

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Children's Hospital Program

Staff Summary
Resolution 2005-11
July 28, 2005

Applicant: Children's Hospital Central **Amount Requested:** \$3,485,388
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 \$1,824,136 for a Neonatal Intensive Care Unit Expansion (see Tab 4).

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 requesting a grant for patient care equipment expenditure reimbursement. The majority of the funding is related to the upgrade of MRI equipment and the purchase of replacement ultrasound machines, monitors and ventilators. The remaining purchases include diagnostic and treatment equipment used in the patient care areas including surgery, emergency and laboratory.

CHCC's strategic plan and 10-year financial operating and capital plan provide the framework for the annual capital budget allocation. Projects or equipment with an expected cost in excess of \$200,000 are reviewed based on their relationship to the hospital mission and values, the strategic plan, financial modeling including volume, payor mix, reimbursement, direct and overhead costs and net present value of expected cash flows. Highlights from this analysis for the 4 projects in excess of \$200,000 included in the grant request are as follows:

MRI Upgrade (\$850,295) – With CHCC's recent trauma center designation and increasing emergency room volumes, the demand for MRI exams has increased annually. Further, staying current with imaging modalities is key to providing high quality imaging

services and remaining competitive. The existing MRI equipment was near the end of the typical functional lifespan. The new technology investment results in the ability to increase volume capacity due to shorter test cycle times and has a positive net present value.

Ultrasound Machines (\$485,715) – The purchase of 3 new ultrasound machines was necessary as the components of the current equipment (15 years old) are no longer manufactured and services for the units have ceased. The purchase was imperative to avoid downtime in the event of failure of the existing equipment.

Philips Monitors (\$605,642) – The purchase of replacement monitors was necessary, as the manufacturer no longer supports the existing monitors. The new technology allows for connection to a data storage system or automated charting system and monitors ECG, respiration, pulse oximetry and non-invasive blood pressure and will eliminate the need to purchase separate pulse oximeter monitors. This investment was necessary to maintain the current level of service and avoid incremental rent expense for backup monitors when existing equipment fails.

Ventilators (\$405,114) – The purchase of replacement ventilators was necessary, as the manufacturer no longer supports the current equipment. The new technology eliminates the need for a separate airway pressure monitor and will reduce the equipment at the bedside. This investment was necessary to maintain the current level of service and avoid incremental rent expense for backup ventilators when existing equipment fails.

Projects or equipment with an expected cost of \$200,000 or less are reviewed and ranked as critical to sustain operations while considering patient safety, replacement needs, medial necessity and business necessity. The remaining items in the grant request fall under this category.

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:

CHCC’s primary service area includes nine counties in Central California and encompasses 45,000 square miles. More than 70% of the children cared for are eligible for governmental health insurance programs. The diagnostic and treatment equipment purchased improved access to the only tertiary and specialized health care available for children who would otherwise need to travel over 200 miles to the next nearest children’s hospital.

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

The equipment purchased gives family's access to the quality of care found in larger metropolitan areas of the state. The medical tools play a significant role in CHCC's continued achievement of excellent patient outcomes.

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 the 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:

The application is a request for grant funding to reimburse equipment expenditures incurred from February 1, 2003 through March 31, 2005. All equipment is currently in service and used in the delivery of care to patients.

NOTE: 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 \$81,218) 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	\$ 3,485,388	Equipment Purchases	\$ 3,556,185
Internal Funds	56,032		
Philanthropy	<u>14,765</u>		
TOTAL	<u>\$ 3,556,185</u>	TOTAL	<u>\$ 3,556,185</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 \$3,485,388 million (less costs of issuance), subject to all requirements of the Children’s Hospital Program.