

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LIEUTENANT GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau

P.O. BOX 259
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GARY S. SUGANUMA
DIRECTOR

KRISTEN M. R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 662, Relating to the General Excise Tax

BEFORE THE:

House Committee on Health & Homelessness and House Committee on Economic Development

DATE: Friday, February 10, 2023

TIME: 9:10 a.m.

LOCATION: State Capitol, Room 329

Chairs Belatti and Holt, Vice-Chairs Takenouchi and Lamosao, and Members of the Committees:

The Department of Taxation ("Department") offers the following comments regarding H.B. 662 for your consideration.

H.B. 662 amends section 237-24.3, Hawaii Revised Statutes, by adding a new subsection to exempt amounts received by a hospital, infirmary, medical clinic, health care facility, pharmacy, or medical practitioner for health care related goods or services purchased under the Medicare, Medicaid, or TRICARE programs from the imposition of the general excise tax (GET). The measure further clarifies that the exempted services may be performed by a physician's assistant, nurse, or other employee under a medical practitioner's direction rather than having to be specifically rendered by the medical practitioner. H.B. 662 takes effect for taxable years beginning after December 31, 2023.

The Department requests that the effective date of the bill be amended to January 1, 2024 in lieu of making the bill applicable to taxable years beginning after December 31, 2023. This will provide all taxpayers the ability to claim the exemption on the same date. The Department further notes that due to the number of bills with tax law changes that have been introduced this year, the Department may not have the resources to implement all measures passed this session in time for January 1, 2024. The Department will continue to monitor the status of proposed legislation and will

Department of Taxation Testimony
HB 662
February 10, 2023
Page 2 of 2

advise whether some changes will require a later effective date.

Thank you for the opportunity to provide comments on this measure.



UNIVERSITY OF HAWAII SYSTEM

‘ŌNAEHANA KULANUI O HAWAII

Legislative Testimony

Hō'ike Mana'o I Mua O Ka 'Aha'ōlelo

Testimony Presented Before the
House Committee on Health & Homelessness and
House Committee on Economic Development
Friday, February 10, 2023 at 9:10 a.m.

By

Lee Buenconsejo-Lum, Acting Dean and
Kelley Withy, MD, Professor, Department of Family Medicine and Community Health,
Hawaii/Pacific Basin Area Health Education Center (AHEC) Director
John A. Burns School of Medicine

And

Michael Bruno, Provost
University of Hawai'i at Mānoa

HB 662 – RELATING TO THE GENERAL EXCISE TAX

Chairs Belatti and Holt, Vice Chairs Takenouchi and Lamosao, and Members of the
Committees:

Thank you for the opportunity to provide testimony in SUPPORT of HB 662 which exempts
medical services provided by health care providers to patients who receive Medicaid,
Medicare, or TRICARE benefits from the general excise tax.

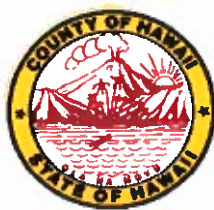
Hawaii faces a shortage of almost 800 physicians. Through the surveys of physicians
conducted by the John A. Burns School of Medicine (JABSOM) at the Hawaii Health
Workforce Summit as to what could be done to recruit and retain more physicians, the
fourth most popular answer from the 274 respondents to the survey was eliminating the
GET on medical services. Physicians who have left the State indicate that the extra cost of
caring for Medicare, Medicaid and Quest patients makes it financially burdensome to
continue practicing here. For the same reason, many physicians no longer see this group
of patients.

Medical services rendered at a nonprofit hospital, infirmary, or sanitarium are exempt from
the general excise tax, while the same services rendered by individual or group practices or
clinics are fully taxable. Presently, government programs such as Medicare, Medicaid, and
TRICARE do not compensate for the difference created by the general excise tax, leading
to some inconsistency in the economic impact to health care providers.

This measure would be beneficial in eliminating the disparity in compensation as well as
easing the financial burden of caring for patients with Medicare, Medicaid and TRICARE.
This in turn may encourage more physicians to practice and remain in Hawaii.

Thank you for the opportunity to provide testimony on this bill.

Mitchell D. Roth
Mayor



Lee E. Lord
Managing Director

Robert H. Command
Deputy Managing Director

County of Hawai'i Office of the Mayor

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February 8, 2023

Chair, Rep. Della Au Belatti
Vice Chair, Rep. Jenna Takenouchi
House Committee on Health & Homelessness

Chair, Rep. Daniel Holt
Vice Chair, Rep. Rachele F. Lamosao
House Committee on Economic Development

Hawai'i State Legislature
415 S. Beretania Street
Honolulu, Hawai'i 96813

Subject: H.B. 662 RELATING TO GENERAL EXCISE TAX
Hearing Date: Friday, February 10, 2023, at 9:10 a.m.
Time/Place of Hearing: Via Video Conference, Conference Room 329

Aloha Chair Au Belatti, Vice Chair Takenouchi, and members of the Committee on Health & Homelessness; Chair Holt, Vice Chair Lamosao, and members of the Committee on Economic Development,

The County of Hawai'i strongly supports HB 662, which exempts healthcare providers from the general excise tax if they are serving patients who receive Medicaid, Medicare, or TRICARE benefits.

We believe HB 662 will result in more cost-effective services to patients and provide necessary tax relief for physicians who struggle to maintain their practices while delivering quality healthcare in our community.

If passed, HB 662 will have a significant impact on Hawai'i Island where small practices are integral to serving such a large rural geographic area. We support any legislative initiatives that remove barriers to help our physicians thrive.

Thank you for the opportunity to testify in support of HB 662. We highly encourage the Committees to move this legislation forward with positive recommendations for passage in the House.

Mahalo,

A handwritten signature in black ink, appearing to read 'M. Roth', with a long horizontal flourish extending to the right.

Mitchell D. Roth
Mayor
County of Hawai'i



HB662 Remove GET for Medical Services

COMMITTEE ON HEALTH & HOMELESSNESS

Rep. Della Au Belatti, Chair

Rep. Jenna Takenouchi, Vice Chair

COMMITTEE ON ECONOMIC DEVELOPMENT

Rep. Daniel Holt, Chair

Rep. Rachele F. Lamosao, Vice Chair

Friday, Feb 10, 2023: 9:10 Room 329

Hawaii Substance Abuse Coalition Supports HB662:

ALOHA CHAIR, VICE CHAIR AND DISTINGUISHED COMMITTEE MEMBERS. My name is Alan Johnson. I am the current chair of the Hawaii Substance Abuse Coalition (HSAC), a statewide organization for substance use disorder and co-occurring mental health disorder treatment and prevention agencies.

HSAC Supports Removing GET from Medical services for Advanced Practice Registered Nurses, Physician Assistants (Physician Associates), and Physicians services as well as exempt amounts received by a hospital, infirmary, medical clinic, health care facility, pharmacy, or medical practitioner for goods or services purchased under the Medicare, Medicaid or TRICARE programs from the imposition of the general excise tax (GET). The measure further clarifies that the exempted services may be performed by a physician's assistant, nurse, or other employee under a medical practitioner's direction rather than having to be specifically rendered by the medical practitioner.

There is a major decline in our Hawaii physician workforce. A large number of the physician practices do not have the financial capacity to continue providing quality care in the face of ever decreasing (inflation erodes value of prices) Medicare/Medicaid reimbursements coupled with the General Excise Tax (GET).

Healthcare providers must absorb this tax, which federal law forbids passing to patients.

Hawaii is in desperate need to increase the number of providers that are able to accept Medicare/Medicaid patients. The patients are the ones who suffer. Patients with limited income and Medicaid/Medicare health care coverage need as many

physicians as possible to accept coverage even if they are underinsured. Working together we can address even more significant efforts such as increasing Medicaid/Medicare reimbursement rates so that Hawaii people can access quality healthcare and build a workable healthcare workforce. Together we can help all of Hawaii to live a healthy life.

We appreciate the opportunity to provide testimony and are available for further questions.

HB-662

Submitted on: 2/8/2023 1:23:01 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Keith Marrack	Hawaii Island Chamber of Commerce	Support	Written Testimony Only

Comments:

Dear Representatives,

The Hawai'i Island Chamber of Commerce Economic Development Committee recently hosted Dr. Lynda Dolan and Dr. Dan Belcher to get a better handle on the challenges facing private practice physicians in the state. One of the issues they brought up is the general excise tax (GET). While federal and state facilities are exempt, private practice physicians are required to pay the GET for their services. They can pass this cost on to private payers, but the federal government prohibits them from passing these costs on to Medicare and Medicaid patients. So basically they are forced to eat this cost. Hawai'i already has the lowest Medicare and Medicaid reimbursement rates in the nation and these rates are set to be cut by 8% in 2023. In addition, 50% of patients in the state are covered by Medicare and Medicaid. We are already 1000 doctors short across the state and 300 on Hawai'i Island alone. We should be doing everything we can to make it attractive for a physician to be in Hawai'i.

As such, we strongly encourage you to support the exemption of all medical practices from the GET. This will benefit current physicians and make it more attractive for future physicians to want to work and stay in Hawai'i. We are one of only two states in the nation that taxes medical care, and the results are being felt as physicians choose to practice elsewhere, retire, or change careers. Private physicians in East Hawai'i take care of about 1/3 of all patients. They are critical to our health care needs and the needs of prospective employers and employees. If we can't get the needed coverage on the island, business will choose to go somewhere else.

Thank you for doing all you can to support our local physicians so they can provide the healthcare we so badly need in the state and on the Island.

Aloha,

Keith Marrack,

Hawaii Island Chamber of Commerce Vice President and Economic Development Chair

Hawai'i Association of Professional Nurses (HAPN)



To: The Honorable Representative Della Au Belatti, Chair of the House Committee on Health & Homelessness; The Honorable Representative Daniel Holt, Chair of the House Committee on Economic Development

From: Hawaii Association of Professional Nurses (HAPN)
Subject: HB662 – Relating to the General Excise Tax, in Support

Hearing: February 10, 2023, 9:10a.m.

Aloha Representative Belatti, Chair; Representative Takenouchi, Vice Chair; Representative Holt, Chair; Representative Lamosao, Vice Chair; and Committee Members,

Thank you for the opportunity to submit testimony regarding HB662. HAPN stands with countless community organizations, private practices throughout the state, and all residents of Hawaii who receive healthcare. HAPN believes that healthcare access in Hawaii is at a point where provider supply is not in line with healthcare demand. As such, HAPN is in **Support** of removing the General Excise Tax (GET) on all services that are provided by **Advanced Practice Registered Nurses, Physician Assistants (Physician Associates), and Physicians**. **This GET exemption must include care provided by primary care providers and specialists.**

Our organization has always supported patient access to care in our communities and we are seeing a fast erosion of care due to clinic closures or providers no longer practicing. This is happening for many reasons to include providers moving out of state for more favorable business environments; provider retirement or death; poor reimbursement from all insurance plans to include private, state, and federal sinking clinics trying to provide care; and insurance reimbursement received not in line with the cost of doing business and the cost of living. In the Access to Care statewide survey by the Hawai'i Rural Health Association and Community First, nearly half of healthcare providers were considering leaving medicine, retiring, cutting hours or leaving the state. Hawaii is the only American state which taxes medical care. Healthcare providers have to absorb this tax, which federal Medicare and TriCare policies forbid passing to patients. The GET taxes gross revenues, even when practices lose money providing care, which makes many practices non-profitable.

HAPN's mission, to be the voice of APRNs in Hawaii, has been the guiding force that propelled us to spearhead the advancement of patients access to healthcare as well as supporting the recognition of the scope of practice for APRNs in Hawaii which led us to full practice authority. We have worked to improve the physical and mental health of our communities. As our ability to provide close care with our patients progressed, we also opened up our own clinics to provide the care our patients deserve. APRNs have played an important role in the healthcare of our communities and we will continue to be by our patients' side.

HAPN respectfully asks your Committee to pass this bill. Thank you for the opportunity to share the perspective of HAPN with your committee. Thank you for your enduring support of the nursing profession in the Aloha State.

Respectfully,

Hawai'i Association of Professional Nurses (HAPN)

Dr. Jeremy Creekmore, APRN
HAPN President

Dr. Bradley Kuo, APRN
HAPN Legislative Committee, Chair
HAPN Past President





HAWAI'I HEALTH
& HARM REDUCTION CENTER

TESTIMONY IN SUPPORT OF HB 662

TO: Chair Holt, Vice-Chair Lamosao & Committee Members

FROM: 'Ilima DeCosta
Community Engagement Coordinator

DATE: February 10, 2023 (9:05a.m.)

Hawai'i Health & Harm Reduction Center (HHHRC) supports HB 662. This bill would eliminate the General Excise Tax on medical services provided to Medicaid, Medicare and TriCare members.

According to a report from the *Center Square* (February 7, 2023), Hawai'i is "the only American state that taxes Medicare, Medicaid and TriCare medical services, which is half of Hawai'i's population. Healthcare providers have to absorb this tax, which federal Medicare and TriCare policies forbid passing to patients. The GET taxes gross revenues, even when practices lose money providing care, which makes many if not most practices [serving these populations] non-profitable."

Passage of HB 662 would finally eliminate the general excise taxes currently absorbed by medical providers/practices who service Medicare, Medicaid and TriCare members, and encourage greater provider participation in the Medicare, Medicaid and TriCare systems.

During a time when Hawai'i is struggling with limited providers serving our most vulnerable residents, eliminating the taxes on medical services rendered to groups is a reasonable effort to reduce the burden on Hawai'i's medical providers serving these populations.

HHHRC's mission is to reduce harm, promote health, create wellness, and fight stigma in Hawai'i and the Pacific. We work with many individuals who are impacted by poverty, housing instability, and other social determinants of health. Many have behavioral health problems, including those relating to substance use and underlying mental health conditions. Many of our clients and participants have been deeply impacted by trauma, including histories of physical, sexual, and psychological abuse.

HHHRC urges passage of HB 662.

Thank you for the opportunity to testify in support of this bill.

HB-662

Submitted on: 2/9/2023 6:56:30 AM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Colleen Inouye	HI Independent Physicians Assoc	Support	Written Testimony Only

Comments:

Dear Representatives Belatti, Chair, and Takenouchi, Vice Chair, and members of the Committee on Health and Homelessness; and Representatives Holt, Chair, and Lamosao, Vice Chair, and members of the Committee on Economic Development,

I am asking for your support of HB 662, relating to the General Excise Tax (GET). Our providers realize that medical services that are billed to Medicaid, Medicare, and/or Tricare will be reimbursed at a lower rate than commercial insurance. However, to absorb the GET for these services translates to receiving even a lower reimbursement rate from these payers.

It is difficult to support an independent practice, its employees/staff, and medical supplies that are used to care for patients and absorb this extra burden.

Thank you for your kind attention to support HB 662.

Colleen F Inouye MD MMM MS-PopH FACHE FAAPL FACOG

Interim Executive Director of the Hawaii Independent Physicians Association, a 700+ provider organization that spans across the state of HI

THE KŪPUNA CAUCUS



Feb 6, 2023

TO: COMMITTEE ON HEALTH & HOMELESSNESS

Rep. Della Au Belatti, Chair
Rep. Jenna Takenouchi, Vice Chair

TO: COMMITTEE ON ECONOMIC DEVELOPMENT

Rep. Daniel Holt, Chair
Rep. Rachele F. Lamosao, Vice Chair

Concerning: HB662 (Relating to the General Excise Tax)

POSITION: Enthusiastic Support

ALOHA Chairs Belatti and Holt and Vice Chairs Takenouchi and Lamosao, and all members of both committees

On behalf of the Kupuna Caucus' Health and Medical Services sub-committee I am testifying in support of this legislation

Exempting all health related services, care. procedures and products paid for via Medicare and Medicaid from having to pay the excise a vital step towards keeping our medical professionals here in Hawaii and keeping practitioner offices open for everybody but especially for seniors who often depend on Medicare and Medicaid for health related care and procedures.

The law allows medical practitioners and practices to pass the tax onto the patients. However, Medicare and Medicaid covered bills never pay the state tax leaving the practitioners or health related institutions and facilities to cover the taxes out of pocket. Sadly there are many private insurance companies which also refuse to pay the state tax. That leaves the practitioner or institution to try and collect from the patient who often refuses to pay the tax. Once again the doctor or medical facility pays the tax out of their own pockets because it costs less than trying to collect.

That is one of the main reasons we are not only losing medical professionals, but many who remain will not accept new Medicare and/Medicaid covered clients. This is as concerning to Kupuna as the shortage of doctors all over the state.

Just ask yourselves, would you stay here, where the cost of living is so very high already, and do a job the State makes you pay it taxes for the privilege of doing your job? They also pay income tax. It is just too much, so they leave. This is just a start but it is an important step.

Martha E Randolph for the Kupuna Caucus
Precinct 2 Rep, District 27 Council

HB-662

Submitted on: 2/8/2023 4:59:59 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Martha Wiedman, M.D.	Hawaii Radiologic Society	Support	Written Testimony Only

Comments:

Dear Committee Members,

I am writing as a radiologist living in Hawaii, in practice for over 30 years, in support of HB 662 to exempt health care services given by health care providers to patients who receive Medicaid, Medicare or TRICARE benefits from the GET.

The federal government has designated Hawaii County a health professional shortage area, with the Big Island having the third worst primary care provider shortage of 3,000 counties in the United States (Grant Phillips, "Bills Seek GET Exemption", Hawaii Tribune-Herald, p. 1, January 27, 2023.). The GET is now 4.7% in Hawaii County. While hospitals and subsidized nonprofit medical clinics are exempt from the GET, private practice providers who treat Medicare, Medicaid and TRICARE patients are subject to the GET. Hawaii is the only state in the U.S. to tax these patients, which are up to 50% of all patients in Hawaii. Physicians in Hawaii receive lower rates of reimbursement from private insurance and Medicare compared to physicians in areas of the U.S. with similar costs of living (FH Consumer Cost Look Up. <http://fairhealthconsumer.org/medicalcostlookup.php> accessed March 11, 2016.)

The resulting income loss leads physicians to retire, move off island and reduce their office hours, severely limiting patient access to healthcare. A 2021 Hawaii Physicians Workforce Assessment reported Hawaii County was short 287 physicians (Grant Phillips, "Bills Seek GET Exemption", Hawaii Tribune-Herald, p.8, January 27, 2023.) There is an estimated shortage of 820 full-time equivalent physicians in the state (Grassroot Institute of Hawaii.)

If all for-profit medical providers were exempted from the GET, it would result in a savings of \$200.3 million, or about \$5,275 per medical service worker in the state. This is equivalent to roughly 6.7 percent of the average medical service worker's wage and roughly 5.8 percent of current GET collections (Grassroot Institute of Hawaii.). An exemption would incentivize physicians, including those in primary care to stay in Hawaii and encourage much needed recruitment of health care providers to the state. In cases where providers pass on the GET for their services to the patient, exemption could lead to large patient savings.

I encourage you to pass this bill to support and increase vital medical care in Hawaii.

Respectfully,

Martha Wiedman, M.D.

KAUAI COMMUNITY HEALTH ALLIANCE

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Kilauea, Kauai, HI 96754
808.828.2885 phone • 808.828.0119 fax
www.kauai-medical.org
winkler@kauai-medical.org (email)

February 8, 2023

Re: Support of HB 662

I am submitting testimony to hopefully put a human face on our State's healthcare access crisis. I am a medical provider and CEO of a primary care clinic on Kauai about to close due to insufficient funds. We have provided critical medical services for 25 years, seeing 15-20,000 visits a year. We are only surviving because of community donations. I myself took no salary for 8 months in 2022. The healthcare crisis in Hawaii is not a joke.

I will cut to the chase. The reason our facility along with most private medical practices are shutting their doors is due to low insurance reimbursements, made exponentially worse because small rural practices have to pay GET tax normally passed on to patients (and customers in the retail world).

Over 50% of our islands residents are on Medicare, Medicaid and Tricare. Our state receives the lowest Medicare reimbursement in the country despite having the highest cost of living. Medicaid reimbursements are even worse than Medicare, making up another 30% of Hawaii's insured population.

What happens when on top of this already dismal insurance situation you add a GET tax which clinics are forbidden by law to pass on to patients? Facilities simply turn these patients away because reimbursement is below the cost of delivering care. The proof is in the pudding—Hawaii has the lowest rate of physician participation with Medicare in the entire country—literally we are number 51.

It's our Kupunas who have Medicare that are losing access. It is the most financially challenged of our ohana who have Medicaid that lose access. The end result is increased mortality (death), and morbidity (illness), amongst the poor and working class families of Hawaii, and our senior population.

Rural clinics all over our State are turning away Medicare and Medicaid Quest patients in order to simply keep their doors open. According to a 2020 Hawaii Workforce Assessment, of all the counties in the US, Kauai has the 13th worst access to medical care, Maui 5th and Big Island 3rd worst in the nation.

On a related matter, you have undoubtedly heard Hawaii cannot attract young physicians, nor can we retain those we have. It doesn't matter how many new docs we graduate from JABSOM, they mostly leave for the mainland because they can't open a practice in Hawaii and survive.

February 8, 2023

Page 3

Excluding medical care from the GET is critical if we are serious about keeping medical facilities open in rural Hawaii. Our outer island families have a much higher all-cause mortality. Cancer, heart disease, stroke, and suicide are all highest where clinics like ours are closing and access is unavailable.

This is not academic, this is grandma's diabetes, it's your sister's breast cancer, your friend with Parkinson's or heart disease, it's your children's school physicals, your neighbor's stroke, your depressed friend or aunty's fractured hip. This isn't a restaurant closing—It's access to primary healthcare.

The healthcare access crisis is here, and as it accelerates it will take a generation to repair. Now is truly the time to act.

Please support HB 662.

Respectfully,

KAUAI COMMUNITY HEALTH ALLIANCE

James Winkler, CEO
Kambria Beck Holder, MD and Chief Medical Officer
Art Brownstein, MD

g I
S GARDEN ISLAND



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KILAUEA MEDICAL CLINIC MAY CLOSE

CEO: 'Every month is a cliffhanger'

Guthrie Scrimgeour
THE GARDEN ISLAND

KILAUEA — The Kaua'i Community Health Alliance receives between 17,000 and 20,000 patient visits each year, providing a range of treatment to largely working-class people from the Ha'ena to Kapa'a.

They soon may be unable to keep their doors open, their CEO

says.

"Every month is a cliffhanger," said Jim Winkler, who serves as CEO and president of KCHA while also practicing at the Hale Lea Medicine clinic.

"The clinic is currently running at a deficit. While we have not missed payroll in 28 years, we are not able to operate for much longer due to a confluence of circumstances."

The clinic has been in operation since 1994 and has functioned as a



Winkler

nonprofit since 2008. KCHA houses both the Hale Lea Medicine and Urgent Care and the North Shore Wellness Center. Since they treat a large number of underinsured patients, they struggle to make ends meet and rely on community support for a portion of their budget.

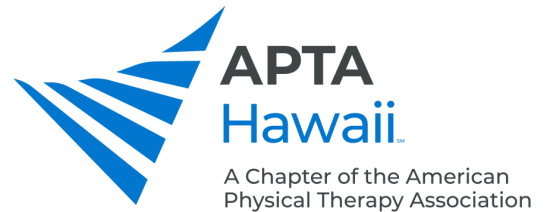
If the center were to close, it could result in significant disruption for its patients, who would have to scramble to access care in the limited North Shore market. There is only one primary-care clinic on the North Shore — the North Shore Medical Center —

which has limited hours and a smaller staff than KCHA. The next closest clinic is Ho'ola Lahui in Kapa'a.

"A lot of those people (on the North Shore) don't want to go to Kapa'a. Location is an issue regardless of who is providing the services," said Dr. Kapono Chong-Hanssen, chief medical director at Ho'ola Lahui.

"We could take some of them, and if all of our community partners got together we could

SEE CLINIC, A4



HB662, RELATING TO THE GENERAL EXCISE TAX
Hse HLT and ECD Committee Hearing
Friday, February 10, 2023- 9:10 AM
Conference Room 329 VIA VIDEOCONFERENCE
Position: SUPPORT

Dear Chair Belatti, Chair Holt and HHS/ECD Hse Committee Members:

I am the president of The Hawaii Chapter of the American Physical Therapy Association (APTA – HI), who represents the profession of physical therapy in this state. APTA Hawaii SUPPORTS the elimination of the general excise tax (GET) for medical services provided by healthcare providers to patients who have receive Medicaid, Medicare, or TRICARE benefits. However, we would like to have private payers to be included in this bill. The Hawaii Department of Taxation has an information sheet ¹ which states doctors and dentists may charge patients the GET. This is true when viewed through the narrow scope of Hawaii law. However in reality, it gives the public incomplete and misleading information. Federal laws and regulations governing Federally funded health plans prohibit billing patients any more than the allowed charge. The percentage of Hawaii's population with a Federally funded health plan is 41% ². In the private (non-Federal) insurance market most providers are in-network. Upon the leading healthcare insurers (HMSA and Kaiser), they comprise ~88% of the private insurance market³ in this state and neither of them permit providers to bill patients for the GET. In addition, Workers Compensation along with Motor Vehicle PIP insurance also do not permit billing patients for the GET.

Therefore, necessary healthcare providers, such as physical therapists, are unable to shed this GET expense while costs of running a practice continue to rise while reimbursement rates continually decline. When other businesses have avenues for GET exemption, it seems unfavorable in this current climate (post-pandemic) for healthcare providers to not be provided that same opportunity. In addition to normal business income taxes, it is starting to feel as though the GET is effecting healthcare providers in an unfair manner. It has been public knowledge for years about the physician shortage in Hawaii, however, it has not been public knowledge that physical therapists can be utilized in a primary care role as they are in many other states. Critical needs are not being met, mostly in our rural communities. The GET is in large part a hurdle to progress toward a healthier future in this state. APTA- Hawaii believes it is time for the legislature to take action to right these wrongs. By reforming the GET, Hawaii will be a more attractive and economically viable place to practice healthcare for all licensed healthcare providers.

1 <https://files.hawaii.gov/tax/legal/taxfacts/tf98-1.pdf>

2 <https://www.statista.com/statistics/238743/health-insurance-status-of-the-total-population-of-hawaii/>

3 https://www.ama-assn.org/system/files/2018-11/competition-health-insurance-us-markets_1.pdf

If you have any questions or concerns, feel free to contact me via president.apta.hawaii@gmail.com or phone 808-546-0937.

Thank you for your time and consideration,

Dr. Nicholas Bronowski, PT
President - APTA Hawaii
Board Certified Clinical Specialist in Orthopaedic Physical Therapy
Adjunct Faculty - Hawai'i Pacific University - Doctor of Physical Therapy Program



February 8, 2023

To: House of Representatives
Thirty-Second Legislature, 2023 State of Hawai'i

From: East Hawaii Independent Physicians Association (dba Big Island Docs)

Subject: Support for HB662

Dear House Representatives,

We represent over 50 independent private practice providers on Hawai'i Island delivering care to over 50,000 patients. We urge the legislature to exempt Medicaid, Medicare and TriCare health plan payments from the State of Hawaii's General Excise Tax for services we provide. This tax has made it difficult for us to stay in business and continue to serve our community. It has contributed to our severe doctor shortage. Hawai'i has the largest percentage of physicians in private practice in the nation, and it is important that the private practice of medicine remain sustainable for the health and well-being of our community. Our community risks losing even more physicians as their operations become financially unsustainable.

On behalf of our membership, we urge you to pass HB662 into law.

Mahalo,

A handwritten signature in black ink, appearing to read "Lynda Dolan".

Lynda Dolan, MD
President

A handwritten signature in black ink, appearing to read "Brenda Camacho".

Brenda Camacho, MD
Secretary & Treasurer

A handwritten signature in black ink, appearing to read "Craig Shikuma".

Craig Shikuma, MD
Medical Director, BIHC

www.bigislanddocs.com

Mailing Address: 670 Ponahawai St., Suite 117 | Hilo, HI 96720
Phone: (808) 797-3113 | Fax: (808) 935-4472



Testimony in Support of HB662, Relating to General Excise Tax

February 9, 2023

House Committee on Health and Homelessness
House Committee on Economic Development

February 10, 2023

9:10 am

Conference Room 329

Aloha Chair Au Belatti, Vice Chair Takenouchi, Chair Holt, Vice Chair Lamosao, and Committee Members:

Hawaii Dental Service (HDS) strongly supports HB662 to level the playing field for all healthcare providers, including dentists, and to improve access to oral healthcare for the most vulnerable. As a state, we have made considerable progress to restore comprehensive Medicaid dental benefits for adult Medicaid beneficiaries. HB662 continues this positive momentum and moves us further toward creating a more equitable oral health system for all Hawaii residents, regardless of their socioeconomic status.

There are currently more than 288,000 adults who qualify for Medicaid dental benefits, with nearly one-third of Hawaii's population enrolled in Medicaid. By contrast, there are only about 340 dental providers who accept Medicaid payments, including those at Federally Qualified Health Centers (FQHCs). In some counties, Medicaid beneficiaries cannot get preventive dental appointments for months due to lack of access. While there is now more competition for appointments because of the added adult benefit, tax exemption would help to maintain the overall Med-QUEST dental network which is used for children and adult beneficiaries.

The relatively small number of dentists who accept Medicaid can be attributed to low payments from this government program. Hawaii dentists cannot or are unwilling to serve Medicaid beneficiaries because the reimbursements do not adequately cover the costs of procedures and dental operations. In addition, dentists are not able to pass on the general excise tax to Medicaid patients, which leaves the dentist solely responsible for the tax burden. The general excise tax exemption for dentists will relieve them of the tax burden and provide an incentive for dentists to accept Medicaid. As more dentists accept Medicaid, oral healthcare will become more accessible for more patients in communities across our islands.

HB662 will improve the dentist-to-Medicaid beneficiary ratio in Hawaii. We urge you to vote in favor of passing this bill to help address the health disparities in our State.

Mahalo for your support and for prioritizing the needs of Hawaii's underserved communities.

Sincerely,

Dr. Diane Paloma
President and CEO

HB-662

Submitted on: 2/8/2023 7:48:12 AM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
frederick a.nitta, md, inc	FREDERICK A. NITTA, M.D.,INC.	Support	Written Testimony Only

Comments:

Please pass some form of tax relief for Hawaii health care providers, especially those in private practice. If not, the availability of providers will only worsen. This will lead to a monopoly by the hospitals and insurance companies which I believe is not in the best interest of patients. Furthermore, the cost will not be as high as predicted, as previous studies included all providers, many of which work for non-profits that already do not pay the GET.

Sincerely,

Dr. Frederick A. Nitta, M.D., Inc.



Peter A. Matsuura, MD
Orthopaedic Surgery & Sports Medicine

February 9, 2023

Peter A. Matsuura, MD

Orthopaedic Surgery
Sports Medicine

670 Ponahawai St.
Suite 214
Hilo, HI 96720
(808) 969-3331
Fax: (808) 935-6175

Dear House and Senate Chairs and Members,

I personally thank you all for your dedication and commitment to represent us in our government. Your role in passing this GET healthcare reform bill will make a huge difference in defending and protecting private medical practices in our state, for no other state taxes medical services.

The implication of this tax is far-reaching particularly to physicians who pay the GET as an out-of-pocket expense and not recognized and reimbursed by the federal government. With rising inflation and the economic challenges facing small business owners, it has been increasingly difficult to provide efficient and cost-effective medical care to our community. The pandemic caused our practices to face severe loss of revenue in 2020, 2021 and into 2022, against rising costs of supplies and services across the board, heightening the burden of the GET tax.

I represent one of the few solo private practice orthopaedic surgical offices in Hilo and in the State of Hawaii. We are facing lower Medicare reimbursements in 2023 while the number of Medicare covered patients continue to rise with the aging of our community. The welfare of our community is suffering as the number of private medical practices continue to decrease making it even more difficult for patients to access medical care apart from the federally subsidized entities like the state-run hospital clinics and federally qualified healthcare clinics.

I thank you for your consideration to this plea to vote in FAVOR of HB 240 and HB 662 and for Senators, SB 1035 for the reform of GET on healthcare services.

Sincerely,

Peter Matsuura, M.D.
Orthopaedic Surgeon

Sports Medicine & Arthroscopy,
Fellowship Trained
American Board of Orthopaedic Surgery,
Diplomate
American Academy of Orthopaedic Surgeons,
Member
American College of Surgeons,
Fellow

Member:
International Arthroscopy Association
International Society of the Knee
Peter J. Fowler, MD Fellowship Association
Arthroscopy Association of North America
American College of Sports Medicine
Orthopaedic Association
Hawaii National Guard, Retired Colonel

Joyful Living, LLC



JOYFUL LIVING, LLC
MATTHEW S. DYKEMA D.O
1248 KINOOLE ST #101
HILO, HI 96720-4171
PH: (808)935-8398 FAX: (808)934-8151

Dear Congressman and Congresswoman:

As way of introduction, I am Dr. Matthew Dykema, a family medicine physician in Hilo. I am writing to express my support of HB662 which seeks to exempt medical services from the Hawaii State General Excise Tax. I moved to Hawaii in 2012 to work at Bay Clinic, an FQHC (federally Qualified Health Center). I served as a family physician there for 4 years, prior to taking over a well-established private practice of a retiring physician in May 2017. My goal and vision of being a healthcare provider in Hilo is to offer compassionate and excellent care to all my patients and provide them with support and education, to foster an environment for healing, and to equip my patients to live their best life possible. I have the honor of caring for many diverse families: Mothers, Fathers, Children, Grandchildren, Grandparents and Great-Grandparents, over many social spectrums, ethnicities, and educational levels. These are your constituents who chose you to represent them and to make decisions on their behalf, in their best interest. It is my honor to care for them and help them in their most vulnerable times, and to help them navigate their health needs, as life comes and goes. I know that you also are honored to serve and represent them. You have a tremendous duty and responsibility to navigate the present, and to look forward to the future to ensure it is sustainable and that the needs of your constituents are met and cared for across all generations.

Over the last 11 years, of practicing medicine on Hawaii Island, I have seen the landscape of healthcare evolve, locally and nationwide. Unfortunately, the shortage of physicians has grown and access to quality primary healthcare continues to diminish. The trend seems to be larger health care institutes buying out smaller clinics for financial gain. Older physicians are either getting sick, dying, or retiring, and younger physicians are rightfully hesitant to come to our islands. Indeed, many younger physicians I know who had practices in Hilo have either left private practice, no longer accept insurance, or have closed their practices and moved to the mainland. It used to be that if you were a physician, you could expect to make a reasonable living for yourself and provide for your family. You could open a small business/practice and expect to do relatively well for yourself if you did a decent job of caring for those you served. I have found that in the state of Hawaii in recent years this is not at all the case. Due to increased regulations, reporting, administrative burdens, increased cost of operations, and decreasing reimbursements, it is now financially very challenging to cover the bottom line as a private family physician, let alone to be profitable. While I hope that I will be able to continue to practice medicine in Hilo for many decades to come, it is hard to see how the current market for healthcare is sustainable for more than a few more years. As reimbursements continue to drop, cost of living/operations increases, and administrative burdens increase, it is hard to see things adding up fiscally.



JOYFUL LIVING, LLC
MATTHEW S. DYKEMA D.O
1248 KINOOLE ST #101
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The demand for quality healthcare is greater than ever before in our state, however the supply of quality physicians and healthcare providers continues to be severely limited, as the market simply does not value physicians, and other healthcare providers. This is clearly demonstrated in the unusual taxation of healthcare services, and the extremely low reimbursements. The Hawaii state Medicaid program doesn't even reimburse at the already low Medicare rates for most services. Hawaii Medicare reimbursements are unfairly set to be amongst the lowest in the country, despite having amongst the highest cost of living and operations. In addition to low reimbursements, currently physicians must pay the GET on the services they provide for Medicare and Tricare patients, as we cannot pass that along to patients to pay, as federal law prohibits this. Additionally, we are absorbing the tax for most Medicaid patients. Depending on the interpretation of the law, perhaps we could pass the tax along to our Medicaid patients, but most physicians I know do not do this, as these are already the patients who are most financially vulnerable, and doing so may very well create yet another barrier to them receiving needed care.

It is with these things in mind that I would ask you to support and pass HB662 to help provide some fiscal relief for small medical practices; large hospital-based practices are already exempt. While HB662 does not fully fix our broken healthcare system it is a step in the right direction to line up with the other 49 states in our union and offer some hope to those of us who feel called to provide care to the people of Hawaii. As physicians, we want to be here, we want to care for the underserved. We want to care for you, your parents, your grandparents, and your children. However, if things do not change, it will likely become financially impossible for many small medical practices and physicians to remain open to care for those who need it most.

Thank you for your consideration in these matters and for your service to our community.

Sincerely,

Dr. Matthew Dykema, D.O. (Doctor of Osteopathy)

Joyful Living LLC, Owner, CEO

HB-662

Submitted on: 2/9/2023 8:47:47 AM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Christian Kitamura	Synergy Health LLC	Support	Remotely Via Zoom

Comments:

To whom it may concern,

My name is Dr. Christian Kitamura and I am a Board-Certified Internal Medicine Physician practicing in Honolulu, Hawaii. As a local girl, born and raised in Mililani, it was a long-standing dream to become a physician who could care for the people of Hawaii. After completing my college and medical school training in Los Angeles, California, at the University of Southern California and then the David Geffen School of Medicine at UCLA, I was finally able to come back home in 2013 to complete residency training at the University of Hawaii Internal Medicine Residency Program. The practice of medicine is uniquely challenging and rewarding here in Hawaii and I have been fortunate to have mentors along the way to teach me the differences that make Hawaii so unique.

I have had the privilege of working for both large corporations in Hawaii and now currently own my own private practice, Synergy Health LLC, working in partnership with Aloha Gastroenterology LLC to serve the growing population that deserves the right to screen, treat, and prevent Colon Cancer, the 3rd leading cause death in the United States. I also work closely with our University of Hawaii Medical students as Faculty in the Learning Community Program, helping to teach and influence the future of medicine here in Hawaii. As a young physician, riddled with hundreds of thousands of student loan debt from my medical school training, I personally suffer from the GET tax rules in Hawaii that my former colleagues on the mainland do not have to deal with, while also trying to make ends meet in a high cost of living environment and lower insurance reimbursements.

Queens, HPH, HMSA are all exempt from GET and have received CARES/pandemic-related funding while private practices have not. We are short over 1000 physicians in the state of Hawaii and have the fewest young doctors in the country due to the punitive tax laws for physicians in Hawaii.

Hawaii's patients have to pay both co-pays and the GET tax on healthcare, making healthcare unaffordable to some patients.

Healthcare providers must pay their Medicare patient's GET tax, and we often absorb the GET tax for Medicaid patients as well. For many healthcare services for Medicare and especially

Medicaid patients, current reimbursement rates have little or no profit margin, and the GET tax can result in the expense of the service exceeding reimbursements.

Hawaii is the only American state taxing Medicare, Medicaid and TriCare healthcare benefits. Hawaii has the fewest doctors availability to accept Medicare patients behind all other states and the District of Columbia per Wallethub.60% of Hawaii's entire population is on Medicare, Medicaid and TriCare programs. The Neighbor Islands have severe shortages of healthcare providers.

I do teach my medical students about these factors and yet still want ownership and the autonomy of entrepreneurship here in Hawaii. I urge the lawmakers to consider supporting this GET exemption if they truly want the future of healthcare in Hawaii to thrive, otherwise we will lose our locally-grown and educated talent to the mainland.

Sincerely,

Christian Y. Kitamura, MD

Synergy Health, LLC

Date: 03 Feb 2022

To: Hawaii State Legislature

From: Thomas B. Francis MD COL ret MC USA
San Miguel Endocrine, Inc
600 Kapiolani Blvd, Suite 201
Honolulu, HI 96813
Tel 808-450-2372 Cell 808-341-5589 Email tfrancis@smendo.com

Subject: HB 1919 Testimony

FOR RECORD

I am a clinical Endocrinologist DBA San Miguel Endocrine, Inc since 2011 in Honolulu. I have made monthly trips to run a one day Hilo Endocrinology clinic hosted by the QMC Subspecialty clinic who I pay to use clinic resources as well as pay to and from airfares including excise taxes both on the plane tickets as well as another excise tax on the airfare "stipend" HMSA incentivizes me to make these monthly visits so the same plane trip is being taxed TWICE, once on the front end when I buy it, and again when the State of Hawaii deems an HMSA stipend payment as revenue to my practice.

For at least the last 2 years, I have been the only Endocrinologist physically going to the Big Island to run this clinic. HPH stopped sending providers even before the Covid crisis. As a retired military Endocrinologist since 2009 and a civilian private practice Endocrinologist since 2011, I am extremely cognizant of the deficiencies of healthcare availability in Hawaii and the role of government, insurance companies, and pharmacy benefit managers in our healthcare system. Up until several years ago, we accepted Tricare and VA insurance but stopped doing so due to what can best be described as failure to pay, low pay, and resistance to supporting care when ordering test and prescriptions. I am also dual hatted as a VA and Tricare Beneficiary so have "experienced" these organizations not just as a health care provider but as a patient/beneficiary. We have never accepted Medicare or Medicaid patients due to the bureaucracy of working with these organizations as well as the low revenue. I have done free care thru QMC Cancer Clinic for these patients so I am well aware of the poor quality of care being provided by the few who take Medicaid, Tricare, and VA patients reminding me of the well-known axiom "You get what you pay for."

I would opine that applying the Excise Tax to private practices and not applying it to hospitals/corporations exacerbates an already gross pressure to end all private medical practices with government basically ordaining corporate and government medical providers the winners. It is well known how low insurance compensation already is in Hawaii compared to the mainland yet doing "business" in Hawaii is one of the highest in our nation. Secondly I would offer that physicians will not come to Hawaii, stay in Hawaii, or raise their families here when the economic compensation for some specialties is so low. Again government has chosen the winners and losers by setting national pay scales that favor high procedure oriented specialties like Dermatology which can generate \$1000 in revenue in minutes that would take an Endocrinologist hours to do the same with a lot more headaches. So the Excise Tax is just one more disincentive for low paying primary care/non-procedural specialties

like Endocrinology, Infectious Disease, Rheumatology, Pediatrics, Internal Medicine, and Family practice that has helped cause and exacerbate a progressive loss of physicians in these specialties and driving private practices into the ground.

So personally, I will tell you that I ended my medical practice at the age of 65 on 31 Dec 21 largely due to continuous financial losses and the stress of trying to overcome “many” obstacles besides the Excise Tax which is just another indictment of Federal and State government having chosen their winners (Corporations and certain medical specialties) and losers (Private Practice Primary Care and non-procedural Medical Providers like Endocrinologists). The real loser is the Big Island patients who have seen their last physical Endocrinology appointment for the foreseeable future. There are a lot of Oahu patients as well who are now finding it hard to find my “replacement”.

So yes, I would strongly encourage you to get rid of the Excise Tax but that is just the tip of the proverbial ice berg if you want to improve the supply and quality of physician healthcare in Hawaii.

Mahalo for your reading this.

Thomas B. Francis MD retired 31 Dec 21



Hawaii Medical Association

1360 South Beretania Street, Suite 200 • Honolulu, Hawaii 96814
Phone: 808.536.7702 • Fax: 808.528.2376 • hawaiimedicalassociation.org

HOUSE COMMITTEE ON HEALTH & HOMELESSNESS

Representative Della Au Belatti, Chair
Representative Jenna Takenouchi, Vice Chair

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

Representative Daniel Holt, Chair
Representative Rachele F Lamosao, Vice Chair

Date: February 10, 2023
From: Hawaii Medical Association
Beth England MD, Co-Chair, HMA Public Policy Committee

Re: HB 662 Relating to the General Excise Tax - General Excise Tax; Exemption;
Medicare; Medicaid; TRICARE
Position: Support

The purpose of this measure is to exempt medical service providers who receive Medicare, Medicaid, and TRICARE payments from the general excise tax. The worsening healthcare crisis in Hawaii is a tremendous hardship and source of suffering for our citizens. Enrollment in Hawaii MedQUEST (Medicaid program) has jumped 40% since the start of the COVID-19 pandemic. The 2022 Access to Care CDC-funded comprehensive statewide survey of patients and providers found that low-income individuals experience incredible delays and barriers to healthcare services. Native Hawaiians and Pacific Islanders are particularly affected.

Causes for healthcare disparities are multifactorial, but are unquestionably linked to the unremitting decline in our Hawaii physician workforce. The estimated unmet need for physicians is approximately 776 full-time equivalents (FTE) with percentage shortages most profound on the Big Island.

	Hawai'i County	Honolulu County	Kaua'i County	Maui County	Statewide
Shortage	183 (187)	382 (344)	45 (43)	167 (158)	776 (732)
Percent	37% (40%)	15% (15%)	26% (26%)	40% (40%)	22% (22%)

(continued)

2023 Hawaii Medical Association Officers

Angela M. Pratt, MD, President • Elizabeth Ann Ignacio, MD, President Elect • Michael Champion, MD, Immediate Past President
Nadine Tenn-Salle, MD, Treasurer • Thomas Kosasa, MD, Secretary • Marc Alexander, Executive Director

2023 Hawaii Medical Association Public Policy Coordination Team

Elizabeth Ann Ignacio, MD, Chair • Beth England, MD, Co-Chair
Linda Rosehill, JD, Government Relations • Marc Alexander, Executive Director

While efforts toward expansion of healthcare training programs and loan repayment play a vital role in physician recruitment and retention, they do not address the challenge facing many physicians currently practicing in Hawaii. A large number of the physician practices do not have the financial capacity to continue providing quality care in the face of ever-decreasing Medicare/ Medicaid reimbursements coupled with the General Excise Tax (GET). Healthcare providers must absorb this tax, which federal law forbids passing to patients.

As more physician practices are crushed under the heavy weight of practice expenses, our most vulnerable patients, particularly those in rural and underserved communities, cannot access local providers in a timely fashion to receive the diagnosis and treatment they desperately need. HMA urges legislators to support a GET exemption for medical services of Medicare, Medicaid and TRICARE providers, as a reasonable and essential step in the future survival and sustainability of our Hawaii healthcare.

Thank you for allowing the Hawaii Medical Association to testify in support of this measure.

References and Quick Links:

Cocke S. Hawaii Medicaid enrollment up 40% since start of pandemic. Honolulu Star Advertiser Dec 19 2022.

University of Hawaii System Annual Report. Report to the 2023 Legislature. Annual Report on findings from the Hawaii Physician Workforce Assessment Project. Dec 2022.

Access to Care. Health for our communities. Community First Hawaii. July 2022 Report.

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Be

Dr.  Smith

FAMILY MEDICINE

Esther Y. Smith, MD

—

Dr. Smith Family Medicine
79-7266 Mamalahoa Hwy Ste #3
Kealahou, HI 96750

Feb 9, 2023

I write in support of HB662.

I provide personal, quality primary care to some 2,500 patients with 4-8 new patients coming in every week. My clinic is one of many in Hawaii that is on the edge of closure.

I take every form of state Medicaid because I believe in health care equality enough that I have made incredible financial, emotional, and physical sacrifices to provide it. However, no one should be asking that of future providers, and it certainly isn't a recruitment strategy.

When I started my clinic 4 years ago, I did so on the back of my mainland hospitalist job. I was looking to re-enter primary care and I made the decision to come to Big Island after a call with a Hawaiian woman where she told me how her families family physician had retired and she begged me to come take his place. I discovered that Big Island had a horrible primary care crisis and thought I could both make a living and help people: if there were so many patients needing care clearly I worked nightshifts at my hospital in Arizona to support myself and my new business. I had left my hospital job when I thought I could support myself and the clinic after I had taken on the second panel of patients I had been asked to take. It was February 2020.

My clinic was open through the pandemic, providing in person care throughout the early days when we had no treatments or vaccines. We often saw only one or two people in person and it was a struggle. I

took on my third panel of patients from a retiring doc June of 2020. We continued to grow and in January of 2022 I hired a nurse practitioner with the plan to take on our 4th panel from a retiring physician. I thought that since we would have some many more patients and patient visits that we should be able to support the increased staffing. Sadly, this has not been the case, the cost of seeing more patients is causing us to lose money. The clinic is currently being supported by my retirement savings from the mainland and we will be reducing our staff soon.

I'm just an example. Reimbursement in Hawaii doesn't keep clinics or hospitals open. Funding through grants and large corporations with their large contracts keep facilities open. These monies still come from state and federal sources – but somehow funding health care by channeling expenditures through emergency spending and huge organizations is more palatable to policy makers. I ask why it isn't possible to just pay providers appropriately for the work they do directly by increasing Medicaid payments to at least 100% of Medicare rates and to 110% as they do in Alaska. Further, having unfair taxes on providers who see Medicare, Medicaid and Tricare patients is so counterproductive it is inexplicable.

Inflation and the increases in home prices would make it impossible for someone like me to do what I did in 2019. I am taking on a hospital position to keep our doors open. No amount of student loan repayment or increases in med-school class size will recruit or retain providers if reimbursement and tax rates remain unchanged.

Please intervene for my patients who rely on me and my staff who love to serve them.

Esther Y. Smith, MD



1001 Bishop Street | Suite 625 | Honolulu, HI 96813-2830
1-866-295-7282 | Fax: 808-536-2882
aarp.org/hi | aarphi@aarp.org | twitter.com/AARPHawaii
facebook.com/AARPHawaii

The State Legislature
House Committee on Health and Homelessness
House Committee on Economic Development
Friday, February 10, 2023
Conference Room 329, 9:10 a.m.

TO: The Honorable Della Au Belatti, Chair
The Honorable Daniel Holt, Chair
RE: Support of Intent for HB 662 Relating to General Excise Tax

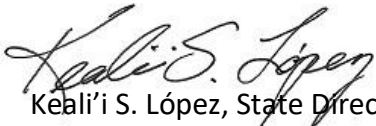
Aloha Chairs Belatti and Holt, and Members of the Committees:

My name is Keali'i Lopez and I am the State Director for AARP Hawai'i. AARP is a nonpartisan, social impact organization that advocates for individuals age 50 and older. We have a membership of nearly 38 million nationwide and nearly 140,000 in Hawaii. We advocate at the state and federal level for the issues that matter most to older adults and their families.

AARP supports the intent of H.B. 662 which exempts medical services provided by health care providers to patients who receive Medicaid, Medicare or TRICARE benefits from the general exercise tax.

There are approximately 279,000 Medicare beneficiaries in Hawai'i and AARP strongly encourages the State to explore different avenues and opportunities to increase patient access to health care providers. These patients especially kūpuna, residents in rural areas and others with limited income and health care coverage need as many physicians as possible to accept and take patients with the noted forms of healthcare coverage. This proposal is a start, however more significant efforts need to be made including reimbursement rates and other incentives that ensure Hawaii residents have access to quality, timely healthcare services and a robust healthcare workforce to keep all Hawai'i residents healthy and well. Thank you very much for the opportunity to testify in support the intent of **H.B. 662**.

Sincerely,


Keali'i S. López, State Director

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exemption for Medical Services for Medicare; Medicaid; TRICARE

BILL NUMBER: SB 1035, HB 662

INTRODUCED BY: SB by INOUYE, CHANG, KEITH-AGARAN, MCKELVEY, Wakai; HB by BELATTI, AMATO, HUSSEY-BURDICK, KAPELA, KOBAYASHI, MARTEN, MIZUNO, NISHIMOTO, TAKENOUCI, TAM, TARNAS

EXECUTIVE SUMMARY: Exempts medical services provided by health care providers to patients who receive Medicaid, Medicare, or TRICARE benefits from the general excise tax.

SYNOPSIS: Amends section 237-24.3, HRS, by adding a new paragraph providing an exemption for amounts received by a hospital, infirmary, medical clinic, health care facility, pharmacy, or a medical practitioner for health care related goods or services purchased under the Medicare, Medicaid, or TRICARE program. Services need not be performed by a medical practitioner but may be performed by a physician's assistant, nurse, or other employee under the medical practitioner's direction.

Defines "medical practitioner" as a physician or osteopathic physician, licensed pursuant to chapter 453; an advanced practice registered nurse licensed pursuant to chapter 457; or a pharmacist licensed pursuant to chapter 461.

Defines "Medicaid" as the program established under Title XIX of the Social Security Act of 1935, as amended.

Defines "Medicare" as the program established under Title XVIII of the Social Security Act of 1935, as amended.

Defines "TRICARE" as the program of the Department of Defense military health system managed by the Defense Health Agency, or any successor program."

EFFECTIVE DATE: Taxable years beginning January 1, 2024.

STAFF COMMENTS: As stated in the bill's preamble, medical services rendered at a nonprofit hospital, infirmary, or sanitarium are exempt from the tax, whereas the same services rendered by individual or group practices or clinics are fully taxable. Insurance providers and Medicare do not compensate for the tax differential, leading some health care providers to bear additional economic costs.

This problem is especially acute when the payer is a governmental health program. Medicare regulations (42 CFR sec. 424.55(b)) prohibit the surcharging of most additional costs to patients, including taxes. Medicare Claims Processing Manual, ch. 23, sec. 80.3.1.A

(<https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads-/clm104c23.pdf>) . We understand that Medicaid and TRICARE have similar prohibitions.

In the meantime, there is a physician shortage in Hawaii that has been well documented. The final Hawai'i Physician Workforce Assessment Project Report for 2020 (https://www.hawaii.edu/govrel/docs/reports/2021/act18-sslh2009_2021_physician-workforce_annual-report_508.pdf) conducted by the University of Hawai'i at Mānoa John A. Burns School of Medicine (JABSOM) and submitted to the Hawai'i State Legislature in December 2020, the pandemic has challenged continued physician practice in Hawai'i and is expected to increase the relative shortage of physicians for the state for the next several years as older physicians leave their practices.

Some physician groups have alleged that the GET applied to medical services has been one of the drivers of this shortage. This assertion is backed up by the 2008-2010 experience of Hawaii Medical Center (HMC), a for-profit hospital which went into bankruptcy and tried to reorganize as a nonprofit. That plan, according to HMC's then-CFO, would relieve the hospitals of as much as \$6 million in annual taxes, including general excise and property taxes.

The Foundation does believe that there is evidence supporting an industry-specific GET exemption here.

Digested: 2/1/2023



February 10, 2023

9:10 a.m.

VIA VIDEOCONFERENCE

Conference Room 329

To: House Committee on Health & Homelessness

Rep. Della Au Belatti, Chair

Rep. Jenna Takenouchi, Vice Chair

House Committee on Economic Development

Rep. Daniel Holt, Chair

Rep. Rachele F. Lamosao, Vice Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

RE: HB662 — RELATING TO THE GENERAL EXCISE TAX

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [HB662](#), which would provide a general excise tax exemption for medical services provided by healthcare providers to patients who receive Medicare, Medicaid or TRICARE.

With this bill, the Legislature would bring Hawaii into the mainstream of states that do not tax medical services on Medicare, Medicaid or TRICARE. At present, Hawaii is one of only two states that levies a tax on medical services and the only state to tax Medicare and TRICARE.

Nonprofit facilities are currently exempt from the GET, but private practice physicians are not. Thus, private practice doctors and clinics must pay the 4% GET plus any county surcharge.

As the Grassroot Institute explains in its new report, "[The case for exempting medical services from Hawaii's general excise tax](#)," the GET becomes a significant expense for doctor offices, making it difficult for such practices to thrive in our state.

A further problem comes with the application of the GET to TRICARE, Medicare and Medicaid beneficiaries. As explained in the Grassroot Institute report, the GET cannot legally be passed on to TRICARE or Medicare patients, forcing doctors to absorb those costs entirely.

Similarly, in the case of Medicaid, doctors are forced to either pursue an indigent patient for their share of the GET, which may result in higher administrative costs than can be recouped, or deny service based on the patient's inability to pay the tax.

Under the circumstances, many private practice doctors consider it impossible to pass the tax on to Medicaid patients as well.

The result is that physicians are either disincentivized from treating Medicare, Medicaid and TRICARE patients or forced to absorb the GET for those patients.

Fortunately, there is a simple and effective solution, as described in this bill: Create a GET exemption for medical services provided to Medicare, Medicaid and TRICARE patients.

According to research from the Grassroot Institute of Hawaii, exempting all medical services from the excise tax would help make healthcare more affordable in the state for both doctors and residents.¹

Healthcare spending for medical services in Hawaii totals about \$9 billion a year, of which the for-profit private sector accounts for \$5 billion. An exemption from the state's 4% GET would save private, for-profit medical providers approximately \$200 million. Waiving the GET surcharges imposed by the counties would save an additional \$22 million more.

This would result in substantial savings for individual practices. According to the Grassroot Institute study, the savings from that base 4% GET exemption would be about \$5,275 each for the approximately 38,000 full-time workers in the medical industry. That's the equivalent to 6.7% of the average medical service worker's wage and 5.8% of current GET collections.

Of course, those figures are for all medical services, not solely those services provided to Medicare, Medicaid and TRICARE patients. Thus, the loss of revenue from this exemption would be less, as would the savings to doctor offices and clinics.

In any case, given that the state is projecting a surplus of more than \$10 billion over the next four years, the budget could easily absorb the expense of this exemption.

There are other possible benefits to this exemption. Not only would it help reduce the cost of medical care for Hawaii residents, it likely would help alleviate the state's doctor shortage.

¹ ["How the state GET affects healthcare costs in Hawaii."](#) Grassroot Institute of Hawaii, January 2020,

The most recent report from the Hawaii Physician Workforce Assessment Project estimates that the state has an unmet need for 776 full-time equivalent physicians. The largest area of need is in primary care, but there are significant shortages across multiple specialties.

The COVID-19 crisis helped emphasize the importance of improving healthcare access in Hawaii. It also demonstrated that we must pursue multiple strategies to address the shortage of healthcare professionals in the state.

Luring new doctors to Hawaii — and keeping those who are already here — is a complicated proposition. Many proposals would take years to demonstrate success in addressing the issue.

In the meantime, Hawaii residents will continue to suffer from the shortage of available medical professionals and the high cost of healthcare in our state.

It is hard to know exactly how beneficial this GET exemption for medical services would be, but at least it would remove a major burden for existing local practices.

If this bill prevents more doctors and clinics from leaving the state or closing, it will have accomplished its goal.

At minimum, the bill might help address the disincentive that currently exists for private practice physicians to treat Medicare, Medicaid and TRICARE patients, as they will no longer be forced to absorb the cost of the GET in those cases.

It is common practice for the state to use GET exemptions to encourage or aid certain industries. Hawaii already exempts petroleum refining, orchards, and aircraft maintenance and leasing from the GET. We think healthcare is at least as important as any of those industries, if not more so, and I would hope that the members of this committee think so too.

State policymakers are rightly concerned with making healthcare more affordable and addressing the shortage of medical professionals in Hawaii. By creating a general excise tax exemption for medical services provided under TRICARE, Medicare and Medicaid, there is an opportunity to make Hawaii a more attractive — and less expensive — place to practice medicine.

Thank you for the opportunity to submit our comments.

Sincerely,
Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

February 8, 2023

Dear Legislatures,

Thank you for your consideration of HB662 (Companion Bill to SB1035) as it relates to GET exemption of medical services provided by health care providers to patients who receive Medicare, Medicaid, and TRICARE benefits.

Hawaii has the lowest rate of Medicare acceptance in the entire Nation¹. We have a physician shortage in Hawaii, particularly on the neighbor islands.² The physicians on Oahu are tasked with caring for patients from all islands. It is increasingly difficult to obtain a visit with a primary care physician or a specialist, especially if you have Medicare, Medicaid, or TRICARE. This problem will only get worse if we do not take active steps towards finding a resolution.

The problem is multifactorial and we must address all root causes – some of these are economic. The Hawaii GE tax law is part of the problem for both patients and physicians. Hawaii is only one of two states in America that imposes gross receipt tax on *all* healthcare services, and *we are the only state that taxes gross reimbursements on Medicare and TRICARE services*^{3,4}. In Hawaii, medical practices visibly pass-through the GE tax to patients with private/commercial insurance. This GE tax is particularly financially impactful to patients requiring recurring medical treatment such as recurrent chemotherapy infusion, regular allergy shots, rehabilitation care, multiple cardiac testing for chest pain, or regular office visits to treat their diabetes. Is it ethical to tax patients for medical care that is medically necessary in addition to their copays and premiums? Why are we one of the few states taxing patients for being sick?

On the physician side, the GE tax is most relevant to physicians who take care of patients with Medicare/Medicaid/TRICARE, our more vulnerable population of patients. **The GE tax cannot be passed on to patients with Medicare⁵/Medicaid⁶/TRICARE⁷**. Hawaii already has one of the lowest Medicare reimbursements in the nation⁸ and the GE tax amplifies this further, making Hawaii's effective Medicare reimbursement rate the lowest in the country. Taken together with the fact that reimbursement rates are significantly higher for private insurance⁹ and that we have a significant physician workforce shortage in Hawaii¹⁰, this creates a situation where medical practices may select patients based on their insurance carrier to remain economically viable. I would hypothesize that many other types of businesses would also fail in Hawaii if they too could not pass through the GE tax.

References

¹ <https://www.beckersasc.com/asc-coding-billing-and-collections/10-states-with-the-lowest-highest-medicare-acceptance-rates.html>

² [file:///ewr-dc01/Folder%20Redirection/cpau/Downloads/act18-sslh2009_2023_physician-workforce_annual-report_508%20\(2\).pdf](file:///ewr-dc01/Folder%20Redirection/cpau/Downloads/act18-sslh2009_2023_physician-workforce_annual-report_508%20(2).pdf)

³ <https://salestaxhelp.com/medical-services-taxable>

⁴ https://www.nmms.org/wp-content/uploads/2018/08/grt_updated_guide_2007.pdf

⁵ Medicare regulations (42 CFR sec. 424.55(b)) prohibit the surcharging of most additional costs to patients, including taxes. Medicare Claims Processing Manual, ch. 23, sec. 80.3.1.A (<https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Downloads/clm104c23.pdf>)

⁶ Network provider agreements prohibit providers from passing along the GET to Medicaid beneficiaries

⁷ https://www.tricare-west.com/content/hnfs/home/tw/prov/res/provider_news/clarification-on-hawaii-general-excise-tax-reimbursement.html (More information about sales tax in the TRM, Chapter 5, Section 1 and TRICARE Policy Manual, Chapter 1, Section 12.1)

⁸ <https://www.gao.gov/assets/720/718915.pdf>

⁹ <https://www.kff.org/medicare/issue-brief/how-much-more-than-medicare-do-private-insurers-pay-a-review-of-the-literature/>

¹⁰ <https://www.ahec.hawaii.edu/workforce-page/>

With the high cost of practice in Hawaii and the challenges of growing competition with hospitals to retain qualified staff, most small medical clinics operate on small margins. Many of my colleagues have had to make the difficult decision to discharge their patients once they transition to Medicare/Medicaid in order to meet their financial obligations and keep their clinic open. Can you imagine being a patient and not being able to see your doctor of 20+ years anymore just because you are retired and have Medicare? These patients shift to centers such as ours, but we are overwhelmed by the volume and cannot accommodate patients in a timely manner with wait time often exceeding 6 months. I have personally continued to see Medicare and Medicaid patients because I grew up in Palolo Housing and was a former Medicaid beneficiary in my childhood, so I have a social debt of gratitude to repay. However, my colleagues may not have this debt, so we need to remove the barriers preventing their ability to care for these patients. We need more medical practices to accept Medicare, Medicaid, and TRICARE, and need to actively eliminate contributory barriers.

The truth is this: Physicians *don't want to accept patients based on their health insurance, but many have to make that difficult decision in order to keep their practice sustainable. Yet, physicians still have a choice to accept or not accept Medicare/Medicaid/TRICARE. But it's the patients with Medicare/Medicaid/TRICARE who are left without a choice. Thus, the GET is not truly a physician's dilemma. This is a patients' dilemma affecting healthcare access and options.*

Pass this bill – so we can retain and recruit physicians to care for our kūpuna, keiki, and veteran 'ohana and provide them with access to healthcare that they deserve.

With gratitude for your consideration of GE tax reform,

Cindy Pau, M.D.

HB-662

Submitted on: 2/7/2023 3:48:51 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
lynne matusow	Individual	Support	Written Testimony Only

Comments:

It is inconceivable that people receiving health care, a basic human need, pay GET for the service. I wholeheartedly support this bill. A wrong must be righted.

HB-662

Submitted on: 2/7/2023 4:17:46 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
B.A. McClintock	Individual	Support	Written Testimony Only

Comments:

Please support this bill.

HB-662

Submitted on: 2/7/2023 6:39:12 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Lynn Murakami Akatsuka	Individual	Support	Written Testimony Only

Comments:

In strong support of the passage of HB 662. We can't afford to lose any more health care providers. I would like to propose that we have the bill be retroactive to January 1, 2023 or earlier than January 1, 2024 that is on the bill. We have lost many health care providers already and need to stop the bleed.

HB-662

Submitted on: 2/7/2023 8:27:52 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Allen Novak	Individual	Support	Written Testimony Only

Comments:

I wish to testify in support of HB 662.

I initially lived on Oahu but have been a resident of Hilo for 30 years and a practicing nurse.

Hawaii has a severe shortage of healthcare providers, with some of the worst shortages of primary care providers in America. The shortage is not as significant on Oahu as it is on the neighbor islands. Hawaii Island has a shortage of over 40%.

I personally have had problems accessing a primary care provider in the East Hawaii Island area, and have not received the healthcare which I, as a nurse, know I needed.

Medical practices are under considerable financial stress due to rapidly rising costs and falling reimbursements from insurance programs. Hawaii's unique taxation of healthcare services with the General Excise Tax amplifies the challenges facing medical practices by taxing gross revenues, even when providers break even or lose money providing healthcare services. One reason medical private practice is dying is because Hawaii has the highest cost of living in the nation, by far, and the near-lowest insurance reimbursements in the nation. On top of that, Hawaii is the ONLY state in the nation to tax the Federal health insurance programs Medicare, Medicaid (Quest) and Tri-Care (military), which combined is 50% of all people in our state. By federal law, this 4.7% GET tax cannot be passed on to patients. A 4.7% GET on practice gross receipts is more like a 11-25% hit to their net income.

Please help save medical practices in Hawaii by supporting HB 662.

Allen Novak

HB-662

Submitted on: 2/8/2023 1:25:11 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Eric Wyatt	Individual	Support	Written Testimony Only

Comments:

Hawaii with its GE tax is the only state that taxes health care providers for Medicare, Medicaid and Tricare programs placing an undue burden on healthcare providers who by federal law cannot pass this cost on. With current reimbursement levels this often results in a loss for the providers or markedly decreases their income. I have seen this personally in my practice.

I came to Hawaii almost 23 years ago and am that last physician hired by the group that has stayed. In that time we have had 20 physicians come and leave the state. In large part due to financial issues. our practice has decreased in size and we are unable to hire or attract new physicians as the older ones retire. I don't want to join the ones that have left but may have to make that decision due to declining income and inability to pay for appropriate staffing.

Although it may not be as noticeable on Oahu, here in Hawaii, the pressure this excessive tax burden placed on private practices has driven many to retire early or leave after opening a practice after a few years. This has caused an extreme shortage of qualified providers. Our ER and hospitals are constantly over capacity because people lack the ability to get health care outside of that system. Not only are they unable to get continuity of care they deserve from having a primary care provider, the state and insurance companies end up paying more for ER visits than outpatient visits. It also decreases the quality of care for other patients in the hospital who are now served by overworked staffing. Compounding on this, I have seen many nurses retire or quit their jobs because of job burn out.

Other bills I've seen such as giving a tax credit to patients will not address the issue of lack of providers who will still be forced to pay the GE tax since they are unable to pass that expense along to many of their patients. We need more providers and this is only one part of many that will be needed before the situation improves.

Passing this bill will help attract and retain the physicians needed in our state to provide the care our people need. Based on previous analysis by Dr Wade it will also create more jobs as more practices open and hire staff, offsetting the slight decline in revenue the state receives. Not passing this will only continue the downward trend I have seen in the health care provided and place increasing burden on the already strained system. Maybe you are not aware of how close the system is to crashing being sheltered as lawmakers, but not acting now will end up being

more expensive in terms of the health of the population and in terms of fixing the problem of physician shortage.

Eric R Wyatt MD

HB-662

Submitted on: 2/8/2023 2:03:08 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Kyle F. Chun	Individual	Support	Written Testimony Only

Comments:

Will provide pre-recorded video testimony via Cindy Ta, MD

HB-662

Submitted on: 2/8/2023 4:47:46 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Edward Gutteling, M.D.	Individual	Support	Written Testimony Only

Comments:

Dear Representatives:

I write in urging you to approve this bill to exempt medical services from paying GET on receipts from Medicare, Medicaid and TriCare (the Federal insurance programs).

I have been the official team orthopedic surgeon for the University of Hawai'i - Hilo Vulcan athletics since 1992, a period during which I have brought to the Big Island and tried and failed to recruit 3 spine surgeons and about 7 other orthopedic surgeons to remain in practice in Hilo.

After an initial period, all of them left.

All.

As you should know, we have an alarming lack of physicians in Hawai'i, at a rate that is accelerating.

Why is that?

Because docs work too hard,

and get paid too little.

There are greener pastures where ALL can (and DO !) go to.

In addition to the "paid too little" (with near lowest insurance reimbursements in the nation, and highest by far (!) cost of living), then the docs suffer the insult of being in the ONLY state in the union that taxes them on the gross receipts from these Federal insurance programs, which by Federal law they are forbidden under penalty of Federal sanction and loss of practice to pass on to patients.

This is in direct contrast to those docs employed by Federally subsidized (!) hospitals and not-for-profit clinics, who are already exempt, and is an additional insult.

It's not a good look for the "Aloha State", to reward them like that for taking on the lowest-paying insurances for caring for the poorest of our community.

It's 4.7% of their gross, off the top, and translates into 11-25% of their net (depending on practice overhead, etc)

It's a big hit to them all.

And it's not even a rounding error on the state budget, currently running \$multi-Billion surpluses, for last few years.

As in all abusive relationships, eventually one leaves.

The docs are leaving.

Please help stop that, and end the unjust and harmful GET on medical services.

Warmest aloha

Edward Gutteling, MD, FAAOS

Team orthopedic surgeon, University of Hawai'i- Hilo athletics

HB-662

Submitted on: 2/8/2023 9:23:25 PM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Support	Written Testimony Only

Comments:

Please support HB662.

HB-662

Submitted on: 2/9/2023 9:57:27 AM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Timothy Jahraus	Individual	Support	Written Testimony Only

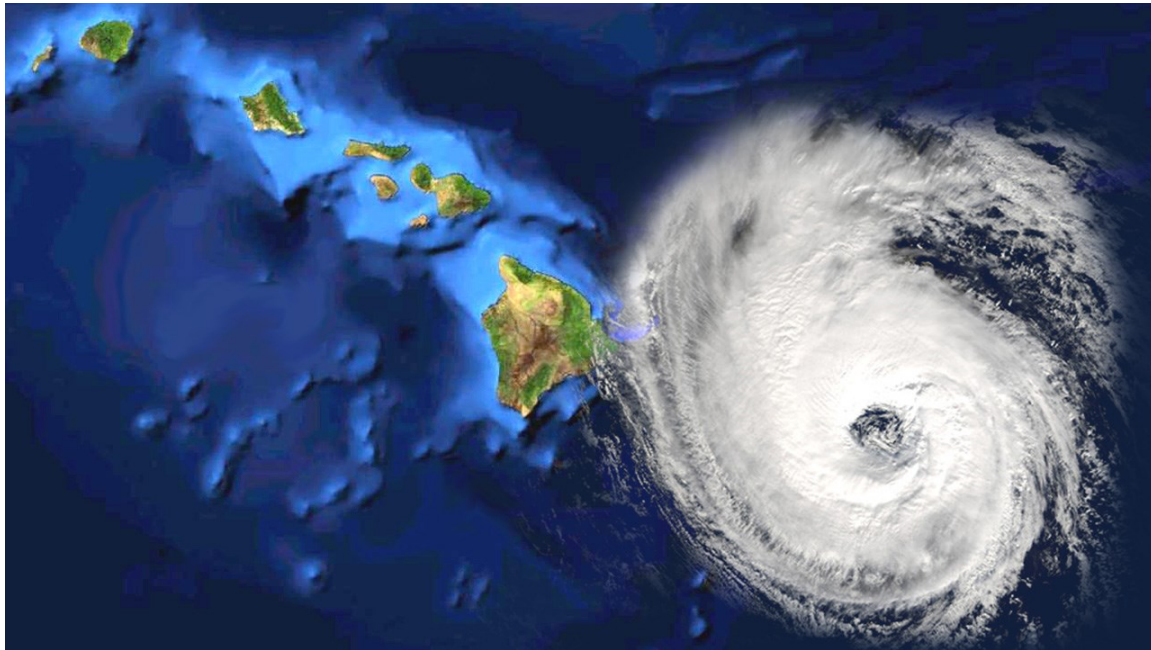
Comments:

I wholly support the proposed legislation regarding GET exemption for healthcare providers providing services to our Medicaid and Medicare patients. Our outer islands in particular are desparately short of providers. It is extremely difficult to compete for new providers given the high cost of living in Hawaii and lower reimbursement for medical providers. It is becoming a crisis situation for outer islands and any assistance the legislature can provide is greatly appreciated. Mahalo for your consideration.

Perfect Storm: Aftermath The Hawaii Physician Shortage Crisis 4th Edition. 2023

“Look, look at this. We got Hurricane Grace moving north off the Atlantic seaboard. Huge... getting massive. Two, this low south of Sable Island, ready to explode. Look at this. Three, a fresh cold front swooping down from Canada. But it's caught a ride on the jet stream...and is motoring hell-bent towards the Atlantic. What if Hurricane Grace runs smack into it? Add to the scenario this baby off Sable Island, scrounging for energy. She'll start feeding off both the Canadian cold front...and Hurricane Grace. You could be a meteorologist all your life and never see something like this. It would be a disaster of epic proportions. It would be...the perfect storm.”

The Perfect Storm: Sebastian Junger



“Look, this is bad. The Storm has hit. Medicare payments went down another 2% and adjusted for inflation, have free fallen 22% since 2001. Docs are moving to the mainland. The Hawai'i General Excise Tax is stifling Private Practice. Hawai'i docs are getting older, retiring and dying! There's a 37% shortage of Docs on the Big Island?! And Maui has hit 40%! Medicare ran smack into GET and government looks the other way. Add in payors that benefit when the “Care's Not There

You could be politician all your life and never see something like this. It is an epic self-inflicted disaster. It is the perfect storm.”

Hawaii Physician Shortage Crisis Task Force: John Lauris Wade MD

The Perfect Storm

There is a 40% shortage of physicians on Maui.

There is a 37% shortage of physicians on the Big Island.

There are 3873 unfilled non-physician healthcare jobs in the State.

The number of unfilled jobs has increased 76% increase since 2019.

On average, open positions take 6-12 months to fill. Not a single healthcare profession is in a state of “oversupply.”

The Hawai'i healthcare system is in trouble. Physician supply is the Canary in the Coalmine.

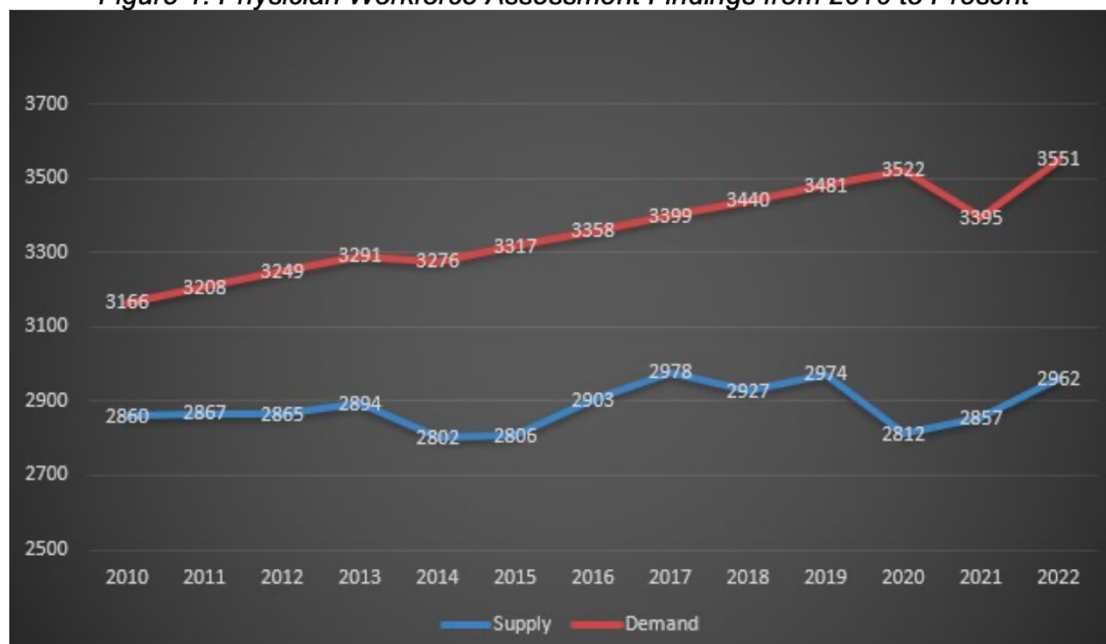
21% of Hawaii physicians are over age 65. Five Hawaii Physicians are still practicing at age 90.

Largely ignored by our Political Leadership, the shortage has existed and grown for more than a decade. The current unmet need is 776 Physicians.

“The Annual Report to the Legislature on Findings from the Hawai'i Physician Workforce Assessment Project” was released in December 2022.

There are three key takeaways.

Figure 1: Physician Workforce Assessment Findings from 2010 to Present



1. Unadjusted statewide demand for Physicians is up 12.2% since 2010.
2. Unadjusted statewide supply is up a mere 2.9% in the same period.

Table 2: Shortage by County (Prior year numbers in parentheses)

	Hawai'i County	Honolulu County	Kaua'i County	Maui County	Statewide
Shortage	183 (187)	382 (344)	45 (43)	167 (158)	776 (732)
Percent	37% (40%)	15% (15%)	26% (26%)	40% (40%)	22% (22%)

3. Shortages are much worse on Neighbor Islands than on Oahu.

For perspective, the first published Annual Report was released 16 years ago. Today's Medical School Seniors were infants when it came out. That's a lot of time to accomplish so little.

Readers with a good memory might recall that the Big Island Physician Shortage measured 53% in 2021 while the statewide shortage was 29%. This "improvement" is an illusion. Measurement methodology changed, the total number of physicians practicing in Hawaii changed little.

Hawaii's total number of FTE Physicians in pre-pandemic 2019 was 2974. That number is now 2962. We lost ground.

Unadjusted Physician Demand is 3551. Supply is 2962. That is a shortage of 559.

"When Island Geography is considered, the estimated unmet need increases to 776."

The current path remains unsustainable.

Healthcare access for our most vulnerable patients is at stake.

Federal Leadership Matters

“We have a doctor shortage crisis in Hawai’i, and it is having a real impact on families living in hard-to-reach areas across the state. We need to bring more doctors to communities that need them most.”

US Senator Brian Schatz (D-HI)

Hawaii’s Healthcare Future

Hawaii residents deserve excellent healthcare. Excellence is driven by attention to quality, cost, and access. The record is outstanding. In 2023 the United Health Foundation ranked Hawaii 3rd healthiest state in the nation. The ranking includes measures of healthy behavior, quality of health care when delivered, health policy, the presence of disease, and measures of deaths from illness.

The Physician Shortage threatens these achievements, particularly for economically vulnerable patients. The Hawaii economy is dependent on travel in a Post Pandemic World. Hawaii needs a robust Healthcare System to fulfill its vision of making Hawaii the “Safest Place on Earth” to which to travel or in which to live.

The Physician Decision

Many factors are involved when choosing a state in which to work and practice medicine. A short list might include school system, local health care, the local economy, state fiscal stability, infrastructure, job opportunity quality, crime, recreational opportunities, and environment.

Medscape 2022 ranks HI as the 21st Best State to Practice Medicine. Hawaii was a loftier 16th in 2020. Wallet Hub 2022 places HI as the #43rd Best State to Practice Medicine, bottom of the pack, when economic issues are more heavily weighted.

World Population Review 2022 outlines what one must accept when living in Hawaii.

- HI Transportation Costs 134 % higher than the National Average.
- HI Grocery Bills 153% higher than the National Average.
- HI Utility Bills 164% higher than the National Average.
- HI Housing Costs 315% higher than the National Average.
- HI Cost of Living 193.3% higher than the National Average

Hawai’i has the highest cost of living in the nation and physicians have voted with their feet. In June 2022, the United States annualized average inflation rate hit 9.1%. That won’t make this better.

**The Hawaii Physician Shortage Crisis Task Force asserts
the Physician Shortage Crisis is primarily driven by economics.**

A Perfect Storm has destroyed the ability to recruit and retain Physicians.

Storm Front 1: **Hawaii Has a Medicare Issue**

Powerful Central Pacific Hurricanes begin as small tropical depressions within the Gulf of Tehuantepec. Similarly, the Hawaii Medicare Crisis begins as a barely noticed feature of the Physician Medicare Payment Formula: GPCI.

Medicare's Primacy

Physician practice revenue has three sources: Medicare and Tricare, Medicaid, and private third party Health Insurers. Medicare payments are based on a formula set by Federal Government. Hawaii Medicaid payments are par with Medicare. Private Health Care Insurers base payment schedules on Medicare. Discussions of Medical Practice revenue streams should largely center on the Medicare Program.

Medicare Payments

Payments are adjusted for geographic differences in market condition and business costs. These geographic adjustments intend to ensure provider payments reflect local costs of rendering care, so Medicare does not overpay in certain areas or underpay in others. The adjustment mechanism is called a GPCI or Geographic Price Cost Indices.

On a simple level Medicare calculates a physician payment as follows.

Payment = (Work RVU * Work GPCI) * Conversion Factor (CF).

Physician compensation largely depends on what task was performed (Work RVU) and where (Work GPCI). This is then converted into dollars by (CF). Small additional payments are added for practice expense and malpractice costs.

Payments are not designed to account for variations in cost of living. CMS does not adjust payments to address workforce shortages or other policy goals. CMS takes the position that preserving access to care and other policy goals must be achieved explicitly through legislation.

Medicare uses a Geographic Practice Cost Index (GPCI) to address cost differences across between different geographic locations.

GPCI: Geographic Price Cost Indices

The Actuarial Research Corporation updates Work GPCI every three years. Work GPCI attempts to capture relative costs of physician labor in a defined geographic area. It does so by comparing non-physician labor in the area to national labor markets using Bureau of Labor and Statistics Data. In other words, GPCI is essentially a ratio of the compensation of seven occupation groups in HI relative to the compensation of the same seven groups in the national labor market. As such, HI physician compensation is pegged to market forces experienced by an array of professionals in Hawaii.

The following table shows Hawaii and National Market compensation for the seven occupational groups used to calculate GPCI. This is 2019 Data from the US Bureau of Labor and Statistics.

Occupation Group	HI	NatMarket	HI Delta
Architecture and Engineering	\$82,600	\$88,800	-7.0%
Computer, Math, Life, Physical Science	\$81,790	\$93,760	-12.8%
Legal	\$86690	\$109,630	-21%
Education, Training, Library	\$54770	\$57,710	-5.1%
RN	\$104060	\$77460	+34.3%
Pharmacists	\$129360	\$125,510	+3.1%
Art, Design, Entertainment, Sports, Media	\$57580	\$61960	-8.1%

Note 5 of 7 occupational groups used to calculate GPCI make less or substantially less than cohorts outside Hawaii. Actuarial Research Company calculates HI GPCI at 1.006. This is only slightly better than the legal minimum of 1.0. HI Physician Medicare rates are low because comparison professional incomes are low.

Medicare GPCI and its Effect on Payments

Medicare pays for physicians' services under Section 1848 of the Social Security Act. The Act requires payments be based on a national uniform Relative Value Unit system. The basic concept and methodology of current Medicare healthcare payments, known as the Resource-Based Relative Value Scale (RBRVS), were enacted in the Omnibus Budget Reconciliation Act of 1989 (OBRA) and implemented by CMS in 1992.

As previously noted, Hawaii GPCI is 1.006 and nationally, GPCI ranges between 1.0 and 1.02 in 62 of the 112 United States CMS designated geographic areas. In some geographic areas, GPCI is substantially higher.

The following illustrates how GPCI affects a payment for a \$100.00 medical service.

State	GPCI	Payment
Ohio	1.0	\$100.00
Hawaii	1.006	\$100.6
California:	1.026-1.089	\$102.60-108.8
Alaska:	1.50	\$150.00

Hawaii Medicare payments are unfair and they are hurting the State of Hawaii and its residents. Hawaii Healthcare Providers are paid as if they practice in a low cost State like Ohio.

“Medicare policy has long failed to account for the unique costs of providing medical services in Hawai’i” and “will likely lead directly to an accelerating shortage of health care providers across our state, especially in rural areas like the Neighbor Islands and more vulnerable communities.”

US Congressman Ed Case (D-HI)

Congressman Case’s statement is supported by Data comparing the costs of living and doing business. World Population Review has examined the 2022 Cost of Living Index State by State. Hawaii is the highest cost state in the nation in which to live and work, far exceeding California and Alaska.

Hawaii and Comparison States Cost of Living

Hawaii	193.3
California	142.2
Alaska	127.1
The United States Cost Index	100
Ohio	91.3

The Hawaii Cost of Living is more than double Ohio, 93% higher than the US, 52% higher than Alaska, and 36% higher than California. Again, there is a disconnect between Hawaii Medicare Payments and reality. The lack of a Medicare Formula answer to these disparities place Hawaii’s most vulnerable communities at risk.

What Cost Change?

By statute, changes to GPCI that do not explicitly receive additional funding must be budget neutral within Medicare. In practice, budget neutrality means that total Medicare Expenditure is unaffected by GPCI adjustments. Any adjustment upward for one payment location must be paid for by downward adjustments for other areas. This requirement can create tensions between providers in high-cost versus low-cost areas. However, there is no net cost to the Federal Government or Taxpayer. Medicare dollars are simply and fairly redistributed.

Alaska: A Brief History of Alaska Medicare

Did you notice the Alaska GPCI of 1.5? It is an outlier. Alaska faces an array of healthcare delivery challenges resulting in high-cost health care cost. Alaska has a small population (731,500) and is geographically isolated from the rest of the United States. The population is widely distributed including remote areas not connected by roads. There are a limited number of medical service providers. There is limited competition among providers, especially specialty physicians due to a limited number of specialists in more remote areas. There is fragmentation and duplication of services driven by geography.

These challenges were exacerbated by, and in turn drove, Alaska's high health care costs in the face of an inadequate Medicare reimbursement system. By 2008, Medicare beneficiaries were experiencing significant challenges to obtaining access to services.

In 2008, the Federal Government responded to Alaska's issues and passed the Medicare Improvements for Patient and Providers Act of 2008 (MIPPA or HR 6331). The Act repealed two statutorily mandated physician payment cuts totaling near 15%. The Act also set the Alaska Work GPCI to 1.5. This did not change with passage of the Patient Protection and Affordability Act in 2010.

Hawaii: Facing Similar Medicare Challenges

While a comparison to Alaska has limitations, Hawaii experiences healthcare delivery challenges very similar to Alaska.

Hawaii faces an array of healthcare delivery challenges resulting in high health care costs. Hawaii has a small population (1,412,690) and is geographically isolated from larger markets by the Pacific Ocean. The Jones Act, and its limitation on shipping, exacerbates isolation. Within state, population is widely distributed on multiple islands dependent on air travel. There are a limited number of medical service providers. There is limited competition among providers, especially specialty physicians due to a limited number of specialists on Neighbor Islands. There is fragmentation and duplication of services driven by Maritime Geography.

These challenges exacerbate, and in turn drive, Hawaii's high health care costs, in the face of an inadequate Medicare reimbursement system. Hawaii currently has the lowest percentage of Physicians accepting Medicare in the Nation. Similar challenges and patient access issues encountered by Alaska years ago were addressed by raising the Physician Work GPCI to 1.5.

It is interesting to note that as of 2016, per beneficiary annual Medicare spending in Alaska was \$6846 and second lowest in the Nation. As of 2016, per beneficiary annual Medicare spending in Hawaii was \$6441 and lowest in the Nation. Take it for what you will but raising Alaska GPCI has not resulted in Medicare overutilization or excessive program cost.

A Simple Medicare Solution

Payments for Physician Services within Medicare are made under authority and within the guidance of Section 1848 of the Compilation of the Social Security Laws.

In 2009, the Medicare Improvements for Patients and Providers Act or MIPPA, (HR 6631 Section 134) set the work geographic index for Alaska to 1.5, if the index would otherwise be less than 1.5 and no expiration was set for this modification.

The HI Medicare issue could be addressed by requesting an amendment to the Social Security Act adding Hawaii to Section 42 U.S.C. 1395w-4(e)(1)(G)) which reads....

For purposes of payment for services furnished in Alaska on or after January 1, 2004, and before January 1, 2006, after calculating the practice expense, malpractice, and work geographic indices in clauses (i), (ii), and (iii) of subparagraph (A) and in subparagraph (B), the Secretary shall increase any such index to 1.67 if such index would otherwise be less than 1.67. For purposes of payment for services furnished in the State described in the preceding sentence on or after January 1, 2009, after calculating the work geographic index in subparagraph (A)(iii), the Secretary shall increase the work geographic index to 1.5 if such index would otherwise be less than 1.5.

Storm Front Two: **Hawaii Has a General Excise Tax Issue**

The Hawaii General Excise Tax

In 1931 Hawaii established a traditional retail sales tax. This effort failed because the retail base was very small during the Great Depression. The sales tax was repealed and replaced by a tax on business. Tax was imposed on all transactions including services. The initial tax rate was set at 1.5%.

Currently, Hawaii levies a 4% General Excise Tax on business for the sale of goods and services. Counties levy an additional tax up to .5%. The GET currently generates more than half of Hawaii State tax revenue. A business may choose to visibly pass on the GET and any applicable county surcharge to its customers, but is not required to do so. The tax is on the business, not the customer.

Hawaii General Excise Tax is levied on the gross receipts of all businesses including private medical practices. Every Medicare, Medicaid, Tricare, and Insurance dollar is taxed. Hawai'i is the only state in the nation that taxes gross receipt private practice medical service revenue in this way. One should note that hospitals and not for profit entities like HMSA are GET exempt.

However, unlike most businesses, private medical practices are unable to "visibly pass" GET taxes to patients. CMS prohibits passing the cost to Medicare patients. Passing GET to Medicaid patients is typically unsuccessful and poses an undesirable barrier to healthcare access. The ability to recoup GET cost from insured patients depends on plan language. GET practice expenses are largely born by physicians.

HI GET Effective Tax Rates

The General Excise Tax Rate of 4.5% seems “small” relative to sales tax in effect in other states. However, the GET Rate is misleading in terms of actual effect.

Gross Revenues of medical practices vary widely. Practice overheads vary but typically average about 70%. The GET of 4.5% is applied to the Gross Revenue of a practice before overhead. Both overhead and GET are then paid, resulting in Net Practice Income. For all levels of Gross Revenue and overhead of 30%, the Effective GET Tax Rate on Net Income is 15%, not 4.5%.

The Bottom Line

- Most Hawaii Physicians pay more in combined General Excise Tax and Hawaii State Income Tax than Federal Income Tax.
- The General Excise Tax burden is typically about twice the HI State Income Tax burden.

The General Excise Tax Solution

During the 2020 Hawai'i Legislative Session, Hawaii Senate Bill 2542 proposed an General Excise Tax Exemption on medical services provided by physicians and APRN's.

A bipartisan legislative effort received the support of 88% of the State Senate and countless State Representatives. The legislation passed through the Senate Ways and Means Committee and the Senate Commerce, Consumer Protection, and Health Committee. The Bill crossed over to the House and was passed by the House Committee on Health.

Key support included then Senator Rosalyn Baker, Representative John Mizuno, then Mayor Harry Kim, the HMA, multiple nursing and physician organizations, the United Public Workers Union, Grassroots, and the HI Public Health Institute.

The Pandemic then closed the 2020 Legislature.

The 2021 Legislature refused to entertain a GET exemption. 2022 legislation died in its first committee.

The Hawaii Healthcare System should push hard for action in the 2023 Legislative Session.

The Perfect Storm: **Medicare Smacks Into GET**

The State of Hawaii and the Counties apply a 4.5% General Excise Tax on all professional medical services. Hawaii is the only state in the nation that taxes gross receipt medical services in this way.

Recall that the Medicare Geographic Price Cost Index (GPCI) lies between 1.0 and 1.02 for the large majority of the United States designated geographic areas. This includes Hawaii with a GPCI of 1.003. California GPCI ranges between 1.021-1.082. The Alaska GPCI is 1.5000. Remember, GPCI is the major determinant of the price of physician medical services.

The Effect in Real Dollars Before and After GET Taxation On a \$100 Healthcare Service

Ohio Healthcare Service Payment (GPCI 1.0)	\$100.00.
California Healthcare Service Payment (GPCI 1.082)	\$108.20
Alaska Healthcare Service Payment (GPCI 1.5)	\$150.00
Hawaii Healthcare Service Payment Pre GET (GPCI 1.003)	\$100.30
HI General Excise Tax:	\$4.52
The Real HI Healthcare Service Payment Post GET	\$95.78

Hawai'i is the only State that taxes gross receipt medical services in this way.

The Direct Result of the Hawaii General Excise Tax is that Hawai'i Healthcare Reimbursement is the Worst in the Nation.

Alaska Physicians get \$150, California Physicians get \$108.20, Hawaii Physicians net \$95.78. No other State's Physicians receive less than \$100!

Hawaii Medical Practices are having difficulty surviving, much less recruiting and retaining young physicians.

Hidden Effect of GET in the Medicare Payment Formula

It gets worse.

Hawaii reports Occupational Group Income Data to the United States Bureau of Labor and Statistics. These incomes are calculated after General Excise Taxes have already been applied. Comparison data used to set physician payments skews low compared to National Labor Markets because of Hawaii's unique taxation system as

applied to gross business receipts. In turn, this drives down Work GPCI. The result is a Medicare Payment discount of between 7-8%. (Math available on request).

GET is applied to this discounted payment, resulting in a further decrease of 4.5%.

The total GET effect on Medical Practice Revenue approaches 12%.

If private practice revenues were GET Exempt, Hawaii Medicare Rates would simply align with California.

HI Medicare and GET in a National Arena

Hawaii competes for Physicians with 49 other States. HI Medicare and GET are like ankle weights in a Marathon. Hawaii is not just losing, it is barely in the game. In April 2019, the Association of American Medical Colleges published The Complexities of Physician Supply and Demand: Projections from 2017 to 2032. This study analyzed the National Physician Workforce.

- The Current National Physician Supply is Approximately 800,000
- The Current National Shortage is about 35,000 or 4.2%. Hawaii's statewide shortage of 24% is near 6X the national shortage.
- In 2030 Physician Supply will be an estimated 850,000. Demand will be 930K.
- The estimated 2030 Physician Shortage is 80,000 or 8.6%. (The range is 46.9-121.9K depending on scenario variables).

Without substantive change, it is not difficult to guess which direction the Hawaii Physician Shortage Crisis will go in such a competitive environment. With mounting national physician shortages, States with better economics are actively recruiting providers. Hawaii Medicare Failure and Hawaii General Excise Tax Policy is driving physicians out.

The 2022 Healthcare Association of Hawaii Workforce Initiative Report supports the view that Hawaii will continue to struggle to maintain, much less build the healthcare workforce. HAH states there are 3873 open non-physician healthcare positions in the State, a 76% increase since 2019. On average, open positions take 6-12 months to fill. Not a single profession is in a state of "oversupply." While Physician supply is the Canary in the Coalmine, the entire system is in trouble.

Storm Front Three: **Hawaii Has a Monopsony Issue**

The Hawaii Medical Service Association (HMSA) is a nonprofit health insurer in the state of Hawaii. HMSA is an independent licensee of the Blue Cross Blue Shield Association.

With more than 700,000 beneficiaries, HMSA has a 2018 Hawaii market share of near 69%. Kaiser Permanente's second place share was 19%. However, the two entity's business models are entirely different. Among companies offering PPO's, the HMSA market share approaches 90%. This has lent HMSA significant pricing power and HMSA typically pays only marginally better than Medicare.

A monopsony is a market condition in which a single or dominant buyer of a market good or service substantially controls the price of said good or service.

For better or worse, HMSA enjoys a monopsony position within Hawaii. This has resulted in the average Hawaii consumer having health insurance costs at or near the lowest in the nation. It has also burdened healthcare providers with some of the country's lowest reimbursement rates. This is despite Hawaii's renowned cost of living. There is absolutely no doubt that HMSA has played a significant role and contributed to the Hawaii Physician Shortage Crisis. Politically, HMSA remains one of the most influential institutions in the state.

Shelter In the Storm: **Hawaii Designated a Medicare** **Health Professions Shortage Area:**

HPSAs are geographic areas, or populations within geographic areas, that lack sufficient health care providers to meet the health care needs of the area or population. The Centers for Medicare & Medicaid Services (CMS) provides a 10 percent bonus payment when Medicare-covered services are rendered to beneficiaries in a geographic HPSA. The bonus is paid quarterly and is based on the amount paid for professional services.

Hawaii County became a Primary Care Type Geographic HPSA effective 9/5/2019. Lisa Rantz, President of the Hawaii Rural Health Association and Executive Director of the Hilo Medical Center Foundation, led this effort with collaborative input from the Hawaii Physician Shortage Crisis Task Force. Should Hawaii solve its Physician Shortage Crisis, these payments will end and will no longer be needed.

After The Storm: **Economic Impacts of Reform**

Hawai'i needs Medicare Payment Reform that address the economic challenges unique to practicing medicine in this state. Hawai'i must also eliminate the General Excise Tax on Physician Medical Services. This two-pronged strategy is the best path toward building a robust Hawaii Healthcare System.

The current Hawai'i Physician Shortage is 776 and growing. Payments Reform and Elimination of GET would create the resources necessary to recruit and retain new Physicians.

As has been previously indicated, at the Federal Level, there is no additional cost to taxpayers. Reforms simply gives Hawai'i its fair share of Medicare dollars.

At the State Level, it should be noted that a GET exemption for Healthcare Services pays for itself. The 2018 American Medical Association study on the National Economic Impact of Physicians shows that every physician in the United States:

- Generates \$3,166,901 in aggregate economic input
- Creates 17 new jobs
- Generates \$1,417,958 in wages and income.
- Generates over \$126,129 in state and local tax revenue.

Using this AMA data, 776 missing physicians in Hawaii would:

- Generate over \$2,457,515,176 in aggregate economic output
- Create 13,192 new jobs
- Generate \$1,100,335,408 in wages and income.
- Generate over \$97,876,104 in state and local tax revenue.

Cost to Hawaii

The US Department of Commerce, Bureau of Economic Analysis has released figures that peg HI Physician Wages and Proprietor Gross Income at \$1.1 Billion dollars. At a GET rate of 4.5%, Hawaii collects about \$50 million dollars in revenue from Physician Proprietors. These dollars are left on the table. In return, Hawaii would collect almost \$97 million, ensure access for its most vulnerable patients, and enjoys a net increase in revenue of \$47 Million. And while collecting additional revenue, Hawaii would have stimulated its economy to the tune of \$2.4 Billion dollars and created more than 13,000 high paying jobs in the healthcare field.

A GET Exemption on Medical Services provided by Physicians and APRN's would be a huge win for the Hawaii Economy.

Storm Report Summary:

“There are risks and costs to action. But they are far less than the long range risks of comfortable inaction.”

President John F Kennedy

1. There is a severe shortage of physicians in Hawaii. The Shortage is greatest on the Neighbor Islands.
2. The Medicare Physician Fee Schedule fails to address the unique economic challenges of practicing medicine in Hawaii. The Hawaii Congressional Delegation should propose legislation amending the Social Security Act.
3. The HI General Excise Tax levied on medical service providers has an outsized and negative effect on Medical Provider Income. The GET taxation mechanism creates, multiplies, and exacerbates economic challenges often attributed to Medicare failure. The Hawaii Legislature and Governor should exempt healthcare payments from GET.
4. The combination of Medicare Payment Reform and elimination of the General Excise Tax on Physician and APRN Medical Services is the single best path toward building a robust Hawaii Healthcare System.
5. Discussions should be started regarding HMSA's role in and responsibility for the Hawaii Physician Shortage Crisis. This discussion should be collaborative.

If Hawaii is ever again to be the Safest Place on Earth to which to travel, or in which to live, the State needs a robust Healthcare System.

Thank you for your consideration.

John Lauris Wade MD
Legislative Liaison
Hawaii Physician Shortage Crisis Task Force

HB-662

Submitted on: 2/9/2023 10:50:34 AM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Dara Yatsushiro	Individual	Support	Written Testimony Only

Comments:

SUPPORT

HB-662

Submitted on: 2/9/2023 9:13:22 AM

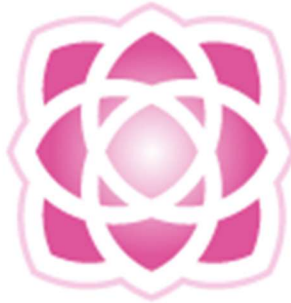
Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Jonathan Dworkin, MD	Individual	Comments	Written Testimony Only

Comments:

I am a medical doctor on the Big Island. I am writing in the hope that the state legislature will pass tax relief for Hawaii physicians this session. We have a critical lack of healthcare services on this island, and the cost of running a small practice in Hawaii is prohibitive.

The state should do everything possible to make this cheaper and easier, as access to good healthcare services are a basic requirement of living in a modern society. Please take concrete steps now to help doctors practice and live in Hawaii.



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON
HEALTH & HOMELESSNESS and ECONOMIC DEVELOPMENT
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 329
FRIDAY, FEBRUARY 10, 2023 AT 9:10 A.M.**

To The Honorable Della Au Belatti, Chair
The Honorable Jenna Takenouchi, Vice Chair
Members of the committee on Health & Homeless
The Honorable Daniel Holt, Chair
The Honorable Rachele F. Lamosao, Vice Chair
Members of the committee on Economic Development

SUPPORT FOR HB662 RELATING TO THE GENERAL EXCISE TAX

The Maui Chamber of Commerce **supports HB662** which exempts medical services provided by health care providers to patients who receive Medicaid, Medicare, or TRICARE benefits from the general excise tax.

The Chamber can agree with this proposal provided HB623, HB887 or HB688 fails to pass out of committee. Our preference is that the committee pass HB623, HB887 or HB688 which would include the providers listed in this bill.

This bill would help lower the cost for medical services for some of the state's citizens.

For these reasons we **support HB662**.

Sincerely,

A handwritten signature in cursive script that reads "Pamela Tumpap".

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

HB-662

Submitted on: 2/10/2023 1:05:18 AM

Testimony for HLT on 2/10/2023 9:10:00 AM

Submitted By	Organization	Testifier Position	Testify
Togiola T.A. Tulafono	Individual	Support	Written Testimony Only

Comments:

I respectfully submit this written statement in support of the House bill exempting doctors fees paid by Medicare, Medicaid and Tri Care from application of the state general excise tax.

My name is Togiola Tulafono. I am 75 years of age, and a regular patient of physicians in this great state. Medicare is my only medical insurance, as well as my wife. I had been a legislator in American Samoa for many years and was LT Governor for 6 years, and governor of the Territory for 10 years. What my wife and I have experienced recently with our health care in this state is difficulty in finding physicians that will accept us as patients because we are Medicare insured. I believe more and more physicians will opt out of serving Medicare patients if general excise tax continues to be applied to these already substantially discounted fees. As you are already aware, the doctors are not allowed to charge these taxes to their patients. So while this may sound like a problem for physicians, it is actually a much more significant problem for patients like us, as well as many military retirees who come from American Samoa and also living in this state. As patients relying solely on Medicare for health insurance, my wife and I are very worried that if present trend keeps up, we may, soon, not be able to find the quality of care that we are receiving from a handful of physicians in the state who are graciously accepting us. I am sure this will also be true of thousands of citizens of this great state. We urge passage of this bill, and thank you for considering this testimony. Sincerely. Togiola Tulafono

Dear Representatives,

Hawaii has a severe shortage of healthcare providers and an access to care crisis, which has been documented by AHEC for many years and reported in hundreds of news stories. The lack of access to healthcare has resulted in significant healthcare disparities, especially on our Neighbor Islands and rural areas with higher mortality rates for cardiovascular disease, cancer, trauma, hepatitis C, asthma, COPD, suicide and adolescent deaths as confirmed by Department of Health statistics.

The reason for the severe shortage of healthcare providers in Hawai'i is primarily financial. Hawaii has the highest cost of living and providing medical services in America. Hawaii's reimbursements are among the lowest nationally. Please note that Hawaii's healthcare providers are documented by Becker's ASC review to have the lowest pay adjusted for the cost of living in America.

Lowest annual compensation adjusted for cost of living

- District of Columbia (47)
- New York (48)
- Vermont (49)
- Connecticut (50)
- Hawaii (51)

<https://www.beckershospitalreview.com/compensation-issues/rn-pay-for-all-50-states-adjusted-by-cost-of-living.html>

<https://www.beckersasc.com/benchmarking/np-pay-for-all-50-states-adjusted-by-cost-of-living.html>


https://hawaiijournalhealth.org/past_issues/hjmph7603_S1_0024.pdf

The Senate Health Committee has also heard multiple measures to improve access to healthcare. Chair San Buenaventura understands that Hawaii has a severe shortage of healthcare providers and an access to care crisis. The Hawaii Tax Foundation President advised the Senate Health Committee that SB1035 had the best chance of passage. The Health Committee therefore advanced SB1035 by a vote of 5-0.

A robust healthcare provider system is important for the economic health of Hawai'i . Mayor Mitch Roth supports these bills and has noted that it is difficult to attract businesses and new industries to our island, if business owners are unable to ensure

healthcare access to their employees and family. The loss of additional medical practices is a huge concern. The Hilo Community Surgical Center and Hale Lea Medical Clinic, the largest primary and urgent practice on Kauai's north shore, were both recently discussed on the front page of local newspapers, as threatened with closure due to fiscal conditions. Our local group of 15 radiologists proudly provided 24/7/365 coverage of our local hospitals for 60 years, but had to recently dissolve our professional corporation because we only have 6 remaining specialists with most nearing or past retirement age.

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KILAUEA MEDICAL CLINIC MAY CLOSE

CEO: 'Every month is a cliffhanger'

Guthrie Scrimgeour
THE GARDEN ISLAND

KILAUEA — The Kauai Community Health Alliance receives between 17,000 and 20,000 patient visits each year, providing a range of treatment to largely working-class people from the Ha'ena to Kapa'a.


They soon may be unable to keep their doors open, their CEO

says.

"Every month is a cliffhanger," said Jim Winkler, who serves as CEO and president of KCHA while also practicing at the Hale Lea Medicine clinic.

"The clinic is currently running at a deficit. While we have not missed payroll in 28 years, we are not able to operate for much longer due to a confluence of circumstances."

The clinic has been in operation since 1994 and has functioned as a



Winkler

nonprofit since 2008. KCHA houses both the Hale Lea Medicine and Urgent Care and the North Shore Wellness Center. Since they treat a large number of underinsured patients, they struggle to make ends meet and rely on community support for a portion of their budget.

If the center were to close, it could result in significant disruption for its patients, who would have to scramble to access care in the limited North Shore market. There is only one primary-care clinic on the North Shore — the North Shore Medical Center —

which has limited hours and a smaller staff than KCHA. The next closest clinic is Ho'ola Lahui in Kapa'a.

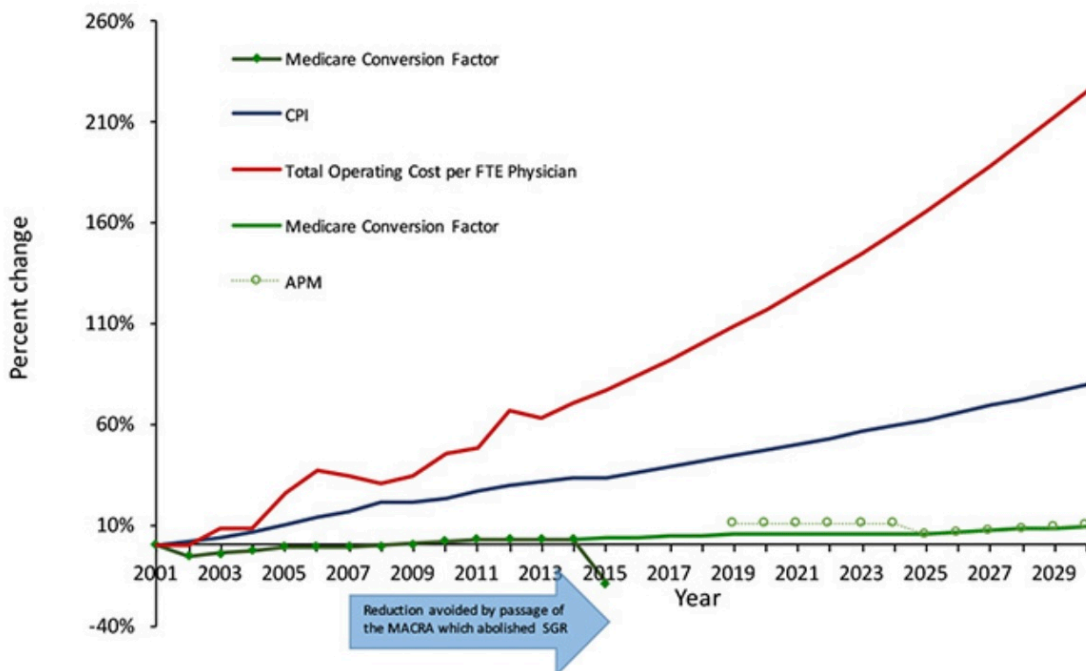
"A lot of those people (on the North Shore) don't want to go to Kapa'a. Location is an issue regardless of who is providing the services," said Dr. Kapono Chong-Hanssen, chief medical director at Ho'ola Lahui.

"We could take some of them, and if all of our community partners got together we could

[SEE CLINIC, A4](#)

I have testified that with post COVID burnout, the Access to Care survey showing half of providers considering quitting medicine, leaving Hawaii or cutting back hours, mass retirements of our rapidly aging workforce and the fiscally impossible challenges of seeing reimbursements fall each year while our cost of providing services soar, that there will be few private practices left to tax with the GET in 3-5 years. This will drastically effect Hawaii's rapidly growing Medicaid population which exceeds 440,000. Having insurance coverage is of very little value if there are no healthcare providers to care for you.

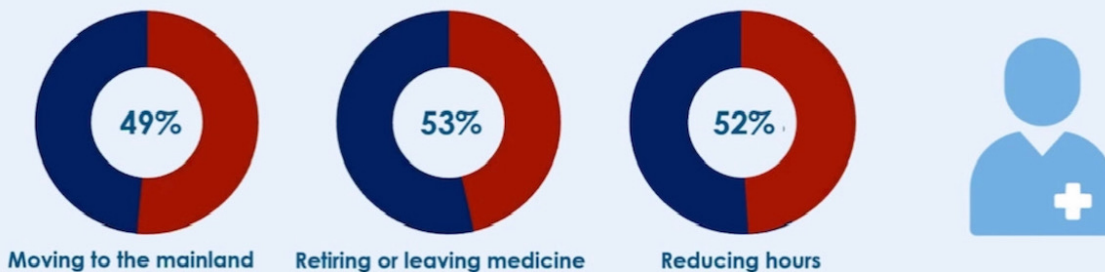
Chart 2: Cumulative percent change in operating expenses for physician-owned, multispecialty with primary care only groups, the Consumer Price Index, and Medicare physician payments; APM scenario (2001-2030)



Further compounding the crisis, Hawai'i may be losing more Providers.

Roughly one-quarter say they are less than five years away from retirement.

Over the past year, health care providers have considered:



Most medical practice nationally report breaking even on providing Medicare services and losing money caring for Medicaid patients. Hawaii's GET taxation on private

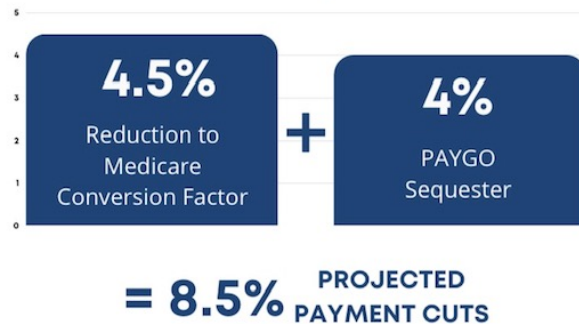
practices is ruinous, because gross revenues are taxed even if providers break even or lose money treating patients. Rather than progressively tax doctors, PAs, APRNs and nurses for their higher income, the GET taxation of gross revenues is a practice killer preventing many practices from even realizing a business profit. For this reason Hawaii has the lowest number of providers able to accept Medicare patients in America.



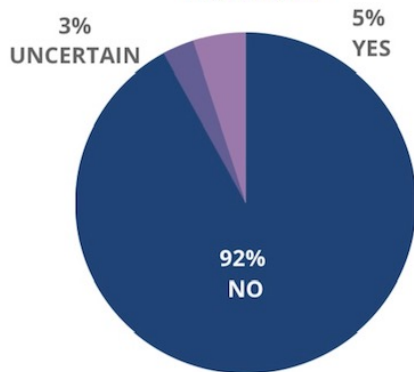
IMPACT OF PAYMENT REDUCTIONS TO MEDICARE RATES IN 2023

After two years of financial uncertainty due to the ongoing COVID-19 pandemic, practices are once again facing significant projected payment cuts to Medicare in 2023. In 2022, practices absorbed a 2% reduction to Medicare payment with the reintroduction of Medicare sequestration. This is compounded by record-breaking inflation reaching 9.1%. Already challenged with financial constraints and reductions in payment, looking ahead to 2023, group practices face a 4.5% reduction to the Medicare conversion factor and a 4% PAYGO sequester, reducing Medicare payment by at least 8.5%.

PROJECTED MEDICARE PAYMENT CUTS ON JAN. 1, 2023



DOES MEDICARE REIMBURSEMENT IN 2022 ADEQUATELY COVER THE COST OF CARE PROVIDED?



MGMA conducted a survey of 517 medical group practices, ranging from small single provider practices to large 2400 physician health systems across 45 states, assessing the potential impact of such payment cuts to Medicare rates in 2023, and evaluating how their practices would respond to such payment cuts.

According to 92% of surveyed group practices, Medicare rates in 2022, before the projected 8.5% payment cuts take effect, already inadequately cover the cost of furnishing care.

TO OFFSET THE REDUCTIONS IN PAYMENT, GROUPS OF ALL SIZES ARE CONSIDERING WHAT BUSINESS DECISIONS MUST BE MADE TO ENSURE THE FINANCIAL SOLVENCY OF THEIR PRACTICES:

- **58%** are considering **limiting the number of new Medicare patients;**
- **66%** are considering **reducing charity care;**
- **58%** are considering **reducing the number of clinical staff;** and
- **29%** are considering **closing satellite locations.**

Lowest Physician Medicare-Acceptance Rate

47. New York

48. California

49. Oregon

50. District of Columbia

51. Hawaii

Please note that the information that providers could pass the GET to Medicare and TriCare patients in the Department of Taxation Tax Facts 98-1 was in error. This is expressly forbidden by federal policies and CMS has advised that providers who pass the GET on to Medicare patients will be referred to the Inspector General for investigation of Medicare fraud. We appreciate that this guidance was corrected by the Department in Jan, 2023. Most providers do not pass the GET to Medicaid patients because they cannot afford it and it becomes a barrier to care.

8 Are the amounts the physician receives from Medicare, Medicaid and/or TRICARE subject to GET?

Yes. The amounts the physician receives from Medicare, Medicaid and/or TRICARE are subject to GET. The physician may charge you GET on these amounts as a way to recover their expense.

In the near future, there will likely be few private practices remaining. If no action is taken to prevent this outcome. If Hawaii loses the remaining providers in private practice, this could well trend GET revenues toward zero in the next 3-5 years. That means Hawaii loses not only GET revenues from taxing healthcare, but also income, property, corporate and secondary GET taxation on all other purchases from the lost healthcare providers. The Healthcare Association of Hawai'i has stated that taxing Hawaii's hospitals with the GET would result in many reducing services or closing their doors. If the GET taxation of hospitals would badly damage the viability of our state's hospital systems, then how can the devastating GET taxation of small businesses providing medical care be pono.

Please support SB1035/HB662. If Hawaii has a fiscally viable environment then recruiting hundreds of doctors and thousands of needed healthcare workers would boost our economy and increase overall tax revenues. The AARP, Kupuna Caucus, Hawaii Island Chamber of Commerce, Hawaii County Mayor's Office, Hawaii County Medical Society, HMA, JABSOM, HAPN and Hawaii Tax Foundation support these bills.

Aloha,
Scott Grosskreutz, M.D., FACR
Hawaii Provider Shortage Crisis Task Force

Economic Impact of Physicians: By Island

Source Data:

American Medical Association's National Economic Impact of Physicians, 2018.

Every Physician in the United States generates

- \$3,166,901 in aggregate economic output.
- 17 jobs.
- \$1,417,958 in total wages and benefits.
- \$126,129 in state and local tax revenues.

Preliminary Findings of the Annual Report on Findings from the HI Physician Workforce Assessment Project to 2021 Legislature Courtesy of Dr. Kelly Withy.

2020	O'ahu	Big Island	Maui County	Kaua'i	Statewide
Shortage	475	287	191	60	1014
Percentage	20	53	43	33	29

Hawaii Statewide:

1014 new Hawai'i physicians could reasonably be expected to generate:

- \$3,211,237,614 in aggregate economic output.
- 17,238 new jobs.
- \$1,437,809,412 in total wages and benefits.
- \$127,894,806 in state and local tax revenues.

Oahu County

475 new Hawai'i physicians could reasonably be expected to generate:

- \$1,504,277,975 in aggregate economic output.
- 8075 new jobs.
- \$673,530,050 in total wages and benefits.
- \$59,911,275 in state and local tax revenues.

Hawai'i County:

287 new Big Island physicians could reasonably be expected to generate:

- \$908,900,587 in aggregate economic output.

- 4879 new jobs.
- \$406,953,946 in total wages and benefits.
- \$36,199,023 in state and local tax revenues.

Maui County

191 new Hawai'i physicians could reasonably be expected to generate:

- \$604,878,091 in aggregate economic output.
- 3247 new jobs.
- \$270,829,978 in total wages and benefits.
- \$24,090,639 in state and local tax revenues.

Kauai County

60 new Hawai'i physicians could reasonably be expected to generate:

- \$190,014,060 in aggregate economic output.
- 1020 new jobs.
- \$85,077,480 in total wages and benefits.
- \$7,567,740 in state and local tax revenues.

