WEST KAUAI MEDICAL CENTER – MAHELONA MEDICAL CENTER

HAWAII HEALTH SYSTEMS
C O R P O R A T I O N

"Touching Lives Everyday"

Orianna Skomoroch
Regional CEO

August 13, 2008

Committee on Ways and Means, Senator Baker: Chair, Senator Tsutsui, Vice Chair
Committee on Finance: Representative Oshiro, Chair, Representative Lee, Vice Chair

Statement of Michael G Perel, Chief Financial Officer, Kauai Region of HHSC

West Kauai Medical Center/KVMH; West Kauai Clinics – Waimea, Eleele, and Kalaheo: Mahelona Medical Center/SMMH are the safety net providers for the Island of Kauai. KVMH and SMMH are Critical Access Hospitals (CAH), enjoying cost reimbursement for Medicare and Medicaid patients. KVMH is licensed to operate a 45 bed facility; 25 acute/swing beds and 20 bed distinct part skilled/intermediate nursing care beds. SMMH is a licensed 80 bed facility; 5 acute/swing beds, 9 bed distinct part psychiatric and 66 bed distinct part skilled/intermediate nursing care beds. WKMC/KVMH services include Long Term Care, ICU, Surgery, Medical/Surgical, OB/GYN, Pediatrics, 24 hour Emergency services and outpatient ancillary services. SMMH services include Long Term Care, Acute and 24 hour Emergency services, Acute Behavioral Health and Outpatient ancillary services.

For the fiscal year ended June 30, 2008 SMMH provided the following services: 1,336 mental health inpatient days, 23,324 long term care days, 36 acute days, 4,823 emergency encounters, 12,391 ancillary procedures and served 87,232 meals. KVMH provided: 5,377 acute days, 7,299 long term care days, 262 births, 5,941 emergency encounters, 1,409 surgical procedures, 29,919 lab tests, 12,456 radiology studies, 7,849 ancillary procedures and served 53,365 meals. The Region filled 113,080 prescriptions and provided 31,058 physician clinic office visits. Unaudited net revenue for the fiscal year was $41,100,945; expenses were $48,545,556, resulting in a net loss of $7,444,641. Labor cost was $27,227,695 or 66% of net revenue. The Region incurred 41,089 hours of sick leave, resulting in approximately $1,100,000 in overtime. Cash collections for the fiscal year were $35,818,433 – 74% of expenses. The region granted $199,541 in charity care ($984,944 since 2002) and incurred $985,668 in bad debt. The Region employs 450 fte’s and has an economic impact of $29,236,000 on the Island (National Center for Rural Health Works, Oklahoma State University).

Analysis of the loss at KVMH indicates the following: the KVMH loss for the year is $4.8 million. KVMH is 53% cost reimbursed – therefore the loss can be attributed to the remaining 47% of activity; commercial insurance, self pay, etc. A key to long term viability and reduction of dependence on State subsidy is to increase reimbursement from commercial payers. The Regions strategy includes activities to maximize facility utilization and market presence and the continued collaboration with other providers, primarily Ho’ola Lahui, the Federally Qualified

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Health Center. We have to employ the same strategies as the private sector to attract a more favorable payor mix among services and patients. In this regard we are in the process of design and construction of new facilities and renovation of old facilities on the Waimea campus. and have an allocation in the fiscal 2009 budget for master planning on the SMMH campus. Even though we have not been able to access State CIP funding for our projects we will continue to pursue them. The 90 year old SMMH campus continues to deteriorate and must be replaced. There is funding in the 2009 budget for SMMH campus master planning and we are hopeful the State will fund a replacement facility.

At current subsidy level the Regions projected cash shortfall for fiscal 2009 is $3.5 million. The primary driver is the conversion of our medical staff from contracted to employed physicians. This action was necessary to maintain a competitive position in the recruitment and retention of physicians. Our physicians were being actively recruited by other healthcare facilities and we were encountering increasing difficulty in attracting new physicians unless employment and a benefit package was offered. We are confident that this action will be beneficial for the Region in the long term bringing stability in clinical practices and increased physician productivity. The option of reducing services was not acceptable to management. We cannot fulfill our mission by dismantling the safety net but are eager to discuss and examine any proposed changes in the structure of the system that would lead to financial independence (including changes in work rules giving management flexibility to match changing workloads). We will make every effort to make it through the year with available cash, deferring as much expense as we can, but may well have to come to you for assistance. In many cases we are the only source of care for our patients – we cannot fail them.

Repectfully,

Michael G Perel