

**ZA00N**  
**Prince George's Hospital System**  
**Miscellaneous Grant Programs**

***Capital Budget Summary***

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

<b>Program</b>	<b>2015 Approp.</b>	<b>2016 Approp.</b>	<b>2017 Request</b>	<b>2018 Estimate</b>	<b>2019 Estimate</b>	<b>2020 Estimate</b>	<b>2021 Estimate</b>
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Prince George's Hospital System New Regional Medical Center	\$15.000	\$30.000	\$27.500	\$67.500	\$40.000	\$0.000	\$0.000
<b>Total</b>	<b>\$15.000</b>	<b>\$30.000</b>	<b>\$27.500</b>	<b>\$67.500</b>	<b>\$40.000</b>	<b>\$0.000</b>	<b>\$0.000</b>

<b>Fund Source</b>	<b>2015 Approp.</b>	<b>2016 Approp.</b>	<b>2017 Request</b>	<b>2018 Estimate</b>	<b>2019 Estimate</b>	<b>2020 Estimate</b>	<b>2021 Estimate</b>
GO Bonds	\$15.000	\$30.000	\$27.500	\$67.500	\$40.000	\$0.000	\$0.000
<b>Total</b>	<b>\$15.000</b>	<b>\$30.000</b>	<b>\$27.500</b>	<b>\$67.500</b>	<b>\$40.000</b>	<b>\$0.000</b>	<b>\$0.000</b>

GO: general obligation

***Summary of Recommended Bond Actions***

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1. Prince George's Hospital System

Approve the \$27,500,000 general bond authorization to continue design, construction, and equipping of the new regional medical center in Prince George's County.

## ***Program Description***

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The Prince George’s Hospital System (PGHS), currently operated by Dimensions Healthcare System, consists of several parts: Prince George’s Hospital Center (PGHC), 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, Prince George’s County, and the Dimensions Healthcare System 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.

The State fulfilled the requirements of the July 2011 MOU by providing \$60 million in operating support and \$24 million in capital support between fiscal 2012 and 2015.

In accordance with the updated MOU, this project will construct a new regional medical center, Prince George’s Regional Medical Center (PGRMC), and make improvements to existing health facilities in PGHS. The fiscal 2017 allowance includes \$27.5 million in general obligation (GO) bond funding to continue design, construction, and equipping of the new regional medical center.

## ***Budget Overview***

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PGHC has continued to confront financial problems that have not been successfully resolved since they started in fiscal 1999. Between fiscal 1999 and 2001, PGHC had a net financial loss of over \$40 million. Due to the financial difficulties, PGHC entered into two restructuring engagements by national turnaround companies. Additionally, from fiscal 2002 to 2005, there were three different governmentally mandated oversight groups, the most recent of which was the result of an MOU between the State and Prince George’s County in February 2004. After the Health Services Cost Review Commission (HSCRC) was reluctant to raise rates in the absence of a viable “Recovery and Restructuring” plan for PGHC in fiscal 2003, the State and Prince George’s County signed an MOU to provide financial support to the hospital and create a financial action plan designed to support and enhance the medical services provided by PGHC, Laurel Regional Hospital, and other health care facilities managed by Dimensions Healthcare System.

In accordance with the MOU, the county and the State appointed an oversight committee that received interim reports from a management consultant on a recovery/restructuring plan. Both the county and the State committed funding, including \$5.0 million in GO bond funding from the State, for

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capital needs and \$30.0 million in funds from Prince George’s County. The oversight committee recommended replacing Dimensions Healthcare System and determining the level of interim funding needed to allow the health care system to continue operating until a new owner had been identified. The MOU terminated in October 2006. However, between fiscal 2002 and 2007, \$15.8 million and \$13.0 million were provided by the State to the hospital system in operating and capital funding, respectively.

In fiscal 2008, the Prince George’s County Hospital Authority was established (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 the 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 an MOU in 2008 that specified the terms and conditions of the financial support provided by each party. 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.

As set forth in the MOU, 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 MOU articulated a total of \$222 million in operating and capital support between fiscal 2009 and 2015.

The MOU did not articulate operating support beyond fiscal 2015, and the fiscal 2016 appropriation did not include an operating subsidy for the system nor additional capital funds to support existing PGHS infrastructure improvements. However, \$15 million of general funds included by the Governor in Supplemental Budget No. 1 provides an operating grant in fiscal 2017 to the Board of Directors of UMMS to assist in the transition to the new PGRMC. Intent language also commits the State to an additional \$15 million to be provided in fiscal 2018 and 2019 and \$5 million to be provided in fiscal 2020 and 2021 for a total of \$55 million. Proposed legislation in the 2016 session would increase the fiscal 2018 funding to \$30 million in the absence of a \$15 million deficiency appropriation in fiscal 2016.

### **Fiscal 2017 Capital Support**

State support for the project is currently programmed at \$200.0 million over five years. Through fiscal 2017, the State has authorized \$92.5 million in GO bond funds, which UMMS is currently using to support the design stage of the project. Prince George’s County will provide an additional \$208.0 million toward the cost of the new facility, which is structured to be available in one lump sum upon approval of the certificate of need (CON) application by the State. The CON application has yet to be approved. The remaining UMMS contribution is expected to come from the issuance of debt – specifically, with annual debt service funded through the inclusion of debt service within hospital rates. However, HSCRC, which sets standard rates that hospitals may charge for the purchase of care, must grant approval for debt service to be included in the hospital’s rates.

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Although the State’s total funding commitment for the project has remained at \$200 million, the timing of State funding has been modified to more closely align the State’s funding with anticipated project expenditures. **Exhibit 1** shows recent changes in the State’s programmed funding commitment.

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**Exhibit 1**  
**Recent Changes in State Funding Plan**  
**(\$ in Millions)**

<u>Fiscal Year</u>	<u>2013 Session</u> <u>CIP</u>	<u>2014 Session</u> <u>CIP</u>	<u>2014 Session</u> <u>MCCBL</u>	<u>2015 Session</u> <u>MCCBL</u>	<u>2016 Session</u> <u>CIP</u>
2014	\$20.0	\$20.0	\$20.0	\$20.0	\$20.0
2015	20.0	30.0	15.0	15.0	15.0
2016	20.0	30.0	40.0	30.0	30.0
2017	20.0	30.0	35.0	45.0	27.5
2018	120.0	90.0	90.0	90.0	67.5
2019					40.0
<b>Total</b>	<b>\$200.0</b>	<b>\$200.0</b>	<b>\$200.0</b>	<b>\$200.0</b>	<b>\$200.0</b>

CIP: *Capital Improvement Program*

MCCBL: *Maryland Consolidated Capital Bond Loan*

Source: Department of Budget and Management; Department of Legislative Services

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As demonstrated in Exhibit 1, the intent language in the Maryland Consolidated Capital Bond Loan (MCCBL) of 2014 scheduled \$40.0 million in capital funding for the project in fiscal 2016. However, due to reduced debt capacity, the MCCBL of 2015 reduces this amount by \$10.0 million while increasing scheduled fiscal 2017 funding in an equal amount (therefore, leaving total funding for the project intact). The MCCBL of 2015 had scheduled \$45.0 million in capital funding for the project in fiscal 2017 and \$90.0 million in fiscal 2018. However, to align funding with the timing of expenditures, the 2016 *Capital Improvement Plan* (CIP) reduces those amounts by \$17.5 million and \$22.5 million, respectively while increasing fiscal 2019 funding in an equal amount.

Costs for the design, construction, and capital equipping for PGRMC are estimated to total \$651.2 million. The estimate is preliminary as the design process is still underway. In addition, the preliminary estimate does not include any enhancements to the existing primary care network in the county or the discharge of the Dimension Healthcare Corporation’s current liabilities. Prince George’s County and the State are each expected to contribute \$208.0 million to the funding of this project, however the CIP only includes \$200.0 million. Legislation proposed in the 2016 session would include an additional \$8.0 million in capital funds for fiscal 2019.

## **Current Status of the Project**

It had been envisioned that PGRMC would be located in a central area of Prince George’s County with convenient access to tertiary care for residents of Prince George’s and other Southern Maryland counties. Several sites were considered, and the Largo Town Center was ultimately selected. Construction of site work and infrastructure was expected to begin in September 2015 with the beginning of the construction phase overlapping with the completion of design.

Site selection is one component for the CON application that is currently under review by the Maryland Health Care Commission (MHCC). UMMS advises that among other factors being considered by MHCC is the formation of a companion rate agreement by HSCRC. UMMS further advises that it submitted an amendment to its CON application in February 2015 and expected its application to be docketed imminently – at which point legal challenges to the project, if any, could be raised. Any opposition to the application (or related circuit court action) could delay the CON application process. Dimensions Healthcare System was notified in August 2015 that MHCC appointed a commissioner reviewer.

Although the actual size and scope of the new facility is predicated on the completion of the CON application process, UMMS received approval from the State to allow State funds to be used for design so that the project will remain on schedule and on budget.

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

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1. Approve the \$27,500,000 general bond authorization to continue design, construction, and equipping of the new regional medical center in Prince George’s County.