

LINDA LINGLE  
GOVERNOR OF HAWAII



CHIYOME LEINAALA FUKINO, M.D.  
DIRECTOR OF HEALTH

STATE OF HAWAII  
DEPARTMENT OF HEALTH  
P.O. Box 3378  
HONOLULU, HAWAII 96801-3378

In reply, please refer to:  
File:

## House Committee on Finance

### H.B. 1996 HD 1, RELATING TO HEALTH CARE

Testimony of Chiyome Leinaala Fukino, M.D.  
Director of Health

February 25, 2008  
2:45 PM

1 **Department's Position:** The Department of Health believes the concept of developing health enterprise  
2 zones is a topic that is worthy of continued discussion as one of several possible solutions to providing  
3 increased access to health care in medically underserved areas of our state.

4 **Fiscal Implications:** Unquantified at this time. We note that the proposed \$1,000,000 appropriation is  
5 outside of the Executive supplemental budget priorities.

6 **Purpose and Justification:** This measure proposes to establish health enterprise zones in areas  
7 designated as medically underserved, granting income tax relief on Medicaid payments to primary  
8 health care providers, including dentists and advanced practice registered nurses, who practice in these  
9 areas. It would also make available low interest loans to qualified providers for construction or  
10 renovation of facilities or for purchase of needed medical equipment.

11 A similar law was enacted in the state of New Jersey in 2007 and has been endorsed by the  
12 Council on State Governments as one solution to states' struggles to recruit and retain a primary care  
13 workforce in both rural and urban areas. The measure is designed to help maintain access to care for  
low-income and Medicaid patients by helping primary health care providers remain financially viable.

The concepts proposed in this measure are straightforward, but the design and implementation  
2 are complex, requiring further in-depth discussion with the Department of Business, Economic  
3 Development and Tourism, the Department of Taxation, the legislature and others to understand if this is  
4 an effective and workable solution for the state of Hawaii.

5 Thank you for the opportunity to testify on this measure.

6

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

SANDRA L. YAHIRO  
DEPUTY DIRECTOR

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## HOUSE COMMITTEE ON FINANCE

### TESTIMONY REGARDING HB 1996 RELATING TO HEALTH

**TESTIFIER:** KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)  
**DATE:** FEBRUARY 25, 2008  
**TIME:** 2:45PM  
**ROOM:** 308

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This measure seeks to create "Health Enterprise Zones," which operate similar to the existing Enterprise Zones administered by the Department of Business, Economic Development & Tourism.

The Committee on Health amended the measure by defecting the effective date.

The Department of Taxation (Department) takes **no position** on this measure, provides comments, and cites the revenue impact of this legislation. **The Department defers to the Department of Health on the necessity of these zones as a matter of policy.**

#### **TECHNICAL COMMENTS**

The Department points out that this legislation seeks to provide a tax incentive and refers to the tax incentive in the new Health Enterprise Zone chapter. First, the reference to the tax incentive in the Health Enterprise Zone chapter is very awkward. The language is confusing. The reference to the tax benefit in the Health Enterprise Zone chapter should either mirror the language in the Chapter 235 provision or be eliminated.

Second, the reference contained in the new Health Enterprise Zone chapter refers to the tax incentive as a "deduction," when the amendments to Chapter 235 contain an exclusion. Though these incentives are similar, they are materially different for tax administration purposes. A deduction is reported on the return as a reduction of gross income. An exclusion is not reported on the tax return. The taxpayer would simply decrease the amount of gross income reported on the return if the incentive is an exclusion.

### **NO EFFECT ON GENERAL EXCISE TAX**

The Department notes that this legislation provides for the exclusion of qualified receipts from the gross income tax only. These receipts will still be subject to general excise tax under Chapter 237, HRS.

### **EFFECTIVE DATE**

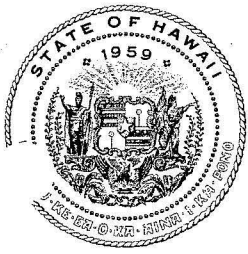
Because this bill applies to gross income received under the Income Tax Law, the effective date should be amended to apply to a taxable year or for receipts received after a certain date. For example, this bill should be amended to read: "This bill shall take effect on July 1, 2008, and shall apply to taxable years beginning after December 31, 2008;" or: "This bill shall take effect on July 1, 2008 and applies qualified receipts after \_\_\_\_\_."

Importantly, the Department also points out that it could take several months—if not years—to get the Health Enterprise Zone program up and working. The Department points out that the Legislature should consider having an effective date for the tax incentives trigger on the creation and administration of the Enterprise Zones before any tax relief tax effect.

### **REVENUE IMPACT**

The Department points out that this legislation has not been budgeted.

Assuming this bill becomes effective immediately, this bill will result in a revenue loss of approximately \$1.3 million per year; however this estimate is speculative.



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE  
GOVERNOR  
THEODORE E. LIU  
DIRECTOR  
MARK K. ANDERSON  
DEPUTY DIRECTOR

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Statement of  
**THEODORE E. LIU**  
Director

Department of Business, Economic Development, and Tourism  
before the

**HOUSE COMMITTEE ON FINANCE**

Monday, February 25, 2008

2:45pm

State Capitol, Conference Room 308

in consideration of

**HB1996 HD1**

**RELATING TO HEALTH CARE**

Chair Oshiro, Vice-Chair Lee, and Committee members.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the intent of the bill and would like to provide comments on HB1996 HD1, which proposes to establish Health Enterprise Zones and provide loans as incentives for health care providers to serve in health professional shortage areas of the state. There have been many good ideas introduced this legislative session that support the State's economic development goals. We note, however, that this appropriation was not included in the Executive's Supplemental Budget, and request that this appropriation not displace the priorities contained in that budget.

DBEDT manages the State's Enterprise Zone (EZ) program under Section 209E, Hawaii Revised Statutes. This bill does not provide for enterprise zone benefits to health care professionals under this Section. Therefore, we recommend changing the chapter of

“Health Enterprise Zones” to “Health Opportunity Zones” so as to avoid confusion and to separate the two different programs, functions and benefits of each.

This bill also establishes a low interest loan program to be administered by DBEDT. Currently, DBEDT's does not have an operational business loan program, nor a business loan officer on staff. DBEDT maintains the portfolio of the Hawaii Capital Loan Program, a former small business loan program whose funding was ended by the Legislature on June 30, 2004. Since then, DBEDT has not made any loans. Should this health care loan program move forward, DBEDT will be pleased to work with the Department of Health to establish the loan program. To administer the loan program, a new loan officer position would have to be established and should be under the administration of the Department of Health.

Thank you for the opportunity to offer these comments.

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1996, H.D. 1

February 25, 2008

RELATING TO HEALTH CARE

House Bill No. 1996, H.D. 1, establishes a Hawaii Enterprise Zone Loan Program Revolving Fund to be administered by the Department of Health for the collection of moneys appropriated by the Legislature for the Hawaii Enterprise Zone Loan Program, interest earned on any moneys in or investments of moneys from the fund, moneys received as repayment of loans and interest payments under the loan program and all other moneys distributed or transferred to the fund from any source. The proposed fund would be used to provide low interest loans to: 1) primary care providers to construct and renovate medical and dental offices or health clinics located in a health enterprise zone or within five miles of a health enterprise zone; and 2) purchase medical equipment for uses by primary care providers at practices located in health enterprise zones or at qualified practices that are located within five miles of a health enterprise zone. This bill also appropriates \$1 million in general funds in FY 09 for deposit into the revolving fund.

As a matter of general policy, this department does not support the creation of any special or revolving fund which does not meet the requirements of Section 37-52.3 of the Hawaii Revised Statutes. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or Beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. It is difficult to determine whether the fund will be self-sustaining.

## L E G I S L A T I V E

**TAXBILLSERVICE**

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, MISCELLANEOUS, Health enterprise zone exclusions

BILL NUMBER: HB 1996, HD-1

INTRODUCED BY: House Committee on Health

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to exclude from gross income, adjusted gross income, and taxable income, the qualified receipts derived from a qualified primary health care provider's qualified practice for the taxable year. Defines "health enterprise zone" as an area designated by the director of health as an area underserved by primary health care providers. Defines "qualified practice" as a practice that derives more than 50% from qualified receipts and more than 50% of the patients whose services are compensated by qualified receipts reside in a health enterprise zone. Defines "qualified primary health care provider" as a primary health care provider with a qualified practice located in a health enterprise zone or within five miles of a health enterprise zone. Also defines "health care providers" and "qualified receipts" for purposes of the measure.

Adds a new chapter to establish health enterprise zones, including a health enterprise zone loan program and a health enterprise zone loan program revolving fund.

Appropriates \$1 million in general funds for fiscal 2009 to be deposited into the health enterprise zone loan program revolving fund. Appropriates \$1 million out of the health enterprise zone loan revolving fund for fiscal 2009 to provide low-interest loans to construct and renovate medical and dental offices and clinics and purchase medical equipment used by primary health care providers serving residents of health enterprise zones in the state and administer the health enterprise zone loan program.

EFFECTIVE DATE: January 1, 2050

**STAFF COMMENTS:** This measure proposes to establish health enterprise zones to encourage health care providers to provide health care services for underserved areas of the state.

In an enterprise zone, businesses are attracted and encouraged to relocate to the zone through tax incentives, bonds, and other appropriate measures. Businesses located in an enterprise zone may claim a credit against income taxes paid for a period of seven years and also allows the sale of items sold by such businesses to be exempt from the general excise tax. Except for the general excise tax, the credit shall be 80% of the income tax due for the first tax year, 70% of the tax due for the second tax year, 60% of the tax due for the third year, 50% of the tax due the fourth year, 40% of the tax due the fifth year, 30% of the tax due the sixth year, and 20% of the tax due the seventh year.

Under the proposed measure, the income tax exclusion for health care providers providing services in a health enterprise zone would be 100% with no sunset date, making the exclusion more generous than other businesses located in an enterprise zone.



## HB 1996, HD-1 - Continued

It should be remembered that singling out specific areas of the state merely confers preferences for those businesses located within those geographic areas at the expense of all other taxpayers who are not so favored. It should be remembered that those taxpayers who live and work in the zone will demand the same public services as those who are not as fortunate to be located in the zone. Who then will pay for these services?

More importantly, while this measure attempts to confer favorable tax treatment under the Hawaii laws, one must ask what happens to them under the federal income tax laws? With no state tax liability, more of the health care provider's income is exposed to the federal income tax where the rates are much higher. It is understandable that such enterprise zones are seen as way to attract health care providers to underserved communities, but the tax burden is by no means the only negative consideration. Facilities, support staff, distance, medical malpractice insurance, workers' compensation, and communications are all key considerations. Proposals such as forgiving educational expenses for having served such communities make a lot more sense and would be much more practical given that less of the health care provider's income would have to go toward paying back the loans incurred for that education.

Finally, while it may attract health care providers to underserved communities, one has to ask whether or not the economic lot of the people in those communities could be improved if the overall climate had been improved. Concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses. Enterprise zones are merely an abdication of government's responsibility to create a nurturing and supportive business climate so that all businesses can thrive in Hawaii and provide the jobs the people of Hawaii need.

Finally, while Hawaii has had the enterprise zone concept on the books for years, no evaluation of how effective these zones have been in improving the well-being of those communities on which this status has been conferred. Before further corrupting the economic marketplace with added versions of the enterprise zone concept, an evaluation of the current zones should be undertaken. Instead of expanding the enterprise zone program, the program should be repealed in favor of across-the-board tax relief for all businesses in Hawaii. Indeed, has there been a comprehensive evaluation of the program and do lawmakers know exactly how much enterprise zone businesses have benefitted and whether or not they have created the jobs promised when the program was first established? If the legislature is adamant about the designation of enterprise zones in the state, then the whole state should be designated an enterprise zone and the tax treatment will be equitable to all businesses.

Digested 2/22/08



# **HAWAII HEALTH SYSTEMS**

C O R P O R A T I O N

*"Touching Lives Every Day"*

Written Testimony

## **The House of Representatives**

**Committee on Finance**  
**Representative Marcus R. Oshiro, Chair**  
**Representative Marilyn B. Lee, Vice Chair**

February 25, 2008 at 2:45 PM  
Conference Room 308  
Hawaii State Capitol

### **Testimony Supporting HB 1996 HD1 Relating to Health Care**

Establishes Health Enterprise Zones in the state to provide incentives for health care providers to serve in health professional shortage areas of the state.

Thomas M. Driskill, Jr.  
President and Chief Executive Officer

Thank you for the opportunity to provide testimony in support of HB 1996 HD1, creating programs to offer incentives to primary health care providers to practice in underserved areas of the state and improve access to health care for Hawaii's citizens.

Attracting and maintaining health care providers, particularly in rural and underserved areas is a problematic situation that HHSC fully recognizes in operating the state authorized network of safety-net health care. HHSC strongly supports the efforts and consideration of programs and incentives directed to alleviating the serious concerns of shortage and distribution of health care provider resources in the state and its impact on access to quality health care to all.

This measure, which offers creative incentives also provides for program rulemaking, administration and management by the Department of Health and Department of Business Economic Development and Tourism, to which we defer technical considerations. Thank you.

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[www.hhsc.org](http://www.hhsc.org) <<http://www.hhsc.org>>



## **Hawai'i Primary Care Association**

345 Queen Street, Suite 601 Honolulu, HI 96813  
Tel (808) 536-8442 Fax (808) 524-0347

To: **House Committee on Finance**  
The Hon. Marcus R. Oshiro, Chair  
The Hon. Marilyn B. Lee, Vice Chair

**Testimony in Support of House Bill 1996, HD 1**  
**Relating to Health Care**  
**Submitted by Beth Giesting, CEO**  
**2:45 p.m. February 25, 2008**  
**Room 308**

The Hawai'i Primary Care Association endorses this bill which includes important incentives for clinicians to serve underserved areas. This bill will be very helpful for Community Health Centers which focus their services on underserved and rural areas. They currently experience considerable delays in recruiting physicians, advanced practice RNs, and dentists. Additionally, they have a hard time finding specialists who are open to referrals of their uninsured and Medicaid-covered patients. We expect the provisions of this bill would be very helpful.

We also endorse the development of a low-interest revolving loan fund for primary care providers in the designated zones. The cost of acquiring adequate clinic space anywhere in Hawai'i is a great challenge so, for providers whose profit margins are negligible because they serve uninsured and Medicaid-covered people, this will help solve a big problem.

Thank you for the opportunity to support this important concept and bill.



HOUSE COMMITTEE ON FINANCE

Rep. Marcus Oshiro, Chair

Conference Room 308

February 25, 2008 at 1:45 p.m. (Agenda #4)

**Testimony in support of HB 2412.**

I am Rich Meiers, President and CEO of the Healthcare Association of Hawaii, which represents the entire spectrum of health care, including acute care hospitals, two-thirds of the long term care beds in Hawaii, as well as home care and hospice providers. Thank you for this opportunity to testify in strong support of HB 2412, which appropriates State funds to match federal funding to support hospitals that provide care for low-income patients, many of whom cannot afford to pay for their care.

The Association would like to acknowledge the efforts of the current administration, Hawaii's Congressional Delegation, and the State Legislature in providing a series of DSH payments to Hawaii's hospitals. Several years ago this administration aggressively pursued and secured federal DSH funds. Subsequent funding was obtained through the assistance of Hawaii's Congressional Delegation. Federal DSH funds have been matched by the Legislature in the past, and we seek that again today.

Hospitals and other health care providers are suffering financially because of low payments by Medicare, Medicaid, and private health care insurers. DSH funding recognizes that hospitals provide care to a substantial number of patients who do not have the financial resources to pay for their care because they are poor and lack health care insurance. The \$5.8 million appropriation contained in this bill matches \$7.5 million in federal funds. However, the DSH funding covers only a small part of the costs of caring for patients who cannot pay for their care.

In addition to supporting Hawaii's hospitals, the federal funds represent an infusion of money into Hawaii's economy during these times of deteriorating economic conditions and suggestions of a national recession.

For the foregoing reasons the Healthcare Association strongly supports HB 2412.

# HMSA



Blue Cross  
Blue Shield  
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

February 25, 2008

The Honorable Marcus Oshiro, Chair  
The Honorable Marilyn Lee, Vice Chair  
House Committee on Finance

**Re: HB 1996 HD1 – Relating to Health Care**

Dear Chair Oshiro, Vice Chair Lee and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in support of HB 1996 HD1 which would establish Health Enterprise Zones to provide incentives for health care providers to serve in designated areas of the state. HMSA supports this worthy effort to find solutions to increase the number of physicians in rural areas.

HMSA recognizes that when physicians leave a rural community, it impacts consumers and health care providers in that area. However, the problem of rural physician shortages is not unique to the Neighbor Islands or the state of Hawaii; it is a challenge throughout the nation. There are many reasons why physicians may leave practices in rural areas. While financial reasons such as the high cost of living and doing business and inadequate payments from Medicare and Medicaid have been highlighted in many articles, physicians may also leave for other professional or personal reasons, such as:

- Stress of working longer hours.
- Professional isolation.
- Limited career opportunities for spouses.
- Limited educational opportunities for children.
- Small population of health care consumers.

HMSA is working to ensure that our members have access to the services they need wherever they may reside in the State. Recently the HMSA Foundation awarded a grant to the University of Hawaii to develop a family medicine rural training program in Hilo. This will enhance physician recruitment for Neighbor Island practices by exposing students to Neighbor Island life, culture and communities. HMSA supports programs such as the Health Enterprise Zone initiative as a welcome compliment to the efforts currently taking place in the community.

Thank you for the opportunity to testify in support of HB 1996 HD1.

Sincerely,

Jennifer Diesman  
Director, Government Relations

HOUSE COMMITTEE ON FINANCE  
Rep. Marcus Oshiro, Chair

Conference Room 308  
February 25, 2008 at 2:45 p.m. (Agenda #5)

**Testimony in support of HB 1996 HD 1.**

I am Rich Meiers, President and CEO of the Healthcare Association of Hawaii, which represents the entire spectrum of health care, including acute care hospitals, two-thirds of the long term care beds in Hawaii, as well as home care and hospice providers. Thank you for this opportunity to testify in support of HB 1996 HD 1, which encourages primary care providers to locate in underserved areas by creating an enterprise zone program.

Certain rural areas of Hawaii suffer from a shortage of medical and dental care, which compromises access to care for residents who live in those areas. Hawaii is not alone, as many other states face the same problem. New Jersey is one of those states.

New Jersey addressed the shortage of providers by passing an innovative enterprise zone law, which provides for the following:

- (1) Designates underserved areas as enterprise zones;
- (2) Creates tax benefits for primary care providers who serve Medicaid participants in enterprise zones; and
- (3) Establishes a low-interest loan program to encourage the construction and renovation of medical offices in enterprise zones.

In supporting providers who serve Medicaid participants, the New Jersey law addresses a major problem. Medicaid payments in all states typically do not cover the actual costs of care. For that reason, physicians have been known to refuse Medicaid patients. The New Jersey enterprise zone law has proven to be highly successful, and the bill being considered today is modeled after that law.

For the foregoing reasons, the Healthcare Association strongly supports HB 1996 HD 1.