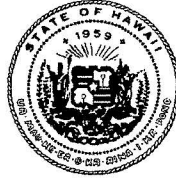


LINDA LINGLE
GOVERNOR



LILLIAN B. KOLLER
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HENRY OLIVA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

February 22, 2010

MEMORANDUM

TO: Honorable Marcus R. Oshiro, Chair
House Committee on Finance

FROM: Lillian B. Koller, Director

SUBJECT: **H.B. 2084 – RELATING TO THE FEDERAL DISPROPORTIONATE SHARE
HOSPITAL FUNDS**

Hearing: Monday, February 22, 2010, 10:00 a.m.
Conference Room 308, State Capitol

PURPOSE: The purpose of this bill is to appropriate funds for the State's portion of the Federal disproportionate share hospital allowance (DSH).

DEPARTMENT'S POSITION: The Department of Human Services (DHS) must respectfully oppose this bill. Given the State's current fiscal difficulties, it would not be prudent to pursue enactment of a new general fund appropriation to match the federal disproportionate share hospital (DSH) allowance to hospitals.

DSH funds are accessed as a Federal match to a State share that can be a new State general fund appropriation or certain general fund expenditures, such as certified expenditures of the Hawaii Health System Corporation (HHSC). The State share needed varies based on the Federal Medical Assistance Percentage (FMAP) at the time the Federal funds are drawn down.

Due to the efforts of Hawaii's Congressional Delegation and others, a Federal Medicaid DSH allowance of \$2.5 million per quarter through December 31, 2011 has been authorized for Hawaii. DSH payments, using the distribution formula developed by the Healthcare Association

of Hawaii (HAH), have been made through June 30, 2008. With agreement from HAH, DHS is submitting a Medicaid State Plan amendment to the Federal Centers for Medicare & Medicaid Services (CMS) using excess HHSC certified expenditures to match the federal DSH allowance for the period July 1, 2008 through June 30, 2009. Federal DSH allowance is still available for the period July 1, 2009 through December 31, 2011.

Finally, please note that DHS has also been distributing "DSH-like" federal funds of \$7.5 million per year to hospitals statewide since 2005 pursuant to a creative Medicaid 1115 waiver that DHS obtained from CMS. DHS distributes these funds based on the same DSH formula developed by the HAH. The next distribution of these funds is scheduled to occur in February 2010.

Thank you for this opportunity to testify.

HOUSE COMMITTEE ON FINANCE
Rep. Marcus Oshiro, Chair

Conference Room 308
Feb. 22, 2010 at 10:00 a.m.

Supporting HB 2084.

The Healthcare Association of Hawaii advocates for its member organizations that span the entire spectrum of health care, including all acute care hospitals, as well as long term care facilities, home care agencies, and hospices. Thank you for this opportunity to testify in support of HB 2084, which appropriates State funds to match federal Disproportionate Share Hospital (DSH) funds.

The federal government makes DSH funds available to hospitals that serve disproportionately high numbers of low-income patients. DSH partially pays for care that is not covered by insurance such as Medicare, Medicaid, or private insurance. In 2009 Hawaii's hospitals experienced losses totaling \$114 million in bad debt and charity care, which may be attributed largely to patients who were uninsured and did not have the financial resources to pay for their care. DSH funds are distributed to states, which in turn distribute the funds to the individual hospitals.

Although Hawaii's hospitals incur losses due to uncompensated care, Hawaii does not receive DSH funding on a regular basis. Hawaii and Tennessee are currently the only two states without permanent DSH funding. Hawaii lost DSH with the creation of its Quest program under Medicaid. However, in recent years our Congressional Delegation has been able to secure appropriations for DSH payments to Hawaii's hospitals on a year-to-year basis. These federal funds are required to be matched by State funds using the Federal Medical Assistance Percentage (FMAP).

In 2009, SB 423 appropriated \$12 million in State funds to draw down \$15 million in federal DSH funds for a total of \$27 million to be distributed to private hospitals. The bill was passed by the Legislature and subsequently vetoed by the Governor. The Legislature overrode the Governor's veto, but the Governor has indicated that she does not intend to release the money from the State general fund or the Rainy Day Fund. The bill under consideration today, SB 2084, again seeks that State match in the hopes that State funds will become available in the coming year.

Meanwhile, the Administration is making an effort to match a portion of available federal DSH funds with certified losses by the Hawaii Health Systems Corporation, which receives general funds appropriated by the State. While the Administration should be credited for this effort, it would result in far less than \$27 million distributed to private hospitals because only the federal DSH funds that are matched would be distributed to them. Furthermore, the certified losses would match some, but not all, of the federal DSH funds that are available. If the Administration's efforts are successful, the bill should later be amended to reduce the amount of the State appropriation so that it matches the remaining federal DSH funds.

For the foregoing reasons, the Healthcare Association supports HB 2084.



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HAWAI'I PACIFIC HEALTH

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Monday - February 22, 2010 – 10:00am
Room 308

The House Committee on Finance

To: Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

From: Virginia Pressler, MD, MBA
Executive Vice President

Re: **Testimony in Support HB 2084 Relating to the Federal Disproportionate Share Hospital Funds**

My name is Virginia Pressler, MD, MBA, Executive Vice President at Hawai'i Pacific Health (HPH). Hawai'i Pacific Health is a nonprofit health care system and the state's largest health care provider, committed to providing the highest quality medical care and service to the people of Hawai'i and the Pacific Region through its four affiliated hospitals, 44 outpatient clinics and more than 2,200 physicians and clinicians. The network is anchored by its four nonprofit hospitals: Kapi'olani Medical Center for Women & Children, Kapi'olani Medical Center at Pali Momi, Straub Clinic & Hospital and Wilcox Memorial Hospital. Collectively, they lead the state in the areas of women's health, pediatric care, cardiovascular services, bone and joint services and cancer care. Hawai'i Pacific Health ranks among the top 3.8 percent of hospitals nationwide in electronic medical record adoption, with system-wide implementation that allows its hospitals to offer integrated, coordinated care throughout the state. Learn more at: <http://www.hawaiipacifichealth.org>

We are writing in support of HB 2084 which would provide an appropriation, enabling Hawaii to become eligible to receive Disproportionate Share Hospital (DSH) funding from the Federal Government in the amount of \$15,000,000. Congress established the DSH program in 1981 to help ensure that states provide adequate financial support to hospitals that serve a significant number of low-income patients with special needs. Since 1993, as part of the agreement when Med-Quest was established, Hawaii did not qualify for DSH dollars. The purpose of this Act is to appropriate state matching funds to secure this critical federal funding.

The real problem facing all Hawaii Hospitals is inadequate reimbursement by Medicaid and Medicare for medical services. On average, Hawaii hospitals lose 20 cents on every \$1.00 spent to provide care for a Med-Quest patient and 21 cents on every Medicare patient. Hawai'i Pacific Health provides care for thirty six percent (36%) of the total state Medicaid/QUEST discharges and loses tens of millions of dollars each year in



STRAUB
CLINIC & HOSPITAL



order to provide care for these patients.

The status quo of inadequate reimbursement by government payers is unsustainable. As cumulative losses to Hawaii hospitals continue to grow, the real costs to the community of inadequate reimbursement are physician attrition, patient access to specialty care, and compromised quality of care. The only way to maintain the level of healthcare Hawaii's residents deserve is to ensure that the State pays its fair share of Medicaid costs.

Our Congressional representatives worked hard again to ensure that Hawaii be eligible for receiving adequate DSH funds this fiscal year. HB 2084 would be a significant step in helping to address the current healthcare crisis by ensuring that adequate resources are made available to cover the true costs of providing care.

Thank you for your time regarding this measure. We ask that you pass HB 2084.

HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

February 22, 2010

The Honorable Marcus Oshiro, Chair
The Honorable Marilyn Lee, Vice Chair

House Committee on Finance

Re: HB 2084 – Relating to the Federal Disproportionate Share Hospital Funds

Dear Chair Oshiro, Vice Chair Lee and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in support of HB 2084.

HB 2084 provides an appropriation that would enable Hawaii to receive Disproportionate Share Hospital (DSH) funding from the Federal Government. Congress established the DSH program in 1981 to help ensure that states provide adequate financial support to hospitals that serve a significant number of low-income patients with special needs. However, since 1993, as part of the agreement for the establishment of Med-QUEST, Hawaii has not qualified for DSH dollars. This year, as in last, legislation to provide the state's share would allow hospitals to receive needed funding.

Thank you for the opportunity to testify in support of HB 2084.

Sincerely,

A handwritten signature in black ink, appearing to read "JD", with a long horizontal stroke extending to the right.

Jennifer Diesman
Vice President
Government Relations