

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Children's Hospital Program

Staff Summary
Resolution 2005-10
July 28, 2005

Applicant: Children's Hospital Central **Amount Requested:** \$1,824,136
California (CHCC)
9300 Valley Children's Place
Madera, CA 93638
Madera County

Project Site: 9300 Valley Children's Place
Madera, CA 93638

Concurrent Grant Funding Request: CHCC has concurrently applied for a Children's Hospital Program grant in the amount of \$3,485,388 for various equipment expenditures (see Tab 5).

Description of Applicant:

CHCC is a 501(c)(3) general acute care hospital with a current license from the Department of Health Services. The current financial information provided with the application contains no going concern qualification language.

Project:

CHCC is seeking grant funds as reimbursement for a portion of the cost associated with a neonatal intensive care unit (NICU) 12-bed expansion project that was completed in 2003 to accommodate the needs of high profile, complex neonatal cases and to conform with the hospital's long-term strategic goals.

In fiscal year 2003, CHCC's neonatal unit ran at an average occupancy rate of 82%, with the daily occupancy rate sometimes exceeding the average. Due to insufficient physical capacity in 2003, CHCC diverted 58 neonatal cases to non-CHCC facilities that represent approximately 1,112 patient days, a 38% increase from 2002.

The average daily census continues to rise. The census in 2003 was 43.7 and in 2004 was 44.0. The rate for fiscal year to date June 2005 is 46.3 per day and the hospital projects fiscal year 2006 at 51 patients per day. The initial growth upon opening the additional 12 beds was slower than anticipated due to nursing ratios and shortages, however, CHCC has been successful with its NICU recruitment over the past fiscal year allowing for continued growth.

The 12-bed expansion allows CHCC to reduce diversions and improve the quality of care by treating more neonates at the most suitable facility by the most appropriate care providers while avoiding delays in care associated with “out of area” transfers. Since CHCC is the only regional Level III NICU within 200 miles, diversions also result in significant expense to the patient families or the separation of infants and families for those unable to afford the travel and living expenses made necessary by the diversion.

The NICU expansion project aids CHCC in realizing its strategic goal of being prepared to increase capacity to handle a 4% compounded annual growth rate in its hospital-wide census through fiscal year 2013. The expansion enables CHCC to operate within an acceptable occupancy range through 2008 and then add another 12-beds to accommodate demand through 2013 as it gains market share for high profile, complex neonate cases in Merced, Stanislaus and San Joaquin counties.

In addition to adding beds to accommodate an increased patient load, the NICU expansion also supports the hospital’s long-term goals relative to cost effective operations and increased revenues. Between fiscal years 2001 and 2004, CHCC’s neonatal service accounted for approximately 25-30% of the hospital’s total inpatient contribution margin and consistently placed in the top three service lines in terms of highest contribution per case.

Proposition 61 Evaluation Factors:

Staff concludes CHCC’s project conforms to the six evaluation factors identified in Proposition 61 language.

The grant will contribute toward expansion or improvement of health care access by children eligible for governmental health insurance programs and indigent, underserved, and uninsured children:

In fiscal year 2003, most newborn patients arrived at CHCC from a 6-county area in the Central San Joaquin Valley extending from Kern County in the South Valley to Merced County in the North Valley. A few patients also came from 18 additional counties in California and nine patients arrived from other states. Governmental health insurance programs assisted 71% of the patient families.

The grant will contribute toward the improvement of child health care or pediatric patient outcomes:

Each year, over 1,000 complex critically ill newborn patients are admitted via transport or direct admissions at CHCC. Board certified neonatologists provide effective diagnostic and interventional care for each newborn. Also available to complex patients are a variety of pediatric subspecialties including, but not limited to, medical and surgical specialists to provide comprehensive diagnosis and treatment. Family centered services include nursing, respiratory therapists, patient care technicians, social workers, case

managers, clinical nurse specialists, health unit coordinators, lactation specialists, pharmacists, PT/OT therapists, chaplains, and dieticians.

CHCC's long-term financial plan includes NICU volume assumptions through fiscal year 2013 required to meet the ongoing needs of neonatal patients in Central California and to comply with its strategic goal to maintain financial viability. The required NICU patient day volume could only be achieved by completing the 12-bed expansion project by fiscal year 2004 without significantly jeopardizing access to care for neonates.

The children's hospital provides uncompensated or undercompensated care to indigent or public pediatric patients:

The mission of CHCC is to provide high-quality, comprehensive health care services to children, regardless of their ability to pay. The hospital is a 255-bed pediatric health care facility, the 13th largest freestanding pediatric hospital in the United States, and the only one in a rural area.

Demographic data for CHCC's service area shows a pediatric population (age 0-17) base of 1,053,822 in 2003. In FY 2004, CHCC had 12,422 inpatient cases, 49,070 emergency department visits and 98,561 outpatient clinic visits. Medi-Cal benefits covered 70.3% of the inpatient cases and 60.7% of the outpatient visits treated at CHCC. CHCC maintains its financial assistance and charity care policies even though the region has chronically high poverty and a poor ratio of philanthropic support.

The children's hospital provides services to vulnerable pediatric populations:

As stated above, CHCC provides essential health care to all children regardless of their families' insurance status or ability to pay. Over 70% of the children treated at CHCC are covered by Medi-Cal, which is one of the highest Medi-Cal ratios in the state. CHCC is also the largest single provider in the region of care to children covered by California Children's Services (CCS), the government insurance program for children with medically complex, long-term health care conditions that require the integration and coordination of multiple pediatric subspecialties.

The children's hospital promotes pediatric teaching or research programs:

CHCC is affiliated with the University of California, San Francisco Medical School Residency Program and its doctors are faculty for the pediatric residents training at CHCC. CHCC has a long history of clinical research participation and has developed a research institute to implement studies of new pediatric drugs, biological products and medical devices.

Demonstration of project readiness and project feasibility:

Work on the NICU expansion, including the architectural and design phase, began in 2002. Construction was completed in 2003, with the certificate of occupancy dated

October 8, 2003. Due to staffing constraints, heightened in critical care areas, the 12-bed unit opened in February 2004. The unit continues to be a profitable venture for the hospital and remains in the top three service lines in terms of highest contribution margin.

The hospital received over \$400,000 in philanthropy to offset expenditures incurred prior to January 31, 2003, which are ineligible for the Children’s Hospital Program funding.

NOTE: Although the projects are eligible, the documentation provided for several expenditures does not meet the requirements of the Emergency Regulations implementing the Children’s Hospital Program. The proposed Permanent Regulations include language that will allow the documentation, as provided. The items in question (approximately \$131,426) will not be funded until the Permanent Regulations become final (expected September 2005).

CHCC’s project funding is detailed as follows:

| <u>Sources of Funds:</u> | | <u>Uses of Funds</u> | |
|--------------------------|---------------------|----------------------|---------------------|
| CHFFA Grant | \$ 1,824,136 | Construct Facilities | \$ 1,841,335 |
| Philanthropy | 442,705 | Purchase Equipment | <u>432,321</u> |
| Internal Funds | <u>6,815</u> | | |
| TOTAL | <u>\$ 2,273,656</u> | TOTAL | <u>\$ 2,273,656</u> |

Legal Review:

No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation:

Staff recommends the Authority approve a resolution to provide a grant not to exceed \$1,824,136 million (less costs of issuance), subject to all requirements of the Children’s Hospital Program.