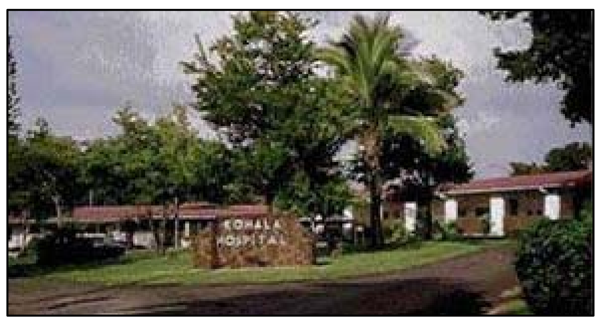
Kona Community Hospital
Care You Can Count On

Kohala Hospital

West Hawaii Region
Hawaii Health Systems Corporation

STRATEGIC PLAN
2010 – 2015



Approved
14 October 2009

Document History

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14 Oct 2009:	Final draft approved by WHR Board

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Hawaii Health Systems Corporation

Mission Statement

Providing and enhancing accessible, comprehensive health-care services to our community that are: quality-driven, customer-focused and cost-effective.

Vision

Be the Provider of Choice for the Community.
Be the Employer of Choice for Our Staff.
Be the System of Choice for Our Medical Staff.

Values

Integrity - We act openly and truthfully in everything we do.

Collaboration - We work together cooperatively, recognizing that our combined efforts exceed what we can accomplish individually.

Caring - We treat those we serve with concern, kindness and respect.

Commitment - We are dedicated to provide excellence in every aspect of our work.

Innovation - We believe that new ideas and timely access to information will lead to better health care.

Community - We recognize and respect the importance of our community's health care needs.

WEST HAWAII REGION
(KONA COMMUNITY HOSPITAL AND KOHALA HOSPITAL)

STRATEGIC PLAN
2010 – 2015

PART I
OVERVIEW AND ACTIONS

Introduction

This strategic plan has been developed to align our vision, mission and values with long- and short-term goals and objectives. Factors in the political, economic, social and technological environment constantly influence and change health care's dynamic environment. This document outlines our strategic priorities for a six-year period, with the understanding that it will be updated annually.

The West Hawaii Region (WHR) recognizes that simply being a "safety net" hospital is not a viable option since it will only continue the current downward spiral in financial performance. WHR will continue to advance from its "defender" strategy of being a "safety net" facility and adopt a "prospector" strategy to become a comprehensive community resource.

The Health Care Environment

There are numerous complex, inter-related factors that shaped this plan, including:

- **Government Resources**: The State of Hawaii's budget deficit exceeds $900M and the Federal deficit is $11.4 trillion (over 81% of the gross domestic product). Federal annual interest payments are approximately $550B. Only Health and Human Services ($700B) and defense ($650B) exceed this level. Both the state and federal government will be additionally burdened in the short-term by revenue declines related to the recession and in the long-term by increased costs of an aging population. Macro-economic indicators suggest that public investment in healthcare will be shaped by these downward pressures.

- **Reimbursement & Payor Mix**: As a "Safety-Net" provider we provide a significant level of services to the uninsured, Medicaid, and other vulnerable patients including those in long-term care facilities and in rural areas. Inadequate provider payments from insurance companies and public programs will continue to be a challenge and will limit our ability to fund upgrades and expansions and recruit and retain employees and physicians. Current federal health reform initiatives are considering new unit of service payment mechanisms that would provide a single (bundled) payment for services that are now paid separately.

- **Quality & Pay for Performance**: Patient safety, clinical quality and service satisfaction are priorities for hospitals, insurance companies and the general public. Quality will soon become a revenue cycle issue for hospitals who will be graded on a curve with the bottom quartile of Medicare providers receiving a 5% reduction in Medicare payments, and only the top quartile receiving the full recovery of 5% of Medicare reimbursement. Long term care services are similarly graded on a curve that allows only 10% of providers to receive the five-star rank.

- **Electronic Medical Record**: The Federal government is moving quickly to develop specific "meaningful use" standards regarding interactive EMR capabilities for both hospitals and physicians, and to then tie them to Medicare reimbursement. There are significant Stimulus Act resources currently available for hospitals and physicians to respond to these requirements. The Medicare program has signaled its intent to withhold up to 5% of payments from provider organizations who fail to meet EMR related performance targets.

- **Workforce Competition & Labor Cost**: There are pervasive shortages of skilled workers in general and healthcare workers in particular. Competition for talent in this tight labor market is national. HHSC labor contracts with HGEA generally lag 3-7% below the market compensation levels, making recruitment and retention difficult. Yet, our total labor costs are significantly higher than private sector, not-for-profit hospitals. As a state entity subject to civil service requirements we are "overstaffed" by 15-20% (compared to systems outside of HHSC) necessary to adjust for the generous civil service paid time off and work rule arrangements currently in place. Governmental and private payers do not recognize this structural cost difference when reimbursing HHSC providers.

- **Demographics & Access to Care**: Hawaii County demographics point to a growing and aging population; this will further increase demand and continue to stretch scarce resources. The Big Island's existing continuum of care infrastructure is inadequate. This results in limited access to the appropriate level of care and increases costs.

- **Competition**: HHSC facilities have the ability to take advantage of the competitive forces in its markets, but is limited by lack of capacity rather than lack of demand. Outer-island facilities are subject to ongoing efforts by Oahu-based providers to pull patients to Oahu. The ability to increase patient volumes by improving access and convenience can be achieved with sufficient access to capital. It is clear from examples such as Maui's stroke center program that patients will travel to islands other than Oahu, as well as from Oahu to access top flight programs on other islands.

- **Access to Capital**: Access beyond State constrained budget allocations is difficult. Providers of debt capital generally will not lend to systems with structural operating deficits. This reality also extends to health systems with the capability of investing equity capital in HHSC providers. Philanthropists are reluctant to commit resources to what they assume will result in a commensurate reduction in state funding.

Summary of Strategies

The West Hawaii Region Board of Directors and Management team have developed ten broad strategies, under five inter-related “pillars” to meet the evolving medical needs of our community. These are listed below (in no particular order), briefly described in the following pages and then explored in greater detail in Part II.

Service
1. Improve the Health of Our Community
2. Enhance Organizational Image

Quality
3. Enhance Patient Safety Practices
4. Enhance Clinical Quality and Patient Satisfaction

People
5. Enhance Medical Staff Development, Recruitment and Retention
6. Enhance Employee Development, Recruitment and Retention

Growth
7. Expand Clinical Services
8. Upgrade Technology and Facilities

Finance
9. Focus on Cost Management
10. Focus on Revenue Cycle Management

Successful execution will help achieve the following desired future-state goals:

- Provide comprehensive services that meet community need and demand,
- Enhance value by improving services and outcomes, and
- Improve the organization’s financial position and long-term viability.

Brief Description of Strategies

Strategy #1: Improve the Health of Our Community
As our community continues to age and grow, we will explore opportunities that enhance access and strengthen the continuum of healthcare services. Given limited resources and external pressures to reduce cost, the delivery system must be both efficient and effective. For West Hawaii, this will require coordination and collaboration between the various healthcare organizations and providers, regardless of ownership.

Strategy #2: Enhance Community Image
Maintaining favorable community relations is important for many reasons - from healthy behaviors to donations. One area of focus is to provide public education addressing healthy lifestyle choices. Another is to keep the general public, elected government officials and other high-profile individuals informed of our contributions and achievements. We will improve our “brand” (consumer recognition) through the development and execution of a formal program that includes both inbound and outbound marketing tactics and outreach efforts.

Strategy #3: Enhance Patient Safety Practices
Patient safety has always been paramount. For over a decade, patient safety has been a “hot topic” in the media and has gained the attention of the government, consumer groups, insurance plans and the general public. We will continue our on-going efforts to address patient safety recommendations of the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and similar organizations.

Strategy #4: Enhance Clinical Quality and Patient Satisfaction
Similarly, quality and satisfaction have received much attention, with performance measures now available to the general public. Our efforts to improve clinical quality as measured by performance on the JCAHO’s “Core Measures” (evidence-based medicine standards) have been extremely successful. Now, we need to raise the bar and focus efforts on other measures of clinical quality. Additionally, we will focus more attention and efforts on customer service and patient satisfaction scores.

Strategy #5: Enhance Medical Staff Development, Recruitment and Retention
The creation of Alii Health was an important first step in improving our ability to recruit specialists and enhance financial performance. Now, attention must focus on refining this structure to improve our ability to attract and retain quality providers. This requires a comprehensive approach that provides physicians with opportunities to learn as medicine evolves, develop and maintain social and collegial relationships, and earn nationally competitive income. WHR, in concert with Alii Health, will use community and physician workforce demographics and other information to identify growth opportunities that addresses community need and improves our revenue base.

Strategy #6: Enhance Employee Development, Recruitment and Retention
The delivery of hospital-based care is complex, labor-intensive, highly-specialized and constantly changing. Across the nation, there is a shortage of qualified, experienced

people to fill these specialized positions. An aging workforce compounds this - with many employees approaching retirement age. We will continue efforts to enhance employee knowledge, performance and productivity as well as improve morale and satisfaction.

Strategy #7: Expand Clinical Services

To improve our financial position, we must expand those services that make a positive financial contribution. Given our limited resources and high fixed costs associated with our status as a state entity, we will continue to explore opportunities to partner with others (including other hospitals, health systems, etc.).

Strategy #8: Upgrade Technology and Facilities

As medicine continues to evolve and the population continues to age and grow, so does the need for additional capacity and new technology. Improving our aging facilities and replacing obsolete equipment with state-of-the-future equipment will improve clinical quality, enhance our ability to recruit and retain physicians and employees, add revenue-generating services, and improve our community image.

Strategy #9: Focus on Cost Management

Government insurance (such as Medicare and Medicaid) and commercial health plans will continue efforts to reduce the cost (and associated payments) for medical care; for hospitals to survive, they must become more efficient and respond to such external demands. We have taken steps to reduce cost while improving quality; for example, expanding our case management program, which has resulted in a favorable reduction of patient length of stay. To ensure financial viability, we will continue to explore opportunities to manage cost.

Strategy #10: Focus on Revenue Cycle Management

Like clinical care, managing the revenue stream is complex - it is specialized work that requires talented employees, well-defined process and sophisticated tools and information systems. Over the past two years, many actions were initiated to improve some critical elements of the revenue cycle: patient registration, point-of-service collection of co-payments, electronic coding of diagnostic data for billing purposes, claims management, accounts receivable management and denials management. Like medicine, reimbursement regulation frequently changes, and thus requires our constant attention.

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PART II
OPPORTUNITY ANALYSIS AND EXPLORATION

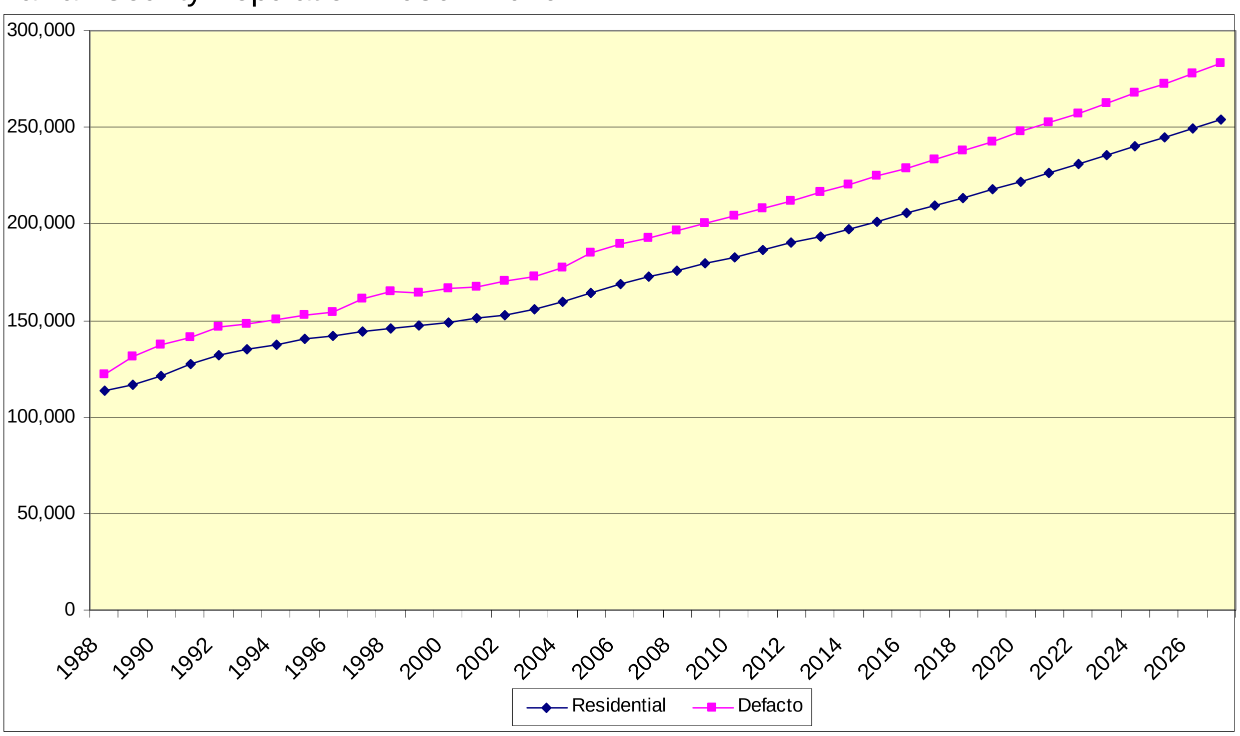
Key Environmental Factors

Demographics / Population Trends

Population growth drives health care demand. This growth influences the number, type, and geographic distribution of health care resources required to meet population need.

The Hawaii State Department of Business, Economic Development and Tourism (DBEDT) estimates that from April 1, 2000 to July 1, 2008, statewide population growth was 6.3% with the largest population growth in Hawaii County at 18.2%. The estimated resident population for the state in 2008 was 1.29 million. The resident population of Hawaii grew 16.2% between 1990 and 2008, slightly slower than that of the United States over the same period (20%). The state population annual growth rate has averaged 1.1% since 2003. Neighbor island counties are growing at a much faster rate than Honolulu. Between 1990 and 2008, population growth in Hawaii County was 46% – averaging 2.56% per year. This growth results in demand for more health care resources, some of which have traditionally been centralized in Honolulu. For each decade between 2000 and 2030, the population is expected to increase by 140,000, with approximately 59,000 of that growth on the neighbor islands. In addition, the neighbor islands tend to have a higher proportion of individuals aged 45 and older. This signals a need to examine the distribution of health resources as the neighbor islands elderly population grows.

Hawaii County Population: 1986 – 2026



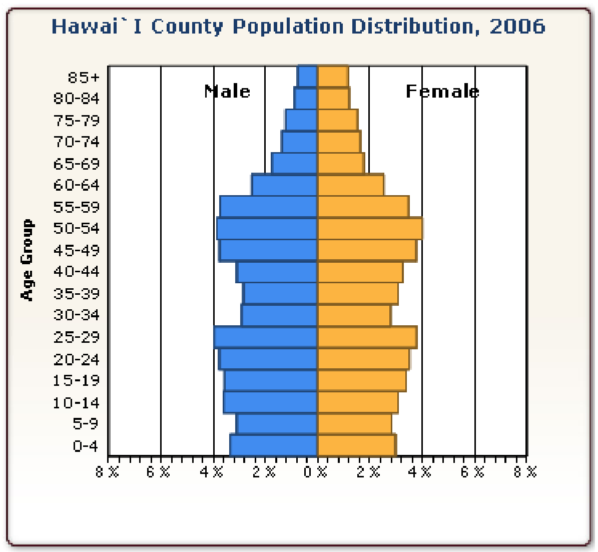
Source: http://hawaii-county.com/databook_current/section01.htm

The de facto population is defined as the number of persons physically present in an area, regardless of military status or usual place of residence. It includes visitors present but excludes residents temporarily absent, both calculated as an average daily census. The resident population is defined as the number of persons whose usual place of residence is in an area, regardless of physical location on the estimate or census date. It includes military personnel stationed or home-ported in the area but excludes persons of local origin attending school or in military service outside the area.

As of July 1, 2008, the de facto population of the Big Island is estimated at 192,691. For the West Hawaii Region Service area, current population is approximately 68,000. It is forecasted that the population for the West Hawaii Region will reach 112,000 by 2030 – similar to the 117,000 projected for East Hawaii.

Age is the single most important factor in understanding health status and the need and demand for health care resources. For the elderly, there is a clear relationship between age and mortality, prevalence of chronic conditions and level of disability -- the elderly are the heaviest users of health care resources.

Until 2000, Hawaii's elderly population, aged 65 and older, was growing at a much faster pace than the nation's elderly population. Since 2000, Hawaii’s growth has leveled off. Hawaii's proportion of elderly to total population has increased nearly three-fold, from roughly 5% in 1960 to nearly 14% in 2006. During this same period, the elderly segment of the nation's population increased by one-third, from 9% to 12%. Between 1990 and 2006, the number of elderly aged 75 and older increased 41% nationally, compared to a 106% increase in Hawaii.



All counties experienced significant growth (13-14%) in their elderly populations since 1970. The West Hawaii Region population aged 85 and older is estimated at 810 (2005) and projected to more than double to 1,750 by 2030.

In 2003, Hawaii’s 23 acute care civilian facilities accounted for 2,507 acute care beds - this equates to 2.0 beds per 1,000 residents, fewer than the 2.6 beds per 1,000 residents for the nation overall. Hawaii's supply of acute care beds per capita slightly declined between 1990 and 2003, due to the faster growth rate of Hawaii's population compared to acute care beds. Hawaii ranks 33 among all states in the number of available beds per capita.

KCH has 94 inpatient beds divided into the following functional units: General Medical/Surgical - 33, Intensive Care - 9, Obstetrics - 7, Psychiatric - 11, and Skilled Nursing/ Long-Term Care - 34. The impact of this growing and aging population on the need for acute inpatient beds is significant:

- Currently, KCH has 49 acute care beds (vs. a need of 51)
- By 2020, the need will reach 74 to 109 beds
- By 2030, the need will reach 88 to 157 beds

Kohala Hospital's service area population is estimated to total 5,937 in 2005. The service area is defined as including the town of Kapaau.

	2005	**2010**	**2015**	**2005-2015**
Primary Service Area	**Estimate**	**Projection**	**Projection**	**% Change**
Hawi	3,301	3,381	3,467	5%
Kapaau	2,636	2,756	2,884	9%
Total Service Area	**5,937**	**6,137**	**6,351**	**7%**
Hawaii	1.23	1.30	1.36	10%
United States	296.2	310.5	326.6	10%

State and US population in millions
Sources: Applied Geographic Solutions and US Census

Overall service area age groups are similar to Hawaii and/or the U.S. as a whole, except for a higher percentage of individuals age 45-64 and a lower percentage of individuals age 20-44. Service area population distribution is atypical of a rural hospital service area, which most often has a lower pediatric population and a greater over-65 age group. In 2005, the Kohala Hospital service area population was estimated to be 5,937, with a weighted population of 5,013 (to account for out-migration). The population of the service area is projected to increase 7% over the next 10 years, which is lower than the state and national averages. Over the next 10 years, most growth is projected in the 20-44 and 65+ age cohorts at 9% and 22%, respectively.

The population in the service area has 109% of household income relative to state average. An estimated 12% of the service area is below 100% of the Federal Poverty Level (FPL) and 27% are below 200% of the FPL. This disparity between the average income and those below the FPL may be attributed to the influx of wealthy, retired baby boomers and the population of sugar plantation retirees with fixed incomes. This presents two opportunities for Kohala Hospital. First, as a CAH, it serves an important need for local access to healthcare for the un- and under-insured. Second, there is an opportunity to connect with the new members in the community to support future development of services and facilities.

Hawaii County mortality rates are higher than the state-wide rate for all leading causes of death. The high mortality rates from chronic diseases that are preventable and treatable indicates a need to implement chronic disease management services and systems.

Hospital discharge data indicates that Kohala Hospital captures only 2% of the service area market share and 3% of the market in Kapaau. Service area residents appear to be seeking inpatient care primarily at North Hawaii and Oahu. The potential to impact that would require a newer facility, upgraded equipment and increased services. Primary Care Service Area data shows that the Hamakua Health Center has a strong primary care presence in the service area.

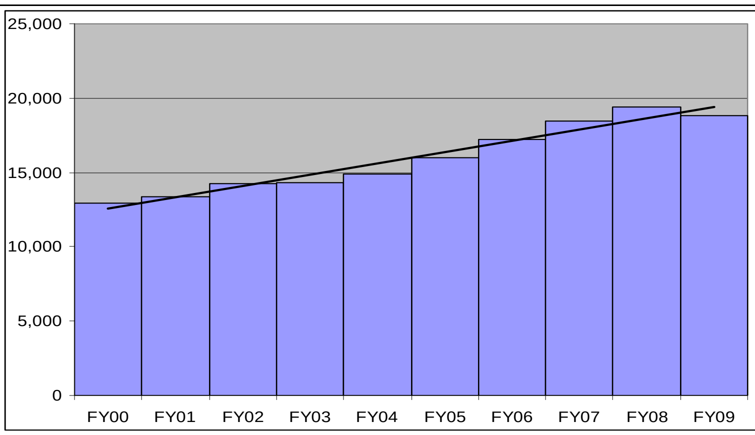
Continuum of Care Infrastructure - Access to Primary Care
The West Hawaii Region's existing continuum of care infrastructure is fragmented and arguably, inadequate. This results in a lack of access to the appropriate level of care.

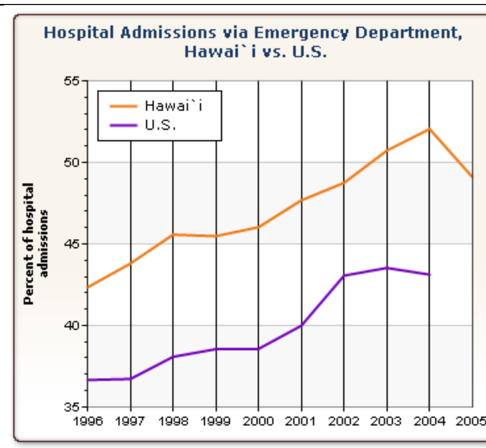
The lack of primary care services has a significant impact on the hospital's ability to provide services. Consider the following points:

- People seek care later in the ER vs. earlier in a clinic or physician office,
- Thus, they are "sicker" (higher intensity and complexity of illnesses),
- Which increases demand and use of ER beds,
- Which increases inpatient admissions from ER and
- Results in even longer acute stays.
    - Doctors are reluctant to discharge inpatients due to lack of sufficient outpatient follow-up care (clinics, home health, hospice, etc).
    - Patients await SNF/LTC placement due an insufficient number of physicians willing to serve as the attending for these patients.
- Lack of physician specialists can increase inappropriate admissions and impact length-of-stay, which increase costs that are not reimbursed.

The impact on the KCH Emergency Department is clear – a 50% increase in visits over the past ten years, with an average annual growth rate of 4.3%. Our growth is comparable to the phenomenon throughout the state.

KCH ER Volume 2000-2009





Continuum of Care Infrastructure - Access to Specialty Care
In 2006, 38,076 Neighbor Island residents were hospitalized, of these 6% received hospital care on Oahu. The most common reasons for migration from neighbor islands to Oahu for care include:

- Orthopedic Surgery: Knee/hip and back and neck procedures
- Cardiac/Cardiovascular Surgery
- Obstetrics/Delivery and Neonatology
- Oncology & Chemotherapy
- Pulmonary
- Pneumonia

KCH Patients Admitted via ER with a One-Day Inpatient Stay – 2006

ER - One Day Admissions	
Discharged to Home	505
Transferred	103
Died	19

Would they have required admission if adequate primary care services were available?

Could they have been cared for on the Big Island if adequate specialty care were available?

SERVICE

Strategy #1: Improve the Health of Our Community
As our community continues to age and grow, we will explore opportunities that enhance access and strengthen the continuum of healthcare services. Given limited resources and external pressures to reduce cost, the delivery system must be both efficient and effective. For West Hawaii, this will require coordination and collaboration between the various healthcare organizations and providers, regardless of ownership.

We will continuously scan the market and explore alternatives to enhance community access and financial performance. Current initiatives and opportunities include:

- Improve Community Continuum of Care Infrastructure
- Addition of Alii Clinics in expanding communities
- Affiliation with Lutheran Medical Center for resident dentist rotations
- Affiliation with John A Burns School of Medicine
- Affiliation with the A.T. Still University College of Osteopathic Medicine
- Diabetes Care Initiative
- Patient Flow Initiative
- Participation in Trauma Program
- Development of Tumor Registry
- Palliative Care Services
- Mobile Medical Unit for Outreach

Strategy #2: Enhance Community Image
Maintaining favorable community relations is important for many reasons - from healthy behaviors to donations. One area of focus is to provide public education addressing

healthy lifestyle choices. Another is to keep the general public, elected government officials and other high-profile individuals informed of our contributions and achievements. We will improve our “brand” (consumer recognition) through the development and execution of a formal program that includes both inbound and outbound marketing tactics and outreach efforts. Over the past year, press has been favorable - the information people receive about KCH affects our relationship with the community. People need to get the right message. We will continue efforts to keep elected government officials informed of KCH accomplishments, challenges and needs. Specific initiatives and opportunities include:

- Upgrade of Website for internal and external communication, health and wellness promotion and education
- Creation of annual or biannual Community Report
- Increase community involvement and “attachment”

QUALITY

Patient Safety

In late 1999, the Institute of Medicine released, “To Err is Human: Building a Safer Healthcare System.” The report generated both discussion and controversy. Highlights:

- Medical errors occur in 2.9% to 3.7% of hospital admissions
- 8.8% to 13.6% of those errors lead to death.
- Medical errors result in 44,000 to 98,000 deaths each year in hospitals.
- Consider deaths from:
    - Motor vehicle accidents (43,000)
    - Breast Cancer (42,000)
    - AIDS (17,000)

As a result of this and other publications, JCAHO responded by requiring hospitals to:

- Develop comprehensive, integrated safety programs,
- Conduct regular proactive risk assessments,
- Foster a culture that encourages reporting (non-punitive),
- Identify and fix barriers to communication,
- Inform patients about significant unanticipated outcomes,
- Provide orientation and training that emphasizes specific-job related aspects of patient safety
- Conduct in-depth analyses of any sentinel events

Penalties for Poor Care

In late 2008, the Centers for Medicare and Medicaid Services began imposing financial penalties for the following hospital-acquired conditions: Serious preventable events (object left in during surgery, air embolism, and blood incompatibility), catheter-associated urinary tract infection, pressure ulcers, vascular catheter-associated infection, surgical site infection – mediastinitis after coronary artery bypass graft surgery, and falls and trauma. Many consumer and employer groups want private insurers to follow suit.

Public Reporting

In 2003, the Centers for Medicare and Medicaid launched a free website (www.HospitalCompare.hhs.gov) to help consumers make better informed choices about selecting a hospital based on quality indicators. The website focuses on measures related to acute myocardial infarction, heart failure, pneumonia and surgical care. In 2008, patient satisfaction scores were added. KCH's performance on core measures over the past two years shows impressive improvement:

	1st Qtr 2007	2d Qtr 2007	3rd Qtr 2007	4th Qtr 2007	1st Qtr 2008	2d Qtr 2008	3rd Qtr 2008	4th Qtr 2008	1st Qtr 2009	2d Qtr 2009
Heart Attack	83.3%	100.0%	100.0%	96.0%	93.8%	100.0%	100.0%	94.4%	96.2%	100.0%
Heart Failure	55.6%	50.0%	51.5%	55.3%	45.8%	77.8%	93.5%	88.2%	80.6%	94.1%
Pneumonia	78.4%	73.4%	88.6%	74.7%	93.3%	96.2%	92.1%	95.5%	93.5%	95.2%
Surgical Care Improvement	80.8%	100.0%	94.4%	92.3%	74.8%	78.6%	85.1%	79.6%	96.7%	100.0%
Overall	76.6%	74.1%	82.2%	77.4%	79.4%	85.7%	89.1%	90.0%	92.9%	97.4%

Patient Satisfaction

Over the past two years, KCH's performance on HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems) metrics has been stable; albeit below national and state averages. When compared to participating hospitals, our performance on two key questions is at the second percentile; i.e., 98% of the participating hospitals score better than we do. There is a clear opportunity for us to improve on these scores – which can be accessed via the internet by anyone.

HCAHPS Results (October 2007 through September 2008)

	Patients who gave a rating of "9" or "10" (high)	Patients would definitely recommend the hospital
Average for all reporting US hospitals	**64%**	**68%**
Average for all reporting Hawaii hospitals	**55%**	**58%**
Kona Community Hospital	**41%**	**45%**

Strategy #3: Enhance Patient Safety Practices

Patient safety has always been paramount. For over a decade, patient safety has been a "hot topic" in the media and has gained the attention of the government, consumer groups, insurance plans and the general public. We will continue our on-going efforts to address patient safety recommendations of the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and similar organizations.

Strategy #4: Enhance Clinical Quality and Patient Satisfaction

Our efforts to improve clinical quality as measured by performance on the JCAHO's "Core Measures" (evidence-based medicine standards) have been extremely successful. Additionally, we will focus more attention and efforts on customer service and implement tactics to improve our patient satisfaction scores. To continue building our customer and quality-focused team, we will:

- Continue efforts to improve performance on JCAHO Core Measures.
- Address evidence-based medicine standards of care in all clinical departments.
- Implement customer service education and training programs that focus on improving caregiver attitude, responsiveness, teamwork and communication.
- JCAHO and Department of Health surveys are unannounced. Because their focus is on observing staff performance, we will conduct regular mock surveys to enhance staff awareness and identify opportunities for improvement.
- Enhance Board role in quality monitoring.

PEOPLE

There were more than 43,400 workers employed in the health care and social assistance sector in Hawai'i in 2007, representing 9% of Hawaii's total workforce. Between 1990 and 2007, Hawaii's private-sector health care workforce grew by 43%, more than four times greater than the overall statewide job market. The rate of growth in this workforce sector during the period 1990 to 2007 was slower in Hawaii at 43% than the overall U.S. figure of 53%. The aging population, together with increased health care demands, will likely stimulate future increases in the health care workforce.

While the number of registered nurses (RNs) in Hawaii has increased in recent years (more than 11,000 in 2004), only 70% are employed in nursing. Hawaii ranks 46th among all states, with 62 employed nurses per 10,000 residents (vs. national rate of 78 per 10,000). The rate on the Big Island is 74 per 10,000 residents. In addition, Hawaii's nursing population is older - in 2001, 79% of Hawaii's RNs were 40 years old or older, compared with 68% nationwide. Approximately 6% of Hawaii's RNs are under the age of 30, compared to 9% nationally. As Hawaii's older nurses retire, there will not be enough nurses to replace them.

While this section has highlighted nursing, the statistics for many other healthcare professions (pharmacists, radiology technicians, etc.) are similar and of equal concern.

KCH has employees ranging in age from 22 to 77, the average (mean) is 47.7 and the median is 49.0; 30.4% are over age 55. The average tenure is 8.0 years of state service; 11.5% have over 20 years of service. For KCH Registered Nurses, the average age is 47.7; average state service tenure is 11.1 years; 30.3% are over age 55; 20.4% have more than 20 years of service; 71.0% of our RNs are over 40 (vs. 79% for the state of Hawaii and 68% nationwide); 6.2% of our RNs are under 30 (vs. 6% in Hawaii and 9% nationally). The following tables highlight other demographic information:

Age Distribution by Job Type

Job Type	Age <30		31-55		56-64		65+		Total
Admin/Clerical	7	9.0%	42	53.8%	29	37.2%	0	0.0%	78
Ancillary	14	12.8%	72	66.1%	22	20.2%	1	0.9%	109
Managerial	0	0.0%	20	62.5%	10	31.3%	2	6.3%	32
Registered Nurse	10	6.2%	103	63.6%	45	27.8%	4	2.5%	162
Support	3	5.0%	36	60.0%	16	26.7%	5	8.3%	60
Total	34	**7.7%**	273	**61.9%**	122	**27.7%**	12	**2.7%**	441

Tenure Distribution by Job Type

Job Type	0-5 Years		6-10		11-15		16-20		21+		Total
Admin/Clerical	28	35.9%	14	17.9%	11	14.1%	10	12.8%	15	19.2%	78
Ancillary	48	44.0%	32	29.4%	9	8.3%	11	10.1%	9	8.3%	109
Managerial	16	50.0%	4	12.5%	4	12.5%	4	12.5%	4	12.5%	32
Nurse	59	36.4%	35	21.6%	16	9.9%	19	11.7%	33	20.4%	162
Support	22	36.7%	16	26.7%	7	11.7%	9	15.0%	6	10.0%	60
Total	173	39.2%	101	22.9%	47	10.7%	53	12.0%	67	15.2%	441

Retirement "Ready" Next 3 Years – by Job Type and Department

Retire "Ready" Next 3 Years	Nurse	Admin/ Clerical	Ancill	Support	Manage-ment	Total
Nursing - Med-Surg		1	3		1	**5**
Nursing - Obstetrics	2	1	2			**5**
Nursing Administration	2	2			1	**5**
Facilities		1		4		**5**
Nursing - Surgery	3			1		**4**
Nursing - Emergency	3					3
Accounting		3				3
Hospital Administration					3	3
Nursing - Psychiatric	3					3
Housekeeping				2		2
Imaging		1	1			2
Dietary				1		1
Human Resources		1				1
Nursing - Intensive Care		1				1
Pharmacy			1			1
Physical Therapy			1			1
Purchasing & Stores				1		1
Quality Management	1					1
Respiratory Therapy			1			1
Nursing - Long-Term Care	1					1
Total	**15**	**11**	**9**	**9**	**5**	**49**

Employee Satisfaction

While staff satisfaction and communication issues are difficult to accurately quantify, employee satisfaction surveys were conducted in late 2007 and early 2009. In general, results declined (an anticipated effect of the workforce reduction), yet helped to identify organizational strengths (team work and commitment to Code of Conduct) and opportunities (Professional Growth, enhanced engagement by Leadership), illustrated below in tabular form. Improved communication between groups may help to avoid or diffuse potential problems before staff is affected. Improved employee satisfaction contributes to improved patient satisfaction scores and a positive community image.

Top 10 "Positive" Responses	2009 Agree/ Strongly Agree	2007 Agree/ Strongly Agree	Change
I trust our department head to make the right decisions	**76.2%**	55.5%	**20.8%**
I am familiar with the HHSC Code of Conduct	**73.9%**	78.7%	-4.8%
Employees in my department work well together	**68.8%**	63.3%	5.5%
If I observe misconduct by a co-worker I would report it	**63.4%**	74.3%	-11.0%
I am proud to work for this hospital	**57.7%**	63.0%	-5.3%
I know how to find out what job opportunities are open	**56.2%**	68.3%	-12.1%
My job makes full use of my knowledge and skills	**55.7%**	59.1%	-3.4%
I have the information I need to do my job	**54.5%**	65.7%	-11.1%
I truly enjoy my day-to-day work activities	**54.2%**	60.3%	-6.0%
My work is important to this hospital	**50.7%**	82.2%	**-31.5%**

Top 10 "Negative" Responses	2009 Disagree/ Strongly Disagree	2007 Disagree/ Strongly Disagree	Change
I have great opportunities for professional growth	**54.6%**	40.2%	14.4%
Administration is committed to high quality patient care	**45.7%**	21.3%	**24.4%**
I feel comfortable voicing my opinion	**42.7%**	24.5%	**18.2%**
My supervisor treats all employees fairly	**41.5%**	25.7%	**15.9%**
I trust Administration to make the right decisions	**40.8%**	30.9%	10.0%
This hospital provides the training I need to do my job well	**40.0%**	24.1%	15.9%
My suggestions about safety would be acted on if I expressed them to my supervisor	37.7%	20.4%	**17.3%**
Staffing levels are sufficient in my department	37.1%	50.4%	**-13.4%**
This hospital inspires me to do my best work every day	36.9%	28.3%	8.6%
Employees are promoted fairly at this hospital	36.8%	29.8%	7.0%

Physician Satisfaction

Physician satisfaction surveys were conducted in August 2007 and February 2009, using five-point inverse Likert-scale; i.e., the lower the number the more favorable the results. Compared to the 2007 survey, overall results improved from 2.46 to 2.18 (11%). There was improvement in 31 of 39 questions; 17 had statistically significant ($p<.05$) improvement. Highlights follow:

"Top 10"	Feb 2009 Average	Aug 2007 Average	Change
I am proud to be part of the medical staff	**1.70**	**2.05**	**-0.35**
My patients receive quality care at KCH	**1.71**	**2.10**	**-0.39**
Hospital administration is available to physicians	**1.79**	**2.09**	**-0.30**
Nurses respond to physician orders in a timely manner	**1.79**	**2.26**	**-0.47**
KCH encourages quality medical care	**1.79**	**2.04**	**-0.25**
Ancillary staff is attentive to physicians' needs	**1.83**	**2.09**	**-0.26**
Ancillary staff is generally competent and courteous	**1.83**	**2.00**	**-0.17**
Nurses have necessary skills to perform assessments, procedures, and treatments	**1.83**	**2.26**	**-0.43**
I would choose to be a patient here	**1.87**	**2.50**	**-0.63**
Nurses' goals for patient care are aligned with physicians' goals	**1.91**	**2.29**	**-0.37**

"Bottom 10"	Feb 2009 Average	Aug 2007 Average	Change
Education and outreach programs meet the needs of our community	**2.87**	**2.83**	**0.04**
The specialties I need to deliver quality patient care are available	**2.87**	**3.90**	**-1.04**
Lab and radiology results are on the chart when I round	**2.86**	**2.73**	**0.14**
Patient care is better at KCH than at other hospitals with which I am familiar	**2.74**	**3.24**	**-0.50**
Surgical procedures start on time (eg, patients prepped and ready as expected)	**2.69**	**3.50**	**-0.81**
In response to complaints, processes are fixed so that issues do not recur	**2.65**	**2.86**	**-0.20**
Hospital administration is frequently seen in clinical areas	**2.64**	**2.95**	**-0.32**
The diagnostic imaging scheduling process is efficient	**2.55**	**2.52**	**0.03**
Communication from KCH to the physician is timely and effective	**2.52**	**2.52**	**0.00**
Mechanisms are available for physicians to give feedback	**2.39**	**2.50**	**-0.11**

Strategy #5: Enhance Medical Staff Development, Recruitment and Retention
The creation of Alii Health was an important first step in improving our ability to recruit specialists and enhance financial performance. Now, attention must focus on refining this structure to improve our ability to attract and retain quality providers. This requires a comprehensive approach that provides physicians with opportunities to learn as medicine evolves, develop and maintain social and collegial relationships, and earn nationally competitive income. WHR will continue to recruit specialists (via different models, such as Alii Health Center) that will address community need and enhance financial performance. During the next six years we will:

- Adjust the Alii Health structure to recruit and retain quality physicians and other technical resources by allowing them the opportunity to earn nationally competitive incomes that also improves the hospital's revenue base.
- Continue to work with Alii Health to identify growth opportunities and recruit various specialists, such as: cardiologist, general surgeon, internists, an additional orthopedic surgeon and pediatrician.

Residents of Kohala have limited access to primary and specialty care. Recently, two physician offices closed, making access to primary care even more difficult. Although there is one general practitioner in town that sees patients on a cash basis, the only remaining practices are now part of the local federally qualified health center (FQHC), Hamakua Health Center. The center is minimally staffed and the practice is reportedly closed to new patients – impacting the Kohala ED. Current demand could support at least one additional primary care physician. There is an unmet need for visiting specialists in Kohala. The provision of this service will enhance local access to needed care. Further, visiting specialists generally add to the bottom line via enhanced use of ancillary testing. Kohala Hospital's challenge in attracting specialists is the limited availability of services, specifically diagnostic capabilities.

Strategy #6: Enhance Employee Development, Recruitment and Retention
The delivery of hospital-based care is complex, labor-intensive, highly-specialized and constantly changing. Across the nation, there is a shortage of qualified, experienced people to fill these specialized positions. An aging workforce compounds this - with many employees approaching retirement age. We will continue efforts to enhance employee knowledge, performance and productivity as well as improve morale and satisfaction. Currently, collective bargaining agreements cover other state entities (i.e., Departments of Justice, Public Health, and Education) with language intended for a 9-5, M-F operation. HHSC has just one vote at the table and negotiations tend to be competitive and positional, not collaborative. Current initiatives and opportunities include:

- Collaborate with unions to enhance productivity and reduce costs
- Carve-out the HHSC hospitals from the various state-wide agreements into separate HHSC-specific or even hospital-specific contracts.
- Ongoing employee engagement to improve morale
- Leadership Series Initiative and Leadership Development Institute

GROWTH

Strategy #7: Expand Clinical Services
To improve our financial position, we must expand those services that make a positive financial contribution. Given our limited resources and high fixed costs associated with our status as a state entity, we will continue to explore opportunities to partner with others (including other hospitals, health systems, etc.) to expand services. Current initiatives and opportunities include:

- Free standing ambulatory surgery center – this joint venture with Hawaii Pacific Health is expected that this project will be completed by December 2009.
- There is increasing demand for Medical-Surgical beds. Given the high-cost and poor reimbursement for hospital-based long-term care, KCH could improve financial performance by re-licensing SNF/ICF beds as Acute, Medical-Surgical beds, with SNF “swing” capability.
- Increased market capture in various services lines, such as ENT, orthopedics, urology/lithotripsy.
- Development of integrated delivery system model, to include the exploration of developing a hospital-based insurance product.
- Explore funding opportunities to expand, modernize and/or replace the Emergency departments for both Kona and Kohala.
- The need for a new facility is recognized and supported by the Board; however, given the current economy and inability of the state to fund a new hospital, active planning for replacement facilities has been suspended. We will continue to focus attention on improving quality, service and our financial position which will improve our ability to partner with others. We expect to restart our planning process in FY12.

Strategy #8: Upgrade Technology and Facilities
As medicine continues to evolve and the population continues to age and grow, so does the need for additional capacity and new technology. Improving our aging facilities and replacing obsolete equipment with state-of-the-future equipment will improve clinical quality, enhance our ability to recruit and retain physicians and employees, add revenue-generating services, and improve our community image.

Both facilities are aging and lack sufficient space. There are numerous opportunities, both short- and long-term to improve service delivery, patient flow, efficiency and effectiveness. Kohala Hospital sits on a large parcel of land; it may be feasible to maintain current operations while a new facility is built. In the interim, the facility requires significant attention. For example, the ER is located in the middle of the building in the SNF patient care area - as utilization continues to increase (15% in FY’07). If Kohala Hospital continues to be a sole provider of services, even basic services utilize technology and systems that will require a new plant infrastructure. Given limited state resources, we will explore alternative financing, public-private partnerships and joint ventures. Current opportunities and associated actions include:

- Seismic Safety Upgrades

- Complete RIS/PACS implementation at Kona
- Complete Pharmacy Information System Implementation
- Complete foundation-sponsored Adopt-a-Room project
- Upgrade the operating room
- Upgrade Emergency Department
- Electronic Medical Record
- Upgrade finance and decision-support information systems
- For Kona Hospital, upgrade CT Scan, MRI and Radiation Oncology
- For Kohala Hospital, complete feasibility studies to acquire CT and RIS-PACS technology
- Repairs / upgrades at Kohala Hospital to enhance patient privacy and dignity

FINANCE

Funding Challenges

Inadequate provider payments from insurance companies and public programs will continue to challenge and limit our ability to fund upgrades and expansions. WHR will enhance revenues (through programmatic service expansion, public-private partnerships, negotiating better contracts with health plans, and lobbying for improved payments) and reduce unnecessary expense via a focused cost-management program.

Across the state, over half of all Hawaii hospitalizations in 2007 were financed by tax dollars (e.g., Medicare, Medicaid, QUEST). Private insurance was billed for 40% of all hospital stays, Medicare for 33%, and Medicaid/QUEST for 22%; 3.0% of stays were uninsured. Between 1995 and 2006, total hospital charges increased by 36% (adjusted for inflation). In 2006, total charges for hospitalization in Hawaii were approximately $2.7 billion, with an average charge of $22,319 per discharge or $4,108 per day. Honolulu experienced the highest charge at $25,309 per discharge. Hawaii County had the lowest at $13,377 per discharge.

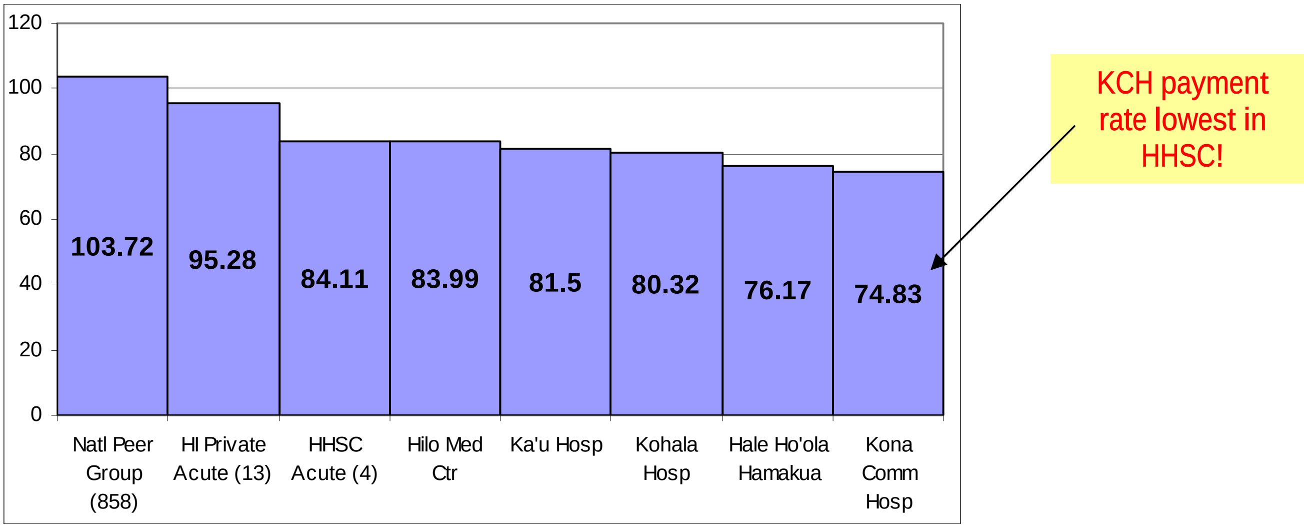
Overall Payments as a Percentage of Cost – Calendar year 2007

	Medicare	MediCaid	Commerical & Other	Overall
Hawaii	77.37	70.65	108.74	92.88
Lowest State	62.69	45.04	101.19	92.88
U.S. Average	79.14	73.26	127.34	104.82
Highest State	100.8	101.65	155.63	115.35

Source: Hawaii Databank Program, Hawaii Health Information Corporation

Hawaii's overall payment rate is the lowest in the US.

Overall Payment as a Percentage of Cost (All Payers) – FY 2007



Unique Challenges as a State Entity

- High “fixed” labor costs due to Civil Service structure (about 70% of budget) vs. 50% typical for not-for-profit hospitals and 45% in for-profit facilities.
- Disproportionate share to support the state’s under-funded retirement program.
- Limited representation when negotiating contracts with labor unions.

Strategy #9: Focus on Cost Management
Government insurance (such as Medicare and Medicaid) and commercial health plans will continue efforts to reduce the cost (and associated payments) for medical care; for hospitals to survive, they must become more efficient and respond to such external demands. We have taken steps to reduce cost, yet improved quality; for example, expanding our case management program, which has resulted in a favorable reduction of patient length of stay). To ensure financial viability, we will continue to explore opportunities to manage cost. Some possibilities are briefly highlighted:

- Payers continue to reduce reimbursement; we must aggressively manage patient length of stay and use of intense/acute resources. In FY08 and FY09 we took steps to enhance our case management and utilization review programs; these efforts will continue during FY10.
- Supply-Chain Management Improvement opportunities, such as supply / inventory control and management, to reduce costs.
- Revisit legislative efforts to shift current vacation, sick, holiday benefit structure to a consolidated, Paid-Time-Off (PTO) program.

Strategy #10: Focus on Revenue Cycle Management
Like clinical care, managing the revenue stream is complex - it is specialized work that requires talented employees, well-defined process and sophisticated tools and information systems. Over the past two years, many actions were initiated to improve some critical elements of the revenue cycle: patient registration, point-of-service collection of co-payments, electronic coding of diagnostic data for billing purposes,

claims management, accounts receivable management and denials management. Like medicine, reimbursement regulation frequently changes, and thus requires our constant attention. A recent (August 2009) assessment by Perot systems estimated (preliminary) an improvement opportunity of $6 to $12 million over a three year period.

A team was established in late 2007 to address the revenue cycle – which encompasses six major elements: patient registration, point-of-service collection of co-payments or deposits, electronic coding of diagnostic data for billing purposes, claims management, accounts receivables management, and denials management. Initial efforts focused on cash collections in the Emergency Department have been successful. In FY10 efforts will continue to address all major components of the cycle.