



**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N  
*Quality Healthcare For All*

PCEO-21-059

**Report to the Hawaii State Legislature  
Hawaii Health Systems Corporation Annual Audit and Report for FY2021  
Pursuant to HRS Section 323F-22(a) and (b)**

Hawaii Health Systems Corporation (HHSC) is pleased to submit this report to the Legislature in accordance with section 323F-22, Hawaii Revised Statutes (HRS) relating to HHSC's Annual Audit and Report. This report includes (a) projected revenues for each health care facility for FY2021 and a list of capital improvement projects planned for implementation in FY2020; and (b) regional system board reports.

The HHSC network of hospitals and clinics provide high quality healthcare services to residents and visitors in the State of Hawaii regardless of the ability to pay. In this regard, HHSC continues to serve as a vital component of the State healthcare "safety net." This is accomplished through the continued dedication and hard work of our employees, medical staff, community advisors, boards of directors, labor union partners, and many other stakeholders, with support from the Legislature and the state administration.

HHSC facilities include: Hilo Medical Center, Yukio Okutsu State Veterans Home, Hale Ho'ola Hamakua, and Ka'u Hospital (East Hawaii Region); Kona Community Hospital and Kohala Hospital (West Hawaii Region); Maui Memorial Medical Center, Lanai Community Hospital and Kula Hospital (Maui Region); Leahi Hospital and Maluhia (Oahu Region); Kauai Veterans Memorial Hospital and Samuel Mahelona Memorial Hospital (Kauai Region), in addition to three non-profit affiliate providers: Ali'i Community Care, Inc: Roselani Place – Maui; Ali'i Health Center – West Hawaii, and Kahuku Medical Center – Oahu. HHSC also owns and operates several physician clinics throughout the State.

In June 2015, the Legislature passed Act 103, H.B. 1075, effective June 10, 2015, which allowed for the transition of the management of the Maui Region facilities to a new entity. The Maui Region selected Kaiser Permanente as the entity that would manage the three Maui Region facilities. As a result, Kaiser Permanente formed a new not-for-profit entity, Maui Health System (MHS), to manage the three Maui Region facilities. In January 2016, HHSC entered into a transition agreement with an expected effective date of July 1, 2016. Due to legal challenges and other delays, the expected transition date was pushed back to July 1, 2017. The legal challenges were resolved with the passage of Act 18, S.B. 207, effective July 1, 2017, which provided severance benefits for those Maui Region employees affected by the transition of operations from HHSC to MHS. These severance benefits were paid out to eligible recipients in October 2017. HHSC entered into a transfer

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agreement and a lease agreement with Maui Health System to effectuate the transfer during fiscal year 2017. The transfer of operations was completed on July 1, 2017.

In fiscal year 2020, the Coronavirus pandemic had a tremendous impact on HHSC's operations. The Coronavirus started its spread in Hawaii in the second half of March 2020, and spread quickly from that point on. The Governor quickly issued a series of "stay-at-home" emergency proclamations that required a shut-down of non-essential businesses and arriving trans-Pacific passengers to quarantine for a minimum of 14 days. The effect of these emergency proclamations was a crippling of Hawaii's economy, with many businesses forced to close, causing unemployment rates to rise to unprecedented levels, going from a pre-Coronavirus level of 2.4% up to a high of 23.8%. In addition, people were encouraged to stay at home and practice "social distancing," which resulted in further slowdowns even for those businesses that remained open. This had a tremendous impact on HHSC's facilities, as the combined effect of people complying with the stay-at-home order, people choosing to defer medical care due to financial hardship, the cancellation of elective surgeries and other procedures to comply with Center for Disease Control guidelines, and the lack of visitors to Hawaii caused a significant drop in patient volumes. For the period from March 2020 through June 2020, acute care discharges dropped 12% as compared to the period from March 2019 through June 2019. The biggest impact was seen in emergency room visits, as emergency room visits for the period from March 2020 through June 2020 decreased over 34% as compared to the period from March 2019 through June 2019. These declines in patient volume resulted in a decrease in net patient service revenues of \$19.9 million from the period between March 2019 through June 2019 as compared to the period between March 2020 and June 2020. Besides the drop in patient revenues as a result of these volume decreases, HHSC's facilities also incurred almost \$2.8 million in expenses during fiscal year 2020 specifically related to additional labor, equipment, supplies, and personal protective equipment to prepare for and treat the Coronavirus outbreak in Hawaii.

In order to mitigate the negative impacts of the Coronavirus pandemic on its facilities, HHSC aggressively sought federal funding for Coronavirus relief. During fiscal year 2020, HHSC applied for and received over \$45 million in Health & Human Services Provider Relief Fund grants. HHSC also applied for and received almost \$20 million in Small Business Association Paycheck Protection Program (PPP) loans. The PPP loans contain a provision for forgiveness of the loans, and HHSC has already applied to the Small Business Administration for forgiveness. Two of HHSC's regions also applied for approximately \$14.4 million in advance payments from Medicare. Under this program, repayment for the advance payments will be delayed until one year after the advance payment was issued; after that, repayment will be recouped over a maximum period of 29 months, after which the remaining balance must be paid in full subject to an interest rate of four percent.

The Coronavirus pandemic demonstrated how critical HHSC's facilities are in terms of access to health care in the State of Hawaii, particularly on the neighbor islands. In fiscal year 2020, HHSC's acute discharges for the four HHSC regions were 13,599, which accounts for approximately 12% of all acute care discharges in the State of Hawaii. In

fiscal year 2020, HHSC's emergency department visits for the four HHSC regions were 80,288, representing approximately 18.3% of all emergency department visits statewide. The impact of HHSC's facilities on the neighbor islands is even more impressive. For residents of the County of Hawaii, HHSC's facilities cared for 73% of all acute care discharges and 84% of all emergency department visits. For residents of the County of Kauai, HHSC's facilities cared for approximately 22% of all acute care discharges and 37% of all emergency department visits.

Despite the high volume of care that is provided at HHSC's facilities, HHSC continues to face growing operating losses. HHSC was forced to absorb collective bargaining raises of varying percentages negotiated by the State of Hawaii which increased salaries and benefits expense by approximately \$7.7 million in fiscal year 2020 alone. Further, the collective bargaining agreements negotiated by the State of Hawaii are meant to cover employees supporting the static business environment of administrative offices, not the dynamic working environment found in the hospitals that HHSC operates. As a result, the work rules and pay schedules dictated by those collective bargaining agreements makes it difficult for HHSC to operate its facilities efficiently and cost effectively.

In addition, the State assessed HHSC a fringe benefit rate of 63.08% during fiscal year 2020. The increase in the fringe benefit rate from fiscal year 2019 equates to approximately \$6 million in additional salaries and benefits expense. Cumulatively, since the start of fiscal year 2018, the mandated increases in the fringe benefit rate have burdened HHSC with an increase in cost of approximately \$27.1 million over just three years. Other private hospitals across the United States pay a fringe benefit rate of between 25-30%. The impact to HHSC of the difference between its FY 20 fringe benefit rate and the private hospital fringe rate of 30% is approximately \$66.2 million in additional annual expense to HHSC.

HHSC annually has a detailed independent financial audit conducted for the entire system. Additionally, HHSC has a myriad of internal reporting/performance measures that are utilized by the board of directors and management to insure compliance, quality, and financial efficiency in all system work. We have continued to focus on improving our financial management and accounting systems throughout the year. HHSC has received its thirteenth consecutive "clean" unqualified consolidated audit for every fiscal year from FY 1998 through FY2020.

The following information is attached in accordance with section 323F-22, HRS: (1) projected revenues for each facility for FY2021, (2) proposed capital improvement projects during FY2020; and (3) Hawaii Health Systems Corporation, Regional System Board Reports.

### **Foundations**

As a public hospital system, HHSC depends heavily upon input and support from our local communities. Over this past year, HHSC facilities have benefited from outstanding and dedicated service of community-based hospital auxiliaries that included donations of time

and money to our facilities, statewide. HHSC management has also worked with respective hospital foundations to obtain donations and grants to both enhance services provided and to offset the cost of operating our system in predominantly rural areas. In this regard, HHSC has promoted the development of foundations at our hospitals and incorporated the Hawaii Health Systems Foundation (HHSF) as a wholly owned subsidiary 501(c) (3). Nineteen years ago, there were three foundations supporting HHSC facilities of which only two were active. Today there are nine separate foundations, in addition to multiple hospital auxiliaries supporting one or more HHSC hospitals.

Respectfully submitted,



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Linda Rosen, M.D., M.P.H.  
Chief Executive Officer



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Edward N. Chu  
Chief Financial Officer

Attachments:

1. Projected FY2021 Revenues
2. CIP Expenditures FY2020
3. Regional Board Reports, FY2020.