

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/CS/SB 890

SPONSOR: Committee on Fiscal Policy and Senator Mitchell and others

SUBJECT: Rural Hospital Capital Improvement

DATE: April 14, 1999 REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Munroe</u>	<u>Wilson</u>	<u>HC</u>	<u>Favorable/CS</u>
2.	<u>Peters</u>	<u>Hadi</u>	<u>FP</u>	<u>Favorable/CS</u>
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

## I. Summary:

Committee Substitute for Committee Substitute for SB 890 creates the rural hospital capital improvement grant program and provides a mechanism for a rural hospital to apply for a grant from the Department of Health. Each rural hospital as defined in s. 395.602, Florida Statutes, must receive a minimum of \$100,000 annually, subject to legislative appropriation, upon application to the Department of Health, for projects to acquire, repair, improve, or upgrade systems, facilities, or equipment. The Department of Health must establish, by rule, criteria for awarding grants for any remaining funds, which must be used exclusively for the support and assistance of rural hospitals, including criteria relating to the level of uncompensated care rendered by the hospital, the participation of the hospital in a rural health network, and the proposed use of the grant by the rural hospital to resolve a specific problem. The department must consider any information that rural hospitals submit in a grant application, and in determination of the hospital's eligibility for and the amount of the grant. The Department of Health must ensure that the funds are used solely for the purpose specified in the bill.

The bill amends s. 395.602, F.S., to revise the definition of "rural hospital" to include a hospital in a constitutional charter county with a population of over 1 million persons that has imposed a local option health service tax pursuant to law and in an area that was directly impacted by a catastrophic event on August 24, 1992, for which the Governor of Florida declared a state of emergency pursuant to chapter 125, F.S., and has 120 beds or less that serves an agricultural community with an emergency room utilization of no less than 20,000 visits and a Medicaid in-patient utilization rate greater than 15 percent. The bill revises s. 409.9116, F.S., related to disproportionate share/financial assistance program for rural hospitals to include only hospitals defined as statutory rural hospitals prior to July 1, 1999 and to make ineligible for the program rural hospitals defined after July 1, 1999 unless additional funds are appropriated so that current rural hospitals do not incur a reduction in payments as a result of the eligibility of an additional hospital participating in the program.

This bill creates section 395.6061, Florida Statutes and amends sections 395.602 and 409.9116, Florida Statutes.

## **II. Present Situation:**

Chapter 395, Florida Statutes, provides for the licensing and regulation of hospitals and ambulatory surgical centers. Part III of chapter 395 provides legislative intent and findings in support of the efforts of rural hospitals. Section 395.602, F.S., 1998 Supplement, defines a “rural hospital” to mean a licensed acute care hospital having 100 or fewer licensed beds and an emergency room, that is located in an area defined as rural by the United States Census, and which is: 1) the sole provider within a county with a population density of no greater than 100 persons per square mile; or 2) an acute care hospital, in a county with a population density of no greater than 100 persons per square mile, which is at least 30 minutes of travel time, on normally traveled roads under normal traffic conditions, from any other acute care hospital within the same county; or 3) a hospital supported by a tax district or subdistrict whose boundaries encompass a population of 100 persons or less per square mile. Population densities used in the definition of rural hospital must be based upon the most recent United States census. Section 408.07, F.S., 1998 Supplement, provides an identical statutory definition of “rural hospital.” Section 395.602, F.S., 1998 Supplement, defines “rural area health education centers” to mean an area health education center, as authorized by Pub. L. No. 94-484, which provides services in a county with a population density of no greater than 100 persons per square mile.

Facilities that maintain the statutory designation of “rural hospital” may receive additional benefits as a result of the designation which include: the receipt of additional funding through participation in the Medicaid disproportionate share program; the ability to apply for and receive additional grants to establish and participate in a certified rural health network; and an exemption from certificate-of-need regulation of hospice and home health services provided by the statutory rural hospital. The Department of Health has identified 27 hospitals as “rural hospitals.”

Section 381.0406, F.S., provides for the establishment of rural health networks to provide a continuum of care and to ensure the availability of certain core services for residents of rural areas such as disease prevention, health promotion, comprehensive primary care, emergency medical care, and acute inpatient care. “Rural health networks” or “networks” are defined to mean a nonprofit legal entity, consisting of rural and urban health care providers and others, that are organized to plan and deliver health care services on a cooperative basis in a rural area. Rural health networks may be developed and implemented in two phases. Under Phase I, interested entities may apply for network planning and development grants from the Department of Health, so that they may organize networks, incorporate network boards, and develop provider agreements. Under phase II, rural health networks that meet specified criteria and that become certified may be eligible to receive grant funds that may be used to help defray the costs of network infrastructure development, patient care, and network administration. Section 408.043, F.S., authorizes certificate-of-need preferences for hospitals that are members of a certified rural health network, if need is shown and the proposed project strengthens health care services in rural areas through partnerships between rural health care providers, or increases access to inpatient health care services for Medicaid patients or other low-income persons who live in a rural area.

Section 409.9116, F. S., requires the Agency for Health Care Administration to administer a federally-matched disproportionate share program for statutory rural hospitals. The agency makes disproportionate share payments to statutory rural hospitals that qualify for such payments and financial assistance to statutory rural hospitals that do not qualify for disproportionate share payments. The payments are based on a formula that includes charity care, uncompensated care to medically indigent patients, and Medicaid inpatient days. During the fiscal year 1997-1998, \$3,720,185 in state general revenue and \$6,825,135 in federal funds were appropriated for statutory rural hospitals under the disproportionate share program.

### Statutory Rural Hospitals in Florida

Hospital	Ownership
Baptist Medical Center- Nassau	Owned by Multi-system (NFP)
Calhoun Liberty Hospital	Investor-owned (FP)
Campbellton-Graceville Hospital	Govt/Hospital District
Desoto Memorial Hospital	NFP managed by FP
Doctor's Hospital- Bonifay	(IO)
Doctor's Hospital- Perry	Govt/leased to (NFP)
Ed Fraser Memorial Hospital	(NFP)
Fisherman's Hospital	(IO)
Florida Hospital Wauchula	(NFP)
Gadsden Community Hospital	Owned by govt/(NFP) and leased to private (FP)
George E. Weems Hospital	(IO)
Glades General Hospital	Owned by govt/managed by (FP)
Gulf Pines Hospital	(IO)
Hamilton Medical Center	Owned by Multi-system (IO)
Hendry Regional Medical Center	Owned by govt/managed by (FP)
Jackson Memorial Hospital	Owned by govt/managed by (FP)
Jay Hospital	Owned by govt/managed by (NFP)
Madison County Hospital	Owned by govt/NFP and managed by (NFP)
Mariners Hospital	Owned by govt/NFP and managed by (NFP)
Memorial Hospital-Flagler	Owned by govt/NFP and managed by (NFP)
Nature Coast Regional Health network	(IO)
Northwest Florida Community Hospital	Govt/county
Ramadan Hand Institute at Lake Butler	(IO)
Shands at Live Oak	Owned by Multi-system (NFP)
Shands at Starke	Owned by Multi-system (NFP)

Hospital	Ownership
South Lake Hospital	Owned by Multi-system (NFP)
Walton Regional Hospital	(IO)

(NFP=not for-profit, FP=for-profit, IO=investor-owned)

Source: Florida Hospital Association

**III. Effect of Proposed Changes:**

The bill creates section 395.6061, F.S., to establish the rural hospital capital improvement grant program and provides a mechanism for a rural hospital to apply for a grant from the Department of Health. Each rural hospital as defined in s. 395.602, Florida Statutes, must receive a minimum of \$100,000 annually, subject to legislative appropriation, upon application to the Department of Health, for projects to acquire, repair, improve, or upgrade systems, facilities, or equipment. The application must include: a statement indicating the problem the rural hospital proposes to solve with the grant funds; the strategy proposed to resolve the problem; the organizational structure, financial system, and facilities that are essential to the proposed solution; the projected longevity of the proposed solution after the grant funds are expended; evidence of participation in a rural health network as defined in s. 381.0406; evidence that the rural hospital has difficulty in obtaining funding or that funds available for the proposed solution are inadequate; evidence that the grant funds will assist in maintaining or returning the hospital to an economically stable condition or any plan for closure will involve development of innovative alternatives for the discontinued services; evidence of a satisfactory record-keeping system to account for grant fund expenditures within the rural county; and a rural health network plan that includes a description of how the plan was developed, the goals of the plan, the links with existing health care providers under the plan, indicators quantifying the hospital’s financial well-being, measurable outcome targets, and the current physical and operational condition of the hospital.

The Department of Health must establish, by rule, criteria for awarding grants for any funds remaining after the base funding of \$100,000 for each rural hospital has been allocated, which must be used exclusively for the support and assistance of rural hospitals, including criteria relating to the level of uncompensated care rendered by the hospital, the participation of the hospital in a rural health network, and the proposed use of the grant by the rural hospital to resolve a specific problem. The department must consider any information that rural hospitals submit in a grant application, and in its determination of the hospital’s eligibility for and the amount of the grant. The bill provides that none of the individual items of information submitted to the department, by itself may be used to deny grant eligibility. The Department of Health must ensure that the funds are used solely for the purpose specified in the bill.

The bill amends section 395.602, F.S., relating to the definition of a rural hospital to include a hospital in a constitutional charter county with a population of over 1 million persons that has imposed a local option health service tax pursuant to law and in an area that was directly impacted by a catastrophic event on August 24, 1992, for which the Governor of Florida declared a state of emergency pursuant to chapter 125, and has 120 beds or less that serves an agricultural community with an emergency room utilization of no less than 20,000 visits and a Medicaid in-

patient utilization rate greater than 15 percent. This allows SMH Homestead Hospital to be defined as a rural hospital.

The bill amends section 409.9116, F.S., relating to the disproportionate share/financial assistance program for rural hospitals. This section currently is only applicable to hospitals that were defined as statutory rural hospitals, or their successor-in-interest hospital, prior to July 1, 1998; the bill revises this date to July 1, 1999. Under the bill, additional hospitals defined as statutory rural hospitals after July 1, 1999 are not eligible for assistance under this section unless additional funds are appropriated each fiscal year to the rural hospital disproportionate share and financial assistance programs in an amount necessary to prevent any hospital eligible for the programs prior to July 1, 1999 from incurring a reduction in payments because of the eligibility of an additional hospital to participate in the program. This change would enable Jackson Hospital to receive funds through the disproportionate share/financial assistance program for rural hospitals.

The effective date of the bill is July 1, 1999.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

The provisions of this bill have no impact on municipalities and the counties under the requirements of Article VII, Section 18 of the Florida Constitution.

##### **B. Public Records/Open Meetings Issues:**

The provisions of this bill have no impact on public records or open meetings issues under the requirements of Article I, Subsections 24(a) and (b) of the Florida Constitution.

##### **C. Trust Funds Restrictions:**

The provisions of this bill have no impact on the trust fund restrictions under the requirements of Article III, Subsection 19(f) of the Florida Constitution.

#### **V. Economic Impact and Fiscal Note:**

##### **A. Tax/Fee Issues:**

None.

##### **B. Private Sector Impact:**

There are 27 hospitals with a total of 1,408 beds in Florida that meet the statutory definition of "rural hospital." These hospitals have had difficulty remaining financially viable in recent years. Recent government budget cutbacks impact the future existence of hospitals located in rural areas. The funds provided in the bill will enable rural hospitals to make some capital improvements that will improve their viability.

According to the Department of Health, people living in rural areas have less availability of specialized hospital services due to a lack of medical staff. To the extent that the funds provided in this bill enable rural hospitals to modernize, they may be able to attract medical staff. This will, in turn, improve the availability of hospital services for residents of rural areas in the state.

**C. Government Sector Impact:**

This program is subject to legislative appropriation. Specific Appropriation 513A of SB 2500, as amended, appropriates \$7,250,000 from the Tobacco Settlement Trust Fund for rural hospital capital improvements.

The Department of Health estimates that one position in the Office of Rural Health and one position in Finance and Accounting for a total of \$136,702 in FY 1999-2000 is required to implement the administration of the rural hospital capital improvement program. This estimate appears to be excessive for administration of the program.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.