
A BILL FOR AN ACT

RELATING TO HOSPITALS.

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

1 PART I

2 SECTION 1. The purpose of this Act is to establish a
3 hospital capital loan program. Under the program, the
4 department of health is authorized to make or guarantee loans to
5 hospitals for capital improvements, equipment, supplies,
6 materials, or working capital.

7 PART II

8 SECTION 2. The Hawaii Revised Statutes is amended by
9 adding a new chapter to be appropriately designated and to read
10 as follows:

11 "CHAPTER

12 HOSPITAL CAPITAL LOAN PROGRAM

13 § -1 **Definitions.** As used in this chapter, unless the
14 context clearly requires otherwise:

15 "Department" means the department of health.

16 "Financial institution" means any organization authorized
17 to do business under state or federal laws relating to financial
18 institutions, including a bank, savings bank, savings and loan



1 company or association, financial services loan company, or
2 credit union.

3 "Hospital" means an institution licensed by the department
4 in this state having an organized medical staff that admits
5 patients for inpatient care, diagnosis, observation, and
6 treatment.

7 "Program" means the hospital capital loan program
8 established under this chapter.

9 **§ -2 Hospital capital loan program.** There is
10 established a hospital capital loan program to be administered
11 by the department of health in accordance with this chapter.

12 **§ -3 Direct loans, terms, and restrictions.** (a) Under
13 the program, the department shall make loans to hospitals to:

14 (1) Finance hospital plant construction, conversion, and
15 expansion;

16 (2) Acquire land to expand the hospital;

17 (3) Acquire equipment, machinery, supplies, or materials
18 for the hospital; and

19 (4) Supply working capital for the hospital.

20 A loan may be made in conjunction with loans made by other
21 government agencies or financial institutions. If a loan made
22 by the department is secured, the department may subordinate its



1 interest to that of other government agencies or financial
2 institutions when the subordination is necessary for the
3 hospital to obtain loans from these agencies or institutions.

4 (b) A loan made under the program shall bear simple
5 interest at the rate of three per cent below the prime rate or
6 at a rate of five and one-half per cent a year, whichever is
7 lower. For purposes of this section, the prime rate shall be
8 the rate charged the best commercial customers on the first day
9 of each month by the two largest banks in the State of Hawaii as
10 identified by the department of commerce and consumer affairs.
11 If there is a difference in rates charged by the institutions,
12 the lower of the two shall be used.

13 (c) The following restrictions shall apply to a loan made
14 under the program:

15 (1) The principal amount of the loan or loans to any one
16 hospital that is outstanding at any one time shall not
17 exceed \$;

18 (2) No loan shall be made for a term exceeding twenty
19 years;

20 (3) The commencement date for the repayment of the first
21 installment on the principal of a loan may be deferred
22 by the department, but in no event shall the initial



1 payment on the principal be deferred for more than
2 five years from the date of issuance of the loan; and
3 (4) The payment of interest on the principal of a loan may
4 be deferred by the department, but in no event shall
5 interest payments be deferred for more than two years
6 from the date of issuance of the loan.

7 (d) The department may contract with a financial
8 institution to service a loan made under the program.

9 **§ -4 Loan guarantee by the department.** (a) In lieu of
10 making direct loans pursuant to section -3, the department
11 may guarantee up to ninety per cent of the principal balance of
12 a loan made to a hospital by a financial institution that is
13 unable to otherwise lend the hospital sufficient funds at
14 reasonable rates.

15 (b) At any time, the outstanding principal of and interest
16 on loans guaranteed by the department shall not exceed
17 \$.

18 (c) The department shall not guarantee a loan if the
19 interest charged by the lender for the loan exceeds the interest
20 charged by the lender for a similar type of loan.

21 (d) Upon approval of a loan guarantee, the department
22 shall issue to the lender a guarantee for that percentage of the



1 loan balance on which the department guarantees payment of
2 principal and interest. The lender shall collect all payments
3 from the borrower and otherwise service the loan.

4 (e) In return for the department's guarantee, the lender
5 shall remit to the department at the time the loan is issued a
6 one-time fee of two per cent on the principal of the guaranteed
7 portion of the loan; except that the rate shall be one per cent
8 for the following:

- 9 (1) A loan of not more than \$75,000 with a maturity
10 exceeding twelve months; and
11 (2) A loan with a maturity of not more than twelve months.

12 In lieu of payment by the lender, the borrower may pay the
13 applicable fee as a cost of the loan.

14 (f) When any installment of principal and interest on a
15 guaranteed loan to a hospital has been due for sixty days and
16 has not been paid by the hospital, the department shall pay to
17 the lender the percentage of the overdue payment guaranteed.
18 Upon making the payment, the department shall be deemed to have
19 acquired a division of interest in the collateral pledged by the
20 hospital in proportion to the amount of the payment.

21 If payment is subsequently collected from the hospital, the
22 lender shall reimburse the department for the amount paid by the



1 department. Upon receipt of the reimbursement, the department
2 shall relinquish the interest previously acquired in the
3 collateral.

4 (g) If the lender deems that foreclosure proceedings are
5 necessary to collect moneys due from the hospital, the lender
6 shall notify the department. Within thirty days of the
7 notification, the department may elect to request an assignment
8 of the loan upon payment in full to the lender of the
9 outstanding principal and interest. Foreclosure proceedings
10 shall be held in abeyance until the lender makes a decision on
11 the request for assignment.

12 **§ -5 Hospital capital loan revolving fund.** (a) There
13 is established the hospital capital loan revolving fund within
14 the treasury of the State.

15 (b) The following shall be deposited into the revolving
16 fund:

17 (1) Payments by hospitals of the principal and interest on
18 loans made under the program;

19 (2) Appropriations to the revolving fund by the
20 legislature;

21 (3) Fees paid by lenders pursuant to section -4(e) for
22 the guarantee of a loan;



- 1 (4) Proceeds from the liquidation of collateral acquired
2 by the department arising from the default of a loan;
- 3 (5) Reimbursements from lenders pursuant to section
4 -4(f) of principal and interest previously paid by
5 the department on delinquent guaranteed loans; and
- 6 (6) Interest earned on moneys in the fund.
- 7 (c) Moneys in the revolving fund shall be expended only
8 for:
- 9 (1) Making of new loans under the program;
- 10 (2) Paying principal of and interest on loans guaranteed
11 under section -4 that are delinquent or have
12 defaulted;
- 13 (3) Paying principal and interest to lenders pursuant to
14 section -4(g) for the assignment of guaranteed
15 loans; and
- 16 (4) Paying administrative costs of the program, including
17 any fee to a financial institution for servicing a
18 loan.
- 19 (d) The department shall continuously maintain in the
20 revolving fund a cash reserve equaling at least per cent of
21 the outstanding principal of and interest on loans made and
22 guaranteed under the program.



1 **§ -6 Rules.** To implement this chapter, the department
2 shall adopt rules in accordance with chapter 91 regarding:

- 3 (1) Qualifications for eligibility of applicants for
4 loans;
- 5 (2) Preferences and priorities in determining eligibility
6 for loans;
- 7 (3) Conditions consistent with the purposes of this
8 chapter for the making or guaranteeing of loans;
- 9 (4) Amount and type of security for loans made or
10 guaranteed;
- 11 (5) Inspection at reasonable hours of the plant, books,
12 and records of a hospital applying for or having
13 received a direct loan or loan guarantee; and
- 14 (6) Any other terms or conditions deemed necessary to
15 effectuate the purpose of this chapter.

16 **§ -7 Annual report.** The department shall submit to the
17 legislature at least twenty days before the convening of each
18 regular session a report on the hospital capital loan program.
19 The report shall cover the activity under the program during the
20 previous fiscal year ending on June 30."



1 PART III

2 SECTION 3. Upon verifying that all eligibility and other
3 terms and conditions are in accordance with the requirements of
4 chapter , Hawaii Revised Statutes, the department of health
5 shall issue the first loan under the hospital capital loan
6 program established under part II of this Act to a private
7 hospital group in the state that has an annual patient
8 population of which sixty per cent or more are uninsured,
9 medicaid, and medicare patients. The loan shall be for working
10 capital. The principal amount of the loan shall not exceed
11 \$.

12 SECTION 4. There is appropriated out of the general
13 revenues of the State of Hawaii the sum of \$ or so much
14 thereof as may be necessary for fiscal year 2008-2009 to be
15 deposited into the hospital capital loan revolving fund.

16 SECTION 5. There is appropriated out of the hospital
17 capital loan revolving fund the sum of \$ or so much
18 thereof as may be necessary for fiscal year 2008-2009 for:

19 (1) The loan to a private hospital group in the state
20 under section 3 of this part; and

21 (2) Any other loans made pursuant to the hospital capital
22 loan program.



Report Title:

Hospital Capital Loan Program

Description:

Establishes a hospital capital loan program under department of health. Requires loan to a private hospital in the state with an annual patient population of sixty per cent or more of uninsured, medicaid, and medicare patients. (HB2757 HD1)

