

**kawakami2 - Rise**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Sunday, February 10, 2013 8:25 PM  
**To:** CPCtestimony  
**Cc:** lcuburton@gmail.com  
**Subject:** Submitted testimony for HB1484 on Feb 11, 2013 15:30PM



**HB1484**

Submitted on: 2/10/2013

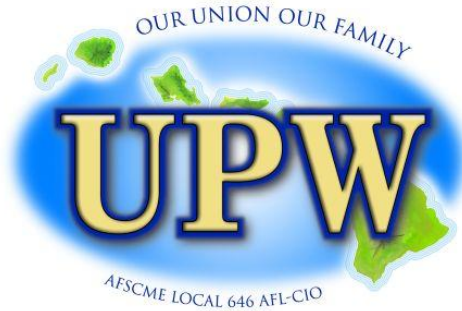
Testimony for CPC on Feb 11, 2013 15:30PM in Conference Room 325

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Melvin Burton	Individual	Oppose	No

Comments: I cannot support this bill because there has been no significant input from the physician community. The bill as written robs the medical staff of their right to self-govern.

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THE HAWAII STATE HOUSE OF REPRESENTATIVES  
The Twenty-Seventh Legislature  
Regular Session of 2013

COMMITTEE ON CONSUMER PROTECTION & COMMERCE  
The Honorable Rep. Angus McKelvey, Chair  
The Honorable Rep. Derek Kawakami, Vice Chair

**LATE**

DATE OF HEARING: Monday, February 11, 2013  
TIME OF HEARING: 3:30 p.m.  
PLACE OF HEARING: Conference Room 325

**TESTIMONY ON HB1484 HD1 RELATING TO THE HAWAII HEALTH  
SYSTEMS CORPORATION**

By DAYTON M. NAKANELUA,  
State Director of the United Public Workers,  
AFSCME Local 646, AFL-CIO ("UPW")

My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive representative for approximately 14,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 1 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

The UPW strongly opposes HB1484 HD1 relating to the Hawaii Health Systems Corporation. We are concerned that as a result of this measure, jobs will be lost at a time when job growth is badly needed and that it will be increasingly challenging to recruit and retain qualified employees who can provide critical health services. While we recognize the complexity of the situation, we do not feel that this bill is a move in the right direction.

Thank you for the opportunity to testify on this measure.

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON CONSUMER PROTECTION  
& COMMERCE  
ON  
HOUSE BILL NO. 1484, H.D. 1

February 11, 2013

**LATE**

RELATING TO THE HAWAII HEALTH SYSTEMS CORPORATION

House Bill No. 1484, H.D. 1, makes the following amendments to Chapter 325F, HRS, which governs the Hawaii Health Systems Corporation (HHSC): establishes a new personnel system; creates new collective bargaining units; changes the regional chief executive officers from voting to nonvoting members; and clarifies powers of the HHSC board and regional boards.

The Department of Budget and Finance opposes this measure for the following reasons:

1. HHSC is already recognized as a separate public employer jurisdiction pursuant to Section 89-2, HRS. As such, HHSC already has the authority to negotiate supplemental agreements to existing collective bargaining agreements under Section 89-6(e), HRS. HHSC has been operating under a revenue shortfall and collective bargaining agreements for HHSC employees have been funded by the State general fund. As long as the State and the general fund remains responsible for covering HHSC's collective bargaining costs, the Governor should have an equal and significant voice in collective bargaining negotiations.
2. Presently, HHSC is exempted from the provisions of Chapter 37D, HRS, if a financing agreement is less than \$5,000,000 and the aggregate in any fiscal

year does not exceed \$25,000,000. House Bill No. 1484, H.D. 1, removes these dollar limits; thus, enabling HHSC to enter into financing agreements without any financial oversight from the State. Considering that the State continues to be responsible for a number of long-standing liabilities of the System, any revision that removes State oversight, but leaves State liability is not tenable.



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

*"Quality Health Care for All"*

**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 1484 HD1, Relating to the Hawaii Health Systems Corporation. Amends the governance structure of HHSC. Makes the regional chief executive officers nonvoting members. Establishes the HHSC personnel system and new collective bargaining units. Delineates the HHSC Board's and regional boards' powers. Effective July 1, 2050.**

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

**LATE**

Hawaii Health Systems Corporation (HHSC) supports the intent of HB 1484 to restructure HHSC by clarifying the roles of the HHSC board and regional boards and modifying the corporate board structure, in addition to giving HHSC separate bargaining units. The HD1 version of the bill does the following:

1. Changes corporate board structure. Regional Chief Executive Officers (RCEOs) become nonvoting members. There is no other change to the board structure or appointment process; therefore, there are only 8 voting members. As before, each regional system board (RSB) appoints one voting member, with the exception of Maui, which continues to appoint 2. One at large is appointed by the governor, and the director of health remains a voting member. One other change: one board member "shall" be a physician.
2. Corporate board powers are altered to give the corporate board additional power to amend, reject, or approve regional and facility budgets and the corporate board and regional boards together hire and fire RCEOs. Budgetary guidelines are established upon consultation with the regional system boards via the system policy committee. The biannual review of the corporate office services is modified to state that the purpose of the meeting is to determine what 'additional' services the regions require from the corporation in addition to the corporate functions needed to implement chapter 323F. When allocation of corporate office costs cannot be reached by a vote of the regions, the corporate board has final decision making power.

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3. Clarifies that HHSC is the sole employer with collective bargaining negotiating authority.

4. Regional board powers are separated out of the statute from the corporate board powers in order to clarify exactly what each type of board has control over. All RSB powers must be exercised consistent with corporate policies and procedures, as in the current law. Most of the powers of the RSBs remain with the regions. Regions have day to day operational responsibilities and decision making authority. The RSBs remain the governing body for medical staff matters. Custodial control over facilities, property, and employees remains with the RSBs. The RSBs also retain decision making authority over how funds are used within their respective regions. Regions can lend or give money to other regions with corporate board approval.

5. The bill sets up separate bargaining units for HHSC employees, with the Governor and HHSC having equal votes for those units. Amendment of several laws and new sections of 323F were needed to effectuate this change.

6. Obsolete provisions, such as the Management Advisory Committees (MACs.), were deleted.

7. The effective date is July 1, 2050.

Federal healthcare reform has changed the landscape of healthcare in the United States. It requires all health care systems to provide efficient, cost-effective, and high quality health services. Health care systems across the country, both large and small, are re-evaluating the structure of their governing bodies to be sure they are working in concert with one another and performing at the highest level. They are making changes to assure that their workforce is functioning efficiently. Finally, they are making changes in operations to encourage "systemness."

Status quo is not an option for any healthcare system, including HHSC. Representatives of regional and system boards are meeting and discussing the provisions of this bill. Some of the provisions are endorsed, such as the change of status of the regional CEOs to nonvoting status; others are still under discussion. The HHSC board of directors has not had the opportunity to review the bill nor has the board taken a position on the specific provisions in this bill. The board plans to meet again on February 20, 2013.

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

**LATE**

February 10, 2013

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

Testimony in **OPPOSITION** to  
**HB1484 HD1** – Relating to Hawaii Health Systems Corporation

Thank you for the opportunity to testify **in strong opposition to HB1484 HD1**. This bill amends the governance structure of Hawaii Health Systems Corporation (HHSC).

**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). I will be referencing this report extensively throughout my testimony.

**Comments regarding creation of a new “Hawaii health systems corporation personnel system”:**

In the current draft of the bill, Section 2 creates a new “Hawaii health systems corporation personnel system which establishes “a personnel system separate from the existing system for employees commencing employment on or after July 1, 2014.”

***The Stroudwater Report rejected a strategy of the creation of a dual employee structure.***

Excerpt from Page 8 of the 2009 Stroudwater Report

The study delineates five strategic scenarios that were considered and rejected, including the rationale for not pursuing these scenarios. Rejected scenarios include: 1) closure of the HHSC facilities and system; 2) re-integration with the Department of Health; 3) structuring HHSC's regions into county hospital district entities; 4) spinning the three PPS hospitals into private independent corporations while retaining the CAH facilities under State sponsorship; and 5) creating a dual employee structure that grandfathers current HHSC in the civil service structure and employs all new staff outside of it.

Excerpts from Page 33, 35 and 36 of the 2009 Stroudwater Report

**Draft Final Report: 12:15:09**

STROUDWATER ASSOCIATES

**Options Considered and Rejected**

Before introducing the reader to the options proposed for consideration by HHSC and government leaders, it is important to note that a variety of other options have been identified and rejected as part of the study process.

5. Pursue special purpose legislation that changes the employment structure of HHSC by "grandfathering" existing HHSC employees as civil service employees, and employs all new employees going forward using private employer standards negotiated with the unions.

This concept was introduced in the form of draft legislation in the prior legislative session. We have rejected this concept for several reasons. First, it creates what almost surely would be an unworkable operational bifurcation of employment models. Beyond the obvious administrative complexity and additional costs related to running two entirely different employment structures with different work rules, benefit structures, payment structures, etc. within HHSC, it holds an inherent likelihood of generating significant cultural friction within the organization. Giving employees different employment rules and benefits based upon date of employment has the potential to create both the perception and reality of unfairness. This is would lead to achieving a dissatisfied and demoralized work force.

Second, even given the political cost and administrative complexity of this idea, it only provides small levels of savings for the first few years. Calculations estimating the maximum savings impact of this approach over the first three years result in the following savings (see Appendix D for detailed work sheet):

Year 1: \$2.39M      Year 2: \$9.30M      Year 3: \$20.30M

In light of the administrative complexity, cultural issues, political risks, and long time period required to realize significant savings, we have rejected this option.



**Comments regarding restructuring of the corporation and regional boards of directors and authority:**

In the current draft of the bill, it proposes that the governance of HHSC return to more of a corporate-centric strategy.

Below are excerpts, beginning on page 65, from the Stroudwater Report that grades the Key Success Factors of a corporate-centric strategy:

**HHSC Strategic Options**

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 3: Corporate-Centric HHSC Strategy**

<b>Key Success Factors</b>	<b>Grade</b>	<b>Discussion</b>
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.

***The Stroudwater Report recommends a HHSC System Corporate Partnership strategy***

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, beginning on page 65, from the Stroudwater Report that grades the Key Success Factors of the fourth strategic option:

**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.

Thank you for this opportunity to testify in strong opposition of this measure.

Respectfully submitted.

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