



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

February 23, 2010

MEMORANDUM

TO: Honorable Donna Mercado Kim, Chair  
Senate Committee on Ways and Means

FROM: Lillian B. Koller, Director

SUBJECT: **S.B. 2103, S.D.1 – RELATING TO THE FEDERAL  
DISPROPORTIONATE SHARE HOSPITAL FUNDS**

Hearing: Tuesday, February 23, 2010, 10:05 p.m.  
Conference Room 016, 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 of \$12,291,054 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.

DHS has presented private and public hospitals with nearly \$84 million in federal-only funds since 2005 through the DHS "waiver." DHS has also given hospitals another \$31 million in federal and matching state funds since 2007 through the Congressional Disproportionate Share Hospital program, bringing the total to \$115 million to date.

Thank you for this opportunity to testify.

**Testimony to the Senate Committee on Ways and Means  
Tuesday, February 23, 2010 at 10:05 a.m.  
Conference Room 211, State Capitol**

**RE: SENATE BILL NO. 2103 SD1 RELATO TO THE FEDERAL  
DISPROPORTIONATE SHARE HOSPITAL FUNDS**

Chair Mercado Kim, Vice Chair Tsutsui, and Members of the Committee:

My name is Jim Tollefson and I am the President and CEO of The Chamber of Commerce of Hawaii ("The Chamber"). The Chamber supports Senate Bill 2103 SD1 relating to Health.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber commends the Legislature for playing an active role in passing legislation that appropriates money to match federal funds in the past couple of sessions. Quality health care is critical to the people and economy of Hawaii. As one of the largest private industries in Hawaii, the health care industry plays an important role in our economy, particularly through attractive, well-paying jobs and through the purchase of goods and services that contribute to our state's economy. As such, the health care industry plays a crucial role in the economic development and sustainability of our state and all of Hawaii's businesses. Also, Hawaii's healthcare system provides quality care for our families and serves to attract and retain a professional workforce, new companies, and even tourists to our state.

However, the quality healthcare that Hawaii has enjoyed for years is now in jeopardy. It is on the verge of declining because healthcare providers are no longer being paid for essential services at a level sufficient to cover annually increasing costs. The health care system must be maintained and challenges must be addressed.

Therefore, The Chamber supports improvements to the quality of our health care system. They include legislation that will improve payments to health care providers of essential health care services and increase long term care capacity and access statewide. Appropriating funds to match the federal funding for medicaid is the first step in the right direction to ameliorate the current state of health care in Hawaii.

In light of the above, The Chamber of Commerce of Hawaii supports SB 2103 SD1. Thank you for the opportunity to testify.



## HAWAI'I PACIFIC HEALTH

Kapi'olani • Pali Momi • Straub • Wilcox

55 Merchant Street  
Honolulu, Hawai'i 96813-4333

808-535-7401  
www.hawaiipacifichealth.org



To: Senator Donna Mercado Kim, Chair  
Senator Shan S. Tsutsui, Vice Chair

From: Virginia Pressler, MD, MBA  
Executive Vice President



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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 SB 2103 SD 1 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 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. SB 2103 SD1 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



Affiliates of Hawai'i Pacific Health

of providing care. Thank you for your time regarding this measure. We ask that you pass SB 2103 SD1.



SENATE COMMITTEE ON WAYS AND MEANS  
Senator Donna Mercado Kim, Chair

Conference Room 211  
Feb. 23, 2010 at 10:05 a.m.

**Supporting SB 2103 SD 1.**

The Healthcare Association of Hawaii represents 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 SB 2103 SD 1, which makes State funds available 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 unable 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 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 and DSH-like 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 2103 SD 1, again seeks that State match in the hopes that the State budget will allow it 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 SB 2103 SD 1.

# HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

February 23, 2010

The Honorable Donna Mercado Kim, Chair  
The Honorable Shan Tsutsui, Vice Chair

Senate Committee on Ways and Means

**Re: SB 2103 SD1 – Relating to the Federal Disproportionate Share Hospital Funds**

Dear Chair Kim, Vice Chair Tsutsui and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in support of SB 2103 SD1.

SB 2103 SD1 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 SB 2103 SD1.

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



# THE QUEEN'S MEDICAL CENTER

1301 Punchbowl Street • Honolulu, Hawaii 96813 • Phone (808) 538-9011 • Fax: (808) 547-4646

Senator Donna Mercado Kim, Chair  
Senator Shan S. Tsutsui, Vice Chair  
**COMMITTEE ON WAYS AND MEANS**

February 23, 2010 – 10:05 a.m.  
State Capitol, Conference Room 211

## **In Strong Support of SB 2103, SD1, Relating to the Federal Disproportionate Share Hospital Funds**

Chair Mercado Kim, Vice Chair Tsutsui, and Members of the Committee,

My name is Rick Keene, and I am The Queen's Health Systems Executive VP and Chief Financial Officer. I am testifying for The Queen's Medical Center in strong support of SB 2103, SD1, which appropriates State funds to match federal funding of \$15,000,000 for the Disproportionate Share Hospital (DSH) allowance for Medicaid/Quest patients.

Medicaid/Quest is the cornerstone of health care for our most needy population. Hawaii's hospitals in particular have been detrimentally affected by the inadequacy of Medicaid/Quest reimbursements and payments, and have annually lost tens of millions of dollars because government reimbursement is far below the cost of providing medical care. In fiscal year 2009, The Queen's Medical Center treated 4,777 inpatients and 32,402 outpatients who were covered by Medicaid/Quest. The November 2009 report "Hawaii's Healthcare System – What Lies Ahead?" by the Healthcare Association of Hawaii, found that in 2009, losses for Medicaid/Quest services for patients in Hawaii were approximately \$78,000,000.

The proposed State funding of \$12,654,867, combined with the federal appropriation will supplement the reimbursement shortfall for Medicaid/Quest patients. Without state matching funds, the federal funding will be lost. Your support and approval of SB 2103, SD1 is crucial toward enabling Hawaii's hospitals to continue to serve the needy.

Thank you for the opportunity to testify.