109TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { 109–424

RURAL HEALTH CARE CAPITAL ACCESS ACT OF 2006

APRIL 25, 2006.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. OXLEY, from the Committee on Financial Services, submitted the following

R E P O R T

[To accompany H.R. 4912]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 4912) to amend section 242 of the National Housing Act to extend the exemption for critical access hospitals under the FHA program for mortgage insurance for hospitals, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

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PURPOSE AND SUMMARY

The purpose of this legislation is to extend an existing exemption that allows small, rural hospitals, known as Critical Access Hos-

pitals, to be eligible for mortgage insurance under the Federal Housing Administration (FHA).

BACKGROUND AND NEED FOR LEGISLATION

Hospitals face significant financial challenges when providing care to patients who are covered by Medicare and Medicaid. At the same time, improvements in technology and health care knowledge necessitate capital improvements, such as additions and renovations to existing buildings. It is generally accepted that modern health care facilities would improve the quality of life and the health of the population.

Section 242 of the National Housing Act, enacted in 1968, permits FHA to insure mortgages of hospital sponsors used to finance the replacement, modernization and rehabilitation of existing facilities. Low interest rate costs attributable to FHA financing, as well as the development of more cost efficient facilities, allows costs to both providers and Federal and State reimbursement systems to be substantially reduced.

While FHA's process for reviewing mortgage insurance applications includes more steps, such as a pre-application meeting and review by an independent consultant, and generally takes longer than private insurers, FHA officials believe these extra steps are justified given the generally riskier nature of the hospitals applying. Once it insures a hospital mortgage, FHA monitors the loan using many of the same techniques that private insurers use. For example, both FHA and private insurers identify the riskiest loans in their portfolios for closer monitoring. They also periodically review hospital financial statements and management activities and can require hospitals experiencing financial difficulties to use consultants for needed expertise.

HUD assumes that the lenders for some active hospitals will file claims for insurance and, therefore, increases its estimated claim rate. In 10 of the 14 years that HUD has been estimating the cost of the hospital program under credit reform, HUD has calculated a negative subsidy rate, meaning that estimated cash flows (including fees, premiums, and recoveries on defaulted loans) have been greater than estimated cash outflows (including claims and certain program expenses).

To be eligible for Section 242 financing, a hospital must obtain a certificate of need (CON) from a designated state agency, or in the absence of CON authority, a state commissioned feasibility study. To address those states that lacked CON authority, the Mortgage Insurance Act of 2003 allowed the Secretary of HUD to establish means for determining the need and feasibility for the applicant hospital's proposed project.

In addition, this legislation, signed into law in 2003, created an exemption for Critical Access Hospitals (CAH) to help them qualify for Section 242 mortgage insurance. Critical Access Hospitals (CAH) are rural hospitals with a maximum of 25 beds and must be at least 35 miles from the nearest hospital, although there are exceptions in mountainous areas and for State-designated "necessary providers." Because of the financial challenges associated with providing healthcare in isolated areas, CAHs receive cost-based reimbursement from Medicare.

Despite the efforts of FHA staff, some challenges remained for rural hospitals to gain access to the program. One of these was the statutory requirement in Section 242 that not more than 50 percent of a hospital's adjusted net patient days could be "assignable to the categories of chronic convalescent and rest, drug and alcoholic, epileptic, mentally deficient, mental, nervous and mental, and tuberculosis. . . ." Small rural hospitals sometimes have a hard time meeting this requirement. These rural communities often combine hospitals and nursing homes in order to achieve savings by sharing facilities and services such as pharmacy, food service, etc.

The Hospital Mortgage Insurance Act of 2003 eliminated this so-called patient day test for CAHs thereby making them eligible for FHA mortgage insurance, but limited the exemption to three years. The exemption expires on July 31, 2006.

H.R. 4912 would extend the exemption for Critical Access Hospitals for another five years.

HEARINGS

No hearings were held on this legislation in the 109th Congress.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on March 15, 2006, and ordered H.R. 4912 reported to the House with a favorable recommendation, a quorum being present.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. No record votes were taken in conjunction with the consideration of this legislation. A motion by Mr. Oxley to report the bill to the House with a favorable recommendation was agreed to by a voice vote.

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee has made findings that are reflected in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee establishes the following performance related goals and objectives for this legislation:

The performance goal is to ensure that rural hospitals in every state are able to gain access to FHA mortgage insurance.

Recent healthcare statistics show a huge backlog of capital improvement needs for the majority of hospitals in the United States. Rural hospitals face even fewer opportunities to make much needed repairs, achieve reasonable terms for refinancing, or build replacement facilities.

The goal of this legislation would allow Americans residing in rural areas access to adequate, updated healthcare and medical facilities.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATE

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 27, 2006.

Hon. MICHAEL G. OXLEY,
Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4912, the Rural Health Care Capital Access Act of 2006.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susanne S. Mehlman.

Sincerely,

DONALD B. MARRON,
Acting Director.

Enclosure.

H.R. 4912—Rural Health Care Capital Access Act of 2006

CBO estimates that implementing H.R. 4912 would increase offsetting collections (a credit against discretionary spending) by $1 million to $3 million over the next five years. Enacting the bill would not affect direct spending or revenues.

H.R. 4912 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act. The bill would provide benefits to any hospitals owned by state, local, or tribal governments that apply for and receive Federal Housing Administration (FHA) loan guarantees.

Under the National Housing Act, FHA offers to guarantee private loans used to finance the modernization and rehabilitation of certain hospital facilities. To qualify for such loan guarantees, hospitals must meet certain criteria, including assigning no more than 50 percent of total patient days (that is, essentially the number of days a person is in a hospital) to patients requiring care involving chronic convalescence and rest, drug and alcoholic rehabilitation, and mental issues. Under current law, critical access hospitals,

which are usually small, isolated rural hospitals with a limited number of beds available for acute care, are exempted from this requirement through July 31, 2006.

H.R. 4912 would extend the exemption for critical access hospitals to July 31, 2011. To the extent that additional hospitals would obtain loan guarantees under this bill (after the current cutoff of July 31, 2006), CBO estimates that FHA could earn additional offsetting collections (which are recorded as a reduction in discretionary spending). Under current law, FHA guarantees of loans to hospitals result in net offsetting collections to the federal government because the credit subsidy is estimated to be negative. That is, guarantee fees for new loans more than offset the costs of expected defaults, resulting in net collections from the loan guarantee program.

Based on information from FHA, CBO estimates that, over the next five years, only a few critical access hospitals are likely to need the exemption that would be provided under this bill to be eligible for the FHA loan guarantee. The average hospital loan guarantee is about $18 million and the subsidy rate for this program is estimated to be negative 3.5 percent for fiscal year 2007 and for subsequent years. CBO estimates that enacting this legislation would result in collections of $1 million to $3 million over the fiscal year 2007–2011 period. Such offsetting collections are contingent on enactment of appropriation bills, which establish the authority to make such loan guarantees by specifying commitment levels. Thus, enactment of H.R. 4912 would not affect direct spending or revenues.

The CBO staff contact for this estimate is Susanne S. Mehlman. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds that the Constitutional Authority of Congress to enact this legislation is provided by Article 1, section 8, clause 1 (relating to the general welfare of the United States) and clause 3 (relating to the power to regulate interstate commerce).

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

SECTION-BY-SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This section establishes the short title of the bill, the "Rural Health Care Capital Access Act of 2006."

Section 2. Extension

This section amends paragraph (1) of section 242(i) of the National Housing Act (12 U.S.C. 1715z–7(i)(1)) to extend the exemption for Critical Access Hospitals to remain eligible for FHA mortgage insurance until July 31, 2011.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SECTION 242 OF THE NATIONAL HOUSING ACT

MORTGAGE INSURANCE FOR HOSPITALS

SEC. 242. (a) * * *

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(i) TERMINATION OF EXEMPTION FOR CRITICAL ACCESS HOSPITALS.—

(1) IN GENERAL.—The exemption for critical access hospitals under subsection (b)(1)(B) shall have no effect after July 31, [2006] *2011*.

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