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**Thursday, March 29, 2012 – 9:00 am**  
**Conference Room 211**

**The Senate Committee on Ways and Means**

To: Senator David Ige, Chair  
Senator Michelle Kidani, Vice chair

From: David Okabe  
Executive Vice President  
Chief Financial Officer

Re: **HB 2275 HD2, SD1 RELATING TO HOSPITALS - Comments**

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My name is David Okabe, Executive Vice President and Chief Financial Officer for Hawai'i Pacific Health (HPH). HPH is a nonprofit health care system and the state's largest health care provider anchored by its four nonprofit hospitals: Kapi'olani Medical Center for Women & Children, Pali Momi Medical Center, Straub Clinic & Hospital and Wilcox Memorial Hospital on Kauai. HPH is 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, 49 outpatient clinics, more than 5,400 employees and 1,300 physicians on staff.

HPH provides the following comments on HB 2275 HD2 Relating to Hospitals. This bill establishes a provider fee program - the Hospital Sustainability Program Act - and creates a special fund to receive moneys from the hospital sustainability fee enabling additional federal Medicaid matching funds under the QUEST Expanded Medicaid Section 1115 Demonstration Waiver. We believe the special fund satisfies the requirements of Hawaii Revised Statutes Sec. 37-52(3) in that it:

- (1) Reflects a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program;
- (2) Provides an appropriate means of financing for the program or activity; and
- (3) Demonstrates the capacity to be financially self-sustaining.

Provider fee programs are currently used in 46 states as a means to draw down additional federal funds to sustain their Medicaid programs. At a time when state budget and hospital operating deficits are rising due to declining government reimbursement and expanding Medicaid rolls, Hawaii is one of only four states without a provider fee program. The implementation of a provider fee program in Hawaii could help stabilize declining Medicaid payments to hospital facilities and slow down the erosion of access to care for those beneficiaries served by the program. The recent closure of HMC West and East are recent painful examples where the environment of declining government reimbursement has negatively impacted patient access to medical care.

HPH has voluntarily agreed to participate in the Hospital Sustainability Program in response to the dire Medicaid reimbursement situation that all providers are confronting. HPH has been an active participant in the Health care Association of Hawai'i's discussions with the numerous private and government stakeholders required to ensure that this program is created and administered in a fair and equitable manner.



The process of developing a model that is fair and equitable has been difficult, but we believe that such a model is contained in the bill. Its major purpose is to use federal funds that are available to help sustain Hawaii's private hospitals financially. The program assesses a provider fee on Hawaii's private hospitals, with 95 percent of the revenue generated used to draw down federal funds. The federal funds and the State match are used to help cover hospital losses due to Medicaid funding shortfalls and uncompensated care.

The Centers for Medicare and Medicaid Services prohibit benefits from being distributed to the various hospitals in the same proportion that they pay in provider fees, so that some hospitals must pay more in provider fees than others, but receive less in benefits. However, the model contained in this bill is broadly acceptable to Hawaii's private hospitals.

This model benefits not only Hawaii's private hospitals but also State agencies. Five percent of the revenue from the provider fee is allocated to the Department of Human Services for administrative expenses and other uses. Those monies may be doubled with a federal match if used for Medicaid services. Furthermore, this model also benefits public hospitals by freeing up certified public expenditures that may be used to draw down federal funds for hospitals in the Hawaii Health Systems Corporation.

We believe that the model contained in the bill distributes benefits to the private hospitals and public agencies fairly and equitably.

Thank you for the opportunity to provide the above comments.

March 29, 2012

The Honorable David Y. Ige., Chair  
The Honorable Michelle N. Kidani, Chair  
Senate Committee on Ways and Means

**Re: HB 2275, HD2, SD1 – Relating to Hospitals**

Dear Chair Ige, Vice Chair Kidani and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates your allowing us to testify on HB 2275, HD2, SD1. HMSA truly supports the intent of this legislation, and we continue to work with the proponents to address concerns we have regarding the legislation.

HB 2275, HD2, SD1 authorizes hospitals to charge a fee of up to three percent of “net patient service revenue,” known as the Hospital Sustainability Fee (Fee). The revenue generated from the Fee is to be transferred to the State Department of Human Services (DHS) for deposit into the Hospital Sustainability Special Fund (Fund). DHS is allowed to retain up to five percent of those deposits to pay for administrative overhead. And, no less than 95 percent of those deposits are to be used to match federal Medicaid funds to increase Medicaid hospital payments.

As drafted, the Bill seems to be only an outline of the concept of the Hospital Stabilization Program (Program), but it lacks specificity regarding how the Program will be administered and will operate such as:

- While revenues from the fee and federal funds are to be used for exclusive purposes, the Bill leaves open the possibility that other deposits into the Fund may not necessarily be held in trust and subject to purposes outside of the Program.
- How will expenditures from the Fund be made?
- What will be the role of the plans that implement the QUEST and QUEST Expanded Access contracts for MedQUEST?

While we understand the need for a State overhead charge to administer the Fund, we are concerned that the Bill does not acknowledge that this program could create an administrative burden on the health plans. The fee structure should be drafted to also accommodate the additional administrative plan costs.

HB 2275, HD2, does address a specific concern we detailed in testimony on the initial drafts of the Bill, as well as on its companion measure, SB 2467, which this Committee considered. While this Bill provides for a government-sanctioned fee, the earlier drafts allowed a private entity to determine exemptions from the fee and required plans to report to that private entity, as well as to DHS. HB 2275, HD2, SD1 addresses those concerns by eliminating those provisions.

We truly understand and appreciate this innovative proposal to enhance the effectiveness of our state’s Medicaid program. While we do have questions regarding the details behind this proposal, we look forward to continue working with this Committee and with everyone who have an interest in seeing such innovations proceed.

Thank you for allowing us to comment on this measure, and your consideration of our concerns is appreciated.

Sincerely,



Jennifer Diesman  
Vice President, Government Relations



# THE QUEEN'S HEALTH SYSTEMS

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Senator David Y. Ige, Chair

Senator Michelle N. Kidani, Vice Chair

## **SENATE COMMITTEE ON WAYS AND MEANS**

March 29, 2012 – 9:00 a.m.

State Capitol, Conference Room 211

### **In Support of H.B. 2275, HD2, SD1 Relating to Hospitals**

My name is Paula Yoshioka, and I am the Senior Vice President for The Queen's Health Systems (QHS). I am testifying for QHS in strong support for H.B. 2275, HD2, SD1 Relating to Hospitals.

Provider fee programs are currently used in 46 states and the District of Columbia as a means of drawing down additional federal funds to sustain their Medicaid programs. The implementation of a provider fee in Hawaii could assist in stabilizing declining Medicaid payments to facilities and slow down the erosion of access to care for those beneficiaries served by the program. The additional federal funds that could be obtained via the fee program would reduce the amount of loss incurred by Hawaii's hospitals. In FY 10, it is estimated that Queen's cost for the unpaid cost of Medicaid was \$28.3 million.

We defer to the Healthcare Association of Hawaii (HAH) for recommendations for specific amendments and ask the committee to pass H.B. 2275, HD2, SD1 out to allow for continued discussion of the proposal.

Thank you for the opportunity to provide testimony in support of this measure.

**From:** [Healthcare Association of Hawaii](#) on behalf of [Thad Wakasugi](#)  
**To:** [WAM Testimony](#)  
**Subject:** Supporting HB 2275 HD2: Relating Hospitals  
**Date:** Wednesday, March 28, 2012 9:47:48 AM

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Mar 28, 2012

Senate Committee on Ways and Means  
HI

Dear Ways and Means,

Thank you for this opportunity to comment in support of HB 2275 HD 2 SD 1, which creates the Hospital Sustainability Program that strengthens the financing of hospitals in Hawaii by drawing down federal funds and distributing these funds to hospitals.

Hawaii's Medicaid program pays hospitals only 70% of cost, compared with the national average of 89% of cost. Recently, two hospitals in the state closed (Hawaii Medical Centers-East and -West). Insufficient Medicaid payments were cited as one of the reasons for the bankruptcy.

The federal government has a program that allows hospitals to assess themselves a fee and use these funds as a "match" to draw down federal dollars. A total of 47 states have some kind of provider fee program. If Hawaii implements a program as developed by the Healthcare Association of Hawaii (HAH), we believe we can raise our average to 83% of cost.

The Centers for Medicare and Medicaid Services prohibits benefits from being distributed to the various hospitals in the same proportion that they pay in provider fees, so that some hospitals must pay more in provider fees than others, but receive less in benefits. However, the model contained in this proposed bill is broadly acceptable to Hawaii's private hospitals. This model benefits not only Hawaii's private hospitals but also the Department of Human Services and the Hawaii Health Systems Corporation.

We have worked with the Healthcare Association of Hawaii to develop a model, which is contained in the bill draft that the Association is proposing.

Thank you for the opportunity to provide comments in support of HB 2275 HD 2 SD 1.

Sincerely,

Mr. Thad Wakasugi  
680 Iwilei Rd Ste 660  
Honolulu, HI 96817-5392

**From:** [Healthcare Association of Hawaii](#) on behalf of [Timothy Roe](#)  
**To:** [WAM Testimony](#)  
**Subject:** Supporting HB 2275 HD2: Relating Hospitals  
**Date:** Wednesday, March 28, 2012 9:46:28 AM

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Mar 28, 2012

Senate Committee on Ways and Means  
HI

Dear Ways and Means,

Thank you for this opportunity to comment in support of HB 2275 HD 2 SD 1, which creates the Hospital Sustainability Program that strengthens the financing of hospitals in Hawaii by drawing down federal funds and distributing these funds to hospitals.

To our Honorable Senators,

Thank you for your consideration of HB2275 "Relating to Hospitals", also referred to as the Hospital Sustainability Program. As our entire community recognizes, Hawaii's healthcare system faces severe and unique challenges. These challenges were brought under particular focus with the recent closures of Hawaii Medical Centers East and West.

One of the greatest challenges for hospitals in our state is meeting the needs of those of our patients relying on Medicaid for healthcare coverage. Hawaii has one of the lowest rates of Medicaid reimbursement in the US, with Medicaid reimbursing only 70% of the cost of providing care to its beneficiaries. This inevitably results in reduced access to care for those most vulnerable in our community, including children and persons with disabilities. Nearly thirty percent of persons on Medicaid are under 65 and suffer from a disability. For them, Medicaid is a lifeline that is slipping away due to lack of funding.

For nearly sixty years, Rehabilitation Hospital of the Pacific has been dedicated to providing care to those who have suffered disabling illnesses or injuries. As the only provider of comprehensive inpatient and outpatient rehabilitation in Hawaii, we are committed to our role of serving as an advocate for the disabled persons of our state. For this reason, we at REHAB fully support the Hospital Sustainability Program.

Working in partnership with the Healthcare Association of Hawaii, all of Hawaii's hospitals and healthcare systems have come together to develop an approach that will improve funding of services provided under Medicaid. This will strengthen the safety net under the most vulnerable members of our community, while enhancing the sustainability of our state's healthcare system. For these reasons, we at REHAB urge your support for the Hospital Sustainability Program bills.

Mahalo for your attention and for your public service.

Thank you for the opportunity to provide comments in support of HB 2275 HD 2 SD 1.

Sincerely,

Dr. Timothy Roe  
226 N Kuakini St  
Honolulu, HI 96817-2488