, population growth in Hawaii County was 42% – averaging 2.47% per year. This growth results in demand for more health care resources, some of which have traditionally been centralized in Honolulu. For each decade between 2000 and 2030, the population is expected to increase by 140,000, with approximately 59,000 of that growth on the neighbor islands. In addition, the neighbor islands tend to have a higher proportion of individuals aged 45 and older. This signals a need to examine the distribution of health resources as the neighbor islands elderly population grows.

Hawaii County Population: 1986 – 2026



Source: http://hawaii-county.com/databook_current/section01.htm

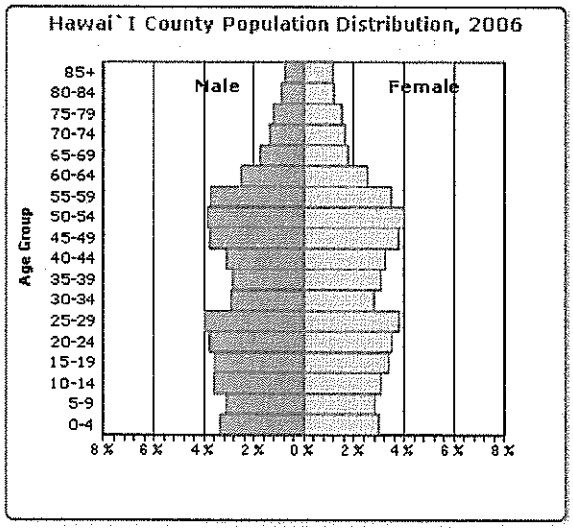
The de facto population is defined as the number of persons physically present in an area, regardless of military status or usual place of residence. It includes visitors present but excludes residents temporarily absent, both calculated as an average daily census. The resident population is defined as the number of persons whose usual place

of residence is in an area, regardless of physical location on the estimate or census date. It includes military personnel stationed or home-ported in the area but excludes persons of local origin attending school or in military service outside the area.

The current population of the Big Island is estimated at 180,000. For the West Hawaii Region Service area, current population is approximately 65,000. It is forecasted that the population for the West Hawaii Region will reach 112,000 by 2030 – similar to the 117,000 projected for East Hawaii.

Age is the single most important factor in understanding health status and the need and demand for health care resources. For the elderly, there is a clear relationship between age and mortality, prevalence of chronic conditions and level of disability -- the elderly are the heaviest users of health care resources.

Until 2000, Hawaii's elderly population, aged 65 and older, was growing at a much faster pace than the nation's elderly population. Since 2000, Hawaii's growth has leveled off. Hawaii's proportion of elderly to total population has increased nearly three-fold, from roughly 5% in 1960 to nearly 14% in 2006. During this same period, the elderly segment of the nation's population increased by one-third, from 9% to 12%. Between 1990 and 2006, the number of elderly aged 75 and older increased 41% nationally, compared to a 106% increase in Hawaii.



All counties experienced significant growth (13-14%) in their elderly populations since 1970. The West Hawaii Region population aged 85 and older is estimated at 810 (2005) and projected to more than double to 1,750 by 2030.

In 2003, Hawaii's 23 acute care civilian facilities accounted for 2,507 acute care beds - this equates to 2.0 beds per 1,000 residents, fewer than the 2.6 beds per 1,000 residents for the nation overall. Hawaii's supply of acute care beds per capita slightly declined between 1990 and 2003, due to the faster growth rate of Hawaii's population compared to acute care beds. Hawaii ranks 33 among all states in the number of available beds per capita.

KCH has 94 inpatient beds divided into the following functional units: General Medical/Surgical - 33, Intensive Care - 9, Obstetrics - 7, Psychiatric - 11, and Skilled Nursing/ Long-Term Care - 34. The impact of this growing and aging population on the need for inpatient beds is significant:

- Currently, KCH has 49 acute care beds (vs. a need of 51)
- By 2020, the need will reach 74-109 beds
- By 2030, the need will reach 88-157 beds

Kohala Hospital's service area population is estimated to total 5,937 in 2005. The service area is defined as including the town of Kapaau.

	2005	2010	2015	2005-2015
Primary Service Area	**Estimate**	**Projection**	**Projection**	**% Change**
Hawi	3,301	3,381	3,467	5%
Kapaau	2,636	2,756	2,884	9%
Total Service Area	**5,937**	**6,137**	**6,351**	**7%**
Hawaii	1.23	1.30	1.36	10%
United States	296.2	310.5	326.6	10%

Note: State and US population in millions
Sources: Applied Geographic Solutions and US Census

Overall service area age groups are similar to Hawaii and/or the U.S. as a whole, except for a higher percentage of individuals age 45-64 and a lower percentage of individuals age 20-44. Service area population distribution is atypical of a rural hospital service area, which most often has a lower pediatric population and a greater over-65 age group. In 2005, the Kohala Hospital service area population was estimated to be 5,937, with a weighted population of 5,013 (to account for out-migration). The population of the service area is projected to increase 7% over the next 10 years, which is lower than the state and national averages. Over the next 10 years, most growth is projected in the 20-44 and 65+ age cohorts at 9% and 22%, respectively.

The population in the service area has 109% of household income relative to state average. An estimated 12% of the service area is below 100% of the Federal Poverty Level (FPL) and 27% are below 200% of the FPL. This disparity between the average income and those below the FPL may be attributed to the influx of wealthy, retired baby boomers and the population of sugar plantation retirees with fixed incomes. This presents two opportunities for Kohala Hospital. First, as a CAH, serves an important need for local access to healthcare for the un- and under-insured. Second, there is an opportunity to connect with the new members in the community to support future development of services and facilities.

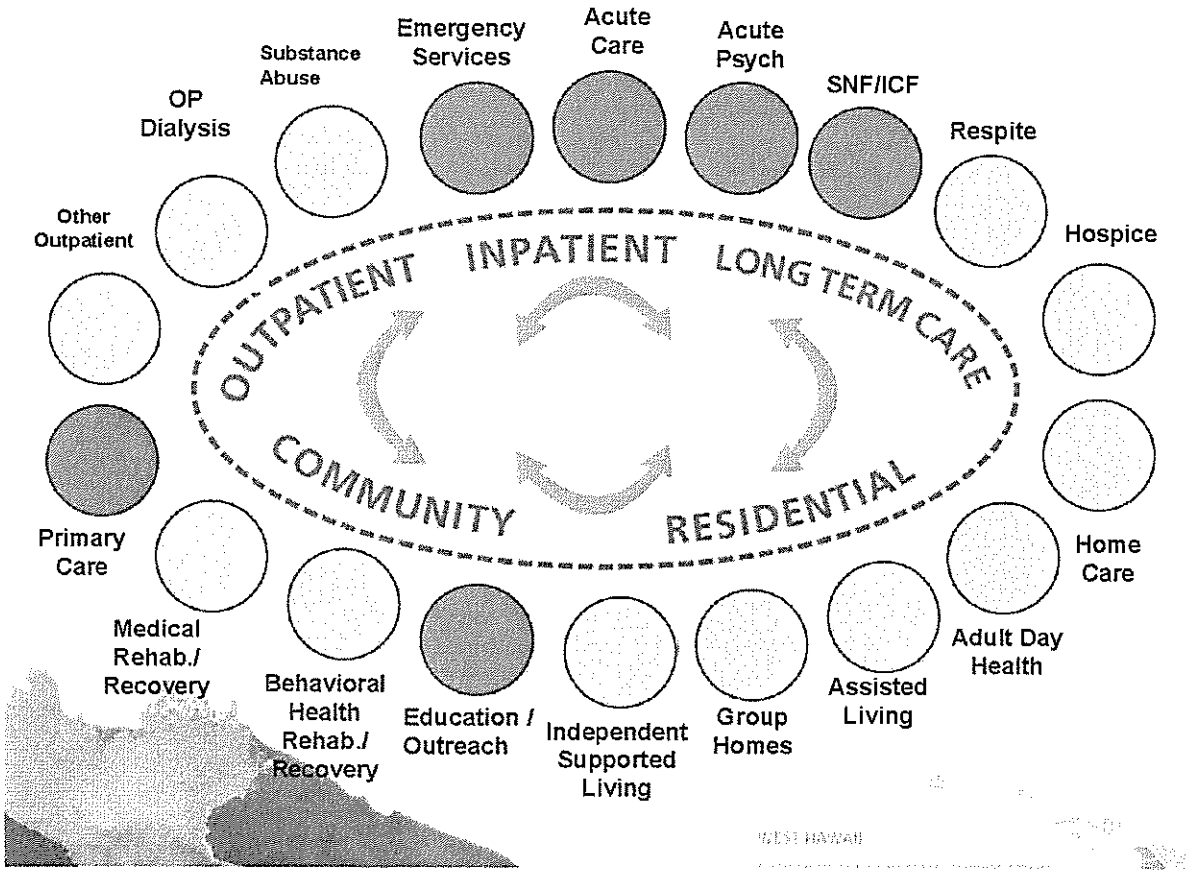
Hawaii County mortality rates are higher than the state-wide rate for all leading causes of death. The high mortality rates from chronic diseases that are preventable and treatable; indicating a need to implement chronic disease management services and systems.

Hospital discharge data indicates that Kohala Hospital captures only 2% of the service area market share and 3% of the market in Kapaau. Service area residents appear to be seeking inpatient care primarily at North Hawaii and Oahu. The potential to impact that would require a newer facility, upgraded equipment and increased services.

Primary Care Service Area data shows that the Hamakua Health Center has a strong primary care presence in the service area.

Continuum of Care Infrastructure - Access to Primary Care

The West Hawaii Region's existing continuum of care infrastructure is inadequate and results in a lack of access to the appropriate level of care. NBBJ's assessment of the continuum of care conducted in late 2006 is summarized in a visual below. Note, NBBJ's analysis did not review physician specialty care.



- Adequate services (Green)
  Moderately adequate (Yellow)
- Inadequate services (Red)

The lack of primary care services has a significant impact on the hospital's ability to provide services. Consider the following points:

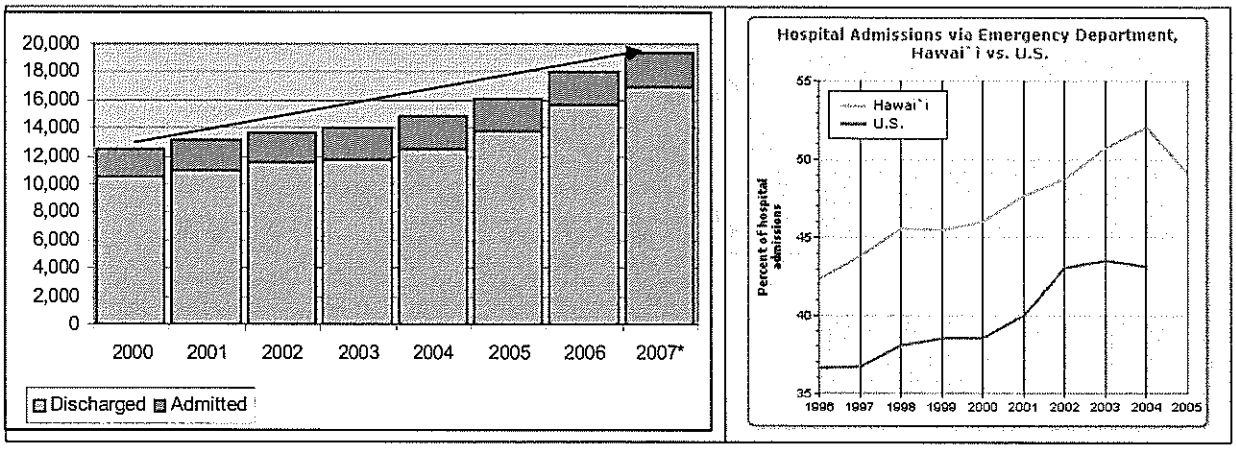
- People seek care later in the ER vs. earlier in a clinic or physician office,
- Thus, they are "sicker" (higher intensity and complexity of illnesses),
- Which increases demand and use of ER beds,
- Which increases inpatient admissions from ER and
- Results in even longer acute stays.

- Doctors are reluctant to discharge inpatients due to lack of sufficient outpatient follow-up care (clinics, home health, hospice, etc).
- Patients await SNF/LTC placement due to insufficient long-term care infrastructure.

- Lack of various physician specialists increases inappropriate admissions and can impact length-of-stay and increase costs that are not reimbursed.

The impact on the KCH Emergency Department is clear – a 50% increase in visits over the past six years - and comparable to the phenomenon throughout the state.

KCH ER Volume 2000-2007



Continuum of Care Infrastructure - Access to Specialty Care

In 2006, 38,076 Neighbor Island residents were hospitalized, of these 6% received hospital care on Oahu. The most common reasons for migration from neighbor islands to Oahu for care include:

- Orthopedic Surgery: Knee/hip and back and neck procedures
- Cardiac/Cardiovascular Surgery
- Obstetrics/Delivery and Neonatology
- Oncology & Chemotherapy
- Pulmonary
- Pneumonia

KCH Patients Admitted via ER with a One-Day Inpatient Stay – 2006

ER - One Day Admissions	
Discharged to Home	505
Transferred	103
Died	19

Would they have required admission if adequate primary care services were available?

Could they have been cared for on the Big Island if adequate specialty care were available?

SERVICE

Strategy #1: Define Role in Regional Health Service Delivery
As the community continues to grow, there will be numerous opportunities for KCH to expand and address healthcare needs. We will continuously scan the market and explore alternatives to enhance community access and financial performance. Current opportunities include:

- Representative Herkes sponsored legislation for a mobile medical unit for FY'09.
- Public-private joint-venture opportunities to establish clinics in new communities (Palamanui and La'i 'Opua) during FY'09-10.

Strategy #2: Enhance Local Health Service Delivery
Both facilities are aging and lack sufficient space. There are numerous opportunities, both short- and long-term to improve service delivery, patient flow, efficiency and effectiveness. Kohala Hospital sits on a large parcel of land; it may be feasible to maintain current operations while a new facility is built. In the interim, the facility requires significant attention. For example, the ED is located in the middle of the building in the SNF patient care area - as utilization continues to increase (15% in FY'07) – this location is potentially hazardous. The current location also presents actual and potential privacy, patient safety and infection control violations. If Kohala Hospital continues to be a sole provider of services, even basic services utilize technology and systems that will require a new plant infrastructure. Given limited state resources, we will explore alternative financing, public-private partnerships and joint ventures. Our goals are to:

- Convert the nursing cottage to physician office space in FY08-09.
- Complete the foundation-sponsored *Adopt-a-Room* project in FY08-09.
- Upgrade the operating room in FY09.
- Develop plans and explore funding opportunities for new ER during FY09-10.
- Build a new ER during FY10/FY11.
- Renovate, expand and modernize the Kohala ED.
- Build new hospitals in both Kona and Kohala by FY15.

Strategy #3: Enhance Portfolio of Clinical Services
To improve our financial position, we will expand services that make a positive financial contribution.

- Re-License SNF/ICF Beds: There is increasing demand for Medical-Surgical beds. Given the high-cost and poor reimbursement for hospital-based long-term care, KCH could improve financial performance by approximately $2.2 million per year by re-licensing SNF/ICF beds as Acute, Medical-Surgical beds. Goals:
  - Increase acute capacity by re-licensing ICF beds in FY09.
  - Increase acute capacity by re-licensing SNF beds in FY09/10.
- Free-standing Rehabilitation Center: There is a perception that there is unmet need for rehab services (primarily physical and occupation therapy) in our

community. In FY09 will conduct a feasibility analysis and explore this opportunity.

- Increase SNF volume at Kohala Hospital: Maintaining contracts with rehab service providers and admitting more SNF patients will improve the revenue stream by maximizing reimbursement and generate sufficient volume to support an internal rehab program, both outpatient and inpatient.

Strategy #4: Enhance Community and Government Relations

- Recent press has been favorable - the information people receive about KCH affects our relationship with the community. People need to get the right message. Establishing good community relations is important for many reasons (from healthy behaviors to donations).
- Must continue efforts to keep elected government officials informed of KCH accomplishments, challenges and needs.

QUALITY

Patient Safety

There is national attention on quality and patient safety. Important developments are highlighted below:

In late 1999, the Institute of Medicine released, "To Err is Human: Building a Safer Healthcare System." The report generated both discussion and controversy. Highlights:

- Medical errors occur in 2.9% to 3.7% of hospital admissions
- 8.8% to 13.6% of those errors lead to death.
- Medical errors result in 44,000 to 98,000 deaths each year in hospitals.
- Consider deaths from:
    - Motor vehicle accidents (43,000)
    - Breast Cancer (42,000)
    - AIDS (17,000)

As a result of this and other publications, the JCAHO responded by requiring member hospitals to:

- Develop comprehensive, integrated safety programs
- Conduct regular proactive risk assessments
- Foster a culture that encourages reporting (non-punitive)
- Identify and fix barriers to communication
- Inform patients about significant unanticipated outcomes
- Provide orientation and training that emphasizes specific-job related aspects of
- Conduct in-depth analyses of any sentinel events

Penalties for Poor Care

The Centers for Medicare and Medicaid Services recently proposed rules that will deny Medicare payments -- slated for implementation in 2009 -- for several costly and

preventable hospital-acquired conditions, such as pressure ulcers, Staphylococcus aureus septicemia, urinary tract infections due to catheters, blood incompatibility, air embolism, and objects left behind after surgery. Many consumer and employer groups want private insurers to follow suit.

Public Reporting

In 2003, the Centers for Medicare and Medicaid launched a free website (www.HospitalCompare.hhs.gov) to help consumers make better informed choices about selecting a hospital based on quality indicators. The website focuses on measures related to acute myocardial infarction, heart failure, pneumonia and surgical infection prevention. Earlier this year, patient satisfaction scores were added.

KCH's overall performance on core measures improved from 2006 and 2007 and is consistent with similar facilities in the state. There is opportunity for improvement:

Core Measure	2006	2007
Surgical Infection Prevention	90.32%	93.59%
Heart Attack	68.66%	93.15%
Pneumonia	78.84%	82.38%
Congestive Heart Failure	43.39%	52.44%

Patient Satisfaction

	July 2006 – June 2007		
	KCH % *	Hawaii Average	US Average
Communication with Doctors	**77**	74	79
Communication with Nurses	**73**	65	73
Clean Environment	**67**	66	68
Pain Management	**48**	42	53
Quiet Environment	**48**	46	54
Hospital Staff Responsiveness	**41**	37	45
Communication About Medicines	**34**	35	41
Discharge Information (% Yes)	**63**	69	74
Overall Rating 9 or 10 (on 1-10 scale)	**44**	52	63
Would Definitely Recommend Hospital	**51**	56	67

* Percent Responding "Always Satisfied" except last 3 questions

- In FY08-9 we will continue to engage physicians and staff and revise tools to improve our performance on all core measures.
- In FY09 we will develop a formal customer service initiative. Staff training and education will occur throughout FY09. By early FY10 we expect to see a significant improvement in patient satisfaction scores.

Strategy #5: Enhance Patient Safety Practices

Patient safety is paramount and a JCAHO focus – we will continue to address JCAHO and Institute for Health Improvement recommendations.

Strategy #6: Build Customer and Quality Focused Team

- Concentrate PI efforts to address evidence-based medicine standards and improve performance on JCAHO Core Measures
- Implement customer service training focused on improving caregiver attitude, responsiveness, teamwork and communication.

Strategy #7: Upgrade Clinical Technology and Physical Plant

Current equipment is aging – acquiring state-of-the art equipment will improve clinical quality, enhance our ability to recruit physicians and add revenue generating services. Possibilities for new services include: Mammography, Bone Density and Sleep studies. Technology that will require future upgrades: CT Scanning, MRI and Radiation Oncology. Feasibility studies will be conducted during FY09 and technologies added throughout FY09-FY12.

Strategy #8: Achieve Constant Accreditation and Licensing Readiness

JCAHO and Department of Health surveys are unannounced. Because their focus is on observing staff performance, we will conduct regular mock surveys to enhance staff awareness and identify opportunities for improvement.

PEOPLE

Between 1990 and 2004, Hawaii's private-sector health care workforce grew by 43%, more than four times greater than the overall statewide job market. The rate of growth in this workforce sector during the period 1990 to 2004 was slower in Hawaii at 43% than the overall U.S. figure of 53%.

There were more than 54,000 workers employed in the health care and social assistance sector in Hawai'i in 2004, representing 9% of Hawaii's total workforce. Health care was one of the few sectors in Hawaii's economy that grew throughout the 1990s. Health care and social assistance employment in all counties grew between 1990 and 2004 at a rate that exceeded the total county workforce growth rate. The aging population, together with increased health care demands, will likely stimulate future increases in the health care workforce.

While the number of registered nurses (RNs) in Hawaii has increased in recent years (more than 11,000 in 2004), only 70% are employed in nursing. Hawaii ranks 46th among all states, with 62 employed nurses per 10,000 residents (vs. national rate of 78 per 10,000). The rate on the Big Island is 74 per 10,000 residents. In addition, Hawaii's nursing population is older - in 2001, 79% of Hawaii's RNs were 40 years old or older, compared with 68% nationwide. Approximately 6% of Hawaii's RNs are under the age of 30, compared to 9% nationally. As Hawaii's older nurses retire, there will not be enough nurses to replace them.

Consider these national statistics:

- Hospitals need 118,000 RNs to fill vacant positions; vacancy rate = 8.5%.

- Shortage of RNs will increase to 340,000 by 2020.
- Shortage will grow to more than one million nurses (RNs and LPNs) by 2020.
- 55% of surveyed nurses reported their intention to retire between 2011 and 2020 – most were nurse managers.
- Over 1.2 million new and replacement nurses are needed by 2014.
- About 703,000 new RN positions will be created through 2014.
- Enrollment in schools of nursing is not growing fast enough to meet the projected demand for nurses over the next 10 years.
- Fewer new nurses entering = average age climbing.
- Average age in March 2004 was 46.8.
- RN population <30 was 8.0% in 2004.
- 1 of every 3 hospital nurses under age 30 plans to leave their current job in the next year.
- In 2004, 83.2% of RNs were employed in nursing.

While this section has highlighted nursing, the statistics for many other healthcare professions (pharmacists, radiology technicians, etc.) are similar and of equal concern.

KCH has employees ranging in age from 18 to 76, the average (mean) is 47.1 and the median is 49.1; 26.2% are over age 55. The average tenure of the workforce is 8.0 years of state service; 11.5% have at least 20 years of service. For KCH Registered Nurses, the average age is 48.3; average state service tenure is 9 years; 30% are over age 55; 14.5% have at least 20 years of service. 76.3% of our RNs are over 40 (vs. 79% for the state of Hawaii and 68% nationwide); 3.8% of our RNs are under 30 (vs. 6% in Hawaii and 9% nationally).

Employee Satisfaction

Staff satisfaction and communication issues are difficult to quantify. Improved communication between groups may help to avoid or diffuse potential problems before staff is affected. Improved satisfaction contributes to a positive image of KCH in the community. The employee satisfaction survey conducted in the fall of 2007 – overall, the results were promising. We identified several strengths and some opportunities, summarized below:

	Agree/ Strongly Agree	Disagree/ Strongly Disagree
My work is important to this hospital	**82.2%**	7.8%
I am familiar with the HHSC Code of Conduct	**78.7%**	4.8%
If I observe misconduct by a co-worker I would report it	**74.3%**	5.2%
I know how to find out what job opportunities are open	**68.3%**	12.2%
In my department, we discuss ways to prevent errors	**67.4%**	13.2%
I have the information I need to do my job	**65.7%**	8.3%
Employees in my department work well together	**63.3%**	10.5%
I am proud to work for this hospital	**63.0%**	12.2%
My supervisor tells me when I'm doing a good job	**61.7%**	20.3%
My supervisor sets clear expectations	**61.5%**	19.5%

	Disagree/ Strongly Disagree	Agree/ Strongly Agree
Staffing levels are sufficient in my department	**50.4%**	33.5%
I have great opportunities for professional growth	**40.2%**	31.0%
I am paid fairly	**37.4%**	**37.0%**
I can raise sensitive issues without fear of retaliation	**37.4%**	**40.0%**
I feel appreciated by hospital management	**36.2%**	**41.9%**
I see effective teamwork between departments	**31.0%**	26.1%

Physician Satisfaction

A survey was conducted of the physicians; highlights follow:

	Strongly Agree / Agree	Strongly Disagree / Disagree
KCH is clean	**96%**	4%
Pharmacy services are efficient	**91%**	4%
Ancillary staff (Imaging, Lab, PT/OT, Respiratory, etc.) attentive to physicians' needs	**87%**	9%
Ancillary staff competent and courteous	**87%**	4%
KCH encourages quality medical care	**87%**	4%
Nurses respond to physician orders in a timely manner	**87%**	13%
I am proud to be part of the medical staff	**86%**	5%
Case managers effectively help me care for my patients	**83%**	4%
Nurses have necessary skills to perform assessments, procedures, and treatments	**83%**	13%
My patients receive quality care at KCH	**81%**	5%

	Strongly Agree / Agree	Strongly Disagree / Disagree
The specialties I need to deliver quality patient care are available	23%	**59%**
Patient care is better at KCH than at other hospitals with which I am familiar	27%	**36%**
Surgical procedures start on time (eg, patients prepped and ready as expected)	23%	**32%**
Lab and radiology results are on the chart when I round	52%	**26%**
The lobby and public areas of KCH are attractive and well-maintained	71%	**24%**
Nurses round with me on my patients, if requested	55%	23%
KCH provides the supplies and equipment I need to deliver quality patient care	70%	22%

Strategy #9: Workforce Development
Currently, collective bargaining agreements cover other state entities (i.e., Departments of Justice, Public Health, and Education) with language intended for a 9-5, M-F operation. HHSC has just one vote at the table and negotiations tend to be competitive and positional, not collaborative. This creates important challenges and opportunities:

- Work with unions to modify work rules and pay structures to provide productivity and performance incentives to improve morale and reduce overall costs.
- Carve-out the HHSC hospitals from the various state-wide agreements into separate HHSC-specific or even hospital-specific contracts.

Strategy #10: Enhance Physician Recruitment and Retention
Recent KCH physician satisfaction survey results were generally positive. The area of greatest opportunity identified was the availability of Medical Specialists.

Residents of Kohala have limited access to primary and specialty care. Recently, two physician offices closed, making access to primary care even more difficult. Although there is one general practitioner in town that sees patients on a cash basis, the only remaining practices are now part of the local federally qualified health center (FQHC), Hamakua Health Center. The center is minimally staffed and the practice is reportedly closed to new patients – impacting the Kohala ED. Current demand could support at least one additional primary care physician. There is an unmet need for visiting specialists in Kohala. The provision of this service will enhance local access to needed care. Further, visiting specialists generally add to the bottom line via enhanced use of ancillary testing. Kohala Hospital's challenge in attracting specialists is the limited availability of services, specifically diagnostic capabilities.

WHR will continue to recruit specialists (via different models, such as the recently implemented Alii Health Center) that will address community need and enhance financial performance. During the next five years we will:

- Review physician demographics and identify "smart growth" opportunities.
- Continue efforts to recruit the following: cardiologist, gastroenterologist, general surgeon, internists (2), neurologist, orthopedic surgeon, and a pulmonologist.
- Adjust the Alii Health structure to recruit and retain quality physicians and other technical resources by allowing them the opportunity to earn nationally competitive incomes that also improves the hospital's revenue base.

Strategy #11: Enhance Employee Recruitment and Retention
The recent employee satisfaction survey showed generally positive results. Areas of opportunity: staffing levels, growth opportunities and pay. Administration will continue town hall meetings, the *Working with Aloha* initiative and other activities to enhance management-employee communication. The WHR workforce is aging with many employees approaching retirement age. These two factors create important challenges and opportunities. In FY09 we will develop a formal plan to address these needs.

FINANCE

Funding Challenges

Across the state, over half of all Hawaii hospitalizations in 2006 were financed by tax dollars (e.g., Medicare, Medicaid, QUEST). Private insurance was billed for 40% of all hospital stays, Medicare for 33%, and Medicaid/QUEST for 22%; 3.0% of stays were uninsured. Between 1995 and 2006, total hospital charges increased by 36% (adjusted for inflation). In 2006, total charges for hospitalization in Hawaii were approximately $2.7 billion, with an average charge of $22,319 per discharge or $4,108 per day. Honolulu experienced the highest charge at $25,309 per discharge. Hawaii County had the lowest at $13,377 per discharge.

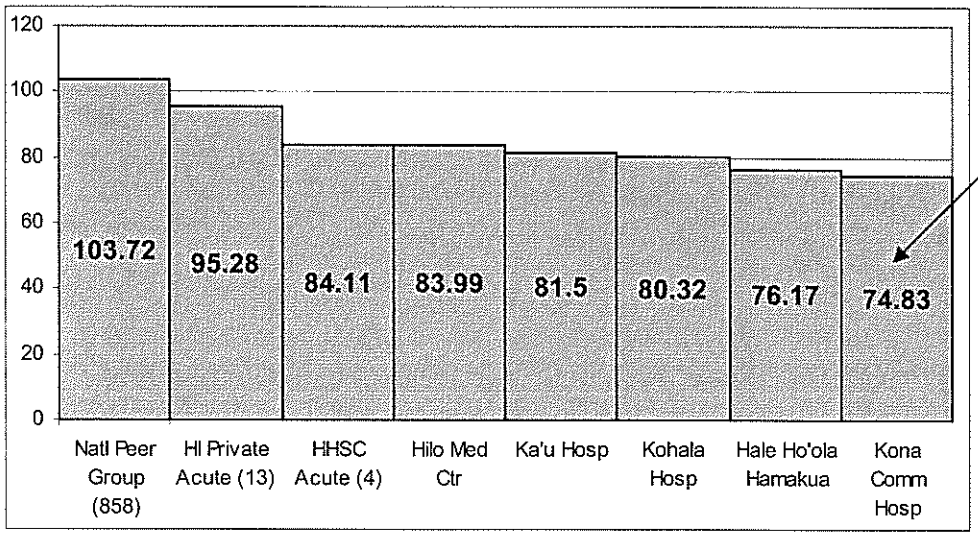
It is clear that the state can not continue to support HHSC in the long-term; however, assistance during the short-term is critical. Inadequate provider payments from insurance companies and public programs will continue to be a challenge and will limit our ability to fund upgrades and expansions. Thus, KCH will continue to enhance revenues (through programmatic service expansion, public-private partnerships, negotiating better contracts with health plans, and lobbying for improved payments) and reduce unnecessary expenses via a aggressive cost-management program.

Overall Payments as a Percentage of Cost – FY 2007

	Medicare	Medicaid	Commercial & Other	Overall
Hawaii	79.77	80.02	111.24	92.39
Lowest State	66.65	32.93	101.80	92.39
US Average	80.36	75.30	124.89	104.32
Highest State	101.03	105.46	145.94	115.62

Hawaii's overall payment rate is the lowest in the US.

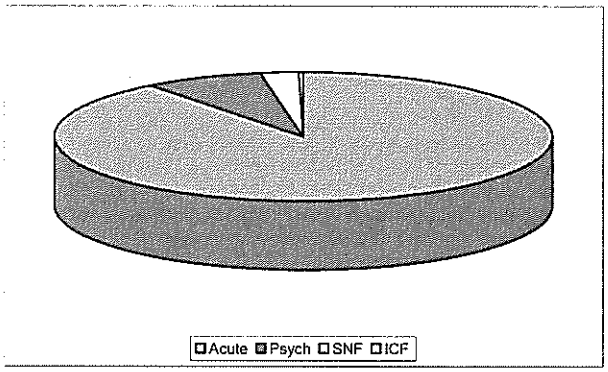
Overall Payment as a Percentage of Cost (All Payers) – FY 2007



KCH payment rate lowest in HHSC!

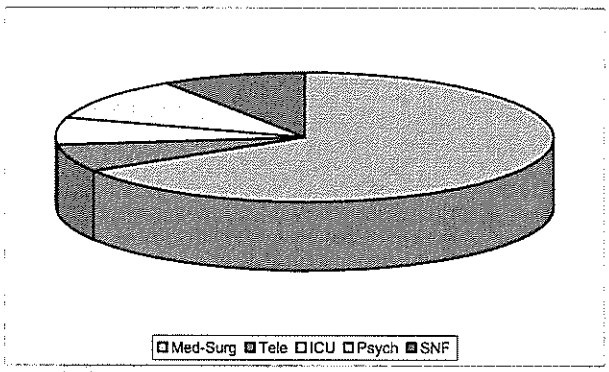
A recent internal analysis of the KCH book of business (2006) is highlighted below:

Discharges



Acute	Psych	SNF	ICF	TOTAL
3,588	308	97	14	4,007
89.5%	7.7%	2.4%	0.3%	

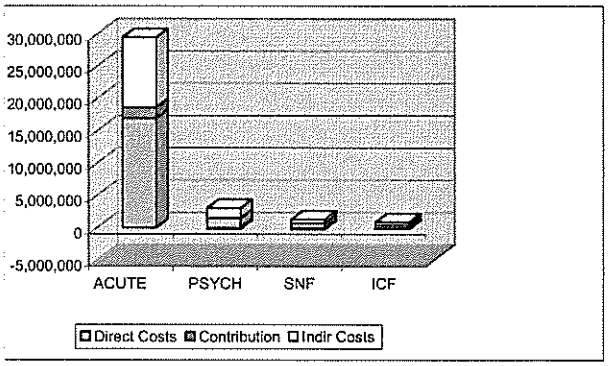
Patient Days



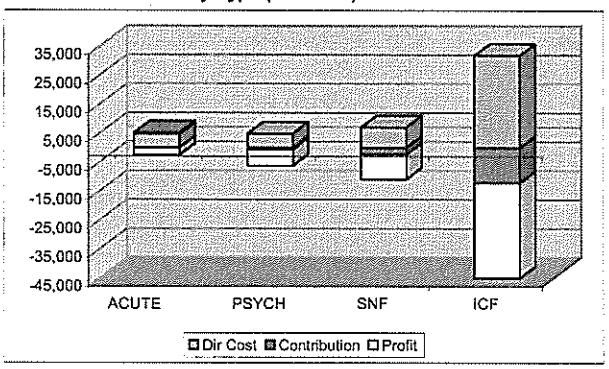
Med-Surg	Tele	ICU	Psych	SNF	ICF
10,230	1,108	1,002	1,683	1,470	1,453
60.4%	6.5%	5.9%	9.9%	8.7%	8.6%

As can be seen below, SNF and ICF in 2006 had a significant bottom line impact – a total loss of $1.45 million. Although the acute care business provides a financial contribution (covering its direct costs) it does not fully cover the allocated indirect costs.

Contribution & Loss by Type



Contribution & Loss by Type (Per Case)

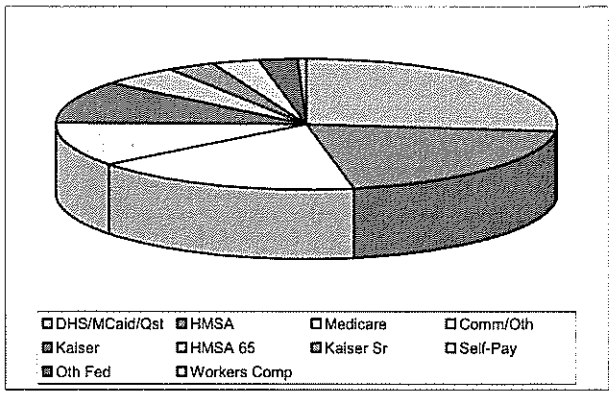


TYPE	Direct Costs	Payments	Contribution	Indir Costs	Profit
ACUTE	16,928,184	18,636,072	1,707,888	10,828,584	-9,120,696
PSYCH	1,502,732	1,329,944	-172,788	1,553,552	-1,726,340
SNF	688,797	465,697	-223,003	609,160	-832,260
ICF	446,432	277,704	-168,742	453,852	-622,580

TYPE	Direct Costs	Indir Costs	Payments	Contribution	Profit
ACUTE	4,718	3,018	5,194	476	-2,542
PSYCH	4,879	5,044	4,318	-561	-5,605
SNF	7,101	6,280	4,801	-2,299	-8,580
ICF	31,888	32,418	19,836	-12,053	-44,470

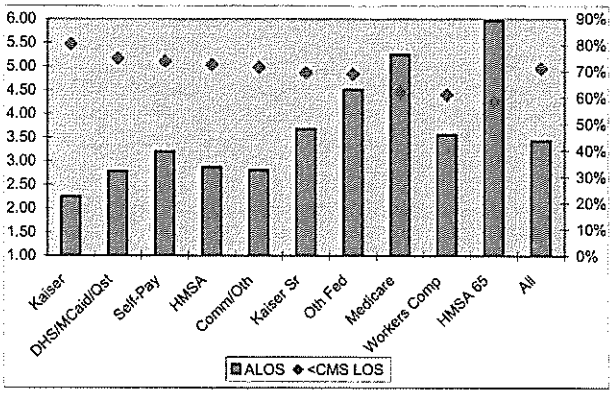
Additional analysis of the inpatient, acute care book of business (below) illustrates the wide range of reimbursement from a high of 63-64% (Kaiser and HMSA) to about 30% (State Medicaid) and 4% for the self-insured (i.e., the uninsured).

Payor Mix - Acute



PAYOR	Cases	%
DHS/MCaid/Qst	958	26.7%
HMSA	722	20.1%
Medicare	634	17.7%
Comm/Oth	389	10.8%
Kaiser	378	10.5%
HMSA 65	176	4.9%
Kaiser Sr	115	3.2%
Self-Pay	111	3.1%
Oth Fed	87	2.4%
Workers Comp	18	0.5%
TOTAL	3,588	100.0%

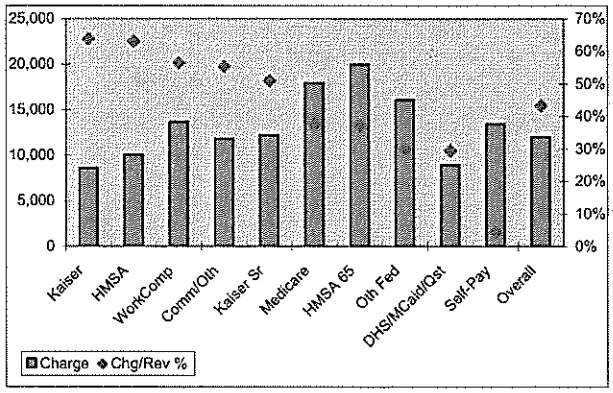
ALOS, COI, CMI by Payor - Acute



PAYOR	ALOS	<CMS LOS	COI	CMI
Kaiser	2.24	80.4%	1.6217	0.7277
DHS/MCaid/Qst	2.77	75.1%	1.7035	0.7497
Self-Pay	3.20	73.9%	1.7207	1.0040
HMSA	2.88	72.6%	1.7756	0.8014
Comm/Oth	2.81	71.7%	1.7224	0.9415
Kaiser Sr	3.68	69.6%	1.7216	0.9061
Oth Fed	4.51	69.0%	1.7217	1.0411
Medicare	5.25	62.0%	1.7931	1.0741
Workers Comp	3.56	61.1%	1.7303	1.1904
HMSA 65	5.95	58.5%	1.7778	1.1604
All	3.42	71.2%	1.7386	1.2087

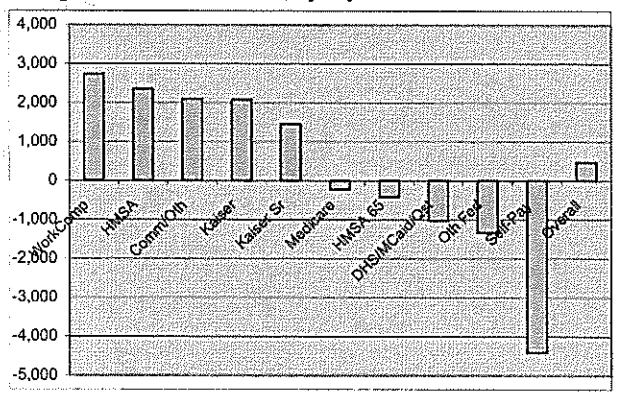
ALOS=Average Length of Stay; CMS LOS refers to Medicare's expected length of stay; COI=Complexity of Illness (a 1 to 4 scale); CMI=Case Mix Index

Average Charge, Revenue Per Case, By Payor - Acute



Payor	Charge	Net Rev	Chg/Rev %
Kaiser	8,586	5,477	63.8%
HMSA	10,049	6,331	63.0%
WorkComp	13,682	7,713	56.4%
Comm/Oth	11,830	6,541	55.3%
Kaiser Sr	12,223	6,219	50.9%
Medicare	17,962	6,747	37.6%
HMSA 65	19,980	7,396	37.0%
Oth Fed	16,081	4,806	29.9%
DHS/MCaid	8,958	2,644	29.5%
Self-Pay	13,459	592	4.4%
Overall	12,022	5,194	43.2%

Average Contribution Per Case, By Payor - Acute



Payor	Dir Cost	Net Rev	Contrib	Total Cost	Profit
WorkComp	4,984	7,713	2,729	8,394	-681
HMSA	3,980	6,331	2,352	6,489	-158
Comm/Oth	4,449	6,541	2,092	7,288	-747
Kaiser	3,398	5,477	2,079	5,517	-40
Kaiser Sr	4,762	6,219	1,457	7,865	-1,646
Medicare	6,972	6,747	-225	11,561	-4,814
HMSA 65	7,816	7,396	-420	12,978	-5,582
DHS/MCaid	3,671	2,644	-1,027	5,938	-3,294
Oth Fed	6,138	4,806	-1,332	10,155	-5,348
Self-Pay	4,997	592	-4,405	8,209	-7,617
Overall	4,718	5,194	476	7,736	-2,542

Unique Challenges as a State Entity

- High "fixed" labor costs due to Civil Service structure (about 65% of Budget) vs. 50% typical for not-for-profit hospitals and 45% in for-profit facilities.
- Disproportionate share to support the state's under-funded retirement program.
- Limited representation when negotiating contracts with labor unions.

Strategy #12: Develop Strategic Partnerships and Joint Ventures
Given our limited resources and high fixed costs associated with our status as a state entity, opportunities to partner with others (including other hospitals, health systems, etc.) will be explored.

- Currently under exploration is a free standing ambulatory surgery center - it is expected that this project will be completed by mid-FY09.
- Another opportunity worthy of exploration is to partner with private companies to expand long-term care services – this will be explored in FY09.
- Private partners should be sought out when we move forward with our efforts to build a state-of-the-art hospital (by FY15) rather than reliance on state funding.

Strategy #13: Aggressive Cost Management Program
There are several opportunities to reduce costs – some require a modest capital and/or operating investment; others require systemic change. Some possibilities are briefly highlighted:

- Expand Case Management Program: Payers continue to reduce reimbursement; we must aggressively manage patient length of stay and use of intense/acute resources. In FY08 we took steps to enhance case management; these efforts will continue during FY09.
- Automated Time-and-Attendance System (Kronos): Such systems have been proven to reduce costs, improve payroll operations and enhance decision-making by providing better data. The goal is to implement this during FY09.
- Explore Supply-Chain Management Improvement Initiatives: Aggressive supply / inventory control and management can reduce costs. This will be explored in FY09.
- Restructure Support Services: Explore opportunities to partner with companies with proven expertise in non-core functions. This would require legislative change, so the goal is to implement by FY10/FY11.
- Shift Time-off Benefits to PTO Program: Current civil service vacation (21 days), sick (21) and holiday (14) benefits are "generous" compared to other systems. This too would require legislature.

Strategy #14: Enhance Revenue Cycle Management Activities
A team was established in late 2007 to address the revenue cycle – which encompasses six major elements: patient registration, point-of-service collection of co-payments or deposits, electronic coding of diagnostic data for billing purposes, claims management, accounts receivables management, and denials management. Initial efforts focused on cash collections in the Emergency Department have been successful. In FY09 efforts will focus on the other major components of the cycle.

Strategy #15: Enhance Data-Driven Decision-Making Capabilities
Our existing finance and decision-support information systems have limited managerial utility. To improve management's ability to access the data and information required to make real-time decisions that impact the bottom line, the existing information systems must be upgraded. The goal is to implement a decision-support system in FY09.