



GOV. MSG. NO. 1203

EXECUTIVE CHAMBERS
HONOLULU

DAVID Y. IGE
GOVERNOR

June 10, 2015

The Honorable Ronald D. Kouchi,
President
and Members of the Senate
Twenty-Eighth State Legislature
State Capitol, Room 409
Honolulu, Hawai'i 96813

The Honorable Joseph M. Souki,
Speaker and Members of the
House of Representatives
Twenty-Eighth State Legislature
State Capitol, Room 431
Honolulu, Hawai'i 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

This is to inform you that on June 10, 2015, the following bill was signed into law:

HB1075 HD2 SD2 CD1

RELATING TO HEALTH
ACT 103 (15)

Sincerely,

DAVID Y. IGE
Governor, State of Hawai'i

RECEIVED
SENATE
OFFICE OF THE PRESIDENT

'15 JUN 12 P4:08

RECEIVED
THE SENATE
CLERK'S OFFICE
STATE OF HAWAII

'15 JUN 12 P5:10

Approved by the Governor

on JUN 10 2015

ORIGINAL ACT 103

HOUSE OF REPRESENTATIVES
TWENTY-EIGHTH LEGISLATURE, 2015
STATE OF HAWAII

H.B. NO. 1075
H.D. 2
S.D. 2
C.D. 1

A BILL FOR AN ACT

RELATING TO HEALTH.

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

1 SECTION 1. The purpose of this Act is to ensure that the
2 people presently served by the Maui regional system's health
3 care facilities continue to have access to health care services
4 in their communities by discontinuing the Maui regional system's
5 direct delivery of those services and transferring one or more
6 of the system's facilities to a private entity, or its wholly-
7 owned nonprofit management entity, to instead deliver those
8 services.

9 There is mounting evidence that making health care services
10 available in the communities where the Hawaii health systems
11 corporation presently serves requires more cost-effective use of
12 the facilities. Discussions to date suggest that through their
13 existing shared services, equipment, staffing, administrative
14 and technological experience and expertise, and economies of
15 scale, private entities may be able to use the corporation's
16 health care facilities more economically and efficiently..



1 In Act 182, Session Laws of Hawaii 2009, the legislature
2 authorized any of the regional systems or individual facilities
3 of the Hawaii health systems corporation to transition into a
4 new legal entity in any form recognized under the laws of the
5 State. With the approval and support of its regional system
6 board, the Maui regional system actively explored the
7 possibilities of a public-private partnership allowed under
8 section 323F-7.6, Hawaii Revised Statutes, including undertaking
9 three formal solicitation efforts to gauge the interest of
10 potential private partners locally and nationally.

11 In the course of the Maui regional system's exploration of
12 possible ventures with private partners, that regional system
13 contacted over twenty companies that operate in Hawaii and
14 elsewhere in the United States. In 2012, the Maui regional
15 system submitted confidential information and memoranda
16 describing the operational and financial landscape of its
17 facilities to twelve different companies and contacted an
18 additional eight entities to explore their interest in a
19 possible partnership. Over the course of these explorations,
20 the Maui regional system engaged in serious and robust
21 discussions with at least six preliminarily interested parties.



1 During the course of those efforts, the Hawaii health
2 systems corporation determined that the majority of potential
3 partners are hesitant to evaluate partnership opportunities
4 without enabling legislation that addresses certain structural
5 issues related to such a transaction. In recent years, the only
6 private entity outside Hawaii that was willing to invest
7 resources to evaluate a partnership opportunity concurrently
8 with the pursuit of enabling legislation eventually withdrew its
9 interest when such legislation was not adopted. Since then, the
10 Maui regional system has engaged in discussions with other
11 private entities, including one private entity that has
12 indicated its willingness to continue discussions concurrently
13 with the pursuit of enabling legislation.

14 Accordingly, this Act provides more detailed authority for
15 establishing public-private partnerships in the Maui regional
16 system to use one or more of the system's facilities more cost-
17 effectively by discontinuing the system's provision of health
18 care services at one or more of those facilities and
19 transferring the right and responsibility to manage, operate and
20 provide health care services in those facilities to one or more
21 private entities or their nonprofit management entities.



1 SECTION 2. Chapter 323F, Hawaii Revised Statutes, is
2 amended by adding a new part to be appropriately designated and
3 to read as follows:

4 "PART . PUBLIC-PRIVATE PARTNERSHIPS FOR THE DELIVERY OF
5 HEALTH CARE SERVICES AT MAUI REGIONAL SYSTEM FACILITIES

6 §323F-A Definitions. As used in this part:

7 "Nonprofit management entity" means a nonprofit
8 organization duly authorized to transact business in the State,
9 the sole shareholder or member of which is the private entity,
10 whose principal purpose is to manage and operate a medical care
11 facility.

12 "Pre-transfer facility" means a facility of the Maui
13 regional system prior to its transformation into a transferred
14 facility.

15 "Private entity" means a business organization duly
16 authorized to transact business in the State that:

- 17 (1) Has a certificate of need to operate one or more
18 licensed hospitals in the State obtained from the
19 state health planning and development agency pursuant
20 to part V of chapter 323D; or



1 (2) Is the sole member of a nonprofit management entity or
2 hospital that has a certificate of need to operate one
3 or more licensed hospitals in the State obtained from
4 the state health planning and development agency
5 pursuant to part V of chapter 323D.

6 "Transfer completion date" means the date specified as the
7 transfer completion date in an agreement entered into pursuant
8 to section 323F-B, including any extensions allowed under the
9 terms of such agreement.

10 "Transferred facility" means a medical facility of the Maui
11 regional system for which the right and responsibility to
12 manage, operate, and otherwise provide health care services at
13 the facility is transferred to a private entity or its nonprofit
14 management entity pursuant to this part.

15 **§323F-B Transfer of right and responsibility to manage,**
16 **operate, and provide health care services in a facility of the**
17 **Maui regional system to a nonprofit management entity. (a)**
18 Notwithstanding any other law to the contrary, including but not
19 limited to section 27-1, section 76-16(b) and other sections of
20 chapter 76, chapters 78, 89, 89A, 89C, and 171, part V of
21 chapter 323D, and sections 323F-11 and 323F-31, the governor,



1 with the assistance of the chief executive officer of the
2 corporation, and the regional chief executive officer of the
3 Maui regional system, or their designees, shall negotiate with a
4 private entity to transfer the right and responsibility to
5 manage, operate and otherwise provide health care services at
6 one or more facilities of the Maui regional system, including
7 Maui memorial medical center, Kula hospital and clinic, and
8 Lanai community hospital, to a nonprofit management entity
9 wholly-owned by the private entity; provided that the private
10 entity submitted a statement of interest in response to a notice
11 published in accordance with section 1-28.5 by the Maui regional
12 system board, inviting private entities to submit statements of
13 interest in acquiring the right and responsibility to manage,
14 operate and otherwise provide health care services in one or
15 more of the Maui regional system's facilities.

16 (b) Any agreement negotiated by the governor and entered
17 into by the private entity and the governor, the corporation
18 board, and the Maui regional system board, shall, at minimum,
19 include a transfer completion date and a plan and schedule for
20 completing the transfer that includes:



- 1 (1) Provisions and deadlines for conducting and completing
2 due diligence;
- 3 (2) Provisions and a deadline to terminate the agreement
4 before a transfer is completed, at the parties'
5 respective option;
- 6 (3) Provisions for winding-down operations at the
7 transferred facility or facilities and for terminating
8 the agreement in the event that the lease entered into
9 pursuant to section 323F-D is terminated before the
10 lease expires or the private entity or its nonprofit
11 management entity abandons or otherwise discontinues
12 its provision of health care services in a transferred
13 facility; and
- 14 (4) Provisions to transfer or assign interests in
15 equipment and furnishings, including any leases for
16 the same; accounts receivable; medicare and other
17 provider agreements; business and commercial licenses
18 and registrations; intellectual property and goodwill;
19 administrative, financial, and medical records and
20 information; or any other interests or property of the
21 Maui regional system facility or facilities to be



1 transferred under this part, that the parties agree to
2 transfer or assign.

3 (c) On and after the transfer completion date for the
4 transfer of one or more facilities of the Maui regional system
5 to a private entity or its nonprofit management entity pursuant
6 to this part, the State, the corporation, and the Maui regional
7 system and its board shall cease to have any responsibility for
8 or control over the management and operation of the facility or
9 facilities transferred by the agreement pursuant to this part.

10 **§323F-C Approvals required.** Any documents associated with
11 the transfer of a Maui regional facility or facilities under
12 this part shall be subject to review by the attorney general and
13 the director of finance in their capacity to advise the
14 governor.

15 **§323F-D Real property; terms and conditions.** (a) The
16 corporation shall enter into a fixed-term lease with the private
17 entity or its nonprofit management entity to rent the real
18 property, including all improvements and fixtures on the
19 property, of the Maui regional system facility or facilities
20 that is to be transferred to the private entity or its nonprofit
21 management entity under this part.



1 (b) At minimum, the lease shall include the following
2 terms and conditions:

3 (1) The lease shall not be terminated other than for good
4 cause and upon a minimum of three hundred sixty-five
5 days prior written notice to ensure that the delivery
6 of health care services to the community served will
7 not be disrupted;

8 (2) During the term of the lease, the private entity or
9 its nonprofit management entity shall have exclusive
10 control of all matters related to the management,
11 operation, and provision of health care services in
12 the leased facilities, except as otherwise set forth
13 in the lease;

14 (3) The responsibility to oversee the performance of the
15 terms and conditions of the lease by the private
16 entity or its nonprofit management entity shall rest
17 with the Maui regional system board as the custodial
18 caretaker of the real property under section 323F-3.5;
19 and

20 (4) The corporation or the State shall retain ownership of
21 the leased property throughout the term of the lease.



1 **§323F-E Transfer or assignment of other business assets.**

2 Provisions to transfer ownership or assign the interest of the
3 corporation or the Maui regional system in some or all of the
4 equipment and furnishings of the facility or facilities
5 transferred to the private entity or its nonprofit management
6 entity under this part shall be included in the lease entered
7 into under section 323F-D.

8 **§323F-F Liabilities.** (a) The State, the Maui regional
9 system board, or the corporation, separately or collectively,
10 shall be responsible for any and all obligations incurred by the
11 facility or facilities to be transferred, the Maui regional
12 system, or the corporation prior to the transfer completion date
13 including any accounts payable, accrued paid time off, debt,
14 capital leases, malpractice liabilities, and other obligations
15 incurred before the transfer completion date. Any and all
16 liabilities of the pre-transfer facility that were transferred
17 to the corporation upon its creation by Act 262, Session Laws of
18 Hawaii 1996, all liabilities of the pre-transfer facility
19 related to collective bargaining contracts negotiated by the
20 State, and the liability for all current outstanding post-



1 employment benefits of the regional system or the corporation
2 shall remain the responsibility of the State.

3 (b) All liabilities arising out of a transferred
4 facility's management and operation in a transferred facility,
5 on or after the transfer completion date, shall be the
6 responsibility of the private entity or its nonprofit management
7 entity.

8 **§323F-G Employment, wages, and benefits.** (a) The
9 corporation and the unions representing employees of the
10 facility or facilities shall meet to discuss the impact of a
11 transfer on the employees and the feasibility of tempering the
12 adverse effect of layoffs by amending the employees' collective
13 bargaining agreements pursuant to section 89-8.5.

14 (b) The employees working at a transferred facility shall
15 be subject to laws and regulations that apply to private sector
16 employees. The employees of a private entity or its nonprofit
17 management entity shall not be governed by state laws that apply
18 to public officers and employees of the State including but not
19 limited to section 76-16(b) and all other sections of chapter
20 76, chapters 89, 89A, and 89C, and any other laws and



1 regulations that govern public or government employment in the
2 State.

3 (c) The private entity or its nonprofit management entity
4 shall offer all employees of the pre-transfer facility,
5 employment for a period of no less than six months after the
6 transfer completion date.

7 (d) No employee of the corporation who is separated from
8 service as a result of implementation of an agreement and
9 transfer under this part shall suffer any loss of any previously
10 earned rights, benefits or privileges.

11 (e) Subject to subsection (c), the private entity or its
12 nonprofit management entity shall take all reasonable steps
13 necessary to provide for a smooth transition of employees from
14 state employment to private employment by the private entity or
15 its nonprofit management entity at a transferred facility.

16 **§323F-H Operating support.** (a) Without regard to chapter
17 42F, the private entity or its nonprofit management entity to
18 which one or more of the facilities of the Maui regional system
19 has been transferred pursuant to this part may seek funds from
20 the State for its operating costs, as defined in section 37-62,
21 of a transferred facility by preparing a budgetary request in



1 accordance with procedures and criteria established by the
2 director of finance. In no event shall the amount requested
3 exceed the amount appropriated for the operating costs of the
4 Maui regional system for the 2014 fiscal year. The director of
5 finance shall review the request and may include some or all of
6 the amount requested in the executive budget of the department
7 of health. Any appropriation made in response to the request
8 shall be subject to the allotment system generally applicable to
9 all appropriations made by the legislature. The department of
10 health shall be responsible for transferring the funds allotted
11 to the private entity or its nonprofit management entity for
12 expenditure.

13 (b) To qualify to request funds from the State under this
14 section, the private entity or its nonprofit management entity
15 to which one or more of the facilities of the Maui regional
16 system has been transferred pursuant to this part shall satisfy
17 the following standards and conditions:

18 (1) Be duly authorized to transact business in the State,
19 and determined and designated to be a nonprofit
20 organization by the Internal Revenue Service;



- 1 (2) Be licensed and accredited, in accordance with
2 federal, state, or county statutes, rules, or
3 ordinances, to conduct the activities for which
4 funding is sought;
- 5 (3) Have a governing board whose members have no material
6 conflict of interest and serve without compensation;
- 7 (4) Have bylaws or policies that describe the manner in
8 which business is conducted, prohibit nepotism, and
9 provide for the management of potential conflict of
10 interest situations;
- 11 (5) Be in compliance with all of the requirements of
12 chapter 323D with respect to the transferred facility
13 and any other health care facility it operates;
- 14 (6) Submit tax clearances from the director of taxation
15 and the Internal Revenue Service to the effect that
16 all tax returns due have been filed and all taxes,
17 interest, and penalties levied or accrued against have
18 been paid;
- 19 (7) Submit to an annual audit, disclose revenue
20 projections, and prepare an annual internal
21 performance audit and itemized financial statements,



1 including reimbursement rates, with respect to the
2 transferred facility, to the extent practicable, in
3 the same manner as described in section 323F-22; and
4 (8) Submit its annual budget with respect to a transferred
5 facility to the legislature for review at least twenty
6 days prior to the convening of the regular legislative
7 session.

8 **§323F-I Capital project support.** (a) Without regard to
9 chapter 42F, the private entity or its nonprofit management
10 entity to which one or more of the facilities of the Maui
11 regional system has been transferred pursuant to this part may
12 seek funds from the State for capital expenditures, as that term
13 is defined in section 37-62, for a transferred facility for each
14 or all of the first ten years of the lease entered into under
15 section 323F-D. Each year's request for funds shall be
16 submitted to the director of finance in accordance with
17 procedures and criteria established by the director and shall be
18 reviewed by the director and comptroller with pertinent capital
19 planning and expenditure documents and the capital planning
20 procedures supplied by the private entity or its nonprofit
21 management entity. The director of finance may include some or



1 all of the funds requested in the executive budget of the
2 department of health. Any appropriation made in response to a
3 request shall be subject to the allotment system generally
4 applicable to all appropriations made by the legislature. The
5 department of health shall be responsible for transferring the
6 funds allotted to the private entity or its nonprofit management
7 entity for expenditure.

8 (b) After the first ten years of the lease entered into
9 under section 323F-D, the nonprofit management entity and the
10 private entity shall be responsible for funding all capital
11 expenditures of the transferred facility.

12 (c) To qualify to request funds from the State under this
13 section, the private entity or its nonprofit management entity
14 shall satisfy all of the standards and conditions set out in
15 section 323F-H(b). In addition, the transferred facility shall
16 demonstrate that the capital projects constructed, operated, and
17 maintained with the requested funds will be in compliance with
18 all federal, state, and county health care planning laws and
19 rules, land use and zoning laws and rules, environmental laws
20 and rules, and building and health codes, rules, and
21 regulations.



1 **§323F-J Strategic commitment during term of lease.** (a)

2 The private entity shall be committed to supporting the
3 nonprofit management entity and any transferred facility to
4 achieve excellence and improve access to services in Maui
5 county.

6 (b) The private entity and the nonprofit management entity
7 shall establish a governance and management structure for a
8 transferred facility that seeks to improve its performance. The
9 private entity and the nonprofit management entity shall apply
10 efficiencies of scale, consolidation of shared services, and
11 administrative and technological expertise to improve the health
12 care performance of a transferred facility.

13 (c) The private entity and the nonprofit management entity
14 shall support a transferred facility in:

- 15 (1) Expanding primary care access throughout Maui;
- 16 (2) Recruiting and rotating specialists to fill current
17 service gaps;
- 18 (3) Extending the private entity or its nonprofit
19 management entity's service line coordination to Maui,
20 including but not limited to cancer, cardiology,



- 1 orthopedics, mental health, pediatrics, and women's
- 2 health services;
- 3 (4) Coordinating long-term care patients and reducing wait
- 4 lists;
- 5 (5) Upgrading facilities and equipment as needed to
- 6 provide high quality care and to enhance patient
- 7 experience; and
- 8 (6) Incorporating the Maui region into the private entity
- 9 or its nonprofit management entity's value-based
- 10 contracting initiatives to better align quality and
- 11 cost initiatives."

12 SECTION 3. Section 89-8.5, Hawaii Revised Statutes, is

13 amended to read as follows:

14 **"§89-8.5 Negotiating authority; Hawaii health systems**

15 **corporation.** Notwithstanding any law to the contrary, including ✓

16 section 89-6(d), the Hawaii health systems corporation or any of ✓

17 the regional boards, as a sole employer negotiator, may ✓

18 negotiate with the exclusive representative of any appropriate ✓

19 bargaining unit and execute memorandums of understanding for ✓

20 employees under its control to alter any existing or new ✓

21 collective bargaining agreement on any item or items subject to ✓



1 section 89-9[-]; provided that an alteration that intrudes /
2 beyond the jurisdiction of the Hawaii health systems corporation
3 shall be effective only if the employer of the governmental
4 jurisdiction intruded upon consents to the alteration in
5 writing."

6 SECTION 4. The governor shall inform the president of the
7 senate and the speaker of the house of representatives of the
8 transfer completion date specified in each agreement negotiated
9 and entered into pursuant to chapter 323F, part , Hawaii
10 Revised Statutes, by sending the president and the speaker each
11 a copy of each fully executed agreement.

12 SECTION 5. In codifying the new sections added by section
13 2 of this Act, the revisor of statutes shall substitute
14 appropriate section numbers for the letters used in designating
15 the new sections in this Act.

16 SECTION 6. Statutory material to be repealed is bracketed
17 and stricken. New statutory material is underscored.

18 SECTION 7. This Act shall take effect upon its approval;
19 provided that the amendment made to section 89-8.5, Hawaii
20 Revised Statutes, in section 3 of this Act shall be repealed one
21 year after the transfer completion date specified in an



1 agreement negotiated and entered into under chapter 323F, part
2 , Hawaii Revised Statutes, and section 89-8.5, Hawaii
3 Revised Statutes, shall be reenacted in the form in which it
4 read on the day prior to the effective date of this Act.

APPROVED this 10 day of JUN , 2015



GOVERNOR OF THE STATE OF HAWAII

