STORAGE NAME: h0741z.hcs ****FINAL ACTION****
DATE: May 19, 1999 ****SEE FINAL ACTION STATUS SECTION****

HOUSE OF REPRESENTATIVES
AS FURTHER REVISED BY THE COMMITTEE ON
HEALTH CARE SERVICES
FINAL ANALYSIS

BILL #: HB 741 (Passed as CS/CS/SB 890)

RELATING TO: Rural Hospital Capital Improvement

SPONSOR(S): Representatives Kilmer, Casey, Harrington, Boyd and others

COMPANION BILL(S): SB 890 (Similar)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) HEALTH CARE SERVICES YEAS 13 NAYS 0
(2) GOVERNMENTAL RULES AND REGULATIONS YEAS 5 NAYS 0
(3) HEALTH AND HUMAN SERVICES APPROPRIATIONS YEAS 8 NAYS 0
(4)
(5)

I. FINAL ACTION STATUS:

05/26/99 Approved by Governor; Chapter No. 99-209

II. SUMMARY:

This bill 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, F.S., 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 rural hospital, the participation of the rural 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 a rural hospital submits 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 purposes specified in the bill. Total grants awarded must not exceed the amount appropriated for the program.

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 effect of this provision is to recognize Homestead Hospital in Dade County as a rural hospital.)

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

III. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Section 395.602(2)(e), F.S., 1998 Supplement, relating to rural hospitals and s. 408.07(42), F.S., 1998 Supplement, relating to the budget review process, define "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."

Florida's rural hospitals play an important role in health care delivery. In 1996, Florida's rural hospitals served 30,000 patients and employed 3,800 citizens. In 1998, the Legislature passed the following two significant bills relating to rural hospitals:

- Chapter 98-14, L.O.F., increased the maximum number of licensed beds for rural hospitals from 85 to 100.

- Chapter 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.

In March, 1999, the Florida Hospital Association released a report titled *Florida's Rural Hospitals*, which describes the challenges faced by rural hospitals today. The report provided extensive data on the 27 statutory hospitals and the populations served by such hospitals. Highlights from the report include the following:

- 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.

In addition to the concerns reported by the Florida Hospital Association, the following are also issues of concern relating to rural hospitals:

- Medicare funding reductions through the Balanced Budget Act of 1997.
- Potential loss of funding to federally-designated "medically underserved" areas.
- A growing uninsured population.
- Inadequately trained staff.

B. EFFECT OF PROPOSED CHANGES:

This bill will establish the rural hospital capital improvement grant program in the Department of Health, and provide a mechanism for a rural hospital to apply to the department for a grant. Grant amounts and types will be specified, as well as uses for grant funds. The bill will specify duties of the department.

The bill will also revise the definition of “rural hospital” as part of s. 395.602, F.S.

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 general rulemaking 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 Grant Program 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?

N/A

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:

Sections 395.6061 and 395.602, F.S.

E. SECTION-BY-SECTION ANALYSIS:

Section 1. Creates s. 395.6061, F.S., relating to the Rural Hospital Capital Improvement Grant Program. This section contains the following subsections:

Subsection (1) authorizes rural hospitals to apply for grants from the Department of Health. Grant applications must provide information that includes: the problem to be solved; the strategy for solving the problem; the organization structure, financial system, and facilities essential to the proposed solution; the projected longevity of the proposed solution after grant expenditures; evidence of participation in a rural health network; evidence of unavailability or inadequacy of funds to address the identified problem; evidence that grant funds will assist in the hospital's economic stability or alternatives for discontinued services; satisfactory record-keeping; and a rural health network plan, consisting of specified elements.

Subsection (2) provides for a minimum annual grant of $100,000, subject to legislative appropriation, upon application to the department for projects to acquire, repair, improve, or upgrade systems, facilities, or equipment.

Subsection (3) specifies that any remaining funds be annually disbursed to rural hospitals, under criteria developed by rule of the department, for support and assistance of rural hospitals. Criteria include level of uncompensated care, participation in a rural health network, and solving a specific problem. Criteria of subsection (1) must be considered, and none of the individual items may be used to deny grant eligibility.

Subsection (4) stipulates that the department shall ensure that funds be used solely for the purposes specified in this section, and that total grants awarded not exceed appropriated amounts.

Section 2. Amends s. 395.602(2)(e), F.S., 1998 Supplement, relating to the definition of "rural hospital," to revise the definition 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 effect of this provision is to recognize Homestead Hospital in Dade County as a rural hospital.)

Section 3. Provides for a July 1, 1999, effective date.

IV. 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 $14,064 in non-recurring expenses and operating capital outlay for two positions to implement and administer the program. The bill does not provide this funding.

2. Recurring Effects:

Office of Rural Health One FTE (Salaries & Expenses)	$61,319
Finance and Accounting One FTE (Salaries & Expenses)	$61,319

3. Long Run Effects Other Than Normal Growth:

N/A

4. Total Revenues and Expenditures:

Revenues	-0-
Expenditures	$139,702

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 improvements in the care capabilities of rural hospitals over time as a result of this bill. Service, equipment, and facility 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:

The bill establishes the "Rural Hospital Capital Improvement Grant Program" for projects to acquire, repair, improve, or upgrade systems, facilities, or equipment in statutory rural hospitals. The Department of Health will establish rules necessary to implement and administer the program. Two grant programs are authorized in this bill. The first is a minimum of $100,000 per rural hospital per year. The second is a distribution of additional grant money to rural hospitals based on criteria specified in the bill.

This bill does not appropriate any funds for the grant program. However, Specific Appropriation 513A of the 1999-2000 General Appropriations Act includes $4,350,000 from the Tobacco Settlement Trust Fund for rural hospital capital improvement.

The addition to the definition of "rural hospital" contained in this bill does not have a fiscal impact apart from the capital improvement grant program created by the bill.

V. 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.

VI. COMMENTS:

Whereas the original House bill sought to establish and fund a trust fund specific to rural hospitals, the bill as adopted establishes a rural hospital capital improvement grant program through the Department of Health.

VII. SIGNATURES:

COMMITTEE ON HEALTH CARE SERVICES:

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Phil E. Williams	Phil E. Williams

AS REVISED BY THE COMMITTEE ON GOVERNMENTAL RULES AND REGULATIONS:

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FINAL ANALYSIS PREPARED BY THE COMMITTEE ON HEALTH CARE SERVICES:

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