

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 1039

(Prince George’s County Delegation)

Health and Government Operations

Budget and Taxation

Prince George's County Hospital Authority PG 403-08

This emergency bill establishes the Prince George’s County Hospital Authority as a State entity to implement a competitive bidding process for transferring the Prince George’s County Health Care System (PGCHCS) to a new owner(s). The bill requires specified funding to be provided by the State and Prince George’s County.

The bill terminates after two years.

Fiscal Summary

State Effect: General fund expenditures could increase by at least \$4.0 million in FY 2010 to provide financial support to PGCHCS and the authority. This assumes that \$20.0 million from the Dedicated Purpose Account is applied toward the State’s total \$24.0 million obligation under the bill (\$12.0 million in FY 2009 and \$12.0 million in FY 2010 rather than \$20.0 million in FY 2008), and general funds are used to fund the remaining \$4.0 million in FY 2010. No effect on revenues. **This bill establishes a mandated appropriation in FY 2010.**

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	-	4.0	-	-	-
SF Expenditure	12.0	8.0	0	0	0
Net Effect	(\$12.0)	(\$12.0)	\$0	\$0	\$0

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

Local Effect: Local expenditures could increase by at least \$12.0 million in FY 2009 and 2010 to provide financial support to Dimensions, PGCHCS, and 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: The authority must issue a request for proposal for the sale or transfer of PGCHCS within specified timeframes. On release of the RFP, the authority must submit a copy of the RFP to specified entities. Quarterly thereafter, the authority must submit a status report to specified entities. The authority must establish a timeframe and deadlines for the submission of bids and selection of a successful bidder that ensure that an agreement to transfer PGCHCS to a new owner(s) will be reached in time to present the proposed agreement to specified entities prior to the beginning of the 2009 legislative session. The Department of Health and Mental Hygiene and the Department of Business and Economic Development must provide initial staffing for the authority. The authority must reimburse DHMH and DBED for those expenses.

The authority must select a bidder in accordance with its bylaws. Authority members must be appointed no later than 30 days after the authority is established, and the authority must begin its work immediately after all members are appointed or 30 days after the authority is established, whichever is earlier. Authority members may not • be a current or former State or local elected official; • have a current or past financial interest in Dimensions or other conflict of interest with a potential bidder; • be a licensed lobbyist; • be a chair or treasurer of specified political committees; or • be a member of a political party central committee. Authority members are subject to State ethics laws and entitled to reimbursement for expenses under standard State travel regulations. Authority members who perform their duties in a specified manner are not personally liable for actions taken as an authority member.

Sale or Transfer of PGCHCS: Any agreement for the sale or transfer of PGCHCS may be made contingent on (1) the receipt of specific funding commitments from the State and county; (2) the transfer of title to all property, assets, and facilities; and (3) the development potential of real property consistent with surrounding areas. Any agreement must include a plan for the satisfaction of any indebtedness, liabilities, or encumbrances on the real property placed and held by Dimensions as of the effective date of the transfer.

The new owner(s) must (1) provide access to, improve, and deliver specified health and hospital services in the county; and (2) be a financially self-sustaining entity capable of operating and achieving specified goals, developing a specified plan, covering the

operating and capital expenses from PGCHCS, and achieving access to long-term capital resources. Any health care entity that receives the transfer of PGCHCS must be recognized as a merged asset system for certificate of need purposes under State health planning laws.

The bill specifies the disposition of the real property, assets, and facilities owned by the county that are under the control of Dimensions upon the authority's selection of a new owner(s). The county may not receive compensation or credit toward its financial obligations for the real property, assets, and facilities of PGCHCS that will be used to operate a health care system. For any portion(s) of real property, assets, or facilities that will not be used to operate a health care system, the county must be given credit toward its financial obligations under the bill based on the average of three independent appraisals.

Funding: For fiscal 2009, the Governor may provide \$12.0 million and the county must provide \$12.0 million for the financial support of the facilities, assets, and obligations held or operated by Dimensions.

For fiscal 2010, the Governor and the county each must provide \$12.0 million for the financial support of PGCHCS, unless an agreement is reached for the sale or transfer of PGCHCS that renders financial support no longer necessary.

The State and county funding is payable to Dimensions in \$3 million increments, due at the beginning of every quarter.

The authority must receive \$1.5 million (50% State funds, 50% county funds) from these financial contributions.

Within 10 days of establishment of the authority, the Governor and the County Executive and County Council must appoint representatives to conduct negotiations to reach agreement on the funding the State and county will commit for the support of PGCHCS in the event that the bidding process results in an agreement to transfer PGCHCS to a new owner(s).

Within 60 days of establishment of the authority, the Governor, the County Executive, and the County Council, with input from the General Assembly, must reach an agreement on such funding that includes • the aggregate amount of funding; • the period of time over which funding will be provided and the amount to be provided each year; and • the percentage of the total financial commitment for which the State and county will each be responsible. If, at the end of 60 days, an agreement has not been reached, negotiations may be extended for up to 30 additional days, with notification of the General Assembly.

If an agreement is not reached within 60 days of establishment of the authority or 90 days if an extension is implemented, the next quarterly payment and any subsequent payments due to Dimensions must be withheld. If less financial support is required under the transfer agreement, funding obligations must be reduced on a *pro rata* basis. If the authority fails to conduct the bidding process as specified under the bill, the State and county will be relieved of their long-term, negotiated financial obligations to PGCHCS, but not of the \$12.0 million required from both the State and county in fiscal 2009 and 2010. As noted above, such payment would be withheld, however.

Uncodified language states that up to \$20.0 million from the Dedicated Purpose Account may be transferred by budget amendment to DHMH to provide support to Dimensions for the operation of PGCHCS pending a sale or transfer under the bill.

The bill expresses the intent that • a portion of the State and county funding intended for fiscal 2009 be provided to support PGCHCS if necessary prior to the start of fiscal 2009; and • money for operating expenses provided to the authority must be used only for necessary expenses and kept at a minimum, with any excess funds transferred to Dimensions or the new owner(s) of PGCHCS.

Current Law/Background:

Dimensions and Prince George's Hospital Center: Dimensions was formed in 1982 and comprises five member institutions (referred to in the bill as PGCHCS): 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 1** 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 1
State and County Support for Dimensions Health
Fiscal 2003-2008
(\$ in Millions)

<u>Fiscal Year</u>	<u>State Support</u>		<u>County Support</u>
	<i>Operating</i>	<i>Capital</i>	
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

¹Over four years.

²Funding 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.

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.

State general fund expenditures could increase by as much as \$4.0 million in fiscal 2010 to provide support to Prince George's Hospital Center and the authority. A total of \$12.0 million in funding is authorized in fiscal 2009, while \$12.0 million is mandated in fiscal 2010. The Administration indicates that the \$20.0 million authorized to be transferred by budget amendment from the Dedicated Purpose Account is intended to be used to satisfy the majority of this requirement. Thus, the \$20.0 million authorized by Chapter 2 of the 2007 special session would not be expended in fiscal 2008 to support Dimensions via a grant to an authority. Instead, with \$20.0 million of the total \$24.0 million provided from this source, \$4.0 million in general funds would be required in fiscal 2010.

Additional State funding could be provided in fiscal 2009 or future years for the support of PGCHCS in the event that the RFP process results in an agreement to transfer PGCHCS to a new owner(s). The amount of this funding cannot be reliably estimated at this time but is expected to be significant.

Local Fiscal Effect: Local expenditures could increase by as much as \$12.0 million in fiscal 2009 and 2010 to provide support to Prince George's Hospital Center and the authority. Funding is mandated in both years. Additional county funding could be provided in fiscal 2009 or future years for the support of PGCHCS in the event that the RFP process results in an agreement to transfer PGCHCS to a new owner(s). The amount of this funding cannot be reliably estimated at this time but is expected to be significant.

Prince George's County owns the majority of the real property and facilities currently under the control of or operated by Dimensions. The bill requires transfer of such real property and facilities to be used to operate a health care system to a new owner(s) without compensation. This could result in a substantial financial loss to the county. The county reports that the value of such real property and facilities cannot be determined at this time but is significant. However, the county may receive credit toward its financial obligations to PGCHCS for any portion(s) of real property, assets, or facilities that will not be used to operate a health care system. This provision could offset county expenditures under the bill.

Additional Information

Prior Introductions: This bill is similar to HB 510 of 2007, which also would have established an authority and mandated financial support. HB 510 passed the House but was not acted on by the Senate Budget and Taxation Committee.

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

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