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## HOUSE COMMITTEE ON HIGHER EDUCATION

### TESTIMONY REGARDING HB 2519 HD 1 RELATING TO HEALTHCARE

**TESTIFIER:** KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)  
**DATE:** FEBRUARY 12, 2008  
**TIME:** 2:15PM  
**ROOM:** 224

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This measure seeks to allow qualifying businesses that provide medical and healthcare services to qualify for the tax benefits provided by the Enterprise Zone program administered by the Department of Business, Economic Development & Tourism.

The House Committee on Health made changes unrelated to the tax provision in this legislation.

The Department of Taxation (Department) takes **no position** on this measure, provides technical comments, and cites the revenue impact of this legislation. **The Department defers to the Department of Business, Economic Development & Tourism on the necessity of including these businesses within the current zones as a matter of policy.**

#### **ENTERPRISE ZONES, GENERALLY**

Currently, the administration of Enterprise Zones to encourage economic development in distressed areas of the State has proven an effective partnership between the State and private enterprise. Given the current healthcare crises in underserved areas, this legislation's adopting of the Enterprise Zone model could prove useful in designating target areas to attract healthcare businesses where needed most.

#### **REVENUE IMPACT**

Annual revenue loss is estimated at \$2.8 million in FY 2009 (1/2 year impact from GET exemption), and \$7.0 million in FY 2010 and thereafter. The general fund expenditures will increase by \$300,000 in FY 2009.



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

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**THEODORE E. LIU**  
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Statement of  
**THEODORE E. LIU**  
**Director**  
Department of Business, Economic Development, and Tourism  
before the  
**HOUSE COMMITTEE ON HIGHER EDUCATION**

Tuesday, February 12, 2008  
2:15 P.M.  
State Capitol, Conference Room 309

in consideration of  
**HB 2519HD1**  
**RELATING TO HEALTH CARE**

Chair Chang, Vice-Chair Bertram, and Committee members:

The Department of Business, Economic Development and Tourism (DBEDT) would like to provide comments on SB 2519HD1, which establishes the Hawaii Health Corps Program. This program will provide student loans and physician and dentist stipends, and make business tax credit and general excise tax exemption available to physicians and dentists who practice in Enterprise Zones (EZ). There have been many good ideas introduced this legislative session that support the State's economic development goals. We note, however, that appropriations for this bill were not included in the Executive's Supplemental Budget, and request that these appropriations not displace the priorities contained in that budget.

DBEDT agrees that in certain rural areas of Hawaii, residents are increasingly unable to obtain timely and appropriate health care. However, regarding Part II of this

bill, we defer to the Department of Health to comment on the merits and effectiveness of the Hawaii Health Corps program to address this complex problem.

However, DBEDT recommends that language be added to require the Department of Health submit to DBEDT's Enterprise Zone Partnership Program coordinator, maps, TMK's, addresses, or identifying documents which clearly delineate the boundaries of Hawaii's health professional shortage areas so this amendment may be administered effectively.

Part III of the bill seeks to include physicians and dentists as qualified businesses in the Enterprise Zone Program. The primary EZ benefits include 1) income tax credits, 2) GET exemption on eligible revenues, and 3) GET exemption on construction.

Although these benefits seem significant, a doctor may only receive the income tax credits if they are making profits. If they are not, or do not owe any income taxes, they may not get any EZ benefit. The second benefit of GET exemption on eligible revenues. This applies to the customer's bills, they will not be charged the GET. The doctor does not receive any direct savings. Regarding the GET exemption on construction- this incentive is designed to encourage establishment and expansion. If there are no or minimal construction costs involved, the benefits from the GET will be minimal to none. Thus, the EZ program's impact in attracting physicians to shortage areas may be minimal.

While we support the intent of the measure which is to attract health care facilities to shortage areas, not requiring these facilities to increase their staff during their participation into the EZ Program conflicts with the job creation purpose as stated in HRS

§209E-1. The EZ Program was established and is directed in addition to attracting private sector investment, to encourage *growth and expansion*. This directive and subsequent requirements as specified in HRS §209E-9 (a) (1) (3) and (b)(1)(3) ensures that tax payer monies are being spent towards economic growth.

Furthermore, there may be revenue losses resulting from existing medical practices operating in the zones becoming eligible for tax exemptions. We defer to the Department of Taxation to ascertain the revenue impact of this proposal.

Thank you for the opportunity to offer these comments.

# UNIVERSITY OF HAWAI'I SYSTEM LEGISLATIVE TESTIMONY



**HB2519, HD1 Relating to Health Care**

Written Testimony for the  
House Committee on Higher Education

February 12, 2008 at 2:15 p.m.

by

Virginia S. Hinshaw, Chancellor

and

Dr. Gary K. Ostrander

Vice Chancellor for Research and Graduate Education &  
Interim Dean for the John A. Burns School of Medicine  
University of Hawai'i at Mānoa

**Written Testimony for the  
House Committee on Higher Education**

February 12, 2008 at 2:15 p.m.

by  
Virginia S. Hinshaw, Chancellor  
and  
Dr. Gary K. Ostrander  
Vice Chancellor for Research and Graduate Education &  
Interim Dean for the John A. Burns School of Medicine  
University of Hawai'i at Mānoa

**HB 2519, HD1 Relating to Health Care**

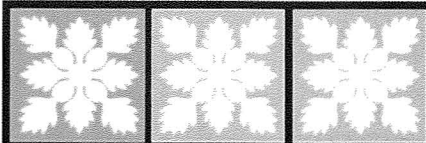
Chair Chang, Vice Chair Bertram, and Members of the Committee:

Thank you for the opportunity to testify today. Unfortunately, the University of Hawai'i at Mānoa can only support the intent of the bill at this time because of our pressing priorities, such as our tremendous need for repairs and maintenance and health and safety issues, which are critical to our ability to perform our core mission for the State of Hawai'i. We are grateful to the Legislature's attention to these needs. We recognize that you have many priorities and issues to weigh for the state, so the following substantive information on this program is provided to assist you in your decision-making process.

It is appropriate to consider medical school student loan repayments and physician and dentist stipends for doctors that commit to serving in the rural/underserved areas of the State of Hawai'i and agree to serve as first responders for the citizens of our state.

Provisions should be included if a participant chooses to leave prior to their commitment. It is not clear how such contingencies will be addressed and they could prove to be administratively problematic.

Thank you for the opportunity to testify, we appreciate all interest in the University, and want to emphasize that we will be able to perform better in all arenas and best serve the state with support of the current campus priorities approved by the Board of Regents.



## Hawaii Association of Health Plans

February 12, 2008

The Honorable Jerry Chang, Chair  
The Honorable Joe Bertram III, Vice Chair

House Committee on Higher Education

**Re: HB 2519 HD1 – Relating to Health Care**

Dear Chair Chang, Vice Chair Bertram and Members of the Committee:

My name is Rick Jackson and I am President of the Hawaii Association of Health Plans (“HAHP”). HAHP is a non-profit organization consisting of seven (7) member organizations:

AlohaCare  
Hawaii Medical Assurance Association  
HMSA  
Hawaii-Western Management Group, Inc.

MDX Hawai'i  
University Health Alliance  
UnitedHealthcare

Our mission is to promote initiatives aimed at improving the overall health of Hawaii. We are also active participants in the legislative process. Before providing any testimony at a Legislative hearing, all HAHP member organizations must be in unanimous agreement of the statement or position.

Thank you for the opportunity to testify in support of HB 2519 HD1, which would establish the Hawaii Health Corps Program to provide student loans and physician and dentist stipends, and make the enterprise zone business tax credit and general excise tax exemption available to physicians and dentists who practice in those enterprise zones. As you are aware, Hawaii, as in the rest of the U.S. is experiencing difficulty in recruiting physicians in certain specialties to practice in the more rural areas of our State.

HAHP supports the innovative set of proposals contained in HB 2519 HD1 to encourage physicians to practice in certain areas through loan forgiveness and tax breaks. Efforts such as this are a welcome addition to the other initiatives being conducted in the community to address this issue.

Thank you for the opportunity to testify.

Sincerely,

Rick Jackson, President

• AlohaCare • HMAA • HMSA • HWMG • MDX Hawaii • UHA • UnitedHealthcare •  
HAHP c/o Howard Lee, UHA, 700 Bishop Street, Suite 300 Honolulu 96813  
[www.hahp.org](http://www.hahp.org)

## Haunani Olds

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**From:** Frank.P.Richardson@kp.org  
**Sent:** Monday, February 11, 2008 1:01 PM  
**To:** HEDtestimony  
**Subject:** Testimony for HB2519, HD1, House HED, Feb. 12, 2008, 2:15pm

Testimony of Frank P. Richardson, Executive Director of Government Relations, Kaiser Permanente Hawaii (attached below).

Before: House Committee on Higher Education  
February 12, 2008, 2:15pm, Conference Room 309  
HB 2519, HD1 RELATING TO HEALTH CARE (Hawaii Health Corps Program)

5 copies to Room 311.

Thank you.

Frank P. Richardson  
Executive Director of Government Relations  
for the Hawaii Region, and Senior Counsel  
Kaiser Foundation Health Plan, Inc.  
Legal & Government Relations Department  
711 Kapiolani Boulevard  
Honolulu, Hawaii 96813  
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2/11/2008



Testimony of  
Frank P. Richardson  
Executive Director of Government Relations

Before:  
House Committee on Higher Education  
The Honorable Jerry L. Chang, Chair  
The Honorable Joe Bertram, III, Vice Chair

February 12, 2008  
2:15 pm  
Conference Room 309

**HB 2519, HD1 RELATING TO HEALTH CARE (Hawaii Health Corps Program)**

Chair, Vice Chair, and committee members, thank you for this opportunity to provide testimony on HB2519, HD1 which establishes the Hawaii Health Corps Program to provide student loan repayments and physician and dentist stipends, and makes the enterprise zone business tax credit and general excise tax exemption available to physicians and dentists who practice in enterprise zones that are in health professional shortage areas of the state and areas designated by the Department of Health. Requires participants in the Hawaii Health Corps Program to serve as first responders in times of civil defense or other emergencies declared by the governor.

**Kaiser Permanente Hawaii supports this bill.**

Physician shortages in rural and other areas of the State of Hawaii, and impediments to access to quality health care in these areas due to physician shortages, especially among physician specialists, is a matter of grave concern to Kaiser Permanente in its ability to service its members in such shortage areas.

Particularly in the islands other than Oahu, where Kaiser has fewer clinics and where fewer members of the Hawaii Permanente Medical Group reside, Kaiser relies upon its contracts with non-HPMG physicians and other providers and caregivers to service Kaiser members residing in these shortage areas. To the extent the State is unable to attract or retain physicians, particularly specialists, and other caregivers in these shortage areas, it creates barriers to access for Kaiser members, just as it does for other residents of Hawaii. This sometimes results in Kaiser having to fly physicians from Oahu to the other islands, or fly its member patients who are in need of unavailable specialty care on those islands to Oahu. In either case, delivery of care becomes less expeditious, less efficient, and more costly.

For these reasons, Kaiser supports this bill's targeted effort to relieve barriers to access to timely and appropriate health care in underserved physician shortage areas of the State.

Thank you for the opportunity to comment.



HOUSE COMMITTEE ON HIGHER EDUCATION  
Rep. Jerry Chang, Chair

Conference Room 309  
February 12, 2008 at 2:15 p.m.

**Testimony in support of HB 2519 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 2519 HD 1, which establishes the Hawaii Health Corps Program that encourages physicians and dentists to practice in shortage areas by providing loan repayments to medical and dental students and stipends to physicians and dentists. The bill also provides tax benefits to physicians and dentists who practice in enterprise zones that are located in shortage areas.

In recent weeks the media have featured a number of articles highlighting the complex and multi-faceted crisis that is plaguing Hawaii's health care system. Payments for health care from Medicare, Medicaid, and private insurance are too low. Medical malpractice insurance premiums are too high. Some physicians have already left Hawaii to practice on the mainland where financial conditions are more viable. Kahuku Hospital was on the verge of bankruptcy a year ago and about to close its doors before it was acquired by the Hawaii Health Systems Corporation (HHSC). Meanwhile, HHSC is requesting emergency funding during the current session in order to pay its suppliers. This bill addresses one aspect of Hawaii's health care crisis.

Many rural areas of our state are especially impacted because of a dispersed population. Urban areas, with their population density, provide a much greater potential to attract patients. Physicians are especially affected because of the high cost of medical malpractice insurance. Dentists are also in short supply in many rural areas.

This bill creates an innovative program that encourages physicians and dentists to serve in medically underserved areas. It creates a loan forgiveness program for medical and dental students that provides incentives to practice in medically underserved areas after graduation. The program also provides stipends to physicians and dentists who practice in shortage areas. This bill addresses the shortage of physicians and dentists in many rural areas that limits access to care.

For the foregoing reasons, the Healthcare Association supports HB 2519 HD 1.



**HAWAII HEALTH SYSTEMS**  
C O R P O R A T I O N

*"Touching Lives Every Day"*

**The House of Representatives**

**Committee on Higher Education**  
**Representative Jerry L. Chang, Chair**  
**Representative Joe Bertram III, Vice Chair**

February 12, 2008 at 2:15 p.m.  
Conference Room 309  
Hawaii State Capitol

**Testimony Supporting HB 2519 HD1 Relating to Health Care  
Establishes the Hawaii Health Corps Program**

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

Thank you for the opportunity to provide testimony in support of the intent of HB 2519 HD1, establishing the Hawaii Health Corps Program that offers incentives to health professionals to practice in health professional shortage areas in the State of Hawaii.

As a safety-net health care system with five regions located on Hawaii, Kauai, Maui, Lanai and Oahu, the Hawaii Health Systems Corporation (HHSC) is keenly aware of workforce shortages and difficulties in attracting and maintaining health care professionals in rural, underserved, and health professional shortage areas. HHSC recognizes the need for creative initiatives to address the serious healthcare issues we face in Hawaii and strongly supports consideration of programs 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 for all.

This measure, which offers creative incentives also requires program rulemaking, establishment and administration involving the Department of Health and the Department of Business, Economic Development and Tourism, to whom we defer technical considerations. Thank you.

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HILO • HONOKAA • KAU • KONA • KOHALA • WAIMEA • KAPAA • WAILUKU • KULA • LANAI • HONOLULU  
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