



**House
Legislative
Analysis
Section**

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HOSPITAL FINANCE AUTHORITY ACT

RECEIVED

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House Bill 5266
Sponsor: Rep. Rick Sitz
Committee: Appropriations

Mich. State Law Library

Complete to 3-31-88

A SUMMARY OF HOUSE BILL 5266 AS INTRODUCED 12-30-87

The Hospital Finance Authority Act requires Municipal Finance Commission approval of bonds or notes issued by both the State Hospital Finance Authority and by local finance authorities. The bill would amend the act to delete this requirement for the State Hospital Finance Authority. The bill would also replace the term "hospital" with "health care institution." "Health care institutions" could include facilities not licensed as hospitals, and corporations or other organizations which owned or were owned by other corporations or organizations. While "hospitals" are defined in the act as "organizations engaged solely in some phase of hospital activity," "health care institutions," would be defined in the bill as "organizations engaged in some phase of health care activity." "Project costs" for the acquisition or construction of health care facilities eligible for authority loans would include those costs necessary for the acquisition of a corporation engaged in health care activities, including money necessary to fund reserves. Also included would be working capital and money to meet liabilities that the state authority had determined necessary for the operation of an institution. Under the bill, certain restrictions on bond reserve funds would be deleted, and the current requirement to establish and pay into bond reserve funds would be made optional for the state authority. (Bonds would be defined in the bill as bonds or notes, and "reserves" would mean money determined by the state authority to be reasonably needed to pay a contingent or unliquidated liability or to fund a self-insurance fund). Also deleted would be the present requirement that the Department of Public Health determine whether an office facility is functionally or geographically related to a hospital to qualify for a loan from an authority, and the requirement that the majority of the space in an office facility be leased to direct health care providers. Under the bill, loans made by the state authority could be secured by mortgages or security interests or both, or neither. The provisions of any mortgage, resolution, or deed of trust could be varied, and any mortgage, resolution, or deed of trust could be released by the authority pursuant to a contract with the bondholders, or with their consent.

The authority would have the powers necessary to appoint officers and agents, and to delegate approval of the interest rates on loans to an officer. A provision that requires the authority to charge interest at a rate at least as high as the authority must pay on its bonds and notes would be deleted. The bill would allow the authority to invest in alternative obligations by entering into contracts with the holders of its bonds or notes. The authority could also authorize the issuance of bonds or notes, including, without limitation, commercial paper, and delegate that authority to an officer within certain limits; authorize the issuance of bonds or notes, the interest on which would be specifically subject to intergovernmental immunity from federal taxation; and delegate to an officer or other employee, or an agent, the power to issue and sell, or remarket bonds or notes. The authority could authorize variable rates of interest, and would establish limits as to the form, maximum interest rates, maturity dates, purchase price denominations, redemption

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premiums, nature of the security, applicable interest rate index, and other terms and conditions for its bonds and notes, which could be in either certificate or book entry form. The bill would delete provisions requiring serial bonds to be payable annually or semiannually, restricting notes to no more than five-year maturity dates, and limiting a bond discount rate to 10 percent or less. The bill would grant the state authority -- in addition to the authority to contract with the holders of its notes or bonds as to the custody, collection, securing, investment, and payment of any state authority money -- the authority to contract over money loaned to a health care institution.

In addition to the refinancing of indebtedness issued or incurred by a health care institution with respect to facilities located outside the state, the bill would also allow the state authority to issue bonds to finance project costs related to health care facilities located outside the state, providing that the state authority determined that the bond issuance would enable the health care institution to provide health care services to resident of the state at reasonable costs.

The bill would amend the conditions applicable to refunding bonds. Under present law, the state authority may enter into a loan agreement with a health care institution whose facilities are financed by the proceeds of refunding bonds. The refunding bonds may be invested in direct obligations of the United States or in obligations of which the principal and interest are guaranteed by the United States. The bill would specify that the refunding bonds could be issued by the state authority in other types of investments, pursuant to a contract with the holders of the refunding bonds. In addition to proceeds from the repayment of the loan and any investment earnings or profits on those proceeds, proceeds of the refunding bonds, and the investment earnings or profits on the proceeds of refunding bonds, the bill would allow insurance proceeds and all or any portion of the revenues derived from the health care facilities financed or refinanced from the proceeds of the notes or bonds to be refunded, and any investment earnings or profits on those revenues, to be used to pay the principal, interest and redemption premiums on refunding bonds. The bill would also allow, rather than require, the authority to enter into a loan agreement with a health care institution whose facilities were financed by the proceeds of bonds to be refunded.

Under present law, before the state authority or a local authority may adopt a resolution authorizing the issuance of bonds or notes, the project must obtain a certificate of need under the Public Health Code, or must obtain a determination from the agency issuing the certificate stating that it is not needed. In circumstances where an agency decides to delay the issuance of the certificate in order to evaluate the proposal, the bill would require a project to obtain a letter from such agency stating that a certificate of need would not be required prior to the making of the loan. The requirement would not apply to the financing of working capital, reserves, or liabilities, nor to loans made from the proceeds of any bonds or notes issued by the state authority if the interest could reasonably be expected to be includable in the gross income of the owners of the bonds or notes for the purpose of federal income taxation.