

ZA00YZ
Miscellaneous Grant Programs
Prince George's Hospital System

Prince George's Hospital System (Prince George's County)

Capital Budget Summary

Grant and Loan Programs
(\$ in Millions)

	<i>FY 2012 Approp.</i>	<i>FY 2013 Approp.</i>	<i>FY 2014 Allowance</i>	<i>Percent Change</i>	<i>DLS Recommd.</i>
Prince George's Hospital System New Regional Medical Center	\$0.000	\$0.000	\$20.000	200.0%	\$20.000
Prince George's Hospital System Infrastructure Improvements	4.000	10.000	10.000	0.0%	10.000
Total	\$4.000	\$10.000	\$30.000	200.0%	\$30.000

Summary of Updates

Prior Year Authorizations: Language added to the Maryland Consolidated Capital Bond Loan (MCCBL) of 2012 restricted \$10 million of general obligation (GO) bonds authorized for the purposes of funding infrastructure improvements to the Prince George's Hospital System (PGHS). The language required the Department of Health and Mental Hygiene (DHMH), Prince George's County, and Dimensions Healthcare Corporation to submit a report to the budget committees that outlines the specific improvements to be undertaken with the State funds. The language further stipulated that should the report not be provided, the funds had to be used to fund a portion of the State's share of the costs for the acquisition, design, and construction of a new regional hospital center in Prince George's County. It is important to note that a similar report was required for the \$4 million GO bond authorization included in MCCBL of 2011. This update will summarize these reports.

Summary of Recommended Bond Actions

1. Prince George’s Hospital System New Regional Medical Center

Approve the \$20,000,000 general obligation bond authorization to begin site acquisition, design, construction, and equipping of the new regional medical center in Prince George’s County.

2. Prince George’s Hospital System Infrastructure Improvements

Approve the \$10,000,000 general obligation bond authorization for infrastructure improvements at Prince George’s Hospital System.

3. Miscellaneous – Prince George’s Hospital System

Approve technical amendment to fiscal 2013 authorization.

Program Description

PGHS, currently operated by Dimensions Healthcare Corporation, consists of a number of parts – Prince George’s Hospital Center, a 269-bed acute-care hospital and regional referral center; Laurel Regional Hospital, a 138-bed acute-care community hospital; the Gladys Spellman Specialty Hospital and Nursing Center, a 110-bed comprehensive care and chronic care facility; and the Bowie Health Center.¹ The system has experienced losses in market share, revenue losses, low liquidity, significant deferred capital needs, poor bond ratings, and a disadvantageous payor mix. Both the State and Prince George’s County have provided significant financial support in recent years in order to keep the system functional and avoid significant operational deficits, potential bankruptcy, and even closure.

The State of Maryland, Prince George’s County, and Dimensions Healthcare Corporation entered into a memorandum of understanding (MOU) in 2008 to provide financial support to the hospital that included a commitment of \$150 million in operating funds over five years split equally between each party and \$24 million in State capital funding over three years. Under the MOU signed by the State and the county, those multi-year funding agreements take effect only after an agreement to transfer the hospital system to a new owner or owners. While the transfer agreement has not yet materialized, the MOU was updated in 2011 to include the University of Maryland Medical System (UMMS) and the University System of Maryland (USM).

¹ The Gladys Spellman Specialty Hospital and Nursing Center was closed two years ago. The comprehensive program (60 beds) was sold to another company, and the chronic program (46 beds) was relocated to Laurel Regional Hospital.

ZA00YZ – Miscellaneous Grant Programs – Prince George’s Hospital System

In accordance with the updated MOU, this project will construct a new regional medical center and make improvements to existing health facilities in PGHS. The fiscal 2014 allowance includes \$30 million in GO bond funding to acquire a site and design the regional medical center (\$20 million) and to make capital improvements to Laurel Regional Hospital (\$10 million).

Capital Improvement Program

**Grant and Loan Capital Improvement Program
(\$ in Millions)**

<i>Program</i>	<i>2012 Approp.</i>	<i>2013 Approp.</i>	<i>2014 Request</i>	<i>2015 Estimate</i>	<i>2016 Estimate</i>	<i>2017 Estimate</i>	<i>2018 Estimate</i>
Prince George’s Hospital System New Regional Medical Center	\$0.000	\$0.000	\$20.000	\$20.000	\$20.000	\$20.000	\$120.000
Prince George’s Hospital System Infrastructure Improvements	4.000	10.000	10.000	0.000	0.000	0.000	0.000
Total	\$4.000	\$10.000	\$30.000	\$20.000	\$20.000	\$20.000	\$120.000

Budget Overview

The most recent effort to improve the financial situation of the system was the establishment of the Prince George’s Hospital Authority (Chapter 680 of 2008 subsequently amended by Chapters 116 and 117 of 2009). The authority was established as a State entity to implement a competitive bidding process for transferring PGHS to a new owner or owners.

Following the creation of the authority and stemming from the desire to facilitate the transfer of the health care system by providing financial support to the new owners to assist their efforts to stabilize and improve the system, the State and the county entered into a MOU in 2008 that specified the terms and conditions of the financial support provided by each party. As shown in **Exhibit 1**, the MOU included a total of \$222.0 million in operating and capital support between fiscal 2009 and 2015. It is important to note that Exhibit 1 does not capture the operating and capital support provided to Prince George’s Hospital System prior to the 2008 MOU. Between fiscal 2002 and 2007, \$15.8 million and \$13.0 million were provided to the hospital system in operating and capital funding, respectively.

Exhibit 1
Financial Support for Prince George’s Hospital System
Fiscal 2009-2015
(\$ in Millions)

	<u>Prior</u> <u>Authorizations</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
State						
Operating Subsidy	\$39.0	\$15.0	\$15.0	\$15.0	\$15.0	\$99.0
General Obligation Bonds		4.0	10.0	10.0		24.0
Prince George’s County						
Operating Subsidy	39.0	15.0	15.0	15.0	15.0	99.0
Total	\$78.0	\$34.0	\$40.0	\$40.0	\$30.0	\$222.0

Source: Department of Legislative Services: 2008 Memorandum of Understanding

In January 2010, the authority announced that it did not believe that the system could be sold, and the authority expired without a transfer in place. However, the authority did make a series of broad recommendations, including continuing to search for a permanent owner and getting stakeholder and regulatory approval for a new inpatient facility to replace the Prince George’s Hospital.

Prince George’s Hospital System’s New Regional Medical Center

Although a transfer agreement has not yet materialized, on July 21, 2011, Prince George’s County, the State of Maryland, UMMS, USM, and Dimensions Health Corporation, entered into an MOU that outlines an 18-month, three-step process to develop the strategy, financing, and execution of a plan to build a new regional teaching medical center and improve the primary care system in Prince George’s County, and for the University of Maryland, Baltimore (UMB) to establish a health science campus in conjunction with the new hospital. The three-step process detailed in the MOU is outlined below:

- **Step One – Development of a Strategic Plan:** This step includes determining the appropriate scale for a new regional medical center, including the primary care network’s impact on the regional health system; developing an ambulatory care network strategy; accounting for health care reform; developing a strategy to address physician and allied health care provider recruitment and retention; assessing the feasibility of a UMB health science presence in the new system; and utilizing the University of Maryland, College Park School of Public Health to assess the public health impact in Prince George’s County. The public health impact study was completed in July 2012, and the scale of the new regional medical center has

been identified at 278 licensed beds. This amount includes 159 medical/surgical beds, 42 psychiatry beds, 38 obstetrics beds, 21 neonatal beds, and 19 observation beds.

- **Step Two – Cost Projections and Agreement on Cost Sharing:** Step two includes refining project costs, including the construction of a new regional medical center and improvements at existing sites, as well as the capital needs and operating costs for a primary care network in Prince George’s County. During this step, the involved parties will assess whether the proposed transformation of the health system is financially viable, including costs of a transition period and the discharge of liabilities. Finally, the cost allocations for the new regional facility will be determined.
- **Step Three – Execution of Strategic Plan:** The final step will include site selection evaluation for the new regional medical center; architectural design of the center and existing site renovations; and the submission of a certificate of need (CON) application for the regional medical center.

During the 18-month process, UMMS and Dimensions Healthcare Corporation will work collaboratively to increase the quality of care and to reduce operating losses at Prince George’s Hospital Center. The parties will also develop a plan to transfer the assets and to discharge Dimensions Healthcare Corporation’s current debt and liabilities. The MOU indicates that the State and Prince George’s County will seek funding as needed to sustain operations during the transition and to assist in the discharge of liabilities. This process will include the county, State, UMMS, and the Dimensions Board of Directors.

Financing of New Regional Medical Center Includes \$200 Million State Commitment

Total estimated capital costs for the new facility is \$645.5 million. This includes \$30.0 million for land acquisition costs; \$493.8 million in construction costs, including equipment and site development; and \$24.7 million for contingencies. It is important to note that this estimate does not include enhancements to the existing primary care network in Prince George’s County or the discharge of Dimension’s current liabilities. The State’s support of the project is programmed at \$200.0 million (31% of the total) and is programmed over five years. Prince George’s County will also provide \$200.0 million toward the cost of the new facility. The remaining funds will be derived from the issuance of debt by the newly created corporate entity. It is expected that the financing of this debt will be funded through the inclusion of debt service with the hospital rates.

The Health Services and Cost Review Commission (HSCRC) must grant approval to include debt service in the hospital’s rates. HSCRC sets standard rates that hospitals may charge for the purchase of care. This system encourages access to health care regardless of the ability to pay and prevents shifting of costs between payors. The commission’s ability to standardize rates for all payors, including Medicare and Medicaid, was established in 1980 by federal legislation, with continued regulatory authority contingent on the commission’s ability to contain the rate of growth of Medicare hospital admissions costs. In recognition of PGHS’s financial problems, HSCRC increased rates to provide additional revenue assistance of \$34 million between fiscal 2001 and 2007.

Future Steps

It has been advised that the new regional medical center would be located in a central area of Prince George’s County, with convenient access to residents of the county, as well as being accessible to the other Southern Maryland counties for tertiary care. UMMS advises that four sites are under consideration for the new regional medical center and that site selection is scheduled for May 2013. The site selection will be a component for the CON application with the Maryland Health Care Commission. UMMS will lead in the development of the financing plan, including working capital expenses and other parts of the CON submission. While the CON application will be filed in fall 2013, it is estimated that it will not be approved until June 2014.

Funding for Existing System Improvements

The Governor’s fiscal 2014 capital budget includes \$10 million for infrastructure improvements for facilities within PGHS. According to DHMH, the funds will be used at Laurel Regional Hospital to upgrade diagnostic and treatment services, renovate operating rooms, and increase the number of private patient rooms. A discussion of capital improvements made to PGHS through fiscal 2012 and 2013 GO funding is discussed in the Updates section of this analysis.

Updates

1. Prior Year Authorizations

Language added to the MCCBL of 2012 restricted \$10 million of GO bonds authorized for the purposes of funding infrastructure improvements to PGHS. The language required DHMH, Prince George’s County, and Dimensions Healthcare Corporation to submit a report to the budget committees that outlines the specific improvements to be undertaken with the State funds. The language further stipulated that should the report not be provided, the funds had to be used to fund a portion of the State’s share of the costs for the acquisition, design, and construction of a new regional hospital center in Prince George’s County.

On December 28, 2012, DHMH submitted the report, which detailed plans for capital improvements at two sites currently operated by PGHS – Laurel Regional Hospital and the Bowie Health Center. It is important to note that a similar report was required for the \$4 million GO bond authorization included in MCCBL of 2011. On October 15, 2012, DHMH submitted a report which requested the release of the \$4 million, and the funds were subsequently released on November 14, 2012. This authorization was used to address improvements at two sites – the Gladys Spellman Specialty Hospital and Nursing Center and the Bowie Health Campus. Furthermore, additional improvements at the Bowie Health Campus have been proposed using a portion of the \$10 million GO bond authorization included in the MCCBL of 2012.

Utilization of the MCCBL of 2012 and 2011 Capital Authorizations

The report submitted by DHMH, Prince George’s County, and Dimensions Healthcare Corporation detailed plans for \$9.8 million in capital improvements at two sites currently operated by PGHS – the Bowie Health Center and Laurel Regional Hospital. The remaining \$0.2 million was not requested for release, as the Department of Budget and Management indicated that these project costs were not eligible for the use of capital funds. Subsequently, DHMH advises that it will request the release of the remaining \$0.2 million at a later date. Improvements for the two sites are as follows:

- **Bowie Health Center:** This project will allow for necessary upgrades to expand services at the health center. Among other things, infusion therapy, wound care, chronic disease management, and pediatric and women’s services will be expanded at the Bowie Health Center. Phase II project costs are estimated at \$4.5 million. Phase I of this project included the renovation of existing space to provide computed tomography scanner service at a cost of \$1.5 million. Phase I funding was available through the \$4.0 million in GO bond funds authorized by the MCCBL of 2011.
- **Laurel Regional Hospital:** This project will allow for renovations and upgrades at the hospital center over two phases. The funding requested here is for Phase I and includes the replacement of the original air handler unit and chiller, upgrades to the electrical distribution system, and the replacement of the emergency generator. Phase I project costs are estimated at \$5.2 million. The replacement of the hospital’s original elevators, as well as renovations to the operating rooms and the creation of additional private patient rooms, will be included in Phase II of this project.

The remaining Phase I spending authorized by the MCCBL of 2011 will support the following improvements:

- **Gladys Spellman Specialty Hospital and Nursing Center:** This project will allow for the renovation of the existing hospital and nursing center, which is currently vacant. Renovations will allow the center to be used for outpatient services, primary care clinics, and physician offices. Total project costs are estimated at \$2.5 million. This includes preconstruction and construction costs, which total \$1.7 million. The remaining estimate accounts for equipment and furnishings (\$0.4 million), contingency and escalation costs (\$0.2 million), and consultant fees (\$0.2 million).

It is important to note that in its public health impact study, the University of Maryland’s School of Public Health identified one of the greatest areas of need in Prince George’s County related to access to primary care services, and the capital improvements proposed are consistent with the university’s findings. Furthermore, improvements at these facilities are expected to support a new regional medical center in Prince George’s County.

GO Bond Recommended Actions

1. Approve the \$20,000,000 general obligation bond authorization to begin site acquisition, design, construction, and equipping of the new regional medical center in Prince George’s County.
2. Approve the \$10,000,000 general obligation bond authorization for infrastructure improvements at the Prince George’s Hospital System.
3. Approve the technical amendment to the fiscal 2013 authorization.