

HAWAII HEALTH SYSTEMS
C O R P O R A T I O N
"Touching Lives Every Day"

The Senate Committee on Health
The Senate Committee on Labor

Informational Briefing

January 30, 2009



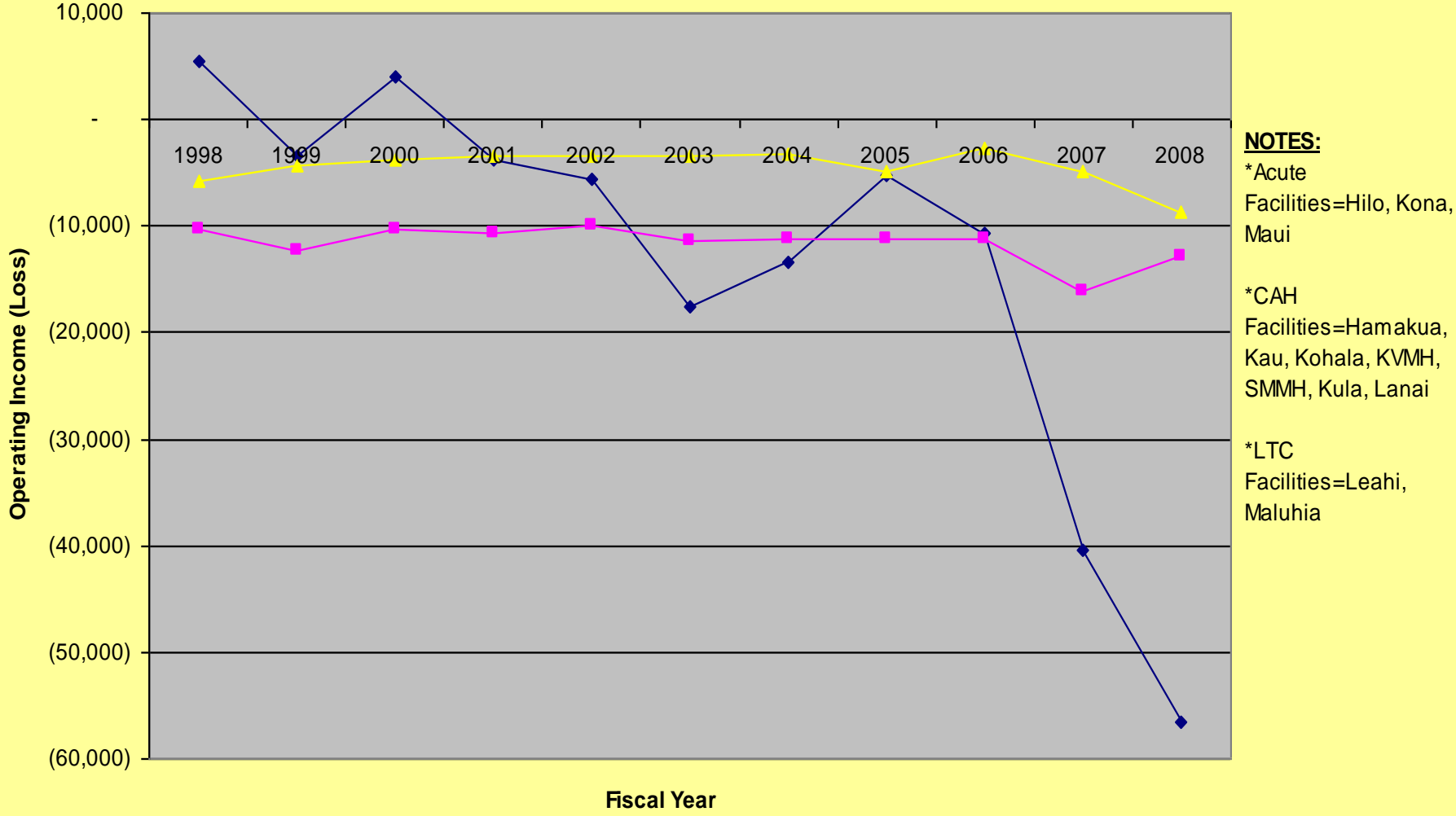
HEALTHCARE CONCERNS TODAY AND TOMORROW

- Healthcare is in crisis today in the USA/Hawaii and its not going to get better
- Hawaii has unique healthcare delivery problems
- Public health is taking on more and more of the burden
- Quality Patient Care is HHSC's hospitals' "core" business

Five Primary Reasons Why HHSC Hospitals are Losing \$

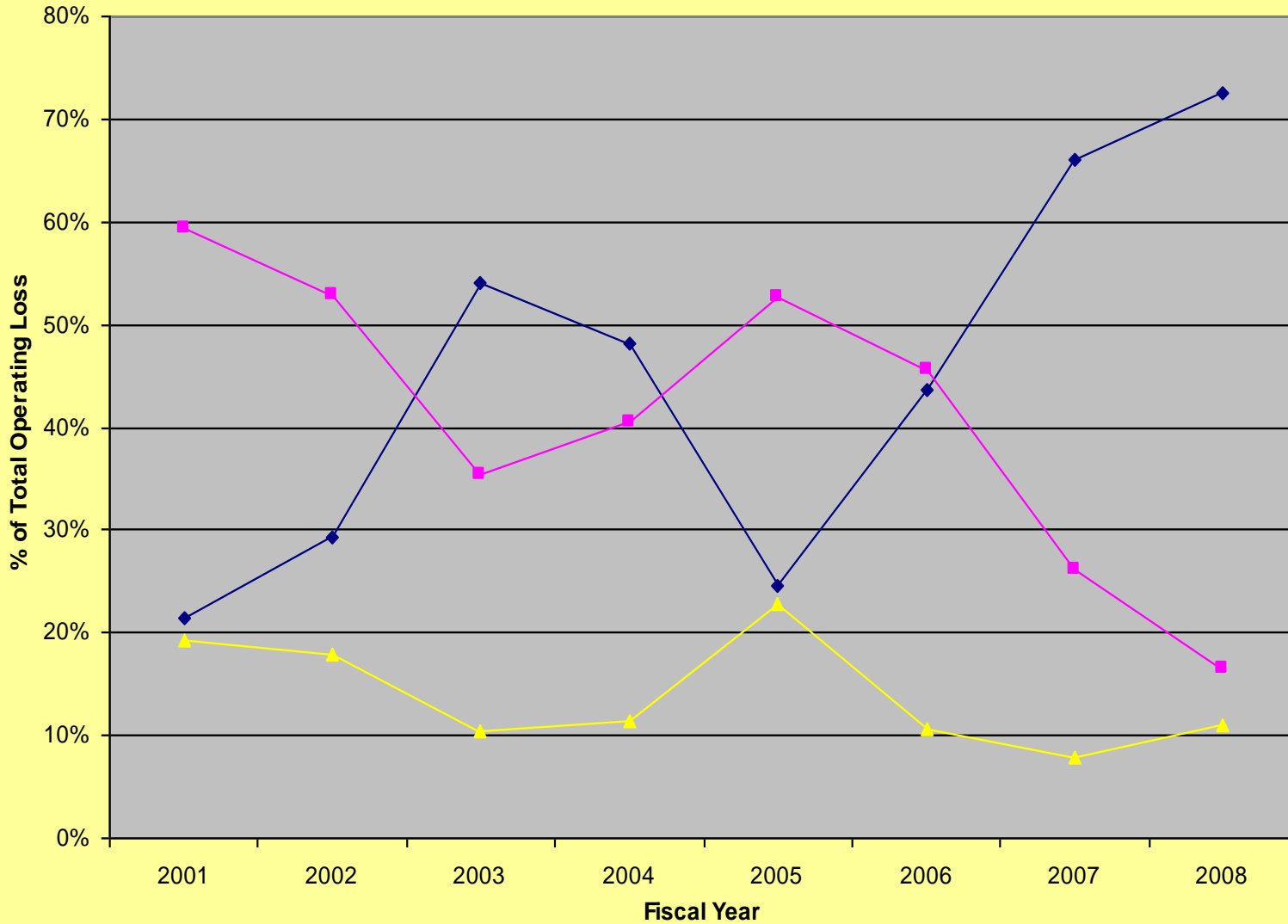
1. No Medicaid Disproportionate Share Hospital Funding
2. Under-Reimbursement for Services Provided
3. Wait-List Problem
4. Physician Call Coverage and Recruitment Cost
5. Cost of Operating as a State Agency

Hawaii Health Systems Corporation Historical Operating Income (Loss) Trending Fiscal Years 1998-2008



NOTES:
 *Acute Facilities=Hilo, Kona, Maui
 *CAH Facilities=Hamakua, Kau, Kohala, KVMH, SMMH, Kula, Lanai
 *LTC Facilities=Leahi, Maluhia

Hawaii Health Systems Corporation Historical % of Total Operating Loss Fiscal Years 2001-2008



NOTES:

* Acute
Facilities=Hilo,
Kona, Maui

* CAH
Facilities=Hamakua,
Kau, Kohala, KVMH,
SMMH, Kula, Lanai

* LTC
Facilities=Leahi,
Maluhia

FY 07 & FY 08 Were Difficult Years

- HHSC needed \$10 million to complete FY07:
\$10 million advanced from FY08
- HHSC needed \$25 million to complete FY08:
\$14 million EA + \$11 million private loan for Maui
- No solution in place for existing high accounts payable balances

Act 290

- Good for Governance BUT no relief on financial/management constraints
 - Consider Act 290 to be a work in progress
 - More substantive change is needed to improve efficiency/reduce costs

In FY 09 Difficulties Continue

- NO supplemental or EA approved for FY09 = \$62 million shortfall + 4% cut on FY09 General Fund Appropriation
- Contingency plans implemented
- No solution in place for existing high accounts payable balances

Paint the Picture

- Excessively high accounts payable balances
- Extensive hiring restrictions
- Management pay freeze
- Travel restrictions
- Deferred equipment purchases
- Deferred facility maintenance

Financial Squeeze



Inadequate Reimbursements



Lower General Fund Subsidy each year to cover safety net services, after deducting the carry over collective bargaining funds from the prior years'

HHSC OPERATING NET LOSS



Higher Payroll Costs due to fixed payroll cost and higher than normal fringe benefits rates



Higher safety net cost due to increases in self-pay patients as a result of the poor economic conditions



FY09 Contingency Plan/Budget Updates

- Corporate
- Oahu
- Kauai
- East Hawaii
- West Hawaii
- Maui



Fiscal Year 2010

- HHSC Requested \$117.5 M
- Admin Approved \$ 82.5 M + \$1.5 for Kahuku
- Total Budget \$556 M



Fiscal Year 2011

- HHSC Requested \$113.5 M
- Admin Approved \$ 82.5 M + \$1.5 for Kahuku
- Total Budget \$575 M

Items for HHSC Negotiations With HGEA and UPW

- Paid time off (PTO)
- Salary to hourly
- Flexibility in scheduling needed for census changes
- Sick leave
- Computation of overtime
- Other pay issues

2009 Proposed Legislation

- Need changes in internal structure, labor and reimbursements to help reduce losses
- State subsidy can be reduced if major changes are implemented
- Support will always be needed for safety-net services.
- No single answer
- Six (6) HHSC proposed bills – descriptions follow

Criminal Background Checks

- Bill further defines and allows HHSC to perform criminal checks on all existing employees, prospective contractors and vendors via the Hawaii Criminal Justice Data Center (FBI checks)
- Currently, HHSC conducts criminal record checks on all prospective employees, volunteers & students and would like to expand to existing employees.
- Healthcare statutes and regulations require our hospitals to protect patients and employees from abuse and neglect



Grandfathering

- Status quo for all existing HHSC employees
- HHSC remains a public benefit corporation and a public sector jurisdiction employer
- New employees will be placed in two new bargaining units whereby the exclusive representatives and employer will bargain on wages, hours, contributions to benefit and health plans, new retirement plan and other terms and conditions of employment
- HHSC responsible for costs of running new personnel system; HHSC Corporate and Regional Boards have the only Employer votes for bargaining
- Unions have the right to strike versus mandatory arbitration

Outsourcing

- HHSC is requesting authority to outsource services currently performed by civil service bargaining unit employees
- Outsourcing when appropriate may enhance the operational efficiency and/or provide cost savings
- Outsourcing services will be equivalent to or greater than currently provided at potentially lower costs; specialty companies have better expertise, technology and resources to perform the function at less cost; management can focus its efforts/attention on more direct/bedside patient care services

Levels of Service

- Only applies to substantial reduction or elimination of direct patient care services
- Need accelerated decision authority to respond to urgent situations and/or financial shortfalls
- Current process places decision authority with legislature
- Proposed process places decision authority upon regional system board with public input and corporate board notification
- Proposed process still gives legislature final prerogative to reverse decision



Critical Access Hospitals/Federally Qualified Health Centers Reimbursement

- 3rd party health insurance companies/mutual benefit associations currently do not reimburse CAHs/FQHCs at Medicare level
- CAHs/FQHCs lose \$'s on provision of care to patients with 3rd party health insurance
- Proposal is for 3rd party health insurance companies/mutual benefit associations to pay CAHs/FQHCs at Medicare levels
- Approximate annual value to CAHs = \$5M and to FQHCs = \$7.3M

Enabling

- Enable HHSC facility or region to remain in HHSC federation but restructure into separate corporation
- Enable HHSC facility or region to form a business partnership with a private corporation

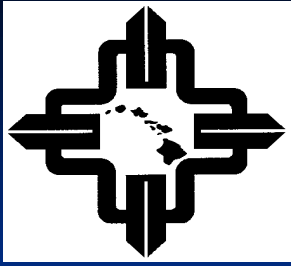


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Q & A

Thank You



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Supplemental Information

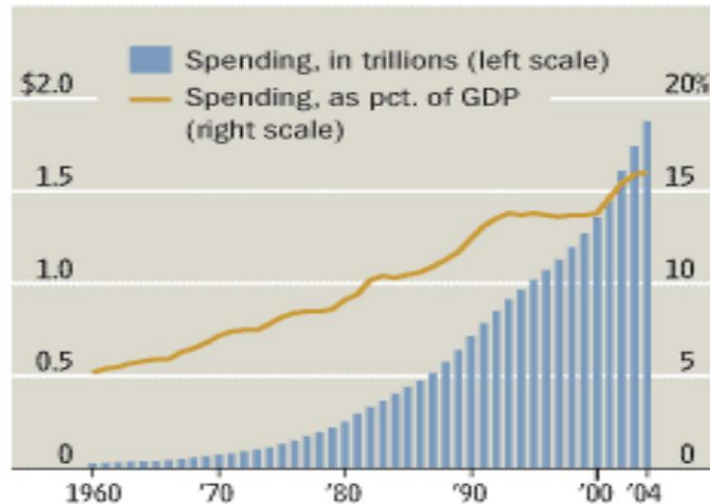
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Rising Costs of Healthcare

- **Private Health Care Insurance Up 35 % 1996 – 2000**
(vs. 12% social security COLA adjustments)
- **By 2015 Total U.S. Healthcare Spending Expected to Double to \$4 Trillion**

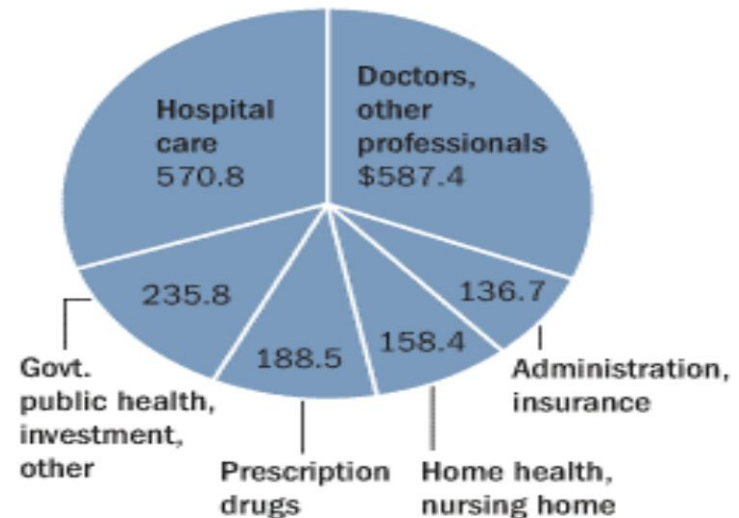
Health-Care Spending, American-Style

Up, up and still up



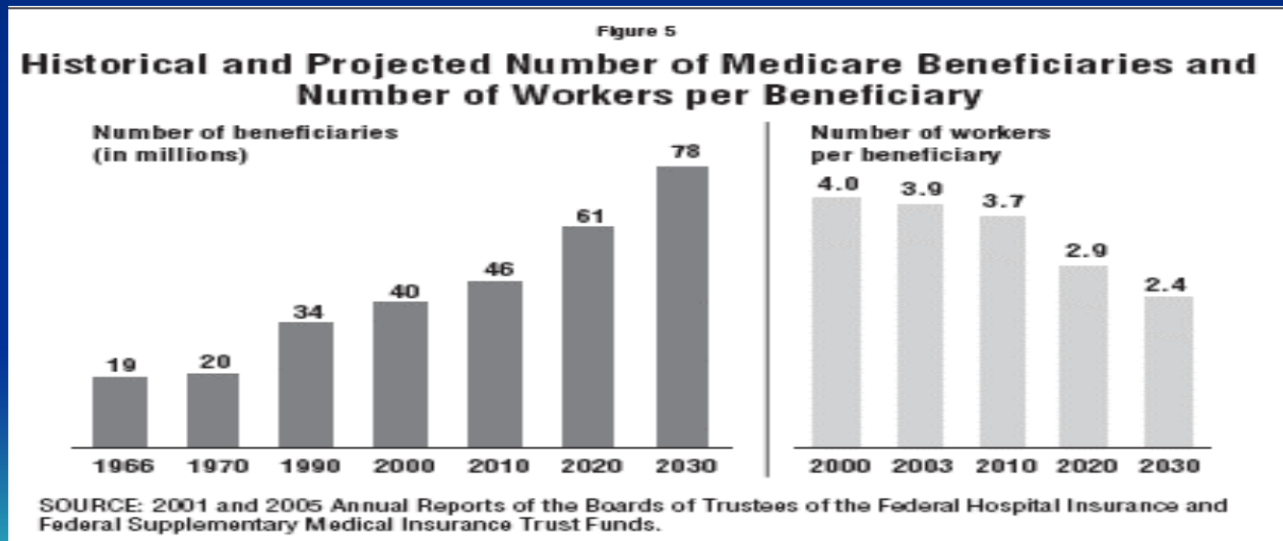
Source: Centers for Medicare & Medicaid Services

Where the money goes, in billions

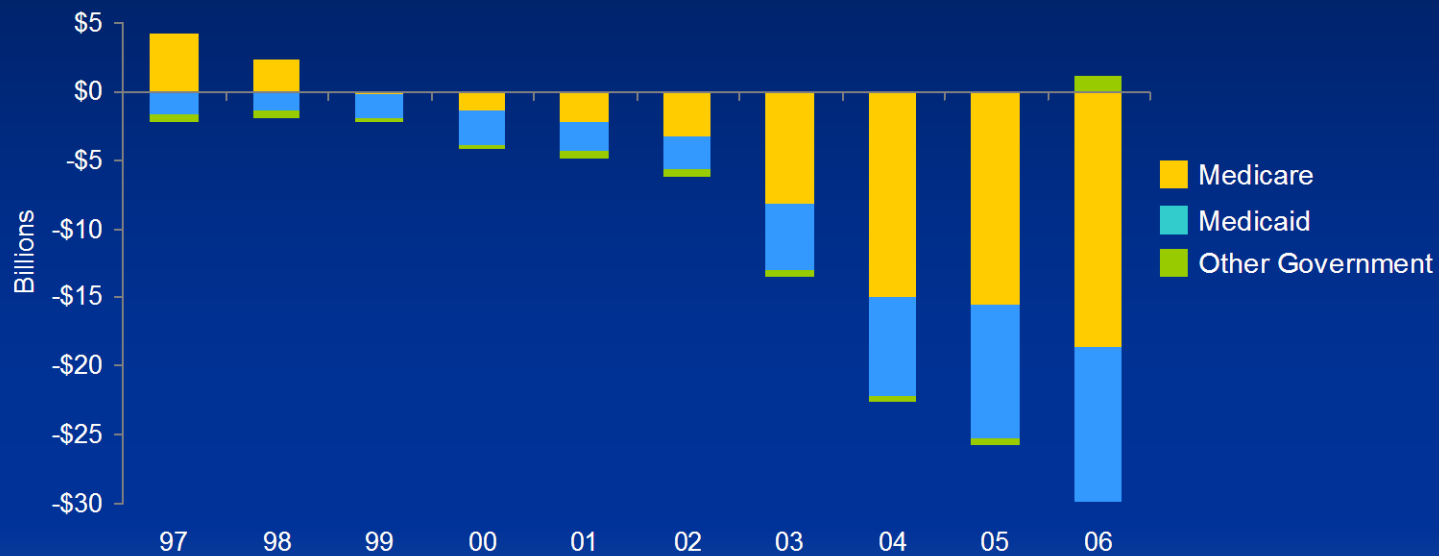


Medicare to Go Broke by 2018

- Increased Costs
- New Medicare Drug Benefit (Part “D”)
- Medicare Eligibles Growing/Payers Shrinking



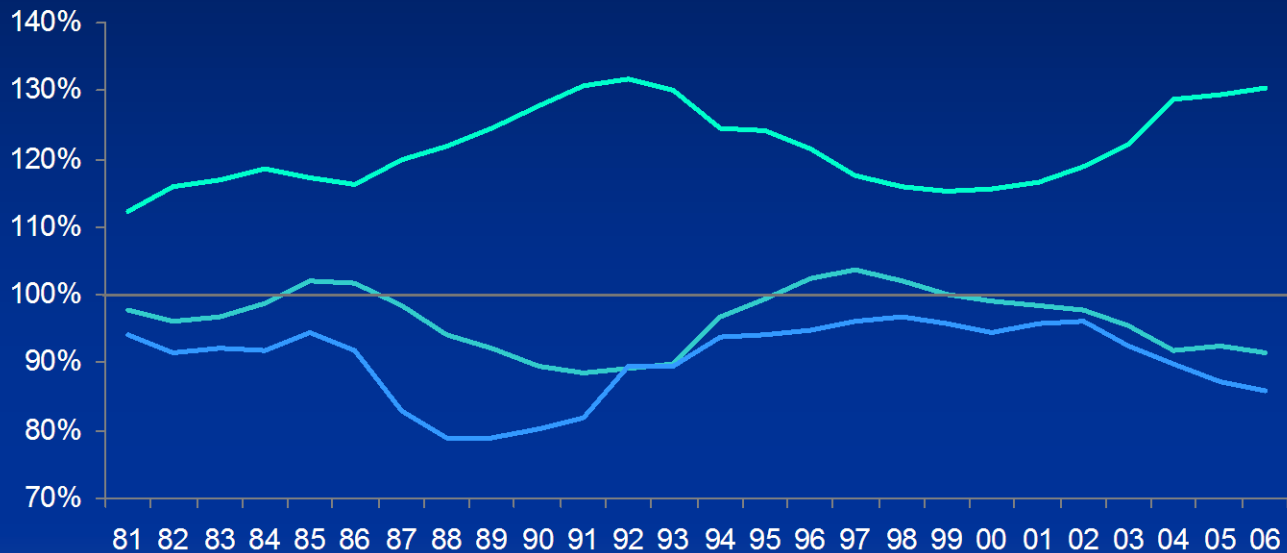
Hospital Payment Shortfall Relative to Costs for Medicare, Medicaid, and Other Government, 1997 – 2006⁽¹⁾



Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.

⁽¹⁾Costs reflect a cap of 1.0 on the cost-to-charge ratio.

Aggregate Hospital Payment-to-cost Ratios for Private Payers, Medicare, and Medicaid, 1981 – 2006



Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.

(1) Includes Medicaid Disproportionate Share payments.

2. Payment Shortfalls- Payment Percentages

Hawaii's overall payment as a percentage of costs (93%) is the lowest among the states reporting to DataBank

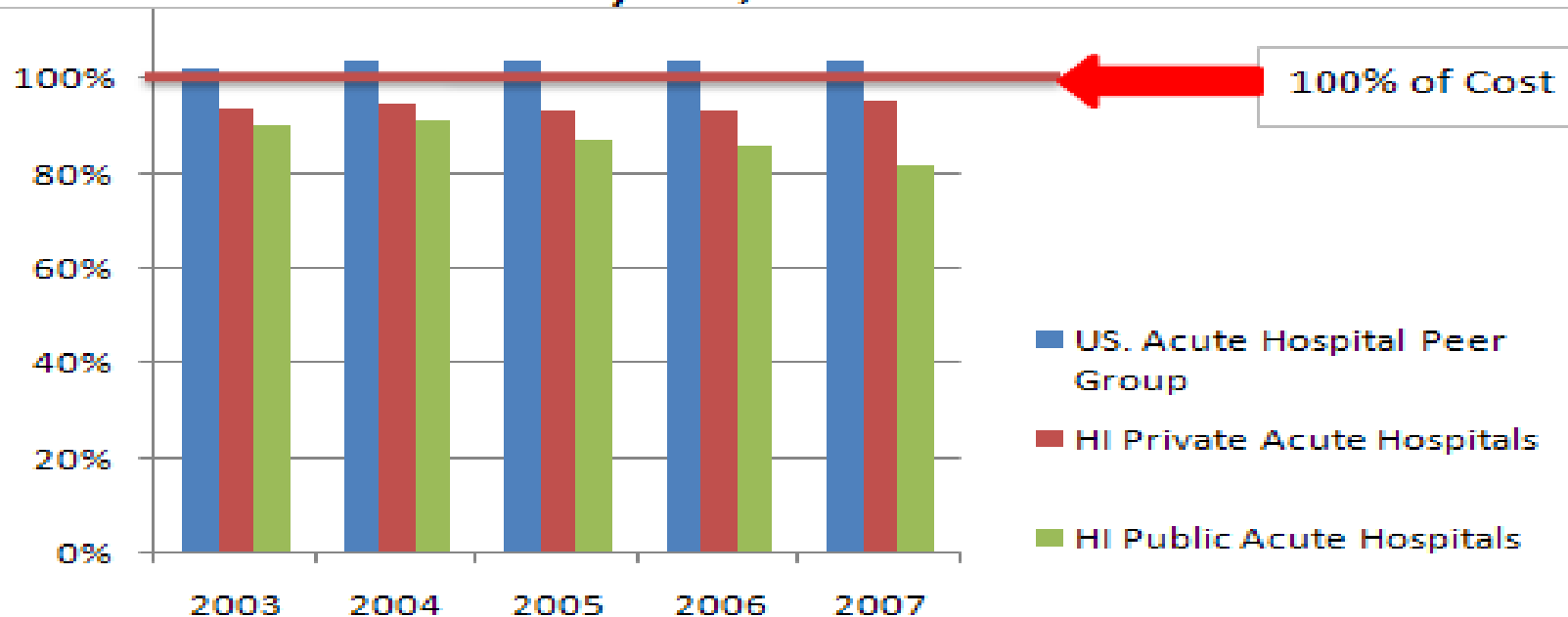
- Medicare and Medicaid do not pay for the full cost of hospital services in most of the 28 states reporting to DataBank
- 2007 Medicare losses for Hawaii's hospitals was approximately \$185,200,000
- In many DataBank states, private insurance covers the shortfall from the government payors

	Calendar Year 2007			<u>Overall</u>
	Percent of Costs Paid by:			
	<u>Medicare</u>	<u>Medicaid/ QUEST</u>	<u>Private Insurance and Other</u>	
Hawaii	77.37 %	70.65 %	108.74 %	92.88 %
All Databank Hospitals:				
Lowest Overall State	62.69 %	45.04 %	101.19 %	92.88 %
Average for US	79.14 %	73.26 %	127.34 %	104.82 %
Highest Overall State	100.80 %	101.65 %	155.63 %	115.35 %

Source: Hawaii DataBank Program, Hawaii Health Information Corporation (HHIC)
28 states report data to DataBank

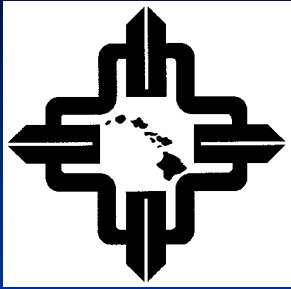
Are Hawaii's hospitals being paid less than it costs to provide the care?

Comparison of US vs HI Private & Public Acute Hospitals, Payment as % of Cost All Payers, 2003-2007



Source: HHIC

Note: Payments to HI Private & Public Acute Hospitals are similar but HI Public Acute Hospitals have a larger share of Government payers and higher labor expense thus payment as a % of cost is lower for HI Public Acute Hospitals.



Informational Briefing - Supplemental Information
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SUMMARY OF HHSC BILLS FOR 2009 LEGISLATIVE SESSION

Critical Access Hospitals and Federally Qualified Health Centers Enhancement

The proposed bill will require third-party payer health plans to reimburse subject facilities at one hundred and one percent (101%) of costs consistent with Medicare. This support will ensure that present levels of services to patients in rural communities will be maintained. Without such support, financial and social service burdens will fall increasingly on other state and county agencies. Third party payers will undoubtedly oppose bill.

Criminal History Record Check

The proposed bill will significantly further present protocol by allowing criminal history record checks on all existing employees, in addition to prospective contractors and vendors via the Hawaii Criminal Justice Data Center. Since HHSC hospitals service a significant amount of Medicaid and Medicare patients, the record check program fulfills compliance requirements established by these government payers.

Levels of Service

The proposed bill will allow our facilities to substantially reduce or eliminate direct patient care services, but only upon approval of the regional system board of the region where the facility is located and the corporation board. The proposed legislation further requires that notice be given to the President of the Senate, the Speaker of the House, and the Governor of the State of Hawaii, no less than two weeks prior to undertaking such reduction or elimination. Labor unions in Hawaii (public and private) may object to this bill.

Grandfathering

The proposed bill will allow HHSC to create a new personnel system for all new employees effective at a future date. New employees will remain members of the collective bargaining system but will have different compensation and benefit structures from those of the present public benefit structure. At the same time, new bargaining units will be established for new employees. HHSC will develop a salary and benefit plan that will be used to effectively recruit and retain future employees. Labor unions in Hawaii (public and private) may object to this bill.

Outsourcing

The proposed bill will allow HHSC flexibility to outsource services when appropriate as other health care systems do to manage costs. The bill would allow the corporation board and the regional system boards to enter into a contract with a private or government entity. Labor unions in Hawaii (public and private) may object to this bill.

Enabling Legislation

The enabling legislation bill will offer options to HHSC hospitals and/or regions to restructure in order to begin private-public partnerships.