REPORT TO THE THIRTY-FIRST LEGISLATURE
STATE OF HAWAII
2022

RELATING TO THE TRANSITION OF THE OAHU REGIONAL HEALTH CARE SYSTEM FROM THE HAWAII HEALTH SYSTEMS CORPORATION INTO THE DEPARTMENT OF HEALTH

PREPARED BY
STATE OF HAWAII
DEPARTMENT OF HEALTH
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Executive Summary

The purpose of this report is to provide the results of the initial planning phase of Senate Bill No. 628, which passed as Act 212, SLH 2021 (hereinafter, the "Act"), which commenced the transition of the Oahu Regional Health Care System (hereinafter, "Oahu Region"), a part of the Hawaii Health Systems Corporation (hereinafter, "HHSC"), to the Department of Health (hereinafter, "DOH"). This transition includes the transition of the Oahu Region's property, including the Leahi Hospital and Maluhia facilities, employees, funding, and all other things necessary to the operation of the Oahu Region. This report describes the outcome of the planning phase of the transition and the recommendations based on the outcome.

The planning phase was led by a steering committee comprised of four members of the working group established in the Act. The steering committee oversaw both the broader working group and a consulting group. These groups formed workstreams based on the Oahu Region's major business functions. The workstreams met at least weekly to conduct the planning activities. The workstreams determined the estimated timeline to effectuate the transition from HHSC to DOH is two and one-half years, to ensure the technology integration, position and class specification transition, and vendor contracting transitions are completed in accordance with state laws, rules, and departmental policies. The planning phase was facilitated by RGP, a consulting firm. Throughout the process, we had four public meetings where we shared out updates on scope, timelines, costs, and alternative options. In accordance with Sunshine Law requirements, we gave a week notice prior to the meeting and allowed time for questions from the public.

Act 212 highlighted numerous benefits that could be recognized by both the Oahu Region and DOH upon completion of the transition of the Oahu Region into the DOH. The DOH would gain access to the Oahu Region's infrastructure and resources, could use the Oahu Region's vacant spaces to house lower acuity mental health patients from Hawaii State Hospital, thus increasing bed availability at Hawaii State Hospital for higher acuity admissions without the need for inter-agency agreements. The Oahu Region would gain stability of funding for its existing operations separate and apart from HHSC, ensure collective bargaining increases are funded, and remove dependence on the HHSC revenue-based general fund distribution method. Upon closer review, some of the perceived benefits may not be realized.

Costs to transition the Oahu Region to DOH include: 1) one-time costs incurred mostly during the transition period, and 2) ongoing costs incurred because of the transition. The estimated one-time cost to effectuate the transition to DOH is $4.1 million. The estimated ongoing additional costs are $3.7 million in fiscal year 2023, which will increase to $6.6 million annually by fiscal year 2026. Costs are related to conducting due diligence assessments, conducting detailed planning, transitioning employees, bidding and executing vendor contracts, completing the IT implementation, and maintaining all business functions in accordance with state laws, rules, and departmental policies. A significant portion of the anticipated transition costs are State or DOH permanent staffing increases to effectuate the transition and sustain the Oahu Region according to state laws, rules, and departmental policies and processes.

Background

In 1996, the Hawaii State Legislature passed Act 262 which united 12 public health care facilities, including Leahi Hospital and Maluhia, under one organization, the HHSC. Leahi Hospital and Maluhia, which comprise the Oahu Region, are both Medicare and Medicaid certified, and almost exclusively provide safety-net, long-term care and adult-day health services to patients who are unable to find care in private facilities. Leahi Hospital is licensed for 159 beds: 155 nursing home beds, dually certified as Skilled Nursing Facility (SNF) and Intermediate Care Facility (ICF), and four acute/tuberculosis beds. Maluhia has 158 licensed beds, dually certified as SNF and ICF beds. Most of the Oahu Region's patients rely on Medicaid to fund their care and would not be admitted to private facilities due to the low Medicaid reimbursement rates. The Oahu Region also provides care for incarcerated inmates released pursuant to compassionate care provisions.

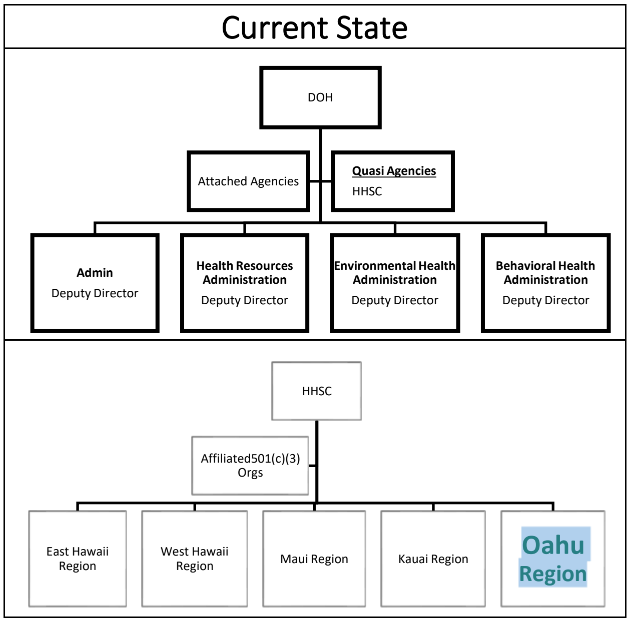
The DOH and Oahu Region have similar compatible missions. The DOH's is to protect and improve the health and environment for all people in Hawaii. The Oahu Region's mission is to provide the highest quality of life in long-term care. One of the DOH's guiding principles is to ensure that the DOH is the service provider of last resort for uninsurable populations and where there is no other satisfactory alternative. As described above, the Oahu Region is the service provider of last resort for most of its patients, making its operations well-suited within the DOH.

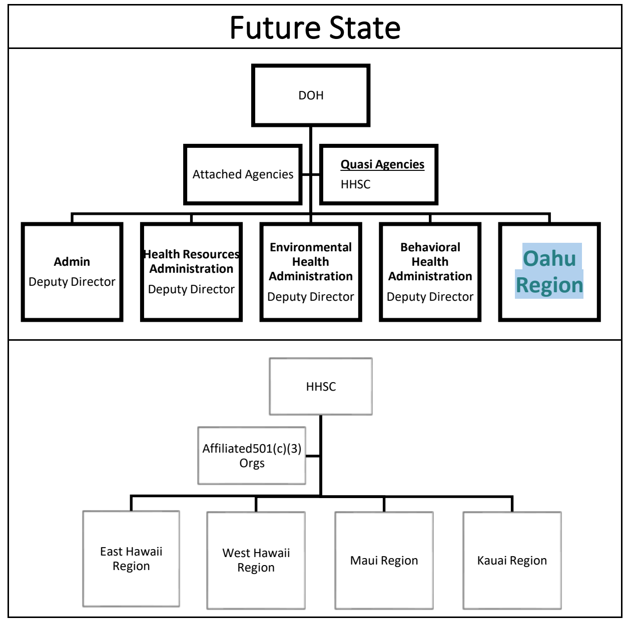
In July 2021, Act 212 commenced the transition of the Oahu Region in its entirety from the HHSC to the DOH no later than 12/31/22. The Act also enabled the Oahu Region, DOH, HHSC, and other Hawaii state agencies to manage and implement the processes required to effectuate the completion of the transition. The Act authorizes the DOH to conduct long-term care and substance abuse treatment at the Oahu Region's facilities. Amongst other things, the Act established a working group and consulting group to plan and implement the transition and appropriated money to fund the Oahu Region's operations during the transition period. The first phase of the transition included development of plans to implement the transition and proforma financial statements, both of which are summarized herein.

Section 1: Workstream Transition Plans

The transition planning methodology included the following steps: (1) identify the Oahu Region's major business functions, (2) form groups comprised of leaders of the business functions at the Oahu Region, DOH, and other state agencies if appropriate; (3) identify major tasks needed to effectuate the transition, (4) estimate the sequencing for and timeline to complete the major tasks, (5) estimate the cost to execute the tasks, and (6) estimate the costs to maintain the Oahu Region after the transition. This section of the report includes the high-level current and future state DOH and HHSC organization structure to show the transition of the Oahu Region to the DOH. This section also includes a summary of the anticipated costs required to effectuate the transition and sustain Oahu Region in the DOH. This section's sub-sections describe in additional detail the planning activities and results by major business function.

The Oahu Region's facilities' clinical functions and services being offered will remain the same. The focus of the transition was on moving corporate functions, such as HR, Finance, Contracting, IT and associate systems / applications into the DOH structure. Most of the integration costs and post integration expenses are due to the increased staffing needs on the DOH side. Currently these DOH corporate functions are operating at capacity and do not have any bandwidth to take on additional responsibilities without adding new positions.





Cost Estimate Summary			
Workstreams	**Transition Period Costs**	**Annual Post-Transition Costs**	**Key Cost Drivers**
HR	$ 2,915,000	$ 2,079,000	20 new positions on the DOH side to support employees transition on post-transition support
Finance, Accounting & Facilities	787,000	650,000	6 new positions on the DOH side and transition PMO support
IT Infrastructure & Systems	1,578,000	33,000	Project management and vendor cost to support transition
Compliance & Legal	706,000	518,000	Legal support during and post transition, compliance program effectiveness assessment and insurance tail
Vendor Transition & Contracting	3,424,000	1,682,000	20 new positions on the DOH side to support employees transition on post-transition support
Clinical Operations	215,000	-	Consulting services to review and updated P&Ps
Steering Committee	670,000	-	Transition program management and new service lines feasibility study
Totals	**$ 10,295,000**	**$ 4,962,000**	

Human Resources & Unions

Methodology

Transition planning for the Human Resources (hereinafter "HR") and Union functions for the Oahu Region was conducted by first identifying the leaders and collaborators in both organizations. The objective was to seamlessly transition the positions that support the Oahu Region to the DOH. The methodology was to first define the scope and then the major transition steps with estimates for time and resources required to complete the major transition steps.

The key stakeholders identified for HR and Unions included: Heather Ching-Manzano, HR Specialist, DOH, Human Resources Office (hereinafter "HRO"); Andrew Garrett, Deputy Director, Department of Human Resources Development (hereinafter "DHRD"); Sean Sanada, Chief Administrative Officer, Oahu Region; Juanita Lauti, Chief Human Resources Officer, HHSC; Wesley Tufaga, Union Agent, Hawaii Government Employees Association Union; and Radford Hirai, Hawaii Division Director, United Public Workers Union. These key stakeholders worked collaboratively under the direction of the steering committee to identify transition requirements and action items.

The methodology included determining the Oahu Region's position volume, evaluating the capacity of the existing HR staff that supports the DOH to determine what would be required to complete the transition and support the Oahu Region after the transition. The Oahu Region provided reports showing it has approximately 500 positions, which includes filled and vacant positions. To successfully transition this volume of positions, the DOH HRO anticipate requiring significant resources. The current HRO staff consists of 22 full-time positions, who are responsible for supporting the DOH's growing 3,200 positions. While the HRO position count has remained relatively static over the years, the DOH has experienced increases in positions and required actions, resulting in a backlog and delayed processing of actions which negatively impacts the ability of DOH Programs to effectively gain and retain its most critical resource – employees. Current HRO staff are working overtime to catch up to the current demand of the department. The work required to transition the Oahu Region's positions to the DOH cannot be absorbed by the current HRO staff. If the additional positions are not allocated to the HRO, the transition might not be successful and increased personnel costs through overtime costs will continue. Additionally, it could result in staff burnout, staff turnover, and increased exposure to potential grievances and lawsuits as a direct result of the HRO's inability to have adequate staffing to adhere to the requirements of collective bargaining agreements and/or requirements in federal and state laws.

Transition Scope

The scope of the HR transition includes all existing Oahu Region positions and relevant HR policies and procedures. The scope also includes migration/integration of position and employee data, as well as job classifications into the State Executive Branch and DOH. PeopleSoft, the HR management system used by the DOH would need to be updated to effectively manage transitioned employees' tenure. Part of this process would also entail a transfer of HR systems processes from Infor, the recently implemented HR platform currently used by HHSC, to the DOH processes. The scope of the transition includes communicating the transition plans to the Unions, consulting with the Unions, and effectively responding to any concerns from the Unions.

Timeline

Timeline for Transition of Human Resources and Union Functions												
Major Steps and Rationale for Duration	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Transitioning employees' classification analysis and mapping: The estimated duration is 9-12 months to analyze the ~500 inbound employee classification and map them to DOH's classification structure	X	X	X	X								
Submit initial Letter of Consultation to unions: The estimated duration is 7-9 months to submit the initial Letter of Consultation and address any subsequent concerns from the unions		X	X	X								
New classifications creation & approval in DOH: The estimated duration is 10-12 months to seek DOH approval for any new classifications and create them for the human resources system		X	X	X	X							
Personnel issues resolution and transition: The estimated duration is 10-12 months to address and resolve any personnel issues from the transition		X	X	X	X							
Open issues with pay and benefits remediation: The estimated duration is 12-15 months to address and resolve any pay and benefits issues					X	X	X	X	X			
Enter transitioning employees into the system: The estimated duration is 7-9 months to enter the required employee information into PeopleSoft								X	X	X		
Education & training for new employees: The estimated duration is 1-2 months to onboard the ~500 positions with an initial training with Peoplesoft and the time keeping system, post cutover											X	

Expected Transition Costs

The following table lists the anticipated costs required to effectuate the transition and sustain the transition of the HR functions. Costs primarily include increased staff needed by the DOH HRO. The figures listed in the table assume no additional service lines are added to the Oahu Region and that the transition will take two and one-half years. Inflation is not factored into the figures in the table.

Summary of Transition Costs for Human Resources and Union Functions			
Description	**Transition Period Costs**	**Annual Transition Cost Post-Effective Date**	**Business Justification**
Specialist	$1,367,000	$1,011,000	9 FTEs to perform position classification, review/eval of JD, eval exempt status
Technician	508,000	339,000	4 FTEs to review & process position action requisitions, support classification actions
HR Assistant	625,000	312,000	4 FTEs to support Specialist & Technicians, ensure actions are complete
Office Assistant	130,000	65,000	1 FTE for clerical support to HR Officer & HRO staff
Specialist	---	124,000	1 FTE for DHRD to manage active WC claims/HHSC previously outsourced
HR Assistant	---	78,000	1 FTE for DHRD to manage active WC claims/HHSC previously outsourced
Equipment Cost	60,000	---	1x cost – computer, software, workstation, desk
Overhead Supplies	42,000	30,000	Office supplies for additional staff
Facility Allocation	168,000	120,000	$6k per head or $500/month for facility allocation for additional staff
Education/ Training	15,000	---	Specialist level for 1.5 months for onboarding
Totals	**$2,915,000**	**$2,079,000**	

Vendor & Contracting

Methodology

Transition planning of the vendor and contracting functions for the Oahu Region was conducted by first identifying the leaders and collaborators in both organizations. The objective is to transition seamlessly and timely those contracts and vendor relationships vital to the successful operations of the Oahu Region facilities under the DOH. The methodology included defining the scope, identifying the major transition steps, determining the time estimates for the steps, and quantifying the costs required. The functional department leaders grouped the contracts by 1) those contracts that need to be transitioned, 2) those contracts that need to be replaced to comply with HRS (Hawaii Revised Statues) Chapter 103D and 103F, or 3) those contracts that will no longer be necessary due to redundancy with existing DOH contracts. The necessary contracts will be transitioned or resolicited under the direct ownership of the DOH conforming with the current DOH contracting policies and procedures and applicable State Procurement Office rules and policies. Those contracts determined not necessary will be terminated or otherwise not transitioned.

The key stakeholders identified for vendor and contracting functions included: Janis Morita, Chief, Administrative Services Office, DOH; Scott Kawai, Director of Contracts & Project Management, Oahu Region; Russell Taira, Executive Director of Contracts and Materials Management, HHSC; and Nancy DeLima, Associate Director of Contracts Management, HHSC. The leaders of contract management teams from DOH, HHSC-Oahu Region, and HHSC Corporate worked collaboratively with RGP and under the direction of the Steering Committee to identify transition requirements and action items.

Transition Scope

The scope of the transition is those contracts and vendor relationships vital to the Oahu Region.

Timeline

Timeline for Transition of Vendor and Contracting Functions												
Major Transition Steps and Rationale for Duration	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Review ~200 contracts and determine which contracts needs to be transitioned vs. replaced: The estimated duration is 7-9 months to analyze the ~200 Oahu Region and HHSC Corporate contracts with the functional department leaders to determine the next steps	X	X	X									
For the Oahu Region & Corporate contracts that can be transitioned, complete contracting process: The estimated duration is 18-21 months to complete the contracting process for those contracts that can be transitioned				X	X	X	X	X	X	X		
For the Oahu Region & Corporate contracts that can't be transitioned, complete solicitation and contracting process (pending allowability of transitioning contracts to DOH): The estimated duration is 20-24 months to complete the full contracting process for those that can't be easily transitioned				X	X	X	X	X	X	X	X	

Expected Transition Costs

The following table lists the anticipated costs required to effectuate the transition and sustain the transition of the vendor and contracting functions. The cost estimate below assumes all contracts require full solicitation to successfully transition all the Oahu Region's vendors. Costs primarily include increased staff needed by DOH. The figures listed in the table assume no additional service lines are added to the Oahu Region and that the transition will take two and one-half years. Inflation is not factored into the figures in the table. A full, detailed analysis of every contract currently utilized by the Oahu Region and how best to transition these contracts to the DOH will be performed during the implementation phase of the transition to provide a more precise transition cost estimate.

Summary of Transition Costs for Vendor and Contracting Functions			
Description	**Transition Period Costs**	**Annual Transition Cost Post-Effective Date**	**Business Justification**
General Professional - Supervisor	$518,000	$259,000	2 FTEs to perform contracts work, address policy & procedure issues, and liaison with other departments
Contracts Specialist	396,000	198,000	2 FTEs to perform contract review and work with DOH programs and AG office
Procurement & Supply Specialist	858,000	429,000	4 FTEs for procurement post contracts, follows contract, inventory of DOH purchases; follows up on procurement violations
Contract Assistant	294,000	147,000	2 FTEs to support staff of professionals, processing
Purchasing Tech	230,000	115,000	2 FTEs to support staff of professionals, processing
Emergency Hires	768,000	384,000	8 FTEs to provide processing support
Equipment Cost	60,000	---	1x cost – computer, software, workstation, desk
Overhead Supplies	60,000	30,000	Office supplies for additional staff
Facility Allocation	240,000	120,000	$6k per head or $500/month for facility allocation for additional staff
Totals	**$3,424,000**	**$1,682,000**	

IT Infrastructure & Systems

Methodology

Transition planning for IT was conducted by identifying the leaders and collaborators within HHSC's corporate function, HHSC's Oahu Region and DOH. IT Infrastructure and Systems encompasses all system wide and organizational specific systems utilized by the Oahu Region.

The first step was to identify key stakeholders and the current state of applications, services and inventory supporting the Oahu Region. The second step involved having collaborative discussions amongst the IT stakeholders to determine the future state including ownership, IT data/system migration, support, need for additional resources, time, and cost estimates. The third step was determining whether new IT hardware, applications, services, and resources would be required after the transition and including that in the cost estimates. The outcome of the steps is summarized in the timelines and cost summaries.

Key stakeholders who provided input into the transition steps, timeline, and costs included: Renee Lai, VP & Chief Information Officer, HHSC Corporate; Health Hollenbeck, Director of Technical Services, HHSC Corporate; Charles Hill, Director of IT Security, HHSC Corporate; Ryan Asato, Information Systems Specialist, Oahu Region; Vincent Hoang, Chief Information Security Officer, State of Hawaii, Enterprise Technology Services (ETS); and Steve Sakamoto, Information Technology and Chief, Health Information Systems Office, DOH.

Transition Scope

The scope includes IT hardware, applications, services, and resources that support the Oahu Region. All applications used solely by the Oahu Region will transition to DOH. DOH will become the owner of all transitioned applications and be responsible for staffing, support, and coordination of service level agreements, maintenance and support agreements, and other agreements/contracts between external vendors and other State IT support organizations, including HHSC Corporate and ETS.

Timeline

The IT workgroup determined that the transition duration for all applications, systems and inventory identified will take up to 21 months in duration. The table below provides additional details about the transition timeline.

Timeline for Transition of IT Infrastructure and Systems Functions

Major Steps and Rationale for Duration	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Application transition planning: The estimated duration is up to 9 months to develop the transition plans for all applications and services.	X	X	X									
Implement application transition plans: The estimated duration to transition all applications is expected to take up to 21 months with no additional IT resources.		X	X	X	X	X	X	X				
Contracting: IT will work with the contracting team to identify scope of services and SLA for the applications		X	X	X								
Migration: This duration estimate represents the time to plan and migrate data			X	X	X	X	X	X				
System setup: This duration estimate represents the time to plan and setup new and existing applications			X	X	X	X	X	X				
Training: This duration is for necessary training to IT and end users					X			X				

Expected Transition Costs

The following table lists the anticipated costs required to effectuate the transition and sustain the transition of the IT infrastructure and systems functions. Costs primarily include IT project managers needed during the transition period, increased systems costs, and potential increased vendor and support costs. The figures listed in the table assume no additional service lines are added to the Oahu Region and that the transition will take two and one-half years. Inflation is not factored into the figures in the table.

Summary of Transition Costs for IT Infrastructure and Systems Functions			
Description	**Transition Period Costs**	**Annual Transition Cost Post-Effective Date**	**Business Justification**
IT Project Manager	$894,000		2 IT Consultants full time for 2 years to manage planning and implementation of infrastructure and applications for transition.
OneStaff	5,000	25,000	Nurse scheduling system
VMWare	9,000		Virtual server licenses
Healthicity	10,000		Compliance system application transition costs
Harmony Health Data Archiver	10,000	8,000	One time set up fee and ongoing hosting fee for archived data
Vendor Transition Support	650,000		Estimated contingency for vendor data and system migration and support.
Totals	**$1,578,000**	**$33,000**	

Clinical Operations

Methodology

Planning for the clinical operations for the Oahu Region was conducted by identifying the leaders and administrators of Leahi Hospital and Maluhia, developing the transition timeline, and estimating anticipated transition costs. The objective was to seamlessly transition operations while maintaining the standard of patient care.

Key stakeholders who provided input into the steps, timeline, and costs included Tricia Won, Oahu Region, Administrator Maluhia; Aileen Sakado, Registered Nurse (hereinafter "RN"), Director of Nursing, Oahu Region, Maluhia; Vi Gonzales, RN, Oahu Region, Administrator Leahi Hospital; and Elizabeth Pyo, RN, Director of Nursing, Oahu Region, Leahi Hospital.

Transition Scope

The transition scope includes all current clinical operations services performed by the Oahu Region.

The Act describes the advantages of utilizing the Oahu Region's facilities to provide a missing component of a comprehensive behavioral health continuum of care that would bridge the gap between acute hospitalization and lower-level residential and community resources. The development of business cases for expanding the Oahu Region's clinical services to fill this gap was considered during the planning. It was determined that detailed planning is recommended to quantify the required investment and anticipated revenue and expenses for the expanded clinical services.

Timeline

Timeline for Transition of Clinical Operations Functions												
Major Transition Steps and Rationale for Duration	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Review of current license and P&Ps for name change: The estimated duration is 4-5 months to review license, certification, and P&P's for both Leahi and Maluhia to meet DOH requirements.	X											
Transition policies and procedures to DOH, as needed: The estimated duration is 12 months to implement changes, create new, communicate, and train staff on P&Ps		X	X	X	X							
Transition licenses to DOH, as needed: The estimated duration is 12 months to implement changes, create new, communicate, and train staff on licenses.		X	X	X	X							
Update or obtain new licenses: The estimated duration is up to 12 months depending on new license requirements						X	X	X	X			
Work with DOH IT to implement new IT clinical issues support system: The estimated duration is up to 6 months to identify, implement and train staff for a 24/7 Help Desk system implement and train staff for a 24/7 Help Desk system									X	X		

Expected Transition Costs

The following table lists the anticipated costs required to effectuate the transition and sustain the transition of the Clinical Operations functions. The sole cost includes a healthcare consultant to assist with the review and update of clinical operations policies and procedures. The figures listed in the table assume no additional service lines are added to the Oahu Region and that the transition will take two and one-half years. Inflation is not factored into the figures in the table.

Summary of Transition Costs for Clinical Operations Functions			
Description	**Transition Period Costs**	**Annual Transition Cost Post-Effective Date**	**Business Justification**
Healthcare Consultant	$215,000		Estimated 1,000 hours of work review and update of P&Ps
Total	**$215,000**	**$0**	

Compliance & Legal

Methodology

Transition planning for the Oahu Region's compliance and legal activities was conducted by identifying the compliance and legal leaders at HHSC and their counterparts within the State of Hawaii, identifying the current activities performed for the Oahu Region, estimating the duration of time required to transition responsibilities from HHSC to State of Hawaii departments, and estimating the costs to transition responsibilities and to perform activities after the effective date. The Oahu Region's compliance activities are primarily performed by the Oahu Region director of regulatory and operational affairs, who is also referred to as the regional compliance officer. Compliance is supported by the Oahu Region BoD, Quality Assurance, Credential, & Compliance/Risk Committee, Oahu Region CEO, Oahu Region Chief Financial Officer and HHSC Corporate Compliance Officer. While the DOH does not have a chief compliance officer, it does have multiple offices that perform compliance functions, including the HIPAA Compliance Office and EEO/AA Office. Additionally, other state entities such as the DAGS Risk Management Office and the Office of Enterprise Technology Services perform compliance functions.

Transition Scope

All services provided by the HHSC Compliance Office and Compliance Committee to the Oahu Region and performed by the Oahu Region's Regional Compliance Officer are in the scope of transition. Additionally, to maintain the integrity of the Oahu Region's Compliance Program, compliance services provided by other HHSC departments are also included.

Timeline

Timeline for Transition of Compliance and Legal Functions												
Major Transition Steps and Rationale for Duration	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Compliance Program Requirements Mapping: The estimated duration is one month to map all current Oahu Region compliance activities to future state responsible and accountable parties in detail.	**X**											
Conduct Compliance Program Effectiveness Assessment: The estimated duration is nine months to contract with consulting firm and conduct assessment. Assessment is estimated to take six to eight weeks to conduct document review and evaluation, interview leadership and management, document data requests, receipt, and review, and prepare assessment report and recommendations.		**X**	**X**	**X**								
Compliance Program Remediation and Improvement: The estimated duration of 18 months provides time to collaborate with management to develop remediation plans, obtain resources, develop revised processes/procedures, implement revisions, and validate effectiveness.					**X**	**X**	**X**	**X**	**X**	**X**		
Develop/Revise and Implement Policies and Procedures: The estimated duration is 12 months to review legal and regulatory requirements specific to the Oahu region facilities and the DOH, revise the policies, collaborate with all stakeholders to draft operationalizable procedures, and develop adequate implementation plans.								**X**	**X**	**X**	**X**	
Develop Annual Compliance Workplan, Charter, & Program Documents: The estimated duration is five months to develop an updated Compliance Program charter, description, and other documents. It is also to review the risk assessment results, identify management's plans to mitigate/manage risk, and develop a risk-based workplan.									**X**	**X**		
Transition Insurance Coverages: Time frame for DAGS and DOH to obtain quotes and procure any insurance coverages for Oahu Region							**X**	**X**	**X**	**X**	**X**	
HIPAA Privacy and Security Walk-Through: Time frame to complete site visits and prepare reports with recommendations									**X**			
IT Security requirements gathering and assessment: Time frame to gather DOH IT Security requirements during implementation, and assess for effective implementation after transition.								**X**			**X**	
Transition open compliance investigations and issues: Time frame to extract any open compliance matters from the from HHSC Oahu Region system/files and load them into the DOH Oahu Region system/files										**X**	**X**	
Transition Language Access contract and plan: Time frame to discontinue use of HHSC vendor and plan and onboard to DOH's vendor and DOH's Language Access plan										**X**	**X**	
Compliance Program Education and Training: Time frame to provide revised Oahu Region Compliance training and DOH required trainings to all Oahu Region employees.										**X**	**X**	**X**

Expected Transition Costs

The following table lists the anticipated costs required to effectuate the transition and sustain the transition of the compliance and legal functions. Costs primarily include professional consultants to perform assessments and program remediation and transition tasks, permanent compliance, and legal support for DOH, and increased insurance costs. The figures listed in the table assume no additional service lines are added to the Oahu Region and that the transition will take two and one-half years. Inflation is not factored into the figures in the table.

Summary of Transition Costs for Compliance and Legal Functions			
Description	**Transition Period Costs**	**Annual Transition Cost Post-Effective Date**	**Business Justification**
Transition Consulting	$215,000		1000 hours of consultant support: 600 for Compliance Program Effectiveness Assessment, 400 for Compliance Program revisions
Compliance Program Specialist		80,000	Replace HHSC Corporate compliance support, act as liaison to DOH HIPAA Compliance Office, report incidents to DOH HIPAA Compliance Office, assist with HIPAA site evaluations.
EEO/AA Compliance Support		20,000	Supervisor position upgrade due to increase in responsibility for Oahu Region Facilities (oversight of 2500 employees will increase to ~3000)
IT Security Requirements Gathering/Assessment	43,000	65,000	Replace HHSC Corporate IT Security support. 500 hours of consultant support: 200 for gathering IT Security requirements and up to 300 for conducting IT Security assessment
Legal Support/Advice	250,000	300,000	Replace HHSC Corporate Legal support. Legal support and advice for the transition. 2 DAG FTE for Oahu Region post-transition.
Compliance Hotline & Incident Mgmt System	3500	3,000	Replace HHSC Corporate Compliance system. Costs include annual subscription cost and one-time set up fee
Other costs	194,000	50,000	Transition cost of $194k for insurance tail. Post-transition cost increase is due to reduction in volume discount for excluded party screening, language access services, and insurance. Increase x 4 in cost of cyber security insurance
Total	**$706,000**	**$518,000**	

Finance, Accounting, & Facilities

Methodology

Transition planning of the Finance, Accounting and Facilities area was conducted by first identifying the area leaders at HHSC and their counterparts within the State of Hawaii, identifying the current activities performed for the Oahu Region, estimating the duration of time required to transition responsibilities from HHSC to State of Hawaii organizations, and estimating the costs to transition responsibilities and to perform activities after the transition effective date. The objective is to transition seamlessly and timely transition those Finance, Accounting and Facilities related activities under the DOH.

The key stakeholders identified for Finance, Accounting, and Facilities included: Janis Morita, Chief, Administrative Services Office, DOH; Michael Hamamoto, Chief Financial Officer, Oahu Region; Tammy Dumlao, Director of Revenue Cycle, HHSC; and Annie Yonemoto, Director of Revenue Management, HHSC.

The leaders of the Finance, Accounting, and Facilities organizations from the DOH, Oahu Region, and HHSC Corporate worked collaboratively with RGP and under the direction of the steering committee to identify transition requirements and action items. The methodology was to first define the scope and then the major transition steps with estimates for time and resources required to complete the major transition steps.

Transition Scope

The scope of the finance and accounting transitions include all finance and accounting services performed by personnel at the Oahu Region, by vendors for the Oahu Region, and by HHSC Corporate. The scope also includes migrating to the accounting system used by the DOH.

The scope of the facilities included in the transition are all facilities owned or used by the Oahu Region.

Timeline

Timeline for Transition of Finance, Accounting, & Facilities Functions

Major Transition Steps and Rationale for Duration	2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Comprehensive Budget – 5 year Operating & 10-year Capital: The estimated duration of developing budgets are 6-12 months for a detailed assessment of cost and timing, followed up by an annual assessment in the following year	X	X	X	X			X	X				
Governor Approval: The estimated duration is 4-6 months to go through the Governor's office for review and approval			X	X			X	X				
Changes in Accounting Guidance Inventory Leases (GASB 87): The estimated duration is 1-2 months to ensure all existing and new leases conform to the current guidance for inventory leases				X				X				
Fixed Asset Inventory - Valuation & Physical count: The estimated duration is 2-3 months to physically count and properly value fixed asset inventory				X				X				
Migrate GL Point Click Care (EHR/GL) to DOH: The estimated duration is 5-6 months to migrate the GL data and verify for completion									X	X		
RCM Transition detailed planning with vendors: The estimated duration is 9-12 months to communicate and plan the revenue cycle management transition with vendors					X	X	X					
Negotiate and update RCM vendors contract to reflect new entity: The estimated duration is 4-6 months to negotiate and update those revenue cycle management vendor contracts for the new entity							X	X				
New Provider ID's (NPIs) and Tax IDs, if needed: The estimated duration is 1-3 months to retrieve and update DOH systems with any new provider ID and Tax ID information								X				
Update RCM internal systems with new NPIs and Tax IDs: The estimated duration is 4-6 months to retrieve and update DOH systems with any new revenue cycle management provider ID and Tax ID information								X	X			
Update 3rd party insurance contracts and re-credentialing: The estimated duration is 7-8 months to update any contracts and re-credentialing of any effected 3rd party insurance carriers								X	X	X		
Cutover with a clearing house: The estimated duration is 2-3 months to update and cutover with the DOH clearing house										X		
Complete remodeling assessment: The estimated duration is 2-3 months to complete the remodeling assessment of both Leahi and Maluhia	X											
Assessment for Leahi and Maluhia facilities, maintenance & repair: The estimated duration is 5-6 months to complete the facility assessments of both hospitals including any recommended maintenance and repairs	X	X										
Negotiate a new lease agreement with UH for the Leahi facility: The estimated duration is 4-5 months to negotiate a new lease agreement with the University of Hawaii for the Leahi facility under the new entity		X	X									
Renegotiate / replace repair & maintenance contracts for both facilities: The estimated duration is 20-24 months to renegotiate or replace the numerous repair and maintenance contracts for both Leahi and Maluhia hospitals			X	X	X	X	X	X	X	X		

__Execute ownership transition agreement with HHSC for the Maluhia facility__: The estimated duration is 2-3 months to execute an ownership transition agreement for the Maluhia facility with HHSC										**X**		

__Expected Transition Costs__

The following table lists the anticipated costs required to effectuate the transition and sustain the transition of the finance, accounting, and facilities functions. Costs primarily include professional consultants to perform assessments, permanent DOH employees, and increased cost reporting fees. The figures listed in the table assume no additional service lines are added to the Oahu Region and that the transition will take two and one-half years. Inflation is not factored into the figures in the table.

Summary of Transition Costs for Finance, Accounting, & Facilities Functions			
Description	**Transition Period Costs**	**Annual Transition Cost Post-Effective Date**	**Business Justification**
Cost Report-Maluhia		$8,000	Outsourcing of work currently performed by HHSC Corporate revenue cycle function.
Cost Report-Leahi		10,000	Outsourcing of work currently performed by HHSC Corporate revenue cycle function.
Uncompensated care calculations		5,000	Outsourcing of work currently performed by HHSC Corporate revenue cycle function.
Payer contract negotiations		5,000	Outsourcing of work currently performed by HHSC Corporate revenue cycle function.
Financial audit / assessment	50,000	100,000	Financial audit of Oahu Region during and after transition to ensure transparency to DOH.
Program Evaluation Analyst V	240,000	240,000	Required for state accounting function, based on current state hospital model.
Account Clerk V	161,000	161,000	Required for state accounting function, based on current state hospital model.
Payroll Clerk	121,000	121,000	Required for state accounting function, based on current state hospital model.
Transition Project Management	215,000		Complete move to remain in compliance with State and Federal/national standards (e.g., DOH, CMS, HRSA). 1000 hours of consultant support.
Totals	**$787,000**	**$650,000**	

Section 2: 5-Year Operating Budget Pro-Forma

__Methodology__

Pro forma financial statements were created using the Fiscal Year 2021 audited financial statements as a baseline. Anticipated changes in revenues and expenses were identified in the workstream assessments and incorporated in the projections. Changes in expenses that are required to complete the transition and expenses required to continue operations as a component of the DOH were combined in the pro forma statement of operations. Both transition period expenses and ongoing incremental operating expenses were also isolated and show the impact of the transition, as a component of total expenses. Inflation and benefit factors provided by the State Department of Budget and Finance (Department of Budget and Finance Memo 21-11) and HHSC FY2023 assumptions were applied to all amounts, where applicable. Patient days and payor mix were assumed to remain stable, with revenue only affected by inflation identified by the annual Medicaid Fee for Service Long Term Care Acuity rate (effective July 1, 2021) from Myers and Stauffer, LC, a firm outsourced from the state Med-Quest office. In total, the amounts are high level estimates, subject to modification as the transition expenses are incurred, any regulatory changes are made, new contracts are negotiated, and the business environment stabilizes.

In each workstream, new ongoing processes and transition specific tasks were identified and quantified based on job positions, by title and compensation estimates based on similar positions that currently exist in either the State of Hawaii or HHSC, where applicable. Start dates of those FTE's were estimated based on the workstream transition timelines. There were fifty-one full time employees identified (51 FTE's) as required to continue operations under the complete transition of supervision to the DOH. Other non-salary expenses included staffing expenses such as office supplies and administrative expenses currently incurred by the HHSC Corporate office.

Plan

The table below summarizes the operating budget for the five-year period beginning with the commencement of the transition planning.

5-Year Operating Budget Pro-Forma

Amounts in 000's	FYE2022	FYE2023	FYE2024	FYE2025	FYE2026
Operating Revenue					
Net Patient Service Revenue	$ 27,966	$ 28,133	$ 28,302	$ 28,472	$ 28,643
Other Operating Revenue	519	519	519	519	519
Total Operating Revenue	$ 28,485	$ 28,652	$ 28,821	$ 28,991	$ 29,162
Operating Expense					
Salaries & Benefits	$ 47,288	$ 53,113	$ 55,769	$ 60,156	$ 63,164
Professional & Purchased Svc	1,517	1,535	2,497	3,012	2,061
Medical Supplies and Drugs	1,123	1,170	1,219	1,270	1,324
Depreciation	2,170	2,170	2,170	2,170	2,170
Insurance	282	291	299	520	317
Other	3,966	4,444	4,557	5,388	4,816
Corporate OH Allocation	466	481	495	-	-
Total Operating Expenses	$ 56,812	$ 63,204	$ 67,006	$ 72,516	$ 73,852
Operating Income/(Loss)	$(28,327)	$(34,552)	$(38,185)	$(43,525)	$(44,690)
Depreciation Pension & OPEB	10,461	10,876	11,311	11,768	12,248
Est. Cash Deficit from Operations	$(17,866)	$(23,676)	$(26,874)	$(31,757)	$(32,442)

Transition Costs (*Included above*)					
One-time transaction expenses	$ 270	$ 370	$ 1,210	$ 2,086	$ 200
Recurring costs	-	3,738	4,023	6,361	6,653
Total transition related expenses	$ 270	$ 4,108	$ 5,233	$ 8,447	$ 6,853

Section 3: 10-Year Capital Improvement Plan Pro-Forma

Methodology

Pro forma capital budgets were created using estimates provided by HHSC Oahu Region management and discussions about normal wear and tear. The estimates used were drafted by a third-party architecture and engineering firm which performed an assessment of facilities based on information and survey data accumulated during site visits to both campuses, in addition to interviews of facility operations management. Expenses were quantified using best estimates of labor hours, wages and materials needed for design and construction. Inflation and contingency factors were also applied over the ten-year plan. It was noted that due to the timetable, regular deferred maintenance projects that are typically found on the annual facility assessments were unknown. A deferred maintenance estimate was included, in years where project specific assessments to address normal wear and tear, typical for the facilities, were available.

Plan

The table below summarizes the capital improvement plan for the period beginning with the commencement of the transition planning.

Summary of 10-Year Capital Improvement Plan

Fiscal Year	Leahi	Maluhia	Total Capital Budget
FYE2022	$ 6,358	$ 3,940	$ 10,298
FYE2023	5,926	3,527	9,453
FYE2024	8,430	3,378	11,808
FYE2025	6,709	1,736	8,445
FYE2026	13,044	1,823	14,867
FYE2027	5,688	2,989	8,677
FYE2028	8,197	2,010	10,207
FYE2029	5,815	2,111	7,926
FYE2030	10,841	2,216	13,057
FYE2031	6,255	2,327	8,582
TOTAL	$ 77,263	$ 26,057	$ 103,320

Section 4: Debts and Other Liabilities

Methodology

To identify existing liabilities, the Oahu Region chief officers were interviewed, and five years of audited financial statements were examined. There was no long-term debt as of fiscal year ending June 30, 2021. However, there were significant other long-term liabilities, totaling $161.7 Million. Those liabilities included $6.9 Million in cash advances from the State of Hawaii DOH, accrued pension of $84.8 Million, and other postemployment benefit (hereinafter "OPEB") liabilities of $59.8 Million, described further below. The remainder included expenses such as vacation, workers' compensation, and patient deposits. On an annual basis, a valuation of those liabilities is performed, and adjustments made accordingly. It was also noted that a $2.3 Million of liabilities from Federal CARES Act – Provider Relief and Funds received were fully earned and recognized during the year.

The $6.9 Million cash advances from the DOH, mentioned above, were assumed by HHSC Facilities at the date of their formation. Per Note 4 of the audited financial statements, "At June 30, 2021, and 2020, the Facilities did not have the ability and, thus, do not intend to repay the advances. Furthermore, management does not expect the State of Hawaii to demand payment of the advances in fiscal year 2022."

OPEB is quantified and described in the FY2021 audited financial statements, Note 12. Per the financial footnote, “The state provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88 SLH of 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees He4alth Fund, effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents.”

Plan

Prior to the carve out of HHSC Oahu Region a current valuation of Other long-term liabilities should be performed, along with an analysis of operating leases, which should be updated by the end of fiscal year 2022. The carve out should be performed by the State of Hawaii or an agent of the State to perform a valuation and accurately carve out those other liabilities, which would be recognized on the appropriate agency balance sheet. In addition, new lease accounting standards (Governmental Accounting Standards No. 87) will be effective June 30, 2022, and should be applied.

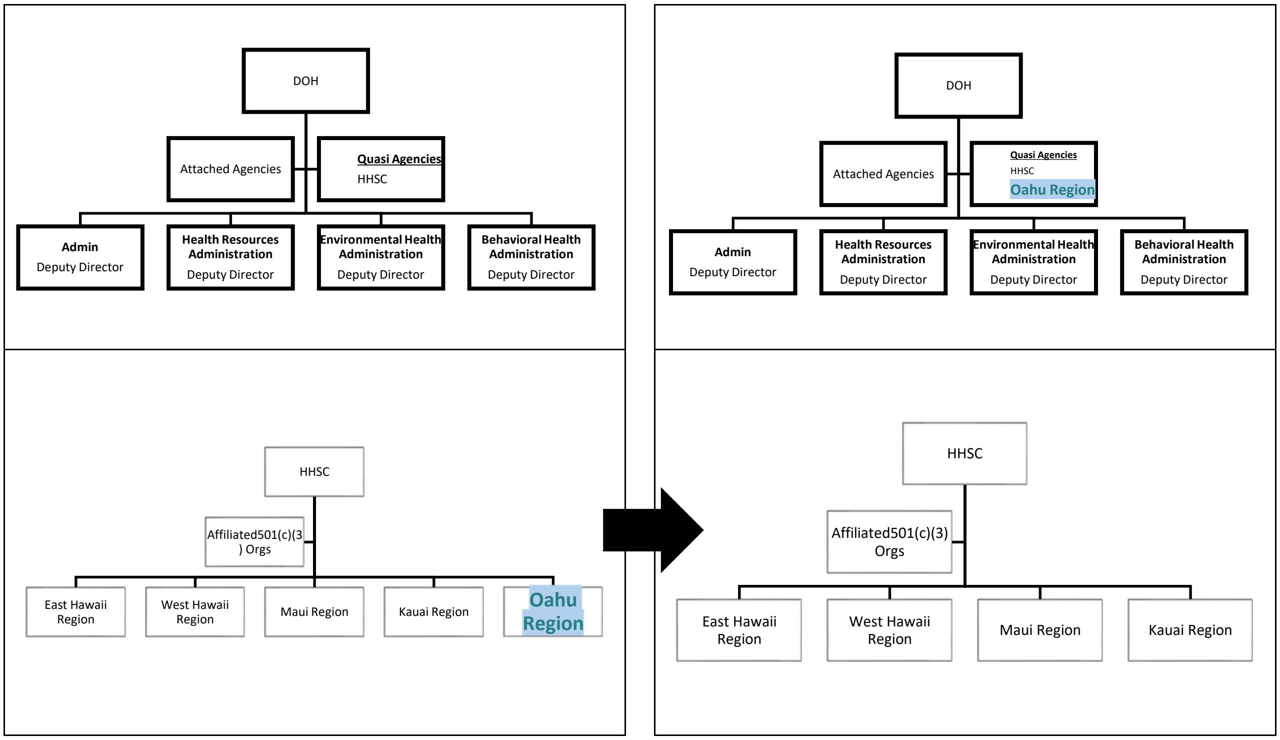
Conclusion/Recommendations

In summary, the transition of the Oahu Region from HHSC to DOH is estimated to take approximately two years and one-half with a recommended transition effective date of July 1, 2024. The cost to effectuate the transition is estimated to be $4.1 million and the estimated cost to sustain the transition is approximately $6.6 million, annually. Becoming a part of the DOH increases ongoing expenses primarily because various State or DOH departments require additional permanent staffing increases to conduct transition tasks and sustain the Oahu Region in accordance with state laws, rules, and departmental policies.

An alternate transition option with lower costs to effectuate the transition and sustain the Oahu Region has been included for consideration. This alternative option includes the Oahu Region becoming its own quasi-agency, as a distinct entity from HHSC. In this scenario, the Oahu Region would keep costs low by contracting IT and vendor management services from HHSC. The table below shows the 5-year operating budget proforma for the alternate option.

Under this alternate option, the Oahu Region’s clinical functions and services will remain the same. However, a feasibility study would be conducted to evaluate new service offerings to the Oahu Region’s communities, such as behavioral health and dialysis. The Oahu Region will perform corporate functions themselves and will rely on HHSC for functions such as IT support & maintenance, access to certain contracts such as Vizient GPO, and utilize HR software for employees’ management and payroll. For the alternate option, the high-level current and future state DOH and HHSC organization structure to show the transition of the Oahu Region to a quasi-agency of the DOH is shown below. Also included is a summary of the anticipated costs required to effectuate the transition and sustain Oahu Region to a quasi-agency of the DOH.

Current State	Future State - Alternate Option



5-Year Operating Budget Pro-Forma – Alternate Option

Amounts in 000's	FYE2022	FYE2023	FY2024	FY2025	FY2026
Operating Revenue					
Net Patient Service Revenue	$ 27,966	$ 28,133	$ 28,302	$ 28,472	$ 28,643
Other Operating Revenue	519	519	519	519	519
Total Operating Revenue	$ 28,485	$ 28,652	$ 28,821	$ 28,991	$ 29,162
Operating Expense					
Salaries & Benefits	$ 47,288	$ 49,652	$ 52,135	$ 56,006	$ 58,806
Professional & Purchased Svc	1,517	1,365	1,825	1,467	1,500
Medical Supplies and Drugs	1,123	1,170	1,219	1,270	1,324
Depreciation	2,170	2,170	2,170	2,170	2,170
Insurance	282	291	299	502	317
Other	3,966	4,707	4,154	4,399	4,402
Corporate OH Allocation	466	481	495	510	525
Total Operating Expenses	$ 56,812	$ 59,836	$ 62,297	$ 66,324	$ 69,044
Operating Income/(Loss)	$(28,327)	$(31,184)	$(33,476)	$(37,333)	$(39,882)
Depreciation, Pension & OPEB	10,461	10,876	11,311	11,768	12,248
Est. Cash Deficit from Operations	$(17,866)	$(20,308)	$(22,165)	$(25,565)	$(27,634)

Transition Costs (*Included above*)					
One-time transaction expenses	$ 270	$ 740	$ 521	$ 290	$ -
Recurring costs	-	-	3	1,453	1,520
Total transition related expenses	$ 270	$ 740	$ 524	$ 1,743	$ 1,520

Cost Estimate Summary for Alternate Option			
Workstreams	**Transition Period**	**Annual Post-Transition**	**Key Cost Drivers**
HR	$ -	$ 401,139	3 new HR positions at the facilities to support HR functions independent from HHSC + facility/equip costs
Finance, Accounting & Facilities	5,000	620,412	2 new finance/accounting positions + facility/ equip costs. 2 new revenue cycle positions + facility/equip costs. $128k - estimate for annual audits and rev cycle prof. services
IT Infrastructure & Systems	1,097,000	-	1 IT Consultant to manage planning and implementation of infrastructure and applications + $650k vendors contingency est.
Compliance & Legal	355,000	53,000	$254k insurance est. Need to investigate if Oahu region can participate in the HHSC insurance policy $108 compliance consulting and $50k transition legal support
Vendor Transition & Contracting	-	283,704	2 new contract specialist positions at Oahu Region + facility/equip costs
Clinical Operations	-	-	
Steering Committee	270,000	-	Consulting services to develop new service line scope, funding requirements, revenue projections and implementation planning
Totals	**$1,727,000**	**$ 1,358,255**	

After evaluating both options, RGP believes the Alternate Option would accomplish the goals outlined in Act 212 with significantly lower investment of funds and staffing than a transition into DOH. As such we recommend the Legislature proceed with setting up the Oahu Region as an independent quasi-agency of the DOH.