



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

"Touching Lives Every Day"

**House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair**

Thursday, March 31, 2011
4:00 p.m.
Conference Room 308
Hawaii State Capitol

**Senate Bill 1300, SD2, HD1 Relating to Health
Amends the composition of the Hawaii Health Systems Corporation board to add an at-large member appointed by the Governor and give voting rights to the Director of Health.
Effective July 1, 2050**

**Testimony of Alice M. Hall, Esq.
Interim President and Chief Executive Officer
Hawaii Health Systems Corporation**

Thank you for the opportunity to provide testimony in support of SB 1300, SD2, HD1. On behalf of the HHSC Corporate Board of Directors, I want to express support for this bill, which will amend its board composition.

As this committee is aware, HHSC has undergone several major governance changes since its establishment in 1996. Most recently, Act 290 (2007) added the regional boards and Act 182 (2009) required that the Regional Chief Executive Officers (RCEOs) of each region become a voting member of the HHSC corporate board. Putting the RCEOs on the board helped in the transition from a fully centralized system under one board to a partially decentralized model, with custodial control of assets and operations in the regions.

While the HHSC Board appreciates the intent of the amendment proposed by both SD 2 and HD 1, it continues to propose for consideration the bill's initial draft which seeks a true separation between governance and management by deleting the prescription that RCEOs sit on the corporate board. This change will significantly reduce conflicts of interest that arise when the RCEO is faced with making a decision on behalf of the entire system that may not meet the immediate needs of his/her region. In the spirit of Acts 290 and 182, each corporate board member has a fiduciary duty of loyalty to the system, and not to just to his/her hospital or region. Replacing the RCEOs as proposed by the initial bill, with community members appointed by the respective regional boards instead, will allow more outside leaders to supplement the benefit HHSC receives from the RCEOs acting in their usual advisory staff capacity, similar to the HHSC President and Chief Executive Officer.

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The conflict of interest is a real issue that threatens the viability of HHSC's legality as a non profit entity with IRS non profit status. The IRS requires that non profit entities be governed without conflicts of interest.

The HHSC Corporate Board also appreciates the HD1 amendment that limits the size of board membership to thirteen (13).

Equally important, the HHSC Corporate Board also fully supports the additional at-large seat member that gives the Governor the opportunity to appoint one member. (All corporate and regional board members are appointed by the regional boards at this time).

Finally, we support restoring the voting rights of the director of health, an ex-officio member of the corporate board, in order to encourage his/her full participation as a partner in providing health care to our communities.

The proposed governance changes will build on the excellent progress made by the regions and the corporate office to coordinate service delivery and improve the health of our island communities as a result of the vision of the Legislature over the past several years. The restructuring will in effect create a more balanced playing field for all the regions and enable them to strengthen their collective and collaborative focus on quality care improvement for the entire community-hospital system.

Thank you for the opportunity to testify in support of this measure.



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

"Touching Lives Everyday"

Jerry A. Walker
Regional CEO

March 30, 2011

TO: House Committee on Finance
The Honorable Representative Marcus R. Oshiro, Chair
The Honorable Representative Marilyn B. Lee, Vice Chair

FROM: Jerry Walker, Regional Chief Executive Officer
Hawaii Health Systems Corporation, Kauai Region

SUBJECT: **Testimony In Support of Senate Bill 1300, SD2, HD1, Relating to Health**

Conference Room 308
Thursday, March 31, 2011, 4:00 p.m.

On behalf of the HHSC Kauai Region (West Kauai Medical Center and Samuel Mahelona Memorial Hospital), I want to express support for this measure.

The various versions of this measure reflect the majority of the governance changes that the present HHSC Corporate Board of Directors strongly support, including the director of health member's ability to vote and the addition of the at-large member seat. In much the same way, the corporate board is very appreciative of the shared sentiment the HD1 version that allows HHSC to maintain a manageable board size.

With that said, the HHSC Kauai Region requests that this Committee further extend its consideration to reinsert the bill's initial draft language that prescribes replacing the regional chief executive officers (RCEO) with community members selected by their respective Regional Systems Boards.

We appreciate the Legislature's intent to ensure that the HHSC Board remains sound through the active engagement of the RCEOs and community board members while ensuring that all directors provide full attention to fiduciary and policy matters and serve an oversight function. However, the board may potentially find itself deferring to the RCEO who not only understands the policy issues of the board but also knows the day-to-day operations of the region. Consequently, the practice of voting with the RCEO under the assumption that the RCEO knows best can potentially lead to a rubber-stamp board. And undue dependence upon the RCEOs can actually weaken the governance function. In short, maintaining the RCEO squarely in the realm of hospital operations avoids potential conflicts of interests – or the appearance of such conflicts.

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Accordingly, consideration for the aforementioned amendments truly reflects an on-going commitment by the Legislature to assist the state community-hospital system in maintaining its quality health care services to the island communities across the state of Hawaii.

Thank you for providing me with an opportunity to testify on SB 1300, SD2, HD1.



HAWAII HEALTH SYSTEMS

C O R P O R A T I O N

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BOARD OF DIRECTORS:

March 29, 2011

Avery B. Chumbley, Chair
Maui

To: House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair

Vincent Lee, Vice Chair
CEO, Oahu

Carol A. VanCamp
Secretary/Treasurer
East Hawaii

From: Jean Odo, HHSC Kauai Region Board Member

Barbara Mathews
Oahu

Subject: Senate Bill 1300, SD2, HD1, Relating to Health
4:00 p.m., Thursday, March 31, 2011

Howard N. Ainsley
CEO, East Hawaii

Testimony and Comment in Support of SB 1300, SD2, HD1

Jay Kreuzer,
CEO, West Hawaii

Mahalo for providing me with an opportunity to support SB 1300, SD2, HD1, a very important measure that clearly enhances the governance of the Hawaii Health Systems Corporation Corporate Board of Directors.

Jerry A. Walker, Jr.
CEO, Kauai

HHSC, the state community-hospital system, comprised of five regions (i.e., East Hawaii, West Hawaii, Maui, Oahu, and Kauai), 12 facilities and four affiliates, over 4000 employees, and close to 1000-hospital affiliated physicians, and with the on-going support of the state of Hawaii, has been able to continue providing our island communities with critical access to quality health care services.

Loretta Fuddy
Department of Health
Ex-Officio

With regard to governance, the HHSC Board, since the passage of Act 182 (2009), has been honored to have had the invaluable input of the regional chief executive officers. This shared-expertise board member experience has been extremely beneficial to the hospital system, including: 1) reestablished collaborative spirit; 2) renewed sense of trust; and 3) enhanced urgency to improve system efficiencies and effectiveness. As a result, Act 182 has provided the HHSC with effective tools, in addition to enhancing the spirit of Act 290 (2007) which established the regional systems boards.

M. Jean Odo
Kauai

Russell Yamane
Maui

Wesley P. Lo
CEO, Maui

Presently, and looking forward, I ask for your continued consideration to examine replacing the regional chief executive officer members with community representatives selected by the regional systems boards. The responsibilities of regional hospital CEO are significant - add to that the responsibilities of a responsible and accountable corporate board, and you get an overwhelming balancing act between day-to-day operations and system-wide decision making.

As the system evolves through this extremely uncertain and

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unpredictable health care environment, these roles must remain separate and distinct and the roles of governance and management must remain clear on what each does to assist in the sustainment of the state's community hospital system.



LEAHI HOSPITAL
HAWAII HEALTH SYSTEMS CORPORATION

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March 30, 2011

**TO: The House Committee on Finance
Representative Marcus R. Oshiro, Chair
Representative Marilyn B. Lee, Vice Chair
Conference Room 308**

**FROM: Vince H.S. Lee, Regional Chief Executive Officer
HHSC Oahu Region**

**RE: SENATE BILL 1300, SD2, HD1 Relating to the Hawaii Health Systems
Corporation, Thursday, March 31, 2011, 4:00 p.m.**

Thank you for providing the Hawaii Health Systems Corporation Oahu region with an opportunity to submit testimony in support of SB1300, SD2, HD1. As a regional chief executive officer (RCEO) for the HHSC Oahu region, I understand the basis for the various versions of this bill. At the same time, as a RCEO, I have seen the significant impact that governance has had on the system's ability to respond to the health care needs of our communities. A significant component of Act 182, passed in 2009, was the restructuring of the corporate board by adding the regional CEOs (RCEOs) as ex officio voting members. Lawmakers, obviously, viewed this change as a means to give the regional RCEOs more credibility, authority, and accountability, while enhancing the corporate board's relationship with the region systems boards, which were established in 2007 with the passage of Act 290. Ultimately, the intent of this significant governance change was to create an opportunity for better system-wide board decision making.

During the initial establishment of the corporate board, the RCEO members provided much-needed, inside perspectives on all aspects of the health system, which in turn, enabled the board to make more informed decisions. The RCEO members committed their time and expertise in the redevelopment of the board committee functions as well. While this has been proven true and excellent progress has been made by the regions and corporate office to coordinate service delivery and improve the health of our island communities, I believe further improvements should be considered, including the role of the RCEO.

Personally, I strongly continue to believe that a distinction between governance and management is needed. My role as a corporate board member and being responsible for day-to-day operations can get confusing when I'm voting on the board. There are limitations in having RCEOs serve as board members, including potential conflicts of interest, particularly in being unable to distinguish the priorities of the region and those of the system. There is also a potential for the board to rely too heavily on the RCEO's opinion. A community member appointed by his or her respective regional board to replace the RCEO seat, as proposed by the original version of the bill, would serve to remedy these issues. At the same time, my advisory role would continue to support the efforts of both the corporate and regional systems board.

I appreciate the HD1 amendment that maintains the board size to thirteen (13), which in turn ensures that our board remains effective, informed, and active.

Of equal importance, the HHSC Oahu region fully supports the additional at-large member appointment, and the restoration of voting rights of the director of health ex-officio seat.

Thank you for providing me with this opportunity to present testimony.