SB 946

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 946 (Senator Middleton)
Finance Health and Government Operations

Hospital Regulation and Financing - Maryland Hospital Bond Program and User Fees of the Health Services Cost Review Commission

This bill • expands requirements for payment and refinancing of public obligation bonds under the Maryland Hospital Bond Program; • clarifies the Health Services Cost Review Commission's authority to assess a fee on all regulated hospitals to finance the program; and • repeals the prohibition against the annual percentage increase in HSCRC user fees exceeding the annual update factor provided to hospitals for the same fiscal year.

Fiscal Summary

State Effect: The bill's changes could be handled with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: For public obligation bonds issued on behalf of a hospital before October 1, 2008, the bill requires that the hospital plan for closure or delicensure and the related financing plan be acceptable to the Secretary of Health and Mental Hygiene, *in consultation with the Maryland Health Care Commission*, and the Maryland Health and Higher Education Facilities Authority (MHHEFA). (Italics denote change to current law.) For public obligation bonds issued on or after October 1, 2008, in addition to current requirements, HSCRC must determine that implementation of the program is in the public interest, taking into account the amount of systemwide savings as a result of the closure.

A hospital with public obligations issued on or after October 1, 2008 that intends to close or is scheduled to be delicensed must provide an acceptable closure plan to the Secretary that includes the plan for the provision of care to hospital patients and the population in the hospital's service area. These items must be provided within 10 days after the filing of notice of the intent to close or at least 150 days before the scheduled date of delicensure.

Current Law: The Maryland Hospital Bond Program was established to provide for the payment and refinancing of public obligation bonds of a hospital in the event of closure, delicensure, or conversion. Failure to pay or refinance public obligation bonds was thought to have a serious adverse effect on the ability of Maryland health care facilities, and potentially the ability of the State and local governments, to secure subsequent financing through the issuance of tax-exempt bonds.

The program must provide payment and refinancing of outstanding public obligation bonds issued on behalf of a hospital if the hospital is closed or delicensed in accordance with Maryland health planning laws and the hospital plan for closure or delicensure and the related financing plan is acceptable to the Secretary of Health and Mental Hygiene.

A hospital that intends to close or is scheduled for delicensure must provide a written statement of outstanding public obligations issued on its behalf that includes specified information. The statement must be provided within 10 days after the filing of intent to close or at least 150 days before the scheduled date of delicensure.

HSCRC may assess a fee on all regulated hospitals to pay for the amounts required with respect to public body obligations or closure costs of a closed or delicensed hospital. HSCRC may determine whether to pay some or all the closure costs of a hospital and increase the rates of hospitals that will receive patients from the closing hospital.

The percentage amount by which total user fees assessed by HSCRC are increased from one fiscal year to the next may not exceed the percentage amount by which the annual update factor applicable to all Maryland general acute care hospitals is increased for the same fiscal year.

Background:

Maryland Hospital Bond Program: When a hospital plans to close or is scheduled for delicensure, MHHEFA determines the amount of the hospital's outstanding public obligation bond debt and determines the most appropriate method to defease (set aside sufficient money to retire) the debt. MHHEFA can continue to pay the debt on existing repayment schedules, pay off the debt, or refinance it. Once a determination is made as to how the debt will be defeased, MHHEFA tells HSCRC the amount of funding required. HSCRC increases hospital rates across the system to generate sufficient revenues and forwards this money to MHHEFA. The bond program was last implemented following the closure of Liberty Medical Center in 1999 and, prior to that, in 1992 following the closure of Leland Hospital.

HSCRC User Fees: HSCRC is special funded by user fees assessed on hospitals. The annual user fee cap is $5.5 million. Since fiscal 2002, statute has provided that HSCRC may not increase total user fees by more than the percentage increase in the annual update factor (or annual inflation update methodology) provided to hospitals. In the 2006 full sunset evaluation of HSCRC, the Department of Legislative Services found that HSCRC has had difficulty complying with this requirement during periods of cost containment and that the correlation between budget increases that drive the total user fees assessed and the annual update factor is questionable, particularly given that user-fee assessments are revenue neutral to hospitals. DLS recommended that the General Assembly consider modifying this statutory provision.

Chapter 628 of 2007 required HSCRC, in consultation with the Maryland Hospital Association, to study alternatives to the annual update factor as restrictions on increases in the commission's budget. HSCRC and MHA concluded that, as none of the potential alternatives adequately addressed the reasonable needs of HSCRC, the existing spending growth limitation should be eliminated.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Department of Legislative Services

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mll/ljm

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