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HOUSE OF REPRESENTATIVES
COMMITTEE ON
HEALTH CARE SERVICES
ANALYSIS

BILL #: HB 741

RELATING TO: Trust Funds/Rural Hospital Capital Improvement

SPONSOR(S): Rep. Kilmer and others

COMPANION BILL(S): SB 890

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) HEALTH CARE SERVICES
(2) GOVERNMENTAL RULES AND REGULATIONS
(3) HEALTH & HUMAN SERVICES APPROPRIATIONS
(4)
(5)

I. SUMMARY:

HB 741 creates the Rural Hospital Capital Improvement Trust Fund. In addition to creating the trust fund, the bill: provides for distribution of funds in equal installments quarterly over a 10-year period; defines "rural hospital" to mean any hospital or health education center defined in s. 395.602(2), F.S.; states the purposes of the funding, including acquiring, repairing, improving, and upgrading systems, facilities, and equipment for rural hospitals; directs the Department of Health to ensure that funds are only used for these specified purposes; provides for recoupment by the department of any funds used inappropriately; limits funding in any fiscal year to those hospitals defined as rural prior to July 1 of that fiscal year; provides that any additional hospital seeking funds in a given fiscal year is eligible for funding only to the extent that additional funds are appropriated that fiscal year for additional hospitals; grants rule-making authority to the department; and, pursuant to the Constitutional requirement, provides for repeal of the trust fund on July 1, 2003, unless terminated sooner, and for review prior to repeal.

This bill has a recurring impact on the state's General Revenue fund of $14 million per year for 10 years.

Article III, section 19(f)(1) of the Florida Constitution requires a three-fifths (3/5) vote of the membership of each house for the creation of a trust fund.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Rural Hospitals in Florida

Section 395.602(2)(e), F.S., 1998 Supplement, defines "rural hospital" as:

"An acute care hospital licensed under this chapter, having 100 or fewer licensed beds and an emergency room, 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 fewer per square mile.

Population densities used in this paragraph must be based upon the most recently completed United States census."

An identical definition appears in s. 408.07(42), F.S., 1998 Supplement, relating to the budget review process.

The 1998 Legislature passed two bills dealing with rural hospitals. The first one, ch. 98-14, L.O.F., increased the maximum number of licensed beds for rural hospitals from 85 to 100. The second bill, ch. 98-21, L.O.F., directed the Agency for Health Care Administration (AHCA), along with the Department of Health and hospital representatives, to evaluate environmental factors in relationship to the definition of "rural hospital" as defined in ss. 395.602 and 408.07, F.S. The study is to consider economic and demographic factors, federal rules and regulations, health planning principles and the potential impact of alternative definitions for "rural" hospitals. The results of the study are to be submitted no later than December 31, 1999.

Florida's rural hospitals play a very important role in health care delivery in the state. They are important to their communities as focal points for health services and as a significant economic resource. Florida's rural hospitals served 30,000 patients and employed 3,800 citizens in 1996.

Rural hospitals in Florida are facing significant financial issues, including managing the daily operations of a hospital along with obtaining capital for long-term needs of their facilities.

A recently released report from the Florida Hospital Association, *Florida's Rural Hospitals*, (March, 1999) describes many of the challenges faced by rural hospitals in the state. Extensive data are provided on the 27 statutory hospitals and the populations they serve. Highlights from the report include:

- Florida has 27 hospitals that meet the statutory definition of a rural hospital. Twenty one of these hospitals are located in rural areas while six are in rural sub-districts of urban counties.

- Florida's rural hospitals are facing many issues that threaten their long-term viability. Reductions or restraints in Medicare and Medicaid funding, difficulties in recruiting and retaining health care practitioners, pressures from managed care entering their areas, and difficulties in obtaining capital paint a bleak picture for the future of Florida's rural hospitals.

- Florida's rural hospitals have a total of 1,408 beds and most of them have fewer than 50 beds. Patients served by rural hospitals typically live in areas closest to the hospital; however, approximately 82% of the rural patients seek care outside their county.

- Rural hospitals are seeing more and more Medicare patients, who represented 61% of the patients in 1996, compared to 54% in 1993. Emergency room visits are also growing, with rural hospitals seeing a 24% increase between 1993 and 1996.

- Seven percent or 1.1 million Floridians lived in rural areas in 1997; this does not include the seasonal residents or migrant farm workers who temporarily live in rural areas. Eighty percent of the growth in rural areas is due to people moving to the area, not by natural increase.

- Rural areas are seeing a significant growth in their elderly populations as people retire to rural areas where the cost of living is lower. Income per capita in rural areas is significantly below the statewide average.

- Retail, construction, agriculture/forestry, government, health care, and education are common employment sources for residents of rural areas. Three of these industries, retail, construction and agriculture/forestry have the highest rate of uninsured workers of any other industry. In addition, rural areas have a higher unemployment rate than in urban areas. Thus, the large uninsured population living in rural areas is not surprising.

- Rural areas have more residents on Medicaid or uninsured than other areas. Despite an estimated 42% with commercial insurance, rural areas are seeing a shift to managed care.

- Residents of rural areas have a higher incidence of death from accidents, liver disease, pulmonary disease, suicide, and diabetes.

- Rural areas have fewer beds per 1,000 population than urban areas, 2.3 versus 3.9 beds. In contrast, rural areas have a greater supply of nursing home beds per 1,000 population, 6.1 beds compared to 4.9 in urban areas.

- Attracting physicians, nurses, and other qualified health professionals to work in rural hospitals is a major challenge. In many cases, these professionals live in the area but do not work locally, typically because rural hospitals pay less than urban hospitals.

- Physician supply in rural areas is less than one-third that in urban areas, at 114 physicians per 100,000 population compared to 366 in urban areas. This figure is likely much lower because it includes non-practicing physicians and physicians living in rural areas but working elsewhere.

- Payments to rural hospitals grew 13% between 1995 and 1997 while expenses increased 11%. Salary expenses were up 17% from two years prior. The costs associated with caring for the uninsured increased 19% during this same period. Uncompensated care represented 8.1% of total expenses in 1997.

- Net income for rural hospitals increased between 1995 and 1997 with total margins growing from 2.8% in 1995 to 6.6% in 1997. Operating margins, income from patient care services, also improved.

- Partial 1998 financial data show that the financial picture for the rural hospitals is changing. Payments were down 1.2% in November 1998 compared to the prior year despite a 7% increase in admissions and a 7% increase in emergency visits. Net income fell 114% resulting in a profit margin of -1.2% compared to 8.2% for the same period in 1997.

- Other financial indicators based on assets, liabilities, and cash flow are key to accessing capital for new equipment and renovations. Florida’s rural hospitals did see improvements in their capital financing ratios but many still failed to meet the criteria for investment grade ratings.

- In addition, the nature of rural hospitals, i.e. a small population base; limited economic diversity; reliance on a small medical staff; patients seeking care at more urban hospitals; and a narrow range of services, is a cause for concern for lenders. Most large financial institutions do not lend to hospitals with less than 100 beds because of the perceived risk.

Florida’s rural hospitals face many challenges. Medicare funding reductions through the Balanced Budget Act of 1997, potential loss of funding to federally-designated “medically underserved” areas, a growing uninsured population, and staffing problems will threaten the financial health of those hospitals serving rural areas. Without the ability to offer new services, upgrade equipment, and renovate their aging facilities, rural hospitals will have difficulties attracting patients and trained health professionals to their hospitals.

Trust Fund Bills

Article III, section 19(f)(1), of the Florida Constitution, requires a trust fund of the State of Florida be created by a separate bill for that purpose only. The bill must be approved by a three-fifths (3/5) vote of the membership of both houses of the Legislature. Paragraph (2) of the same subsection (f) provides that a trust fund so created must terminate not more than four years after the effective date of the act authorizing the creation of the trust fund.

B. EFFECT OF PROPOSED CHANGES:

HB 741 will create the Rural Hospital Capital Improvement Trust Fund. In addition to creating the trust fund, the bill will address: distribution of funds, eligibility for funds, purposes of the funding, monitoring of fund use and recoupment as necessary by the Department of Health, rule-making authority for the department, and subsequent repeal and review of the trust fund. The bill will specify an annual General Revenue appropriation of $14 million for 10 years for distribution to statutory rural hospitals.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

The Department of Health is granted authority to adopt rules to implement and enforce the provisions of the bill.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

Those rural hospitals wishing to receive funds from the Rural Hospital Capital Improvement Trust Fund will have to obligate themselves to a certain amount of scrutiny by the Department of Health in order to receive such funds.

(3) any entitlement to a government service or benefit?

Rural hospitals will receive capital improvement funds in the form of grants from the Department of Health.

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

N/A

b. Does the bill require or authorize an increase in any fees?

N/A

c. Does the bill reduce total taxes, both rates and revenues?

The bill seeks to allocate $14 million of General Revenue funds annually for 10 years for rural hospital capital improvement purposes.

d. Does the bill reduce total fees, both rates and revenues?

N/A

e. Does the bill authorize any fee or tax increase by any local government?

N/A

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. Individual Freedom:

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Section 395.607, F.S.

E. SECTION-BY-SECTION ANALYSIS:

Section 1. Creates s. 395.607, F.S., relating to the Rural Hospital Capital Improvement Trust Fund. This section contains the following subsections:

Subsection (1) creates the Rural Hospital Capital Improvement Trust Fund within the Department of Health.

Subsection (2) provides for the annual General Revenue appropriation of $14 million for 10 years for distribution of funds in equal installments quarterly over a 10-year period to rural hospitals. The subsection defines “rural hospital” to mean any hospital or health education center defined in s. 395.602(2), F.S. Funds are to be distributed at the end of each calendar quarter based on general revenue receipts into the trust fund.

Subsection (3) indicates that the purpose of the trust fund is to provide funds for acquiring, repairing, improving, and upgrading systems, facilities, and equipment for rural hospitals. This subsection also directs the Department of Health to ensure that funds are only used for these specified purposes, and provides for recoupment by the department of any funds used inappropriately or for reductions in subsequent distribution to the hospital in question, as well as for the re-distribution of any such funds to the remaining rural hospitals.

Subsection (4) limits funding in any fiscal year to those hospitals defined as rural prior to July 1 of that fiscal year, and provides that any additional hospital seeking funds in a given fiscal year is

eligible for funding only to the extent that additional funds are appropriated that fiscal year for additional hospitals.

Subsection (5) grants rule-making authority to the department for implementing and enforcing the provisions of this section.

Subsection (6), pursuant to the Constitutional requirement, provides for repeal of the trust fund on July 1, 2003, unless terminated sooner, and for review prior to repeal.

Section 2. Provides for a July 1, 1999, effective date.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

The Department of Health indicates a need for $7,032 associated with the new position it will need in order to administer this program.

2. Recurring Effects:

The Department of Health indicates a need for $56,893 associated with the new position it will need to establish to administer this program.

The bill allocates $14 million from General Revenue annually for 10 years for the Rural Hospital Capital Improvement Trust Fund.

3. Long Run Effects Other Than Normal Growth:

N/A

4. Total Revenues and Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

To the extent that local governments are partially responsible for funding rural hospitals, and most rural hospitals derive a portion of their revenues from local government sources, rural hospitals receiving capital improvement revenue from the state may not be as dependent on local government for operating funds.

3. Long Run Effects Other Than Normal Growth:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

N/A

2. Direct Private Sector Benefits:

   Residents of those parts of the state served by rural hospitals should see vast improvements in the care capabilities of rural hospitals over time as a result of this bill. Service enhancements could mean that rural residents could receive more services locally, without the need to travel to urban centers for certain hospital services.

3. Effects on Competition, Private Enterprise and Employment Markets:

   To the extent that rural hospitals expand or enhance their service delivery capability, employment options within these hospitals may be enhanced in rural areas.

D. FISCAL COMMENTS:

It is as yet unclear how much of the $14 million sought for funding of this bill will be made available in the General Appropriations Act.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require counties or municipalities to spend funds or to take action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill does not reduce the authority that municipalities or counties have to raise revenue in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

The bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

In its review of the bill, the Department of Health indicated a need for some specific rule-making authority relating to the department's ability to properly administer the provisions of this act. The department expressed a need for authority to address in rule the following topics: an application process, definitions of applicable terms, monitoring of compliance, distribution process, and other rules necessary to implement and enforce the provisions of this section.

It is not clear if any of these type "ministerial" functions can be specified as part of this bill. Trust fund bills are, by definition, only supposed to address trust fund issues, nothing more and nothing less.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A

VII. SIGNATURES:

COMMITTEE ON HEALTH CARE SERVICES:

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