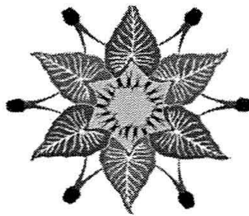


Maui Memorial
MEDICAL CENTER

January 29, 2008

TO: **Representative Josh Green, M.D., Chair**
Representative John Mizuno, Vice Chair

HOUSE COMMITTEE ON HEALTH
Wednesday, January 30, 2008, 8:00 a.m.
Conference Room 329
Required Number of Copies 5

FROM: **Wesley Lo, Chief Executive Officer**

RE: **HB 3161 - Making an Emergency Appropriation to the Hawaii Health Systems Corporation**

Thank you for the opportunity to submit testimony in regards to HB 3161. The purpose of HB 3161 is to appropriate $14 million of general funds for fiscal year 2007-2008 to pay current, essential vendors, reduce accounts payable, and allow operation and provision of current levels of service at some of the Hawaii Health Systems Corporation's (HHSC) facilities. I urge you to consider the following information as part of your decision for this appropriation.

The initial request for the Emergency Appropriation (EA) by HHSC to the Administration was for $25.4 million, which included approximately $10.7 million for use by Maui Memorial Medical Center (MMMC).

HB 3161 as presented, has been reduced from the $25.4 million to $14 million and MMMC has been excluded as part of the bill submitted to you by the Administration.

It is my understanding that the bill has been reduced since MMMC has been pursuing seeking other forms of funding, and recently received a loan commitment from JPMorgan Chase Bank, N.A. (JP Morgan) to fund its share of the EA.

As background, MMMC became aware of the possibility that HHSC would need emergency funding in mid 2007, and began to pursue securing a private loan which would allow us to pay down our own accounts payable, provide working capital, and relieve some of the financial burden from HHSC.

221 Mahalani Street • Wailuku, Hawaii 96793 • (808) 244-9056 • Fax (808) 242-2443

After completing the procurement process, MMMC selected the investment banking firm, JPMorgan as its financial partner in connection with approximately $30 million of interim financing and $100 million of permanent/long-term financing. Further, we have received a loan commitment for $11 million as part of the larger financing strategy.

The MMMC loan closing is expected within the next 45 days, however, this is based on everything being in order and does not address the following contingency/scenarios that may impact this EA and require additional funding to address this shortfall.

- MMMC still needs approval from State Budget & Finance Committee as well as the Governor to enter into the transaction.
- MMMC also needs approval from the HHSC Board to enter into the transaction.
- If loan does not close, MMMC may need the EA to be increased and for MMMC to be included in the bill.

I respectfully urge the committee to please take into consideration the above, as it may be necessary to secure additional appropriations for MMMC should some of the aforementioned occur.

Respectfully submitted,

Wesley Lo
Chief Executive Officer
Maui Memorial Medical Center
(808) 442-5100

House of Representatives
Twenty-Fourth Legislature
Regular Session of 2008

COMMITTEE ON HEALTH

Hearing
Wednesday, January 30, 2008
8:00 a.m.

Testimony by: Ralph C. Boyea, Legislative Advocate, Hawai'i County Council

Testimony in favor of HB 3161 MAKING AN EMERGENCY APPROPRIATION TO THE HAWAII HEALTH SYSTEMS CORPORATION

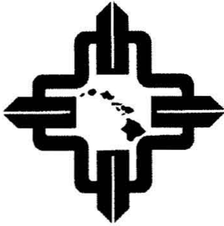
Chairperson Green and Honored Representatives,

On behalf of the Hawai'i County Council, I urge you to pass House Bill 3161. House Bill 3161 appropriates general funds for fiscal year 2007-2008 to pay current, essential vendors, reduce accounts payable, and allow operation and provision of current levels of service in the Hawai'i Health Systems Corporation's facilities.

Hawai'i County is larger, in land mass, than all of the other counties combined. The continued operation of the five Hawai'i Health Systems Corporation hospitals on our island is essential in providing the majority of our residents with emergency services and other hospital related services. With the exception of the North Hawaii Hospital, the Hawai'i Health Systems Corporation [HHSC] operates the only hospitals on our island.

HHSC provides essential services for insured and uninsured residents. Many of the uninsured are unable to pay for these services. Some insurers barely cover the cost of services, while others such as Medicare pay even less. Regardless of the ability to pay, the HHSC must provide services to all. Until the problems of costs and reimbursements are resolved, the Legislature will continue to be asked to "bail out" the HHSC as well as private "safety net" hospitals. HHSC need this appropriation now. Without this money, the health of Hawai'i's residents will be endangered.

We urge you to support HB 3161.



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

"Touching Lives Everyday"

The House of Representatives
Committee on Health
Josh Green, M.D., Chair
John Mizuno, Vice Chair

January 30, 2008, 8:00 a.m.
Conference Room #329, Hawaii State Capitol

Testimony Supporting HB 3161 Making an Emergency Appropriation to the Hawaii Health Systems Corporation

Testimony By:
Thomas M. Driskill, Jr.
President & Chief Executive Officer

The Hawaii Health Systems Corporation (HHSC) strongly supports HB 3161/SB 3083 Making an Emergency Appropriation to HHSC.

Due to external healthcare pressures beyond our control and our mandate to meet our safety net mission for the State of Hawaii, HHSC is in the worst cash crisis we have experienced since the corporation was formed. We are unable to pay many of our vendors within a reasonable time frame. We desperately need an emergency infusion of cash in order to pay vendors and thus continue to provide services to our communities. At several of our facilities, we are approaching situations in which we may soon lose control of the operations of the facilities, because of inability to pay vendors. Essentially, we will only be able to continue to fully operate the facilities for as long as vendors will continue to provide goods and services without being paid in a timely fashion.

The purpose of this FY08 Emergency Appropriation measure, in sync with the HHSC FY09 Supplemental request, is to pay current, essential vendors, thus reducing accounts payable days and insure operation and provision of current levels of service in HHSC facilities thus affording new HHSC Corporate and Regional Governance time to gain an understanding of this situation and work with management leadership to develop a long range plan to reduce the operational cost of HHSC while still providing essential healthcare services.

We have attached several references to underscore the urgency of the current crisis, including A SPECIAL MESSAGE 'FROM OUR CORP BOARD OF DIRECTORS' TO LAWMAKERS:

"HHSC REQUIRES AN EMERGENCY APPROPRIATION", and the original spreadsheet analysis indicating our need for an Emergency Appropriation of $25.4 million (attachment 1). This initial projection was based on budgeted revenues, expenses, and cash flow projections for fiscal year 2008, but did not take into account the possibility of a $11 million commercial loan to Maui Memorial Medical Center. Subsequently, based on operations through November 2007, updated calculations indicate cash flow shortfall for fiscal year 2008 could be worse than previously forecast (please see updated spreadsheet analysis). In response to revised projections and with oversight by HHSC Governance, our five regions and corporate office are taking strong actions to improve cash flow now so that the emergency appropriation will still be adequate to cover our urgent cash requirements remaining in fiscal year 2008.

Chart 'FY 2008 Emergency Appropriation $25.4 Million By Region/Facility" shows the amounts originally submitted for nine HHSC facilities. Although it appears likely now that the $11 million commercial loan for Maui Memorial Medical Center may indeed be forth coming, if that loan does not materialize then the total need for HHSC in fiscal year 2008 would still be at $25.4 million. Any consideration for additional funding in this Emergency Appropriation would allow Maui Memorial Medical Center to use their loan, or part of their loan, for immediate implementation of the proposed open heart surgery program as opposed to use to offset current operational cost.

It is important to note that of the $25.4 million total originally requested, almost all of it is just for our three larger acute care facilities Maui Memorial Medical Center, Hilo Medical Center, and Kona Community Hospital. The severe impacts of the several health care trends and crises we already described in testimony before the Senate Committee on WAM/House Committee on Finance have had a cumulative, increasingly detrimental impact on these three facilities over the last several years. The two charts attached indicate how the losses of these three facilities have dramatically increased over the years compared to the relatively steady financial performance of the smaller HHSC hospitals that have been converted to critical access hospital (CAH) status, so that these facilities now receive full reimbursement for costs from Medicare and Medicaid (attachment 2). However, these small rural hospitals now lose money not because of inadequate government reimbursements for services rendered, but because commercial payers do not pay the full costs of care provided.

We are compelled to advise the committee that, until something is done about the external and / or internal financial pressures impacting MMMC and HMC and KCH, there will be ongoing need for substantial, very likely increasing subsidies request from the state to continue to operate these three facilities. Attached chart lists the $57 million FY09 Supplemental request HHSC submitted to the administration but that, unfortunately, has not been included in the supplemental budget request submitted to the legislature by the administration (attachment 3). This is a cumulative amount that includes the $25.4 million originally requested as FY 08 Emergency Appropriation. Our FY 09 Supplemental request can be reduced by the amount of FY 08 Emergency Appropriation funding HHSC receives including consideration of the $11 million Maui loan if indeed that transaction is ultimately culminated.

We respectively request most rapid possible action on this emergency appropriation to enable continued operations of HHSC facilities and to prevent detrimental impacts on the communities we serve. In response to your additional EA and Supplemental consideration for HHSC, both governance and management are committed to develop and return to the Administration and the Legislature not later than June 30, 2008, a long term proposal to markedly reduce future requests for state support while still maintaining essential services to communities served by HHSC.

Attachments:

1 - A SPECIAL MESSAGE TO LAWMAKERS: HHSC REQUIRES AN EMERGENCY APPROPRIATION
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY FISCAL YEAR 2008: FY 08 EMERGENCY APPROPRIATION = $25,442,000
CASH FLOW SURPLUS(DEFICIT) BY FACILITY FISCAL YEAR 2008: Projected A/P @ 6/30/08 = $70,687,000
2 – Historical Operating Income (Loss) Trending, Fiscal Years 1998-2008 and Historical % of Total Operating Loss, Fiscal Years 2001-2008
3 – FY 2009 $57 Million Supplemental Operating Budget Submission
4 - Article "Still worried about money", Modern Healthcare, January 7, 2008

3675 KILAUEA AVENUE • HONOLULU, HAWAII 96816 • PHONE: (808) 733-4020 • FAX: (808) 733-4028

HILO • HONOKAA • KAU • KONA • KOHALA • WAIMEA • KAPAA • WAILUKU • KULA • LANAI • HONOLULU

A SPECIAL MESSAGE TO LAWMAKERS:

HHSC REQUIRES AN EMERGENCY APPROPRIATION

1. In the spring of 2007, the Hawaii Health Systems Corporation, after negotiation with the State Budget and Finance Department, presented a biennium budget for approval, which had the support of the regional management and HHSC staff but which required that significant revenue gains were achieved and that costs were held at the level that existed at the time the budget was prepared. It was appreciated by all concerned that it was an aggressive budget.

2. In any event, the revenue gains were not achieved (see attached chart) and a series of unbudgeted costs had to be accommodated (see attached chart) and thus there is an unbudgeted cash deficit in the current fiscal year.

3. HHSC and regional management have reacted by slowing payment to suppliers thus bringing the accounts payable to an unacceptable level and putting basic supplies in jeopardy (see attached chart), cost reductions to the extent possible without reduction in patient care or patient safety and holding off all possible expenditures. However, the ability to manage these costs has now run out and the cash situation for the organization has reached a crisis point. The cash deficit to get accounts payable to an acceptable 30 days level is $25.4M.

4. The Legislature, the Administration, and HHSC recognized this issue in 2006 and through legislative action, supported by HHSC and the Administration, a new board structure was proposed, planned, and recently executed. The new Corporate and Regional Boards believe this strategic direction and structure will allow the system to have both better control and simpler, transparent reporting, thus allowing the development of an optimum system that would be better able to respond to Hawaii's healthcare needs. However, it is appreciated by all involved that this occurs at a difficult time for health care in Hawaii, the USA, and worldwide. This evolution (of the new system) has commenced but it will take time.

5. In the meantime, Hawaii's public healthcare system, as directed and managed by HHSC, requires an urgent injection of cash ($25.4 million) to allow it to keep operating. There may be some partial options as to the source of these funds (e.g., Maui Loan proposal), but the need is URGENT since the money cannot come from operating revenues.

6. HHSC management, as directed by the new Corporate and Regional Boards, undertakes to complete by June 30, 2008, a Corporate Strategic Plan, which will be supported by respective regional plans and budgets. This plan will be presented to the Administration and the Legislature for review, comment, and approval. The Plan will provide the means to measure results and assess "success/failure." It is apparent that there may be areas where HHSC has limited ability to influence critical issues, but these will be identified and possible approaches to change this will be proposed. It is likely that an "Interim Strategic Plan" may need to be implemented to provide clear direction for the next six months. At the same time, HHSC is assessing its ability to develop this as a matter of urgency.

Hawaii Health Systems Corporation

Summary of Cash Shortfall

After a review of the consolidated balance sheet, income statement and cash flow statement, we offer these comments for your consideration.

The problem with cash, or lack thereof, existed at the end of the prior fiscal year, 6/30/07. At that time, Accounts Payable and Accrued Liabilities account on the balance sheet had a balance of $56,805,000. Of the $56,805,000, Accounts Payable total was $32,293,000. Aging of Accounts Payable was 75 days.

The cash problems were further exacerbated in the subsequent 4 months (through 10/31/07) by a loss of $27.2 million. This loss exceeded budget by $5 million.

At the end of November, HHSC had received $53,612,232 general fund subsidy IN ADVANCE of budget in order to pay down the $72.8 million balance of A/P and Accrued Expenses. After pay-down, the balance in the A/P and Accrued Expense account at 10/31 was $47,052,000 and aging reduced only slightly from that of June, 2007.

HHSC's projected operating cash flow deficit of $49,184,000 indicates there will be a need for an additional cash infusion of $25.4 million.

FY 2008 Emergency Appropriation $25.4 Million By Region/Facility

- Oahu Region:
  - Leahi $ 199,000
  - Maluhia $ 482,000
- Kauai Region:
  - WKMC -0-
  - SMMH $ 214,000
- Maui Region:
  - MMMC $ 10,687,000
  - Kula -0-
  - Lanai $ 489,000
- East Hawaii Region:
  - HMC $ 7,934,000
  - HHH -0-
  - Kau $ 6,000
- West Hawaii Region:
  - KCH $ 5,347,000
  - Kohala $ 84,000

HAWAII HEALTH SYSTEMS CORPORATION
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY
FISCAL YEAR 2008

	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	TOTAL
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
DHS Direct Payments to Hospitals	1,953	2,181	1,500							1,177	689			7,500
Payroll Cash Requirements	(72,791)	(85,332)	(37,475)	(18,376)	(6,326)	(3,564)	(3,496)	(13,076)	(2,028)	(17,550)	(14,165)	(10,140)	(7,256)	(291,575)
Non-Payroll Cash Requirements	(41,282)	(59,748)	(20,916)	(13,763)	(2,580)	(1,651)	(1,329)	(3,133)	(1,500)	(3,839)	(3,235)	(5,796)	(1,096)	(159,868)
Operating Cash Flow Deficit	(9,944)	(3,270)	(5,091)	(5,657)	(1,210)	(1,355)	(794)	(1,189)	(1,548)	(5,052)	(4,686)	(1,536)	(7,852)	(49,184)
Appropriations from State of Hawaii	13,123	7,979	6,892	6,363	2,031	1,396	900	1,618	1,460	5,310	4,823	1,717	-	53,612
Financing of Alii Community Care	(308)	(393)	(161)	(87)	(26)	(14)	(13)	(43)	(9)	(58)	(46)	(42)	-	(1,200)
Noncapital Financing Cash Flow Surplus	12,815	7,586	6,731	6,276	2,005	1,382	887	1,575	1,451	5,252	4,777	1,675	-	52,412
Repayments on Capital Lease Obligations-Current	(2,039)	(4,140)	(2,261)	(702)						(2)	(164)	(191)	(927)	(10,426)
Repayemnts on Capital Lease Obligations-Future	(158)	(277)	(92)	(60)	-	-	-	-	-	(29)	-	-	-	(616)
Capital and Related Cash Flow Deficit	(2,197)	(4,417)	(2,353)	(762)	-	-	-	-	-	(31)	(164)	(191)	(927)	(11,042)
Allocation of Corporate Office Costs	(2,251)	(2,872)	(1,177)	(636)	(193)	(101)	(97)	(315)	(67)	(425)	(339)	(306)	8,779	-
Cash Flow Deficit by Facility	(1,577)	(2,973)	(1,890)	(779)	602	(74)	(4)	71	(164)	(256)	(412)	(358)	-	(7,814)
A/P @ 6/30/07	9,750	12,592	5,179	192	121	68	189	125	441	259	336	307	2,734	32,293
Projected A/P @ 6/30/08	11,327	15,565	7,069	971	— (481)	142	193	54	605	515	748	665	2,734	40,107
FY 08 Budgeted Non-Payroll Expenses	41,282	59,351	20,951	13,762	3,216	1,652	1,329	3,133	1,415	3,839	3,239	5,493	1,096	159,758
Divided by 365	365	365	365	365	365	365	365	365	365	365	365	365	365	
FY 08 Budgeted Non-Payroll Exp/Day	113	163	57	38	9	5	4	9	4	11	9	15	3	
Projected A/P @ 30 Days @ 6/30/08	3,393	4,878	1,722	1,131	264	136	109	258	116	316	266	451	90	13,130
FY 08 Emergency Appropriation	7,934	10,687	5,347	-	-	6	84	-	489	199	482	214	-	25,442
Annual Cash Collections (Budgeted)	102,176	139,629	51,800	26,482	7,696	3,860	4,031	15,020	1,980	15,160	12,025	14,400	500	394,759
Annual Cash Collections Projected Based on Collections Experience from Jul 1, 07 to Nov 30, 07	94,142	134,208	46,907	23,592	6,763	4,244	4,608	16,599	2,133	20,139	16,144	12,367	1,806	383,652
Potential FY 08 Cash Collections Shortfall (Surplus)	8,034	5,421	4,893	2,890	933	(384)	(577)	(1,579)	(153)	(4,979)	(4,119)	2,033	(1,306)	11,107

NOTE: Shortfalls in collections could increase HHSC requirements for FY 08 emergency funding by up to $11,107,000.

1/18/2008

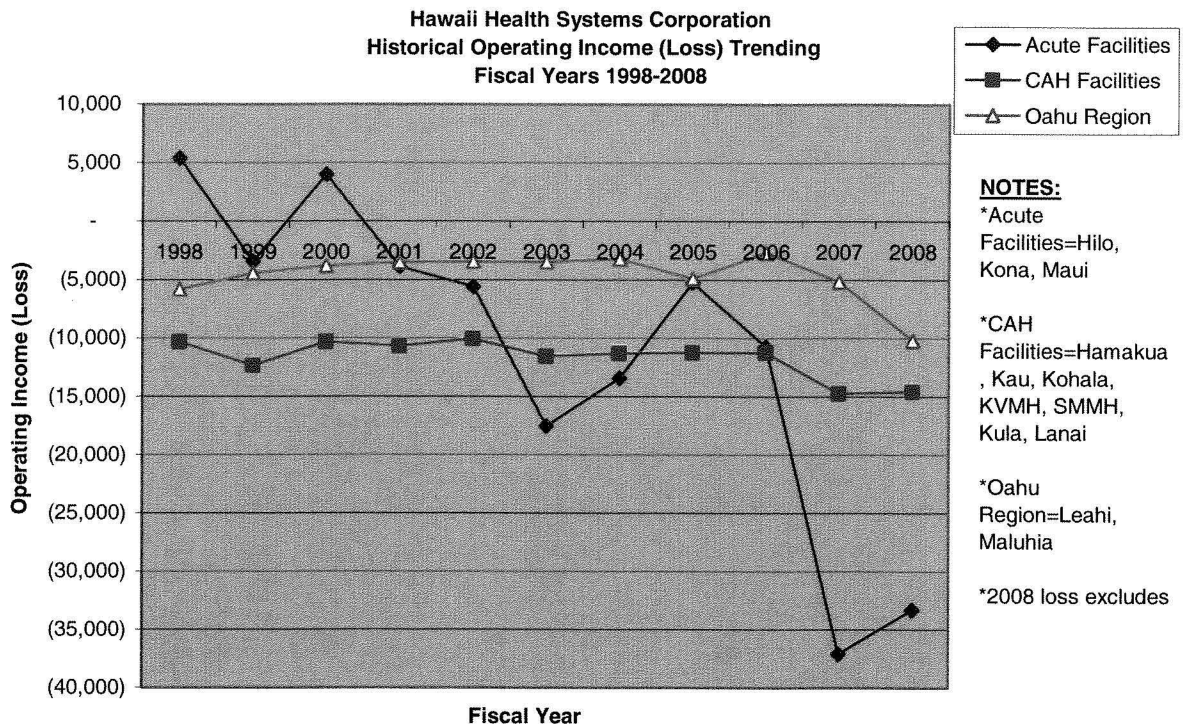
000113

HAWAII HEALTH SYSTEMS CORPORATION
CASH FLOW SURPLUS/(DEFICIT) BY FACILITY
FISCAL YEAR 2008

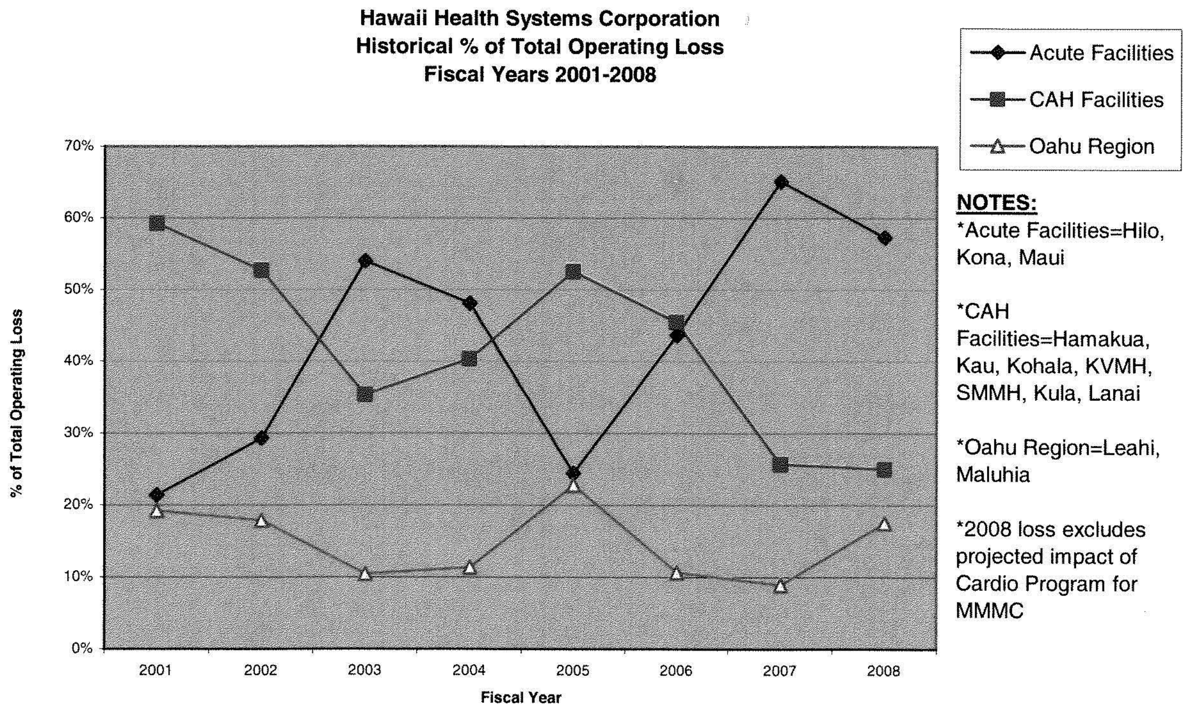
	HILO	MAUI	KONA	KVMH	HAMAKUA	KAU	KOHALA	KULA	LANAI	LEAHI	MALUHIA	SMMH	CORP	HHSC TOTAL
Cash Collections (Budgeted 12/07-6/08)	59,346	75,359	31,300	16,236	4,489	2,242	2,401	8,764	1,145	8,835	7,025	8,400	292	225,834
DHS Direct Payments to Hospitals	930	1,111	619							590	216			3,466
Payroll Cash Requirements (Budgeted 12/07-6/08)	(43,029)	(49,777)	(21,975)	(10,870)	(3,690)	(2,079)	(2,044)	(7,626)	(1,183)	(10,415)	(8,265)	(5,915)	(4,235)	(171,103)
Non-Payroll Cash Requirements (Budgeted 12/07-6/08)	(24,359)	(34,853)	(12,616)	(8,317)	(1,505)	(959)	(769)	(1,827)	(875)	(2,289)	(1,925)	(3,381)	(640)	(94,315)
Operating Cash Flow Deficit	(7,112)	(8,160)	(2,672)	(2,951)	(706)	(796)	(412)	(689)	(913)	(3,279)	(2,949)	(896)	(4,583)	(36,118)
General Fund Appropriations from State of Hawaii	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective Bargaining Funding	1,413	1,770	700	313	122	72	83	285	45	388	291	188	62	5,732
Financing of Alii Community Care	(180)	(229)	(94)	(51)	(15)	(8)	(8)	(25)	(5)	(33)	(27)	(25)	-	(700)
Noncapital Financing Cash Flow Surplus	1,233	1,541	606	262	107	64	75	260	40	355	264	163	62	5,032
Repayments on Capital Lease Obligations-Current	(1,709)	(2,400)	(1,441)	(627)						-	(96)	(111)	(505)	(6,889)
Repayments on Capital Lease Obligations-Future	(92)	(161)	(54)	(35)	-	-	-	-	-	(17)	-	-	-	(359)
Capital and Related Cash Flow Deficit	(1,801)	(2,561)	(1,495)	(662)	-	-	-	-	-	(17)	(96)	(111)	(505)	(7,248)
Allocation of Corporate Office Costs	(1,289)	(1,644)	(674)	(364)	(110)	(58)	(55)	(180)	(39)	(244)	(194)	(175)	5,026	-
Cash Flow Deficit by Facility	(8,969)	(10,824)	(4,235)	(3,715)	(709)	(790)	(392)	(609)	(912)	(3,185)	(2,975)	(1,019)	-	(38,334)
A/P @ 11/30/07	8,705	13,321	5,090	1,188	250	85	52	600	45	135	191	328	2,363	32,353
Projected A/P @ 6/30/08	**17,674**	**24,145**	**9,325**	**4,903**	**959**	**875**	**444**	**1,209**	**957**	**3,320**	**3,166**	**1,347**	**2,363**	**70,687**
Projected A/P @ 30 Days @ 6/30/08	3,393	4,878	1,722	1,131	264	136	109	258	116	316	266	451	90	13,130
Projected Days in A/P @ 6/30/08 ($70,687K)	**156**	**148**	**162**	**130**	**109**	**193**	**122**	**141**	**247**	**316**	**357**	**90**	**787**	**161**

NOTE:
Change in projection of accounts payable balance at 6/30/08 is due to:
[1] FY 08 budget anticipated receiving $10M from the start of the Maui Cardiovascular program. It does not appear that this program will be able to be implemented prior to the start of fiscal year 2009.
[2] FY 08 budget anticipated receipt of the full $53.6M in general fund appropriations in cash. With HHSC having to pay back $10M out of its FY 08 general fund appropriations to repay an advance made to HHSC in June 2007, FY 08 projected cash flow is short by $10M.
[3] FY 08 operating revenues through November 2007 have been approximately $11M behind budget, which has had a negative impact on cash collections through November 2007 and will continue to be felt through the rest of fiscal year 2008.

000114



Hawaii Health Systems Corporation
Historical Operating Income (Loss) Trending
Fiscal Years 1998-2008
Acute Facilities
CAH Facilities
Oahu Region
10,000
5,000
-
(5,000)
(10,000)
(15,000)
(20,000)
(25,000)
(30,000)
(35,000)
(40,000)
Operating Income (Loss)
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Fiscal Year
NOTES:
*Acute Facilities=Hilo, Kona, Maui
*CAH Facilities=Hamakua , Kau, Kohala, KVMH, SMMH, Kula, Lanai
*Oahu Region=Leahi, Maluhia
*2008 loss excludes



Hawaii Health Systems Corporation
Historical % of Total Operating Loss
Fiscal Years 2001-2008
Acute Facilities
CAH Facilities
Oahu Region
70%
60%
50%
40%
30%
20%
10%
0%
% of Total Operating Loss
2001
2002
2003
2004
2005
2006
2007
2008
Fiscal Year
NOTES:
*Acute Facilities=Hilo, Kona, Maui
*CAH Facilities=Hamakua, Kau, Kohala, KVMH, SMMH, Kula, Lanai
*Oahu Region=Leahi, Maluhia
*2008 loss excludes projected impact of Cardio Program for MMMC

FY 2009 $57 Million Supplemental Operating Budget Submission - Totals by Facility/Region

HMC:	$17, 528	MMMC:	$ 21,735	KCH:	$10,436
HHH:	443	KULA:	318	Kohala:	695
KA`U	358	LANA`I:	728		

East HI: $18,329   Maui Region: $22,781   West HI Region: $11,131

WKMC:	$ 1,684	LEAHI:	$ 975
SMMH:	1,078	MALUHIA:	1,017

Kauai Region: $ 2,762   Oahu Region: $ 1,992

The Week in Healthcare

EXECUTIVES *Melanie Evans*

Still worried about money

Fiscal woes lead ACHE survey of execs' concerns

Financial challenges, such as rising labor costs and bad debt, again ranked as the top concern for hospital chief executive officers, according to a yearly survey by the American College of Healthcare Executives.

Providing care to uninsured patients—which CEOs have listed among the top three challenges for the past three years—placed second, followed by hospitals' relationships with physicians, according to the survey results, scheduled for release Jan. 7.

"Those three challenges are really the same challenge, in many ways," said Frank Byrne, president of St. Mary's Hospital, a 307-bed hospital in Madison, Wis., owned by SSM Health Care. "Really, these three concerns are all related and they're just further evidence that the shelf life" of the nation's healthcare financing is "reaching its expiration date," he said. "The current method of healthcare financing has been stretched to its limit and beyond."

Byrne: Top concerns are same challenge.

Care for the uninsured and poor payment from safety net programs such as Medicaid strain hospitals, Byrne said. Hospitals seek to recoup some of those losses from private insurers, but it's an unsustainable solution, he said.

St. Mary's loses roughly 36 cents for every dollar it bills Medicaid, according to the hospital.

Medicaid tied with rising costs for staff and supplies as the top issue contributing to executives' financial anxiety among the hospital CEOs polled by the Chicago-based ACHE. The mail and fax poll, conducted in the fall of 2007, asked its 390 respondents to identify specific concerns for each of the key issues hospitals face. Bad debt, or unpaid bills, ranked second among the issues underlying hospitals' financial challenges. The survey was sent to 1,080 randomly selected ACHE members, with a response rate of 36%.

"Society is turning hospitals into a safety net," said Thomas Dolan, the ACHE's president and CEO. Hospital executives' anxiety reflects declining private coverage and uncertainty over how the federal deficit could affect tax-financed

POLICY *Jennifer Lubell*

Looking for more changes

Lobbyists, docs find good, bad in new Medicare bill

Hospital industry lobbyists this year are seeking to tie up the loose ends that the Medicare bill signed by the president in late 2007 left dangling.

There are several moratoriums hospitals want to see extended this year that could affect the way they get paid under Medicaid and for higher education, plus they want to see a moratorium on physician-owned specialty hospitals put in place. Physicians, in the meantime, didn't get everything they wanted under the new law either; a 10% Medicare pay cut to physicians expires on July 1, leaving Congress to seek another temporary solution before that deadline (See related story, p. 32).

The industry did win a few victories under the new law, which was pared down from earlier versions in the interest of making it veto-proof. For example, it contained a measure that will allow hospitals to recoup more dollars for their inpatient rehabilitation patients, and it extends several rural health provisions meant to aid small, out-of-the-way hospitals. Long-term acute-care hospitals also got a reprieve from potential pay cuts (Dec. 24/31, 2007, p. 8).

But there were a number of provisions in the $4.6 billion package that didn't make it into the bill "that we'd like to see get some attention this year," said Richard Pollack, executive vice president of the American Hospital Association.

In particular, the AHA will pursue the extension of a moratorium issued under the Iraq war supplemental package on a series of Medicaid regulations that expires on May 25.

The stopgap measure among other things prevents the CMS from implementing several regulations, one of which would eliminate financial support for graduate medical education payments under Medicaid.

On stopping the graduate medical education cuts, "we're going to pursue it as aggressively as we can" in Congress this year, said Dick Knapp, executive vice president of the Association of American Medical Colleges. The CMS estimates this measure would generate a savings of $1.8 billion to the federal government over five years, but it would be money "taken directly out of teaching hospitals," Knapp said.

In addition, the AHA supports legislation that would place a moratorium on the CMS' new Recovery Audit Contractor Program, as well as other efforts to provide assistance to rural hospitals, Pollack said. Recovery audit

BY THE NUMBERS

The top three factors that hamper safety efforts cited by roughly 450 hospital chief executive officers surveyed:

Factor	Percent
Not enough IT funding	51%
Staff work around, rather than fix, problems	41%
Employees uncomfortable monitoring others' work	39%

Source: American College of Healthcare Executives

insurers Medicare and Medicaid, he said. Dolan noted hospitals already struggle with losses from lower-than-cost payments from the public programs.

The American Hospital Association reported hospitals lost $18.6 billion on Medicare and $11.3 billion on Medicaid in 2006.

Dolan dismissed the notion that care for the uninsured climbed in this year's ranking as a result of presidential candidates' focus on healthcare reform. Hospital executives are far more aware than the candidates of the challenges created by the nation's uninsured. "They see the uninsured every day," he said.

Meanwhile, tension between doctors and hospitals has grown as the nation has sought to curb payments in an effort to blunt rising healthcare spending, said Byrne, who is also a physician.

That tension can put hospitals and physician at odds as they vie over market share or services, though in some markets it has fueled joint ventures, as at St. Mary's and SSM, which have two such arrangements for a clinic and health plan with Madison-based Dean Health System, he said.

CEO CONCERNS

CEOs, when asked to name their top three challenges in a survey, produced the following results:

Challenge	%
Financial challenges	70%
Care for the uninsured	38
Physician-hospital relations	35
Quality	33
Personnel shortages	30
Patient safety	29
Governmental mandates	22
Patient satisfaction	17
Capacity	11

Source: American College of Healthcare Executives

"The business complexity of practicing medicine has increased exponentially since I graduated from medical school," Byrne said. Dolan cited physician-hospital relations' drop in the rankings to No. 3 in 2007 from No. 2 a year earlier as a sign of improvement.

Also slipping in the rankings was personnel shortages, which dropped to fifth from third in 2005. Dolan said an aging workforce and rising demand for care from baby boomers means labor will continue to be a pressing issue in healthcare. "Any relief we're seeing is short-lived," he said. "It's going to come back in a big way."

For Byrne, patient safety and pressing local issues topped his list of concerns. The new year brought the opening of St. Mary's $180 million expansion. And in coming months, it will adopt an electronic medical record after significant preparation and investment. "To overstate the obvious, it's more than just throwing the switch on the computer," he said. «

contractors review Medicare claims to identify improper payments to hospitals. Contractors get to keep a percentage of the improper payments they collect from providers, which the hospital lobby views as a "bounty hunter" approach to auditing claims.

The new Medicare law also left out a hospital-desired moratorium on physician-owned specialty hospitals. "We will definitely pursue that and other issues next year," Pollack said.

How successful lobbyists will be in getting that moratorium, however, is unclear. It's expected that the AHA and Federation of American Hospitals "will come after us again" on the specialty hospital moratorium, said Randy Fenninger, Washington representative for the physician-owned-hospital lobbying group Physician Hospitals of America. In his view, the chances of enacting a moratorium are slim this year, mainly because the political dynamic in Washington hasn't changed in hospitals' favor.

Knapp: We're going to be "aggressive" about stopping these cuts.

Physician-owned specialty hospitals have been widely criticized by leaders of the Senate Finance Committee and the AHA for "cream-skimming" the healthiest patients, and because they think physician ownership represents a conflict of interest on matters of patient referral. The American Medical Association, however, has argued that specialty hospitals promote healthy competition among healthcare facilities.

But ultimately, the issues that will get Congress' attention in 2008 will be the ones with the most urgent deadlines, according to industry executives and officials.

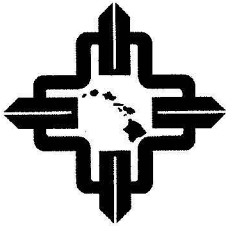
The State Children's Health Insurance Program, which limped along without a reauthorization fix in the latter part of 2007, got a healthy extension through March 2009, when Congress provided a total of $1.87 billion over the program's baseline through this period.

That extension "takes SCHIP off the table as an election issue, whereas the Medicare physician payment fix sits squarely before this Congress," said Bob Roth, a healthcare regulatory lawyer at Crowell & Moring.

It was the Republicans' intent to ensure there was enough money in that bill to take care of any potential shortfalls to SCHIP, and thus avoid another vote on the bill prior to the elections, Pollack said. "That doesn't preclude that there won't be a revisiting of SCHIP between now and the elections. But it's less likely, given that (the extension) runs through March 2009," he said.

The extra funds the law provides for SCHIP should be sufficient for states to maintain enrollment in their SCHIPs, said Matt Broaddus, a research assistant with the Center on Budget and Policy Priorities. But according to the center's analysis of the funding, "it does not appear sufficient to allow states to ... enroll significant numbers of children currently uninsured," Broaddus said. «

000118



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

"Touching Lives Every Day"

BOARD OF DIRECTORS:

Andrew Don, M.D., Chair
Maui

Barry K. Taniguchi, Vice Chair
East Hawaii

Raymond S. Ono
Secretary/Treasurer
Oahu

Shawn Cannon, RN
West Hawaii

Avery B. Chumbley
Maui

Chiyome L. Fukino, M.D.
Department of Health
Ex-Officio

Roger K. Godfrey
Oahu

Rosanne Harrigan, Ed.D.
Oahu

Catherine L. N. Kim
Maui

Barry T. Mizuno
East Hawaii

Clifford L. Nakea, Esq.
Kauai

M. Jean Odo
Kauai

William L. Shankel, M.D.
Physician Rep.

Gerald S. Tomory, M.D.
Physician Rep.

Richard J. Vidgen
West Hawaii

The House of Representatives
Committee on Health
Josh Green, M.D., Chair
John Mizuno, Vice Chair

January 30, 2008, 8:00 a.m.
Conference Room #329
Hawaii State Capitol

Testimony Supporting HB 3161 Making an Emergency Appropriation to the Hawaii Health Systems Corporation

Testimony of Finance Information Systems and Audit Committee
HHSC Corporate Board of Directors

Thank you for the opportunity to present information as a representative of the HHSC Corporate Board, and more particularly, as Chair of the Board's Finance Information Systems and Audit Committee (FISAC). The following has been approved by this committee.

1. The FISAC committee believes that the passage of this emergency bill to make up the unbudgeted cash flow deficit and get accounts payable in control is the most critical issue facing HHSC at present. This is needed to allow HHSC to operate over the next 6 months. We are assuming that the funding which this bill proposes will be supplemented by an operating loan which is being negotiated by Maui Memorial Medical Center and the Maui Region. In the unlikely event that this loan does not close then the funding from this EA will need to be increased by the amount of the proposed loan of $11 million. In making the request for this funding the FISAC committee of HHSC is completely aware of its undertaking to the Administration and the Legislature to propose a new Strategic Plan for the corporation that will move us to improved fiscal control of operations and to

3675 KILAUEA AVENUE • HONOLULU, HAWAII 96816 • PHONE: (808) 733-4020 • FAX: (808) 733-4028

optimize the impact of the System Restructure enacted by law in 2007. We recognize that the necessary changes will take time and that funding to allow operations to continue in the meantime is urgently required.

2. We wish to address with you our current assessment of the overall position and to get what we see as the critical issues on the table.

3. First we need to briefly cover the issue of how we view our role, which we take very seriously and believe is critical to the survival of HHSC.

We have had many meetings as a committee since our appointment in November. In addition we have also had a significant amount of involvement in briefings, email and telephone discussion, and regional and corporate meetings and activities. It is fair to say we are alarmed at the critical financial situation in which we are now involved. While we want to say that we cannot accept any responsibility/accountability for the past activities except that 'blame' has to be accepted by ALL in Hawaii who have allowed the current structure and system to develop and decline. We are not attempting to assess blame as we can not effectively do this, and it would not be a fruitful exercise anyway. Suffice to say we have a structure and system that is currently not fitting the expected service and economic design and has not for some time. In fact it is very much a "square peg" situation that does not work and cannot work as it is. We see the situation as very serious and challenging but we do accept that it is our responsibility to propose ways in which it can be significantly improved. This will take time but the committee, as part of the Board of HHSC, is prepared to tackle it on the condition and assumption that we will have the strong support of both the legislature and the administration in this task. We have the assurance from HHSC Senior management that we have their support.

4. We have had both open and "Executive" sessions with the External Auditor Deloitte & Touche and have their assurance (which we accept) that there is no reason to believe that any of the financial reports are not reasonably representing the situation. We have some concerns about the resources for effective financial control (and they do as well) but to the extent of the reports currently available we accept that they are correct. We accept that there has been criticism of the recent use of only one Audit firm for the Corporation and it is our intent to encourage a change through the 'aggressive' use of the RFP process for this role.

5. We do believe that there is a problem which has been variously described as "communication", lack of transparency", "lack of information", which we think are merely symptoms of the real problem which is that the system structure (i.e. a Quasi State Department supposedly acting as a Private Business) has not fitted either the State or a Private Business model and is thus just a hybrid that uncomfortably tries to fill the State Health Care

role. It has all of the State Department restrictions, rules and limitations that tend to restrict productivity incentives and thus profit possibilities. The system has no effective Strategic Plan (and certainly not one that has been approved by the Leg or the Administration), and thus it is always difficult or impossible to judge what is/is not being achieved in the already difficult and changing world of health care. This leads us to identify some of the areas of greatest concerns and where the system 'misfit' is most apparent.

These are......(not in any priority order)

a. Salary Structure which is significantly higher than other State systems (and thus a great focus for its detractors) and yet it is well below national or other Hawaii Health Care comparatives. In fact the 2007 (independent) Mercer survey recommends a minimum 10% raise across the board which, given the financial situation, is obviously unacceptable. However we are recommending to the board that a careful and in depth review of this structure relative to the aims of a Strategic Plan be undertaken.

b. The implications of a mainly (Government Employee union workforce. "Local knowledge" suggests, and an external (audit firm) review confirms, that in general the low productivity and no incentive structure has a significant limitation and major cost to the system. The vast majority of what are normally 'hourly paid' workers are regarded as 'salaried' (even though they qualify for overtime) and thus subject to extensive paid time off in a system which leaves itself open to abuse.

c. Hospital Assets. These are generally old, mainly in poor condition, and, as part of the 'sugar legacy' largely located in the wrong areas.

d. Reimbursements. Medicare, Medicaid, and private insurers inadequately reimburse for services rendered. We believe that this aspect of the operations requires a great deal more focus from both an internal control viewpoint and externally to change the system. It is apparent that this current situation puts HHSC in particular (and Hawaii in general) at a significant (impossible) disadvantage. In short, somebody has to pay the increasing costs of Healthcare and HHSC and Hawaii are starting out well behind!

e. Focus. A review of the salary structure clearly confirms an assessment of the auditor that there is a lack of focus on Financial control and a shortage of effective resources to handle this. We have to believe that more focus and control in this area will significantly improve (d) above.

6. We do believe that the New Corporate Board and Regional Board structure that the legislature passed last year and the administration supported will lead to changes in the Corporate and Regional structures that will enhance operations. This will not happen quickly but it will happen with pressure from the Corporate board which we will undertake to maintain. The Strategic Planning Process has started and we will ensure that this is treated as a matter of extreme urgency so that a Plan is completed and approved ahead of our original (mid year) schedule.

7. As a start to this process we (FISAC Committee) have asked the HHSC Executive to require the Regional CEO's and the Corporate management to come up with their individual priority lists and actions to improve cash flow in the short term (6 months). This exercise has been completed and this committee, through the Internal Auditor and the Executive will be tracking progress against this plan and seeking further improvements in cash flow as we move along.

8. As above the Strategic Planning Process at a corporate level is underway and this will also allow Regional Boards to undertake Plans for their individual Regions. This committee and the Corporate Board strongly believes that the new regional System must take control and quickly to optimize its impact.

This is our position assessment at present. We do not have the answers but we are undertaking and working to get them and we do intend to completely involve all of the key players in this exercise. (Legislature, Administration, Regions, and Unions) In the meantime the emergency funding position is critical and we seek your support for this measure to allow us to move into a better future.

We request a swift passage of this emergency appropriation measure. Thank you.

Finance Information Systems and Audit Committee:

Rick Vidgen, Chair

Barry Mizuno

Barry Taniguchi

Avery Chumbley

Ray Ono

Roger Godfrey