

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 510 (Prince George’s County Delegation)

Health and Government Operations

Budget and Taxation

Prince George's County Hospital Authority
PG 430-07

This emergency bill establishes the Prince George’s County Hospital Authority as a State entity to develop a long-term strategy for delivering hospital services and related health care in Prince George’s County.

The bill requires the county, beginning January 1, 2008, to levy a supplemental county property tax to retire the debt of Dimensions Healthcare System, Inc. (Dimensions).

The bill further provides that, in fiscal 2008 through 2012, up to \$10.0 million annually may be used to provide a special fund operating grant appropriation to the authority. This transfer is contingent upon the passage of HB 754 of 2007.

Fiscal Summary

State Effect: Assuming enactment of HB 754, special fund expenditures would increase by \$10.0 million annually in FY 2008 through 2012 to provide a grant to the authority. Revenues would be attributable to HB 754. Potentially significant increase in general fund expenditures in FY 2008. The amount depends on the extent to which the State provides assistance for any acquisitions, assumptions of liabilities, or agreements for the sale or transfer of facilities, rights, or operations of Dimension.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	-	-	-	-	-
SF Expenditure	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Net Effect	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)	(\$10,000,000)

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

Local Effect: Property tax revenues for Prince George's County would increase significantly in FY 2008 from the supplemental county property tax required under the bill; however, all revenues would be transferred to the authority. Potentially significant loss of assets for the county if facilities are transferred to the authority.

Small Business Effect: Minimal to none.

Analysis

Bill Summary:

Prince George's County Hospital Authority: The authority may acquire or transfer any health care facilities and leasehold rights held or operated by Dimensions and engage in new health care activities. The authority is required to negotiate with Dimensions to acquire any property, leasehold rights, and operating rights and assume liabilities held by Dimensions, including bond indebtedness and pension liability.

Any acquisition or assumption of liabilities is contingent on: (1) commitments for specific financial aid and assistance from the State or county government or elsewhere; or (2) the successful completion of agreements to transfer title and control over facilities or operations to another entity.

The authority may operate or manage facilities until transferred to another entity, including hiring of staff, entering into business arrangements, and short-term and long-term arrangements for indebtedness or funding of long-term liabilities currently owned by Dimensions or its affiliates.

The authority is required to enter into negotiations with Prince George's County to acquire legal title to any facilities under the control or occupied by Dimensions. The authority is required to actively approach and enter into negotiations with other entities for the sale or transfer of any facilities, rights, or operations the authority may acquire. Such negotiations may be entered into on a contingent basis before the authority acquires ownership. Any agreement for the sale or transfer of facilities, rights, or operations may be made contingent on the receipt of specific commitments from the State, Prince George's County, or a related regulatory agency.

The authority is governed by a board of directors appointed by the Governor with the advice and consent of the Senate. Authority members may not have a financial interest in Dimensions. The authority may employ and retain personnel, maintain an office, apply for and receive funding from State, local, and federal governmental entities, and enter

into short-term and long-term financial arrangements necessary to fulfill the mission of the authority. The authority may also acquire property to operate additional health care facilities appropriate to its mission. Initial staffing for the authority must be provided by the Department of Health and Mental Hygiene (DHMH) and the Department of Business and Economic Development (DBED).

As part of any transfer of interest or title, the authority is required to develop a plan for the satisfaction of any indebtedness or liability held by Dimensions as of January 1, 2007.

Revenue Bonds: The authority may issue revenue bonds. Bonds must be authorized by a resolution of the authority and may be fixed or variable rate bonds. Bonds may be sold at a private or negotiated sale and are not contingent upon the consent of the State nor do they create or constitute any indebtedness or obligation of the State.

Supplemental Property Tax: The bill requires Prince George's County, on behalf of the authority, to impose a supplemental county property tax. The tax must be in an amount sufficient to retire any long-term bond indebtedness and satisfy any long-term pension liability held by Dimensions as of January 1, 2007 and satisfy any debt acquired for the purchase of property, facilities, or other interests from the county. The property tax is not subject to any property tax limitation imposed on Prince George's County, nor subject to popular vote or referendum.

Current Law/Background:

Dimensions and Prince George's Hospital Center: Dimensions was formed in 1982 and comprises five member institutions: Prince George's Hospital Center, Laurel Regional Hospital, Bowie Health Center, Gladys Spellman Specialty Hospital and Nursing Center, and Larkin Chase Nursing and Rehabilitation Center. Prince George's County owns the majority of the facilities currently under the control of or operated by Dimensions under a long-term lease agreement. As of June 30, 2006, Dimensions has \$211.1 million in total liabilities and \$188.9 million in total assets, for a total net deficit of \$22.1 million.

The Prince George's Hospital System, including Prince George's Hospital Center (PGHC), has been faced with financial difficulties for the past several years. The system has incurred lost market share, revenue losses, low liquidity, significant deferred capital needs, poor bond ratings, and a disadvantageous payor mix.

Both Prince George's County and the State have provided funding in an effort to help PGHC meet its financial needs. The State issued \$11 million in bonds to assist with capital improvements in the past five years. In addition, the Prince George's County Executive and the Governor signed a memorandum of understanding on

February 20, 2004 that initially provided \$25 million to Dimensions and an additional \$20 million over the next four years. Prince George's County provided \$10 million to Dimensions prior to June 30, 2004 and agreed to provide an additional \$5 million annually for the next four years. The Health Services Cost Review Commission also approved a short-term rate order that provided \$10 million for the hospital during 2005.

The fiscal 2007 budget for DHMH contains a \$10 million grant to PGHC. This appropriation is contingent upon the prior receipt of \$15 million by PGHC from Prince George's County.

Revenue Bonds: Revenue bonds are securities issued to finance specific projects. Projects financed by revenue bonds can be divided into two general categories: traditional governmental activities and private purposes. Private activity bonds are securities issued by or on behalf of local governments to provide financing for projects that are generally used by private users. They can be issued for such purposes as housing, hospitals, private higher education, economic development, and energy conservation. State entities that issue private purpose bonds include the Community Development Administration, the Maryland Economic Development Corporation, the Maryland Health and Higher Education Facilities Authority, and the Maryland Food Center Authority.

Property Taxes in Prince George's County: Prince George's County has a charter limit on its property tax rate. The general property tax rate is capped at \$0.96 per \$100 of assessed value. Special taxing districts, such as the Maryland-National Capital Park and Planning Commission, are not included under this cap. Twenty-seven municipalities in the county have additional municipal property tax rates ranging from \$0.24 in Upper Marlboro to \$0.80 in Morningside. **Exhibit 1** shows the county property tax rates for the county.

Exhibit 1
County Property Tax Rates in Prince George's County
Fiscal 2007

	<u>Real Property Tax Rate</u>	<u>Percent of Total</u>
General Tax	\$0.960	72.8%
M-NCPPC	0.279	21.1%
WSTC	0.026	2.0%
Stormwater	<u>0.054</u>	<u>4.1%</u>
Total Rate	\$1.319	100%

Source: Department of Legislative Services

In fiscal 2007, the county's assessable base, after exemptions and before all credits including the Homestead credit, was \$62.7 billion. The estimated base for fiscal 2008 is \$73.0 billion. The county anticipated \$535 million in property tax revenues in fiscal 2007. The county income tax rate is 3.1% in fiscal 2007. The county lowered this rate from the State maximum of 3.2% in 2006.

State Fiscal Effect: DHMH special fund expenditures would increase by \$10.0 million annually in fiscal 2008 through 2012 to provide a special fund operating grant appropriation to the authority, contingent on the passage of HB 754 of 2007. Revenues to fund this and other expenditures under HB 754 are generated from a \$1.00 increase in the tobacco tax.

DHMH and DBED are required to provide initial staffing for the authority; however, these funds must be repaid to the departments. The authority would incur personnel and administrative expenses beginning in fiscal 2008, but the amount of those expenses cannot be reliably estimated at this time. Legislative Services assumes that the special fund operating grant would fund these expenses. To the extent special funds are not received, it is unclear what source of funding would be used for these expenses. The authority is authorized to issue revenue bonds.

General fund expenditures could increase significantly beginning in fiscal 2008 to the extent that the State provides financial assistance for the acquisition of facilities or the assumptions of liabilities or indebtedness or provides operating assistance to the authority. The amount of expenditures cannot be reliably estimated at this time and would depend on the extent to which any acquisitions, assumptions of liabilities, or agreements for the sale or transfer of facilities, rights, or operations are contingent on the receipt of specific commitments from the State or the amount of funding required to operate the authority. DHMH and DBED are required to provide initial staffing for the authority; however, these funds must be repaid to the departments. The authority would incur personnel and administrative expenses beginning in fiscal 2008, but the amount of those expenses cannot be reliably estimated at this time. The bill does not specify a revenue source for these expenses, but does authorize the issuance of revenue bonds.

Local Fiscal Effect: Prince George's County property tax revenues would increase by a significant amount beginning in fiscal 2008 due to the requirement that a supplemental county property tax satisfy any current long-term bond indebtedness and long-term pension liabilities held by Dimensions. All revenues collected under this supplemental tax would be transmitted to the authority. Prince George's County estimates that Dimensions' obligations are approximately \$150 million.

The county's property tax is currently at the limit imposed by the county charter; however, the supplemental tax required under the bill is not subject to that limit. The county estimates that an increased property tax of approximately 2.2 cents per \$100 of assessed value would be imposed and collected by the county and transmitted to the authority.

As Prince George's County owns the majority of the facilities currently under the control of or operated by Dimensions, transfer of those facilities to the authority could result in a substantial financial loss to the county. The county reports that the value of these facilities cannot be determined at this time but is significant. While the bill states that the authority would acquire the facilities from the county, the county is required to generate revenues to pay for the purchase of those facilities, as well as Dimensions' debt. Furthermore, county expenditures could increase significantly to the extent that the county provides financial assistance for the acquisition of facilities or the assumptions of liabilities or indebtedness or operating assistance to the authority.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Secretary of State, Prince George's County, Department of Business and Economic Development, Department of Health and Mental Hygiene, Department of Legislative Services

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