

ORIGINAL

EXECUTIVE CHAMBERS

HONOLULU

April 27, 1999

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 1413

Honorable Members
Twentieth Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, House Bill No. 1413, entitled "A Bill for an Act Relating to QUEST."

The purpose of House Bill No. 1413 is to require the Department of Human Services (DHS) to use actuarially valid risk factor adjustments derived from actual QUEST member experience to modify payments to the various QUEST plans. This bill amends chapter 346, Hawaii Revised Statutes, to require DHS to do the following: (1) conduct an annual review of the risk factor adjustment methodology; (2) include in the risk factor adjustment methodology, after consultation with the contracted health plans, the health characteristics of the QUEST patients being served; and (3) identify those characteristics that are to be considered high risk.

Assuming the existing structure for the methodology remained the same, DHS has no objection in principle to modifying the risk factor adjustments based upon validated data. However, this bill presents severe financial and administrative problems. First, the data must be validated. The process of validating sufficient data upon which the risk factor adjustment methodology may be changed is expensive and time consuming. There is no funding for the contract monitoring and new data collection procedures to be implemented. As a practical matter, therefore, this process cannot be completed in the near future.

Second, a change in the methodology to add health characteristics requires DHS to create an entirely new risk

factor adjustment methodology, one for which there is currently no good model. The use of health characteristics as risk adjustment factors is extremely difficult and complicated. There is no consensus among the six existing providers as to the appropriate health conditions to be included. Although at least one state does use health characteristics, that state's experience with risk adjustment factors is extremely poor, and there is no nationally recognized model upon which DHS can base such a system of risk adjustment.

Third, even if DHS could make the necessary changes required by this bill, the changes would require DHS to cancel the existing contract awards, notice a new request for proposal, and proceed through the procurement process again. DHS has recently awarded three-year contracts to various health plans based upon a specific risk factor methodology that was included in the request for proposal, but the contracts have not been signed yet and will not be effective until July 1, 1999. If this bill becomes law in April 1999, DHS must change the proposed contract language in order to conform to the changes required by this bill. The change in the terms and conditions of the contract will then require that the existing contract awards be canceled, a new request for proposal be noticed, and the procurement process be repeated in order to adequately notice the public as to the changed conditions of the bid. DHS estimates that a rebid would result in a seven-month delay. Any delay in the procurement process will cause confusion and uncertainty among the QUEST recipients.

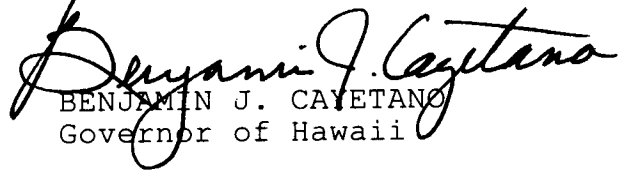
Furthermore, the rebids are likely to be higher than the current bids. The current bids are below DHS estimates and the savings were reported in my administration's budget message. My administration reported projected savings of \$8.9 million dollars in fiscal year 1999-2000 and an additional projected savings of \$8.9 million in fiscal year 2000-2001. If this bill

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becomes law, DHS believes that these moneys will no longer be savings and will be needed to implement the new law.

For the foregoing reasons, I am returning House Bill No. 1413 without my approval.

Respectfully,


BENJAMIN J. CAYETANO
Governor of Hawaii