

EXECUTIVE CHAMBER  
HONOLULU

DAVID Y. IGE  
GOVERNOR

January 29, 2016

The Honorable Joseph M. Souki  
Speaker of the House of Representatives  
Twenty-Eighth State Legislature  
State Capitol  
Honolulu, Hawaii 96813

**GOV. MSG. NO. 7**

Dear Speaker Souki:

Transmitted herewith are proposed changes to the FY 17 Executive Supplemental Budget that was submitted to the Legislature on December 21, 2015, pursuant to Hawaii Revised Statutes (HRS) Section 37-72. The proposed changes request:

1. An amendment to increase the FY 17 general fund operating appropriation for the Hawaii Health Systems Corporation - Regions (HTH 212/LS), Item No. E-9, by \$21 million from \$84.94 million to \$105.94 million;
2. The addition of a new Program ID and organization code, both titled "Maui Health System, a KFH LLC" (HTH 214/LU), and an operating appropriation of \$10.0 million in general funds and a capital improvement project (CIP) appropriation of \$6.0 million in general obligation bond funds, for the working capital and capital improvements Maui Health System (MHS), a Kaiser Foundation Hospital, LLC, projects it will need for the first year's operations of the three community hospitals it will open at Maui Memorial Medical Center, Kula Hospital and Clinic, and Lanai Community Hospital, after HHSC discontinues operations at those facilities pursuant to Act 103, SLH 2015; and
3. An express authorization by means of a budget proviso, for HHSC to disburse as grants to MHS (a) \$33.4 million of the amended general fund operating appropriation for FY 17 in Hawaii Health Systems Corporation - Regions (HTH 212) (i.e., Maui Region's portion of the general fund subsidy), (b) the \$10.0 million general fund operating appropriation for working capital, and (c) the \$6.0 million general obligation bond fund CIP appropriation for capital improvements in Maui Health System, a KFH LLC (HTH 214), if MHS satisfies the standards specified for operating funds in Section 323F-58(b), HRS, and the standards specified for capital project funds in Section 323F-59, HRS, before the appropriations in HTH 214 are made, and MHS leases the three HHSC Maui facilities pursuant to Act 103.



GOV. MSG. NO. 7

EXECUTIVE CHAMBERS  
HONOLULU

DAVID Y. IGE  
GOVERNOR

January 29, 2016

The Honorable Ronald D. Kouchi  
President of the Senate  
Twenty-Eighth State Legislature  
State Capitol  
Honolulu, Hawaii 96813

Dear Senate President Kouchi:

Transmitted herewith are proposed changes to the FY 17 Executive Supplemental Budget that was submitted to the Legislature on December 21, 2015, pursuant to Hawaii Revised Statutes (HRS) Section 37-72. The proposed changes request:

1. An amendment to increase the FY 17 general fund operating appropriation for the Hawaii Health Systems Corporation - Regions (HTH 212/LS), Item No. E-9, by \$21 million from \$84.94 million to \$105.94 million;
2. The addition of a new Program ID and organization code, both titled "Maui Health System, a KFH LLC" (HTH 214/LU), and an operating appropriation of \$10.0 million in general funds and a capital improvement project (CIP) appropriation of \$6.0 million in general obligation bond funds, for the working capital and capital improvements Maui Health System (MHS), a Kaiser Foundation Hospital, LLC, projects it will need for the first year's operations of the three community hospitals it will open at Maui Memorial Medical Center, Kula Hospital and Clinic, and Lanai Community Hospital, after HHSC discontinues operations at those facilities pursuant to Act 103, SLH 2015; and
3. An express authorization by means of a budget proviso, for HHSC to disburse as grants to MHS (a) \$33.4 million of the amended general fund operating appropriation for FY 17 in Hawaii Health Systems Corporation - Regions (HTH 212) (i.e., Maui Region's portion of the general fund subsidy), (b) the \$10.0 million general fund operating appropriation for working capital, and (c) the \$6.0 million general obligation bond fund CIP appropriation for capital improvements in Maui Health System, a KFH LLC (HTH 214), if MHS satisfies the standards specified for operating funds in Section 323F-58(b), HRS, and the standards specified for capital project funds in Section 323F-59, HRS, before the appropriations in HTH 214 are made, and MHS leases the three HHSC Maui facilities pursuant to Act 103.

Your favorable consideration is requested for these proposed changes to the Executive Supplemental Budget. Specific information and language to revise House Bill No. 1700, the Supplemental Budget bill, for these purposes is included in the attachment to this letter.

## DISCUSSION

The proposed amendment to increase the FY 17 general fund operating appropriation for the Hawaii Health Systems Corporation - Regions (HTH 212/LS), by \$21.0 million was not included in the Supplemental Budget because discussions with HHSC for its FY 17 requests were not completed until after December 21. We agreed to HHSC's request to increase its Regions' FY 17 general fund subsidy level to match the level available to them this fiscal year because the FY 16 subsidies allowed the Regions to maintain their level of operations after staffing was reduced by reductions in force and the possibility that Maui Region's hospitals would close pursuant to Act 103.

The requests for additional appropriations in Maui Health System, a KFH LLC (HTH 214/LU), and authorization for HHSC to disburse those appropriations and \$33.4 million of the FY 17 general fund operating appropriation in Hawaii Health Systems Corporation - Regions (HTH 212/LS) to MHS are one-time only requests.

The requests for additional appropriations for working capital and capital improvements were made for several reasons. First, under Sections 8.7 and 8.8 of the Transfer Agreement, MHS' obligation to open its three hospitals and lease HHSC Maui Region's facilities for that purpose, is contingent upon MHS' receipt of \$10 million for working capital and \$6 million for capital projects for its first year's operations. Under Article VII of the Transfer Agreement, HHSC, its Maui Region, and the State, through the Governor, are to take such actions as may be reasonably required to secure those funds from the Legislature for MHS. However, these terms were still being negotiated when the Supplemental Budget was submitted to the Legislature.

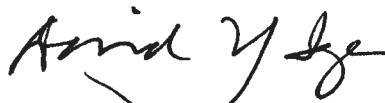
Second, the proposal Kaiser Foundation Hospitals submitted and the Maui Region selected, included a Business Plan that was based in part upon MHS' receipt of \$10.0 million of the Maui Region's working capital on deposit in the Region's bank accounts, and Maui Region's portion of the FY 17 general fund subsidy in Hawaii Health Systems Corporation - Regions (HTH 212/LS). An appropriation of general, rather than special funds is requested because it is uncertain that Maui Region will have \$10 million on deposit at the start of FY 17.

Third, MHS is permitted to submit requests for operating and capital subsidies under Sections 323F-58 and 323F-59, HRS, but requests can be made only after the Maui Regional facilities are transferred to MHS by leases. Those leases are presently being negotiated, and are unlikely to be drafted and executed before the Legislature adjourns sine die in May.

The budget proviso to expressly authorize HHSC to disburse Maui Region's portion of the HHSC Regions' FY 17 general fund subsidy in Hawaii Health Systems Corporation - Regions (HTH 212), and the operating and CIP appropriations in Maui Health System, a KFH LLC (HTH 214), to MHS, tracks the language in Chapter 155D, HRS, for grants to offset a portion of the annual cost of feed incurred by persons in the business of producing milk, poultry products, pork and beef. Disbursements can only be made if MHS satisfies the standards in Section 323F-58, HRS, for operating funds, and Section 323F-59, HRS, for CIP funds, before the Legislature appropriates the same and MHS leases the HHSC facilities. MHS is a private entity and grants of public money may be made only for a public purpose and pursuant to standards provided by law (Hawaii Constitution, Article VII, Section 4). If MHS does not lease the facilities, the appropriations in Maui Health System, a KFH LLC (HTH 214), will lapse and the \$33.4 million for Maui Region's general fund subsidy in Hawaii Health Systems Corporation - Regions (HTH 212), will be available for Maui Region to expend to continue delivering health care services at the three HHSC facilities in FY 17.

Your staff may contact HHSC for additional information on the \$21.0 million subsidy request and Mr. Douglas Murdock, who served as lead negotiator for the State, on the other requests. Your understanding and assistance is appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "David Y. Ige", with a stylized flourish at the end.

DAVID Y. IGE  
Governor, State of Hawaii

Attachment

c: Honorable Jill N. Tokuda

OPERATINGHawaii Health Systems Corporation - Regions (HTH 212/LS)

Adds \$21,000,000 in general funds in FY 17 for Hawaii Health Systems Corporation - Regions (HTH 212/LS). The request will provide additional resources to subsidize the HHSC regions.

	<u>FY 2016</u>	<u>FY 2017</u>
Other Current Expenses	.....	\$21,000,000 A

Maui Health System, a KFH LLC (HTH 214/LU)

Establishes a new Program ID and organization code, both titled "Maui Health System, a KFH LLC" (HTH 214/LU).

Adds \$10,000,000 in general funds in FY 17 for working capital for Maui Health System, a Kaiser Foundation Hospital, LLC's first year of operations of its three Maui community hospitals if HHSC's Maui Region closes its three hospitals and leases the facilities to Maui Health System, a Kaiser Foundation Hospital, LLC.

	<u>FY 2016</u>	<u>FY 2017</u>
Other Current Expenses	.....	\$10,000,000 A

CAPITAL IMPROVEMENT PROJECTS

Maui Health System, a KFH LLC (HTH 214)

Establishes a new Program ID titled "Maui Health System, a KFH LLC" (HTH 214).

Adds a new item:

"HTH 214 MAUI HEALTH SYSTEM, A KFH LLC

XXXXXX MAUI HEALTH SYSTEM, A KAISER FOUNDATION HOSPITAL, LLC,  
MAUI

CONSTRUCTION FOR MAUI HEALTH SYSTEM, A KAISER  
FOUNDATION HOSPITAL, LLC'S FIRST YEAR OF OPERATIONS OF ITS  
THREE MAUI COMMUNITY HOSPITALS IF HAWAII HEALTH SYSTEMS  
CORPORATION'S MAUI REGION CLOSES ITS THREE HOSPITALS.

	<u>FY 2016</u>	<u>FY 2017</u>
<u>CONSTRUCTION</u>	<u>0</u>	<u>6,000</u>
<u>TOTAL FUNDING HTH</u>	<u>0 C</u>	<u>6,000 C"</u>

## SPECIAL PROVISIO

Adds the following section to read as follows:

“SECTION xxx. Provided that of the general fund appropriation for the Hawaii health systems corporation - regions (HTH 212), the sum of \$33,400,000 or so much as may be necessary for fiscal year 2016-2017, and the \$10,000,000 general fund and \$6,000,000 general obligation bond fund appropriations for the Maui health system, a KFH LLC (HTH 214), or so much as may be necessary for fiscal year 2016-2017, shall be disbursed by the Hawaii health systems corporation, to the Maui health system, a kaiser foundation hospital, LLC, for its working capital (\$10,000,000 in general funds), operating costs (\$33,400,000 general funds), and capital improvement costs (\$6,000,000 general obligation bond funds), only if the legislature confirms in a conference committee report that the Maui health system, a kaiser foundation hospital, LLC, has satisfied all of the standards and conditions in section 323F-58, Hawaii Revised Statutes, for operating support, and all of the standards and conditions in section 323F-59, Hawaii Revised Statutes, for capital support, provided further that in no case shall the aforesaid appropriations be disbursed to the Maui health system, a kaiser foundation hospital, LLC, if the Hawaii health systems corporation and the Maui health system, a kaiser foundation hospital, LLC, have not executed a lease for each of the Hawaii health systems corporation’s three Maui region hospitals pursuant to Act 103, Session Laws of Hawaii 2015.”