

ZA00P
Miscellaneous Grant Programs

Prince George's Hospital System (Prince George's County)

General Obligation Bonds **\$10,000,000**

Summary of Recommended Bond Actions

1. Prince George's Hospital System

Amend the authorization so that funding may only be expended to finance the State's share of the cost for a new hospital facility in Prince George's County.

Bill Text: Provide a grant to the County Executive and County Council of Prince George's County for the construction and renovation of infrastructure improvements for facilities within the Prince George's Hospital System.

Program Description: The Prince George's County Health System (PGHS), currently operated by Dimensions Healthcare System, consists of a number of parts – Prince George's Hospital Center, a 269-bed acute-care hospital and regional referral center; Laurel Regional Hospital, a 138-bed acute-care community hospital; the Gladys Spellman Specialty Hospital and Nursing Center, a 110-bed comprehensive care and chronic care facility; and the Bowie Health Center. The system has experienced lost market share, revenue losses, low liquidity, significant deferred capital needs, poor bond ratings, and a disadvantageous payor mix. Both the State and Prince George's County have provided significant financial support in recent years in order to keep the system functional and avoid significant operational deficits, potential bankruptcy, and even closure.

The State of Maryland and Prince George's County entered into a memorandum of understanding (MOU) in 2008 to provide financial support to the hospital that included a commitment of \$150 million in operating funds over five years split equally between each party and the \$24 million in State capital funding over three years. Under the MOU signed by the State and the county, those multi-year funding commitments take effect only after an agreement to transfer the hospital system to a new owner or owners. While a transfer agreement has not yet materialized, the State and Prince George's County have formed a partnership with the University of Maryland Medical System (UMMS), the University System of Maryland (USM), and Dimensions Health Corporation to develop a plan to improve PGHS, including transforming the county's health care system with a new regional medical center, supported by a comprehensive primary care network. State capital funding will be used to make improvements to existing facilities and potentially construct new facilities within PGHS.

Project Analysis

Background

The most recent effort to improve the financial situation of the system was the establishment of the Prince George’s County Hospital Authority (Chapter 680 of 2008 subsequently amended by Chapters 116 and 117 of 2009). The authority was established as a State entity to implement a competitive bidding process for transferring PGHS to a new owner or owners.

Following the creation of the authority and stemming from the desire to facilitate the transfer of the health care system by providing financial support to the new owners to assist their efforts to stabilize and improve the system, the State and the county entered into a MOU in 2008 that specified the terms and conditions of the financial support provided by each party. As shown in **Exhibit 1** the MOU included a total of \$222 million in operating and capital support between fiscal 2009 and 2015. It is important to note that Exhibit 1 does not capture the operating and capital support provided to Prince George’s Hospital System prior to the 2008 MOU. Between fiscal 2002 to 2007, \$15.8 million and \$13.0 million was provided to the hospital system in operating and capital funding, respectively.

Exhibit 1
Financial Support for Prince George’s Hospital System
Fiscal 2009-2015
(\$ in Millions)

	Authorizations					
	<u>2009-2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
State						
Operating Subsidy	\$39.0	\$15.0	\$15.0	\$15.0	\$15.0	\$99.0
GO Bonds		4.0	10.0	10.0		24.0
Prince George’s County						
Operating Subsidy	39.0	15.0	15.0	15.0	15.0	99.0
Total	\$78.0	\$34.0	\$40.0	\$40.0	\$30.0	\$222.0

GO: general obligation

Source: Department of Legislative Services, 2008 memorandum of understanding

In January 2010, the authority announced that it did not believe that the system could be sold, and the authority expired without a transfer in place. However, the authority did make a series of broad recommendations, including continuing to search for a permanent owner and getting stakeholder and regulatory approval for a new inpatient facility to replace the Prince George's Hospital.

Long-term Plan Includes Building a New Inpatient Facility to Replace the Prince George's Hospital Center

Although a transfer agreement has not yet materialized, on July 21, 2011, Prince George's County, the State of Maryland, UMMS, USM, and Dimensions Health Corporation, entered into an MOU that outlines an 18-month, three-step process to develop the strategy, financing, and execution of a plan to build a new regional teaching medical center and improve the primary care system in Prince George's County, and for the University of Maryland, Baltimore (UMB) to establish a health sciences campus in conjunction with the new hospital. The three-step process detailed in the MOU is outlined below:

- **Step One – Development of a Strategic Plan:** This step includes determining the appropriate scale for a new regional medical center, including the primary care network's impact on the regional health system; developing an ambulatory care network strategy; accounting for health care reform; developing a strategy to address physician and allied health care provider recruitment and retention; assessing the feasibility of a UMB health science presence in the new system; and utilizing the University of Maryland College Park School of Public Health to assess the public health impact in Prince George's County. UMMS will finance this step of the process, and it is currently under way.
- **Step Two – Cost Projections and Agreement on Cost Sharing:** Step two includes refining project costs, including the construction of a new regional medical center and improvements at existing sites, as well as the capital needs and operating costs for a primary care network in Prince George's County. During this step, the involved parties will assess whether the proposed transformation of the health system is financially viable, including costs of a transition period and the discharge of liabilities. Finally, the cost allocations for the new regional facility will be determined. Step two is estimated to cost \$0.4 million, and costs will be shared equally between the involved parties.
- **Step Three – Execution of Strategic Plan:** The final step will include site selection evaluation for the new regional medical center; architectural design of the center and existing site renovations; and the submission of a Certificate of Need application for the regional medical center. The cost of step three is estimated at \$1.2 million and will be divided equally between parties.

During the 18-month process, UMMS and Dimensions Health Corporation will work collaboratively to increase the quality of care and to reduce operating losses at Prince George's

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Hospital Center. The parties will also develop a plan to transfer the assets and to discharge Dimensions Health System's current debt and liabilities. The MOU indicates the State and Prince George's County will seek funding as needed to sustain operations during the transition and to assist in the discharge of liabilities. This project is currently estimated to cost over \$600 million. This estimate does not include enhancements to the existing primary care network in Prince George's County or discharge of current liabilities. It remains unclear how this plan will be financed as it is not included in the *Capital Improvement Program*; however, it is important to note that the State will likely fund a large portion of the project, and construction is scheduled to begin in the first quarter of calendar 2014.

On October 20, 2011, the Governor and the Prince George's County Executive jointly signed a letter of intent that reflects the county and the State's commitment to provide \$30 million in total funding in fiscal 2012. Furthermore, the letter specifies that either party's contribution is contingent on a like match from the other. In accordance with the MOU signed on July 21, 2011, funding provided by the State and the county may be used for the following purposes: (1) to support Dimension's continued provision of critical health care services during the transition; (2) to begin satisfaction of the System's current liabilities; (3) to help facilitate cost containment measures necessary to stem current operating losses; and (4) to finance the State and county's share of the cost to develop financial projections, site selection, and architectural plans for a new hospital facility in Prince George's County. It is important to note that the Governor's fiscal 2013 allowance for the Family Health Administration includes \$15 million in operating support.

Fiscal 2013 Capital Support

The Governor's fiscal 2013 capital budget includes \$10 million for the construction and renovation of infrastructure improvements for facilities within PGHS. According to the documents obtained from the Department of Budget and Management, the funds may be used to make improvements to existing facilities or to construct new facilities identified at the conclusion of the 18-month process discussed above. It is also noted that any improvements will be agreed to by the State and Prince George's County. Prince George's County plans on using these funds for equipment replacement despite plans to build a new regional hospital center in the county. Furthermore, DHMH and Prince George's County still have not submitted a report updating the committees on the planned use of the \$4 million fiscal 2012 capital authorization. Subsequently, the fiscal 2012 authorization has not been released. The restriction of capital budget support in fiscal 2012 will be discussed more in the Issues section of this document; however, the Department of Legislative Services (DLS) notes that this funding still may be used for equipment replacement assuming DHMH and Prince George's County submit the aforementioned report. **Therefore, DLS recommends that the \$10 million grant should only be expended in accordance with the MOU signed on July 21, 2011. Funding should only be expended to finance the State's share of the costs for the acquisition, design and construction of a new regional hospital center in Prince George's County.**

Issues

1. Restriction of Capital Budget Support in Fiscal 2012

The Governor's fiscal 2012 capital budget included \$4 million for infrastructure improvements to PGHS. The planned uses of the \$4 million included both equipment replacement and infrastructure improvements for the system. Due to speculation that a new inpatient facility would be built to replace the Prince George's Hospital Center, DLS recommended restricting funding for the improvement of PGHS until the transfer of ownership is complete, per language in the 2008 MOU, which dictated a long-term funding commitment for the system. DLS also advised that the grant funds in fiscal 2012 should not be used for Prince George's Hospital Center if it is indeed scheduled to close. Ultimately, the General Assembly adopted the recommendation to restrict funding and required the Department of Health and Mental Hygiene (DHMH) and Prince George's County to submit a report updating the budget committees on the planned use of the \$4 million in general obligation bonds.

The October 20, 2011 letter of intent reiterates the commitment of capital funding in fiscal 2012, subject to the conditions set forth above. Additionally, the letter specifies that funding may be used for infrastructure improvements necessary to advance the goal of transitioning the system to a new owner or owners as outlined in the July 21, 2011 MOU. At the time of this writing, the fiscal 2012 capital funding of \$4 million for Prince George's Hospital System has not been released. **DHMH and Prince George's County should advise the committees of the status of this report, including whether this funding could be utilized for equipment replacement.**

GO Bond Recommended Actions

1. Amend the authorization so that funding may only be expended to finance the State’s share of the cost for a new hospital facility in Prince George’s County.

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Add the following language:

Prince George’s Hospital System. Provide a grant to the County Executive and County Council of Prince George’s County ~~for the construction and renovation of infrastructure improvements for facilities within the Prince George’s County Hospital System~~ to fund the State’s share of costs for the acquisition, design, and construction of a new regional hospital center in Prince George’s County (Prince George’s County)

Explanation: This amendment requires the fiscal 2013 authorization to be expended in accordance with the July 21, 2011 MOU which, among other things, indicates funding may only be used to finance the State’s share of costs for the design of a new hospital facility in Prince George’s County.