

JAN 23 2014

A BILL FOR AN ACT

RELATING TO THE HAWAII HEALTH SYSTEMS CORPORATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

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PART I

2 SECTION 1. The legislature finds that the continued
3 financial challenges faced by the Hawaii health systems
4 corporation and the State pose a risk to the public health
5 services provided by the corporation. These factors also hinder
6 efforts to improve the quality of health care services provided
7 in many of the State's rural communities.

8 The legislature further finds that since 1971, reports to
9 the legislature have recommended the establishment of a hospital
10 system for accomplishing the management, planning, and control
11 functions of public hospitals in the State. Studies have
12 recommended the establishment of a hospital authority, a public
13 benefit corporation, or a nonprofit corporation to accomplish
14 these functions.

15 The legislature additionally finds that Act 182, Session
16 Laws of Hawaii 2009, authorized the regional systems or
17 individual facilities of the Hawaii health systems corporation
18 to transition into a new legal entity, including a nonprofit



1 corporation, to improve the efficiency of the hospital system
2 and benefit the health care of the people of the State.

3 The legislature recommends that the transition first
4 authorized in 2009 be carefully evaluated with input from
5 community representatives, including medical and health care
6 providers and professionals, hospital and facility staff,
7 consumers in the affected regions, and knowledgeable individuals
8 in appropriate areas such as business, finance, and law.

9 The purpose of this Act is to establish guidelines for the
10 transition of the Hawaii health systems corporation, a
11 regional system, or a combination of regional systems to a more
12 economically efficient system to promote the delivery of high
13 quality health care in the communities being served, while
14 reducing or eliminating the need for state subsidies during the
15 transition.

16 **PART II**

17 SECTION 2. Chapter 323F, Hawaii Revised Statutes, is
18 amended by adding a new part to be appropriately designated and
19 to read as follows:

20 **"PART . TRANSITION OF HAWAII HEALTH SYSTEMS CORPORATION,**
21 **REGIONAL SYSTEM, OR COMBINED REGIONAL SYSTEM**



1 **§323F-A Hawaii health systems corporation; transition**
2 **authority.** Notwithstanding any other law to the contrary, the
3 corporation, a regional system, or a combined regional system of
4 two or more regional systems may transition to a nonprofit
5 corporation through the sale, lease, or transfer of the assets
6 of the corporation, regional system, or combined regional
7 system, to implement a more economically efficient system of
8 health care delivery in the communities being served; provided
9 that any real property shall only be transferred by lease.

10 **§323F-B Transition board; combined regional system board.**

11 (a) The transition board of directors shall be:

12 (1) The corporation board, for the transitioning of the
13 Hawaii health systems to a nonprofit corporation; and

14 (2) The regional system board, for the transitioning of
15 one of the regional systems to a nonprofit
16 corporation.

17 (b) For the transitioning of two or more regional systems
18 into a combined regional system nonprofit corporation, the
19 combined regional system board shall consist of twelve members
20 with an equal number of members appointed by each of the
21 regional system boards in the combined regional system. All
22 members of the combined regional system board shall be residents



1 of the region they represent. The terms of the members of the
2 combined regional system board shall be four years. New members
3 of a combined regional system board shall be selected by a two-
4 thirds affirmative vote of the existing combined regional system
5 board members.

6 **§323F-C Transition board, combined regional system board;**
7 **powers.** The transition board and combined regional system board
8 shall:

- 9 (1) Give notice inviting nonprofit corporations, with
10 expertise and experience in operating an integrated
11 clinical health care delivery system, to submit a
12 transition plan for the transformation of the
13 management structure and health care delivery system
14 of the corporation, regional system, or combined
15 regional systems pursuant to the transition plan
16 criteria in section 323F-D;
- 17 (2) Evaluate the transition plans and any other pertinent
18 information submitted;
- 19 (3) Consult with the medical staff, hospital staff, and
20 the affected communities on the transition plans that
21 have been submitted;



- 1 (4) Based on the transition board and combined regional
2 system board's findings, select a transition plan that
3 meets the requirements of section 323F-D;
- 4 (5) Enter into contracts, leases, agreements, or other
5 transactions with the selected nonprofit corporation
6 to execute the transition plan selected by the
7 corporation board, regional system board, or combined
8 regional system board to operate, manage, and control
9 the public health facilities in the region or regions;
- 10 (6) Monitor the execution of the transition plan by the
11 selected nonprofit corporation and develop measures to
12 determine the effectiveness of the nonprofit
13 corporation in achieving the outcomes proposed in the
14 transition plan;
- 15 (7) If general funds are requested by the selected
16 nonprofit during the period of transition, submit to
17 the legislature a proposed budget for which the funds
18 are to be used;
- 19 (8) After the period of transition, monitor the activities
20 of the selected nonprofit to ensure:
- 21 (A) The basic health needs of the communities being
22 served are fulfilled through the provision of



1 adequate and accessible services and facilities;

2 and

3 (B) The efficient execution of budgeting, personnel,
4 procurement, fiscal, capital planning, and

5 accounting policies;

6 (9) Approve the issuance of revenue bonds, as provided in
7 section 323F-7(c)(15)(A) and (B); and

8 (10) Submit an annual report to the legislature twenty days
9 prior to the convening of each regular session on the
10 achievements of the selected nonprofit in meeting the
11 goals proposed in the transition plan and the health
12 care needs of the communities being served.

13 **§323F-D Transition plan; criteria.** (a) The corporation
14 board, regional system board, or combined regional system board
15 shall develop the criteria for evaluating and selecting a plan
16 for the transitioning of the corporation, a regional system, or
17 a combined regional system to a nonprofit corporation. The
18 transition plan shall include requirements for:

19 (1) A governance and management structure that will
20 improve the performance of the hospitals and
21 facilities of the corporation, regional system, or
22 combined regional systems;



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- 1 (2) Applying efficiencies of scale, consolidation of
2 shared services, and administrative and technological
3 expertise to improve the health care performance of
4 the hospitals and facilities of the corporation,
5 regional system, or combined regional system;
- 6 (3) Implementing of the operational efficiencies and a
7 financial structure that will reduce or eliminate the
8 need for state subsidies during the period of
9 transition;
- 10 (4) Establishing a personnel system that is exempt from
11 title 7; provided that the rights of the employees
12 under article XIII, section 1, of the state
13 constitution shall not be abridged; and provided
14 further that the compensation of any employees of the
15 corporation, regional system board, or a combined
16 regional system board of two or more regional systems
17 shall not be lower in any transition plan that is
18 submitted; and
- 19 (5) Protecting and promoting the health care needs of the
20 areas being served and delivering a high quality of
21 clinical care and patient services.



1 (b) To develop the criteria for the transition plan, the
2 corporation board, regional system board, or combined regional
3 system board shall consider:

4 (1) Issues relating to the decline of revenues and growth
5 of expenses;

6 (2) Implementation of measures to more effectively and
7 efficiently administer the delivery and monitoring of
8 health care;

9 (3) Required improvements to the physical facilities of
10 the system to more efficiently deliver health care in
11 the communities being served; and

12 (4) Workforce requirements to maintain, improve, or expand
13 health care in the communities being served.

14 **§323F-E Attorney general, director of finance; approval.**

15 The attorney general shall approve the legality and form of any
16 transition plan selected by the corporation board, regional
17 system board, or a combined regional system of two or more
18 regional system boards, and the director of finance shall
19 evaluate and approve any expenditure of public funds determined
20 to be in accordance with the budget laws and controls in force.

21 **§323F-F Liabilities; period of transition.** (a) Any and
22 all liabilities of the corporation, regional system, or combined



1 regional system transitioning into a nonprofit corporation that
2 were transferred to the Hawaii health systems corporation upon
3 its creation by Act 262, Session Laws of Hawaii 1996, and all
4 liabilities of the corporation, regional system, or combined
5 regional system related to collective bargaining contracts
6 negotiated by the State, shall become the responsibility of the
7 State.

8 (b) As used in this section, "period of transition" means
9 the time in the transition plan submitted by the selected
10 nonprofit corporation during which structural, operational, and
11 financial changes are implemented by the selected nonprofit
12 corporation to promote the delivery of high quality health care
13 in the areas being served, while reducing or eliminating the
14 need for state subsidies."

15 SECTION 3. Section 323F-7.6, Hawaii Revised Statutes, is
16 repealed.

17 ~~["**§323F-7.6** Transition of Hawaii health systems regional~~
18 ~~system or health facility to a new entity.~~ (a) Notwithstanding
19 any other law to the contrary, including but not limited to
20 section 27-1 and chapter 171, any of the regional systems or
21 individual facilities of the Hawaii health systems corporation
22 is hereby authorized to transition into a new legal entity in



1 ~~any form recognized under the laws of the State, including but~~
2 ~~not limited to:~~

3 ~~(1) A nonprofit corporation;~~

4 ~~(2) A for-profit corporation;~~

5 ~~(3) A municipal facility;~~

6 ~~(4) A public benefit corporation; or~~

7 ~~(5) Any two or more of the entities in paragraphs (1)~~
8 ~~through (4).~~

9 ~~A transition shall occur through the sale, lease, or transfer of~~
10 ~~all or substantially all of the assets of the facility or~~
11 ~~regional system, except for real property which shall only be~~
12 ~~transferred by lease. Any transition shall comply with chapter~~
13 ~~323D.~~

14 ~~(b) A transition shall only occur upon approval of the~~
15 ~~appropriate regional system board in the case of a regional~~
16 ~~system or individual facility transition, or upon approval of~~
17 ~~the regional system boards and the corporation in the case of~~
18 ~~the transition of the entire corporation. Any transition shall~~
19 ~~be subject to legal review by the attorney general who shall~~
20 ~~approve the transition if satisfied that the transition conforms~~
21 ~~to all applicable laws, subject to the review of the director of~~
22 ~~the department of budget and finance who shall approve the~~



1 ~~transition if it conforms to all applicable financing~~
2 ~~procedures, and subject to the governor's approval. In addition~~
3 ~~the transition shall be subject to the following terms and~~
4 ~~conditions:~~

5 ~~(1) All proceeds from the sale, lease, or transfer of~~
6 ~~assets shall be used for health care services in the~~
7 ~~respective regional system or facility, except that~~
8 ~~real property shall only be transferred by lease;~~

9 ~~(2) Any and all liabilities of a regional system or~~
10 ~~facility transitioning into a new entity that were~~
11 ~~transferred to the Hawaii health systems corporation~~
12 ~~upon its creation by Act 262, Session Laws of Hawaii~~
13 ~~1996, and all liabilities of the regional system or~~
14 ~~facility related to collective bargaining contracts~~
15 ~~negotiated by the State, shall become the~~
16 ~~responsibility of the State; and~~

17 ~~(3) During the period of transition:~~

18 ~~(A) The State shall continue to fund the provision of~~
19 ~~health care services provided for by the regional~~
20 ~~system or individual facility; and~~

21 ~~(B) All applicable provisions of this chapter shall~~
22 ~~continue to apply.~~



1 provided in section 88-74, Hawaii Revised Statutes; provided
2 that on the employee's retirement date, the employee meets any
3 one of the following criteria:

4 (1) Has at least ten years of credited service and is at
5 least fifty-five years of age;

6 (2) Has at least twenty years of credited service,
7 irrespective of age;

8 (3) Has at least ten years of credited service as a
9 noncontributory class C member and is at least fifty-
10 seven years of age; or

11 (4) Has at least twenty-five years of credited service as
12 a noncontributory class C member, irrespective of age.

13 (d) Any employee member who is separated from service as a
14 result of the transition of the corporation, a regional system,
15 or a combined regional system into a nonprofit corporation, upon
16 application, shall be eligible to receive the member's
17 accumulated benefits as provided in section 88-96, Hawaii
18 Revised Statutes.

19 (e) The retirement benefit proposed in this part shall be
20 approved by the director of finance.

21

PART IV

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1 SECTION 5. In codifying the new sections added by section
2 2 of this Act, the revisor of statutes shall substitute
3 appropriate section numbers for the letters used in designating
4 the new sections in this Act.

5 SECTION 6. Statutory material to be repealed is bracketed
6 and stricken.

7 SECTION 7. This Act shall take effect upon its approval.
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INTRODUCED BY:

Malene [Signature]
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Report Title:

Hawaii Health Systems Corporation; Transition Guidelines;
Nonprofit Corporation; Retirement Benefits

Description:

Establishes guidelines for the transition of the Hawaii health systems corporation, a regional system, or a combination of two or more regional systems, into a nonprofit corporation. Proposes certain retirement benefits for employee of the Hawaii health systems corporation who are employees' retirement system members.

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