



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

In reply, please refer to:
File:

House Committee on Finance

HB2757 HD1, RELATING TO HOSPITALS

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

**February 22, 2008
3:30 pm**

1 **Department's Position:** The Department of Health respectfully opposes this bill.

2 **Fiscal Implications:** The bill specifies that the first loan be provided to "a private hospital in
3 the state that annually services a patient population of 60 percent or more of uninsured, Medicaid, and
4 Medicare patients." The amounts appropriated for the hospital capital loan revolving fund and for other
5 loans pursuant to the hospital capital loan program are unspecified, and there are no provisions for
6 administration or implementation of this program.

7 **Purpose and Justification:** This bill proposes to establish a hospital capital loan program for both
8 direct loans and loan guarantees under the Department of Health and provides a description of the
9 private hospital which will receive the first loan. The Department currently does not have the
10 infrastructure, the staffing, the resources or the expertise to implement and manage such a program.

11 As an example of what might be needed to accomplish the intent of this measure, we offer the
12 following information from the state of California. In California, the Office of Statewide Health
13 Planning and Development (OSHPD) has a division called Cal-Mortgage that administers the Health
14 Facility Construction Loan Insurance Program (Program). The Program provides credit enhancement

for eligible healthcare facilities when they borrow money for capital needs. OSHPD insured loans are guaranteed by the “full faith and credit” of the State of California. This guarantee permits borrowers to obtain lower interest rates similar to the rates received by the State of California. Modeled after federal home mortgage insurance programs, the Loan Insurance Program is designed to improve access to needed healthcare services without cost to taxpayers. This Program allows non-profit and public health facilities to borrow using the State’s credit rating, thus potentially lowering the facility’s overall borrowing costs. The loan insurance provides a guarantee of payment of principal and interest should the health facility be unable to meet its debt payment obligations.

Steps in this process are: Upon receipt of an inquiry for loan insurance, Cal-Mortgage staff reviews the proposed project and financing to determine the eligibility of the applicant, the community need for the facility and the general feasibility of the project. For this initial review, the applicant submits a Pre-Application Information Sheet along with copies of financial and corporation information. Upon receipt of this information, a Cal-Mortgage Project Officer visits the applicant to discuss any potential issues and to provide guidance on the rest of the application process. Formal application review requires a \$500 fee. After review, if approval is recommended, the applicant is scheduled to meet with the Advisory Loan Insurance Committee (ALIC). Applications recommended by staff are reviewed by the ALIC at a public meeting. The ALIC is composed of health care industry and financial professionals who provide the Director of OSHPD with additional analysis and advice with respect to the application.

If the Director concurs with the recommendation of staff and the ALIC to approve the application, OSHPD issues a Conditional Letter of Commitment to insure the loan. The letter specifies the final conditions the applicant must meet prior to the sale of the bonds and the closing of the insured loan transaction. In an attempt to achieve the lowest market interest rate available for insured bonds, the California State Treasurer’s Office acts as “pricing agent” for all insured loans. The applicant is

1 responsible for costs associated with this service. Minimum collateral for insured loans includes: (1) A
2 first lien on the applicant's interest in real property; (2) A pledge of all the applicant's gross revenue.

3 The authority to insure or guarantee these loans is contained in Article XVI, Section 4 of the
4 California State Constitution. The California program is entirely self-supporting from its insurance
5 premiums and related income.

6 In the Department's conversations with other states on this subject, we learned that almost all
7 such loan programs across the country are based on low interest bonds, as direct loans with hospitals
8 usually turn out to be money losers.

9 While the Department appreciates what this measure is attempting to accomplish, we cannot
10 support it as written.

11 Thank you for the opportunity to testify.

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. 2757, H.D. 1

February 22, 2008

RELATING TO HOSPITALS

House Bill No. 2757, H.D. 1, establishes a Hospital Capital Loan program and a revolving fund under the purview of the Department of Health, to authorize the department to make or guarantee loans to hospitals for capital improvements, equipment, supplies, materials or working capital. The fund will be initially capitalized with an unspecified general fund appropriation.

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.

In addition, with regard to any loan guaranty program, a maximum dollar cap on the aggregate amount of loans guaranteed should be established, as the amount of loans guaranteed will count against the State's debt limit.

HAWAII BUILDING AND CONSTRUCTION TRADES COUNCIL, AFL-CIO
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February 21, 2008

Honorable Representative Marcus R. Oshiro, Chair
Honorable Representative Marilyn B. Lee, Vice Chair
Members of the House Committee on Finance
Hawaii State Capital
415 South Beretania Street
Honolulu, HI 96813

RE: IN SUPPORT OF HB 2757
RELATING TO HOSPITALS
Hearing: Friday, February 22, 2008, 3:30 p.m.

Dear Chair Oshiro, Vice Chair Lee and the House Committee on Finance:

For the Record my name is Buzz Hong the Executive Director for the Hawaii Building & Construction Trades Council, AFL-CIO. Our Council is comprised of 16-construction unions and a membership of 26,000 statewide.

The Council SUPPORTS the passage of HB 2757, which establishes a hospital capital loan program under the Department of Health and requires loan to a private hospital in the state with an annual patient population of sixty percent or more of uninsured, Medicaid, and Medicare patients.

Thank you for the opportunity to submit this testimony in support of HB2757.

Sincerely,

William "Buzz" Hong

WBH/dg



HAWAII MEDICAL CENTER

House Committee on Finance
Friday, February 22, 2008, 3:30 PM, House Conference Room 308
House Bill No. 2757

Chair Oshiro and Honorable Members of the Committee on Finance:

Aloha kakou! I am Dr. Danelo Canete, Chief Executive Officer of Hawaii Medical Center (HMC). I thank you for the opportunity to testify in favor of House Bill 2757.

This bill would establish a program in the Department of Health to make or guarantee loans to hospitals for capital improvements, equipment, supplies, materials or working capital. This bill would provide the state with a strategic tool with which it can enable hospitals to respond effectively to Hawaii's need for high-quality, affordable health care.

All of Hawaii's hospitals face continuing financial challenges. One year ago, I was one of more than 100 local physicians who came together to not only save the former St. Francis Hospitals but also to help perpetuate their Catholic values. The Sisters' mission was to provide service to the underserved of the State of Hawaii. However, even with its nonprofit and tax-exempt status, St. Francis was in serious financial difficulty due to servicing this patient population. It is vitally important to our community that we attain financial viability while continuing to serve the needy.

When our doctors assumed the management of the hospitals, we found they were in even worse financial shape than had been anticipated. HMC was forced to make hard decisions and difficult sacrifices to keep the hospitals going. We have worked long and hard to improve our operations and become more efficient.

HMC is struggling to provide services to a large number of Medicare/Medicaid patients whose government reimbursement does not generally cover the cost of care. Currently, 70% of HMC's patients are Medicare/Medicaid/uninsured, a significantly higher percentage than other local hospitals are experiencing.

HMC needs support for its efforts to remain solvent during its transition period -- so we can continue to provide medical services to this underserved population. HMC is not only seeking to become more efficient, but is also committed to

reinvest in its facilities, operations and services in order to better serve this patient population.

The survival of Hawaii Medical Center is critical, as we service 8,000 in-patients for over 75,000 patient days annually. This does not include the thousands of outpatients that are also served annually and the unique services provided by HMC that other hospitals are not able to absorb. In addition, HMC employs over one thousand employees who contribute hundreds of thousands of dollars in federal and state income taxes that help support the economy of our state.

My colleagues and I took the unusual step of purchasing the hospitals because we did not want to see our community lose these important institutions, nor did we want to deprive our patients of affordable health care. In addition, we did not want to see our community lose this organization's unique services that are based on the moral and ethical values of serving the poor and needy that had always been the mission of the Sisters of St. Francis.

We are determined to keep HMC afloat and to continue to provide care to the financially challenged patients that St. Francis was dedicated to serving. By providing a program to make or guarantee loans for construction or renovation of hospital facilities, acquisition of new medical technology and other uses, the state could help ensure that quality, affordable healthcare continues to be available to the less affluent in our community.

I sincerely believe that your support for such a Hospital Capital Loan program would be in the public interest. Thank you. I would be happy to answer any questions you may have.