

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 678 (Prince George's County Delegation)
Health and Government Operations

University of Maryland Medical System - Acquisition of Prince George's County
Hospital System PG 418-07

This bill requires the Board of Directors of the University of Maryland Medical System Corporation (UMMS) to request funds from the Operating Reserve Fund to acquire the Prince George's County Hospital System. If the corporation acquires the hospital system, Prince George's County must transfer any asset of the system held by the county to the board as a grant without consideration.

The bill takes effect June 1, 2007.

Fiscal Summary

State Effect: Potentially significant increase in expenditures, presumably general funds, in FY 2008.

Local Effect: Potentially significant loss of assets for Prince George's County resulting from the transfer of assets to the corporation as a grant without consideration.

Small Business Effect: Minimal to none.

Analysis

Bill Summary: The bill requires the State Treasurer, subject to approval of the Board of Public Works and appropriation in the State budget, to transfer the funds necessary to acquire the hospital system from the Operating Reserve Fund to the board of directors.

If UMMS acquires the hospital system, the board must honor all collective bargaining agreements and rights of hospital system employees that were in place between or honored by Dimensions.

Current Law: The Treasurer holds an Operating Reserve Fund for UMMS from which UMMS board may request moneys. The Treasurer, with the approval of the Board of Public Works, must transfer the amount requested to the corporation to the extent the reserve fund has been funded in a State budget. Advances from the fund must be treated as loans from the State and the board must repay such advances as soon as the financial condition of the corporation reasonably permits.

Background: 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. 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.

Both Prince George's County and the State have provided funding in an effort to help PGHC meet its financial needs. The State has 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, which operates the county's hospital system 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 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 the Department of Health and Mental Hygiene 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. This appropriation may be supported by any special fund source as authorized by legislation enacted in the 2006 session.

UMMS, a private, nonprofit corporation, was created by legislation in 1984 to provide governance and management over the operation of the formerly State-run University of Maryland Hospital. The mission of the medical system is provide tertiary care to the State and surrounding areas, to provide comprehensive care to the local community, and serve as the primary site for health care education and research for the University System of Maryland. The system has six member hospitals: the University of Maryland Medical Center (including the R Adams Cowley Shock Trauma Center), Baltimore Washington

Medical Center, Maryland General Hospital, James Lawrence Kernan Hospital, University Specialty Hospital, and Mount Washington Pediatric Hospital.

Direct State support is provided to the Montibello Rehabilitation Program at Kernan Hospital and the R Adams Cowley Shock Trauma Center. The Montebello Program, transferred to UMMS in 1992, receives continuing support for costs associated with treating the uninsured; funds also offset a portion of the program's capital costs. The Shock Trauma Center, the State's Primary Adult Resource Center for the treatment of trauma, receives funds from the Maryland Emergency Medical System Operations Fund. The Governor's proposed fiscal 2008 budget includes \$3.1 million in general funds for Montibello and \$6.8 million in special funds for Shock Trauma.

The Operating Reserve Fund was established in law when UMMS became an independent entity. The fund was intended to provide a mechanism for the State to assist UMMS in the event of any financial problems in the early years following the transition. The fund has never been used for that purpose. The Treasurer's Office reports that the fund has never been established in general accounting and there have been no appropriations to the fund.

State Fiscal Effect: General fund expenditures could increase significantly in fiscal 2008 to provide funding to the Operating Reserve Fund for the corporation to acquire the hospital system from Dimensions. The amount of these expenditures cannot be reliably estimated at this time and will depend on the acquisition price for the hospital system and any repayment requirements.

Local Fiscal Effect: Prince George's County could incur a significant loss in assets in fiscal 2008 resulting from the transfer of assets to the corporation as a grant without consideration. The county reports that the value of these assets cannot be determined at this time but is significant. Transfer of those assets without consideration would result in a substantial financial loss to the county.

Additional Comments: Although UMMS would not be required to pay for the acquisition of the hospital system, they indicate that such acquisition would downgrade UMMS' "A" bond rating, negatively impacting future access to capital for the entire system.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Prince George's County, University of Maryland Medical System, Department of Legislative Services

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ncs/jr

Analysis by: Jennifer B. Chasse

Direct Inquiries to:
(410) 946-5510
(301) 970-5510