Healthcare Association
of Hawaii

LATE Testimony

HOUSE COMMITTEE ON HEALTH
Rep. Josh Green, M.D., Chair

Conference Room 329
Wednesday, January 23, 2008 at 8:00 a.m.

Testimony in support of HB 1996.

I am Coral Andrews, Vice President 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. Rich Meiers, the President of the Healthcare Association, is attending to business in Washington, D.C. Thank you for this opportunity to testify in support of HB 1996, 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.

In 2004 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 law does not increase Medicaid payments, but instead adopts the strategy of reducing practice costs. 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.

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Affiliated with the American Hospital Association, the American Health Care Association,
the National Association for Home Care and the National Hospice & Palliative Care Organization

LATE
Testimony

Testimony of Thomas J. Smyth, CEcD
Before the
House Committee on Health
Wednesday, January 23, 2008
8:00 am Room 329
on
HB1996 Relating to Health

Chair Green, Vice Chair Mizuno, and Members of the Committee:

I support the concepts contained in HB 1996 that creates "Health Enterprise Zones" and provides tax incentives and financial support for facilities located in those zones.

I recently retired from the Department of Business, Economic Development & Tourism but my testimony today as an individual is based on over 20 years experience managing the Hawaii Enterprise Zone Partnership.

Creating special areas with strong incentives for appropriate medical and long-term care facilities in under served areas is sound. I would suggest two changes that would perhaps better and more clearly define the purpose of the program and make the program easier to administer:

1. Change the name to "Health Facility Opportunity Zones" to avoid confusion with the EZ Partnership defined in Chapter 209E, administered by DBEDT. There is already some confusion between the Hawaii EZ Partnership and the federal Empowerment Zone (EZ) program. The term "Opportunity Zone" was proposed for a federal program that was never implemented, so it has no element of confusion at this time

2. It is not clear why facilities within five miles of a zone would also be given consideration for tax incentives and financial assistance. It would seem more appropriate to enlarge the zone if nearby facilities are created. The difficulty in determining who is in a given zone is difficult enough to manage; measuring beyond zone boundaries would even be more difficult and confusing.

I would be happy to work with the committee and later with the Department of Health in establishing the administrative procedures for this important initiative.

Thank you for the opportunity to provide testimony.

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

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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LATE Testimony

Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON HEALTH
Wednesday, January 23, 2008
8:00am
State Capitol, Conference Room 329

in consideration of
HB1996
RELATING TO HEALTH CARE

Chair Green, Vice Chair Mizuno and Members of the House Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) would like to provide comments on HB1996, 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. We appreciate the over-all concept of this bill as it includes initiatives supportive of our goals and objectives, but we are concerned about the cost implications generated by this proposal.

DBEDT manages the state's Enterprise Zone (EZ) program under Section 209E, Hawaii Revised Statutes. To the extent the intention of HB1996 is to provide EZ incentives to healthcare providers, we suggest and would prefer that in order to simplify the process and to achieve the outcomes desired, these healthcare providers be recognized as eligible businesses in the already established EZ Program as determined in EZ statute. We also suggest and prefer that this eligibility be in specific geographical areas to be determined between directors of the

Department of Health (DOH) and Department of Business, Economic Development and Tourism (DBEDT). Incorporating health care providers as eligible businesses in the established Enterprise Zone Program would be efficient in the use of time and financial and human resources of both the DOH and DBEDT.

In regards to a loan program, we are unable to determine the extent to which this incentive will be utilized by health care providers, the impact it will have on encouraging growth in the industry and toward underserved areas, and the actual cost or personnel needs of such a program. It seems to us that the issue for healthcare providers may not be financing.

Currently, DBEDT's Hawaii capital loan program, a small business program that could have assisted some of the businesses in the health care sector with financing, is unable to fund new loans due to the elimination of the program's revolving fund by the Legislature on June 30, 2004. Should this health care loan program move forward, the Hawaii Capital Loan Program can serve as a vehicle to administer this program, according to the rules already established to assist small business. However, special funding and authorization from the Legislature would be needed in order to make such loans.

Thank you for the opportunity to offer these comments.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

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LATE
Testimony

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HOUSE COMMITTEE ON HEALTH

TESTIMONY REGARDING HB 1996
RELATING TO HEALTH

TESTIFIER: **KURT KAWAFUCHI, DIRECTOR OF TAXATION**
DATE & TIME: **JANUARY 23, 2008; 8:00AM**

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 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.

This bill will result in a revenue loss of approximately $1.3 million per year; however this estimate is speculative.

Thank you for the opportunity to testify.

Respectfully submitted,

KURT KAWAFUCHI