



HAWAII HEALTH SYSTEMS

C O R P O R A T I O N

Quality Healthcare For All

HOUSE COMMITTEE ON HEALTH Representative Della Au Belatti, Chair Representative Dee Morikawa, Vice Chair

February 12, 2014
Conference Room 329
8:30 a.m.
Hawaii State Capitol

Testimony Strongly Supporting House Bill 2316, Making an Emergency Appropriation to the Hawaii Health Systems Corporation. Makes an emergency appropriation to the Hawaii Health Systems Corporation.

Alice M. Hall
Acting President and Chief Executive Officer
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony in strong support of House Bill 2316, Making an Emergency Appropriation to the Hawaii Health Systems Corporation.

However, HHSC respectfully requests that the Legislature increase the amount of the appropriation of \$15,500,000 to \$18,200,000. The initial request did not include the unfunded cost of collective bargaining pay raises for public sector bargaining units 10 and 13, which were approved during the 2013 Special Legislative Session. The unfunded cost of the pay raises for these two units are approximately \$2,700,000, which explains the increase in the appropriation amount.

HHSC has not pursued an emergency appropriation with the Legislature since the end of the 2009 Legislative Session. Since that time, general fund appropriations for HHSC that were appropriated by the Legislature were \$96.8 million in 2010, \$82.1 million in 2011, \$82.1 million in 2012, \$82.1 million in 2013, and \$82.9 million in 2014. However, HHSC has not received the full amount of these appropriations, as the State Administration restricted \$1.6 million in 2011, \$10.3 million in 2012, and \$3.7 million in 2013. HHSC has managed to survive these lower appropriation levels through fiscal year 2013, but the result of the combination of basically flat operational appropriations with Administration restrictions has left HHSC with dangerously low levels of cash on hand and dangerously high levels of accounts payable as of June 30, 2013.

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FISCAL CHALLENGES FOR HHSC IN FISCAL YEAR 2014

During the 2013 Legislative Session, HHSC informed the Legislators about HHSC's precarious financial position in its budget briefing testimony. During the preparation of HHSC's fiscal year 2014 budget, it became clear that the severity of HHSC's financial condition would be exacerbated by collective bargaining pay increases and Medicare reimbursement reductions as a result of federal deficit reduction legislation.

During the 2013 Legislative Session, the State Administration and the public sector unions agreed on collective bargaining pay increases for bargaining units 1, 2, 3, and 4 of approximately 4% for fiscal year 2014. Further, the result of interest arbitration for bargaining unit 10 resulted in a 3.2% pay increase and the result of interest arbitration for bargaining unit 9 resulted in an effective wage increase of approximately 11%. Although HHSC only has one vote out of thirteen in these negotiations, the State Administration proposed funding HHSC's share of these wage increases through special funds, which would not provide any additional cash to HHSC to cover these wages. However, the Legislature passed Act 283, which provided HHSC with \$12 million in general fund appropriations in fiscal years 2014 and 2015 to pay for collective bargaining cost increases. During the 2013 Special Legislative Session, the State Administration and public sector unions 10 and 13 agreed on collective bargaining pay increases of approximately 4% annually for fiscal years 2014-2017, which is projected to cost HHSC approximately \$2.7 million in fiscal year 2014. However, the Legislature appropriated only special fund appropriations for these raises, not general fund appropriations. Even with the \$12 million in general fund collective bargaining appropriations provided by the Legislature, HHSC still faces an unfunded amount of collective bargaining cost increases of \$11.2 million in fiscal year 2014. It should be noted that this amount does not include any amounts for negotiated settlements for bargaining unit 9, which has yet to be approved or funded by the Legislature.

HHSC also has informed legislators about the \$4.6 million negative impact of Medicare payment reductions as a result of federal deficit legislation. The American Taxpayer Relief Act of 2012 resulted in specific Medicare reimbursement cuts of 2.3% to HHSC's major acute facilities totaling \$2.6 million. Federal sequestration also mandated a 2% across-the-board Medicare reimbursement cut to hospitals, amounting to \$2.0 million for HHSC's facilities. These two pieces of federal legislation continues the trend of downward adjustments to Medicare reimbursements since the establishment of the Patient Protection and Affordable Care Act.

CONTINUANCE OF KAUAI REGION OPERATIONS

In addition, the Kauai Region respectfully requests an emergency appropriation of \$2.4 million to pay overdue accounts payable to enable the region to continue to operate and provide services at current levels. The difficulty of operating efficiently in a rural setting and not resolving the cash shortage will affect patient care. If Kauai Region does not pay its vendors, staff, and others, the Kauai Region cannot sustain its hospital operations.

CONCLUSION

In summary, HHSC is asking the Legislature to support an emergency appropriation for fiscal year 2014 of \$18,200,000 to pay for collective bargaining shortfalls, Kauai Region operations, and reductions to Medicare reimbursement as a result of federal deficit reduction measures. The justification of this request is as follows:

Reason	Amount
Unfunded Collective Bargaining Pay Increases	\$11,200,000
Medicare Reimbursement Reductions from Federal Deficit Reduction Legislation	\$4,600,000
Kauai Region Operations	\$2,400,000
Total	\$18,200,000

The consequence of not receiving this emergency appropriation is that six of HHSC's twelve facilities will run out of funds to pay payroll and accounts payable before the end of fiscal year 2014, some as soon as May 2014.

Thank you for the opportunity to testify before this committee. We would respectfully recommend the Committee's strong support of this measure.



KAUAI REGION
WEST KAUAI MEDICAL CENTER
(DBA KAUAI VETERANS MEMORIAL HOSPITAL AND WAIMEA & PORT ALLEN CLINICS)
MAHELONA MEDICAL CENTER
(DBA SAMUEL MAHELONA MEMORIAL HOSPITAL)
WEST KAUAI CLINIC – KALAHEO

HAWAII HEALTH SYSTEMS CORPORATION

Scott E. McFarland
Interim Regional CEO

Tuesday, February 11, 2014

HOUSE COMMITTEE ON HEALTH
Representative Della Au Belatti, Chair
Representative Dee Morikawa, Vice Chair

February 12, 2014
Conference Room 329
8:30 a.m.
Hawaii State Capitol
415 South Beretania Street

Testimony STRONGLY SUPPORTING House Bill 2316, Making an Emergency Appropriation to the Hawaii Health Systems Corporation (HHSC).

Scott E. McFarland
Interim Regional CEO – Hawaii Health Systems Corporation, Kauai Region
West Kauai Medical Center/Kauai Veterans Memorial Hospital
West Kauai Clinics – Waimea, Port Allen, Kalaheo
Mahelona Medical Center/Samuel Mahelona Memorial Hospital

On behalf of the Hawaii Health Systems Corporation (HHSC) Kauai Region Board of Directors, thank you for the opportunity to present testimony in **STRONG SUPPORT** of House Bill 2316, which makes an Emergency Appropriation to the Hawaii Health Systems Corporation.

However, the HHSC Kauai Region Board respectfully requests that the Legislature increase the amount of the appropriation of \$15,500,000 to \$18,200,000. The initial request did not include the unfunded cost of collective bargaining pay raises for public sector bargaining units 10 and 13, which were approved during the 2013 Special Legislative Session. The unfunded cost of the pay raises for these two units are approximately \$2,700,000, which explains the increase in the appropriation amount.

As expected and reported during last November's Special Session, the HHSC **Kauai Region is expected to run out of cash in March 2014.** The Kauai Region respectfully requests an Emergency Appropriation of \$2.4 million to pay overdue accounts payable to enable the

KVMH • P.O. BOX 337 • WAIMEA, HAWAII 96796 • PHONE: (808) 338-9431 • FAX: (808) 338-9420

WAIMEA & PORT ALLEN CLINICS, WEST KAUAI CLINIC - KALAHEO
P.O. BOX 669 • WAIMEA, HAWAII 96796 • PHONE: (808) 338-8311 • FAX: (808) 338-0225

MAHELONA • 4800 KAWAIHAU RD. • KAPAA, HAWAII 96746 • PHONE: (808) 822-4961 • FAX: (808) 823-4100

Region to continue to operate and provide services at current levels. The difficulty of operating efficiently in a rural setting and not resolving the cash shortage will affect patient care. If Kauai Region does not pay its vendors, staff, and others, the Kauai Region cannot sustain its hospital operations.

What are the immediate, near-term fiscal challenges facing HHSC Kauai Region?

Historically Low In-Patient Hospital Admissions for KVMH and SMMH and Low Long Term Care Census for SMMH. Our Region's two (2) Critical Access Hospitals (CAH) and one (1) of its Licensed Long Term Care Facilities (SMMH) have had persistently low patient and resident censuses since November 2013. The Region is approaching nearly 100 days of this low in-patient hospital census reality which likely means the trend is going to hold for the two (2) HHSC CAHs on the Island. When you “back out” the our Region's Long Term Care Residents (68 in total) from the census, our hospital-based physicians have only been seeing between 45 and 50 patients on a typical day, with nearly half of those patients being seen by the Emergency Department at SMMH which is in close proximity to our Island's densest and largest population base.

This is not necessarily bad news. If fewer people are in need of hospital services, it likely means the overall health of our communities is IMPROVING and is being BETTER managed by Primary Care Providers.

The great news is that our Region's **three (3) Primary Care Clinics** are consistently seeing over **150 patients per day** and over **200 patients on busier days** when colds and flus are prevalent in our neighborhoods. Also on a positive note, both the Region's Emergency Departments (KVMH and SMMH) continue to perform well and be viewed as core medical services that our Kauai Westside and Eastside communities value, appreciate, and expect. The Region's Obstetrics and Gynecology team is strongly performing, and KVMH's Licensed Long Term Care Facility is at maximum resident capacity (20 beds) with a waiting list.

Conversely, SMMH's Licensed Long Term Care Facility (64 beds) has struggled to keep its resident census above 50 given the site's aging physical plant and its institutional, multi-resident (4 to 6 resident patients) room constraints.

The early trend on Kauai appears to be that the Island's Primary Care Physicians are keeping more patients out of the Island's two (2) CAHs with Population Health Management/Patient Centered Medical Homes and are being rewarded with the Quality Payments and Capitated Payments that accompany these patient management strategies. This is actually a really good thing...and an underlying purpose to the Affordable Care Act (Obama Care). Our Region's HHSC-employed Primary Care Physicians are having much early success with Population Health Management approaches.

Long story short...the Fee For Service “heads in hospital beds” model of the past is quickly going away...especially for Kauai's HHSC-owned and operated CAHs. There are encouraging early indications that Population Health Management, Accountable Care Organizations, and Patient-Centered Medical Homes are performing well on Kauai. The Region is taking this new “low census” reality and Population Health Management into

consideration as it develops its new Living Strategic Plan as it promised it would during last November's testimony for the \$7.3 million Emergency Appropriation for which the Kauai Region is especially grateful. We can report today that the Region's new Living Strategic Plan is nearly complete and will soon be ratified by the HHSC Kauai Region Board.

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Act of 2012 resulted in specific Medicare reimbursement cuts of 2.3% to HHSC's major acute facilities totaling \$2.6 million. Federal sequestration also mandated a 2% across-the-board Medicare reimbursement cut to hospitals, amounting to \$2.0 million for HHSC's facilities. These two pieces of federal legislation continues the trend of downward adjustments to Medicare reimbursements since the establishment of the Patient Protection and Affordable Care Act.

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Thank you for the opportunity to testify before this committee. We would respectively recommend the Committee's **STRONG SUPPORT** of this measure.

morikawa2-Joanna

From: mailinglist@capitol.hawaii.gov
Sent: Saturday, February 08, 2014 10:19 PM
To: HLTtestimony
Cc: psgegen@hotmail.com
Subject: Submitted testimony for HB2316 on Feb 12, 2014 08:30AM

HB2316

Submitted on: 2/8/2014

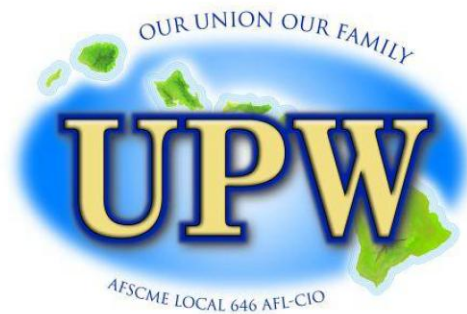
Testimony for HLT on Feb 12, 2014 08:30AM in Conference Room 329

Submitted By	Organization	Testifier Position	Present at Hearing
pat gegen	Individual	Support	No

Comments: Please support this appropriation at this time. Do not be afraid of asking the regions what improvements they are making to head toward becoming less dependent. I am submitting this testimony as an individual but I do serve on the Kauai Regional Board. I thank you for our badly need influx during the Special Session in 2013 as I testified in front of your committee. Thank you for your consideration.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE

THE HAWAII STATE HOUSE OF REPRESENTATIVES
The Twenty-Seventh Legislature
Regular Session of 2014

COMMITTEE ON HEALTH

The Honorable Della Au Belatti, Chair
The Honorable Dee Morikawa, Vice Chair

DATE OF HEARING: Wednesday, February 12, 2014
TIME OF HEARING: 8:30 AM
PLACE OF HEARING: Conference Room 329

**TESTIMONY ON HB2316 MAKING AN EMERGENCY APPROPRIATION TO THE HAWAII
HEALTH SYSTEMS CORPORATION**

By DAYTON M. NAKANELUA,
State Director of the United Public Workers,
AFSCME Local 646, AFL-CIO ("UPW")

My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive representative for approximately 14,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 1 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

The UPW supports HB2316, which makes an emergency appropriation to the Hawaii Health Systems Corporation

We ask that you pass this bill

Thank you for the opportunity to testify on this measure.