



STATE OF HAWAII
DEPARTMENT OF HEALTH
KA 'OIHANA OLAKINO
P. O. Box 3378
Honolulu, HI 96801-3378
doh.testimony@doh.hawaii.gov

Testimony in SUPPORT of HB1179 HD1 SD1
RELATING TO RURAL EMERGENCY HOSPITALS

SENATOR DONOVAN M. DELA CRUZ, CHAIR
SENATE COMMITTEE ON HEALTH AND HUMAN SERVICES

SENATOR JAREETT KEOHOKALOLE, CHAIR
SENATE COMMITTEE ON COMMERCE AND CONSUMER PROTECTION

Hearing Date: April 2, 2025

Room Number: 211

- 1 **Department Testimony:** The Department of Health (DOH) supports HB1179 HD1 SD1,
- 2 specially Bill Section 2, but takes no position on Bill Sections 3 – 9 and defers to the
- 3 Department of Human Services regarding amendments to chapter 346, Hawaii Revised Statutes.
- 4 This measure will improve healthcare delivery on the island of Lanai that is currently constrained
- 5 by the Critical Access Hospital program. The recently approved Rural Emergency Hospital
- 6 designation makes much better use of Lanai Hospital's assets and is a logical designation to
- 7 request.
- 8 Thank you for the opportunity to testify.



April 2, 2025 at 10:00 am
Conference Room 211

Senate Committee on Ways and Means

To: Chair Donovan M. Dela Cruz
Vice Chair Sharon Y. Moriwaki

Senate Committee on Commerce and Consumer Protection

To: Chair Jarrett Keohokalole
Vice Chair Carol Fukunaga

From: Paige Heckathorn Choy
AVP, Government Affairs
Healthcare Association of Hawaii

Re: Support
HB 1179 HD 1 SD 1, Relating to Rural Emergency Hospitals

The Healthcare Association of Hawaii (HAH), established in 1939, serves as the leading voice of healthcare on behalf of 170 member organizations who represent almost every aspect of the health care continuum in Hawaii. Members include acute care hospitals, skilled nursing facilities, home health agencies, hospices, assisted living facilities and durable medical equipment suppliers. In addition to providing access to appropriate, affordable, high-quality care to all of Hawaii's residents, our members contribute significantly to Hawaii's economy by employing over 30,000 people statewide.

Thank you for the opportunity to testify in **support** of this measure, which seeks to establish a new licensure category in Hawaii for Rural Emergency Hospitals (REHs). Congress created this new provider type in 2021 to address the growing crisis of rural hospital closures nationwide. Since 2010, over 150 rural hospitals have closed, drastically reducing access to essential healthcare services for communities in need. The REH model was designed to provide a lifeline to these critical facilities by allowing existing Critical Access Hospitals and small rural hospitals to convert their operations to this new financial model, which seeks to support the continuation of emergency and outpatient services without the financial strain of maintaining inpatient care.

Creating an REH licensure category in Hawaii could help to ensure sustained access to emergency medical services, observation care, and outpatient treatment for residents in rural areas. Timely access to these services is vital for improving health outcomes, especially in geographically isolated areas. Additionally, the financial model of REHs offers more stability

through enhanced Medicare reimbursement rates, including a five percent increase in payments for covered outpatient services and a fixed annual payment. This support addresses the economic challenges faced by rural hospitals, reducing the risk of closures and ensuring financial sustainability.

In Hawaii, the geographic isolation of our communities makes the implementation of this model even more pressing. Adopting the REH designation would enable rural hospitals to continue providing critical services, preventing closures and ensuring that residents in remote areas receive timely, life-saving care. Without such a measure, our rural healthcare infrastructure remains at risk, leaving many vulnerable populations without adequate medical support.

Establishing a licensure category for Rural Emergency Hospitals in Hawaii is a proactive and necessary step to protect and strengthen our healthcare system. It aligns with national efforts to address rural health disparities and ensures that Hawaii's rural communities have access to essential medical services. Thank you for the opportunity to provide testimony on this important matter.

HB-1179-SD-1

Submitted on: 3/31/2025 8:13:12 AM

Testimony for CPN on 4/2/2025 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Glen Kagamida	Individual	Support	Written Testimony Only

Comments:

STRONG SUPPORT! This will be a great help for the health and safety of rural communities. Mahalo!

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



RYAN I. YAMANE
DIRECTOR
KA LUNA HO'ŌKELE

JOSEPH CAMPOS II
DEPUTY DIRECTOR
KA HOPE LUNA HO'ŌKELE

TRISTA SPEER
DEPUTY DIRECTOR
KA HOPE LUNA HO'ŌKELE

LATE

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

April 1, 2025

TO: The Honorable Senator Jarrett Keohokalole, Chair
Senate Committee on Commerce and Consumer Protection

The Honorable Senator Donovan M. Dela Cruz, Chair
Senate Committee on Ways and Means

FROM: Ryan I. Yamane, Director

SUBJECT: **HB 1179 HD1 SD1 – RELATING TO RURAL EMERGENCY HOSPITALS.**

Hearing: April 2, 2025, 10:00 a.m.
Conference Room 211 & Videoconference, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) appreciates the intent of the measure, offers comments, and requests amendments.

PURPOSE: This measure creates a framework for the licensure of rural emergency hospitals at the state level by the Department of Health. Provides for the continuation of Medicaid policy protections for hospitals transitioning to a rural emergency hospital designation. Effective 12/31/2050. (SD1)

The House Committee on Health amended the measure by:

- (1) Changing the effective date to July 1, 3000, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for clarity, consistency, and style.

In its committee report, the House Committee on Health also requested that DHS seek federal guidance on the Rural Emergency Hospital designation in the Medicaid context.

The House Committees on Consumer Protection and Commerce, and Finance passed this measure unamended.

The Senate Committee on Health and Human Services amended this measure by:

- (1) Clarifying that the Department of Health is authorized, not required, to license a hospital as a rural emergency hospital under certain conditions;
- (2) Inserting language to require that hospitals seeking licensure as a rural emergency hospital from the Department of Health shall pass inspection and receive a recommendation from the Department of Health to the federal Centers for Medicare and Medicaid Services to operate as a rural emergency hospital;
- (3) Deleting language that would have required any reference in state law or the Hawaii Administrative Rules to a critical access hospital, a hospital-based unit to a critical access hospital, or a sub-provider to a critical access hospital, to be interpreted to also reference a rural emergency hospital, a hospital-based unit to a rural emergency hospital, or a sub-provider to a rural emergency hospital;
- (4) Inserting language to define "rural emergency hospital" to mean a hospital licensed as a rural emergency hospital by the Department of Health that was previously designated and operating as a critical access hospital as of December 27, 2020;
- (5) Deleting language that would have required the Department of Health to adopt rules for licensing of rural emergency hospitals;
- (6) Amending the new definition of "rural emergency hospital" in section 346-1, Hawaii Revised Statutes (HRS), to mean a hospital licensed as a rural emergency hospital by the Department of Health that was previously designated and operating as a critical access hospital as of December 27, 2020;
- (7) Inserting an effective date of December 31, 2050, to encourage further discussion; and,
- (8) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

DHS appreciates the intent to have hospital health care resources re-aligned to best serve their communities, and the Medicare rural emergency hospital (REH) could be a positive opportunity to do so. However, we provide comments on the proposed amendments to Chapter 346, HRS, in Sections 3-7 that are intended to protect Medicaid policy and reimbursements for this new designation of rural emergency hospitals as they transition from being critical access hospitals.

As noted in our prior testimony, and as requested by the House Committee on Health, DHS Med-QUEST Division (MQD) was recently able to consult with the federal Centers for Medicare and Medicaid Services' (CMS) Medicaid division regarding REHs. MQD learned that, unfortunately, the proposed amendments to Chapter 346, HRS, outlined in Sections 3, 4, 5, 6,

and 7 that are intended to protect Medicaid policy and reimbursements to critical access hospitals transitioning to a rural emergency hospital, will instead create implementation challenges for Medicaid. Notably, CMS pointed out that the "Rural Emergency Hospital" provider designation only exists for Medicare, and not for Medicaid. Thus, Medicaid must use other non-hospital provider type designations to pay for services at the sites, and not a "hospital" provider type designation, including not a critical access hospital. To allow further research and flexibility to implement in Medicaid, MQD respectfully requests that Sections 3-6 be deleted from the bill, and that Section 7 be amended to allow flexibility to develop long-term care rates for the REH. The Med-QUEST Division and the proponents for the bill suggest the following amendment to Section 7, page 9, lines 6-14, which amends section 346D-1.5, HRS,

SECTION 7. Section 346D-1.5, Hawaii Revised Statutes, is amended to read as follows:

"§346D-1.5 Medicaid reimbursement equity. Not later than July 1, 2008, there shall be no distinction between hospital-based and nonhospital-based reimbursement rates for institutionalized long-term care under medicaid. Reimbursement for institutionalized intermediate care facilities and institutionalized skilled nursing facilities shall be based solely on the level of care rather than the location. This section shall not apply to critical access hospitals. Reimbursement rates for facilities that convert from a critical access hospital to another facility type after April 1, 2025, may maintain a distinction after the facility's conversion."

These changes should provide sufficient flexibility to address both the establishment of REH under Medicare and the challenges of implementation with Medicaid.

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



April 1, 2025

**Senator Jarrett Keohokalole, Chair
Senator Carol Fukunaga, Vice Chair
Members of the Senate Committee on Commerce and Consumer Protection**

**Senator Donovan Dela Cruz, Chair
Senator Sharon Moriwaki, Vice Chair
Members of the Senate Committee on Ways and Means**

RE: H.B. 1179, HD1 SD1 – Relating to Rural Emergency Hospitals
Hearing Date – April 2, 2025, at 10:00 a.m.

Aloha Chair Keohokalole, Chair Dela Cruz, and Members of the Committees,

Thank you for allowing me the opportunity to submit testimony in **STRONG SUPPORT** of House Bill 1179, HD1 SD1, which (i) provides a statutory framework for the licensure of rural emergency hospitals at the state level; and (ii) provides for the continuation of Medicaid policy protections for hospitals transitioning to a rural emergency hospital designation.

Pursuant to the Consolidated Appropriations Act of 2021 (Public Law 116, 260), Congress established a rural emergency hospital designation (REH), which creates a new type of Medicare provider to respond to nationwide increases in rural hospital closures. Through this designation, a hospital that is under financial pressure to eliminate high-cost services that their communities are not utilizing (including inpatient care) can refocus its resources on critical services that the rural population needs, including emergency department services, observation care and tailored outpatient medical and health services.

What does this mean for Hawaii? In many rural areas, patient demand is not keeping pace with the rising costs of staffing, equipment, and supplies needed to maintain an inpatient hospital. This designation is a Medicare reimbursement policy and allows REHs the opportunity to adapt to their community's needs while sustaining their budget. These hospitals will receive a fixed monthly payment equal to about \$3.2 million annually and a 5% higher Medicare payment for outpatient services like diagnostic. Also, patients do not pay additional fees or premiums for receiving services at an REH.

In Maui County, Lanai Hospital could benefit from this designation. Currently, Lanai Hospital is a Critical Access Hospital (CAH) that averages less than one patient per day in its acute inpatient care beds. Outside of inpatient care, the hospital provides emergency services along with thousands of days of nursing and skilled nursing care. To provide a more specific example, the average daily census in FY 2023 for emergency and skilled nursing needs was 10 and 965 residents, respectively. If Lanai Hospital surrenders its inpatient licensed beds, those beds will become available to expand long term care and skilled nursing bed availability, which is critically needed.

Before any of these benefits can be realized, however, the Hawaii legislature needs to enact legislation that would recognize the new REH designation and extend the Medicaid policy protections that currently support the hospital and the services it provides on the island so that those protections would remain after a transition to REH status.

In order to allow for further research and flexibility to implement in Medicaid, we recommend that Sections 3-6 be deleted from the bill. Further, to provide additional flexibility for Long-Term Care and Nursing facility payments, we would recommend amending Section 7 to read as follows:

“SECTION 7. Section 346D-1.5, Hawaii Revised Statutes, is amended to read as follows:

"§346D-1.5 Medicaid reimbursement equity. Not later than July 1, 2008, there shall be no distinction between hospital-based and nonhospital-based reimbursement rates for institutionalized long-term care under medicaid. Reimbursement for institutionalized intermediate care facilities and institutionalized skilled nursing facilities shall be based solely on the level of care rather than the location. This section shall not apply to critical access hospitals[.] Reimbursement rates for facilities that convert from a critical access hospital to another facility type after April 1, 2025 may maintain a distinction after the facility's conversion."

For the reasons outlined above, and with a strong commitment to ensuring quality healthcare for our rural communities, Maui Health System humbly asks for your support of this measure.

In kindness and appreciation,



Lynn Fulton

Chief Executive Officer