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STATE OF HAWAII
KA MOKU'ĀINA O HAWAI'I
DEPARTMENT OF HUMAN SERVICES
KA 'OIHANA MĀLAMA LAWELAWE KANAKA
Office of the Director
P. O. Box 339
Honolulu, Hawaii 96809-0339

April 3, 2023

TO: The Honorable Representative Kyle T. Yamashita, Chair
House Committee on Finance

FROM: Cathy Betts, Director

SUBJECT: **SB 404 SD2 HD1 – RELATING TO HOSPITAL SUSTAINABILITY PROGRAM.**

Hearing: April 4, 2023, 3:00 p.m.
Conference Room 308 & Via Videoconference, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) strongly supports this bill as it is similar to Administration measures. DHS respectfully requests that the effective date be upon approval.

PURPOSE: The bill makes various updates to the hospital sustainability program, including amending the definition of "private hospital;" clarifying the uses of the hospital sustainability program special fund; increasing various hospital sustainability fee caps; requiring the department of human services to consult and negotiate with the hospital trade association regarding fee participation and rates; clarifying when the hospital sustainability fee shall be discontinued and the distribution of remaining funds; repealing the sunset dates of Act 217, SLH 2012, and Act 123, SLH 2014, to make the program permanent and permanently exempting the program from the central service and administrative expenses assessments; and appropriating funds out of the special fund. Effective 12/31/2050. (HD1)

The SD1 amended the measure by:

Part 2

- (1) Adding certain technical, nonsubstantive amendments to sections 36-27 and 36-30, Hawaii Revised Statutes, pertaining to the Hospital Sustainability Program Special Fund exemption from the central service expenses assessment and administrative expenses assessment; and
- (2) Inserting an effective date of December 31, 2050, to encourage further discussion.

The SD2 amended the measure by:

- (1) Requiring the Department of Human Services to pay the hospital sustainability fee within sixty days after the end of the month that the Department imposes the fee;
- (2) Changing the appropriation of \$200,000,000 to an unspecified amount; and
- (3) Making other technical, nonsubstantive amendments for the purposes of clarity and consistency.

The HD1 amended the measure by:

- (1) Reverting to existing statutory language that requires no less than ninety percent of monies in the Hospital Sustainability Program Special Fund to be used to match federal Medicaid funds; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

DHS strongly supports making the Hospital Sustainability Program permanent as well as making permanent the exemptions on the central services and administrative fees for Hospital Sustainability Special Fund. DHS has worked closely and collaboratively with the Healthcare Association of Hawaii on this measure. This program began over 10 years ago and has been highly successful in helping to support hospitals' ability to continue to provide services to Medicaid recipients. The Special Fund receives moneys from the Hospital Sustainability Fee, which are then used to match with federal Medicaid matching funds. These moneys are used to increase reimbursements to the hospitals and payments for performance to the hospitals, with a more significant benefit to those providing proportionately more services to Medicaid recipients. These additional moneys will increase the long-term sustainability of hospitals in Hawaii to continue as a critical part of the safety net. The Hospital Sustainability Program was particularly crucial during the pandemic as hospitals dealt with surges, workforce shortages, and increased costs.

Without this bill, the Hospital Sustainability Program will be repealed on December 31, 2023, with funding provisions to be repealed on June 30, 2024. This measure also makes the

Part 3

exemptions from the special fund central services and administrative expenses assessments permanent. Act 217, Session Laws of Hawaii 2012, as amended, exempts the Special Fund from assessments for central services expenses and administrative expenses under sections 36-27(a) and 36-30(a), Hawaii Revised Statutes; sections 36-27(a)(31) and 36-30(a)(28), HRS, will be repealed on June 30, 2024. Unless the sunset dates are repealed, the exemptions from the central service expenses and administrative expenses assessments, the Department estimates that the Special Fund may be subject to the central service expenses assessment of \$5,000,000 each year and the administrative expenses assessment in the amount of \$1,000,000. Therefore, these funds would not be available for hospitals.

Thank you for the opportunity to testify on this measure.



**Testimony to the House Committee on Finance
Tuesday, April 4, 2023; 3:00 p.m.
State Capitol, Conference Room 308
Via Videoconference**

RE: SENATE BILL NO. 0404, SENATE DRAFT 2, HOUSE DRAFT 1, RELATING TO THE HOSPITAL SUSTAINABILITY PROGRAM.

Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee:

The Hawaii Primary Care Association (HPCA) is a 501(c)(3) organization established to advocate for, expand access to, and sustain high quality care through the statewide network of Community Health Centers throughout the State of Hawaii. The HPCA **SUPPORTS** Senate Bill No. 0404, Senate Draft 2, House Draft 1, RELATING TO THE HOSPITAL SUSTAINABILITY PROGRAM.

By way of background, the HPCA represents Hawaii's Federally Qualified Health Centers (FQHCs). FQHCs provide desperately needed medical services at the frontlines to over 150,000 patients each year who live in rural and underserved communities. Long considered champions for creating a more sustainable, integrated, and wellness-oriented system of health, FQHCs provide a more efficient, more effective and more comprehensive system of healthcare.

The bill, as received by your Committee, would, among other things:

- (1) Expand and make permanent the Hospital Sustainability Program (Program);
- (2) Require the Department of Human Services (DHS) to pay the Hospital Sustainability Fee within sixty days after the end of the month that DHS imposes the fee; and
- (3) Appropriate an unspecified amount of Hospital Sustainability Program Special Funds for fiscal years 2023-2024, and 2024-2025, to make supplemental payments to state hospitals and increase capitation rates to health plans for the benefit of state hospitals.

This bill would take effect on December 31, 2050, for discussion purposes.

Testimony on Senate Bill No. 0404, Senate Draft 2
Tuesday, April 4, 2023; 3:00 p.m.
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Recognizing that Medicaid payments to hospitals were far below the actual costs of care, the Legislature enacted Act 217, SLH 2012, to establish the Program and increase Medicaid payments to hospitals. The Program achieves this by assessing a fee on hospitals, using the revenue to obtain matching federal Medicaid funds, and returning a majority of the combined amount directly to hospitals. Payment is based on the amount of a hospital's uncompensated care, which consists of nonpayment by uninsured patients and underpayment by Medicaid.

We urge your favorable consideration of this bill.

Thank you for the opportunity to testify. Should you have any questions, please do not hesitate to contact Public Affairs and Policy Director Erik K. Abe at 536-8442, or eabe@hawaiiipca.net.

Testimony of
Jonathan Ching
Government Relations Director

Before:
House Committee on Finance
The Honorable Kyle T. Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair

April 4, 2023
3:00 p.m.
Conference Room 308 & Via Videoconference

Re: SB 404, SD2, HD1, Relating to the Hospital Sustainability Program

Chair Yamashita, Vice Chair Kitagawa, and committee members, thank you for this opportunity to provide testimony on SB 404, SD2, HD1, which expands and makes permanent the state's Hospital Sustainability Program.

Kaiser Permanente Hawai'i STRONGLY SUPPORTS SB 404, SD2, HD1.

Kaiser Permanente Hawai'i is one of the nation's largest not-for-profit health plans, serving 12.6 million members nationwide, and more than 269,000 members in Hawai'i. In Hawai'i, more than 4,200 dedicated employees and more than 650 Hawai'i Permanente Medical Group physicians and advance practice providers work in our integrated health system to provide our members coordinated care and coverage. Kaiser Permanente Hawai'i has more than 20+ medical facilities, including our award-winning Moanalua Medical Center. We continue to provide high-quality coordinated care for our members and deliver on our commitment to improve the health of our members and the 1.4 million people living in the communities we serve.

Making permanent the state's Hospital Sustainability Program will allow hospitals in the state to continue to provide critical health care services despite Medicaid uncompensated care losses.

Established in 2012 as Act 217, Session Laws of Hawai'i, the Hospital Sustainability Program, created a fund to pool monies from private hospitals through the assessment of a provider tax, which in turn was used to obtain federal Medicaid matching funds. The aggregate state and federal funds would then be distributed to the private hospitals as supplemental payments to reduce any Medicaid uncompensated care losses. **The program has proven successful for providers, beneficiaries, and the state, given that it uses no state general funds.**

Kaiser Permanente Hawai'i supports SB 404, SD2, HD1, because it will ensure continued access to critical health care services for Medicaid recipients in Hawai'i.

Mahalo for the opportunity to testify on this important measure.



THE QUEEN'S HEALTH SYSTEM

To: The Honorable Kyle T. Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair
Members, House Committee on Finance

From: Jace Mikulanec, Director, Government Relations, The Queen's Health System

Date: April 4, 2023

Re: **Support** for SB 404 SD2, HD1 Relating to the Hospital Sustainability Program

The Queen's Health System (Queen's) is a nonprofit corporation that provides expanded health care capabilities to the people of Hawai'i and the Pacific Basin. Since the founding of the first Queen's hospital in 1859 by Queen Emma and King Kamehameha IV, it has been our mission to provide quality health care services in perpetuity for Native Hawaiians and all of the people of Hawai'i. Over the years, the organization has grown to four hospitals, and more than 10,000 affiliated physicians, caregivers, and dedicated medical staff statewide. As the preeminent health care system in Hawai'i, Queen's strives to provide superior patient care that is constantly advancing through education and research.

Queen's appreciates the opportunity to provide testimony in support of SB404 SD2, HD1, which expands the Hospital Sustainability Program and makes the program permanent. Now more than ever, this program is critical for the sustainability and viability of The Queen's Health Systems. Through the Hospital Sustainability Program, the State of Hawai'i is able to leverage federal matching funds for hospitals who provide services to the underserved, uninsured and underinsured. Most importantly, no state general funds are used for this program. The program accomplishes this by issuing a fee on hospital providers in the state of Hawaii and those funds generated by this fee are used by the state to obtain matching federal Medicaid funds, which are reallocated back to private hospitals.

In FY2021, Queen's contributed to the well-being of Hawai'i by giving back to the community more than \$180 million in unreimbursed health care services, education, and charitable contributions. Of that \$180 million, over \$39 million accounted for our Medicaid Reimbursement Shortfall, the cost absorbed by Queen's when Medicaid government reimbursements did not fully cover the cost of care. The Hospital Sustainability Program helps Queen's offset a portion of these costs for unreimbursed care.

Thank you for your support of this critically important program.

The mission of The Queen's Health System is to fulfill the intent of Queen Emma and King Kamehameha IV to provide in perpetuity quality health care services to improve the well-being of Native Hawaiians and all of the people of Hawai'i.

Tuesday, April 4, 2023 at 3:00 PM
Conference Room 308; Via Video Conference

House Committee on Finance

To: Representative Kyle Yamashita, Chair
Representative Lisa Kitgawa, Vice Chair

From: Michael Robinson
Vice President, Government Relations & Community Affairs

Re: **Testimony in Support of SB 404, SD2, HD1
Relating to The Hospital Sustainability Program**

My name is Michael Robinson, and I am the Vice President of Government Relations & Community Affairs at Hawai'i Pacific Health. Hawai'i Pacific Health is a not-for-profit health care system comprised of its four medical centers – Kapi'olani, Pali Momi, Straub and Wilcox and over 70 locations statewide with a mission of creating a healthier Hawai'i.

HPH writes in support of SB 404, SD2, HD1 which makes the hospital sustainability program permanent. The bill also updates the hospital sustainability program by, among other things, clarifying the uses of the hospital sustainability special fund; increasing various fee caps; and requiring the department of human services to consult and negotiate with the hospital trade association regarding fee participation and rates.

Recognizing that Medicaid payments to hospitals remain below the actual costs of delivering care in an acute care setting, the Legislature created the Hospital Sustainability Program by enacting Act 217, SLH 2012, which improves Medicaid payments to hospitals. The program achieves this increase by assessing a fee on hospitals based on their patient revenue. The funds generated by those fees enable the State to obtain additional federal Medicaid funds, which are deposited in the hospital sustainability program special fund and distributed back to private hospitals. Payment back to facilities is based on the amount of a hospital's uncompensated care, which includes the costs incurred by hospitals serving under- and uninsured patients. Importantly, no state funds are contributed to the hospital sustainability program.

Because of this program, Medicaid payments approach becoming closer to the actual costs of care, thereby reducing losses and improving the financial stability of our hospital system. Provider fees, which are collected from specific categories of health care providers that agree to the fee, may be imposed on nineteen different classes of health care services, and can result in substantial increases in Medicaid payments without

putting additional constraints on the State's budget. The additional federal funds obtained via the fee program authorized by the hospital sustainability program help to maintain access to care for Medicaid recipients. This will allow hospitals in the State to continue to serve uninsured or underinsured patients in a timely, effective manner. Thus ensuring the overall sustainability of the health care system in Hawaii during the challenging time of the COVID-19 pandemic.

Making the Hospital Sustainability Program permanent through this measure will help to preserve and enhance access to health care for Medicaid recipients in Hawai'i.

Thank you for the opportunity to testify.



April 4, 2023 at 3:00 p.m.
Conference Room 308

House Committee on Finance

To: Chair Kyle T. Yamashita
Vice Chair Lisa Kitagawa

From: Hilton Raethel
President and CEO
Healthcare Association of Hawaii

Re: **Strong Support**
SB 404 SD2 HD1, Relating to the Hospital Sustainability Program

The Healthcare Association of Hawaii (HAH), established in 1939, serves as the leading voice of healthcare on behalf of 170 member organizations who represent almost every aspect of the health care continuum in Hawaii. Members include acute care hospitals, skilled nursing facilities, home health agencies, hospices, assisted living facilities and durable medical equipment suppliers. In addition to providing access to appropriate, affordable, high-quality care to all of Hawaii's residents, our members contribute significantly to Hawaii's economy by employing over 20,000 people statewide.

Thank you for the opportunity to provide testimony in **strong support** of this bill. The hospital sustainability program is a key tool for the state to help ensure access to critical services for Medicaid enrollees. Most importantly, this **benefit is achieved without the use of any state general funds**. This is because the program levies a fee on participating providers. The funds generated through that fee are then used to draw down federal Medicaid dollars and are distributed back to the providers to help them cover the gap between what Medicaid reimburses and what Medicare reimburses. Although neither program covers the full cost of providing care, it is essential in helping to shore up the financial sustainability of the hospital system in the state.

The sustainability program was first established in 2012 when, recognizing that Medicaid payments were below the actual costs of care in hospitals, the legislature authorized this program. While the program was reauthorized annually for several years, the legislature passed a two-year authorization of the program in 2017. This was evidence of how successful the program has been, especially in bringing together public and private entities to help increase access to care for Medicaid recipients. The hospital sustainability program has proven successful for providers, beneficiaries, and the state, which is why this particular legislation would make the program permanent.

We note that the appropriation amount is currently blanked out in the bill, but that the amount should be \$173 million. This number represents a \$73 million increase from the hospital sustainability

program authorized in 2021. The purpose for this increase is to be able to maximize the tax amount for hospitals to ultimately draw down additional federal dollars.

Thank you for the opportunity to provide supportive testimony for this critical program, which will help the state protect access to care for hundreds of thousands of Hawaii residents. We will continue our partnership with the MedQUEST office on this measure and appreciate your consideration of this important measure.