

An Independent Coensee of the Blue Cross and Blue Shield Association

March 20, 2009

The Honorable Ryan Yamane, Chair The Honorable Scott Nishimoto, Vice Chair

House Committee on Health

Re: SB 1673 SD2 - Relating to the Hawaii Health Systems Corporation

Dear Chair Yamane, Vice Chair Nishimoto and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on SB 1673 SD2 Section III. Section III of this measure will require health plans to pay Critical Access Hospitals (CAH) no less than 101% of costs for services and Federally Qualified Health Centers (FQHC) at rates considerably higher than independent practicing physicians.

HMSA values the inclusion of both CAHs and FQHCs in both our government programs and private networks. This bill, however, would favor these facilities over all other existing health care resources thereby creating an inequity in the way we manage our network relationships. Several issues in particular are noted below:

Self-Reporting of Costs

The bill mandates health plans reimburse CAHs for their costs that are self-reported. The measure contains no quality control or standardization criteria to verify that costs being reported by each facility are appropriate and in-line with other similarly situated health care facilities in the community.

Inequity of Payments

For a health plan to pay a CAH or an FQHC at a reimbursement rate that is greater than that of any other nearby health care provider is difficult, if not impossible, to justify to the greater provider community. These facilities are providing the same basic services to our members regardless of the government's designation of a CAH or FQHC.

The point has been made that the FQHCs are providing more services than an individual may typically be able to receive at a physician's office. While this may be the case under programs such as QUEST and Medicaid, it's important to note that such services are not included in HMSA's private business health plans. When FQHCs provide services to HMSA's private plan members for benefits which are not covered under the individual's plan we do not believe that employers should have to pay additional costs since these are not plan benefits. For example, if an HMSA private plan member were to visit their physician's office and the physician had arranged transportation for the member to visit a specialist, HMSA would not cover that cost. Under this bill, if that same member visited an FQHC, HMSA would be forced to pay for this service.

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Thank you for the opportunity to testify on SB 1673 SD2.

Sincerely,

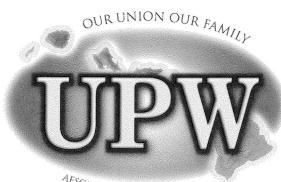
Jennifer Diesman Assistant Vice President Government Relations

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AFSCME LOCAL 646 AFL-CIO

House of Representatives The Twenty-Fifth Legislature Regular Session of 2009

Committee on Health Rep. Ryan I. Yamane, Chair Rep. Scott Y. Nishimoto, Vice Chair

DATE: Friday, March 20, 2009 TIME: 9:00 a.m. PLACE: Conference Room 329 State Capitol 415 South Beretania Street

TESTIMONY OF THE UNITED PUBLIC WORKERS, AFSCME, LOCAL 646, AFL-CIO ON S.B. 1673, S.D. 2 RELATING TO THE HAWAII HEALTH SYSTEMS CORPORATION

My name is Dayton M. Nakanelua and I am the state director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). In behalf of approximately 500 blue collar, nonsupervisory employees from bargaining unit 1 and 1,000 institutional and health workers from bargaining unit 10 who are currently employed by the Hawaii Health Systems Corporation (HHSC), the UPW opposes Senate Bill No. 1673, S.D. 2, which in relevant portions amends the provisions for maintenance of services under Section 323F-31, HRS (in Part I, Section 2), seeks to resolve disputes between the department of health and HHSC and future liabilities for over past retirement reimbursements on contributions to the State retirement system (in Part II, Sections 3 through 6), authorizes HHSC to alter existing or new collective bargaining agreements under chapter

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89 (in Part IV, Section 11), allows for the formation of a new transitional entity (not a state agency) with authority to transfer public lands and assets (in Part V, Section 15), and broadly grants contracting out authority with "for profit or not for profit entities" (in Part V, Section 17).

First, the UPW opposes the proposed amendment to Section 323F-31, HRS (in Part I, Section 2), because it eliminates legislative oversight regarding the need to maintain direct patient care services throughout the state. When HHSC was created in 1996 its object was "to provide better health care for all the people in the State of Hawaii, including those were served by small rural facilities." See 1996 Hawaii Session Laws Act 262, § 1, at 595. Health care is a basic human right and the existing statute ensures that our elected lawmakers retain the ultimate authority (and responsibility) over any decision which substantially reduces or eliminates direct patient care services at a facility. We request you to retain this provision while our nation engages in a comprehensive review of our health care systems and Congress reforms health care coverage and benefits at the initiation of the Obama administration. Delegating this important legislative function to the HHSC corporate board or the regional boards is inappropriate because neither has been able to formulate a plan to generate additional income to maintain patient care services, and the adverse impacts on patients in need of basic health care are foreseeable (if the provision is adopted). Since the power of the purse rests with the legislative branch that is precisely where the decision to eliminate or reduce patient care should ultimately reside.

Second, we oppose Part II, Sections 3 through 6 of this measure because it undermines the original intent of the Act which created HHSC in 1996. When Act 262 was enacted it was expressly understood that HHSC would serve as "an independent

agency of the State" and would maintain a corporate-wide hospital personnel system subject to chapters 76, 77, and 89. (See 1996 Hawaii Session Laws Act 262, § 2 ("Sec. -7 (9))" at 599). Furthermore, a commitment was made that no employee of the State would suffer any loss of "seniority, prior service credit, vacation, sick leave or other employee benefits or privileges." 1996 Hawaii Session Laws, Act 262, § 20, at 612. To make this possible HHSC assumed the power to set "rates and charges for all services" (See 1996 Hawaii Session Laws Act 262, § 2 ("Sec. 7 (8))", at 559) and to honor the obligations of the division of community hospitals without abrogating the duty of either entity under existing statutes. Section 22 (d) of the enactment stated:

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facilities pursuant to section 323-70, Hawaii Revised											
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(Emph	asis	added).								

1996 Hawaii Session Laws Act 262, (Sec. 22 (d)) at 612-63. The reference to "rates, rents, fees, and charges" pertain to the obligation of the Department of Health and HHSC under Section 88-125 (a), HRS, to reimburse the State of Hawaii for monthly retirement contributions made for all state employees under Section 88-124, HRS, from the revenues they generate through the of public facilities. We believe there are available use procedures under Section 88-125(c), HRS, or other alternatives resolve any dispute over reimbursement of to pension contributions to the State. See our testimony on Senate Bill No. 44, S.D. 2 (which is set for hearing later this morning).

Third, we are opposed to Part IV (Section 11) of this bill which allows HHSC "to alter any existing or new collective bargaining agreement" under chapter 89. Historically, after HHSC was established in 1996 the collective bargaining statute was amended to include the board of directors of HHSC with a full vote under Section 89-6 (d), HRS, in the multi-employer bargaining process. In addition, HHSC was granted authority to negotiate supplemental agreements separately with the exclusive bargaining representatives under Section 89-6 (e), HRS. The involvement of HHSC in the multi-employer bargaining process to negotiate the master agreement has been highly productive in a broader because it includes HHSC inter-governmental context. At the same time the right to negotiate supplemental agreements affords HHSC the required flexibility needed to meet its special needs. We have worked cooperatively with HHSC over the past 12 years recognizing the value of both uniformity and flexibility. No party to the multi-employer bargaining process should have a right to veto what has been negotiated (and agreed to earlier) under Section 89-6 (d), HRS, or to have a second opportunity to negotiate over any term or condition previously entered. Part IV of this measure (if adopted) would give a veto right and a second chance to negotiate a master agreement after it has been entered. It establishes a dangerous and unwarranted precedent which will seriously undermine the collective bargaining process for all employers and employees as intended by chapter 89.

Fourth, we oppose Part V which authorizes the formation of a new entity which transforms HHSC into a "nonprofit corporation," "a for profit corporation," a "municipal facility," or a "public benefit corporation" with new powers to sell and transfer state assets (in Section 15), and which grants broad authority to contract out services to any "profit or non-

profit" entity (in Section 17). Section 15 undermines the original intent when HHSC was created because it was expressly understood that it would serve as "an independent agency of the State" (1996 Hawaii Session Laws Act 262, § 1, at 595), and its employees would remain employees of the State of Hawaii without loss of "salary, seniority, prior service credit, vacation, sick leave, or other employee benefits or privileges as a consequence of this Act." 1996 Hawaii Session Laws Act 262, § 20 at 612. Section 15 would alter that basic commitment, and allow HHSC, inter alia, to avoid its obligations to reimburse the State for pension contributions under Section 88-125, HRS. As you know, the power to dispose of state lands currently resides with the board of land and natural resources under Section 171-13, HRS, and may only be set aside by the governor for valid public purposes under Section 171-1, HRS. HHSC has failed to establish any credible record as a fiduciary.

HHSC executives come to the legislature each year to ask for more money. They have an estimated shortfall of \$40 million for fiscal year 2008-2009, and have a projected deficit for fiscal year 2009-2010 of \$62 million. Meanwhile, the top executives of HHSC receive compensation which exceeds three (3) times what is paid to the heads of state departments and executive agencies, and are given long term contracts with lucrative severance and housing allowances and exclusive incentive payments. See The Legislative Auditor's Report No. 08-08 (April 2008), at pp. 36-37 (attached). The union submits that granting further authority and autonomy to HHSC and its regional system board, and allowing them to transfer State lands, facilities and assets will not work. It is time to hold top managers of HHSC accountable for the budget deficits and fiscal crisis, and to give serious consideration to restoring our

community hospital system (under the State of Hawaii) which existed prior to 1996.

Finally, in Section 17 the proponents of this measure seek to authorize HHSC to enter contracts with "any person, firm, association, partnership or corporation, whether operated on a for-profit or non-for-profit basis" to carry out its "purposes and responsibilities." We construe such a provision as authority for "contracting out" to the private sector the services which have historically been performed by civil servants. We oppose privatization and urge you to reject any attempt to violate constitutional merit principles. <u>See Konno v.</u> <u>County of Hawaii</u>, 85 Hawai`i 61, 937 P.2d 397 (1997) (services which have been historically and customarily been performed by civil servants cannot be privatized). For all of the foregoing reasons we oppose this measure and request you not to pass it out.

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Financial Review of the Hawaii Health Systems Corporation

A Report to the Governor and the Legislature of the State of Hawai'i

Report No. 08-08 April 2008



THE AUDITOR STATE OF HAWAI'I 1.

OVERVIEW

Financial Review of the Hawaii Health Systems Corporation

Report No. 08-08, April 2008

Summary

The Office of the Auditor and the certified public accounting (CPA) firm of Accuity LLP conducted a financial review of the Hawaii Health Systems Corporation, a public body corporate and politic and an instrumentality and agency of the State of Hawai'i, for the fiscal year July 1, 2005 to June 30, 2006. The review included inquiry and analytical procedures, as well as examining the reports, records, and other relevant documents to assess the corporation's compliance with state procurement laws and to determine whether the corporation's financial statements are presented in conformity with applicable accounting principles. We also performed procedures focused on the corporation's procurement policies, compliance with the state procurement laws, lease financing arrangements, information systems, the patient billing cycle, safeguarding of capital assets, and management of conflicts of interest.

The firm was unable to render a review opinion on the corporation's financial statements as corporation management refused to sign a representation letter acknowledging its responsibility for the fair presentation of its own financial statements. Despite this being a standard review procedure, the corporation repeatedly refused to sign the representation letter unless it was first allowed to review information that is unrelated to the representations being made. The corporation also did not provide adequate responses to several analytical inquiries that were material to its financial statements, further preventing the firm from completing its review procedures. These problems resulted in significant delays in the completion of the engagement, and prevented the firm from opining on the corporation's financial statements and including those statements in this report.

With respect to the corporation's internal control over financial reporting and operations, we found three material weaknesses. First, we found that the corporation's procurement and asset management policies and practices do not comply with applicable state laws. The corporation's original exemption from the Hawai'i Public Procurement Code was repealed prior to FY2005-06, the period under review; however, the corporation did not revise its internal policies to comply with state laws. For example, the corporation continued to use \$100,000 as its threshold for small purchases, while state laws applicable at the time set this threshold at \$25,000. Further, the corporation claimed its procurement code exemption was reinstated by the Legislature subsequent to the period under review; however, a review of the related legislation supported no such claim and current laws specifically state that the corporation shall be subject to the procurement code. The corporation also unilaterally determined it has always been exempt from Chapter 103F, Hawai'i Revised Statutes (HRS), Purchases of Health and Human Services. However, the related documents provided by the corporation do not support such claims. As a result, we found several specific violations of the state laws governing procurement and asset management.

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The second material weakness is that the corporation's inattention to information technology (IT) management exposes its sensitive information to unnecessary risk. The corporation has outsourced a majority of its core IT activities to third party vendors and has placed significant reliance on these vendors to ensure that the corporation's systems and applications are secure and operating properly without the corporation having an adequate system to monitor vendor activity. The third material weakness is that not all of the corporation's facilities have, or adhere to, established billings, collections, and receivables policies. An example of a negative result of this was the corporation's loss of approximately \$204,000 it was due from Medicare and Medicaid because the related claims at various corporation facilities had not been submitted within the required 365 day timeframe.

During our review, we also encountered several other reportable matters. First, as previously mentioned, a general lack of management cooperation resulted in the delayed completion of the engagement and inability for us to opine on the corporation's financial statements. Second, the corporation's June 30, 2006 financial statements excluded \$4 million in bond fund appropriations. Third, the corporation's compensation structure is not comparable to other state agencies. For example, compensation packages for the corporation's top executives include housing allowances, retention bonuses, severance packages (up to 200 percent of base salary plus housing allowance), and salaries that are two to three times that of other state department heads.

Recommendations and Response

We made several recommendations regarding the corporation's operations. Among these, we recommended that the corporation revise its current procurement policies and practices to comply with applicable state laws; commit adequate resource to its information technology practices; and establish and enforce consistent customer billing procedures. We also made a number of recommendations to Hawaii Health Systems Corporation's management and corporate board of directors.

In its response to our draft report, the Hawaii Health Systems Corporation was extremely critical of our overall engagement approach, and claimed our process and identified material weaknesses did not meet applicable attestation standards. The corporation also disputed nearly all of our individual findings.

Our contracted CPA firm, Accuity LLP, spent considerable time inspecting documents; conducting interviews; and reviewing the corporation's processes over procurement and asset management, customer billing, information technology, and conflicts of interest. We believe the report presents an accurate and balanced analysis of the corporation.

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Financial Review of the Hawaii Health Systems Corporation

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A Report to the Governor and the Legislature of the State of Hawai'i

Conducted by

The Auditor State of Hawai'i and Accuity LLP

Submitted by

THE AUDITOR STATE OF HAWAI'I

Report No. 08-08 April 2008 The Corporation's Compensation Structure Is Not Comparable to Other State Agencies

The corporation was established as an instrumentality and agency of the State, and is therefore subject to state laws and regulations unless specifically exempted. Section 323F-8, HRS, allows the corporation to hire a chief executive officer and up to 18 additional employees exempt from the salaries recommended in Section 26-52, HRS. We found that the exempt salaries of corporation executives include retention incentives and severance packages not comparable to other state officials' and may have long-term consequences for the State.

We noted that the base salaries of the corporation's chief executive officer (CEO) and COO/CFO were more than the salaries recommended by the State Executive Salary Commission (Commission). In its 2004 Report of the Executive Salary Commission, the Commission recommended that compensation for department heads fall within a range of \$93,636 to \$104,040 for FY2006, based on the size of the department. The reason for the higher compensation levels for corporation executives was due to an exemption under Section 323F-8, HRS, which allows the corporation's board of directors to establish the CEO's compensation, and also provides for the CEO to appoint up to 18 other personnel also exempt from the commission's recommended salary ranges.

In his most recent appointment, the corporation's president and CEO was appointed to a seven-year term, January 1, 2005 - December 31, 2011. After December 31, 2011, the CEO's employment automatically renews for three-year terms, unless one of the parties wishes to terminate the agreement. The CEO receives a base salary of \$255,000 per year, and the base salary increases on August 1st of each year by the cost of living increase for the state as determined by the U.S. Department of Labor. The CEO also receives a housing allowance of \$45,000 per year. If the CEO completes the seven-year term, the corporation will pay a retention incentive of one year's current salary plus housing allowance. Additionally, the corporation will pay a retention incentive of one-half year's current annual salary plus one-half year's annual housing allowance after the completion of each three-year term subsequent to the first seven-year term. In the event the CEO is terminated, he will receive a severance package equal to 24 months of his current base salary and housing allowance, exclusive of any incentive payments. The CEO is also a participant in the State's Employees' Retirement System. Salary and years of service are among the factors in the calculation of State retiree benefits.

The corporation's COO/CFO was appointed to a six-year term, August 1, 2005 – July 31, 2011. After July 31, 2011, the COO/CFO's employment automatically renews for three-year terms, unless one of the parties wishes to terminate the agreement. The COO/CFO receives a base salary

of \$217,800 per year. If the COO/CFO completes the six-year term, the corporation will pay a retention incentive of one year's current salary. Additionally, the corporation will pay a retention incentive of one-half year's current annual salary after the completion of each three-year term subsequent to the first six-year term. In the event the COO/CFO is terminated, he will receive a severance package equal to 12 months of his current base salary, exclusive of any incentive payments. The COO/CFO is also a participant in the State's Employees' Retirement System.

The corporation claims that executive compensation is commensurate with the compensation packages of executives at organizations of similar size and stature. In 2004, the corporation's board of directors performed a study on executive compensation among other healthcare organizations in the State, which revealed the following:

	Base Salary	Total Cash Compensation
Organization	(2002)	(2002)
Hawaii Pacific Health	\$575,667	\$725,076
Queen's Medical Center	\$398,160	\$480,629
Castle Medical Center	\$321,711	\$421,518
Rehabilitation Hospital of the Pacific	\$686,371	\$697,965
Kuakini Medical Center	\$218,513	\$230,758

While the corporation's executive total compensation appears to be in line with if not lower than its counterparts in the private sector, it is nearly three times the salary of department heads of other executive agencies. Additionally, state department heads are employed at-will and can be dismissed without any severance benefits, and they do not receive any housing allowances.

Recommendation

We recommend that the HHSC Corporate Board review the compensation packages of its executives. While not bound by state salary schedules, the board should evaluate the aptness of executives' compensation in comparison with other healthcare, insurance, and nonprofit organizations, and/or other state agencies, as deemed appropriate. In evaluating executive compensation, the board should consider total compensation and benefits, including the amount or necessity of housing allowances, bonuses, retirement benefits, and severance packages.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION

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The Twenty-Fifth Legislature, State of Hawaii Hawaii State House of Representatives Committee on Health

Testimony by Hawaii Government Employees Association March 20, 2009

S.B. 1673, S.D. 2 – RELATING TO THE HAWAII HEALTH SYSTEMS CORPORATION

The Hawaii Government Employees Association supports the general purpose and intent of S.B. 1673, S.D. 2. We concur that the Hawaii Health Systems Corporation (HHSC) provides vital health care safety net services to communities throughout the State that cannot be lost. The continued financial challenges faced by HHSC and the State pose a risk to the public health services it offers while also hindering efforts to improve the quality of health care delivered to patients.

It is evident that decisive action is needed to ensure that HHSC remain a viable health care system. We recognize that some type of comprehensive restructuring may be required to achieve this important objective. S.B. 1673, S.D.2, although still a work in progress, offers the opportunity for developing a new organizational structure that will improve operations and achieve greater efficiencies.

S.B. 1673, S.D. 2 still permits any of the regional systems or individual facilities to transition into a new legal entity, including but not limited to, a non-profit corporation, for-profit corporation, municipal facility, public benefit corporation, or any two or more combinations of these options. However, to preserve the safety net, we believe there must be a system intact to ensure the availability of core health services to all Hawaii residents. If the current HHSC regions choose various modes of operation, there must be continuity of a system to address quality health care.

HGEA is committed to improving the bill as it moves through the legislative process.

Thank you for the opportunity to testify in support of S.B. 1673, S.D. 2.

Respectfully submitted,

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Nora A. Nomura Deputy Executive Director

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Hawai'i Primary Care Association

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To: **The House Committee on Health** The Hon. Ryan I. Yamane, Chair The Hon. Scott Y. Nishimoto, Vice Chair

Testimony in Support of Senate Bill 1673, SD 2 <u>Relating to the Hawaii Health Systems Corporation</u> Submitted by Beth Giesting, CEO March 20, 2009, 9:00 a.m. agenda, Room 329

The Hawaii Primary Care Association strongly supports this bill and urges your approval. Two sections are particularly pertinent to the interests of Federally Qualified Health Centers and will serve to support the development of a strong health care delivery and improve its fiscal viability.

Part III would require that Critical Access Hospitals and Federally Qualified Health Centers (FQHCs) be provided Medicare and prospective payment system rates, respectively, by almost all private insurers. For at least the FQHCs, this is appropriate since these health centers provide an elevated level of care and case management that results in better health and lower costs for the insurers.

Part VI requires collaboration between HHSC facilities and "community health centers," which is an excellent strategy to strengthen the delivery system and reduce fragmentation and duplication. Federally Qualified Health Centers are ideal partners as they bring to the community the benefits of:

- Enhanced Medicaid and Medicare reimbursement;
- Stable federal funding with periodic opportunities for enhancement;
- State contracts and grants;
- Federal tort claims coverage that relieves them of malpractice costs; and
- Qualify for National Health Service Corps and other loan repayment programs to enhance recruitment and retention.

In addition, the health centers have a clinically and economically effective model of comprehensive primary care, systems of quality assurance, electronic medical records systems, VTC systems, and other operational advantages.

We suggest, for the sake of consistency and to avoid ambiguity, that the reference in Part VI, Section 15, line 20 on page 31 and lines 6 and 7 on page 32 be to <u>federally qualified health</u> <u>centers</u> rather than "community health centers."

Thank you for your consideration of this measure and for the opportunity to present our comments.



The House of Representatives Committee on Health Representative Ryan I. Yamane, Chair Representative Scott Y. Nishimoto, Vice Chair

> Friday, March 20, 2009 9:00 a.m. Conference Room 329 Hawaii State Capitol

Testimony for SB 1673, SD2 Relating to Hawaii Health Systems Corporation Authorizes a facility or regional health care system under the Hawaii Health Systems Corporation to transition into a new legal entity; amends the maintenance of services requirements; requires HHSC to assume liabilities and debts or other obligations accrued beginning on July 1, 1996; requires commercial health plans to provide a minimum reimbursement level; authorizes special negotiation authority for HHSC with bargaining units; authorizes criminal history record checks

> By Thomas M. Driskill, Jr. President and Chief Executive Officer Hawaii Health Systems Corporation (HHSC)

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporation Board of Directors, thank you for this opportunity to provide testimony in support of SB1673, SD2.

SB 1673, SD2 provides the HHSC regions and facilities additional options to respond more effectively to the changing health care needs of their island communities. SB 1673, SD2 seeks restructuring options that would enable HHSC regions and facilities to consider entering into various forms of public / private partnerships while at the same time remaining part of a system or a "federated" system of HHSC related healthcare facilities. Since we have taken the position that the State can no longer financially underwrite the escalating cost of healthcare for the communities we serve, it is essential that we look for new innovative ways to involve private partnerships in the provision of care.

The HHSC Corporate Board and corporate management are committed to working collaboratively with each of its five regions when they are ready to ensure a smooth transitioning process for any facility or regional restructuring that may be undertaken as a result of this Bill.

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HILO • HONOKAA • KAU • KONA • KOHALA • WAIMEA • KAPAA • WAILUKU • KULA • LANAI • HONOLULU www.hhsc.org <http://www.hhsc.org> This measure addresses some of the key issues relating to organizational structure and financial conditions that present challenges to HHSC in operating the state authorized safety-net health care system and provide transitional opportunities to strengthen the regions' and facilities' ability to meet healthcare needs of the communities.

We support key provisions in this measure that include:

--Authorizing a facility or regional health care system to transition into a new legal entity

--Amending the maintenance of services requirements

--Requiring commercial health plans to provide minimum reimbursement level to critical access hospitals

--Authorizing negotiation for HHSC with bargaining units

--Authorizing criminal history record checks

While this legislation addresses restructuring options to facilitate public and private partnerships and it addresses reimbursement enhancements for critical access hospitals and federally qualified health centers, it still needs further work to finalize the type of new organization that HHSC facilities/regions could opt to formulate and once that decision is made, then there is a need to address in detail other associated laws that will require modification.

Your support for SB 1673, SD2 is greatly appreciated. Thank you.