

**ZA00AD**  
**Miscellaneous Grant Programs**  
 Prince George's Hospital System

***Capital Budget Summary***

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**Grant and Loan Capital Improvement Program**  
 (\$ in Millions)

| <i>Program</i>   | <i>2013<br/>Approp.</i> | <i>2014<br/>Approp.</i> | <i>2015<br/>Request</i> | <i>2016<br/>Estimate</i> | <i>2017<br/>Estimate</i> | <i>2018<br/>Estimate</i> | <i>2019<br/>Estimate</i> |
|--|-------------------------|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Prince George's Hospital System<br>New Regional Medical Center | \$0.000                 | \$20.000                | \$30.000                | \$30.000                 | \$30.000                 | \$90.000                 | \$0.000                  |
| Prince George's Hospital System<br>Infrastructure Improvements | 10.000                  | 10.000                  | 0.000                   | 0.000                    | 0.000                    | 0.000                    | 0.000                    |
| <b>Total</b>   | <b>\$10.000</b>         | <b>\$30.000</b>         | <b>\$30.000</b>         | <b>\$30.000</b>          | <b>\$30.000</b>          | <b>\$90.000</b>          | <b>0.000</b>             |

| <i>Fund Source</i> | <i>2013<br/>Approp.</i> | <i>2014<br/>Approp</i> | <i>2015<br/>Request</i> | <i>2016<br/>Estimate</i> | <i>2017<br/>Estimate</i> | <i>2018<br/>Estimate</i> | <i>2019<br/>Estimate</i> |
|--------------------|-------------------------|------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| GO Bonds           | \$10.000                | \$30.000               | \$30.000                | \$30.000                 | \$30.000                 | \$90.000                 | \$0.000                  |

DLS: Department of Legislative Services  
 GO: general obligation

***Summary of Recommended Bond Actions***

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1. Prince George's Hospital System

Approve the \$30,000,000 general obligation bond authorization to continue site acquisition, design, construction, and equipping of the new regional medical center in Prince George's County.

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## ***Program Description***

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The Prince George’s Hospital System (PGHS), currently operated by Dimensions Healthcare Corporation, consists of several 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; and the Bowie Health Center. The system has experienced losses in 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, Prince George’s County, and the Dimensions Healthcare Corporation entered into a memorandum of understanding (MOU) in calendar 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 \$24 million in State capital funding over three years. The MOU was updated in calendar 2011 to include the University of Maryland Medical System (UMMS) and the University System of Maryland (USM).

In accordance with the updated MOU, this project will construct a new regional medical center and make improvements to existing health facilities in PGHS. The fiscal 2015 allowance includes \$30 million in general obligation bond funding to acquire a site as well as to design and construct the regional medical center.

## ***Budget Overview***

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The most recent effort to improve the system’s financial situation was the establishment of the Prince George’s 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 \$222.0 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 PGHS prior to the 2008 MOU. Between fiscal 2002 and 2007, \$15.8 million and \$13.0 million were provided to the hospital system in operating and capital funding, respectively.

**Exhibit 1**  
**Financial Support for Prince George’s Hospital System**  
**Fiscal 2012-2015**  
**(\$ in Millions)**

|                               | <u>Prior</u><br><u>Authorizations</u> | <u>2012</u>   | <u>2013</u>   | <u>2014</u>   | <u>2015</u>   | <u>Total</u>   |
|-------------------------------|---------------------------------------|---------------|---------------|---------------|---------------|----------------|
| <b>State</b>                  |                                       |               |               |               |               |                |
| Operating Subsidy             | \$39.0                                | \$15.0        | \$15.0        | \$15.0        | \$15.0        | \$99.0         |
| General Obligation Bonds      |                                       | 4.0           | 10.0          | 10.0          |               | 24.0           |
| <b>Prince George’s County</b> |                                       |               |               |               |               |                |
| Operating Subsidy             | 39.0                                  | 15.0          | 15.0          | 15.0          | 15.0          | 99.0           |
| <b>Total</b>                  | <b>\$78.0</b>                         | <b>\$34.0</b> | <b>\$40.0</b> | <b>\$40.0</b> | <b>\$30.0</b> | <b>\$222.0</b> |

Source: Department of Legislative Services, 2008 Memorandum of Understanding

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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.

**Prince George’s Hospital System’s New Regional Medical Center**

On July 21, 2011, Prince George’s County, the State of Maryland, UMMS, USM, and the Dimensions Health Corporation entered into an MOU outlining 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 science campus in conjunction with the new hospital. The three-step process detailed in the MOU is outlined in **Exhibit 2**.

**Exhibit 2**  
**Memorandum of Understanding Process**

**Deliverables**

**Status**

- |  |  |
|--|--|
| I. Development of a Strategic Plan                 | A public health impact study was completed in July 2012. The scale of the new regional medical center was determined at 278 beds.  |
| II. Cost Projections and Agreement on Cost Sharing | Estimated costs for the new center total \$645.5 million, with State support programmed at \$200.0 million over five years. Prince George’s County will also provide \$208.0 million toward the cost of the new center. Remaining funds will be derived from the issuance of debt by a newly created corporate entity. Debt financing is expected to be funded thorough the inclusion of debt service with the hospital rates. |
| III. Execution of Strategic Plan                   | The Largo Town Center has been tentatively selected as the site for the new center. A certificate of need application is currently under review by the Maryland Health Care Commission.  |

Source: University of Maryland Medical System

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**Financing of New Regional Medical Center Includes \$200 Million State Commitment**

Estimated capital costs for the new facility total \$645.5 million. It is important to note that this estimate does not include enhancements to the existing primary care network in Prince George’s County or the discharge of the Dimension Healthcare Corporation’s current liabilities. The State’s support of the project is programmed at \$200.0 million and is programmed over five years. Prince George’s County will also provide \$208.0 million toward the cost of the new facility. The remaining funds will be derived from the issuance of debt by the newly created corporate entity. It is expected that the financing of this debt will be funded through the inclusion of debt service with the hospital rates.

The Health Services and Cost Review Commission (HSCRC) must grant approval to include debt service in the hospital’s rates. HSCRC sets standard rates that hospitals may charge for the purchase of care. This system encourages access to health care regardless of the ability to pay and prevents shifting of costs between payors. The commission’s ability to standardize rates for all payors, including Medicare and Medicaid, was established in 1980 by federal legislation, with continued regulatory authority contingent on the commission’s ability to contain the rate of growth of Medicare hospital admissions costs. In recognition of PGHS’s financial problems, HSCRC increased rates to provide additional revenue assistance of \$34 million between fiscal 2001 and 2007.

It should be noted that, while the State’s total funding commitment for the project remains at \$200 million, State funding has been somewhat accelerated – from \$20 million provided annually through fiscal 2017 to \$30 million provided annually through fiscal 2017 (with the remainder to be provided in fiscal 2018). However, it should be further noted that, of the \$30 million in State funding provided in fiscal 2014, \$5 million is restricted pending an MOU regarding joint education and research programs among PGHS, UMB, and UMCP. **USM should comment on the status of the MOU and the expected timeline for the satisfaction of this requirement.**

### **Future Steps**

It was envisioned that the new regional medical center would be located in a central area of Prince George’s County, with convenient access to residents of Prince George’s and other Southern Maryland counties for tertiary care. Several sites were considered, and the Largo Town Center has been tentatively selected. However, the acquisition of that site is still under negotiation.

The site selection is one component for the certificate of need (CON) application that is currently under review by the Maryland Health Care Commission. Any opposition to the application (or related circuit court action) could delay the CON process. **UMMS should comment on the status of the land acquisition and CON process, including whether any potential delays are foreseen.**

### **UMMS Requests to Proceed with Design in Absence of CON**

Although the actual size and scope of the new facility is predicated on the availability of the land and the completion of the CON process – neither of which has been finalized – UMMS has requested the State to allow State funds to be used for design so that the project will remain on schedule and on budget. (Prince George’s County has indicated that it will not contribute funding for project design until the CON process has been completed.) **UMMS should comment on the relative risks and benefits of moving forward with project design prior to achieving CON certification and/or finalizing land acquisition negotiations.**

## ***GO Bond Recommended Actions***

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1. Approve the \$30,000,000 general obligation bond authorization to continue site acquisition, design, construction, and equipping of the new regional medical center in Prince George’s County.