

JAN 25 2017

A BILL FOR AN ACT

RELATING TO WAHIAWA GENERAL HOSPITAL.

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

1 SECTION 1. The Wahiawa Hospital Association was founded in
2 1944 in response to the healthcare needs of the community
3 following the attack on Pearl Harbor. Several years later,
4 Wahiawa General Hospital, a nonprofit, community hospital was
5 established to further meet the growing needs of central Oahu.
6 Wahiawa General Hospital is centrally located on the island of
7 Oahu, serving the surrounding communities of central Oahu and
8 the north shore. Today, the hospital is a fifty-three bed acute
9 facility and has one hundred seven beds in the long-term care
10 facility that are equipped for all levels of patient care and
11 accredited by The Joint Commission.

12 However, the hospital struggles to keep its doors open
13 without financial assistance from the State. Since the regular
14 session of 1983, the legislature has appropriated a total of:

- 15 (1) \$7,200,000 as a grant or subsidy for operating costs;
16 (2) \$3,750,000 in general obligation bond revenues for
17 capital improvement projects; and



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1 (3) \$84,600,000 in special purpose revenue bonds for
2 financing or refinancing construction projects.
3 Most notably during the regular session of 2016, the legislature
4 appropriated \$2,500,000 from the general fund as a subsidy for
5 operating costs of the hospital.

6 The legislature notes that additional assistance has been
7 provided to the hospital to enable it to continue to provide
8 medical care and services. For over fifteen years, the hospital
9 has attempted to merge or affiliate with a larger healthcare
10 system and relocate its current acute care services to a larger
11 service area, such as Koa Ridge, to create a sustainable
12 business model. This has been the desire and goal of the past
13 and present boards of directors of the hospital since the late
14 1990s. Recently, the hospital attempted to form an affiliation
15 with The Queen's Health Systems, Hawaii Pacific Health, Castle
16 Medical Center, and Sutter Health. However, after being unable
17 to affiliate with these local providers, the hospital management
18 and board of directors entered into a contract with Community
19 Hospital Corporation from Plano, Texas.

20 The Community Hospital Corporation is a tax-exempt
21 corporation dedicated to assisting rural hospitals in the United



1 States. The corporation specializes in critical access
2 hospitals and larger hospitals with up to one hundred fifty
3 beds. The corporation owns four acute care hospitals and
4 provides ownership and management services to ten long-term
5 acute care providers. In addition, the corporation provides a
6 wide range of consulting services to many hospitals on the
7 mainland and has substantial experience in successfully
8 operating and turning around troubled hospitals.

9 On October 21, 2016, the Wahiawa General Hospital board of
10 directors entered into a three-year contract with Community
11 Hospital Corporation to provide a benchmark based assessment of
12 the hospital's current operations, develop a new operating plan
13 or business plan, and provide a new chief executive officer and
14 new chief financial officer. It is important to note that the
15 corporation will be responsible for restructuring operations and
16 management services within Wahiawa General Hospital, but that
17 this contract does not establish an ownership agreement with the
18 hospital. The corporation will have the authority and
19 responsibility to recommend and implement changes to the daily
20 operations of the hospital, and the assessment and operating



1 plan will provide recommendations to enable the hospital to
2 operate sustainably to decrease state funding support.

3 The legislature further finds that Wahiawa General Hospital
4 has acquired debt over the years. For example, the debt owed to
5 the Pension Benefit Guarantee Corporation, which is primarily a
6 \$6,000,000 payment-in-kind note, will most likely require
7 restructuring at some point during the ten-year period of the
8 debt. A major balloon payment is due in approximately 8.5
9 years. The hospital recognizes that this issue will not be
10 resolved for a few years. It should be noted that the original
11 note to the Pension Benefit Guarantee Corporation was negotiated
12 down from approximately \$22,000,000 to the \$6,000,000 payment-
13 in-kind note plus a smaller fixed payment per year over ten
14 years.

15 Furthermore, debt owed to Central Pacific Bank was
16 restructured in May 2015 to fully amortize the remaining balance
17 in approximately five years. It should be noted that the
18 principal owed a few years ago was over \$6,000,000 and had been
19 reduced to below \$1,000,000 as of the end of October 2016. The
20 re-amortization agreement entered into in 2015 reduced the debt



1 service payments from approximately \$75,000 per month to
2 approximately \$24,200 per month.

3 The legislature further notes that a business plan is
4 necessary to facilitate a relocation of Wahiawa General
5 Hospital's medical services. The Wahiawa General Hospital
6 settlement agreement with Castle and Cooke, with respect to
7 twenty-eight acres of Castle and Cooke owned land, does not
8 permit banking of unused land for unspecified future use or sale
9 by the hospital. The hospital needs to have a defined and
10 approved business plan for certain medical services before
11 Castle and Cooke will transfer the respective parcels of land.
12 Also, the hospital will need to obtain certain permits for the
13 development before Castle and Cooke will transfer the land to
14 the hospital under the settlement agreement. The hospital has
15 until April 2018 to develop a business plan for presentation to
16 Castle and Cooke to transfer twenty-eight acres to the hospital
17 to be used for medical services.

18 Accordingly, the legislature finds that it is in the public
19 interest to keep Wahiawa General Hospital operating to serve the
20 residents of central Oahu and allow the hospital to continue



1 operations, preserve its hospital license, reorganize, relocate,
2 and settle its debts.

3 The purpose of this Act is to authorize the Hawaii health
4 systems corporation to bring Wahiawa General Hospital under its
5 governance through formal affiliation with the corporation and
6 to provide for transitional facilitation by the director of
7 health.

8 SECTION 2. Chapter 323F, Hawaii Revised Statutes, is
9 amended by adding a new section to be appropriately designated
10 and to read as follows:

11 "§323F- Acquisition of Wahiawa General Hospital. (a)
12 Wahiawa General Hospital on Oahu may be assimilated into the
13 corporation in a manner and to an extent that may be negotiated
14 between the corporation and Wahiawa General Hospital. After
15 assimilation, the physical assets and the ground lease of
16 Wahiawa General Hospital shall become the property of the
17 corporation, and Wahiawa General Hospital shall be operated by
18 the corporation.

19 (b) None of the liabilities of Wahiawa General Hospital
20 shall become liabilities of the corporation.



1 (c) The corporation, at its discretion, may retain any or
2 all medical and nonmedical employees of Wahiawa General
3 Hospital.

4 (d) The corporation, without regard to section 323F-31,
5 may adjust the levels of services provided by Wahiawa General
6 Hospital.

7 (e) Wahiawa General Hospital shall be exempt from chapter
8 102 and section 103-53, and its board of directors, if any,
9 shall be exempt from part I of chapter 92.

10 (f) The purchase of goods and services by or on behalf of
11 Wahiawa General Hospital shall be exempt from chapters 103D and
12 103F.

13 (g) Employees of Wahiawa General Hospital shall be exempt
14 from chapters 76, 87A, 88, and 89, and shall not be considered
15 as employees of the State."

16 SECTION 3. Wahiawa General Hospital; acquisition by Hawaii
17 health systems corporation; transitional facilitation by the
18 director of health. The director of health, as an interested
19 third party, shall act in the role of honest broker to help
20 facilitate the successful acquisition of Wahiawa General
21 Hospital by the Hawaii health systems corporation during the



1 transition period. To that end, the acquisition shall be exempt
2 from part VII of chapter 323D, Hawaii Revised Statutes, relating
3 to hospital acquisition.

4 SECTION 4. There is appropriated out of the general
5 revenues of the State of Hawaii the sum of \$ or so
6 much thereof as may be necessary for fiscal year 2017-2018 to
7 carry out the purposes of this Act, including the hiring of
8 necessary staff.

9 The sum appropriated shall be expended by the department of
10 health for the purposes of this Act.

11 SECTION 5. New statutory material is underscored.

12 SECTION 6. This Act shall take effect upon its approval;
13 provided that section 4 shall take effect on July 1, 2017, and
14 section 3 shall be repealed upon:

- 15 (1) The receipt of a letter by the director of health from
16 the board of directors of the Hawaii health systems
17 corporation officially notifying the director of
18 health that the acquisition of Wahiawa General
19 Hospital by the corporation has been successfully
20 completed; and



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1 (2) The issuance of a proclamation by the governor that
2 the events in paragraph (1) have occurred.
3

INTRODUCED BY:

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Report Title:

Wahiawa General Hospital; Acquisition; Hawaii Health Systems Corporation; Appropriation

Description:

Authorizes the Hawaii health systems corporation to bring Wahiawa General Hospital under its governance through formal affiliation with the corporation and to provide for transitional facilitation by the director of health.

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