

HAWAII HEALTH SYSTEMS CORPORATION NOTICE OF AND REQUEST FOR EXEMPTION FROM CHAPTER 103D, HRS

EY 11-005

1. TO: HHSC Interim CEO and HHSC Chief Procurement Officer

2. FROM: Annie Yonemoto

Department/Division/Agency Pursuant to §103D-102(b)(4), HRS, and Chapter 3-120, HAR, the Department requests a procurement exemption to purchase the following:

3. Description of goods, services or construction: Subscription to Premier's QualityAdvisor(QA), SafetySurveillor (SS) and QUEST 2.0 for HHSC four larger hospitals, Hilo, KVMH, Kona and Maui.

4. Name of Vendor: Premier, Inc.
Address: Charlotte, NC

5. Price: No cost to HHSC, HMSA is paying for the subscription fees for the period from 1/1/11 to 9/30/14

6. Term of Contract: From: 1/1/2011

To: 09/31/2014

7. Prior Exemption Ref. No.

8. Explanation describing how procurement by competitive means is either not practicable or advantageous to the State:

As part of HHSC and HMSA LOA attached, HHSC's four larger hospitals, Hilo, Kona, KVMH and Maui will participate with the Premier's QA, SS and QUEST 2.0 program under terms consistent with other Hawaii hospitals. HMSA will pay the use and maintenance fees for Hawaii Hospitals associated with these three Premier modules through September 30, 2014. HMSA has chosen Premier as the vendor of choice, therefore in compliance with the terms of the LOA; HHSC must use these Premier products and do not have a choice of vendor.

9. Details of the process or procedures to be followed in selecting the vendor to ensure maximum fair and open competition as practicable:

See explanation above

10. A description of the agency's internal controls and approval requirements for the exempted procurement:

HHSC corporate procurement policies and procedures are maintained and updated periodically to address procurement delegation, methods of procurement, authorities to administer contracts and other procurement related matters. HHSC regions shall follow HHSC procurement policies when the procurement methods are conducted at a system level and executed by the HHSC CEO and as detailed within the respective procurement policies. The Subscription Agreement will go through a thorough review by both internal and outside counsel. In addition, the agreement will be reviewed and approved by each of the RCEO's and the Interim HHSC CEO.

11. A list of agency personnel, by position, who will be involved in the approval process and administration of the contract:

Name	Position	Involvement in Process	
Alice M. Hall	Interim HHSC CEO	<input checked="" type="checkbox"/> Approval	<input type="checkbox"/> Administration
Kay Richford	Sr. Contract Mgr	<input type="checkbox"/> Approval	<input checked="" type="checkbox"/> Administration
Annie Yonemoto	Dir	<input type="checkbox"/> Approval	<input checked="" type="checkbox"/> Administration
		<input type="checkbox"/> Approval	<input type="checkbox"/> Administration

12. Direct inquiries to: Department: HHSC Finance
Contact Name: Annie Yonemoto
Phone Number: 808-733-4155

Agency shall ensure adherence to applicable administrative and statutory requirements

13. I certify that the information provided above is, to the best of my knowledge, true and correct.

Edward M. Chu

12/17/10

Department Head (Print: Ed Chu)

Date

Reserved for CPO/Delegee Use Only

14 .Date Notice Posted: _____

The CPO is in the process of reviewing this request for exemption from Chapter 103D, HRS. Submit written objections to this notice to issue an exemption from Chapter 103D, HRS, within seven (7) calendar days or as otherwise allowed from the above posted date to: Chief Procurement Officer, HHSC, 3675 Kilauea Ave., Honolulu, Hawaii 96816

Chief Procurement Officer's comments:

*Exemption shall expire if & when
HMSA does not require use of Premier.*

15. APPROVED DISAPPROVED:

Alice M Hall

12/23/10

HHSC Chief Procurement Officer

Date

NO ACTION REQUIRED

HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

November 29, 2010

Mr. Charles Brown
Senior Manager
ECG Management Consultants, Inc.
4250 North Fairfax Drive, Suite 1010
Arlington, VA 22203

Dear Charles:

As discussed, this Letter of Agreement (LOA) is intended to document and confirm the final terms and provisions agreed upon by both parties, and will serve as the basis for amending the current Inpatient and Outpatient Hospital Agreement effective July 1, 2008, to form the "New Agreement."

The terms and provisions agreed upon are outlined below:

1. Extend the current Inpatient and Outpatient Hospital Agreement for four (4) years (October 1, 2010 through September 30, 2014), amended to include the revisions outlined below.
2. Include an outlier threshold of \$200,000 for DRG payments for each HHSC hospital effective the first of the month immediately following the date this LOA is fully executed. For cases exceeding the outlier threshold, HMSA's payment will be based on the appropriate DRG rate plus seventy-five percent (75%) of covered charges for covered service in excess of the outlier threshold.

Outlier threshold will be adjusted by a percentage equal to any percentage changes in HHSC facility specific Charge Master related to services covered under the Agreement. (For example: A ten percent (10%) increase in Maui Memorial Medical Center's charges would result in a ten percent (10%) increase in its outlier threshold to \$220,000.)

3. HHSC's four larger hospitals (Maui, Kona, Hilo and KVMH) will participate with the Quality Advisor, Safety Surveillor and Quest 2.0 programs under terms consistent with other Hawaii hospitals. HHSC will make best efforts to implement the programs no later than the end of the first contract year unless circumstances beyond its control arise that prevent or delay the implementation. Participation will continue through the term of the New Agreement. This requirement will terminate if no other Hawaii hospitals are participating with Premier. HMSA will pay the use and maintenance fees associated with these three Premier modules for four (4) years.

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4. The financial terms of this agreement include three (3) components as follows:

- i. Hospital Pay-For-Performance (P4P)
- ii. Fixed Fee-For-Service increase
- iii. Quality Improvement Investment

- 4a. Payments under Hospital Pay-For-Performance (P4P) component will be a fixed amount per contract year to be paid on a quarterly basis after the end of each quarter. Actual payment amounts will be determined based on HHSC facility and or region specific performance in each year of the contract under the measures described in Exhibit A, which are in draft form as the measures are subject to further negotiation by the parties. The "Actual" annual P4P payments are subject to a "Maximum" and "Floor" amounts outlined in Exhibit B.

The Maximum fixed dollar amount per contract year represents the total payment obtainable based on achieving a one hundred percent (100%) score under the performance measures in that contract year. The Maximum fixed dollar amount will be the basis for determining the Actual payment amounts based on HHSC' facility specific actual performance under the measures in each contract year. (For example, if Hilo Medical Center achieves 75% of the possible points under the P4P program in any given year, then the Actual payment will be 75% of the Maximum amount allocated to Hilo for that year.) Facility specific maximum and floor allocations will be proportionate with each facility's percentage of CY 2009 HMSA eligible charges relative to total HMSA eligible charges for HHSC during CY 2009. The Floor fixed dollar amount represents the minimum payment to be made within each contract year under the performance measures outlined in Exhibit A, and will be paid within 15 days after the end of each quarter during each contract year. HMSA and HHSC representatives will commit to negotiating a methodology for determining an interim quarterly incentive payments for the P4P incentive amount above the floor and the allocation of those incentive payment by HHSC facilities. If in any contract year, the Actual performance is greater than the floor, HMSA will make a settlement payment within 180 days of the end of each contract year.

- 4b. The Fixed Fee-For-Service increases effective January 1 of each Calendar Year (CY) are listed in Exhibit C. The services listed are as defined in the current Inpatient and Outpatient Hospital Agreement.
- 4c. HMSA will provide HHSC with an annual Quality Improvement Investment (QII) totaling \$2 million over the four (4) contract years. The maximum QII payable in each calendar year during the term of the New Agreement are listed in Exhibit D. QII must be expended toward efforts directly associated with support of the Beacon Grant initiatives on the Big Island and implementation of the Premier Quest program. Unused investment funds in any given year may be carried over into subsequent years; however funds may not be rolled forward into earlier years. All funds must be expended within the term of the Agreement. Specific uses of the QII are subject to

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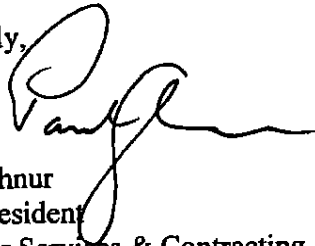
HMSA's prior written approval and will be based on actual expenses reflected in supporting documentation as requested by HMSA.

5. Sub-section d. will be added to Section 2.19 of the Inpatient and Outpatient Hospital Agreement to read as follows:
 - (d) Participating Hospital shall provide or facilitate HMSA's access to any health information exchange, depository, or similar electronic system for sharing medical records (Exchange) containing Participating Hospital medical records. Participating Hospital shall allow such access when it is permitted by the policies and procedures of the entity or parties participating in the Exchange. Such access by HMSA shall be for purposes allowed by the Health Insurance Portability and Accountability Act (HIPAA).
6. Sections 5.2 (b) and 3.4 (b) will be amended to reflect a time frame of 18 months instead of 24 months.
7. The financial terms of this LOA will be implemented upon execution of this LOA with the understanding that this Letter of Agreement constitutes the complete and final terms agreed to by both parties.
8. HMSA will add a procedure to the e-Library that addresses the process for appealing adverse determinations of medical necessity.

If the outline above is consistent with your understanding, please have this letter signed and return it to HMSA for execution. A copy of the fully executed letter will then be returned to you for your records.

If you have any questions, please feel free to call me at (808) 948-5196 or Susana Casaquit at (808) 948-5469.


Sincerely,



Paul Schnur
Vice President
Provider Services & Contracting

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HAWAII MEDICAL SERVICE
ASSOCIATION




Paul K. Schmir
Vice President

12-9-10

Date


HAWAII HEALTH SYSTEMS
CORPORATION



Alice M. Hall
Interim President and Chief Executive Officer

12/11/10

Date



Hilton R. Raethel
Senior Vice President

12/10/10

Date

Exhibit A: Pay For Performance Measures

First Contract Year:

Performance Measures in the first contract year will be based upon the achievement of specific milestones toward the development and implementation of hospital-specific Pay for Performance Programs to be used in subsequent contract years.

Quarterly payments in the first contract year require both parties to commit the appropriate clinical and business staff necessary at the respective HHSC facility to establish an outcome based performance program. Attendance and participation must include a sufficient and appropriate number of meetings each quarter to identify, analyze and establish quality and cost-effectiveness measures, including definitions, measurement methodology, performance targets and quarterly reporting; establishment of an implementation plan to ensure that each measure is "hardwired" into daily operations, which is defined to mean that each measure is built into the way in which the respective HHSC facility does business and becomes a part of daily operations and "business as usual." "Hardwiring" may be demonstrated through the development of policies and procedures and evidence of implementation and compliance; negotiation of contracting terms and the maximum potential payment for the performance measures for subsequent years. HHSC & HMSA will mutually agree upon the required participants and frequency of meetings necessary to complete the measurement tasks. HHSC participants may represent individual facilities, regions, or entire system to insure an efficient progress.

The HHSC facility specific performance based program shall include three (3) mandatory measures:

Informed choice regarding hospice and palliative care
Advanced Directives
Discharge planning/readmissions

And

Five (5) to eight (8) additional measures that will include an appropriate mix of clinical process, quality outcomes and cost-effectiveness measures.

The mandatory and additional measures must meet the following criteria:

Needs improvement
Substantial impact on cost and/or quality
Realistic and achievable
Understandable
Behavioral
Measureable

The following is an initial matrix of measures that are being used by other hospitals and will serve as a starting point for the process described above:

HAWAII HEALTH SYSTEMS CORPORATION

EXHIBIT B

Hospital Pay-For-Performance – “Maximum”*			
<u>First Contact Year</u>	<u>Second Contract Year</u>	<u>Third Contract Year</u>	<u>Fourth Contact Year</u>
\$4.2 million	\$7.7 million	\$9.7 million	\$11 million
Hospital Pay-For-Performance – “Floor” *			
<u>First Contact Year</u>	<u>Second Contract Year</u>	<u>Third Contract Year</u>	<u>Fourth Contact Year</u>
\$4.2 million	\$4.6 million	\$3.2 million	\$1.7 million
* Payments outlined above will be reduced by any payments made as part of the extension agreement(s).			

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EXHIBIT C

Hospital FFS Rate Increases				
	<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>
Facility MAC Increase	0.0%	3.0%	2.5%	0.0%
ASC & ER & SNF Rate Increase	0.0%	10.0%	10.0%	10.0%
DRG Base Case Rate Increase	0.0%	3.0%	3.0%	3.0%

HAWAII HEALTH SYSTEMS CORPORATION

EXHIBIT D

Quality Improvement Investment			
<u>CY 2011</u>	<u>CY 2012</u>	<u>CY 2013</u>	<u>CY 2014</u>
\$1,000,000	\$750,000	\$250,000	N/A