GOV. JUAN F. LUIS HOSPITAL & MEDICAL CENTER

TESTIMONY TO
30TH LEGISLATURE OF THE U.S. VIRGIN ISLANDS
THE COMMITTEE OF FINANCE
July 18, 2014

Good afternoon Honorable Senator Clifford Graham, Chair of the Committee on Finance, Committee members, Senators of the 30th Legislature of the Virgin Islands and members of the community.

I am Dr. Kendall Griffith and I serve as Interim Chief Executive Officer of the Governor Juan F. Luis Hospital & Medical Center (JFL). Joining me in the well this afternoon are Dr. Anthony Ricketts, Acting Chairman, St. Croix District Governing Board, Mr. Michael Younger, Assistant Chief Financial Officer (ACFO), Ms. Justa "Tita" Encarnacion, Chief Nursing Officer (CNO/VP of Clinical Services), Dr. Mavis Matthew, Acting Chief Medical Officer (ACMO), Ms. Hazel Philbert-Thomas, VP of Quality and Mrs. Ellenor Paul-O'Neil, VP of Human Resources. Also in the chambers are other members of JFL's Team consisting of the Governing Board, Physicians, Nurses, Ancillary Support & Administrative team members.

At this time, I would like to thank you, Senator Graham, and the other members of this committee for affording JFL the opportunity to present our budget request, update on the current state of our finances and present our financial forecast for fiscal year 2015.

JFL's mission is "*To drive improvement in the health of those we serve while exemplifying compassion and respect*". In order to accomplish our mission, we have strategically implemented a three (3) phased approach.

PHASE 1 STABILIZATION: Assess the situation, develop an immediate plan of action, and initiate short-term corrective actions

PHASE 2 SUSTAINABILITY: Secure resources, implement long term plan of action

PHASE 3 GROWTH: Take action to ensure future success, including revisiting our current strategic plan and invest in services with high return on investment

PHASE 1 STABILIZATION:

When I assumed the leadership role of the Governor Juan F. Luis Hospital & Medical Center, in January 2013, the organization was faced with numerous challenges. Some of these include:

- Low employee morale
- Failing physical plant
- Unresolved environment of care issues
- Significant level of distrust
- Internal conflicts
- Inadequately trained staff
- Insufficient clinical & medical staff

- Lack of equipment and supplies to perform surgeries
- Patients who were abandoned by family.
- Debt in excess of $40 million
- Decline in Govt. appropriations
- Long wait times and overcrowding in the Emergency Department
- Conflict amongst the Physicians
- Plan of Correction for CMS Survey (Rejected 2 times)
- Operating Room and Dietary Departments had no managers

In order to stabilize JFL, certain objectives had to be met:

1. **Continue to implement and achieve full compliance with CMS' Conditions of Participation:**
    - Submit an acceptable Plan of Correction to CMS (Accepted in the spring of 2013)
    - Redesign the Quality Assessment Performance Improvement (QAPI) Program
    - Create performance improvement teams to evaluate processes within high priority areas
    - Foster a culture of quality and safety through quality assurance initiatives
    - Made Environment Of Care (Physical Plant) and Life Safety upgrades

2. **Stop the financial bleeding:**
    - Assess and restructure the Finance Department
    - Lobby the Executive Branch and Legislative Branch for financial assistance
    - Right-size staffing levels
    - Review and eliminate certain contracted services
    - Conduct an internal assessment of JFL's revenue cycle and contract with The Advisory Board Company, a financial consulting company, to further assess and optimize these processes.

3. **Upgrade our IT infrastructure:**
    - Evaluate our information technology system and hire consultants to address multifaceted hospital specific IT infrastructure
    - Place a computer at each bedside to enhance clinical documentation (TAP Grant Funding)

4. **Provide resources and training in order for staff to perform their duties efficiently:**
    - Partner with other agencies to train staff in performance improvement; customer service; emergency management and leadership
    - Develop enterprise-wide process improvement projects to identify and eliminate waste, streamline inventory control, and increase revenue

5. **Involve our community stakeholders through volunteerism and partnerships:**
    - Reinstitute hospital based community initiatives to increase awareness of hospital services
    - Created partnerships with on and off island educational and healthcare organizations
6. **Transformed the organizational culture:**
    - Cultivate the continuous sharing of the hospital's mission, vision & core values
    - Re-engage the staff through leadership & staff meetings
    - Foster a culture of continuous process improvement (5:13)

The following are some of our achievements and successes attained while stabilizing JFL:

1. **Met full regulatory compliance for the following departments:**
    - Joint Commission Accreditation for Laboratory
    - U.S. Food & Drug Administration (FDA) Laboratory/Blood Bank accreditation
    - FDA Radiology/Mammography Survey
    - OSHA Inspection
    - US Nuclear Regulatory Commission Inspection, Radiology Department
    - Comprehensive review and management of all hospital policies
    - Environment of Care Upgrades including routine rounding and repairs
    - Reduction of overcrowding and patient wait times in the Emergency Department
    - Installed fully operational Fire Suppression System
    - Implement a Case Management (Care Coordination) Program

2. **Forge Inter-Agency Partnerships:**
    - VITEMA/ VI Department of Health – Emergency Management Preparedness projects
    - VI National Guard – Joint Exercises, Memoranda of Understanding for clinical rotation with nurses, etc.
    - VI Department of Human Services
    - Public Employee Relations Board
        - Sexual Harassment Training
    - VI Department of Health
        - Chikungunya Awareness Session
        - HIV/AIDS Collaboration
    - AIDS Education Training Center
    - University of the Virgin Islands – JFL's three pillars of leadership (Governing Body, Medical Staff, Executive Management) has pledged support to the UVI Medical School project
    - Memoranda of Understanding with various off island healthcare and educational institutions. For example, Barry University, South Florida

University, John Hopkins University, Boston University and George Washington University

3. **Community Engagement and Outreach:**
    - Hospital Based Volunteer Programs
        - Candy Stripers
        - Community volunteer program
        - Patient Family Council
    - Guiding Girls Career Fair
    - Heart Health Day
    - On-the-Job Training/School to Work
    - The Department of Human Services Jobs Program
    - JFL has partnered with the Department of Human Services Jobs Program. This year's program will start summer 2014
    - Blood Drives

4. **Employee Relations:**
    - Revised the medical staff peer review process to ensure medical staff accountability and decrease potential for conflicts.
    - Hired Operating Room and Dietary managers who have implemented best practices in each department.
    - Develop enterprise-wide process improvement projects to identify and eliminate waste, streamline inventory control, and increase revenue.
    - Conduct monthly team meetings with general staff to improve communication and esprit de corps.
    - Conduct weekly leadership meeting and training sessions with department head and executive managers.
    - Conducted educational needs assessment and provided clinical educational opportunities.
    - Recognition of JFL staff during 2014 Nurses and Hospital Week
    - The Human Resources Staff Development and Nursing Professional Practice Departments hosted a clinical skills fair.

5. **Financial Viability:**
    - Improve our fiscal management by assessing our current state and developing a process improvement plan to increase reimbursement and revenue.
    - Secure resources
    - Eliminated the dependence on Travel Nurses
    - Contracted The Advisory Board Company to overhaul the full spectrum of JFL's revenue cycle

6. **IT Infrastructure Upgrades:**
    - Installation of bedside computers
    - Work In Progress:
        - Pharmacy Drug Dictionary Cleanup Project
        - Purchased infrastructure for JFL Intranet. Developing the content
        - Computerized Physician Order Entry Project

PHASE 2: SUSTAINABILITY

We continue to develop the above measures in our effort to achieve full compliance with all regulatory agencies and, most significantly, CMS' Conditions of Participation with the continued support and collaboration with Premier Consultants. Additionally, we identified the right skill sets in critical leadership positions in order to meet or exceed patient outcomes and community expectations. Also critical to sustainability is our commitment to maintaining the positive financial health of the hospital.

I must thank the JFL Team for their creativity, hard work, persistence and determination to improve the quality of care and services with very limited resources. With the appropriate funding from the VI Government, JFL will be able to effectively sustain projects implemented in phase one of our strategic approach.

More specifically JFL has to:

- Maintain a high level of involvement in our QAPI program through all three pillars of leadership
- Maintain regulatory standards as a part of JFL's daily operations
- Maintain Performance Improvement projects to increase revenue, improve quality of care, and create a culture of process, change, patient and staff satisfaction
- Maintain our commitment to identify revenue generating opportunities
- Maintain continued growth and enhancement in our outpatient surgical services
- Maintain our dedication to conducting patient and family satisfaction surveys as well as our initiatives toward enhancing the patient and family experience
- Maintain our commitment to education and training of all team members
- Maintain our Case Management program to yield improvement in patient outcomes and financial gain
- Maintain efforts towards optimizing our IT Infrastructure
- Maintain community and interagency partnerships

JFL's Historical Financial Overview

The basic economic principle that no ordinary enterprise can continue to operate indefinitely with losses is ever present in the minds of JFL's leadership team. JFL has experienced multiple years of operational losses, sharp declines in cash collections and decreasing GVI Appropriations. JFL has also experienced staff turnover in administration, finance as well as lead roles throughout the hospital. During the stabilization process JFL:

- Hired an Interim Chief Financial Officer to stabilize the finance department

- Hired an experienced Assistant Chief Financial Officer with hospital specific training
- Identified and addressed deficiencies affecting finance operations
- Contracted with The Advisory Board Company to optimize the revenue cycle processes

The yearly operational cash deficiency has positioned JFL on a proverbial "fiscal cliff." The leadership team has undertaken strategies to address the lackluster cash collection efforts and vendor financing management.

JFL's working capital is a function of cash collections from operations and GVI Appropriations. Per the chart below, JFL experienced a steady increase of cash collections from fiscal years 2009 thru 2013 with a sharp decline in fiscal year 2014, while GVI Appropriations have been decreasing on a yearly basis compared to fiscal year 2009. The dramatic decline in cash collections is attributable to a decline in surgical case volumes due to limited finances, which affected our ability to procure supplies and recruit needed general surgeons.

Governor Juan F. Luis Hospital and Medical Center
Working Capital vs. Expenditures (2009 - 2015)
Source: BKD Audited Financials

	2009	2010	2011	2012	2013	Projected 2014	Projected 2015
Cash Received From Patients and Third Party Payors	$32,671,549	$36,400,004	$39,284,447	$46,678,843	$46,975,240	$33,800,559	$37,200,000
GVI Appropriations	$26,412,682	$26,979,851	$21,884,359	$25,251,647	$18,890,916	$20,148,874	$35,457,788
Total Expense (Less Bad Debt)	$76,699,257	$77,904,122	$79,264,781	$84,287,279	$85,456,967	$72,761,458	$77,630,194

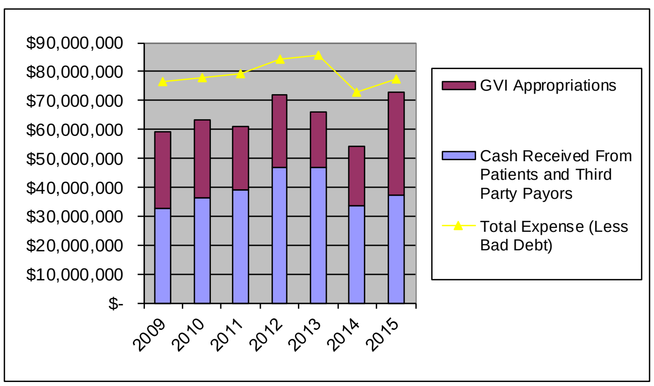

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Figure 1: Working Capital vs. Expenditures (2009 - 2015)

JFL's cash deficiency has been in effect financed by JFL vendors to the tune of $58 Million as of May 2014. The unusual financing strategy has affected JFL's ability to leverage vendor financing terms, thus creating challenges in directing cash outflows. On a daily basis, JFL strategically monitors cash inflows and directs the outflow of cash based on the following critical areas: patient care supplies, pharmaceuticals, payroll, and other operating expenses. To further exacerbate the situation, this past fiscal year, JFL was required to repay CMS for a major overpayment in the amount of $1.7 Million.

This obligation was satisfied by April 2014. The overpayment scenario is directly attributed to the price increase in fiscal year 2012.

The method of vendor financing is not optimal nor a sustainable business model strategy. The strategy was propagated in fiscal year 2013 when $8 million of the $18.8 million GVI Appropriation was garnished by the Government of the Virgin Islands to satisfy JFL's outstanding health insurance premiums. Further exacerbating this situation was the 3% automatic reduction of the $18.8 million appropriation ($546,000), plus the 8% roll back of salaries ($3.2 Million.) These factors resulted in a reduction of GVI Appropriation from $18.8 Million to approximately $6.2 Million. Therefore, the hospital had to operate with less than half of its GVI Appropriation, resulting in our inability to strategically leverage cash outflows. Vendor credit holds increased and are now the norm instead of the exception. The problem created by the decreased available GVI Appropriation in fiscal year 2013, continued into fiscal year 2014. JFL then had no choice but to request advanced payments of its fiscal year 2014 GVI Appropriations to maintain operations.

The decrease in cash has limited our ability to maintain statutory payments to the Internal Revenue Service (IRS), Bureau of Internal Revenue (BIR) and the Government Employees Retirement System (GERS). In May 2014, the IRS served notice to JFL that the past due balance owed to the agency was due in June and no payment on this balance could result in the garnishment of operating accounts and/or holding the Chief Executive Officer and Chief Financial Officer personally liable to include garnishment of their personal assets and possible imprisonment. As of today the balance remains at $2,082,392.40. In addition, JFL experienced an account seizure scenario conducted by the Bureau of Internal Revenue for failure to uphold established payment plans. Their growing balance was $11.8 as of the writing of this testimony.

These deficiencies have been offset somewhat through OMB's advancing monthly allotments of our annual appropriation. However, the entire fiscal year 2014 appropriation has been exhausted as of June's allotment, with three more months remaining in the fiscal year. JFL needs a significant infusion of operating cash immediately to buy time for longer term fiscal rehabilitation. As of the writing of this testimony, the needed capital infusion approved by this body and the Executive Branch will enable JFL to move forward with strategic opportunities geared toward margin improvement and financial independence. The forecast below is for five months through the end of the fiscal year 2014 and fiscal year 2015.

Governor Juan F. Luis Hospital and Medical Center
Cash Flow Projections
Remainder of FY 2014

	Actual	Projected			
	Oct - June 2014	Jul-14	Aug-14	Sep-14	Total
Cash At Beginning of Period:	$ (2,460,322)	$ 412,715	$ 7,445,276	$ 3,384,606	
Operating Activities					
Receipts From and On Behalf of Patients	25,400,559	2,800,000	2,800,000	2,800,000	33,800,559
Receipts From U.S. Virgin Islands Government	19,924,943	17,223,931	-	-	37,148,874
Other Receipts - Caféteria, Gift Shop, etc.	612,277	26,236	26,236	26,236	690,985
Advisory Board Project	-	250,000	250,000	750,000	1,250,000
Total Receipts	45,937,779	20,300,167	3,076,236	3,576,236	72,890,418
Payments to Suppliers	(18,678,450)	(6,756,355)	(2,681,714)	(2,066,942)	(30,183,461)
Capital	-	-	(500,000)	(500,000)	(1,000,000)
Past Due Payments to IRS, BIR and GERS	(2,922,195)	(2,756,059)	(200,000)	(200,000)	(6,078,254)
Payments to Employees, Net (Gross From July on)	(21,464,096)	(3,755,192)	(3,755,192)	(3,755,192)	(32,729,672)
Total Expenditures	(43,064,741)	(13,267,606)	(7,136,906)	(6,522,134)	(69,991,387)
Cash From operating Activities	2,873,037	7,032,561	(4,060,670)	(2,945,898)	2,899,030
Cash At End of Period	$ 412,715	$ 7,445,276	$ 3,384,606	$ 438,708	

Figure 2: Cash Flow Projections Remainder of FY 2014

Governor Juan F. Luis Hospital and Medical Center
Cash Flow Projections
FY 2015

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Total
Cash At Beginning of Period	$ 600,000	$ 600,000	$ 771,770	$ 843,540	$1,015,310	$1,387,081	$1,758,851	$2,130,621	$ 665,569	$ 737,339	$ 709,110	$ 880,880	
Operating Activities													
Receipts From and On Behalf of Patients	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000	4,000,000	4,000,000	4,000,000	37,200,000
Receipts From U.S. Virgin Islands Government	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	2,954,816	35,457,792
Other Receipts - Caféteria, Gift Shop, etc.	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	960,000
Advisory Board Project	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000	-	-	-	10,800,000
Total Receipts	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	7,034,816	84,417,792
Payments to Suppliers	(1,124,349)	(2,789,401)	(2,889,401)	(2,789,401)	(2,589,401)	(2,589,401)	(2,589,401)	(2,589,401)	(2,889,401)	(2,989,401)	(2,789,401)	(2,589,401)	(31,207,760)
Capital	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(2,400,000)
Past Due Payments to IRS, BIR and GERS	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)	(2,400,000)
Payments to Employees, Gross	(5,510,467)	(3,673,645)	(3,673,645)	(3,673,645)	(3,673,645)	(3,673,645)	(3,673,645)	(5,510,467)	(3,673,645)	(3,673,645)	(3,673,645)	(3,673,645)	(47,757,382)
Total Expenditures	(7,034,816)	(6,863,046)	(6,963,046)	(6,863,046)	(6,663,046)	(6,663,046)	(6,663,046)	(8,499,868)	(6,963,046)	(7,063,046)	(6,863,046)	(6,663,046)	(83,765,142)
Cash From operating Activities	(0)	171,770	71,770	171,770	371,770	371,770	371,770	(1,465,052)	71,770	(28,230)	171,770	371,770	652,650
Cash At End of Period	$ 600,000	$ 771,770	$ 843,540	$1,015,310	$1,387,081	$1,758,851	$2,130,621	$ 665,569	$ 737,339	$ 709,110	$ 880,880	$1,252,650	

Figure 3: Cash Flow Projections FY 2015

JFL's GVI Appropriations

Today, JFL testifies before you and the community of the U.S. Virgin Islands to bring to your attention the difference between JFL's projected GVI Appropriation and Uncompensated Care costs.

Governor Juan F. Luis Hospital and Medical Center
USVI Government Appropriations (2009 - 2015)
Source: BKD Audited Financials

	2009	2010	2011	2012	2013	2014	2015
GVI Appropriations	$ 26,412,682	$ 26,979,851	$ 21,884,359	$ 25,251,647	$ 18,890,916	$ 20,148,874	$ 35,457,788

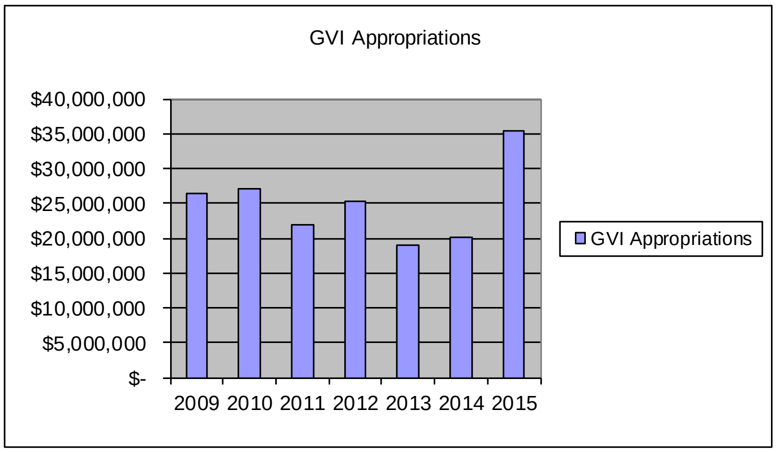


Figure 4: USVI Government Appropriations (2009- 2015)

Historically, GVI Appropriations were tied to the number of full-time-employees (FTEs), with occasional supplemental appropriations (i.e. WAPA or specific capital needs). JFL is most grateful for the financial support it receives, however, the government has never met its full responsibility of ensuring that the hospitals are adequately funded with particular attention to uncompensated care. Continuing to inadequately fund the level of care provided by any reduction in appropriations is directly linked to an equal reduction in healthcare services, which impacts our regulatory standing, reimbursements and FTE's in affected departments. Our quality data has shown a direct correlation between the staffing level of available clinical staff and the quality measures. When clinical staffing levels decrease, there is a direct decrease in quality of care. Conversely, when clinical staffing levels increase, there is a direct improvement in the quality of care. If JFL's GVI appropriations are cut or underfunded, an automatic decision is being made to reduce patient care services and the number of employees at JFL, as well as subsequently decrease the quality of care provided to our patients.

JFL's Revenue Potential FY 2015

Although JFL continues to be under funded through GVI Appropriations, we have continued to improve our revenue cycle processes. The following chart shows a positive trend in the JFL's gross revenues from fiscal year 2009 and projected into fiscal year 2015:

Governor Juan F. Luis Hospital and Medical Center
Gross vs. Net Revenue (2009 - 2015)
Source: BKD Audited Financials

	2009	2010	2011	2012	2013	2014	2015
Gross Revenue	$75,426,020	$81,118,974	$86,879,636	$122,806,696	$136,992,597	$126,670,732	$126,670,732
Net Revenue	$31,635,109	$37,087,731	$40,311,033	$ 47,454,309	$ 47,198,341	$ 46,577,483	$ 54,580,955
	42%	46%	46%	39%	34%	37%	43%

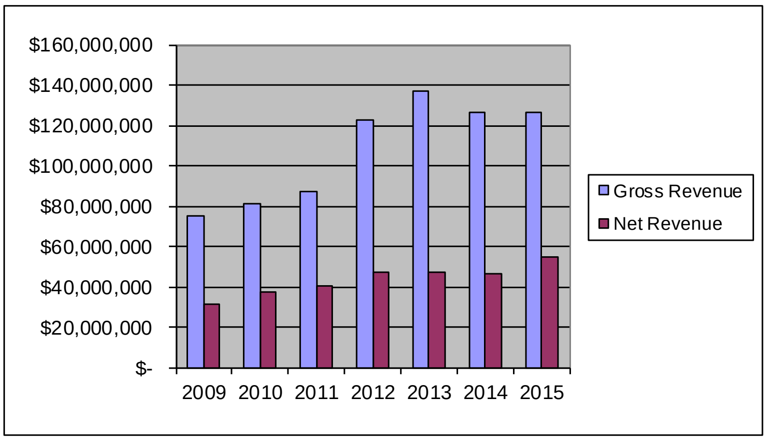


Figure 5: Gross vs. Net Revenue (2009 - 2015)

JFL's revenue cycle enhancement strategies include denials management, service line specific rate analysis, and charge capture accountability, thus improving cash collections. However, JFL's ability to contract with The Advisory Board Company in May 2014, has positioned JFL in a more favorable light to improve our financial health.

JFL's payer mix continues to hold static. Net Revenue will increase when contractual agreements and other mandatory healthcare adjustments, that reduce collections, are corrected. Strategic initiatives to optimize revenue at JFL include:

- TEFRA Rebasing: This spring JFL applied for TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) Rate Rebasing with CMS. TEFRA is the rate used by CMS to calculate reimbursements to the JFL for Medicare claims. This rate is based on an audited cost report from the health institution. The TEFRA rate currently used by CMS to reimburse JFL for Medicare claims is based on the 18 year old cost report from 1996.

While JFL is reimbursed $10,000 per discharge, JFLH's cost is $17,000 per discharge, resulting in an average loss of $7,000 per discharge. Approval of this appeal will result in JFL being reimbursed at a rate that reflects 2012 costs. The Appeal is presently being reviewed by the CMS intermediary, First Coast. The application is to then be forwarded to CMS for final approval. If approved, JFL will be reimbursed at a rate closer to current costs and would have the option to bill for the differential on claims submitted for Fiscal years 2012 and 2013. We are currently awaiting a response from CMS.

- Medicaid Eligibility: Enhanced efforts to properly classify Medicaid eligible patients upon admission will reduce the number of uninsured patients and in turn reduce the bad debt write offs associated with self-pay patients and overall charity care.

- Medicaid Rate Adjustment: Currently JFL is reimbursed $112.05 for outpatient services and $688.72 for inpatient discharges for Medicaid patients. The Department of Human Services is working diligently to adjust reimbursements to identifiable current costs.

- Billing Enhancement: JFL's challenges with timely billing of self-pay accounts have had significant negative impacts.

Governor Juan F. Luis Hospital and Medical Center
Payer Mix
FYE 2009 - 2015

	2009	2010	2011	2012	2013	2014
Medicare	39%	39%	40%	40%	40%	43%
Medicaid	12%	14%	13%	15%	15%	16%
Commercial	26%	24%	25%	24%	24%	18%
Self Pay / Other	23%	23%	22%	21%	21%	23%

Figure 6: Payer Mix FYE 2009 - 2015

JFL's Continued Struggle with Uncompensated Care

JFL continues to struggle under the burden of uncompensated care. While there is not a legal definition of uncompensated care in the VI Code, uncompensated care is defined by the American Hospital Association as the sum of bad debt and charity care. Further, per JFL's Independent Auditors the formula for uncompensated care is as follows:

Charity Care + Bad Debt + Unreimbursed Medicare & Medicaid = Uncompensated Care

Since this has been an ongoing discussion among various stakeholders regarding the definition and composition of uncompensated care, please allow me a few minutes to define each of the components as follows:

- Charity care: Per the JFL policy dated July 1, 2008, charity care is provided to those patients determined to have insufficient financial means to pay for all or part of their healthcare as determined by the Federal Poverty Guidelines.

- Bad debt: Total amounts not paid by self-pay patients, not deemed as charity care, who may have the ability to pay but choose not to.

- Unreimbursed Medicare & Medicaid costs: The difference between the cost of providing the service and the amount reimbursed. For example, if a mother with Medicaid (MAP) is having a high-risk pregnancy and delivers a premature baby that requires months of care in our Neonatal Intensive Care Unit (NICU), JFL will receive $688.22 per day (based on the per diem rate) vs. the cost that may exceed over a million dollars for both the mother and premature baby.

Medicare patients are typically seniors over the age of sixty-five (65). While, Medicaid patients are indigent patients, typically mothers with minor children, as defined by the USVI Department of Human Services to participate in the Medical Assistance Program (MAP).

Medicare & Medicaid reimburses JFL at a lower amount than it cost to provide those services as defined by the respective program guidelines. Accordingly, the uncompensated costs from these programs are included as uncompensated care.

Although the uncompensated care is defined as the sum of (Charity Care, Bad Debt and Unreimbursed Medicare and Medicaid), JFL is simply asking GVI to reimburse the hospital the cost associated with providing the uncompensated care. This cost is defined as the Uncompensated Care multiplied by the hospital's Cost to Charge Ratio.

(Charity Care + Bad Debt + Unreimbursed Medicare and Medicaid) x Cost to Charge Ratio = Cost of Uncompensated Care

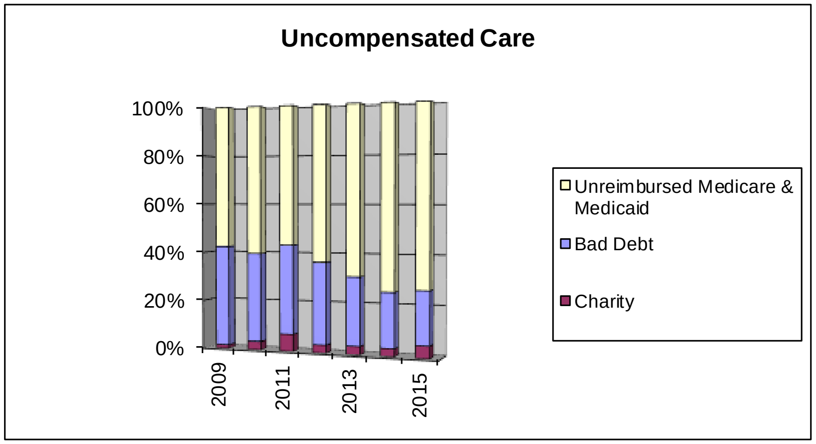
With uncompensated care projected at $46.9 million for fiscal year 2015, based on the formula and its components, it further proves that the central government should fund JFL at that level. VI Code Title 19, Section 240 (i) states:

> Payments from the general revenues of the Government of the Virgin Islands are intended to compensate the facilities for otherwise uncompensated care, in order to ensure the availability of quality, comprehensive health care to indigent as well as other residents of the Virgin Islands, until such time as the health care facilities become self-sufficient.

As such, based on the chart below for fiscal year 2015, JFL should be compensated $46.9 million vs. the proposed $20.1 million. From 2009 to the projected fiscal year 2015, JFL would have absorbed on average $42 million each year of uncompensated care provided to the people of the Virgin Islands, accounting for a total of approximately $297 million for fiscal years 2009 - 2015. Fairly compensating JFL for the uncompensated care it provides will enable us to pay our vendors, as well as expand and improve health services.

Governor Juan F. Luis Hospital and Medical Center
Cost of Uncompensated Care vs. GVI Appropriations
FYE 2009 - 2015

		2009	2010	2011	2012	2013	2014	2015
Charity		580,399	1,165,419	2,720,750	2,248,533	2,885,532	2,425,820	3,818,630
Bad Debt		16,095,657	12,388,465	14,243,676	22,714,039	23,095,429	16,880,392	16,547,398
Unreimbursed Medicare & Medicaid		22,674,080	20,543,807	22,182,450	43,065,500	57,448,191	56,630,709	56,630,709
Uncompensated Care		38,769,737	32,932,272	36,426,126	65,779,539	80,543,620	73,511,101	73,178,107
Cost to Charge Ratio								
Total Expense (Less Bad Debt)	A	76,699,257	77,904,122	79,264,781	84,287,279	85,456,967	72,761,458	77,630,194
Gross Patient Revenue	B	75,426,020	81,118,976	86,879,636	122,806,696	136,992,597	126,670,732	126,670,732
Other Operating Revenue	C	1,012,507	1,069,123	929,747	946,406	961,696	690,984	690,984
Cost to Charge Ratio (A / (B+C))		1.00	0.95	0.90	0.68	0.62	0.57	0.61
Uncompensated Care * Cost to Charge Ratio		38,901,979	31,215,708	32,881,553	44,801,934	49,893,435	41,996,725	44,603,911
GVI Appropriations		26,412,682	26,979,851	21,884,359	25,251,647	18,890,916	20,148,874	35,457,788



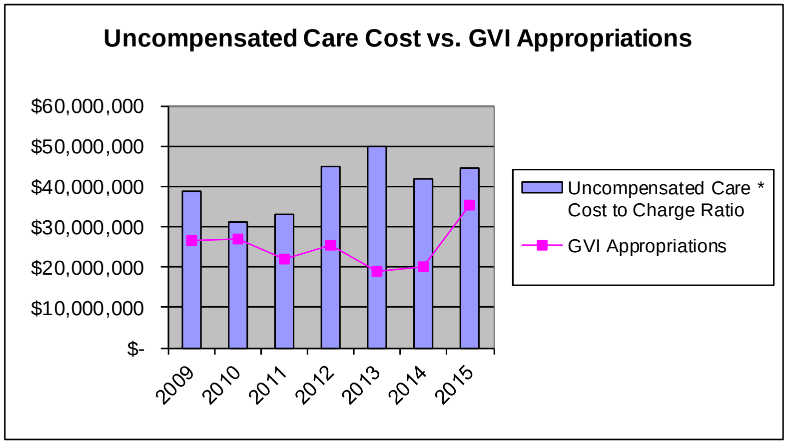


Figure 7: Cost Uncompensated Care vs. GVI Appropriations

Inter-Agency Debt owed to JFL continues to grow

JFL has aggressively sought compensation for the services provided to Government of the VI Agencies. While some agencies have stepped up to meet their obligations, which hovers at $7 million, others must understand that nonpayment adversely impacts healthcare service for all.

Governor Juan F. Luis Hospital and Medical Center
Monies Due from the VI Government Agencies
As of July 14, 2014

Worker's Compensation	$ 2,345,673
Bureau of Corrections / Adult Correctional Facility	$ 2,230,748
Ward of the Court	$ 1,569,461
STD/HIV Program	$ 475,894
Herbert Grigg Home	$ 226,949
Victim's Compensation	$ 121,515
Youth Rehabilitation Services-Human	$ 39,597
V.I. Behavioral Services	$ 20,864
Department of Human Services	$ 13,472
	$ 7,044,173

Figure 8: Monies Due from VI Government Agencies

JFL's Financial Challenges

1. Internal Revenue Service Outstanding Balance: In a letter dated May 7, 2014 and in person via IRS Agent, JFL was notified that liens will be levied against its operating accounts and that the CEO and CFO will be held personally and criminally accountable for JFL's outstanding balances with the IRS if the full outstanding balance was not paid by June 7, 2014; current balance is $2,082,392.40 as of the time of this testimony.

2. Bureau Internal Revenue: On May 28, 2014, JFL received a Notice of Levy from the IRB dated May 12, 2014. The levy of $7.1 Million was applied on May 16, 2014 on JFL's operating account and payroll account and subsequently removed; however, the collections process is still ongoing; current balance is $11,868,813.75 as of the time of this testimony.

3. Premier: The Center for Medicare and Medicaid Services (CMS) has mandated the need for a third party participant to guide JFL to full compliance with its Conditions of Participation. Premier is the consulting firm that we have contracted with to assist in process improvement initiatives hospital-wide.

Last month the Senior Vice-President of the company sent a demand for payment of outstanding balance letter, which was copied to Governor de Jongh, the Legislature as well as the District and Territorial Boards. We were given until June 15, 2014 to pay the full balance or services would be terminated. This action could gravely impact CMS' decision regarding JFL's Certification with the organization; current balance is $667,914.77 as of the time of this testimony.

4. Vendors on Credit Hold: JFL has incurred significant accounts payables with vendors for products and services critical to providing quality care and meeting regulatory requirements. The operating room and the Virgin Islands Cardiac Center, our two highest revenue generators, have suffered the largest impact. We have had to postpone and on many occasions cancel out-patient services (i.e., cardiac diagnostics, elective surgeries, etc.) due to our inability to satisfy our financial obligations with key vendors. Our debt to vendors continues to grow and currently stands at $58.6 million. The following table lists our top 20 vendors by outstanding balances.

Governor Juan F. Luis Hospital and Medical Center
Accounts Payable
As of 07/14/2014

VI WATER AND POWER AUTHORITY	$ 12,826,349.42
BUREAU OF INTERNAL REVENUE V.I.	$ 11,868,813.75
ADVANCED RADIOLOGY LLC	$ 8,279,801.37
GOVERNMENT EMPLOYEES' RETIREMENT	$ 4,548,327.40
WORLDWIDE TRAVEL STAFFING, LTD.	$ 4,236,445.45
UNITED STATES TREASURY	$ 2,082,392.40
INSURANCE REFUND	$ 1,692,262.52
TRUSTAFF	$ 1,164,618.12
INFORMATION RESOURCE MANAGEMENT	$ 856,743.77
THE STONE HOUSE GROUP, L.L.C.	$ 835,646.70
INTERSTAFF, INC.	$ 696,319.16
PREMIER, INC.	$ 650,261.99
TITAN NURSE STAFFING, LLC	$ 605,922.11
WEATHERBY LOCUMS, INC.	$ 566,649.17
GETIXHEALTH, LLC	$ 555,967.75
CARIB SUPPLY	$ 492,000.14
CRANEWARE INC.	$ 478,479.95
MARSH RISK & INSURANCE SERVICE	$ 366,544.53
VI HOSPITAL & MEDICAL SUPPLY	$ 360,622.91
VIRTUAL RADIOLOGIC PROFESSIONALS	$ 351,373.60

Figure 9 Top 20 Vendors - Accounts Payable

The charts below provide a visual of how the lack of supplies has affected JFL's ability to generate much needed revenue.

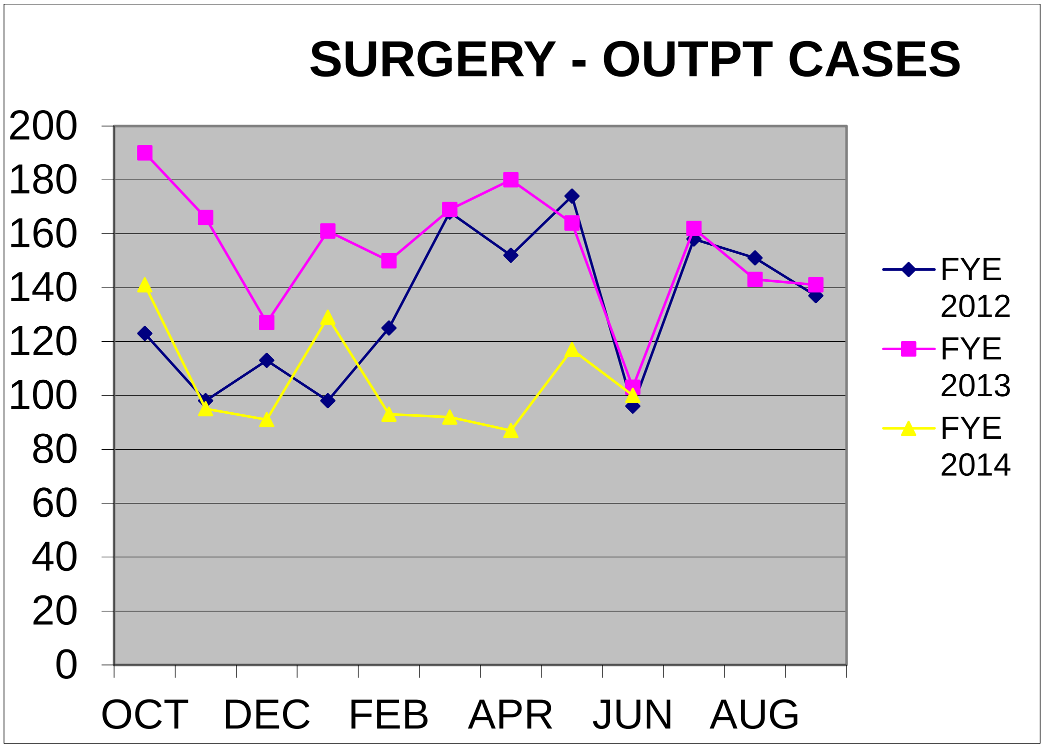


Figure 10: Surgery - Out-Patient Cases

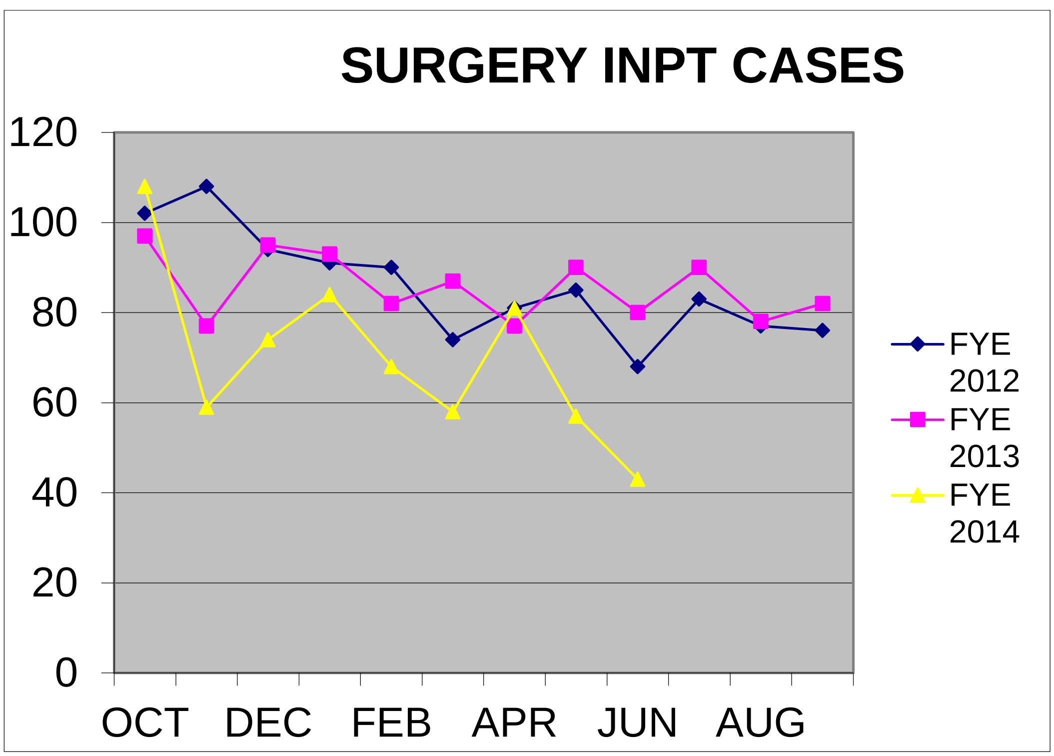


Figure 11: Surgery - In-Patient Cases

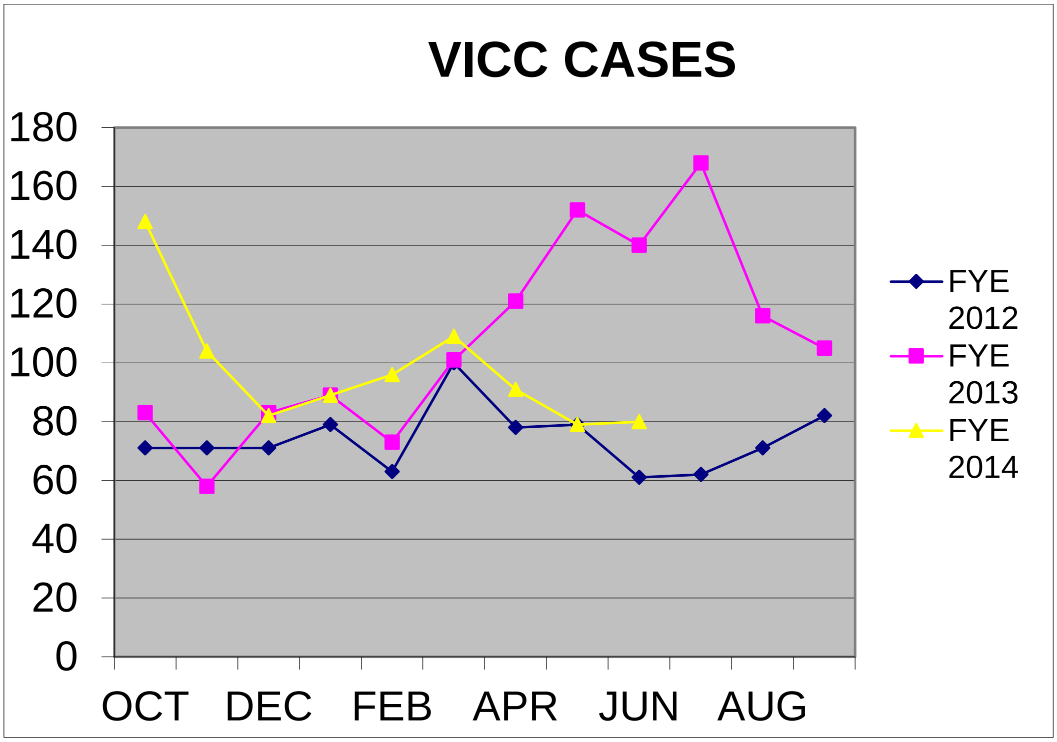


Figure 12: VICC Cases

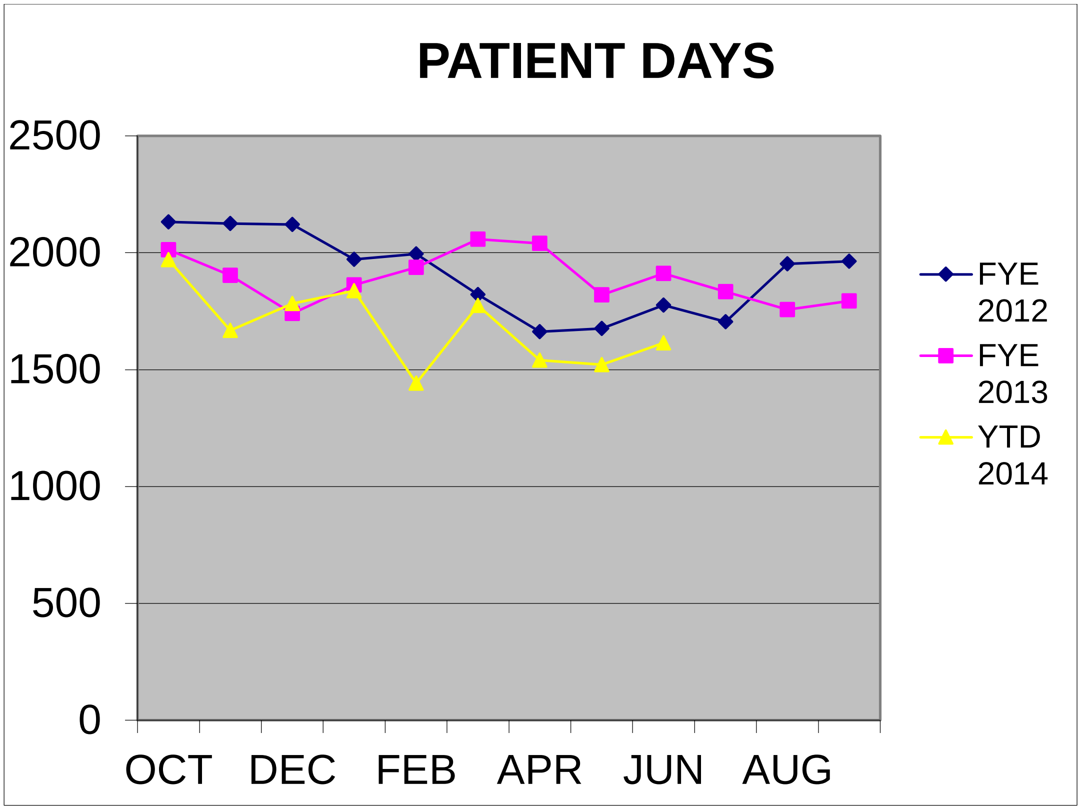


Figure 13: Patient Days

5. Fiscal Year 2014 Fourth Quarter Payroll (Salaries, Taxes, Benefits), $11.1 Million, JFL received allotment 12 from the Office of Management and Budget to cover the payrolls for the month of June 2014. However, there are still six payrolls at approximately $1.85 Million each, to be covered in Fiscal Year 2014.

6. Increase Supplies & Pharmaceuticals to hurricane preparedness levels, $2.5 Million. JFL's finance department continues to juggle ways of satisfying our accounts payables on a daily basis. Due to our geographical location, it is expected that we stock a six (6) week supply of medications and medical equipment and supplies, above our par levels in the event of a hurricane. JFL is currently not at par levels for both medications and supplies. This again puts our patients and the community at risk in the case of a natural disaster.

JFLH's current fiscal situation is the result of the accumulation of many years of annual working cash deficits, which have now created a burdensome outstanding debt owed to many of our suppliers and vendors. Unable or unwilling to continue to finance our operations, these suppliers are now withholding normal credit terms and demanding payments in advance for critical services and supplies – further straining the cash flow. All this is happening at a time when JFL is under the intense scrutiny of CMS as it executes corrective actions required to retain certification. Our inability to obtain necessary medications and supplies will lead to adverse patient outcomes. Furthermore, our inability to make payroll may result in increased turnover of vital clinical staff. This will create a downward spiral of quality care and may result in our CMS decertification. CMS decertification will lead to a loss of 59% of our revenue stream and, hence, our inability to maintain even the most basic of operations.

If JFL remains without adequate fiscal support, this catastrophic scenario will soon become a reality. I am extremely concerned that all of the aforementioned implications are becoming reality.

JFL Forecast for FY2015

While JFL's Uncompensated Care Cost is projected at $46.9 million, we are requesting funding of $35.4 million to balance the fiscal year 2015 budget. Funding at this level will allow JFL to maintain its current level of service, pay down outstanding debt, bring the inventory levels for pharmaceutical and medical supplies to par, as well as make the necessary capital investments (i.e. Information Technology, medical equipment) to improve efficiency and expand outpatient services.

Despite our fiscal challenges, JFL has continued to show improvements in quality of care and patient satisfaction. We are also striving to increase revenue through our cash collection initiatives.

JFL *Revenue Cycle Initiatives*

JFL has contracted with the Advisory Board to conduct a full spectrum assessment of our revenue cycle to optimize process from Patient Access to Claim Adjudication. The phased approach is as follow:

1. Launch Rapid Action Performance Initiative Teams: The RAPIT teams will be launched the beginning of the project as the areas of concern have been identified by JFL and no further assessment is required. RAPIT teams will be identified and deployed for the following areas:
    - Blue Cross Denials
    - Accounts Receivable / Cash Acceleration
    - Ageing Unbilled Accounts

2. Data Collection & Benchmarking Analysis: Advisory Board Consultants' focus for this phase of the project is on data collection and coordinating assessment logistics for the intensive diagnostic engagement. Advisory Board consultants will also work with hospital leadership to coordinate logistics for the on-site process audit to minimize any disruption to normal business processes.

3. Process Audit and Gap Analysis: Next, Advisory Board Consulting will conduct a detailed on-site process audit of all revenue cycle functions across JFL's operation. This work is designed to compare current processes and practices to best-in-class, evaluate staff knowledge and competency and determine the level of proficiency across the various business office functions. Key activities in this phase include:
    - *Process Mapping Sessions*
    - *Staff Interviews and Competency Evaluations*
    - *Process Observations/Audits*
    - *Technology Utilization and Data Tracing*
    - *Staffing Assessment*

4. Provide Final Recommendations: Based on both the detailed quantitative analyses and qualitative assessments completed, Advisory Board Consulting will develop a detailed opportunity assessment report for JFL. This assessment is designed to quantify the improvement opportunities available to JFL by functional area; identify specific opportunities for process, resource allocation, and skill or system improvement; identify best-practice solutions available to support improvement efforts, and prioritize the opportunities for improvement based upon both the financial impact on the organization and the relative ease of implementation.

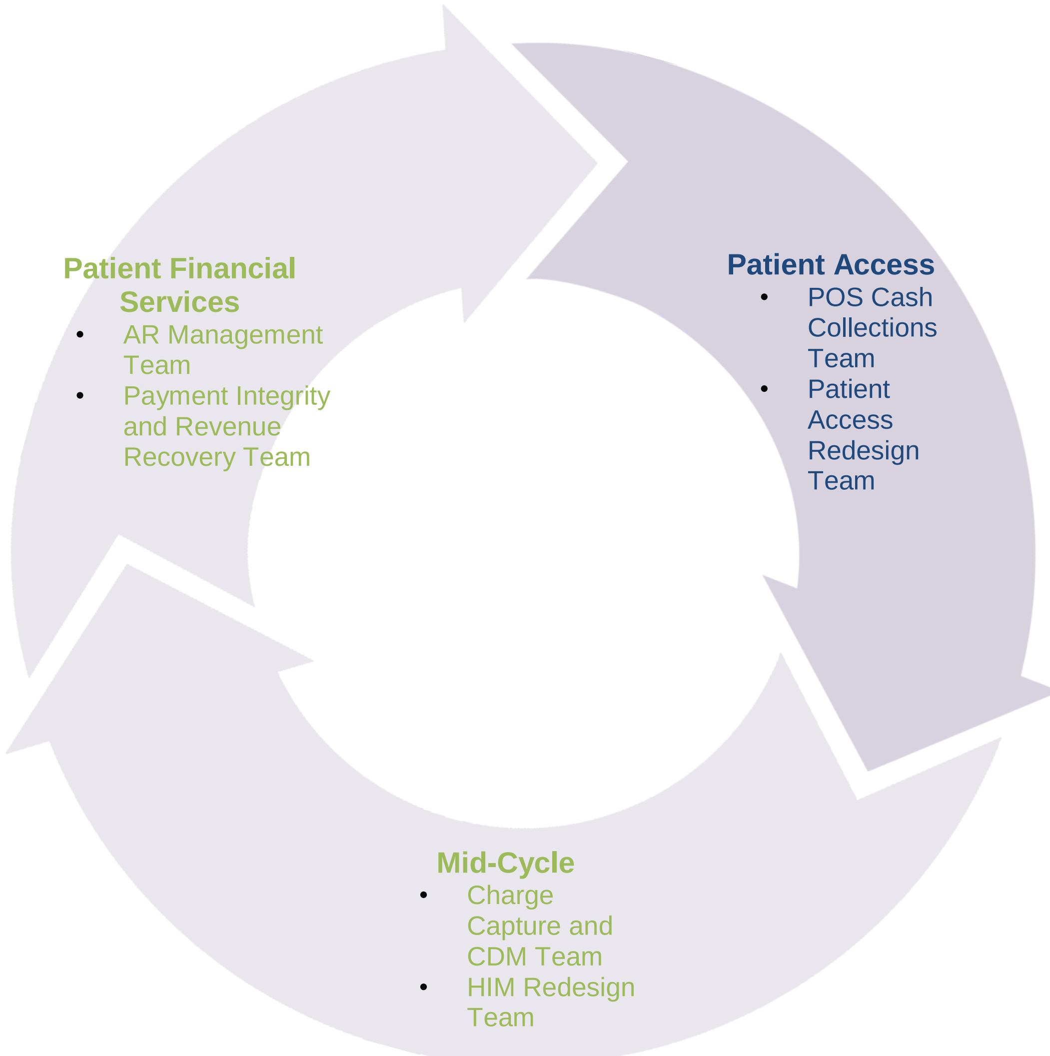


Figure 14: The Revenue Cycle Process

PHASE 3 GROWTH

- Continued assessment, monitoring and management of the revenue cycle
- Develop and improve our inventory control process
- Expand service offerings
- Expand clinical and non-clinical staff development & training programs
- Attain full Meaningful Use (CMS Requirement)
- Optimize current Information Technology infrastructure
- Increase public private partnerships
- Increase community outreach projects

In closing, JFL is striving for excellence in providing a quality of care to our people to meet and exceed all standards. In order to accomplish this, the financial health of the organization is of utmost importance.

The data presented here today validates we are over the edge of the fiscal cliff. Therefore, if the investments are not made in support of St. Croix's Healthcare, JFL will be forced to reduce critical services to residents, businesses, investors, visitors and other stakeholders. JFL is poised to begin a new era of financial growth but we must overcome this final hurdle.

Senator Graham and other members of the Senate present today, on behalf of the Governor Juan F. Luis Hospital & Medical Center's team, I thank you for the opportunity to engage in a conversation on how we can work together to drive improvement in the health of those we serve, while exemplifying compassion and respect.

Thank you for your continued support.

Sincerely,

Kendall M. Griffith, MD, FACC, FSCAI
Interim Chief Executive Officer

PS: Since the beginning of 2014, improvements in JFL's operational processes have been confirmed independently through unsolicited patient letters, emails press releases. See enclosures below.

Enclosures: Letter to the Editor: Close to Death Saved at JFL
Letter to the Editor: Great Hospital Great Hospitality
Letter: Mr. Thomas S. Bland
Letter: Ms. Elaine V. Samuel
Press Release: Government House Press Release 45-2014
Memorandum: Premier Performance Solutions
Email: Permanent Health Opportunities
Letter to the Editor: Surprised by exceptional care at JFL
Letter: Geoffrey and Jill Mohr