

JAN 21 2010

A BILL FOR AN ACT

RELATING TO HEALTHCARE.

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

1 SECTION 1. Health care systems delivery expert Stroudwater
2 Associates, as well as other experts, have recommended changes
3 be made to the Hawaii health systems corporation to improve the
4 delivery of Hawaii's hospital healthcare safety net. These
5 changes entail making the Hawaii health systems corporation
6 financially stable by reducing its operational expenses. These
7 expenses include civil service labor costs, procurement
8 impediments, a lack of scaled buying power, and other
9 unavoidable inefficiencies that guarantee the Hawaii health
10 systems corporation will continue to need subsidies in the range
11 of \$50 million to \$100 million or more annually to operate.
12 These subsidies are a burden to taxpayers unless dramatic change
13 to the Hawaii health systems corporation are made.

14 The purpose of this Act is to:

15 (1) Convert the Hawaii health systems corporation to a
16 nonprofit organization exempt from income tax under



- 1 section 501 of the Internal Revenue Code and to a
2 Hawaii nonprofit corporation;
- 3 (2) Authorize the Hawaii health systems corporation to
4 issue general obligation bonds; and
- 5 (3) Remove civil service status of employees of the Hawaii
6 health systems corporation and convert them to
7 traditional benefits packages typically provided to a
8 nonprofit organization exempt from income tax under
9 section 501 of the Internal Revenue Code.

10 SECTION 2. Section 323F-2, Hawaii Revised Statutes, is
11 amended to read as follows:

12 **"§323F-2 Hawaii health systems corporation[-]; transition**
13 **to nonprofit status.** (a) There is established the Hawaii
14 health systems corporation, which shall be a public body
15 corporate and politic and an instrumentality and agency of the
16 State. The corporation shall be placed within the department of
17 health for the administrative purposes specified in section
18 26-35(a)(6) only.

19 (b) The corporate organization shall be divided into five
20 regional systems, as follows:

- 21 (1) The Oahu regional health care system;
- 22 (2) The Kauai regional health care system;



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- 1 (3) The Maui regional health care system;
 - 2 (4) The east Hawaii regional health care system,
3 comprising the Puna district, north Hilo district,
4 south Hilo district, Hamakua district, and Kau
5 district; and
 - 6 (5) The west Hawaii regional health care system,
7 comprising the north Kohala district, south Kohala
8 district, north Kona district, and south Kona
9 district;
- 10 and shall be identified as regional systems I, II, III, IV, and
11 V, respectively.

12 (c) Not later than December 31, 2010, the board of
13 directors of the Hawaii health systems corporation shall make
14 the appropriate filing to be become a:

15 (1) Nonprofit organization exempt from income tax under
16 section 501, (with respect to exemption from tax on
17 corporations, certain trusts, etc.) of the Internal
18 Revenue Code; and

19 (2) Hawaii nonprofit corporation under chapter 414D.

20 (d) Any provision of chapter 76 notwithstanding, any
21 person subject to chapter 76 who was employed by the Hawaii
22 health systems corporation prior to its conversion to a



1 nonprofit organization under subsection (c) and who remains
2 employed by the health facility after its conversion shall
3 transition from a civil service employee under chapter 76 to a
4 private sector employee with comparable salary and benefits as
5 enjoyed by nonprofit healthcare institutions under section 501
6 of the Internal Revenue Code. Persons hired by the Hawaii
7 health systems corporation on or after the date of its
8 conversion to a nonprofit organization shall not be subject to
9 chapter 76 and shall enjoy comparable salary and benefits as
10 enjoyed by nonprofit healthcare institutions under section 501
11 of the Internal Revenue Code."

12 SECTION 3. (a) Upon becoming a nonprofit entity pursuant
13 to section 2 of this Act, all assets of the Hawaii health
14 systems corporation shall be transferred to the newly formed
15 nonprofit entity.

16 (b) Upon becoming a nonprofit entity pursuant to section 2
17 of this Act:

18 (1) The new nonprofit entity shall assume the operation of
19 all facilities operated by the Hawaii health systems
20 corporation;



1 (2) The State shall continue to hold title to land and
2 facilities occupied by the Hawaii health systems
3 corporation;

4 (3) The State shall lease land and facilities under
5 paragraph (2) to the newly formed nonprofit entity for
6 a period of seventy-five years at a rate of \$1 per
7 year, subject to reasonable terms and conditions as
8 may be required by the State; and

9 (4) The provisions of chapter 323F, Hawaii Revised
10 Statutes, shall apply, as appropriate, to the newly
11 formed nonprofit entity.

12 SECTION 4. All rights, powers, functions, and duties of
13 the Hawaii health systems corporation are transferred to the
14 newly formed nonprofit entity as provided in section 2 of this
15 Act.

16 All officers and employees whose functions are transferred
17 by this Act shall be transferred with their functions and shall
18 continue to perform their regular duties upon their transfer.

19 SECTION 5. All appropriations, records, equipment,
20 machines, files, supplies, contracts, books, papers, documents,
21 maps, and other personal property heretofore made, used,
22 acquired, or held by the department of Hawaii health systems



1 corporation relating to the functions transferred to the newly
2 formed nonprofit entity as provided in section 2 of this Act
3 shall be transferred with the functions to which they relate.

4 SECTION 6. The director of finance is authorized to issue
5 general obligation bonds in the sum of \$ or so much
6 thereof as may be necessary and the same sum or so much thereof
7 as may be necessary is appropriated for fiscal year 2010-2011
8 for the purpose of general repair and maintenance of the
9 facilities of the Hawaii health systems corporation, and for
10 expenses incurred in the transition of the Hawaii health systems
11 corporation to a nonprofit entity pursuant to section 2 of this
12 Act, including but not limited to:

- 13 (1) Compensating employees of the Hawaii health systems
14 corporation who are transitioned from civil service
15 status to private status pursuant to section 2 of this
16 Act for accrued vacation leave as provided under
17 section 78-23, Hawaii Revised Statutes; and
18 (2) Satisfaction of accounts payable that is deemed
19 necessary by the board of directors of the Hawaii
20 health systems corporation.

21 SECTION 7. The appropriation made and authorized by this
22 Act shall not lapse at the end of the fiscal biennium for which



1 the appropriation is made; provided that all moneys from the
2 appropriation unencumbered as of June 30, 2012, shall lapse as
3 of that date.

4 SECTION 8. Statutory material to be repealed is bracketed
5 and stricken. New statutory material is underscored.

6 SECTION 9. This Act shall take effect upon its approval;
7 provided that section 6 shall take effect on July 1, 2010.

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INTRODUCED BY: John Green M.D.

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Report Title:

Hawaii Health Systems Corporation; Nonprofit Status;
Appropriation

Description:

Transitions the Hawaii health systems corporation to federal and state nonprofit status. Makes appropriation for general obligation bonds for the repair and maintenance of facilities and transition expenses.

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