

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

**Staff Summary
Resolution 2006-07
May 25, 2006**

Applicant: Lucile Salter Packard Children's Hospital at Stanford (LPCH)
725 Welch Road
Palo Alto, CA 94304-1601
Santa Clara County

Project Site: 725 Welch Road
Palo Alto, CA 94304-1601

Amount Requested: \$74,000,000

Prior Amount Awarded: None

Description of Applicant:

LPCH is a 501(c)(3) general acute care hospital with a current license from the Department of Health Services. The 2005 (year ending June 30) audit was submitted and was free of "going concern" language.

Project:

LPCH is seeking grant funds for several projects. The projects are:

• Oncology Unit	\$39,057,008	
<i>Less internal funds</i>	<u>(\$19,638,367)</u>	
Subtotal		\$19,418,641
• Surgical Suite	\$44,553,214	
<i>Less internal funds</i>	<u>(\$12,682,259)</u>	
Subtotal		\$31,870,955
• Pediatrics Intensive Care Unit	\$17,668,242	
<i>Less internal funds</i>	<u>(\$5,553,240)</u>	
Subtotal		\$12,115,002
• Medical Equipment		<u>\$10,595,402</u>
		Total \$74,000,000

Overview:

LPCH is in the middle of a \$150 million capital improvement program of which \$74 million will be funded by the Children's Hospital Bond program. The rest of the funds will be comprised of a previous bond issue, contributions, and operations.

LPCH's main facility is a 300,000 square foot; four-story structure located on the Stanford University's (University) campus and was built in 1991. LPCH leases the land from the University upon which the building is situated. The lease expires in 2037 and has a 10-year extension at LPCH's option. The facility is compliant with the SB 1953 2030 requirements. The building is directly connected to Stanford Hospital's (SH) facilities through a common hallway.

Oncology Unit

Currently, LPCH oncology services are located on the first, second and third floors. On the first floor is the Day Hospital. Within that space, cancer patients who are receiving chemotherapy and other infusion treatments share the space with patients who are recovering from outpatient surgical procedures.

The second floor has a 16-bed nursing unit dedicated to cancer and blood disorders. The median census for that unit is 18. Any overflow patients are treated on the third floor. The third floor contains general Med/Surg beds along with ancillary services.

The new oncology unit, located on the first floor, will have 27 inpatient beds and have an expanded Day Hospital for patients exclusively receiving chemotherapy and infusion treatments. The new unit will be using the space vacated by the specialty clinics, which have moved across the street into a new Ambulatory Care Center.

Surgical Suite

Currently, LPCH does not have any surgical suites in its facilities. It uses the surgical suites in SH by purchasing operating room time. LPCH plans to construct its own six-operating room suite located on the ground floor (basement level). The rooms will be built large enough to handle complex heart and transplant procedures. The area will also contain intake, sterilization and post-anesthesia space. The new suite will be using previously vacated office space such as engineering maintenance, general storage, medical records and medical labs.

Pediatrics Intensive Care Unit (PICU)

The PICU is a 24-bed unit with 12 of the beds dedicated to cardiovascular surgical cases. The plan is to build a separate 20-bed cardiovascular PICU in the space to be vacated by oncology and a pharmacy unit. The current PICU will be dedicated to trauma, surgery (neurological, transplant and general) and medical. During the past year, LPCH has had to divert and/or defer surgery on an average of 25 patients per month due to capacity constraints.

Equipment Purchases

LPCH is requesting grant funds to reimburse the costs associated with patient care equipment. The Neonatal Unit, Cardiology, Radiology, Anesthesiology and other patient care units benefited from these purchases. Some of the equipment that was purchased included a 12-patient monitoring system, anesthesia machine/ventilators, ultrasound machine for echocardiograms and digital x-ray systems.

Proposition 61 Evaluation Factors:

Based on the review of the application and other submitted materials, staff evaluated LPCH's project using the six 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:

Oncology Unit

The additional beds will facilitate growth in LPCH's bone marrow transplant program.

Surgical Suite/PICU

LPCH will no longer need to share operating time with SH. With its own surgical suite, LPCH will be better able to schedule its procedures and, in conjunction with the additional PICU beds, perform more surgeries.

Equipment Purchases

The hospital needs to replace outdated equipment to stay current with the ever-changing technological environment. For example, the new digital x-ray system along with the fluoroscopic unit both decrease the time for developing and reading images, which should increase patient volume. Also, the new ultrasound system improves image quality, which will make the reading of the images easier and reduce the need for more expensive tests.

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

Oncology Unit

With the additional inpatient beds and the consolidation of oncology services, LPCH's interdisciplinary team will be able to provide to each patient state-of-the-art treatment in a patient and family friendly environment.

Surgical Suite

The new suite will relieve capacity constraints, enhance patient flow, allow access to higher technological advances in surgical care and improve service via more efficient scheduling.

PICU

With the additional 20 PICU beds, LPCH will reduce the need for diversions and/or the need to reschedule surgeries. Healthcare for the sickest of patients should improve with more beds allowing better access to critical care.

Equipment Purchases

The equipment acquisitions ranged from a refrigerated centrifuge and defibrillators to an external pacemaker and digital x-ray system. All of this equipment contributes to the basic care of the sick child by providing the most technologically advanced care.

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

LPCH is a certified California Children's Services (CCS) hospital. Approximately 13% of its net patient revenues come from Medi-Cal. Also, it has contracts with several managed Medi-Cal plans. In fiscal year 2005, LPCH provided over \$77 million in uncompensated and under-compensated care. It has financial counselors to assist in finding alternative sources of payment from public programs.

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

Approximately one third of LPCH's patients are on Medi-Cal. In 2004, LPCH had 12,850 discharges and in 2005, it had 13,153 discharges, resulting in a 2% increase. LPCH has a partnership with the Ravenswood Family Health Center in East Palo Alto. It is a Federally Qualified Health Center.

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

LPCH has approximately 95 residents/fellows training at the facility. The pediatric research programs are undertaken through the Stanford School of Medicine.

Demonstration of project readiness and project feasibility:

Although LPCH did not complete a third party feasibility study, LPCH determined that the increasing demand for its services warranted the expansion and that these services have been, and should continue to be, revenue-producing.

A review of the most recent audited financial statements indicates the hospital has sufficient cash and investments to cover all costs after the grant is exhausted.

Authority staff is reviewing the title to the hospital's premises, which are leased from a related party, to ensure it meets the requirements of Section 7047 of the program regulations.

The hospital is either actively acquiring, or has received, permits and construction contracts for the various construction components. The hospital has provided staff with an extensive timeline that extends through 2008, upon which the project is expected to be complete. The hospital has chosen a general contractor, as well as architect/engineer teams, with experience in the remodeling and renovation of existing, working hospitals. In addition, the hospital has hired a construction management consultant to assist the hospital's own Design & Construction Department in coordinating the subprojects which will be underway.

Oncology Unit

Construction started in March 2006 and the space should be ready for use by January 2008.

Surgical Suite

Construction started in December 2005 and is anticipated to be in use in mid-2007.

PICU

Once the inpatient pharmacy and oncology is relocated, construction should start in fall 2007 with an anticipated occupancy in March 2008.

Equipment Purchases

Equipment purchases began in February 2003 and are ongoing at the present time.

<u>Sources of Funds:</u>		<u>Uses of Funds</u>	
CHFFA Grant	\$74,000,000	Remodel	\$101,278,464
Internal funds	<u>\$37,873,866</u>	Equipment Purchases	<u>\$10,595,402</u>
TOTAL	<u>\$111,873,866</u>	TOTAL	<u>\$111,873,866</u>

SB 1953

The hospital was built in 1991 and is compliant with SB 1953

Legal Review:

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

CHFFA Bond Issues:

LPCH has two Authority bond issues dated 2003, (Series 2003 A & B) and (Series 2003 C). The current outstanding balance for the two bond issues totals \$115,000,000 as of March 31, 2006.

Staff Recommendation:

Staff recommends the Authority approve a resolution for Lucile Salter Packard Children's Hospital at Stanford to provide a grant not to exceed \$74,000,000 (less costs of issuance), subject to all requirements of the Children's Hospital Program.