



WEST KAUAI MEDICAL CENTER / KVMH
HAWAII HEALTH SYSTEMS
C O R P O R A T I O N

"Touching Lives Everyday"

Orianna Skomoroch
Regional CEO

Senate Committee on Ways and Means
Senate Chair Rosalyn Baker
Senate Vice Chair Shan S. Tsutsui

House Committee on Finance
Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair

August 18, 2008
5:00 p.m.
Kauai High School Cafeteria

TESTIMONY of Kauai Regional System Board Chair, Norman Akita

Thank you for visiting us and for giving us the opportunity to discuss Kauai region hospitals with you.

I am, Norman Akita, the Chair of the Kauai Regional System Board of Directors, and I am here to provide testimony to support our supplemental request.

With me today are: Dr. Richard Goding, another member of our Board, to give an additional perspective of our progress as a governance Board. And of course, you all know Mike Perel, our CFO. He will detail the cause for our continuing deficits.

First a brief history. As a governance Board, we were organized last November, as provided by Act 290 which you passed in 2007. We started with eleven members.

Last October at our extensive and comprehensive orientation and training relating to the law, our reorganization or organization, the issues, and our new governance role, one attendee said to me and I quote: "we are going to go broke." That statement and discussion remains vivid for me. Not a year has passed and those words ring out as the system continues to struggle to cope with its statutory responsibilities and at the same time seek to turn around its financial dependency on the State.

As a Board, we have had one resignation. At the beginning we have struggled in getting a quorum to start our meetings promptly.

I share this brief background to give you some insight as to how we got started. While any beginning is a struggle, I need to report to you that our Board is making great strides and progressing steadily as we deepen our understanding, not only of our role and responsibilities as a governing body, but more importantly in getting to know where we are as a Region. Of equal importance was getting to know and work with our Senior Management Team.

As a Board, we feel proud to be working with the Kauai Senior Management Team. They have successfully minimized the financial crunch that is impacting all of the hospital in the State and Nation. You are well aware that healthcare becomes more expensive as new technologies and pharmaceuticals are developed coupled with a decaying infrastructure. The rising of costs and the inability of payers to support higher reimbursements contribute greatly to the overall decline of the healthcare system. However, the Kauai management team has succeeded to stay fairly consistent in reducing projected losses during past years. They have consistently implemented conservative spending practices plus expand primary care services.

Despite our best efforts, we are still facing a shortfall of about \$3.5 million. That deficit is calculated after we receive our share of the general fund appropriations the fiscal year ending June 30, 2009.

The Kauai Board is opposed to a reduction in service, namely the inpatient psychiatric unit at Samuel Mahelona Memorial Hospital. Such a closing to save money will not serve the best interests of patients nor the community. Similarly, cutting long term care would have a negative impact to our residents, the families, and would hurt other services, including acute care services at other hospitals. Acute care hospitals already experience a back-up due to insufficient long-term facilities. Closing one will place undue strain to acute care settings. Additionally cutting services does not immediately save money because collective bargaining as it relates to lay off rules plus the overhead must be spread to the remainder of the facilities.

We ask that you supplement our general fund appropriation to cover our shortfall. You have heard the reasons that hospital should receive this needed funding already so I will not repeat them. I will state this:

The Kauai Region is dedicated to provide safety net services to our rural communities and we cannot do it without the continued support of the Legislature.

Please be assured we are doing our part to be prudent and limit our expenses yet we do need your help to cover our shortfall.

Instead of cutting services, we have put in place a four-point plan to eliminate the \$3.5 million deficit as much as possible. They are:

1. Put more resources into the improvement of our revenue cycle and patient accounting services departments to ensure we are billing for and receiving payment for our services fully, properly, and timely.
2. Expand services by increasing the number of physicians through an improved compensation package to our existing physicians to retain them and attract new physicians.
3. Augment our clinic operations by adding clinics in two other of places on the island.
4. Process the designing of a new addition and renovating part of our existing Kauai Veterans Memorial Hospital.

The design and plan to renovate our hospital is still in the making. It was conceived by our forward looking management team years ago. The Board believes it is represents the heart of Act 290; that is, to enter into new partnerships and to become less dependent on State funds.

For your information, a financial model performed by consultants and under the most conservative estimates and growth, the project shows we will save \$17 million over the life of the building. Under the most likely scenario, we may save \$200 million. The bottom line is that Kauai Veterans Memorial Hospital would be profitable in its 6th year after completion of this project. We are excited yet understand we face risks. Our belief is we need to take this risk as businessmen do: "To make money you need to spend money."

Without the additional operating room space, emergency room space, and the conversion to single occupancy beds planned in this project, the alternative is inherently raising deficits that increase annually.

Beside the above efforts to reverse our dependency on State funds, we see the Samuel Mahelona Memorial Hospital as another source of new revenue. It is an asset that has not reached its full potential. The Legislature appropriated money for its master planning last year. We look forward to the release and receipt of those funds; and thereby enable us to complete the master plan. We expect a new private/public partnership will emerge from the master plan to fully utilize the hospital surrounding property for the benefit of the community. Included in this benefit is the additional new revenue it is expected to generate to support the safety net and long term care services.

We understand and appreciate the various new structural models under consideration to change the HHSC structure. The Kauai Regional Board is very interested to be a part of these important structural discussions. Such a change must be carefully considered and fully vetted by all partners in order to assure whatever direction it may take, it will result in a positive and constructive benefit and impact to the

Regional Boards. We are open to explore all alternatives to further stabilize the health care systems throughout the State of Hawaii.

In closing, we trust the initiatives we are taking with our excellent management team meets with your expectations. We believe both Board and management team are taking the necessary steps to achieve the provisions of your mandate under Act 290. And most importantly, we recommend your favorable action to our supplemental funding request of \$3.5 million. Thank you.