



**Council Auditor's Office**

**Special Report on Shands Jacksonville**

**January 10, 2024**

**Report #874**

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**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



January 10, 2024

Report #874

Honorable Members of the City Council  
City of Jacksonville

We are providing this special written report in accordance with Ordinance Code Section 102.102(c) pursuant to a request from the Council President to look at the financial conditions faced by Shands Jacksonville Medical Center, Inc., which is a subsidiary of Shands Jacksonville HealthCare, Inc. Since Jacksonville Medical Center, Inc. represents most of Shands Jacksonville HealthCare, Inc, we are not going to differentiate in this report and will refer to the organization as Shands Jacksonville.

This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards. We are not experts on the financial evaluation or funding of hospitals or specifically indigent care funding within hospitals. This report is based on information obtained in the audited financial statements, unaudited information provided by Shands Jacksonville based on our requests for information, and information we found while researching applicable laws, programs, and other items as needed.

With that said, we do believe that this report provides relevant information to address the request from the City Council President; however, this report should not be used for any other purpose.

## **INTRODUCTION**

The City has a contract with Shands Jacksonville to provide indigent care to residents of Duval County. In the most recent audited financial statements for the Fiscal Year ended June 30, 2023, there were financial concerns disclosed. Specifically, per Shands Jacksonville's audited financial statements, the net position decreased by \$53.6 million, from \$286.2 million down to \$232.6 million as of June 30, 2022 and June 30, 2023, respectively. This was the main factor that led to Shands Jacksonville not being in compliance with the debt service coverage ratio as of June 30, 2023. The debt service coverage ratio is a comparison of annual income compared to the annual debt payment, which is an indicator of an entity's ability to make future debt payments. Note 7 of the financial statements stated:

*This noncompliance does not result in an event of default as of June 30, 2023. If the requirement is not met for two consecutive years, it could be an event of default under the borrowing agreements.*

The financial statements go on to explain that Shands Jacksonville has taken steps to address the noncompliance, which included hiring an independent consultant to provide operation improvement recommendations.

Our review was focused on what led to the debt service coverage ratio not being met for the period ended June 30, 2023, and whether it appeared the debt service coverage ratio was likely to not be met again for the period ended June 30, 2024. While there continue to be significant stresses expected on Shands Jacksonville's financial position, based on reviewing information provided by Shands Jacksonville and other information, it is not anticipated that Shands Jacksonville will perform as negatively in FY 2023/24 as it did in FY 2022/23.

Below we explore the relationship between the City and Shands Jacksonville (contractual and financial), provide relevant financial information on Shands Jacksonville (based on what is publicly available and what was provided to us during meetings with Shands Jacksonville staff), and identify things that the City needs to consider in the future as it relates to future funding needs.

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## **BACKGROUND ON AGREEMENTS**

Before addressing the financial condition of Shands Jacksonville, it is important to have background on the relationship between the City of Jacksonville and Shands Jacksonville. There are two main agreements (Indigent Health Care Agreement and Lease Agreement) as well as annual funding agreements.

### **Indigent Health Care Agreement**

The original Indigent Health Care Agreement was approved by Ordinance 81-551-381. In that agreement, University Medical Center (later became Shands Jacksonville Medical Center, Inc.) agreed to provide medical treatment to indigent patients residing in Duval County who could not afford to pay for their own medical care. In return, the City agreed to provide the hospital with annual funding to partially offset the cost of this care. This agreement was referred to as the Indigent Health Care Agreement. Ordinance 84-78-800 amended the original agreement and incorporated the Hill-Burton guidelines as the criteria used to determine eligibility for care as a county indigent. Hill-Burton guidelines define the level and type of income to be used to determine eligibility for assistance and are based on the federal poverty guidelines. Subsequent to the original agreement, Ordinance 1998-952-E and Resolution 2005-393-A amended the agreement primarily to modify City funding and update the financial responsibility criteria and documentation for patients. The funding provided by the City benefits all residents of Duval County who qualify under the income restrictions. The Indigent Health Care Agreement is set to end March 24, 2028.

Utilizing the Hill-Burton income guidelines and following the requirements of the Indigent Health Care Agreement, Shands Jacksonville assigns a financial rating to each applicant. An applicant can be full charity if they earn up to 100% of the Hill-Burton income amount based on family size. The applicant can also qualify for a partial pay up to 200% of the Hill-Burton income amount based on family size. Within the range there are six different partial payment categories. Typically, applicants have to apply with the Financial Evaluation Department of Shands Jacksonville and provide support for their income and evidence that they are Duval County Residents in a manner

required by the Indigent Health Care Agreement. However, the Indigent Health Care Agreement does provide an exception which allows an Emergency Room patient to sign a minimum attestation form with the patient simply attesting to their income. Additionally, persons “confined within the Duval County Jail or Duval County Correctional System” are eligible during incarceration. This means the costs of the health care for inmates that are inpatient as well as some pharmaceutical and clinical items are charged to this contract and not included in the cost of the agreement between the Jacksonville Sheriff’s Office and the third-party provider of inmate health care.

Within the Indigent Health Care Agreement, there are guidelines on how to determine the City’s annual funding to Shands Jacksonville. Some of the items to consider that are listed in the Indigent Health Care Agreement include, but are not limited to the following:

- Level of the Hospital’s indigent care patient load,
- Actual costs incurred by the Hospital to comply with agreement,
- Rate of inflation in the healthcare industry,
- Legal obligation of the county/city, if any, to provide for indigent care health services,
- Overfunding or underfunding by the City in the prior year,
- Value of the lease agreement (described in the next section)
- All other contributions from the County or any other government or charitable entity that benefits the Hospital.

As part of the annual budget process, the Mayor proposes and the City Council approves the annual funding to Shands Jacksonville for indigent health care services. For FY 2022/23 and FY 2023/24, the City provided \$40 million each year in combined funding from the General Fund and American Rescue Plan Funding. This funding compared to the cost of the indigent care will be explained in detail later in the report.

#### Lease Agreement

On December 15, 1987, the Duval County Hospital Authority (City) and the University Medical Center, Inc. (later became Shands Jacksonville Medical Center, Inc.) entered into a lease agreement that superseded previous agreements. The lease was originally set to terminate September 30, 2027, unless extended an additional 40 years as allowed in the contract. However, on October 1, 1999, as part of the first amendment to the amended and restated lease, the term of the lease was extended to September 30, 2067, with an option to extend an additional 30 years. While the annual rent is \$1, the hospital agreed to operate the hospital in full support of the indigent care program, and the Indigent Health Care Agreement states that the value of the lease agreement should be factored into the contribution by the City.

As part of the lease agreement, Shands Jacksonville is responsible for maintaining the facilities in good repair and operating conditions at its own expense as well as make all necessary and proper repairs, renewals, and replacement to the facilities subject to applicable provisions of the agreement.

**CITY FUNDING AND INDIGENT HEALTH CARE COSTS**

As noted above, the City provides annual funding to Shands Jacksonville to provide Indigent Care services to qualified Duval County residents. As shown on the following table, the City’s funding does not cover the cost of all the services provided by Shands Jacksonville under the terms of the Indigent Health Care Agreement (See Exhibit A for a more complete historical depiction of the funding and cost):

**Shands Jacksonville Indigent Care Agreement  
Summary of Charity Costs and City Funding**

<b>Fiscal Year</b>	<b>City Charity Account Costs per Charity Cost Report</b>	<b>City Appropriation for Charity Care Costs</b>	<b>City Charity Care Costs Covered By Other Sources</b>	<b>% Directly Funded by City</b>
7/1/18-6/30/19	\$ 52,856,848	\$ 26,275,594	\$ 26,581,254	49.71%
7/1/19-6/30/20 (a)	\$ 53,527,672	\$ 34,275,594	\$ 19,252,078	64.03%
7/1/20-6/30/21	\$ 48,555,943	\$ 30,275,594	\$ 18,280,349	62.35%
7/1/21-6/30/22	\$ 43,093,726	\$ 35,000,000	\$ 8,093,726	81.22%
7/1/22-6/30/23	\$ 44,522,092	\$ 40,000,000	\$ 4,522,092	89.84%

*(Estimated by Shands)*

(a) The City Appropriation for Indigent Care includes an additional one-time payment for \$8 million.

***(Compiled in-house based on Charity Cost Reports and City Budget)***

It is important to note that the increase to \$35 million for FY 2021/22 and the increase to \$40 million in FY 2022/23 was funded utilizing American Rescue Plan Funding. Although not depicted in the chart, the City’s budget for FY 2023/24 maintained funding at \$40 million. Additionally, the above table includes the hospital costs only and not the portion of funding used by Shands Jacksonville to cover a portion of the practice plan/physician costs related to indigent care. The Charity Cost Report is an unaudited report provided by March 31 following the end of each fiscal year.

It is also important to note that the City’s indigent care funding is partially provided as an intergovernmental transfer to the State, which is leveraged for Shands Jacksonville to receive additional funding as part of Florida’s Medicaid Hospital Program, specifically with the Low-Income Pool (LIP) and Disproportionate Share Hospital (DSH) Programs. The City does not submit every dollar as an intergovernmental transfer because Shands Jacksonville would not receive any more funding from the State. The portion that is directed to intergovernmental transfers is done in a manner that is economically feasible to Shands. The total funding to Shands Jacksonville when factoring in the LIP, DSH, and City funding ranged from \$85 million to \$109 million per year between FY 2018/19 and FY 2022/23.

In addition to the Charity Care Cost funding in the table above, the City has also authorized borrowing of \$115 million and utilized American Rescue Plan Funding of \$25 million to provide a total of \$140 in Capital Funding for City Facilities over the six-year period of FY 2018/19 through FY 2023/24. While these capital funds were provided in hopes of reducing maintenance costs for Shands Jacksonville, the City did not have a contractual obligation to provide the funding because maintenance and repairs of the leased facilities is the responsibility of Shands Jacksonville. The \$140 million also does not include the \$10 million to support the construction of the UF Health Jacksonville Leon L. Haley, Jr, MD, Emergency Department & Trauma Center since the funds have not yet been appropriated.

While the City's annual contribution does not cover all of Shands Jacksonville's costs for the indigent care services required by the contract, the City is not required to cover all of the costs with the annual contribution. As explained in the Indigent Health Care Agreement summary section, there are other things (e.g., value of lease agreement, other funding provided, etc.) that must be factored in when determining the City's annual contribution.

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#### **CIRCUMSTANCES IMPACTING FINANCIAL CONDITION OF SHANDS JACKSONVILLE**

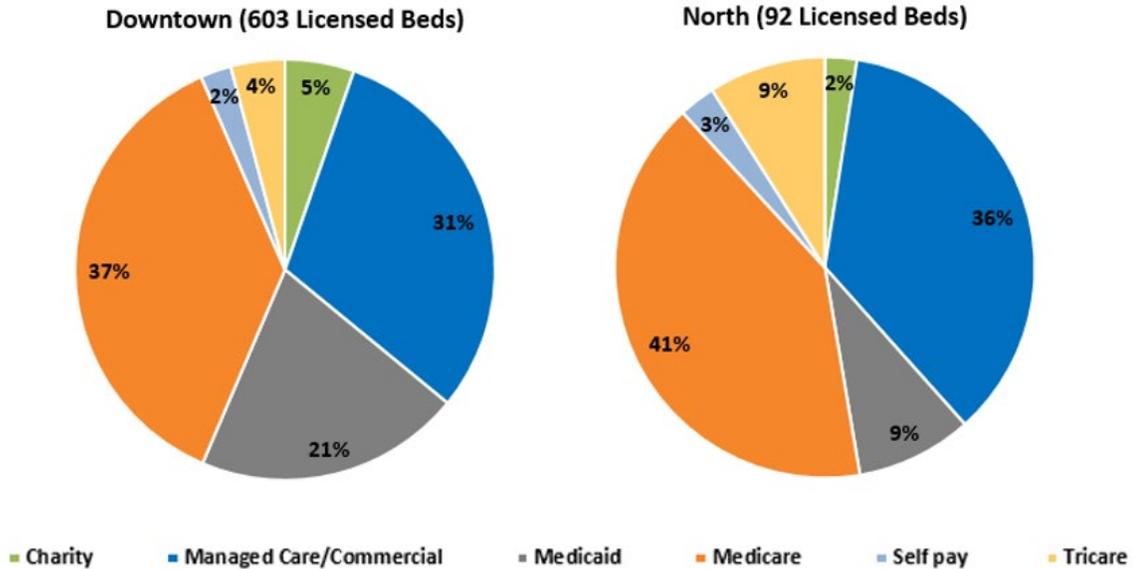
As noted above, the net position decreased by \$53.6 million, from \$286.2 million down to \$232.6 million as of June 30, 2022 and June 30, 2023, respectively. There are many factors that contributed to the decrease, of which some significant factors are further explained below. It is important to remember that Shands Jacksonville operates as a safety net hospital which creates inherent financial pressures that not all hospitals experience to the same magnitude.

While the debt outstanding did not increase during FY 2022/23 (decreased by \$3.2 million), debt outstanding increased by \$232 million in FY 2021/22 mainly due to issuing debt for the expansion of the North Hospital. However, this was not the cause of Shands Jacksonville's failure to meet debt service coverage ratio mentioned earlier in the report based on the structure of the debt payments (i.e., principal is backloaded).

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Payor/Funding Mix and Indigent Care Costs

As we consider the financial position of Shands Jacksonville, it is important to first consider the patient payor mix (based on revenue). The pie-charts below show the payor mix for the Downtown location is 21% Medicaid, 5% charity, and 2% self-pay while the North location is 9% Medicaid, 2% charity, and 3% self-pay.



*(Provided by Shands Jacksonville)*

We do not have information for the exact same time period nationally or for the State of Florida, but we were able to find some information for similar time periods. Based on our sources of information, Medicaid revenue averages about 7% of the net income for hospitals in the State of Florida<sup>1</sup> and 6-7% of gross income in Congressional Districts 4 & 5 (which cover parts of Duval County)<sup>2</sup>. Based on that, Shands Jacksonville is approximately three times more reliant at the Downtown location on Medicaid income than the average hospital in the State of Florida.

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<sup>1</sup> Emerson, J. (2023, May 25). Becker's Healthcare. Retrieved from <https://www.beckerspayer.com/payer/average-hospital-payer-mix-in-every-state.html>

<sup>2</sup> Florida Hospital Association. (2023, April). Florida Hospital Association. Retrieved from <https://www.fha.org/FHA/FHA/Data-and-Research/Economic-Impact.aspx?hkey=f36ada55-cf8b-4d8b-909a-ece5c9bae50b>

The importance of those three categories (Medicaid, Charity, and Self-Pay) is that for those categories in particular, Shands Jacksonville is not able to recover the cost of providing these services with revenue it receives for these categories. The table below shows the cost of all Charity Care, Medicaid, and Self-Pay patients compared to the revenue received related to the same category of patients broken down to include detail on Duval and Non-Duval County residents. All “COJ Charity Care Cost” patients are required to be Duval County residents per the Indigent Health Care Agreement. The table shows that while the COJ Charity Care Costs have decreased from \$70.8 million in FY 2018/19 to \$54.6 million in FY 2023, the combined costs for Duval County residents went from \$251.1 million to \$267.7 million. At the same time, the total costs for the programs, regardless of County, went from \$284.7 million to \$314.9 million from FY 2018/19 to FY 2022/23 while the total revenue received to cover these costs went from \$246.3 million down to \$210.1 million due to less supplemental funding and other Medicaid payments. The result is the net deficit for these programs went from \$38.4 million to \$104.7 million from FY 2018/19 to FY 2022/23. Furthermore, the increase in the deficit was \$45.9 million more in FY 2022/23 compared to FY 2021/22.

**Shands Jacksonville**  
**FY 2018/19 - FY 2022/23**  
**Charity/Medicaid/Self-Pay Cost vs. Applicable Funding**

Description	FY 2018/19 Actual	FY 2019/20 Actual	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Actual
<b>COJ Charity Care Cost</b>					
Hospital	\$ (52,856,848)	\$ (53,527,672)	\$ (48,555,943)	\$ (43,093,726)	\$ (44,522,092)
Practice Plan	(17,958,000)	(16,375,000)	(12,538,000)	(10,347,000)	(10,048,000)
<b>Total COJ Charity Care Cost</b>	<b>\$ (70,814,848)</b>	<b>\$ (69,902,672)</b>	<b>\$ (61,093,943)</b>	<b>\$ (53,440,726)</b>	<b>\$ (54,570,092)</b>
<b>Non-COJ Charity Care Cost</b>					
Duval	\$ (16,793,800)	\$ (17,671,627)	\$ (17,894,640)	\$ (18,370,381)	\$ (19,523,579)
Non-Duval	(4,759,722)	(5,634,074)	(5,679,181)	(7,701,263)	(8,825,689)
<b>Medicaid Fees for Services and Managed Care Cost</b>					
Duval	(146,672,394)	(131,686,617)	(159,099,833)	(170,354,445)	(173,406,956)
Non-Duval	(24,118,380)	(20,666,344)	(28,425,267)	(29,879,745)	(31,711,737)
<b>Self-Pay Cost</b>					
Duval	(16,793,800)	(17,671,627)	(17,894,640)	(19,291,137)	(20,205,195)
Non-Duval	(4,759,722)	(5,634,074)	(5,679,181)	(6,425,738)	(6,637,361)
<b>Total Duval County</b>	<b>\$ (251,074,842)</b>	<b>\$ (236,932,542)</b>	<b>\$ (255,983,057)</b>	<b>\$ (261,456,689)</b>	<b>\$ (267,705,823)</b>
<b>Total Non-Duval County</b>	<b>\$ (33,637,824)</b>	<b>\$ (31,934,493)</b>	<b>\$ (39,783,629)</b>	<b>\$ (44,006,746)</b>	<b>\$ (47,174,787)</b>
<b>Total Charity, Medicaid &amp; Self Pay Cost</b>	<b>\$ (284,712,666)</b>	<b>\$ (268,867,035)</b>	<b>\$ (295,766,686)</b>	<b>\$ (305,463,435)</b>	<b>\$ (314,880,610)</b>
<b>Funding for Low Income &amp; Uncompensated Care*</b>					
COJ Indigent Care payment	\$ 26,275,594	\$ 34,275,594	\$ 30,275,594	\$ 35,000,000	\$ 40,000,000
Low Income Pool funding, net of IGTs	55,416,329	70,788,067	67,765,092	65,152,207	37,912,466
Medicaid Disproportionate Share, net of IGTs	3,000,948	3,930,853	2,750,334	5,646,296	9,066,573
Medicaid Direct Payment Program, net of IGTs	-	-	-	19,536,282	18,242,039
Medicare Disproportionate Share/Uncompensated Care	36,637,270	27,719,437	20,781,526	16,831,145	15,786,798
Allocation of Graduate Medical Education/Indirect Graduate Medical Education/Critical Care Funding	10,618,642	10,457,551	9,176,263	14,669,116	8,312,862
Medicaid Fees for Services & Managed Care Payments	113,286,162	97,415,963	87,522,420	88,404,023	79,665,608
Self-pay payments	880,314	1,159,311	1,098,266	1,282,402	1,068,503
Non-COJ Charity Payments	183,112	93,321	162,948	74,961	77,372
<b>Total Low Income &amp; Uncompensated Funding</b>	<b>\$ 246,298,370</b>	<b>\$ 245,840,098</b>	<b>\$ 219,532,444</b>	<b>\$ 246,596,432</b>	<b>\$ 210,132,221</b>
<b>Surplus/(Deficit)</b>	<b>\$ (38,414,296)</b>	<b>\$ (23,026,937)</b>	<b>\$ (76,234,242)</b>	<b>\$ (58,867,004)</b>	<b>\$ (104,748,388)</b>

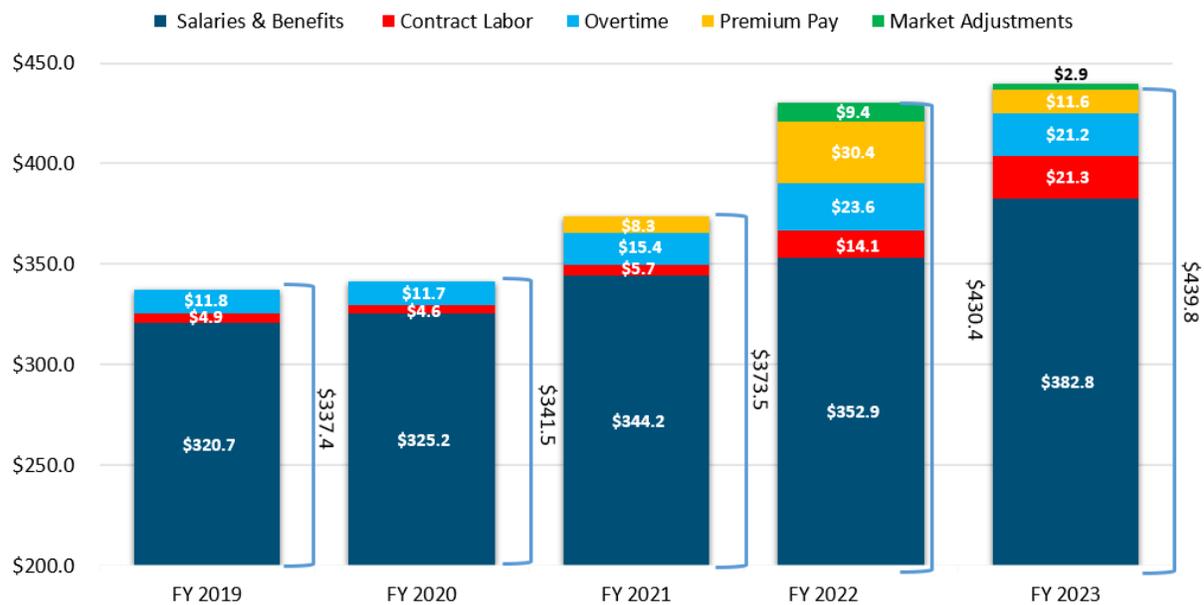
\* Does not include any reserves for third-party payor settlements.

*(Provided by Shands Jacksonville)*

### Cost Pressures

In recent years there have been pressures on the cost of the workforce and general costs of providing the services. As it relates to the cost of the workforce, the below graph shows that the cost of the workforce (not limited to indigent care) at Shands Jacksonville has increased by \$102 million (or 30%) from FY 2018/19 to FY 2022/23. During this time period there was \$66.3 million in one-time federal funding related to COVID-19 that helped cover some of these and other increased costs; however, this funding was fully utilized prior to FY 2023. It is important to note the leveling off of the workforce cost in FY 2022/23 as well as to recognize the decrease in premium payments for FY 2022/23 compared to FY 2021/22 due to the elimination of the premium payments at a point during FY 2022/23.

## Shands Jacksonville Workforce Cost Pressure



*(Provided by Shands Jacksonville)*

### Inmate Health Care

The City is required to provide health care for inmates incarcerated in Duval County's correctional system as a result of the 1972 Supreme Court ruling *Estelle vs. Gamble*<sup>3</sup>. The Jacksonville Sheriff's Office has a contract with a third-party vendor to provide health care services for inmates (\$21 million for September 1, 2023 through August 31, 2024). However, there are certain specialty services that are above/outside the level of care that can be provided at the correctional facilities. In those instances, per the contract, the vendor is to make arrangements for the services to be provided by Shands Jacksonville. The services provided by Shands Jacksonville are not covered by the inmate health care provider but instead charged to the City Charity Care Account as allowed by the Indigent Health Care Agreement.

<sup>3</sup> Baumrucker, E. P. (2023). Medicaid and Incarcerated Individuals (CRS Report No. IF11830). Congressional Research Service. Retrieved from <https://crsreports.congress.gov/product/pdf/IF/IF11830>

Medicaid funding is generally not allowed to be used for inmate health care costs since the State of Florida has not elected Medicaid expansion, which would allow Medicaid funding to cover a portion of the costs for inpatient inmates at offsite healthcare facilities if the inmate was Medicaid eligible. As mentioned above in the background on the agreements, Duval County inmates are deemed eligible for care under the Indigent Health Care Agreement “absent any other eligible source of funds”. Therefore, those services provided at Shands Jacksonville are charged to the City Charity Care Account and not paid for separately by the City. Using the cost to charge percentage based on the Charity Cost report, the cost of inmate care (not including practice plan/physician costs) went from \$10.7 million in FY 2018/19 to \$13.9 million in FY 2022/23 based on information provided by Shands Jacksonville. These amounts represent 20.4% and 31.3% of the total Charity Care Account costs during that same period.

While inmates are receiving services at Shands Jacksonville, the Sheriff’s Office needs to provide additional security (budgeted at \$6.1 million for FY 2023/24) and pay for the transport of the inmates to and from the facilities.

It is also important to note that the patient’s entire stay is covered under the Indigent Health Care Agreement if the inmate is released while admitted.

#### Financial Ratings

In March 2023, Moody’s downgraded Shands Jacksonville’s credit rating to Ba1 and changed the outlook to negative. Following the downgrade, Moody’s issued a credit opinion on March 16, 2023 and included in the opinion was the following high-level summary regarding Shands Jacksonville<sup>4</sup>:

*Shands Jacksonville Medical Center (SJMC, Ba1 negative) will benefit from its position as one of two academic medical centers for the University of Florida, as well as its essential role as a safety net provider. The University's strong governance and financial oversight will continue to be integral to SJMC's credit quality. Also, commitment from the City of Jacksonville (COJ) is highlighted by ongoing operating support and its contribution to capital. Following the material increase in debt in 2022, SJMC now faces reduced cash levels, and weaker operating cash flow margins due to higher than anticipated labor costs as well as reduced supplemental funding. Recovery to even modest historical levels of days cash and cash to debt will likely be gradual. SJMC should, however, have longer term growth opportunities after its North facility expansion is completed. Reliance on supplemental funds, as well as net income from 340B, will provide some uncertainty. SJMC's proactive management of financial covenants will contribute to its credit quality.*

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<sup>4</sup> Moody's Investors Services. (2023). Shands Jacksonville Medical Center, Inc.: Update to credit analysis following downgrade. Moody's.

Separately in November 2023, Fitch reaffirmed Shands Jacksonville's investment grade credit rating at BBB- but downgraded the outlook to Negative<sup>5</sup>. Their write-up hit on similar points to Moody's, but also addressed other specifics based on timing. The report stated:

*The Outlook revision to Negative reflects significant operating pressure that resulted in UFH-J generating a negative 2.3% operating EBITDA margin in FY24, compared to an average operating EBITDA of about 6% for the prior four years. The current year losses reflect the high use of agency staffing, reduced supplemental payments, and revenue cycle challenges, as well as other industry wide supply chain and inflationary pressures.*

The write-up by Fitch addressed many items including the days cash on hand metric being only 42 days for FY 2022/23, which was mentioned as one of the factors that if not improved over the next fiscal year (increased to about 60 days) this could lead to a negative rating action or downgrade<sup>6</sup>.

#### FY 2023/24 Outlook

In addition to budgeting for a net reduction of \$14 million in premium pay, there are other budgetary items anticipated to help Shands Jacksonville's position in FY 2023/24. Shands Jacksonville anticipates there is \$25 million in additional supplemental funding (Medicaid and IME) programs as well as a 12% growth in admissions and 5.3% growth in elective surgeries. The growth rates are at least partially driven by the new satellite facilities. While the North Hospital is operating at breakeven currently, it is expected that, when the additional beds are available and the expansion is complete (currently expected to be in 2025), the North Hospital will provide a positive impact to Shands Jacksonville overall operations.

Additionally, the City of Jacksonville provided \$45 million in capital funding in FY 2023/24 compared to \$20 million in FY 2022/23.

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<sup>5</sup> Fitch Ratings. (2023, Nov 30). Fitch Ratings. Retrieved from <https://www.fitchratings.com/research/us-public-finance/fitch-revises-uf-health-jacksonville-fl-outlook-to-negative-affirms-revs-at-bbb-30-11-2023>

<sup>6</sup> See footnote 5.

## **THINGS FOR CITY TO CONSIDER IN THE FUTURE**

The City needs to decide how to address indigent health care costs going forward, especially given the fact that the Indigent Health Care Agreement expires March 24, 2028. Items that need to be addressed include whether a dedicated funding source needs to be pursued, how the annual funding amount is calculated each year, and how inmate health care costs and funding are factored into these items.

### *Dedicated Funding Source*

With the exception of the utilization of American Rescue Plan funding in recent years, which is no longer available going forward, the City utilizes General Fund/GSD to cover the cost to the City of the Indigent Health Care Agreement since there is not a dedicated funding source available to cover these costs for Duval County. In fact, Duval County is the only county in Florida that cannot levy any type of surtax to help cover indigent health care costs or to provide funding to a county hospital. The following are the surtaxes available to other counties in the State (subject to overall surtax limitations) with a brief description of each as well as which counties currently levy the surtaxes.

- Indigent Care and Trauma Center Surtax authorized by Florida Statute 212.055(4), which is currently only levied by Hillsborough County. Below is a brief explanation of the surtax from the 2022 Local Government Handbook<sup>7</sup>:
  - *Non-consolidated counties having a total population of 800,000 or more (excluding Miami-Dade County) may impose, subject to an extraordinary vote of the county's governing body or voter approval in a countywide referendum, a surtax not to exceed 0.5 percent for the purpose of funding health care services for qualified residents.*
  - *Non-consolidated counties with a total population of less than 800,000 may impose, subject to voter approval in a countywide referendum, a surtax not to exceed 0.25 percent for the sole purpose of funding trauma services provided by a trauma center licensed pursuant to ch. 395, F.S.*
- Voter Approved Indigent Care Surtax authorized by Florida Statute 212.055(7), which is currently levied by DeSoto, Gadsden, Holmes, Madison, and Polk counties. Below is a brief explanation of the surtax from the 2022 Local Government Handbook<sup>8</sup>:
  - *Counties with a total population of less than 800,000 may levy the Voter-Approved Indigent Care Surtax subject to voter approval in a countywide referendum. If a publicly supported medical school is located within the county, the tax rate cannot exceed 1 percent. If no such medical school is located within the county, the tax rate is capped at 0.5 percent. In addition, any county with a total population of less than 50,000 may levy the surtax at a rate not to exceed 1 percent. The proceeds are to be used to fund health care services for the medically poor.*

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<sup>7</sup> The Florida Legislature's Office of Economic and Demographic Research. (December 2022). 2022 Local Government Financial Information Handbook. Retrieved from <http://edr.state.fl.us/Content/local-government/reports/lgfih22.pdf>

<sup>8</sup> See footnote 7.

- County Public Hospital Surtax authorized by Florida Statutes 212.055(5), which is levied by and only available to Miami-Dade County. Below is a brief explanation of the surtax from the 2022 Local Government Handbook<sup>9</sup>:
  - *Any county, as defined in s. 125.011(1), F.S., [i.e., Miami-Dade County] is authorized to levy the County Public Hospital Surtax at a rate of 0.5 percent. The levy may be authorized either by an extraordinary vote of the county's governing body or voter approval in a countywide referendum. Proceeds are used to supplement the operation, maintenance, and administration of the county public general hospital.*

State law would need to be amended or a new surtax would need to be created under state law to allow Duval County to implement a surtax to assist in funding indigent health care costs. If the language in the Florida Statutes was changed by the State Legislature to allow Duval County to levy the Indigent Care and Trauma Center Surtax, as a county with a population of 800,000 or more, the surtax could not exceed 0.5 percent (estimated at \$130+ million in FY 2023/24). The maximum combined amount of this tax along with the Local Government Infrastructure Surtax and the Pension Liability Surtax is capped at one percent. Currently Duval County charges a 0.5 percent Local Government Infrastructure Surtax and has a 0.5 percent Pension Liability Surtax that is set to take effect when the Local Government Infrastructure Surtax ends. The Indigent Care and Trauma Center Surtax is subject to approval by an extraordinary vote of the county's governing body or conditioned to take effect upon voter approval in a countywide referendum. Additionally, Section 212.055(11) of the Florida Statutes requires a performance audit of the program associated with the surtax to be conducted by an independent certified public account in accordance with the standards outlined in the statutes.

Pursuant to Section 212.055(4)(a)(3) of the Florida Statutes, the ordinance approving the Indigent Care and Trauma Center Surtax is to include a plan approved by the governing body for providing health care services to qualified residents of the authorizing county as defined in Section 212.055(4)(a)(4). The plan and subsequent amendments are to fund a broad range of health care services for both indigent persons and the medically poor, including but not limited to, primary care, preventative care, and hospital care. The plan must also address the services to be provided by the Level I trauma center. The plan is to emphasize a continuity of care in the most cost-effective setting, taking into consideration both high quality of care and geographic access. It is also to include, without limitation, services rendered by physicians, clinics, community hospitals, mental health centers, alternative delivery sites, and at least one regional referral hospital where appropriate. The plan is to provide that agreements negotiated between the county and providers, including with hospitals with a Level I trauma center, will include reimbursement methodologies that take into account the cost of services rendered to eligible patients, recognize hospitals that render a disproportionate share of indigent care, provide other incentives to promote the delivery of charity care, promote the advancement of technology in medical services, recognize the level of responsiveness to medical needs in trauma cases, and require cost containment. The plan is also to include innovative health care programs that provide cost-effective alternatives to traditional methods of service delivery and funding.

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<sup>9</sup> See footnote 7.

If State Law was changed to allow Duval County to enact the Indigent Care and Trauma Center Surtax, the following items would need to be fully vetted to the potential benefits to the General Fund/GSD prior to the City considering a local levy of the tax:

- Inmate Health Care Costs – As mentioned above, the cost of the third-party inmate health care contract is \$21 million for the period of September 1, 2023 through August 31, 2024. Florida Attorney General Opinion 2004-40<sup>10</sup> states that the Voter Approved Surtax allowed pursuant to Section 212.055(7) of the Florida Statutes could be used for inmate health care costs. It would need to be vetted if inmate health care costs could be covered by the Indigent Care and Trauma Center Surtax.
- Mandatory Medicaid Contribution – Each year, the General Fund/GSD funds a mandatory County contribution to Medicaid pursuant to Section 409.915 of the Florida Statutes. The City budgeted \$16.1 million in FY 2023/24 for this cost. Florida Attorney General Opinion 2005-54<sup>11</sup> indicates that the Indigent Care and Trauma Center Surtax may be eligible to cover this cost. We did find that Hillsborough County does use the Indigent Care and Trauma Center Surtax to fund this payment.
- Annual Indigent Health Care Contribution – Hillsborough County utilizes the Indigent Care and Trauma Center Surtax as the funding source for the Intergovernmental Transfers (IGTs) for Low Income Pool and Disproportionate Share matches. Therefore, the Indigent Care and Trauma Center Surtax could eliminate the need for the City to provide General Fund/GSD funding to Shands Jacksonville. The City is funding a total of \$40 million in FY 2023/24, with \$28.7 million funded by the General Fund/GSD.

It is also important to note that the tax must be the payor of last resort (i.e., prior to these funds being utilized all other sources need to be exhausted).

#### Annual Funding Calculation

The City and Shands Jacksonville should consider implementing a more detailed agreement for calculating the contribution to Shands Jacksonville for indigent care services. Aspects the agreement should cover include:

- What percentage of the cost of service is the contribution intended to cover (e.g., 100%)?
- Should inmate health care costs be valued and funded differently from indigent care services?
- Should the amounts be agreed to for multiple years at once to assist Shands Jacksonville and the City in planning?
- What is the value of the property leased to Shands Jacksonville by the City for \$1 and how should the reduced rate be factored into the annual contribution?

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<sup>10</sup> Charlie Crist, F. A. (2004). Indigent care surtax, Medicaid & Inmate Health Payments (AGO 2004-40). Retrieved from <https://www.myfloridalegal.com/ag-opinions/indigent-care-surtax-medicaid-inmate-health-payments>

<sup>11</sup> Charlie Crist, F. A. (2005). Indigent Care Surtax used for Medicaid contributions (AGO 2005-54). Retrieved from <https://www.myfloridalegal.com/ag-opinions/indigent-care-surtax-used-for-medicaid-contributions>

Inmate Health Care

Going forward the City and the Sheriff's Office have many things to consider with funding of inmate health care. With a new jail being discussed, decisions need to be made related to what level of services should be provided onsite versus what should be provided offsite. This decision impacts transportation and security costs associated with transferring and housing inmates offsite if less services are provided on site while impacting the amount of initial capital and ongoing costs of staffing if more services are provided onsite. Under the current Indigent Health Care Agreement, these decisions impact the cost of Shands Jacksonville to provide the services outlined in the agreement. Additionally, the City and the Sheriff's Office need to ensure that the contract for onsite inmate health care is structured to not incentivize the contractor to refer patients to Shands Jacksonville if the services can be provided at the jail. With this, it may need to be considered if there could be advantages to a more unified method of providing the health care to inmates via one provider.

Lastly, consideration may need to be given to how federal funding could be available to cover some inpatient inmate health care costs for overnight stays offsite if Medicaid expansion is approved in Florida in the future or federal law changes allowing Medicaid (without expansion) to fund portions of the cost of inmate health care.

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We appreciate the assistance and cooperation we received from Shands Jacksonville and others throughout the course of this project.

Respectfully submitted,

*Kim Taylor*

Kim Taylor, CPA  
Council Auditor

## Exhibit A

### Shands Jacksonville Indigent Care Agreement Summary of Charity Costs and City Funding

Fiscal Year	City Charity Account Costs per Charity Cost Report	City Appropriation for Charity Care Costs	City Charity Care Costs Covered By Other Sources	% Directly Funded by City
1/1/82-9/30/82	\$ 13,650,869	\$ 12,154,185	\$ 1,496,684	89.04%
10/1/82-9/30/83	\$ 18,588,083	\$ 16,705,580	\$ 1,882,503	89.87%
10/1/83-9/30/84	\$ 21,073,934	\$ 18,705,702	\$ 2,368,232	88.76%
10/1/84-9/30/85	\$ 20,397,684	\$ 18,705,580	\$ 1,692,104	91.70%
10/1/85-9/30/86	\$ 20,114,109	\$ 18,580,000	\$ 1,534,109	92.37%
10/1/86-9/30/87	\$ 19,118,858	\$ 18,000,000	\$ 1,118,858	94.15%
10/1/87-9/30/88	\$ 21,991,869	\$ 18,000,000	\$ 3,991,869	81.85%
10/1/88-9/30/89	\$ 20,777,952	\$ 17,483,457	\$ 3,294,495	84.14%
10/1/89-9/30/90	\$ 23,138,457	\$ 17,960,193	\$ 5,178,264	77.62%
10/1/90-9/30/91	\$ 29,099,036	\$ 18,026,035	\$ 11,073,001	61.95%
10/1/91-6/30/92 (9 months)	\$ 23,904,478	\$ 13,500,000	\$ 10,404,478	56.47%
7/1/92-6/30/93	\$ 34,932,621	\$ 18,405,000	\$ 16,527,621	52.69%
7/1/93-6/30/94	\$ 30,539,744	\$ 18,540,000	\$ 11,999,744	60.71%
7/1/94-6/30/95	\$ 35,500,499	\$ 18,540,000	\$ 16,960,499	52.22%
7/1/95-6/30/96	\$ 36,150,893	\$ 18,540,000	\$ 17,610,893	51.29%
7/1/96-6/30/97	\$ 31,545,779	\$ 18,540,000	\$ 13,005,779	58.77%
7/1/97-6/30/98	\$ 36,245,963	\$ 20,430,041	\$ 15,815,922	56.37%
7/1/98-6/30/99	\$ 30,959,798	\$ 18,540,000	\$ 12,419,798	59.88%
10/1/99-6/30/00 (9 months)	\$ 24,542,250 (A)	\$ 15,405,000 (A)	\$ 9,137,250	62.77%
7/1/00-6/30/01	\$ 31,709,087	\$ 23,540,000	\$ 8,169,087	74.24%
7/1/01-6/30/02	\$ 29,462,887	\$ 23,775,594	\$ 5,687,293	80.70%
7/1/02-6/30/03	\$ 33,709,979	\$ 23,775,594	\$ 9,934,385	70.53%
7/1/03-6/30/04	\$ 44,199,121	\$ 23,775,594	\$ 20,423,527	53.79%
7/1/04-6/30/05	\$ 46,106,688	\$ 23,775,594	\$ 22,331,094	51.57%
7/1/05-6/30/06	\$ 48,261,851	\$ 23,775,594	\$ 24,486,257	49.26%
7/1/06-6/30/07	\$ 49,717,530	\$ 23,775,594	\$ 25,941,936	47.82%
7/1/07-6/30/08	\$ 60,541,995	\$ 23,775,594	\$ 36,766,401	39.27%
7/1/08-6/30/09	\$ 54,157,541	\$ 23,775,594	\$ 30,381,947	43.90%
7/1/09-6/30/10	\$ 45,886,611	\$ 23,775,594	\$ 22,111,017	51.81%
7/1/10-6/30/11	\$ 50,461,151	\$ 23,775,594	\$ 26,685,557	47.12%
7/1/11-6/30/12	\$ 63,213,530	\$ 23,775,594	\$ 39,437,936	37.61%
7/1/12-6/30/13	\$ 43,898,526	\$ 23,775,594	\$ 20,122,932	54.16%
7/1/13-6/30/14	\$ 56,639,595	\$ 26,275,594	\$ 30,364,001	46.39%
7/1/14-6/30/15	\$ 58,878,852	\$ 26,275,594	\$ 32,603,258	44.63%
7/1/15-6/30/16	\$ 58,718,680	\$ 26,275,594	\$ 32,443,086	44.75%
7/1/16-6/30/17	\$ 61,355,565	\$ 26,275,594	\$ 35,079,971	42.83%
7/1/17-6/30/18	\$ 56,159,781	\$ 26,275,594	\$ 29,884,187	46.79%
7/1/18-6/30/19	\$ 52,856,848	\$ 26,275,594	\$ 26,581,254	49.71%
7/1/19-6/30/20	\$ 53,527,672	\$ 34,275,594 (B)	\$ 19,252,078	64.03%
7/1/20-6/30/21	\$ 48,555,943	\$ 30,275,594	\$ 18,280,349	62.35%
7/1/21-6/30/22	\$ 43,093,726	\$ 35,000,000	\$ 8,093,726	81.22%
7/1/22-6/30/23	\$ 44,522,092	\$ 40,000,000	\$ 4,522,092	89.84%

(Estimated by Shands)

**(A)** The \$24,542,250 reflected above is only for the nine month period of 10/1/99 to 6/30/00. A Charity Cost Report was only prepared for nine months as Medicare did not want a report prepared for the entire year. This was due to the fact that for the first three months of the fiscal year, the entity was UMC and for the last nine months, the entity was Shands Jacksonville. The \$15,405,000 under the City Appropriation column is the amount of City funding given to Shands for the nine month period rather than the entire fiscal year. The total City appropriation for the FY 1999/2000 was \$20,540,000.

**(B)** This includes the one-time additional \$8 million payment.

**Overall Note** - The above table only includes indigent care contributions and does not include the \$95 million budgeted from FY 2018/19 through FY 2022/23 for Capital Improvements to City owned hospital facilities. This is part of an overall six-year plan for \$120 million in funding that was increased to \$140 million as part of the FY 2023/24 budget.