

**ZA00R**  
**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>Prior Auth.</b>	<b>2018 Request</b>	<b>2019 Est.</b>	<b>2020 Est.</b>	<b>2021 Est.</b>	<b>2022 Est.</b>	<b>Beyond CIP</b>
Prince George's Hospital System New Regional Medical Center	\$92.500	\$11.300	\$48.000	\$56.200	\$0.000	\$0.000	\$0.000
<b>Total</b>	<b>\$92.500</b>	<b>\$11.300</b>	<b>\$48.000</b>	<b>\$56.200</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>

<b>Fund Source</b>	<b>Prior Auth.</b>	<b>2018 Request</b>	<b>2019 Est.</b>	<b>2020 Est.</b>	<b>2021 Est.</b>	<b>2022 Est.</b>	<b>Beyond CIP</b>
GO Bonds	\$92.500	\$11.300	\$48.000	\$56.200	\$0.000	\$0.000	\$0.000
<b>Total</b>	<b>\$92.500</b>	<b>\$11.300</b>	<b>\$48.000</b>	<b>\$56.200</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>

CIP: *Capital Improvement Program*  
GO: general obligation

***Summary of Recommended Bond Actions***

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1. Prince George's Hospital System

Approve the \$11,300,000 general obligation bond authorization to continue the 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 the Dimensions Healthcare System, consists of several parts: the Prince George’s Hospital Center (PGHC), a 269-bed acute-care hospital and regional center; the 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 support in recent years in order to keep the system functional and avoid significant operational deficits, potential bankruptcy, and even closure.

This project will construct a new regional medical center, the Prince George’s Regional Medical Center (PGRMC), and make improvements to existing health facilities in PGHS. The new PGRMC will be built at Largo Town Center. The center will include 205 acute-inpatient beds and offer services available at the current hospital, including a 15-bed special pediatric unit at the Mt. Washington Pediatric Hospital, which is part of the current hospital center complex. In addition to the hospital building, the project incorporates an Ambulatory Care Center that will be adjacent to the new hospital. The fiscal 2018 allowance includes \$11.3 million in general obligation (GO) bond funding to continue the 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 a Memorandum of Understanding (MOU) between the State and Prince George’s County in February 2004. After the Health Services Cost Review Commission 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, the Laurel Regional Hospital, and other health care facilities managed by the 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. The oversight committee recommended replacing the 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.

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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 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.

The 2008 MOU articulated a total of \$222 million in operating and capital support between fiscal 2009 and 2015. 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. **Exhibit 1** shows operating and capital support provided by the State and Prince George’s County to PGHS (including funding for infrastructure improvements for PGHC and funds for the new PGRMC) from fiscal 2009 through 2016.

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**Exhibit 1**  
**Operating and Capital Support Provided to Prince George’s Hospital System**  
**Fiscal 2009-2017**  
**(\$ in Millions)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
<b>State</b>										
Operating Subsidy	\$12.0	\$12.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$0.0	\$7.5	\$106.5
General Obligation Bonds	0.0	0.0	0.0	4.0	10.0	30.0	15.0	30.0	27.5	116.5
<b>Prince George’s County</b>										
Operating Subsidy	12.0	12.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	129.0
<b>Total</b>	<b>\$24.0</b>	<b>\$24.0</b>	<b>\$30.0</b>	<b>\$34.0</b>	<b>\$40.0</b>	<b>\$60.0</b>	<b>\$45.0</b>	<b>\$45.0</b>	<b>\$50</b>	<b>\$352.0</b>

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

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The MOU did not articulate operating support beyond fiscal 2015, and the fiscal 2016 appropriation did not include a State operating subsidy for the system nor additional capital funds to

support existing PGHS infrastructure improvements. Chapter 13 of 2016 provided for up to \$70 million of operating support between fiscal 2017 and 2021. As shown in **Exhibit 2**, the Budget Reconciliation and Financing Act of 2017 changes the funding schedule and provides the \$70 million between fiscal 2017 and 2022.

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**Exhibit 2**  
**Operating Support Provided to Prince George’s Hospital System**  
**Fiscal 2017-2022**  
**(\$ in Millions)**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Fiscal 2017 Appropriation and Chapter 13 of 2016	\$15.0	\$30.0	\$15.0	\$5.0	\$5.0	\$0.0	\$70.0
Fiscal 2018 Budget and BRFA of 2017	\$7.5	\$15.0	\$15.0	\$15.0	\$15.0	\$2.5	\$70.0

BRFA: Budget Reconciliation and Financing Act

Note: Chapter 13 committed the State to \$15.0 million to be provided in 2018 or \$20.0 million if a grant of \$15.0 million was not provided in a fiscal 2016 deficiency appropriation. No deficiency appropriation was provided in fiscal 2016.

Source: Department of Legislative Services

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### **Fiscal 2018 Capital Support**

State support for the project is currently programmed at \$208.0 million over five years. Through fiscal 2018, the State has authorized \$103.8 million in GO bond funds, which the University of Maryland Medical System (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 and expects to issue \$208.0 million in bonds in spring or summer 2017. The remaining cost will be covered by UMMS through the issuance of debt to be paid from future hospital operating revenues.

The State’s total funding commitment for the project has increased from \$200 million to \$208 million, as required in Chapter 13 of the 2016 legislative session, and the timing of State funding has been modified to more closely align with anticipated project expenditures. **Exhibit 3** shows recent changes in the State’s programmed funding commitment.

**Exhibit 3**  
**Recent Changes in State Funding Plan**  
**Fiscal 2014-2020**  
**(\$ in Millions)**

<u>Fiscal</u>	<u>2013</u> <u>Session</u> <u>CIP</u>	<u>2014 Session</u> <u>CIP</u>	<u>2014</u> <u>Session</u> <u>MCCBL</u>	<u>2015</u> <u>Session</u> <u>MCCBL</u>	<u>2016 Session</u> <u>CIP</u>	<u>2017 Session</u> <u>CIP</u>
2014	\$20.0	\$20.0	\$20.0	\$20.0	\$20.0	\$20.0
2015	20.0	30.0	15.0	15.0	15.0	15.0
2016	20.0	30.0	40.0	30.0	30.0	30.0
2017	20.0	30.0	35.0	45.0	27.5	27.5
2018	120.0	90.0	90.0	90.0	67.5	11.3
2019	0.0	0.0	0.0	0.0	40.0	48.0
2020	0.0	0.0	0.0	0.0	0.0	56.2
<b>Total</b>	<b>\$200.0</b>	<b>\$200.0</b>	<b>\$200.0</b>	<b>\$200.0</b>	<b>\$200.0</b>	<b>\$208.0</b>

CIP: *Capital Improvement Program*

MCCBL: *Maryland Consolidated Capital Bond Loan*

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

As demonstrated in Exhibit 3, the Maryland Consolidated Capital Bond Loan 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 Program* (CIP) reduced those amounts by \$17.5 million and \$22.5 million, respectively, while increasing fiscal 2019 funding in an equal amount. The 2017 CIP reduced funding for fiscal 2018 by \$56.2 million, increased funding in fiscal 2019 by \$8.0 million, and increased funding in fiscal 2020 by \$56.2 million to align funding with the timing of expenditures.

In fiscal 2017, the cash flow statement projects \$30 million will be expended for land purchase and design. In fiscal 2018, expenditures are projected to be approximately \$114 million for construction and medical equipment.

### **Certificate of Need Approval**

The Maryland Health Care Commission approved the certificate of need (CON) in October 2016 after UMMS and the Dimensions Healthcare System agreed to scale down the number of operating rooms, the average square feet per patient bed, and the total bays in the emergency

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department. Additionally, the ambulatory care network, which is not subject to the same State regulatory review process, was removed from the CON. The proposed cost of the project was reduced from approximately \$620 million to \$577 million. The \$577 million includes \$57 million for the ambulatory care network that was removed from the CON. It should be noted that while the estimated cost of the project was reduced, the State and county shares have not been reduced.

UMMS, Prince George’s County, and the Dimensions Healthcare System also laid out a new MOU in August 2016 outlining a plan for UMMS to assume sole corporate ownership of the Dimensions Healthcare System and take on responsibility for the project. That formal transition is to occur in July 2017, pending required regulatory and legal steps. During this time, there will be an interim governance structure that will transition to a new permanent governance structure on January 1, 2019.

### **Current Status of the Project**

Design is currently at the construction document stage. State funds have been used for both design and site acquisition. The site in Largo is set to be cleared of all tenants and ready for redevelopment by September 2017. The main construction management contract may be awarded in the summer; however, construction is likely to begin in the fall. Construction will continue throughout calendar 2018 and 2019. PGRMC is expected to be complete by June 2020.

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

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1. Approve the \$11,300,000 general obligation bond authorization to continue the design, construction, and equipping of the new regional medical center in Prince George’s County.