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DIMENSIONS OVERSIGHT COMMITTEE

FINAL REPORT*

JANUARY 21, 2005

Morton I. Rapoport, M. D., Chairman

* SOME OF THE PROPRIETARY OR OTHERWISE CONFIDENTIAL MATERIALS CONTAINED IN THIS REPORT HAVE BEEN REDACTED.

The Dimensions Oversight Committee

Chaired by Morton I. Rapoport, M.D., the Dimensions Oversight Committee consisted of seven voting members. Four members were appointed by the Prince George's County Executive, including one selected by the County Council. Three members were appointed by the Governor of the State of Maryland. The Chairman of the Health Services Cost Review Commission served as a non-voting, ex-officio member.

Committee Members

Morton I. Rapoport, M. D. (Chairman)

Mizra H. A. Baig, M. D.

The Honorable Ulysses Currie

Councilman David C. Harrington

Councilman Thomas R. Hendershot

Pamela H. Piper

Nelson J. Sabatini

Irving W. Kues (ex officio)

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Final Report*
Dimensions Oversight Committee

The Oversight Committee was formed by a memorandum of understanding (MOU) between Prince George's County, Maryland and the State of Maryland on February 20, 2004 and amended on April 20, 2004.[1] Thus began a partnership between Prince George's County and the State to stabilize the County's principal safety net provider**.** The purpose of the Oversight Committee was to act as an advisory body to recommend to the State and County governments concrete actions to address both the immediate financial crisis and the need for long-term systemic changes to Prince George's Hospital Center (PGHC), Laurel Regional Hospital (LRH), and other affiliated facilities in Prince George's County (the system) operated by the Dimensions Health Corporation. This final report represents the completion of the Oversight Committee's work as directed by the MOU.

Current Financial Crisis. The Oversight Committee was formed because the system is in financial crisis, and has been for several years. From FY 1999 through FY 2004 the system has run a deficit of over $54 million. These ongoing financial difficulties have led to regular infusions of public funds from the State and the County to address immediate needs. These cash infusions have only served to forestall financial crises without addressing their underlying causes. These fall into two categories: the system's history of poor leadership and management (exemplified by inefficient staffing, excessive management positions, and engagement of expensive outside consultants whose recommendations are not implemented) and the system's performance of public health functions, especially as a provider to the County's poor. These public functions have not been adequately supported with public revenues. The pattern of stopgap bailouts has allowed the system to continue to operate, but not to succeed. One of the

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[1] Copies of these documents can be found in Appendix I.

consequences has been the delaying of essential capital spending, making the system increasingly uncompetitive.

The magnitude of the current crisis was made clear by an analysis conducted for the Maryland Health and Higher Educational Facilities Authority (MHHEFA) in June 2004.[2] It indicated that the system's endemic financial troubles have reached a critical stage. According to the MHHEFA-sponsored analysis, a number of the system's negative trends are converging and leading to a financial crisis far greater than those faced in the past. The report confirms the system's mismanagement, and makes it clear that the system is close to collapse.

The system's problems have profound implications for public health in Prince George's County. The facilities owned by the County and operated by Dimensions Health Corporation under a lease agreement[3] are a vital part of the healthcare infrastructure of the County, the region, and the State. Prince George's Hospital Center is the designated trauma center and sole provider of high-risk obstetrical services for the Southern Maryland region.[4] The system, particularly PGHC, is a vital part of the healthcare safety net of Prince George's County and the region: PGHC is one of Maryland's leading providers of hospital services to Medicaid recipients and other indigents,[5] and serves a larger share of the Capital region's uninsured and underinsured than any other hospital. If PGHC and LRH were unavailable to serve these patients, they would either forego needed services or seek care through other area hospitals (e.g., Doctor's Community Hospital, Southern Maryland Hospital, and hospitals in Calvert, Anne Arundel and Montgomery Counties) leading to adverse effects on those facilities' payor mix. Unless the State and County can work together to address the system's problems, quality health care delivery throughout both Southern Maryland and the Capital region will be affected. The system's crucial role in the area's healthcare delivery system means that its current fiscal situation is not just a financial crisis, but potentially a public health crisis as well.

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[2] See Appendix II: MHHEFA Statement Regarding Dimensions' Financial Status.

[3] A copy of the lease agreement can be found in Appendix III.

[4] See Appendix IV: Maryland Health Care Commission Analysis of the System's Role in the Local Healthcare System.

[5] See Appendix V: HSCRC Analysis of the System's Payor Mix.

Oversight Committee Actions. Recent years have seen a series of task forces and costly studies exploring the system's financial and structural problems. Unfortunately, none of the studies' recommendations have ever been implemented. The work of the Oversight Committee is distinguished from these earlier efforts by the Committee's selection of an independent hospital management consultant (turnaround firm) to work onsite and actively implement the crucial changes needed to stabilize the system.

The Oversight Committee, aware of the system's importance to Prince George's County and the State, as well as the urgency of the system's current financial crisis, worked quickly and collaboratively to complete the two tasks assigned it under the MOU. The Committee:

- Prepared and distributed an RFP[6] for management consultant services, evaluated proposals, conducted oral interviews, and on July 29, 2004, unanimously recommended a management consultant (turnaround firm) to receive the contract award; and
- Completed this report to fulfill the MOU's other charge to the Committee.

Turnaround Firm Actions. The turnaround firm selected by the Oversight Committee has moved quickly to take actions that are vital to the immediate and long-term viability of the system. The firm is providing interim senior management, has reduced the overall size of the system's management team, has implemented significant staff reductions, and has identified additional cost savings – all without adverse effects on patient care. The firm has also identified and begun implementing a series of actions such as performance monitoring, improved billing practices, and supply management that will yield additional, longer-term benefits.[7]

The Oversight Committee is pleased with the actions taken by the turnaround firm. Progress is being made toward correcting the longstanding problems that led the system to its current circumstances. The steps taken by the turnaround firm have been rational, appropriate, and in keeping with national best practices of hospital management. If the system is to achieve financial

[6] A copy of the RFP and related documents are found in Appendix VI.

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stability, the Oversight Committee believes that its governing body must work collaboratively with the turnaround firm to support the corrective actions underway.

Immediate Financial Needs. The turnaround firm's analysis makes it clear that good, aggressive management practices are not sufficient to address the system's problems. The system has an immediate and substantial need for additional funds. Over the years, the system's chronic financial crises have caused needed capital outlays to be foregone or delayed. The result is an increasingly uncompetitive system that is unattractive to patients and providers alike. Negative trends in patient volumes are stark evidence of the problem. To address the immediate, critical capital needs facing the system, the turnaround firm projects that between 30 and 35 million dollars will be required to sustain the system through the end of FY 2006. Three important points must be emphasized about the system's additional financial needs:[8]

- The $30-35 million projection is above and beyond the funds already pledged to the system under the MOU. These additional funds are critically needed for supporting current clinical operations in the system's existing facilities.
- Projections also indicate that the system is likely to need at least as much, and possibly more additional funding for FY 2007.
- The system's role as a County and regional safety net and public health services provider will require it to be supported by long-term operating subsidies.

OBSERVATIONS

The Oversight Committee has several observations regarding how the system arrived at its current state and what can be done to put it on a sustainable footing.

- <u>The system has suffered from a long period of poor management and ineffective leadership.</u> Lack of accountability, poor strategic planning, and bad decision making over a long period of time has brought the system to its present financial crisis. Restoring the system to a

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condition in which it can compete and provide quality healthcare to the citizens of Prince George's County will require consistent, effective efforts over a long period of time.

- The ineffective leadership and management that have plagued the system can be directly attributed to its governance structure and operational authority. Dimensions Health Corporation has proved to be an ineffective vehicle for operating Prince George's Hospital Center and Laurel Regional Hospital. Its operation of the system has provided no benefits to the system's component facilities, just inefficient management and a muddled strategic vision. The system's long-term viability cannot be achieved if operational authority remains as currently assigned, or under the current governance structure.

- The County Executive and County Council of Prince George's County must immediately develop a working consensus on the importance and long-term future of the County-owned facilities, and must commit to pursuing that consensus over the long term. Such a consensus must include both a clear vision for the role of the County-owned facilities in meeting the needs of Prince George's county residents, as well as a commitment to contributing to the financial resources needed to achieve that vision. The future of the system depends on the County Executive and the County Council immediately coming together and partnering with the State to support the system and the services it provides.

- The Oversight Committee believes that Maryland's Health Services Cost Review Commission (HSCRC) should not issue any additional special rate orders to the system at this time. The HSCRC has issued a series of special rate orders to provide additional revenues to the system over the past several years. The current orders, which provide an upward rate adjustment of 3.2 percent, will generate approximately $10 million in system revenues over the course of the year ending February 13, 2005, when the orders expire. Although these special rate orders have provided the system significantly increased reimbursement (including Medicaid, a substantial element in the system's payor mix), ultimately they are a poor source of public support. The higher reimbursement rate erodes the system's competitive position and market share. Higher payment rates make the system less attractive to commercially insured patients and managed care plans that purchase services for both public-pay and commercial patients. An important goal for the recovery of the system

must be to wean it off dependence on special rate arrangements. Having said this, the Committee recognizes that if the rate order is allowed to expire, the State and the County must act as partners to find an alternative revenue source to address any shortfall it leaves in the system's operating budget.

- Public health services require public support. Prince George's Hospital Center and its affiliated facilities play an essential role in the County's healthcare safety net as the leading provider of care for Medicaid, indigent, and charity patients. The system fulfills key public health functions by providing services (regardless of profitability) essential to the community. If the State and the County wish to continue to rely on the system to fulfill public health needs, they must recognize that public subsidies to support these public functions are essential. Sources of public support other than special rate orders should be considered. The State and County should build on the partnership of the MOU and work together to identify and establish a better alternative to special rate orders – a mechanism to provide a stable, long-term funding source to support the system's public mission.

  Although the Committee does not intend the following as a recommendation of any particular funding mechanism, we suggest for consideration three possible means that may, either singly or jointly, provide long-term public support to the system:

  Direct public grants. The County and the State have made substantial financial contributions to the system over the years, with the commitments under the MOU being only the latest example. Such grants, however, are inherently discretionary, which limits their usefulness for providing what the system needs: a source of stable and predictable long-term public support. Direct grants also can fall into a pattern (experienced previously by the system) of repeated short-term cash infusions to avert looming crises without addressing systemic problems.

  Special tax district. The creation of a special tax district to benefit the system would acknowledge the system's public mission and provide long-term, sustained financial support. Many Maryland counties use special tax districts to finance public projects and services such as roads, fire and rescue, and water projects. Although currently no Maryland special tax districts support hospitals, other states regularly use this mechanism

in circumstances similar to those facing the system and Prince George's County. (See the discussion of examples in Appendix IX).

Compensation from the District of Columbia. As a regional provider of care, the system serves a significant number of patients who are residents of the District of Columbia, many of whom are uninsured or underinsured. These patients contribute to the system's poor payor mix. This inequity is exacerbated by the competitive advantage that District of Columbia hospitals (which fall outside Maryland's rate regulated system) have in attracting commercially insured patients from the system's service area. To address this imbalance, Maryland's congressional delegation should take steps to secure for the system an appropriate share of the federal funds appropriated for the District of Columbia.

RECOMMENDATIONS

Recommendation One: The system will continue to need external management support to complete the turnaround process. If the current momentum for change falters, erosion of the system's financial position will become more severe, so that even greater levels of public support than currently projected will be required to stabilize the system. The operational and system changes being implemented by the turnaround firm are not quick fixes. If systems improvements are to be long-lasting, they require ongoing attention and monitoring, especially during the early stages. Turnarounds of the magnitude facing the Dimensions Healthcare system are not accomplished in six months.

Recommendation Two: Terminate the relationship between Prince George's County and Dimensions Health Corporation. Dimensions Health Corporation has never operated the system effectively. Its history of poor management and ineffective leadership continues to this day. No long-term solution to the problems facing the system can be accomplished by continuing the County's relationship with that entity. The Oversight Committee cannot envision any scenario whereby the system can succeed under the operational authority of Dimensions Health Corporation.

The County should take steps to terminate its relationship with Dimensions Health Corporation within 180 days. There are several alternative approaches available to the County for replacing Dimensions Health Corporation as operator of the County-owned facilities. The County could:

- Negotiate with a large hospital system to take over the system;
- Arrange a sale of the system and its assets to a third party; or
- Initiate a thorough and objective process to retain a management entity to take over the system's operation.

Recommendation Three: Immediately create a revenue source to support the operations of the system. The turnaround firm has estimated a need for additional public funding on the order of $30-35 million over the next 18 months (through the end of FY 2006), with a possibly even greater need in FY 2007. These funds are needed to support the turnaround efforts that are underway and to address the system's immediate and critical capital needs. If the system is to succeed, a reliable public revenue source is essential. The Prince George's County Executive, County Council, and the State must take actions to establish such a revenue stream. Once the system changes and improvements currently underway have taken hold and the system has stabilized, the revenue source could then be used to provide part of the funding for a long-term recapitalization plan.

As this report has stressed, an effective partnership between Prince George's County and the State is essential for the system's long-term success. A successful partnership depends on each party fulfilling its commitments.

It must also be made clear that this discussion of the system's short-term public revenue needs does not address its long-term recapitalization needs, such as the oft-cited need for new facility to replace the current Prince George's Hospital Center. Although all long-term capital estimates are highly speculative, the ultimate recapitalization needs of the system will likely exceed $100 million. The Oversight Committee feels that discussion of long-term capital needs would obscure the system's immediate and essential structural and financial issues. Unless these are successfully addressed, long-term capital investment should not occur.

Recommendation Four: The Prince George's County Executive and the Prince George's County Council should quickly define the type of system appropriate for the County. As this report makes clear, it is imperative that action be taken to address the system's immediate problems. It is also true that the system needs comprehensive restructuring so that it meets the community's needs in an efficient, effective, and sustainable manner. The County Executive and the County Council need to establish a consensus regarding the future of the system facilities in which the County has an ownership interest. There are a number of options that the County may wish to consider:

- Continue operating the system as an independent system with County ownership of the facilities;
- Merge the facilities with a Maryland-based not-for-profit hospital system (which might include a teaching hospital);
- Sell all or part of the system to a third party; or
- Take over the facilities and operate them as public hospitals, in effect returning to the structure that the system operated under up until 1983.

Properly executed, any of these options could meet the needs of Prince George's County. None of these options will succeed, however, without the support of the Prince George's County Executive, the Prince George's County Council, and the State. Finally, all partners to turnaround of the system must recognize that for the system's public service mission to be fulfilled, ongoing public subsidies will be needed.