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# A BILL FOR AN ACT

RELATING TO HEALTH CARE.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1 Part I

2 SECTION 1. The legislature finds that many Hawaii  
3 residents are increasingly unable to obtain timely and  
4 appropriate health care because of physician and dentist  
5 shortages, which primarily affect the rural areas of the State.  
6 Shortages in the areas of family practice, obstetrics,  
7 gynecology, and orthopedics are especially acute.

8 Because of the need to repay student loans to fund a  
9 physician's increasingly high cost of professional education,  
10 physicians are discouraged from working in shortage areas, which  
11 generally provide lower incomes.

12 The legislature finds that the establishment of various  
13 programs such as student loan repayment and state-funded  
14 physician and dentist stipend programs may be used to encourage  
15 and enable physicians and dentists to provide care in shortage  
16 areas.

17 The purpose of this part is to direct the legislative  
18 reference bureau to research the actions, programs, or



1 approaches of other jurisdictions to address physician and  
2 dentist shortages including student loan repayment and stipend  
3 programs.

4 SECTION 2. (a) The legislative reference bureau shall  
5 research the actions, programs, or approaches other  
6 jurisdictions have taken to address physician and dentist  
7 shortages including student loan repayment and stipend programs.

8 (b) The legislative reference bureau shall include in its  
9 research of student loan repayment and stipend programs in other  
10 jurisdictions:

11 (1) General regulations regarding application procedures,  
12 policies, and contracts;

13 (2) Regulations regarding procedures and penalties for  
14 student loan repayment and stipend repayment defaults;

15 (3) An estimate of the minimum level of initial and on-  
16 going funding needed to establish student loan  
17 repayment and stipend programs; and

18 (4) An estimate of the number of participating physicians  
19 and dentists in such programs and an estimate of  
20 student loan repayment and stipend payment amounts.

21 (c) In conducting this study, the legislative reference  
22 bureau may request assistance and data from the following:



1 (1) University of Hawaii John A. Burns School of Medicine;  
2 and

3 (2) Hawaii State Center for Nursing.

4 (d) The legislative reference bureau shall submit a report  
5 of its findings, recommendations, and any proposed legislation  
6 to the legislature not later than twenty days prior to the  
7 convening of the regular session of 2009. Any contract issued  
8 pursuant to this part shall be exempt from chapter 103D, Hawaii  
9 Revised Statutes.

10 SECTION 3. There is appropriated out of the general  
11 revenues of the State of Hawaii the sum of \$ or so  
12 much thereof as may be necessary for fiscal year 2008-2009 for  
13 the legislative reference bureau to conduct the research set out  
14 in section 2.

15 The sum appropriated shall be expended by the legislative  
16 reference bureau for the purposes of this part.

17 Part II

18 SECTION 4. Purpose. The purpose of this part is to  
19 increase access to physician and dental services for residents  
20 of the State who live in federally designated "medically  
21 underserved areas" or "health professional shortage areas" by



1 granting certain benefits to physicians and dentists who provide  
2 services in those areas.

3 SECTION 5. There is created a pilot project to provide  
4 certain tax and other benefits similar to those provided in an  
5 enterprise zone for physicians and dentists who agree to work  
6 within certain areas of the State for a certain period. This  
7 pilot project shall be placed within the enterprise zone program  
8 of the department of business, economic development, and  
9 tourism. The department of health shall work cooperatively with  
10 the department of business, economic development, and tourism to  
11 implement this part.

12 SECTION 6. Definitions. As used in this part, unless the  
13 context clearly requires otherwise:

14 "Department" means the department of business, economic  
15 development, and tourism.

16 "Director" means the director of business, economic  
17 development, and tourism.

18 "Health professional shortage area" generally means a  
19 geographic area within the State that is served by an inadequate  
20 supply of physicians or dentists and includes a geographic  
21 service area identified as a health professional shortage area



1 by the Health Resources and Services Administration of the  
2 United States Department of Health and Human Services.

3 "Medical or dental establishment" means a single physical  
4 location where a medical practice is conducted by a physician or  
5 dentist providing professional services.

6 "Medical practice" may include one or more medical or  
7 dental establishments, any number of which may be located within  
8 a medical practice shortage zone.

9 "Medical practice shortage zone" means either a health  
10 professional shortage area or a medically underserved area, or  
11 both, that is:

- 12 (1) Within the jurisdiction of a county government; and  
13 (2) Eligible for the benefits under this part.

14 "Medically underserved area" generally means a geographic  
15 location within the State that has insufficient health resources  
16 in terms of physician or dental personnel or facilities, or  
17 both, to meet the medical or dental needs of the resident  
18 population and includes a geographic service area identified as  
19 a medically underserved area by the Health Resources and  
20 Services Administration of the United States Department of  
21 Health and Human Services.



1 "Qualified medical practice" means any corporation,  
2 partnership, or sole proprietorship that is authorized to do  
3 business in the State and whose practitioner is licensed under  
4 chapter 448, 453, or 460, Hawaii Revised Statutes, that is  
5 qualified under section 10 of this Act and subject to the state  
6 corporate or individual income tax under chapter 235, Hawaii  
7 Revised Statutes.

8 "Taxes due the State" means income taxes due under chapter  
9 235, Hawaii Revised Statutes.

10 SECTION 7. Medical practice shortage zone designation.  
11 The director, in consultation with the director of health, shall  
12 designate areas within the State as medical practice shortage  
13 zones for a period of seven years. The director shall publish,  
14 update, and make available to the general public on the  
15 department's website a list of medical practice shortage zones  
16 each year.

17 SECTION 8. Government assistance; prohibition. There  
18 shall be no duplication of existing state tax incentives to  
19 qualified medical practices that locate in a medical practice  
20 shortage zone.



1 SECTION 9. Rules; generally. The department may adopt  
2 rules in accordance with chapter 91, Hawaii Revised Statutes, to  
3 implement this part.

4 SECTION 10. Qualified medical practice; designation. (a)  
5 A medical practice may obtain designation as a qualified medical  
6 practice for purposes of this part if the medical practice  
7 registers with the department and certifies that the medical  
8 practice either:

- 9 (1) Will begin the conduct of a medical practice within a  
10 medical practice shortage zone within one year of the  
11 date of registration; or
- 12 (2) Is already actively engaged in the conduct of a  
13 medical practice in an area immediately prior to the  
14 area's being designated a medical practice shortage  
15 zone; and
- 16 enters into an agreement with the department, within six months  
17 of the date of registration, to actively and continuously  
18 conduct the medical practice within the medical practice  
19 shortage zone for no less than seven consecutive years from the  
20 date of the agreement; provided that no agreement may be entered  
21 into after June 30, 2013, and that no benefits may be granted  
22 under this part after June 30, 2020.



1 (b) After designation of a medical practice shortage zone,  
2 each qualified medical practice within a zone shall submit  
3 annually to the department an approved form, supplied by the  
4 department, that provides the certification and information  
5 necessary for the department to determine if the medical  
6 practice continues to qualify as a qualified medical practice.  
7 The approved form shall be submitted by each medical practice to  
8 the governing body of the county in which the medical practice  
9 shortage zone is located and then forwarded to the department by  
10 the governing body of the county.

11 (c) The form referred to in subsection (b) shall be prima  
12 facie evidence of the qualification of a medical practice for  
13 the purposes of this section.

14 SECTION 11. State business tax credit. (a) The director  
15 shall certify annually to the department of taxation the  
16 applicability of the tax credit provided in this part for a  
17 qualified medical practice against any taxes due the State.  
18 Except for the general excise tax, the credit shall be:

- 19 (1) Eighty per cent of the tax due for the first tax year;  
20 (2) Seventy per cent of the tax due for the second tax  
21 year;  
22 (3) Sixty per cent of the tax due for the third tax year;





- 1 (4) Fifty per cent of the tax due the fourth tax year;
- 2 (5) Forty per cent of the tax due the fifth tax year;
- 3 (6) Thirty per cent of the tax due the sixth tax year; and
- 4 (7) Twenty per cent of the tax due the seventh tax year.

5 Any tax credit not usable shall not be applied to future tax  
6 years.

7 (b) When a partnership is eligible for a tax credit under  
8 this section, each partner shall be eligible for the tax credit  
9 provided for in this section on the partner's income tax return  
10 in proportion to the amount of income received by the partner  
11 from the partnership. Any qualified medical practice having  
12 taxable income from the active conduct of a medical or dental  
13 establishment, both within and outside a medical practice  
14 shortage zone, shall allocate and apportion its taxable income  
15 attributable to that production. Tax credits provided for in  
16 this section shall only apply to taxable income of a qualified  
17 medical practice attributable to the active conduct of a medical  
18 or dental establishment within a medical practice shortage zone.

19 (c) In addition to any tax credit authorized under this  
20 section, any qualified medical practice shall be entitled to a  
21 tax credit against any taxes due the State in an amount equal to



1 a percentage of unemployment taxes paid. The amount of the  
2 credit shall be equal to:

- 3 (1) Eighty per cent of the unemployment taxes paid during  
4 the first tax year;
- 5 (2) Seventy per cent of the taxes paid during the second  
6 tax year;
- 7 (3) Sixty per cent of the taxes paid during the third tax  
8 year;
- 9 (4) Fifty per cent of the taxes paid during the fourth tax  
10 year;
- 11 (5) Forty per cent of the taxes paid during the fifth tax  
12 year;
- 13 (6) Thirty per cent of the taxes paid during the sixth tax  
14 year; and
- 15 (7) Twenty per cent of the taxes paid during the seventh  
16 tax year.

17 (d) Tax credits provided for in subsection (c) shall only  
18 apply to the unemployment tax paid on employees employed at the  
19 medical or dental establishment or establishments located within  
20 the medical practice shortage zone. Any tax credit not usable  
21 shall not be applied to future tax years.



1 SECTION 12. State general excise and use tax exemptions.  
2 The director shall certify annually to the department of  
3 taxation that any qualified medical practice is exempt from the  
4 payment of general excise taxes on the gross proceeds from the  
5 conduct of a medical practice for any medical or dental  
6 establishment within a medical practice shortage zone. The  
7 director shall also certify annually to the department of  
8 taxation that any qualified medical practice is exempt from the  
9 use tax for purchases by the qualified medical practice for any  
10 medical or dental establishment within a medical practice  
11 shortage zone. The gross proceeds received by a contractor  
12 licensed under chapter 444, Hawaii Revised Statutes, shall be  
13 exempt from the general excise tax for construction within a  
14 medical practice shortage zone that is performed for a qualified  
15 medical practice within a medical practice shortage zone. The  
16 exemption shall extend for a period not to exceed seven years.

17 SECTION 13. County incentives. A county may propose  
18 county incentives to be made available in a medical practice  
19 shortage zone, including:

- 20 (1) Reduction of permit fees;
- 21 (2) Reduction of user fees;
- 22 (3) Reduction of real property taxes; and



- 1 (4) Regulatory flexibility, including, but not limited to:
- 2 (A) Special zoning districts;
- 3 (B) Permit process reform;
- 4 (C) Exemptions from local ordinances; and
- 5 (D) Other public incentives,
- 6 which shall be binding upon the locality upon
- 7 designation of the medical practice shortage zone.

8 SECTION 14. Termination of medical practice shortage zone.

9 Upon designation of an area as a medical practice shortage zone,

10 the proposals for regulatory flexibility, tax incentives, and

11 other public incentives specified in this part shall be binding

12 upon the county governing body to the extent and for the period

13 of time specified in the agreement by the director pursuant to

14 section 10. If the county governing body is unable or unwilling

15 to provide any of the incentives set forth in section 13 or

16 other incentives acceptable to the director and the director has

17 not adopted rules that supersede inconsistent ordinances and

18 rules relating to medical practice shortage zones, then the

19 medical practice shortage zone shall terminate. Qualified

20 medical practices located within a medical practice shortage

21 zone shall be eligible to receive the state tax incentives

22 provided by this part even though the zone designation has



1 terminated. No medical practice may become a qualified medical  
2 practice within that zone after the date of zone termination.

3 SECTION 15. This part does not affect rights and duties  
4 that matured, penalties that were incurred, and proceedings that  
5 were begun, before its effective date.

6 Part III

7 SECTION 16. If any provision of this Act, or the  
8 application thereof to any person or circumstance is held  
9 invalid, the invalidity does not affect other provisions or  
10 applications of the Act, which can be given effect without the  
11 invalid provision or application, and to this end the provisions  
12 of this Act are severable.

13 SECTION 17. This Act shall take effect upon its approval,  
14 except that section 3 shall take effect on July 1, 2008, and  
15 part II of this Act shall be repealed on June 30, 2020.



**Report Title:**

Student Loan Repayment; Stipend; Medical Practice Shortage Zones

**Description:**

Requires legislative reference bureau to study student loan repayment and stipend payment programs in other jurisdictions to encourage physicians and dentists to serve shortage areas. Appropriates funds. Creates temporary pilot project with the department of business, economic development, and tourism's enterprise zone program to grant tax and other benefits similar to those in an enterprise zone to physicians and dentists who establish or maintain practices in shortage areas. (HB2519 SD2)

