

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 309
 Appropriations

(Delegate Busch, *et al.*)

Budget and Taxation

Prince George's County Regional Medical Center Act of 2016

This bill requires the State and Prince George’s County to provide specified operating and capital funding for a new Prince George’s County Regional Medical Center (PGCRMC). Up to \$8.0 million of the State capital contributions to PGCRMC must be allocated for the development and transformation plan for Laurel Regional Hospital.

The bill takes effect June 1, 2016, but is contingent on the University of Maryland Medical System Corporation (UMMS) becoming the sole corporate member of Dimensions Health Corporation and assuming responsibility of the governance structure of the entity. The bill terminates June 30, 2021.

Fiscal Summary

State Effect: No effect in FY 2016 or 2017. General fund expenditures increase in FY 2018 through 2021 to provide operating grants to PGCRMC. If a specified deficiency appropriation is made in FY 2016, general fund expenditures for FY 2018 are \$15.0 million instead of \$30.0 million. The bill establishes capital funding requirements, which may be met through either the operating or capital budget. This analysis assumes provision of general obligation (GO) bonds for construction of PGCRMC, but the total capital funding required exceeds planned funding by \$8.0 million. Thus, there is limited effect on total State GO bond spending; however, to meet the required annual funding thresholds, funding available for other capital projects may be reduced in the short term. No effect on revenues. **This bill establishes a mandated appropriation beginning in FY 2018.**

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	30.0	15.0	5.0	5.0
Bond Exp.	0	0	-	0	0
Net Effect	\$0.0	(\$30.0)	(\$15.0)	(\$5.0)	(\$5.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Prince George's County expenditures increase, largely commensurate with State general fund expenditures, and by \$208.0 million in capital expenditures to provide funding for PGCRMC. This funding is generally included in Prince George's County's budget plans. Nonetheless, **this bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful, as discussed below.

Analysis

Bill Summary:

Operating Funds: The State must provide operating grants, from fiscal 2018 through 2021, to ensure and assist in the transition of a new PGCRMC to UMMS. Prince George's County must provide a combination of matching funds and other financial assistance. State and county funds must be used to support the transition of PGCRMC from operation under the Dimensions Health Care System to operation as a participating UMMS institution. Funds may be used only for (1) providing increased access to critical health care services for the region served by PGCRMC and improving the quality of services provided and (2) facilitating cost containment measures to prevent additional operating losses for PGCRMC and its affiliated institutions.

Capital Funds: The Governor must include in the capital or operating budget bill specified amounts that are equal to the capital funds committed by Prince George's County to be used for the construction of PGCRMC. Prince George's County must provide matching funds for the capital construction of PGCRMC.

Certificate of Need: Uncodified language expresses legislative intent that the Maryland Health Care Commission (MHCC) must give timely consideration to the certificate of need (CON) application for a replacement facility for the Prince George's Hospital Center.

Exhibit 1 displays the mandated operating and capital funding amounts required to be provided by both the State and Prince George's County under the bill.

Exhibit 1
Operating and Capital Funding Mandated Under the Bill
Fiscal 2017-2021
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>Total</u>
State						
Operating Subsidy ¹	-	\$30.0	\$15.0	\$5.0	\$5.0	\$55.0
General Obligation Bonds	-	67.5	48.0	-	-	115.5
Prince George's County						
Operating Subsidy	\$15.0	15.0	15.0	5.0	5.0	55.0
General Obligation Bonds ²	-	-	-	-	-	208.0
Total	\$15.0	\$112.5	\$78.0	\$10.0	\$10.0	\$433.5

¹Only \$15.0 million must be provided in fiscal 2018 if a grant of \$15.0 million is provided in a fiscal 2016 deficiency appropriation to UMMS by June 30, 2016.

²Prince George's County must provide matching funds of \$208.0 million for the capital construction of the Prince George's County Regional Medical Center. However, annual amounts are not specified in the bill.

Source: Department of Legislative Services

Current Law/Background: The State of Maryland, Prince George's County, and Dimensions Health Care Corporation entered into a memorandum of understanding (MOU) in calendar 2008 to provide financial support to the hospital that included a commitment of \$150.0 million in operating funds over five years split equally between each party and \$24.0 million in State capital funding over three years. The MOU was updated in calendar 2011 to include UMMS and the University System of Maryland. After a two-year review period, a plan was developed to create a new regional medical center. A CON application for PGCRMC was submitted in October 2013, describing plans to replace and relocate the Prince George's Hospital Center in Cheverly with a new regional medical center at the Boulevard at the Capital Centre in Largo.

As set forth in the MOU, both the State and Prince George's County have provided significant financial support in recent years to keep the system functional and avoid significant operational deficits, potential bankruptcy, and even closure. **Exhibit 2** shows operating and capital support provided by the State and Prince George's County to Prince George's Hospital System (including funding for infrastructure improvements for Prince George's Hospital and funds for the new PGCRMC) from fiscal 2009 through 2016.

Exhibit 2
Operating and Capital Support Provided to Prince George's Hospital System
Fiscal 2009-2016
(\$ in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>Total</u>
State									
Operating Subsidy	\$12.0	\$12.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	-	\$99.0
General Obligation Bonds	-	-	-	4.0	10.0	30.0	15.0	30.0	89.0
Prince George's County									
Operating Subsidy	12.0	12.0	15.0	15.0	15.0	15.0	15.0	15.0	114.0
Total	\$24.0	\$24.0	\$30.0	\$34.0	\$40.0	\$60.0	\$45.0	\$45.0	\$302.0

Note: This exhibit does not capture the operating and capital support provided by the State to the Prince George's Hospital System prior to the 2008 memorandum of understanding. Between fiscal 2002 and 2007, \$15.8 million and \$13.0 million were provided to the hospital system in operating and capital funding, respectively.

Source: Department of Legislative Services

State Expenditures: Supplemental Budget No. 1 of the fiscal 2017 budget includes \$15.0 million in general funds to provide an operating grant to UMMS for PGCRMC. The supplemental budget also expresses the intent of the Administration to provide operating grants of \$15.0 million in fiscal 2018 and 2019 and \$5.0 million in fiscal 2020 and 2021.

Under the bill, general fund expenditures increase by a total of \$55.0 million from fiscal 2018 through 2021, to provide operating subsidies to PGCRMC. General fund expenditures increase by \$30.0 million in fiscal 2018; however, if a grant of \$15.0 million is provided in a fiscal 2016 deficiency appropriation to UMMS by June 30, 2016, general fund expenditures are \$15.0 million in fiscal 2018, as specified in the bill. General fund expenditures also increase by \$15.0 million in fiscal 2019 and \$5.0 million in both fiscal 2020 and 2021 to provide the mandated appropriations.

The bill requires the Governor to include a total of \$115.5 million in the capital or operating budget bill, in fiscal 2018 and 2019, for the capital construction of PGCRMC; specifically, \$67.5 million in fiscal 2018, and \$48.0 million in fiscal 2019. Although the General Assembly may only mandate appropriations in the operating budget, this analysis assumes that the Governor satisfies these mandates with GO bonds. Overall capital spending, which is established annually through the capital budget process and subject to limits recommended by the Spending Affordability Committee, is not affected. To the extent that GO bonds are allocated to PGCRMC, other State capital projects receive less funding and/or are delayed.

The fiscal 2017 capital budget includes \$27.5 million for PGCRMC. PGCRMC has already received \$65.0 million in prior authorizations of GO bonds since fiscal 2014. The Governor's out-year *Capital Improvement Program* (CIP) includes funding for PGCRMC as follows: \$67.5 million in fiscal 2018 (as required under the bill) and \$40.0 million in fiscal 2019 (\$8.0 million less than required under the bill).

Local Expenditures: Prince George's County expenditures increase by a total of \$55.0 million in fiscal 2017 through 2021 to provide operating subsidies to PGCRMC, including annual contributions of \$15.0 million in fiscal 2017 through 2019 and \$5.0 million in fiscal 2020 and 2021. Additionally, the county must provide \$208.0 million in capital funds toward construction of PGCRMC, although no annual amounts or fiscal years are specified in the bill. According to Prince George's County, \$15.0 million for an operating subsidy is included in the county's fiscal 2017 operating budget, and \$208.0 million is included in the county's six-year CIP. The county has issued a certificate of participation, which will make the entire \$208.0 million available as soon as the CON is approved by MHCC.

Small Business Effect: According to Prince George’s County, PGCRMC is anticipated to have a significant positive impact on the county’s small business climate through the construction and operation of the medical center and investment in new allied, senior, and specialty care providers near the proposed medical center.

Additional Comments: Prince George’s County advises that construction of PGCRMC is estimated to generate approximately \$34.7 million in State and local tax revenues and the medical center itself will generate approximately \$19.0 million annually in State and local tax revenues.

Additional Information

Prior Introductions: None.

Cross File: SB 324 (Senator Miller, *et al.*) - Budget and Taxation.

Information Source(s): Prince George’s County, University of Maryland Medical System, Department of Budget and Management, Department of Legislative Services

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