**BILL ANALYSIS**

# Health Care & Wellness Committee

# HB 2317

**Brief Description**: Financing hospitals by the health care facilities authority.

**Sponsors**: Representatives Cody, Jinkins, Dickerson and Ormsby.

**Brief Summary of Bill**

- Establishes a debt limit of $5.5 billion for hospital projects financed by the Health Care Facilities Authority (HCFA).
- Establishes minimum financing conditions for hospital projects with HCFA bonding of $10 million or more.

**Hearing Date**: 1/16/12

**Staff**: Chris Cordes (786-7103).

**Background**:

Health Care Facilities Authority.

Since 1974 the Health Care Facilities Authority (HCFA) has been authorized to issue tax-exempt financing for the construction, purchase, lease, or use of health care facilities. Health care facilities include hospitals, clinics, health maintenance organizations, diagnostic or treatment centers, extended care facilities, comprehensive cancer centers, and other facilities providing health care services. Participants in these projects must be political subdivisions of the state or nonprofit health care facilities.

The HCFA is organized as a political subdivision of the state with the following members:
- the Governor or designee, who is chair;
- the Lieutenant Governor;
- the Insurance Commissioner or designee;
- the Secretary of Health; and
- a member of the public appointed by the Governor.

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Issuance of Tax-exempt Bonds by the HCFA.

The HCFA receives requests for providing tax-exempt financing bonds for financing health care facilities, investigates and determines the necessity and feasibility of providing the bonds and, if deemed necessary or advisable for the benefit of the public health, adopts a financing plan and issues and sells bonds. If the project requires a certificate of need, a financing plan may not be adopted until the certificate has been issued.

The HCFA establishes the terms and conditions that apply to the issuance of its bonds. The HCFA may include requirements for establishing and maintaining rates for the project's health services and for fees and other charges adequate to pay the principal and interest on the bonds and establish a reserve.

Under HCFA rules, an applicant seeking financing must furnish specified information in a loan application, including the cost of the project and sources of funding, feasibility studies and other reviews, and an estimate of the aggregate savings to be realized over the life of the project because of HCFA financing with tax-exempt bonds.

The rules also specify that the HCFA may approve an application if it determines that:
- the project is necessary or advisable for the benefit of the public health;
- the applicant can reasonably be expected to achieve successful completion of the project;
- the project is economically feasible;
- the project will carry out the purposes of the HCFA financing law; and
- the applicant has satisfied the HCFA that substantially all savings realized from financing with tax-exempt bonds will be passed on to patients.

Bonds issued by the HCFA are not obligations of the state, but are paid from special funds held by the HCFA and derived from operating revenues of the facility being financed. The HCFA is not subject to a statutory debt limit.

HCFA Administrative Costs.

The HCFA may adopt fees that applicants pay for HCFA services, including investigations, feasibility studies, the expenses of issuing bonds, and other charges. All expenses of the HCFA must be paid from these fees.

**Summary of Bill**:

Hospital Projects Debt Limit.

The HCFA's debt limit for hospital projects is set at $5.5 billion. The calculation of the debt limit includes the initial principal amount of an issue and may not include certain interest payments.

Financing Conditions for Hospital Projects.

For hospital project financing that has HCFA bonding of $10 million or more, the project participants must agree, at a minimum, to:

- provide charity care that exceeds the average expenditures for charity care, as reported to the Department of Health, by the state's peer hospitals in the year preceding the application;
- implement one or more programs to reduce visits to emergency departments for nonemergent health conditions, which may include maintaining a full-service primary care capacity or referring persons to a willing primary care provider for the care of nonemergent health conditions; and
- maintain readmission rates below the state's peer hospital average, as calculated by the federal Centers for Medicare and Medicaid Services.

The HCFA is required to consider, as part of its application process, whether the applicant can reasonably be expected to achieve these minimum financing conditions and whether the applicant has complied with previous HCFA financing agreements. The HCFA must verify, at least annually, that the minimum financing conditions are being met. A participant that fails to meet the minimum conditions is subject to penalties, as adopted by the HCFA.

These provisions apply only to hospital project financing that has not been awarded by the bill's effective date.

**Appropriation**: None.

**Fiscal Note**: Requested on January 11, 2012.

**Effective Date**: The bill takes effect 90 days after adjournment of the session in which the bill is passed.