

Department of Legislative Services
 Maryland General Assembly
 2016 Session

FISCAL AND POLICY NOTE
 First Reader

House Bill 309 (Delegate Busch, *et al.*)
 Appropriations

Prince George's County Regional Medical Center Act of 2016

This bill requires the State and Prince George’s County to provide specified operating and capital funding for a new Prince George’s County Regional Medical Center (PGCRMC). The bill is contingent on the transfer of the governance of PGCRMC to the University of Maryland Medical System (UMMS) within 90 days after a certificate of need (CON) is approved.

The bill takes effect June 1, 2016, and terminates June 30, 2021. However, if the Department of Legislative Services (DLS) has not received notice of the transfer of governance, the bill terminates on December 31, 2016.

Fiscal Summary

State Effect: General fund expenditures increase, as shown below, in FY 2018 through 2021 to provide operating grants to PGCRMC. The bill also establishes capital funding requirements, which may be met through either the operating or capital budget. This analysis assumes provision of general obligation (GO) bonds for construction of PGCRMC, but the total amount of capital funding required exceeds planned funding by \$8.0 million. Thus, there is limited effect on total State GO spending; however, to meet the required annual funding thresholds, funding available for other capital projects may be reduced in the short term. No effect on revenues. **This bill establishes a mandated appropriation beginning in FY 2018.**

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	30.0	15.0	5.0	5.0
Bond Exp.	-	-	(-)	0	0
Net Effect	\$0.0	(\$30.0)	(\$15.0)	(\$5.0)	(\$5.0)

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

Local Effect: Prince George's County expenditures increase commensurate with State general and special fund expenditures and by \$208.0 million in capital expenditures to provide funding for PGCRMC. This funding is generally included in Prince George's County's budget plans. Nonetheless, **this bill imposes a mandate on a unit of local government.**

Small Business Effect: Potential meaningful, as discussed below.

Analysis

Bill Summary:

Operating Funds: The State must provide operating grants, from fiscal 2017 through 2021, to ensure and assist in the transition of a new PGCRMC to the University of Maryland Medical System Board of Directors. Prince George's County must provide a combination of matching funds and other financial assistance. State and county funds must be used to support the transition of PGCRMC from operation under the Dimensions Health Care System to operation as a participating UMMS institution. Funds may be used only for (1) providing increased access to critical health care services for the region served by PGCRMC and improving the quality of services provided and (2) facilitating cost containment measures to prevent additional operating losses for PGCRMC and its predecessor institutions.

Capital Funds: The Governor must include in the capital or operating budget bill specified amounts that are equal to the capital funds committed by Prince George's County to be used for the construction of PGCRMC. Prince George's County must provide matching funds for the capital construction of PGCRMC.

Certificate of Need: Uncodified language expresses legislative intent that the Maryland Health Care Commission (MHCC) give priority to the CON applications of replacement facilities before consideration of new CON applications. MHCC must make a determination on the CON for the replacement facility for the Prince George's Hospital by July 1, 2016.

Contingency on Transfer of Governance: UMMS must notify DLS within five days after the transfer of governance of PGCRMC to UMMS. If notice of the transfer is not received by December 31, 2016, the bill terminates.

Exhibit 1 displays the mandated operating and capital funding amounts required to be provided by both the State and Prince George's County under the bill.

Exhibit 1
Operating and Capital Funding Mandated Under the Bill
Fiscal 2017-2021
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>Total</u>
State						
Operating Subsidy	\$15.0 ¹	\$15.0 ²	\$15.0	\$5.0	\$5.0	\$55.0
General Obligation Bonds	45.0	90.0	8.0	-	-	143.0
Prince George's County						
Operating Subsidy	15.0	15.0	15.0	5.0	5.0	55.0
General Obligation Bonds	-	-	-	-	-	208.0 ³
Total	\$75.0	\$120.0	\$38.0	\$10.0	\$10.0	\$461.0

¹ In fiscal 2017, \$15.0 million must be transferred from the Dedicated Purpose Account.

² If the required transfer is not provided in fiscal 2017, a total of \$30.0 million must be provided in fiscal 2018.

³ Prince George's County must provide matching funds of \$208.0 million for the capital construction of the Prince George's County Regional Medical Center. However, annual amounts are not specified in the bill.

Current Law/Background: The State of Maryland, Prince George's County, and Dimensions Healthcare Corporation entered into a memorandum of understanding (MOU) in calendar 2008 to provide financial support to the hospital that included a commitment of \$150.0 million in operating funds over five years split equally between each party and \$24.0 million in State capital funding over three years. The MOU was updated in calendar 2011 to include UMMS and the University System of Maryland. After a two-year review period, a plan was developed to create a new regional medical center. A CON application for PGCRMC was submitted in October 2013, describing plans to replace and relocate the Prince George's Hospital Center in Cheverly with a new regional medical center at the Boulevard at the Capital Centre in Largo.

As set forth in the MOU, both the State and Prince George's County have provided significant financial support in recent years to keep the system functional and avoid significant operational deficits, potential bankruptcy, and even closure. **Exhibit 2** shows operating and capital support provided by the State and Prince George's County to Prince George's Hospital System (including funding for infrastructure improvements for Prince George's Hospital and funds for the new PGCRMC) in fiscal 2009 to 2016.

Exhibit 2
Operating and Capital Support Provided to Prince George's Hospital System
Fiscal 2009-2016
(\$ in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>Total</u>
State									
Operating Subsidy	\$12.0	\$12.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	-	\$99.0
General Obligation Bonds	-	-	-	4.0	10.0	20.0	15.0	30.0	79.0
Prince George's County									
Operating Subsidy	12.0	12.0	15.0	15.0	15.0	15.0	15.0	15.0	114.0
Total	\$24.0	\$24.0	\$30.0	\$34.0	\$40.0	\$50.0	\$45.0	\$45.0	\$292.0

Note: This exhibit does not capture the operating and capital support provided by the State to the Prince George's Hospital System prior to the 2008 memorandum of understanding. Between fiscal 2002 and 2007, \$15.8 million and \$13.0 million were provided to the hospital system in operating and capital funding, respectively.

Source: Department of Legislative Services

State Expenditures: DLS notes that, although the bill requires a \$15.0 million transfer from the Dedicated Purpose Account (DPA) in fiscal 2017, the account does not include funds for the Prince George's Hospital Center. In the fiscal 2016 budget bill (§ 48 of Chapter 310 of 2015), the General Assembly restricted \$201.7 million in budgetary savings, including \$140.0 million appropriated to DPA, for legislative priorities. Among these priorities was a \$15.0 million operating grant to Dimensions Healthcare System for the Prince George's Hospital System. The budget bill also authorized the Governor to transfer the restricted funds for legislative priorities. The Attorney General's Office advises that any funds not transferred in fiscal 2016 revert to the general fund. As the Governor has not, to date, transferred funds for the Prince George's Hospital System, the Administration's fiscal 2017 budget plan anticipates that the remaining \$21.4 million of the DPA restricted appropriation reverts to the general fund.

Thus, general fund expenditures increase by a total of \$55.0 million from fiscal 2018 through 2021, to provide operating subsidies to PGCRMC. In fiscal 2018, general fund expenditures increase by \$30.0 million (because the \$15.0 million transfer from DPA cannot be effectuated in fiscal 2017). General fund expenditures increase by \$15.0 million in fiscal 2019 and by \$5.0 million in fiscal 2020 and 2021 to provide the mandated appropriations.

The bill requires the Governor to include a total of \$143.0 million in the capital or operating budget bill, in fiscal 2017 through 2019, for the capital construction of PGCRMC; specifically \$45.0 million in fiscal 2017, \$90.0 million in fiscal 2018, and \$8.0 million in fiscal 2019. Although the General Assembly may only mandate appropriations in the operating budget, this analysis assumes that the Governor satisfies these mandates with GO bonds. Overall capital spending, which is established annually through the capital budget process and subject to limits recommended by the Spending Affordability Committee, is not affected. To the extent that GO bonds are allocated to PGCRMC, other State capital projects receive less funding and/or are delayed.

The Governor's proposed fiscal 2017 capital budget includes \$27.5 million for PGCRMC, \$17.5 million less than required under the bill. PGCRMC has already received \$65.0 million in prior authorizations of GO bonds since fiscal 2014. The Governor's out-year *Capital Improvement Plan (CIP)* includes funding for PGCRMC as follows: \$67.5 million in fiscal 2018 (\$22.5 million less than required under the bill) and \$40.0 million in fiscal 2019 (\$32.0 million more than required under the bill). According to the Department of Budget and Management, the \$143.0 million in mandated funding required for construction under the bill represents \$8.0 million more in total than the \$135.0 million currently proposed in the Governor's out-year *CIP*.

Local Expenditures: Prince George's County expenditures increase by a total of \$55.0 million in fiscal 2017 through 2021 to provide operating subsidies to PGCRMC, including annual contributions of \$15.0 million in fiscal 2017 through 2019 and \$5.0 million in fiscal 2020 and 2021. Additionally, the county must provide \$208.0 million in capital funds toward construction of PGCRMC, although no annual amounts or fiscal years are specified in the bill. According to Prince George's County, \$15.0 million for an operating subsidy is included in the county's fiscal 2017 operating budget, and \$208.0 million is included in the county's six-year *CIP*. The county has issued a certificate of participation, which will make the entire \$208.0 million available as soon as the CON is approved by MHCC.

Small Business Effect: According to Prince George's County, PGCRMC is anticipated to have a significant positive impact on the county's small business climate through the construction and operation of the medical center and investment in new allied, senior, and specialty care providers near the proposed medical center.

Additional Comments: Prince George's County advises that construction of PGCRMC is estimated to generate approximately \$34.7 million in State and local tax revenues and the medical center itself will generate approximately \$19.0 million annually in State and local tax revenues.

Additional Information

Prior Introductions: None.

Cross File: SB 324 (Senator Miller, *et al.*) - Budget and Taxation.

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

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