

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Children's Hospital Program**

**Staff Summary
Resolution 2005-17
September 29, 2005**

Applicant: Children's Hospital of Orange County **Amount Requested:** \$4,508,947
(CHOC)
455 S. Main Street
Orange, CA 92868-3874
Orange County

Project Site: 455 S. Main Street
Orange, CA 92868-3874

Description of Applicant:

CHOC 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:

CHOC is requesting a grant to reimburse expenditures for patient care equipment, information systems technology and remodeling construction. These capital expenditures were necessary for CHOC to meet the growing demand for its services while continuously improving the quality of services delivered to patients.

The capital expenditures for which CHOC is seeking reimbursement will increase CHOC's capacity to care for patients by updating its facility and replacing inefficient equipment and technology. It will further expand the hospital's patient care capacity by streamlining hospital operations and improving the efficiency of patient care delivery. Highlights of major projects included in the grant request are as follows:

Leasehold Improvements - \$968,858

Grant funds will reimburse costs associated with leasehold improvements, consisting of a major renovation of the main hospital lobby, fire safety and earthquake valve improvements, cooling tower repairs, PICU nursing station upgrades and other improvements.

Information Systems - \$679,153

CHOC has purchased a variety of information systems that will improve the quality and safety of medical care for all of the hospital's patients including a computerized pharmacy system that expedites patients' medication needs and reduces the risk of medical errors, and a clinical documentation system that allows nurses to record patients' information at the bedside through wireless computers.

Nursing Items - \$400,584

CHOC purchased new monitoring equipment to measure post operative blood flow, mechanically regulate the intravenous (IV) infusion of fluids and medications, monitor patient heart rhythm, administer oxygen to patients as needed, and provide portable monitoring of a child's vital signs.

Metabolic Laboratory (Lab) - \$388,802

The major items purchased for the Lab are components for Chromatography/Mass Spectrometry (including parts and software) to measure organic acids in the urine of patients with metabolic diseases and a Tandem Mass Spectrometer to be used for the diagnosis of metabolic diseases in children.

Oncology Intensive Care Unit (OICU) - \$197,254

Major expenditures for the OICU include an upgrade to the vital sign monitoring system and related accessories.

Neonatal Intensive Care Unit (NICU) - \$147,976

The equipment purchased includes two incubators, an incubator warmer, and new monitoring equipment.

Pediatric Intensive Care Unit (PICU) - \$100,420

Several monitors were purchased for the PICU to ensure the quality of patient care on the unit.

Neuroscience Institute (Neuroscience) - \$98,197

Major equipment expenditures for the Neuroscience Institute include an EEG monitor for the operating room to provide intracranial monitoring during surgery for epilepsy disorders, a portable EEG machine to monitor seizure disorders, and a spike-detection software to help identify areas of possible seizure activity.

CHOC Cancer Institute (Oncology) - \$91,330

The Oncology unit improved its vital sign monitoring system by purchasing an upgrade package and accessories, which includes equipment, software and installation of the new system. This system has improved timeliness and accuracy in the monitoring of children's vital signs.

Dietary - \$84,382

The major items purchased for the Dietary Department include: a temperature-maintenance tray system used to hold patient meals and ensure that food is maintained at a safe temperature, a dishwasher, and a pot sink to wash all cooking equipment and utensils.

Neurology Clinic (Neurology) - \$75,493

CHOC is seeking reimbursement for a variety of equipment purchases and facility improvements that were necessary to open the Neurology Clinic, a subspecialty outpatient clinic offering outpatient services for children with seizure disorders.

Respiratory Therapy - \$74,090

Two ventilators were purchased for the Respiratory Therapy program to ensure optimal patient care.

Telecommunications - \$70,796

CHOC is requesting reimbursement funding for a variety of equipment purchased to support telecommunications at the hospital.

Proposition 61 Evaluation Factors:

Based on the review of the application and other additional information provided, staff concludes CHOC'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:

CHOC comprises Orange County's largest provider of pediatric inpatient and ambulatory care. As the population of Orange County continues to grow, so too has the demand for CHOC's services. During the past three years, CHOC has experienced a 21% increase in patient volume and a 146% increase in the volume of transports into CHOC from other facilities. These trends are expected to continue.

CHOC forms the foundation of Orange County's healthcare safety net for children with government-funded health coverage or no insurance at all. The dramatic growth CHOC has experienced in the demand for its services, including government-insured and uninsured patient volume, has resulted in an urgent need to expand the hospital's inpatient and outpatient capacity. In 2003, more than half (52.7%) of Orange County's hospital admissions for government-funded or uninsured children occurred at CHOC – up from 46.6% in 2001. In fact, CHOC cares for four times as many government-insured and uninsured children as the next closest pediatric provider in the community.

Orange County as a whole has seen tremendous enrollment growth in government insurance programs over the past five years, with Healthy Families enrollment up 227% since 2000, and pediatric Medi-Cal beneficiaries up 45% over the same period. As the largest pediatric provider in CalOPTIMA, Orange County's Medi-Cal managed care program, CHOC's physician-hospital consortium (CHOC Health Alliance) has experienced enrollment growth of 349% in Healthy Families and 186% in Medi-Cal beneficiaries during the past five years.

Without substantial investments in new equipment, technology and facilities, CHOC will be unable to maintain and increase access to pediatric healthcare for Orange County's growing population. The investments for which CHOC is seeking reimbursement in this application will allow the hospital to serve greater numbers of children in need while it continues to improve the quality and safety of the care delivery to its patients.

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

CHOC represents that it is committed to providing every patient with the best possible care provided by highly trained professionals, using advanced equipment and technology and working in modern, efficient facilities. As CHOC continues to experience rapid growth in the demand for its services, it must continually replace aging and outdated equipment and technology and invest in state-of-the-art equipment and technology to ensure that CHOC's physicians and nurses have access to the finest tools available to care for its patients. The expenditures for which CHOC is seeking reimbursement include investments in upgraded diagnostic equipment and facility remodeling and information systems technology investment that will enhance patient safety by ensuring that CHOC's caregivers have access to the most accurate and current patient information at all times. These new systems also streamline the patient charting process to allow caregivers to spend more time at the bedside with patients, where they are needed most.

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

CHOC provides care to all children, regardless of their ability to pay. For patients who do not qualify for government programs and are unable to pay for services, CHOC maintains a charity care policy under which all or a portion of the charges incurred at established rates is classified as charity care. CHOC defines charity care as services

rendered for which no payment is anticipated. In assessing a patient's ability to pay, CHOC uses generally recognized poverty income levels for the respective community and also includes certain cases in which incurred charges are considered to be beyond the patient's ability to pay. During fiscal year 2003-04 (the most recent figure available) CHOC provided \$3.3 million in charity care.

In addition to providing charity care to uninsured patients, CHOC is a major provider of health care services to low-income children who qualify for the Medi-Cal program. Half of CHOC's patients fall under Medi-Cal, Healthy Families or the California Children's Services (CCS) program, which provides coverage for low-income children with special health care needs. Unfortunately, the reimbursement provided under these programs falls far short of covering the cost of providing care to these patients.

Beyond patient care to uninsured and government-insured patients, CHOC provides a large number of uncompensated services to children and families through its Community Benefit programs. Many of these programs target low-income and underserved children in CHOC's service area. CHOC's Community Benefit goals are: healthcare access, behavioral health access, disease prevention, information resource, injury prevention, and community action.

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

CHOC is the pediatric safety net for Orange County's most medically vulnerable children. As the community's leading regional referral center for pediatric subspecialty care, CHOC cares for Orange County's most seriously ill children. These high-acuity patients generally require very high-cost care, involving complex technology, multiple specialists and a higher level of nursing care. For about half of these patients – those who are covered by Medi-Cal or other government insurance programs – CHOC is reimbursed only a fraction of the cost of providing care.

In addition to caring for the community's most medically fragile and vulnerable children in the hospital, CHOC reaches out to provide preventive and primary care in low-income, high-risk areas where children have limited access to care. CHOC's outreach clinics include the CHOC Orange Community Clinic, located on the CHOC campus; Clinica CHOC para Ninos in Santa Ana; the CHOC Clinic at the Santa Ana Boys and Girls Club, and the CHOC Costa Mesa Clinic in Costa Mesa. Based on the success of the CHOC Clinic at the Santa Ana Boys and Girls Club, CHOC celebrated the opening of the new CHOC Clinic at the Garden Grove Boys and Girls Club in August 2005. The project was developed in collaboration with the Orange County Children and Families Commission and the Garden Grove Boys and Girls Club.

CHOC also operates four mobile clinics – two Healthy Tomorrows Mobile Health Clinics in Santa Ana and two Anaheim Achieves Mobile Clinics in Anaheim. These programs were developed in partnership with the Santa Ana and Anaheim Unified School Districts to deliver health services to medically needy children at school sites. The custom-designed mobile vans are staffed with bilingual medical teams that provide well-child

check-ups, immunizations and primary care to identified low-income children at targeted schools. Additionally CHOC supports the BreathMobile, a mobile asthma testing and treatment facility serving Orange County.

During fiscal year 2004-05, CHOC's specialty clinics, primary care clinics and its outreach clinics, including the mobile health clinics, had 126,666 ambulatory care visits, an increase of 10.1% over fiscal 2004.

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

CHOC's current training program in pediatric subspecialties for medical residents/fellows supports 60 individuals. CHOC, in addition to its own residency and fellowship programs, currently supports residents from the University of California at Irvine, Riverside General Medical Center, Kaiser Permanente and fellows from Harbor/University of California Los Angeles. CHOC also provides regular training sessions for medical students from Dartmouth University, Western University and St. George University. In addition, CHOC provides upon request, clerkships from medical students throughout the world.

Looking toward advances in prevention and treatment of childhood diseases, CHOC has made a significant commitment to basic science and clinical research in an ongoing effort to unravel the complex processes of diseases that affect children. This commitment keeps CHOC on the leading edge of technology and provides CHOC patients with access to up-to-date treatment options. CHOC's state-of-the-art basic science research laboratories support three primary areas of research: autoimmune and inflammatory disease, cancer and, most recently, the identification and isolation of non-fetal neural stem cells that someday may be cultured and used to replace nerve tissue destroyed by disease or injury. CHOC scientists work closely with CHOC medical staff physicians, as well as researchers from laboratories around the world. CHOC receives grants and contracts from federal agencies, and through an award granted by the Centers for Disease Control and Prevention, CHOC researchers currently are participating in a hemophilia surveillance study to monitor the safety of blood-derived products. Because of the clinical research performed at CHOC, its patients have access to clinical trials in the following specialties: cardiology, critical care, endocrinology, hematology, infectious disease, neurosurgery, oncology, pulmonary, and rheumatology.

Demonstration of project readiness and project feasibility:

CHOC is requesting grant funding to reimburse expenditures for patient care equipment, information systems technology and leasehold improvements incurred from February 1, 2003 through April 30, 2005. All equipment and facilities are 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 Permanent Regulations currently under review by the Office of Administrative Law include language that will allow the documentation, as provided. The items in question (approximately \$2,825,615) will not be funded until the Permanent Regulations become final (expected October 2005).

CHOC’s project funding is detailed as follows:

<u>Sources of Funds:</u>		<u>Uses of Funds</u>	
CHFFA Grant	\$ 4,508,947	Equipment Purchases	\$ 3,540,089
		Remodeling Construction	\$ 968,858
TOTAL	<u>\$ 4,508,947</u>	TOTAL	<u>\$ 4,508,947</u>

Legal Review:

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

CHFFA Bond Issues:

CHOC is jointly co-obligor with CHOCO Realty Corporation (Realty) under the indenture agreements on three CHFFA bond issues dated 1991, 1994 and 2004. Realty, an affiliate of CHOC, is currently servicing the obligations, and accordingly, the debt has been recorded by Realty.

Staff Recommendation:

Staff recommends the Authority approve a resolution for Children’s Hospital of Orange County to provide a grant not to exceed \$4,508,947 (less costs of issuance), subject to all requirements of the Children’s Hospital Program.