**HB 1037**

# Department of Legislative Services

Maryland General Assembly
2008 Session

## FISCAL AND POLICY NOTE

House Bill 1037 (Prince George's County Delegation)
Health and Government Operations

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**Prince George's County Hospital Authority**
**PG 410-08**

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This emergency bill establishes the Prince George’s County Hospital Authority as a State entity. The authority may • acquire or transfer any health care facilities and leasehold rights held or operated by Dimensions Health Corporation; • seek a new owner or operator for any facility operated by Dimensions; • engage in new health care activities; and • issue revenue bonds. The bill requires specified mandated funding by the State and Prince George’s County for the operating and capital costs of the authority.

## Fiscal Summary

**State Effect:** The authority may issue revenue bonds which could increase revenues beginning in FY 2009. Both general fund and general obligation bond expenditures could increase by $9.0 million in FY 2010 to support the authority. **This bill establishes a mandated appropriation beginning in FY 2010.**

| ($ in millions) | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|---|---|---|---|---|---|
| Other Rev. | - | - | - | - | - |
| GF Expenditure | 0 | 9.0 | 6.0 | 6.0 | 0 |
| GO Bond Exp. | 0 | 9.0 | 12.0 | 12.0 | 12.0 |
| Net Effect | $0 | ($18.0) | ($18.0) | ($18.0) | ($12.0) |

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

**Local Effect:** Local expenditures could increase by $25.1 million in FY 2009, $19.1 million in FY 2010 through 2012, and $26.7 million in FY 2013 through 2015 to support the authority. **This bill imposes a mandate on a unit of local government.**

**Small Business Effect:** Minimal to none.

## Analysis

**Bill Summary:**

*Prince George's County Hospital Authority*: Immediately upon establishment, the authority must negotiate with Dimensions to acquire any property, leasehold rights, and operating rights and assume certain obligations and liabilities held by Dimensions, including bond indebtedness and pension liability. The authority must make any acquisition contingent on • consent of the bond trustees to the transfer of real property, improvements, and facilities under the control of or occupied by Dimensions in the county; • the transfer, within a specified timeframe, of clear title to any such real property, improvements, and facilities for $1; • the receipt, within a specified timeframe, of two independent appraisals of any such real property, improvements, and facilities that establish an aggregate value of at least $50 million; and • the fulfillment of any other conditions the authority determines necessary.

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 owed by Dimensions or its affiliates.

The authority must 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.

At least 60 days prior to the sale or transfer of any property or operations of Dimensions, the authority must notify specified State and county entities. Any entity that receives the transfer or the facilities and leasehold rights held or operated by Dimensions must be recognized as a merged asset system for health planning law purposes.

The authority is governed by a board of directors. Board members may not be elected officials of State or local government or have a financial interest in Dimensions. Board members are subject to State ethics laws and entitled to reimbursement for expenses under standard State travel regulations. The board is the governing body for and has to approve the medical staff bylaws for all facilities owned or operated by the authority.

The authority may employ and retain personnel (though they are not considered State employees); maintain an office; apply for and receive funding from State, local, and federal governmental entities; and enter into financial arrangements necessary to fulfill its mission. Initial staffing for the authority must be provided by the Department of Health and Mental Hygiene and the Department of Business and Economic Development, but the authority has to reimburse the agencies for this cost. Six months after the authority is established and annually thereafter, the authority must submit a report on its progress in fulfilling its mission.

*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.

*Mandatory Funding:* **Exhibit 1** displays State and county funding required under the bill to support the operating and capital costs of the authority.

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**Exhibit 1**
**Mandated Funding for the Authority under HB 1037**
**Fiscal 2008-2015[1]**
**($ in Millions)**

| **Fiscal Year** | **State Support** | | **County Support** |
|---|---|---|---|
| | ***Operating*** | ***Capital*** | |
| 2008 | $0.0 | $0.0 | $7.8 |
| 2009 | 0.0 | 0.0 | 25.1[2] |
| 2010 | 9.0 | 9.0 | 19.1 |
| 2011 | 6.0 | 12.0 | 19.1 |
| 2012 | 6.0 | 12.0 | 19.1 |
| 2013 | 0.0 | 12.0 | 26.7 |
| 2014 | 0.0 | 12.0 | 26.7 |
| 2015 | 0.0 | 12.0 | 26.7 |
| **Total** | **$21.0** | **$69.0** | **$170.3** |

[1]Exhibit does not include funding that is authorized but not mandated in the uncodified language of the bill, which includes State funding of $20.0 million for operating support and $13.0 million for capital support for fiscal 2008.

[2]Includes $11.9 million in support plus $13.2 million in capital equipment financed for the authority.

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If the county fails to make a required payment, the State must redirect funds otherwise required to be paid to the county to the authority through such means as a reduction in local aid or grant funds or withholding of income tax revenue. If by June 30, 2015, the authority sells any real property transferred by the county, the net proceeds of the sale must be credited against the county's obligations under the bill. After that time, any net proceeds must be paid to the county. If the net proceeds of all sales exceed the county's obligations, the authority must pay the county the amount of the excess.

If the authority selects a new owner or operator of the facilities previously operated by Dimensions and the new operator requires less financial support than specified under the bill, the authority must refund any excess to the State and county, *pro rata*.

If the authority cannot acquire the title and rights to property and assume the obligations and liabilities of Dimensions because contingencies have not been satisfied, the State and county are relieved of their respective obligations to provide financial assistance or support to the authority.

Uncodified language in the bill expresses the intent of the General Assembly that, as provided in Supplemental Budget No. 4 for fiscal 2008, the State must provide $20.0 million in operating support and $13.0 million in capital support for Prince George's Hospital Center.

**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 Campus, 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.

The Prince George's Hospital System, including Prince George's Hospital Center, has been faced with financial difficulties for the past several years. The system has experienced 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. **Exhibit 2** displays past State and county support for Dimensions. Most recently, the county advises that it appropriated $12.0 million in fiscal 2008, $4.0 million of which remains unpaid. Chapter 2 of the special session of 2007 authorized a $20.0 million operating grant in fiscal 2008 to an independent entity with authority over Dimensions. This is the same $20.0 million referenced in the uncodified language of the bill. Chapter 7 of the special session of 2007 authorized a similar annual operating grant of up to $10.0 million for fiscal 2011 through 2013. All these State authorizations are contingent on a long-term, comprehensive solution to the control and operation of the facilities and provision of health care services reached through either legislation or a memorandum of understanding between the State and county. Additionally, in fiscal 2008, the State authorized $13.0 million in capital support for PGHC from previously appropriated but unexpended capital funding in the 2004, 2005, and 2006 capital budgets. However, it is unclear whether this funding remains available.

**Exhibit 2**
**State and County Support for Dimensions Health**
**Fiscal 2003-2008**
**($ in Millions)**

| Fiscal Year | State Support | | County Support |
|---|---|---|---|
| | *Operating* | *Capital* | |
| 2003 | $2.0 | $0.0 | $3.0 |
| 2004 | 0.0 | 0.0 | 0.0 |
| 2005 | 0.0 | 4.3 | 20.0[1] |
| 2006 | 1.3 | 5.0 | 0.0 |
| 2007 | 10.0 | 4.0 | 15.0 |
| 2008 | 20.0[2] | 13.0 | 12.0 |
| **Total** | **$33.3** | **$26.3** | **$50.0** |

[1]Over four years.
[2]Funding contingent on a "long-term, comprehensive solution" reached through legislation or a memorandum of understanding between the State and Prince George's County.

Source: February 20, 2004 Memorandum of Understanding between the State of Maryland and Prince George's County; Laws of Maryland; Department of Health and Mental Hygiene; Department of Legislative Services

Press reports indicate that the county is currently in negotiations with Ascension Health, a St. Louis-based Catholic hospital chain that also operates St. Agnes Hospital in Baltimore County, to take over the hospital system in July.

*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.

**State Fiscal Effect:** General fund expenditures for DHMH and DBED could increase in fiscal 2009 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 2009, but the amount of those expenses cannot be reliably estimated at this time. The authority is authorized to issue revenue bonds.

State expenditures could increase by $18.0 million in fiscal 2010 to support the authority, including $9.0 million in general fund operating support and $9.0 million in capital support, which is assumed to be general obligation bonds rather than PAYGO general funds. In future years, the State is required to provide additional operating support of $6.0 million in fiscal 2011 and 2012 and capital support of $12.0 million in fiscal 2010 through 2015. For purposes of this analysis, Legislative Services assumes that this funding would be *in addition* to any funding authorized in prior Acts. However, to the extent that annual operating grants for fiscal 2011 through 2013 *authorized* in Chapter 7 of the special session of 2007 (in amounts up to $10.0 million each year) can be used to satisfy the mandated operating appropriations in this bill, State general fund expenditures could be reduced by $12.0 million ($6.0 million in fiscal 2011 and 2012).

**Local Fiscal Effect:** The county has already satisfied the requirement for financial support in fiscal 2008. Local expenditures could increase by a total of $25.1 million in fiscal 2009 as required under the bill. This figure includes $11.9 million to support the authority and $13.2 million to finance capital equipment. Local expenditures are also mandated in future years as follows: $19.1 million in fiscal 2010 through 2012, and $26.7 million in fiscal 2013 through 2015.

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.

## Additional Information

**Prior Introductions:** This bill is similar to HB 510 of 2007 as amended, which the Administration proposed but Prince George's County rejected on Sine Die.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 5, 2008
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