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From: mailinglist@capitol.hawaii.gov
Sent: Sunday, February 10, 2013 3:36 PM
To: CPCtestimony
Cc: dlmccleary@yahoo.com
Subject: *Submitted testimony for HB1483 on Feb 11, 2013 15:30PM*

LATE

HB1483
Submitted on: 2/10/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Donna McCleary,md	Individual	Support	No

Comments:

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Cc: dlmccleary@yahoo.com
Subject: *Submitted testimony for HB1484 on Feb 11, 2013 15:30PM*

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HB1484
Submitted on: 2/10/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Donna McCleary,MD	Individual	Oppose	No

Comments:

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Cc: mcclearyr001@hawaii.rr.com
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HB1483
Submitted on: 2/10/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
robert McCleary	Individual	Support	No

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To: CPCtestimony
Cc: pd.skelton@gmail.com
Subject: *Submitted testimony for HB1483 on Feb 11, 2013 15:30PM*

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HB1483
Submitted on: 2/10/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Patti Skelton	Individual	Oppose	No

Comments:

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To: CPCtestimony
Cc: ghart_52@yahoo.com
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HB1483
Submitted on: 2/10/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Gayle	Individual	Oppose	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Sunday, February 10, 2013 5:47 PM
To: CPCtestimony
Cc: denisecohen@mac.com
Subject: Submitted testimony for HB1483 on Feb 11, 2013 15:30PM

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HB1483
Submitted on: 2/10/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Denise Cohen	Individual	Oppose	No

Comments: The State has had control of MMMC for well over 50 years. During that time Maui County has grown but MMMC has seriously lagged behind due to inefficient government oversight. MMMC has an opportunity to develop a public/private health care partnership. HGEA is against this proposal as they are concerned about the future of their union employees, than the health care needs of Maui County. We need a this partnership to build a health community that will be capable of serving the needs of Maui County. I oppose this task force as unnecessary and waste of taxpayers money. We need to transition from a state operated healthy care system to one that has resources and systems to serve Maui County. The time to take action is NOW

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To: CPCtestimony
Cc: heidi@westmauiland.com
Subject: Submitted testimony for HB1483 on Feb 11, 2013 15:30PM

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HB1483
Submitted on: 2/10/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Heidi Bigelow	Individual	Oppose	No

Comments: I Oppose the formation of a task force. I believe that this is an unnecessary waste of time and resources. We need to transition from a state operated health care system to one that has the resources and systems to deliver World Class health care on Maui. This does not require more study, it requires taking action for positive change.

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From: mailinglist@capitol.hawaii.gov
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To: CPCtestimony
Cc: jschmidt@seaburyhall.org
Subject: *Submitted testimony for HB1483 on Feb 11, 2013 15:30PM*

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HB1483
Submitted on: 2/11/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Joseph J. Schmidt	Individual	Oppose	No

Comments:

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To: CPCtestimony
Cc: michellesciascia@gmail.com
Subject: *Submitted testimony for HB1483 on Feb 11, 2013 15:30PM*

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HB1483
Submitted on: 2/11/2013
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

Submitted By	Organization	Testifier Position	Present at Hearing
Michelle Sciascia	Individual	Oppose	No

Comments:

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The Twenty-Seventh Legislature, State of Hawaii
House of Representatives
Committee on Consumer Protection & Commerce

Testimony by
Hawaii Government Employees Association
February 11, 2013

LATE

H.B. 1483, H.D. 1 – RELATING TO THE HAWAII HEALTH SYSTEMS CORPORATION

H.B. 1484, H.D. 1 – RELATING TO THE HAWAII HEALTH SYSTEMS CORPORATION

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly opposes the purpose and intent of H.B. 1483, H.D. 1 and H.B. 1484, H.D. 1. Both bills look to allowing the regional systems of the Hawaii Health Systems Corporation and their health facilities to transition to non-public status.

The Hawaii Health Systems Corporation operates a system of community hospitals primarily on the neighbor islands. That network provides a safety net of health care, with a Hawaii State Constitutional mandate to ensure access to health care for all citizens. In many instances, care is provided without payment, a cost that our state taxpayers bear to ensure care for all.

To preserve the safety net for the neighbor islands the system must remain intact. If one or more regions were to withdraw from the system, it will create instability through the whole system, both financially and in the types of and mix of services available to local communities. A fragmented health care system is a disservice to Hawaii's people and threatens the long-term viability of the entire health care delivery system. Further, the effort to divest our state's involvement in our health care, and put that responsibility on an Arizona-based provider is short-sighted and not in the best interest of our communities. It is unthinkable that our state will be better off with health care decisions for neighbor islanders being made out of state.

For these reasons, we strongly oppose H.B. 1483, H.D. 1 and H.B. 1484, H.D. 1. Thank you for the opportunity to express our opposition.

Respectfully submitted,

Joan Takano
Field Services Officer

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

"Quality Health Care for All"

LATE

House Committee on Consumer Protection & Commerce
Representative Angus L.K. McKelvey, Chair
Representative Derek S.K. Kawakami, Vice-Chair

Monday, February 11, 2013
Conference Room 325
3:30 p.m.
Hawaii State Capitol

Testimony Supporting the Intent of House Bill 1483 HD1, Relating to the Hawaii Health Systems Corporation. Creates a task force to study the transition of HHSC facilities to non-public status.

Bruce S. Anderson, Ph.D.
President and Chief Executive Officer
Hawaii Health Systems Corporation

Hawaii Health Systems Corporation (HHSC) supports the intent of HB 1483 HD1 to clarify the powers of the HHSC and regional system boards to enter into public/private partnerships. Private partnerships may take many forms. However, it is clear that there are many questions and unknowns about how those partnerships may impact a region, a group of regions, the entire HHSC system and communities HHSC serves. Therefore, a task force to study the advantages and disadvantages of potential partnership opportunities may be helpful.

The HHSC board of directors supports the regions in their continuing discussions with potential private partners but has not had the opportunity to review this bill. The board plans to meet on February 20, 2013.

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

HAWAII HEALTH SYSTEMS
CORPORATION

"Quality Health Care for All"

LATE

House Committee on Consumer Protection & Commerce
Representative Angus L.K. McKelvey, Chair
Representative Derek S.K. Kawakami, Vice-Chair

Monday, February 11, 2013
Conference Room 325
3:30 p.m.
Hawaii State Capitol

Testimony Supporting the Intent of House Bill 1483 HD1, Relating to the Hawaii Health Systems Corporation. Creates a task force to study the transition of HHSC facilities to non-public status.

Bruce S. Anderson, Ph.D.
President and Chief Executive Officer
Hawaii Health Systems Corporation

Hawaii Health Systems Corporation (HHSC) supports the intent of HB 1483 HD1 to clarify the powers of the HHSC and regional system boards to enter into public/private partnerships. Private partnerships may take many forms. However, it is clear that there are many questions and unknowns about how those partnerships may impact a region, a group of regions, the entire HHSC system and communities HHSC serves.

The HHSC board of directors supports the regions in their continuing discussions with potential private partners but has not had the opportunity to review this bill. The board plans to meet on February 21, 2013.

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

February 10, 2013

LATE

HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE
Representative Angus L. K. McKelvey, Chair
Representative Derek S. K. Kawakami, Vice Chair
Committee Members

Testimony and comments in **SUPPORT of the INTENT** of
HB1483 HD1 – Relating to Hawaii Health Systems Corporation

Thank you for the opportunity to testify and provide comments **in support of the intent of HB1483 HD1**. This bill establishes a task force to study the feasibility of allowing the operations of the Hawaii Health Systems Corporation regional systems and their facilities to transition to non-public status. ***My concern is that the formation of the proposed task force and their findings will repeat many of the efforts and findings that went into the preparation of a previous study conducted by Hawaii Health Systems Corporation (HHSC) in 2009.***

BACKGROUND

As a part of a legislative mandate in Act 162, Section 31 (2009), a study was commissioned by HHSC to prepare a report that shall include but not be limited to the following information:

(1) A comprehensive facility-by-facility review of operations, detailing efficiencies, deficiencies, and any recommendations for corrective action;
(2) Overall recommendations on improving effectiveness and efficiencies system-wide;
(3) Determination of responsibilities of facility administration, regional boards, corporate office, and Hawai`i health systems corporation corporate board;
(4) Determination of centralized services required by the facilities to be provided by the corporate office;
(5) Performance benchmarks to be reported to the Legislature prior to the commencement of each regular session and upon request; and
(6) Recommendations on transition plans deemed necessary;
(7) Evaluation of effectiveness of the current legal structure and adherence to the state procurement code and salary structure;
(8) Measures taken to address material control weaknesses and reporting issues cited in audits performed by the state auditor and HHSC's external auditor during fiscal year 2007-2008 and fiscal year 2008-2009;

A report, prepared by Stroudwater Associates, was submitted to Senate President Colleen Hanabusa on December 28, 2009 as detailed in DC56 (2010).

Below are excerpts, beginning on page 65, from the Stroudwater Report that grades the Key Success Factors of each of the four strategic options for HHSC to consider:

Each of the four strategic options detailed below assumes that the three essential changes detailed in the prior section (i.e. conversion, operating efficiencies, and efficiencies of scale) are committed to and are being actively pursued. Following the presentation and discussion of options, we have identified the option that we recommend based upon the analysis. We do this with a clear understanding that we are not policy makers for HHSC or for Hawai`i. That is the domain of the HHSC Board and the Legislature. We respect that responsibility of each of these bodies, and present the following material and conclusions as support for your deliberations and decisions. Ultimately, the decision and the responsibility to execute belong to the HHSC Board and management.

Option 1: Region-Centric HHSC with Service Bureau Support Strategy

Key Success Factors	Grade	Discussion
1 High performance capacity governance and management structure	▶	This model places major business oversight responsibilities on the regional boards, which have variable capabilities for assuming the breadth of governance responsibilities required.
2 Access efficiencies of scale and expertise	▼	Voluntary nature of service bureau participation generally results in minimal participation in shared services.
3 Reduce dependence on subsidies	▶	Reduces the potential for efficiencies related to combined scale and expertise, increasing the potential need for subsidies.
4 Identify scope/scale of market needs	▲	Preservation of strong regional boards would provide an ongoing local resource for monitoring community needs.
5 High quality clinical care/patient services	▶	The ability to build common quality and safety programs and the IT infrastructure needed to support this would be compromised.

Option 2: Regional Partnership Break-up Strategy

Key Success Factors	Grade	Discussion
1 High performance capacity governance and management structure	▶	This option would likely add governance strength to the regions as a result of access to leadership in place at larger systems. The strategy could fail one or more individual regions.
2 Access efficiencies of scale and expertise	▲	Depending upon the partner chosen, the scale accessible to each region successfully attracting a partner would most likely increase.
3 Reduce dependence on subsidies	▶	Subsidies would likely disappear for those regions successful in attracting partners. Any that are unsuccessful are at risk of reverting back to a financial dependency relationship with the State.
4 Identify scope/scale of market needs	▲	Likely preservation of regional boards would provide an ongoing local resource for monitoring community needs.
5 High quality clinical care/patient services	▶	There would likely be variation in the level of clinical quality and patient services reflective of the differences that exist among potential partners.

Option 3: Corporate-Centric HHSC Strategy

Key Success Factors	Grade	Discussion
1 High performance capacity governance and management structure	▲	This option re-establishes a contemporary governance system model for HHSC.
2 Access efficiencies of scale and expertise	▲	This option aligns the largely latent opportunities to achieve efficiencies of scale and expertise with the necessary authorities to achieve it.
3 Reduce dependence on subsidies	▼	This option will require ongoing financial support of HHSC by the State, but at a reduced level. Efficiencies of scale, staffing models, some clinical integration, and system improvements are factors reducing the subsidy level.
4 Identify scope/scale of market needs	▲	The preservation of regional boards will provide an ongoing local resource for monitoring community needs.
5 High quality clinical care/patient services	▶	While this option should help create common system-wide standards of clinical care, safety and service, it does not necessarily generate sufficient access to capital in the near and intermediate term to fund investments in people, technology and facilities required.

Option 4: HHSC System Corporate Partnership Strategy

Key Success Factors	Grade	Discussion
1 High performance capacity governance and management structure	▲	This option will add governance strength to the HHSC governance structure.
2 Access efficiencies of scale and expertise	▲	Depending upon the partner chosen, the scale accessible to HHSC facilities should grow dramatically.
3 Reduce dependence on subsidies	▲	Any ongoing financial support with the new system will require documentation and negotiation.
4 Identify scope/scale of market needs	▲	Likely preservation of regional boards would provide an ongoing local resource for monitoring community needs.
5 High quality clinical care/patient services	▲	A single standard of improved clinical care and patient services would be an essential partner requirement.

Below are excerpts from the Executive Summary of the report (pages 9 and 10):

> "The fourth strategic option evaluated is an HHSC system corporate partnership strategy. This envisions that HHSC would engage in a formal process as a system to identify a capital/operating partner including both in-state and mainland options to help accelerate its transformation to a high performing contemporary delivery system. This option rests upon the conclusion that as a system HHSC by itself is insufficient in scale to move to the highest levels of performance, and that so many of its basic systems and infrastructure are in need of major updating that it will take the in-place resources of a more advanced system to help it catch up. This will result in a sharing of governance authority between HHSC and a chosen partner.
>
> The study recommends the fourth option as the most effective one for meeting the needs of the people served by HHSC over the short and long terms. It further recommends that this option be pursued at high velocity in light of the financial status of both HHSC and the State. This targets re-structuring of HHSC governance and management, pursuit of operational efficiencies, conversion of HHSC to a 501(c)(3), and immediate pursuit of operational efficiencies identified. It further targets completion of a process for identifying the right partner with which to enter into a transaction. It recommends completing this entire process within the next 2-3 years. It identifies the need for continued State subsidy during the transition period, and ongoing support of the surviving entity based upon need beyond the transition. We recognize that these are aggressive time frames. We also recognize the intensity of financial pressures that motivate this proposed speed. "

Below are excerpts from the Recommended Option and Rational section of the report (pages 80 through 83):

Recommended Option and Rationale

It is important to re-emphasize that any option pursued should be based upon a platform that includes active implementation of the three "essential changes:" Conversion of HHSC to a private non-profit 501(c)(3) corporation, aggressive pursuit of all available operational efficiencies within each region and facility, and maximization of efficiencies of scale as a system. Absent this foundation of change, the ability to achieve any of the four options presented is tenuous at best, and even if an option is successfully implemented the near term results will be significantly constrained.

It is also important to emphasize that these transformation recommendations require extremely difficult challenges related to successful implementation of the "essential changes" and each option. Successful execution will require strong leadership and management, sustained focus and discipline, a sense of urgency, and a commitment to success. While this study did not evaluate leadership and management resources within HHSC, such an evaluation is warranted.

The following two tables summarize the fiscal impact of the "essential change" recommendations on the State and on HHSC operations for the conversion period (FY 2011) and the three succeeding fiscal years. The first table outlines the sources and uses of funds over the period. This includes a large inflow and outflow of dollars in FY 2011 for the initial conversion process, followed by continuing but declining appropriations for the subsidy of hospital operations in the out years. We conclude that the operation a system which includes a series of small remote facilities such as the Critical Access Hospitals and Nursing Homes within HHSC will continue to require approximately $30 million in ongoing annual operating support.

While the sources and uses table primarily involves State funds, we have built in the impact of the introduction of a capital partner beginning in 2013. Based upon our experience in other markets, we believe that a new partner would likely make a large initial financial infusion into the system to accelerate capital improvements, followed by more modest investments moving forward. A key assumption in this model is that the levels of appropriation are fixed, and that HHSC will need to operate within the restrictions of these appropriations.

Conversion of HHSC into a non-profit 501(c)(3) private corporation
Sources and Uses of Funds ($000's)

	State Fiscal Year			
Sources of Funds ($000's)	FY2011	FY2012	FY2013	FY2014
State of Hawai`i General Fund appropriations	$ 60,000	$ 50,000	$ 40,000	$ 30,000
Capital improvement funds	20,000	10,000		
Capital partner(s) contributions			50,000	20,000
General revenue bonds	255,800			
Total Sources of Funds	335,800	60,000	90,000	50,000

Uses of Funds	FY2011	FY2012	FY2013	FY2014
Conversion to 501(c)3				
Payoff of unused vacation	34,000			
Payoff of accrued compensatory time	3,500			
Unpaid workers' compensation claims	18,300			
Total Conversion Cost	55,800			
Recapitalization of HHSC	200,000			
Capital improvement projects and other infrastructure investments	20,000	10,000	50,000	20,000
Continued subsidies for hospital operations	60,000	50,000	40,000	30,000
Total Uses of Funds	$ 335,800	$ 60,000	$ 90,000	$ 50,000

The second table displays how the various initiatives proposed in the report will result in reducing the system's dependence on the State to an amount required to maintain remote access on the neighbor islands.

We include continued funding from the State for capital projects for FY 2011 and FY 2012 at $20M and $10M respectively. It is our assumption that after that time, the recapitalized and reorganized system will be able to access capital funding from other sources such as commercial lenders.

We also assume that as a private non-profit corporation that HHSC will be able to build a base of philanthropy as a routine source of funding. This will be important, since earnings retained by HHSC as detailed in the following table, are insufficient to fully fund future capital needs of an organization of its financial scale.

Reconciliation of subsidies for hospital operations	FY2011	FY2012	FY2013	FY2014
Baseline Operating Losses (Based on HHSC FY 2009 unaudited results)	$ (120,000)	$ (120,000)	$ (120,000)	$ (120,000)
Reduction in employee benefit costs	81,500	81,500	81,500	81,500
Job coversions and use of local privately owned businesses	1,300	2,600	3,900	5,200
Operational improvements	7,500	15,000	22,500	30,000
Debt service for revenue bonds	(20,000)	(20,000)	(20,000)	(20,000)
Savings from "system" efficiencies	2,000	4,000	6,000	6,000
Operating losses after implementation of all initiatives	(47,700)	(36,900)	(26,100)	(17,300)
Philanthropy	2,500	5,000	7,500	10,000
State subsidies for hosptial operations	60,000	50,000	40,000	30,000
Earnings retained by HHSC	$ 14,800	$ 18,100	$ 21,400	$ 22,700
Capital improvement projects and other infrastructure investments	$ 20,000	$ 10,000	$ 50,000	$ 20,000

For the State, the projections in the above table exhibit a declining glide path of financial support to HHSC between FY 2011 - FY 2014 of $80M, $60M, $40M, and $30M.

The study concludes that the best option to pursue on this platform of "essential changes" is Option 4, the HHSC corporate partnering strategy. Based upon our interviews with in-state and mainland systems, we believe that there is sufficient preliminary interest in HHSC following implementation of the "essential changes" to suggest that this is a viable option. It should be emphasized that even if a partner is ultimately unavailable for HHSC, the "essential changes" will result in a far more operationally viable HHSC than is currently the case. Also, we do not advocate for embracing a capital/operating partner based upon terms that are unacceptable in terms of maintaining quality, access, and cost performance levels that meet the stewardship responsibilities of both HHSC and the State.

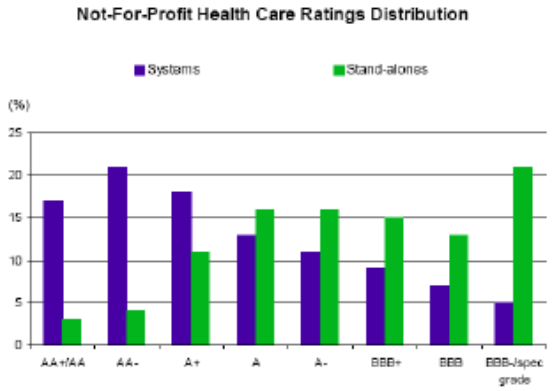
There are several key factors that bring us to the conclusion that the HHSC corporate partnering strategy is the best option. These include:

1. HHSC does not have experience in operating as a highly integrated healthcare delivery system. It is actually more of a confederation of facilities today and less of a system than it was two years ago. It would benefit from help from an experienced operator with mature system infrastructure, operating knowledge and cultural attributes to successfully complete such a transition.

2. A partner will help to accelerate the transition to a higher performing system. Accessing the leadership, management and technical expertise to achieve the performance potential of a highly integrated health system will take far more time for HHSC to achieve independently than is the case if it were to be assisted through this process by a more mature system. Given the financial challenges of both HHSC and the State, time is at premium.

3. At its existing scale, HHSC is not large enough to access the highest levels of healthcare system performance as evidenced by health services research in this arena. For example, large hospital chain operating expenses per discharge are on average 8% lower than comparable services in smaller stand-alone hospitals and systems.[20] Ongoing research by Citibank has found that the difference in operating margins between systems <$1B in annual revenues vs. systems with >$3B in annual revenue favors the larger system by a multiple of nearly four. As summarized in the following table, the cost of capital for larger systems is generally lower as well based upon their debt rating profiles.

[20] "The Effect of Chain Membership on Hospital Costs," Health Services Research, June, 1997, Terri J. Menke



4. As noted elsewhere in this report, HHSC is facing a significant challenge in achieving exemplary levels of clinical and service quality. As with other infrastructure challenges, the ability to put into place an effective set of systems in the areas of safety, quality improvement, EMR and clinical decision support services, etc. will take significant time and resources. A helping hand will move this forward more quickly and effectively.

In summary, we believe that a partner will help HHSC to address its challenges and opportunities better, faster, and less expensively than it could achieve on its own.

It is my personal opinion that the establishment of the task force per HB1483 HD1 will be largely repetitive of the work done in 2009 that resulted in the "Stroudwater Report." The cost to prepare the Stroudwater Report, according the Hawaii Health Systems Corporation Chief Financial Officer was approximately $500,000. Will the legislature appropriate funds to carry out the work of the proposed task force in HB1483 HD1?

The Stroudwater Report indicated that time is of the essence.

I urge the Committee to amend HB1483 HD1 to allow HHSC to carry out the recommendations of the Stroudwater Report and to restore the original intent of HB1483.

Thank you for this opportunity to testify and provide comments in support of the intent of this important measure.

Respectfully submitted.

Patrick Saka
Chief Administrative Officer
Maui Region, Hawaii Health Systems Corporation
221 Mahalani Street, Wailuku, HI 96793
(808) 244-9056