

**SCR 62**



**EXECUTIVE CHAMBERS**  
HONOLULU

LINDA LINGLE  
GOVERNOR

Testimony of  
**Linda L. Smith**  
Senior Policy Advisor to the Governor

Before the  
**SENATE COMMITTEE ON HEALTH**

Wednesday, March 3, 2010  
State Capitol, Room 016

**SCR 62**

Chair Ige, Vice Chair Green, and members of the Committee:

The Administration introduced and strongly supports Senate Concurrent Resolution 62, which urges the Hawaii Health Systems Corporation (HHSC) to adopt the course of action recommended in a 2009 audit report on HHSC.

Act 182, Session Laws of Hawaii 2009, mandated an annual audit of the management and operations of HHSC, its regional system boards, and its facilities. In response to Act 182, an audit was performed by national healthcare advisory firm Stroudwater Associates and the Honolulu accounting firm KMH LLP.

The audit found that HHSC is in a "financially perilous condition" and called into question the financial viability of the organization. HHSC has experienced unprecedented fiscal challenges that have led to an immense and unsustainable reliance on annual State subsidies that total \$649.2 million since Hawaii Health Systems Corporation was established fifteen years ago. The audit also found that the age and

condition of HHSC's facilities and other physical assets are well above national averages, which prompt serious concerns as to the health and safety of Hawaii's public hospital network.

The audit concluded that incremental change is unlikely to sufficiently and effectively address HHSC's challenges and recommended against incremental change. The audit recommended an immediate, system-wide restructuring of HHSC. Therefore, the resolution urges HHSC to draft and submit legislation to:

- (1) Convert HHSC into a private non-profit 501(c)(3) corporation;
- (2) Identify a capital and operating partner;
- (3) Maximize operational efficiencies within each region and facility; and
- (4) Reconstitute the HHSC governance and leadership structure.

We strongly believe that the adoption of these audit recommendations will lead to significant improvements in the viability of HHSC and ensure the continuation of important health care services to communities across Hawaii. Thank you for the opportunity to provide testimony on this measure.



**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

*"Touching Lives Every Day"*

**Senate Committee on Health  
Senator David Y. Ige, Chair  
Senator Josh Green, M.D., Vice Chair**

**Wednesday, March 3, 2010  
2:45 p.m.  
Conference Room 016**

**SCR 62 - URGING THE HAWAII HEALTH SYSTEMS CORPORATION TO ADOPT THE  
COURSE OF ACTION RECOMMENDED IN THE 2009 AUDIT REPORT OF THE HAWAII  
HEALTH SYSTEMS CORPORATION.**

**Testimony of Alice M. Hall, Esq.  
Interim President and Chief Executive Officer**

Thank you for the opportunity to testify in support of the intent of SCR 62 with respect to the course of action recommended of the Hawaii Health Systems Corporation.

The Hawaii Health Systems Corporation is a network of five regional systems and thirteen facilities on Kauai, Oahu, Maui, Lanai and Hawaii. The system has experienced many fiscal challenges that have led to an unsustainable reliance on government subsidies that total \$649.2 million since its establishment in 1996; and we realize that the state does not have the fiscal capacity to continue funding the HHSC at its current level.

The Comprehensive Independent Review and Evaluation of Hawaii Health Systems Corporation that was completed by Stroudwater Associates in December 2009, recognizes serious financial and operational conditions of the system and finds that a new sustainability plan for restructuring is needed in order to diminish the state's burden of general fund subsidy to the hospital system. The Report concludes that a complete transition to a not-for-profit corporation is the best option available for reorganizing the system into the most efficient structure possible.

Following preliminary review and discussion, the HHSC Regional and Corporate Boards agree in principle with this plan. The Report's recommendations provide a new sustainability plan to diminish the burden of general fund subsidy for these vital health care services, however, more specifics beyond the study's recommendations need to be further reviewed and expertise is needed to develop successful short and long-term plans. At this point, Stroudwater estimates that the costs for the first year to engage qualified transition expertise (investment banker, health care change management consultants, and lawyers) would be approximately \$5 million.

3675 KILAUEA AVENUE • HONOLULU, HAWAII 96816 • PHONE: (808) 733-4020 • FAX: (808) 733-4028

HILO • HONOKAA • KAU • KONA • KOHALA • WAIMEA • KAPAA • WAILUKU • KULA • LANAI • HONOLULU  
[www.hhsc.org](http://www.hhsc.org) <<http://www.hhsc.org>>

The HHSC Board believes that a feasibility study to examine the range of financing options, explore potential partners, develop an extensive financial analysis and conversion timetable, and a review of the impact on our employees, patients, and other stakeholders is needed. The Board also recognizes however, that HHSC does not have financial resources to adequately examine the options and develop necessary detailed plans.

The HHSC corporate and regional boards are committed to continue working closely with lawmakers, regarding adopting recommendations of the study and submitting legislation to the 2011 Regular Session of the Hawaii State Legislature relating to the recommendations of the report, within the limitations of financial and expertise resources available. HHSC does not have financial resources to conduct specialized examination of the recommendations.

At the same time, HHSC's financial constraints should not affect its other present and future objectives that will enable the community-hospital system to become more efficient and lessen its dependence on state subsidy. In the spirit of Acts 290 SLH 2007 and 182 SLH 2009, the HHSC regions remain committed to taking steps to further realize cost efficiencies, as recommended by the Stroudwater Report, and make transparent this process.

HHSC would like to thank this Committee for its cooperative efforts in moving such a process forward.

*"Health care that is safe, health care that works, and health care that leaves no one behind"*

THE SENATE  
COMMITTEE ON HEALTH  
Senator David Y. Ige, Chair  
Senator Josh Green, M.D., Vice Chair

March 3, 2010 – 2:45 pm  
Conference Room #016  
Hawaii State Capitol

**Testimony Supporting SCR62**  
**Urging the Hawaii Health Systems Corporation to**  
**Adopt the Course of Action Recommended in the 2009 Audit**  
**Report of the Hawaii Health Systems Corporation**

Thank you for the opportunity to provide testimony regarding support of Senate Concurrent Resolution 62 (SCR62), formerly SB2211, SD1. We support the intent of this resolution, which is to provide a legislative vehicle to transition HHSC into a private non-profit 501 (c)(3) corporation.

Hospitals across the country are facing great difficulty these days - as a result of the economy, Recovery Audit Contractors, decreased reimbursement, uncontrollable costs, wait-listed patients, and physician shortage issues. Suffice it to say, the Hawaii Health Systems Corporation (HHSC) is in dire need of structural change. The level of health care being provided is at a pivotal point, as the costs related to the current structure could truly bankrupt the state. Further complicating our situation, the hospital reimbursement picture on a national scene will continue to ratchet down and shrink – or at best, grow ever so slowly over the next several years. Unfortunately, last year the HHSC hospitals did not receive Capital Improvement funding, and the impact of this delayed 2009 Capital spending has yet to be determined. In order for hospitals to survive, they must continue their projects to remain competitive and to replace aging facilities and equipment. Capital Improvements are crucial for hospitals to recruit physicians and to provide quality care that our respective communities expect. It is especially important to note that good financial governance requires a delicate daily balancing act that enables the organizations to move quickly.

SCR62 projects the most logical course of action, to redesign our public health system.

The Hawaii Health Systems Corporation provides health care services that are vital to the State and accordingly, steps must be taken to ensure the Corporation's future financial viability and to reduce its dependence on state subsidies. The Stroudwater Report - a study commissioned by the Legislature concluded that a complete transition to a not-for-profit corporation is the best option available for reorganizing the Corporation into the most efficient structure possible. The regional and corporate boards of the Corporation, after preliminary review and discussion, agree in principle with this approach.

SCR62 for all intents and purposes, provides for improving effectiveness and efficiencies system-wide as it pertains to our current public benefit corporation. It speaks to the need to transition the organization to a private non-profit 501(c)(3) corporation, eventually ending HHSC's status as an agency of the State. It also provides remedies for the State's antiquated Civil Service employment structure that is currently fraught with inefficiencies and creates difficulties for hospital operations.

HAWAII HEALTH SYSTEMS CORPORATION

---

The Hawaii Health Systems Corporation East Hawaii Region - Hilo Medical Center, Hale Ho'ola Hamakua, and Ka'u Hospital - favor the urgency of redesigning a more effective and efficient system.

SCR62, provides that HHSC shall develop a detailed plan that analyzes and addresses, among other things, financing options, potential partnerships, operational issues, a conversion timetable, the impact of such conversion on employees, patients, and other stakeholders, needed amendments to existing law to effectuate the transition, and the costs of the transition.

SCR62 further provides that the State will issue general obligation bonds to fund an appropriation to pay for general repair and maintenance of HHSC facilities, expenses that would be incurred in the transition into a non-profit entity, including compensation to employees in the transition from civil service to private status, and to diminish the accounts payable of HHSC.

SCR62, provides the opportunity to take the steps necessary to further examine the requisite conditions of a progression to a 501(c)(3) and to develop a transition plan; and is an excellent vehicle to engage informative discussion on how the State's community hospital system can best sustain the quality health care services that its island communities expect. SCR62 provides the forward momentum that state hospitals need to survive through, and beyond, this economic recession.

The HHSC East Hawaii Region Board and leadership request your serious consideration of this important legislation and implore you to give us the tools to move ahead to create a more efficient and sustainable healthcare system.



**THE SENATE COMMITTEE ON HEALTH**

**Senator David Y. Ige, Chair  
Senator Josh Green, M.C., Vice Chair**

**March 3, 2010 – 2:45  
Conference Room #016  
Hawaii State Capitol**

**Testimony Supporting SCR62**

**Urging the Hawaii Health Systems Corporation to Adopt the Course of Action  
Recommended in the 2009 Audit Report of the Hawaii Health Systems  
Corporation**

**Merilyn Harris, Administrator, Ka'u Hospital**

As administrator of one of the smallest critical access hospitals in the State, I would like to express my support for the measures outlined in SCR62. Our hospital system needs a lifeline and it is my belief that the process outlined in this bill will provide it.

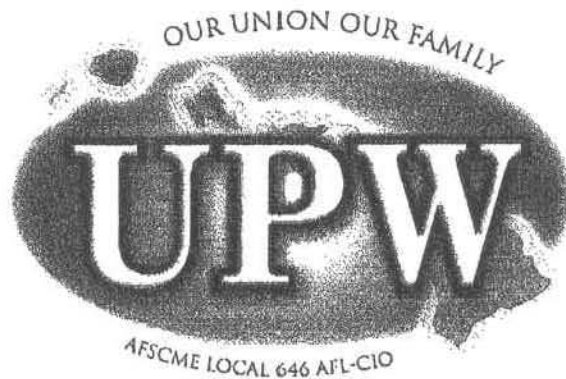
Ka'u Hospital is a 21-bed critical access hospital. It is an hour and a half journey by car to the nearest medical center. Our emergency department is an important component of the state trauma system. We are the largest employer in Ka'u so our contribution to the financial viability of our community is very significant.

We know that we serve an important community need yet we also know that under our current system we do not have a way of expanding our services to grow along with that need. It is a struggle to maintain what we do offer because of the age (39 years) and condition of our facility and its' often failing equipment. Many measures that would promote operational efficiencies and thus reduce costs are not available to us. Nor are there means to raise capital other than through the capital improvement process through the State.

SCR62 would require HHSC to document a very detailed, transparent plan that would be open to examination by all stakeholders. I believe that with this information, good decisions can be made for both patients and our employees.

Thank you for the opportunity to submit testimony in support of this bill.





The Senate  
The Twenty-Fifth Legislature  
Regular Session of 2010

Committee on Health  
Senator David Y. Ige, Chair  
Senator Josh Green, M.D., Vice Chair

DATE: Wednesday, March 3, 2010  
TIME: 2:45 p.m.  
PLACE: Conference Room 016

**TESTIMONY OF THE UNITED PUBLIC WORKERS, AFSCME, LOCAL 646,  
AFL-CIO ON SCR 62, URGING THE HAWAII HEALTH SYSTEMS  
CORPORATION TO ADOPT THE COURSE OF ACTION RECOMMENDED IN  
THE 2009 AUDIT REPORT OF THE HAWAII HEALTH SYSTEMS  
CORPORATION**

My name is Dayton Nakanelua, State Director of the United Public Workers, Local 646 (UPW). In behalf of approximately 500 blue collar, non-supervisory employees from bargaining unit 1 and 1,999 institutional and health workers from bargaining unit 10 who are currently employed by the Hawaii Health Systems Corporation (HHSC), **the UPW opposes SCR 62. This measure undermines the intent of the statute which created HHSC and would violate the constitutional requirements of the merit principle.**

HHSC was established following an extensive study by a task force created by the legislature in 1994 to examine the operations of the community hospital division of the Department of Health (HSL Act 266, p. 827). Based on a report by the governor's task force that recommended the creation of "an independent agency of the State" the legislature in 1996 created HHSC "to provide better health care for all the people of the State...by freeing the facilities from unwarranted bureaucratic oversight." (1996 HSL Act 262, p. 595). It was expressly understood that the new corporate entity would serve as an agency of the State which maintained a corporate-wide hospital personnel system that is subject to chapters 76, 77, and 89 (1996 HSL Act 262, p. 599), and that no employee of the State having tenure with the State would suffer any loss of "seniority, prior service credit, vacation, sick leave, or other employee benefits or privileges as a consequence" of the enactment. (1996 HSL, Act 262, p. 612).

Since 1996, employees of HHSC have by statute (chapter 76) and by Article XVI, Section 1 of the State Constitution been part of the merit system. Article XVI, Section 1 embodies important principles as described in Konno v. County of Hawaii, 85 Hawaii 61, 68-69, 937 P.2d 397, 404-405 (1997):

The civil service also embodies positive principles of public administration such as openness, merit, and independence. *Id.* At 95-96. Openness is served through public announcement of job vacancies, clear articulation of qualifications, open application to all persons, and selection according to objective criteria. Merit is served through a system of competitive examinations and qualification standards aimed at identifying competent candidates. Independence is served through the job security provided by civil service laws; because civil servants can be terminated only for just cause, they are more likely to speak out against unlawful activities occurring in their agencies. Justice William O. Douglas called the civil service system “the one great political invention” of nineteenth century democracy. United Public Workers v. Mitchell, 330 U.S. 75, 121, 67 S.Ct. 556, 580, 91 L.Ed. 754 (1947) (Douglas, J., dissenting in part) (quoting G. Wallas, *Human Nature in Politics* 263 (2<sup>d</sup> ed.)). (Emphasis added).

These principles remain vital to the operation of any government entity.

During the 2009 legislative session, HHSC received considerable financial support from the State, and was authorized to implement various measures to improve its operations (HSL Act 182, at 726-44). Furthermore, lawmakers declined to eliminate the requirement that HHSC develop and maintain “a corporate wide hospital system that is subject to chapters 76 and 89.” Now, less than a year later, HHSC is being urged to adopt the recommendations of a single study to convert to a private non-profit 501 c (3) corporation without consultation, negotiations, or review of the constitutional rights of public employees.

For these reasons we urge you not to pass SCR 62.

HAWAII STATE SENATE

To: Senate Ways and Means Committee  
Senate Health Committee

Re: **SCR 62**

Time: Wednesday, March 3, 2010 at 2:45 PM

Place: Conference Room 016

State Capitol Building

415 South Beretania Street

Honolulu, Hawaii

**TESTIMONY IN PARTIAL SUPPORT OF  
SCR 62**

- 
- (1) HHSC's current organizational structure ensures continued failure and must be reformed to improve operating results.**
  - (2) HHSC should be restructured to concentrate governing power in a central corporate entity; regional autonomy should be abandoned.**
  - (3) The organization is not ready to convert to a free-standing nonprofit organization.**

I am a former member of the Advisory Board of the Maui Region of the Hawaii Health Systems Corporation ("HHSC" hereafter), a former member of the Maui Initiative Health Care Task Force and a former member of the board of directors of HHSC.

I was appointed to the board of directors of HHSC by the Maui Region in July 2009. I resigned from the board of HHSC six months later at the end of January 2010. While on the board, I served on the Finance, Information Systems and Audit Committee and was elected the board's Secretary and Treasurer. I have served as the CEO of two large health care organizations in California and have been the chair of the board of several nonprofit organizations during my career in managed care.

As a member of HHSC's board, I participated with Stroudwater Associates in its assessment of the organization. While I agree that HHSC needs material restructuring, it is not ready for conversion to a 501© (3) organization. Unless or until the organization's governance is centralized, poor operating and financial results will continue. HHSC's poor performance is a direct result of regionalization of functions (coupled with weak leadership at the corporate level, which the board addressed late last year). With the recent separation of HHSC's CEO and CFO/COO from the organization, the company is positioned to attract dynamic, experienced leadership to the enterprise, but only if coupled with appropriate corporate authority. Centralized corporate authority + new, experienced leadership would = better results which would in turn provide a springboard for consolidation with a larger hospital system, thereby freeing HHSC from state control and eliminating the need for continued state financial support.

Senate Bill 1673, enacted into law last year, effectively converted HHSC into a loose affiliation of five semi-autonomous regions governed by five separate CEOs reporting to five different regional boards of directors, none of which are answerable to HHSC's corporate board. While the regional CEOs sit on HHSC's corporate board and while one might think this would provide a means for collaboration among the regions, this has not been achieved. Instead, each region has unique power and authority that ensures disconnection with the whole enterprise and pursuit of local agenda, seemingly regardless of financial consequences. In addition, and as noted by Stroudwater (Report, p. 72), regional CEO presence on HHSC's board creates divided loyalties at best. In reality, regional CEOs report to regional boards, not HHSC, which is understandable given that regional boards have the power to hire, fire and direct them. This renders HHSC powerless to govern on an enterprise level, making a change process more difficult to mount, particularly when overlaid upon a corporate memory of past centralized governance ineptitude that inspired legislative change to regional control.

Under current law, each of the five regions is singularly responsible for "local governance, operations, and administration of the delivery of services in its respective" region. (SB 1673, Section 10(d).) Given this sweeping power, there is little role for HHSC without the express consent of all five regions. Such consent is difficult to attain and, even if attained, is subject to change at any time depending on the will or whim of a local board or its CEO.

Additionally, HHSC's regional governance model is at odds with best practices in the hospital industry. According to credible survey data published by the Governance Institute, a highly respected hospital industry leadership think-tank, the great majority of hospital systems across the country have consolidated and concentrated decision-making authority in a central body in response to declining reimbursement, increasing competition and in answer to the need to deliver cost-effective, high quality care. HHSC, through the legislative process, has gone against this well-reasoned approach to the business, to the detriment of the people of Hawaii and the state itself since the state has had to underwrite HHSC's regional operating losses, losses that have grown to over \$100,000,000 per year in the past two years. This is unsustainable and, quite frankly, irresponsible, wasteful and unnecessary. HHSC's results, which in fact are a summation of regional results, bear witness to this assessment.

1. Huge Financial Losses: Over the past three years, HHSC, acting through the regions, has suffered a significant fall-off in financial performance. Please see the chart at page 11 of the Stroudwater report that depicts this erosion. In 2006, HHSC's three acute care facilities lost a total of \$10,000,000. By 2008, acute care facility losses grew to over \$80,000,000.

2. Lack of Leadership Urgency: Despite huge financial losses, the regions have taken little or no action to stem the tide, whether by scaling back operations, improving operational execution in areas directly tied to financial results or by growing revenue.

3. No Information Technology Strategy or Plan (even in the face of obvious need): HHSC and most of the regions have no information system/EMR strategy or plan (East Hawaii is the lone exception). As a consequence, HHSC and the regions are at a tremendous competitive disadvantage and are out of step

with baseline industry norms and expectations, according to Governance Institute data. This hampers the enterprise's ability to improve overall quality of care and to execute optimally. It also makes the organization and/or its parts unattractive merger partners.

4. Pervasive Operational Ineffectiveness: The regions are responsible for day-to-day operational activities. Local results, including key activities such as revenue collection, are unacceptable on any professional or measurable basis. According to Stroudwater, poor revenue collection practices have persisted at the regional level for over a decade without improvement, sometimes punctuated by occasional "fire-fighting" activities, but not accompanied by systemic change that would produce improved results on a sustained basis.

For the above reasons, neither HHSC nor the regions are positioned to transition to a 501© (3) organization at this time. That said, HHSC needs to be restructured to concentrate power and authority to act in a central body that can drive the organization to a higher level of performance. It cannot achieve this in its current disbursed power structure, one that places the very people who need to be managed, regional CEOs, under the direction and control of HHSC's board of directors. (Report, p. 72.)

After six month of service on the board of HHSC from late July 2009 to late January 2010, I resigned after concluding that the organization, as currently structured, is ungovernable and that continuance on the board was inconsistent with fiduciary duty, particularly when the need for change is so apparent but rests in the hands of a corporate board lacking authority to institute change.<sup>1</sup>

For the reasons stated above, I support restructuring HHSC by centralizing governing authority, consistent with Stroudwater's recommendations and best practices in the hospital industry. This is an essential first step before the organization can succeed as a stand-alone 501© (3) organization. Unless or until the organization's operating losses are significantly reduced, the chances of HHSC or any of the regions merging with another organization are severely compromised.

Respectfully submitted,

Mark G. Hyde  
4320 E. Waiola Loop  
Wailea, Hawaii 96763  
(808) 874-3839  
Hydem001@hawaii.rr.com

---

<sup>1</sup> HHSC's board of eleven includes five regional CEOs. In addition, while SB 1673 makes the Director of Health an ex-officio, non-voting member of HHSC's board, the Director has failed and refused to attend a single meeting.