

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (Authority)  
Children’s Hospital Program of 2018 (Proposition 4)**

**Resolution No. CHP-4 2023-05**

**December 7, 2023**

**Applicant:** Children’s Hospital of Orange County  
1201 West La Veta Avenue  
Orange, CA 92868

**Project Site:** 1201 West La Veta Avenue  
Orange, CA 92868

**Amount Requested:** Proposition 4: \$135,000,000.00 Grant #: CHOC-01-04

Summary of Grant Amounts	Proposition 4
Eligible Amount	\$135,000,000.00
less Previous Grant Awards	0.00
less Requested Grant Amount	135,000,000.00
Remaining Amount Eligible (if requested amount is approved)	\$0.00

**Project:**

Children’s Hospital of Orange County (CHOC) is seeking Proposition 4 grant moneys to reimburse and fund the pediatric portion of constructing a new nine-story 333,000 square-foot medical office building known as the Southwest Tower (SWT), where CHOC will relocate and expand various pediatric sub-specialty care services. The pediatric sub-specialty care services that will be relocated to the SWT include but are not limited to dentistry, orthodontics, craniofacial services, a cancer center, pulmonology, endocrinology, orthopedics, and orthopedic imaging.

**Sources of Funds:**

Net Prop 4 Funds <sup>1</sup>	\$133,548,750.00
Internal Funds <sup>2</sup>	<u>238,474,232.00</u>
<b>Total</b>	<b><u>\$372,022,982.00</u></b>

**Uses of Funds:**

Construction	\$330,355,989.00
Equipment/ furnishings	<u>41,666,993.00</u>
<b>Total</b>	<b><u>\$372,022,982.00</u></b>

**Staff Recommendation:**

Staff recommends that the Authority approve Resolution No. CHP-4 2023-05 for Children’s Hospital of Orange County to receive a grant not to exceed \$135,000,000.00 (less costs of issuance and administrative costs), subject to all requirements of the Children’s Hospital Bond Act of 2018.

<sup>1</sup> Net Prop 4 Funds is the total Prop 4 requested amount of \$133,548,750.00, less costs of issuance and administrative costs.

<sup>2</sup> Internal Funds in the amount of \$1,451,250.00 will be used to pay the administrative costs (\$1,350,000.00) and costs of issuance (\$101,250.00).

#### **Proposition 4 Evaluation Factors:**

Staff reviewed the provided application and other submitted materials in determining whether the applicant satisfactorily met the six factors identified in Proposition 4. Below is a summary of how the applicant met these specific factors.

*Factor 1: The grant will contribute towards expansion or improvement of health care access by children eligible for governmental health insurance programs and indigent, underserved, and uninsured children.*

Construction of the SWT started in October 2020 on a vacant lot directly across the street from CHOC's flagship hospital building (see Exhibit A). The SWT is a nine-story, 333,000-square-foot medical office building that will house CHOC's various sub-specialty clinics under one roof and will also have space available for future growth. Many of CHOC's existing on-campus sub-specialty care services will be relocated, and some will be expanded in the SWT. The sub-specialty clinics to be relocated in the SWT include, among others, dentistry, orthodontics, craniofacial services, a cancer center, pulmonology, genetics, developmental pediatrics, palliative care, rheumatology, nephrology, gastroenterology, endocrinology, orthopedics, and orthopedic imaging.

The grant will fund the construction of a portion of the second floor and the entire fourth, fifth, sixth, and seventh floors, equating to 161,525 square feet (sqft) or 48.51% of the SWT space, where the pediatric sub-specialty care services will be located.

The SWT will alleviate the challenges and struggles that have impacted CHOC's ability to keep up with the growing demand for its pediatric sub-specialty clinics. CHOC's West Building has reached capacity, and patients seeking appointments at the sub-specialty clinics housed there experience long wait times. Space constraints also impact CHOC's ability to provide a seamless, whole-child approach that better serves the needs of pediatric patients with complex medical conditions because specialty care services are housed at multiple locations across CHOC's campus.

Space in the new SWT will increase sub-specialty exam room capacity by 61% compared to the current on-campus locations. Existing sub-specialty clinics relocating to the SWT have approximately 78,000 patient visits per year. The relocation and expansion of the sub-specialty clinics to the SWT will accommodate 30,000 additional patient visits per year, a 38% increase, with the capacity for an additional 17,000 visits. In fiscal year (FY) 2023, 61.9% of the pediatric patients at CHOC's sub-specialty clinics were Medi-Cal recipients.

*Factor 2: The grant will contribute towards improving child health care or pediatric patient outcomes.*

Expanded access and capacity afforded by the new SWT will enable CHOC to offer advanced services, improve operational efficiency, and improve pediatric patient outcomes. While most sub-specialty clinics relocating to the SWT are moving from CHOC's West Building, others are moving from various locations on CHOC's medical campus. Consolidating the pediatric sub-specialty care services under one roof will not only improve the timeliness of medical treatment but will also free up space across CHOC's campus allowing expansion of other services, such as the pharmacy and the emergency department.

CHOC envisions the sub-specialty services housed in the SWT to change over time to meet community needs. CHOC plans to engage the community to identify community care needs and determine which sub-specialty care services are needed to fill treatment gaps, thereby improving outcomes because healthcare needs will be better met. Further, SWT's improved environment and peaceful surroundings, equipped with new technology is also expected to benefit patients' health outcomes.

CHOC anticipates that providing a world-class working environment for the pediatric specialties housed in the SWT will result in greater success in recruiting board-certified physicians, leading to better healthcare outcomes for its patients.

*Factor 3: The children's hospital provides uncompensated or under-compensated care to indigent or public pediatric patients.*

CHOC has a long and proud history of providing vital medical care to all pediatric patients in need, regardless of the family's ability to pay. In FY 2022, CHOC provided approximately \$120 million in uncompensated charity and discounted care, as well as approximately \$1.4 million in behavioral healthcare to pediatric patients at reduced or no cost. CHOC also provided pediatric patients almost \$11.5 million in discounted and charity care for disease prevention, such as immunizations and COVID-19 vaccinations.

*Factor 4: The children's hospital provides services to vulnerable pediatric populations.*

In FY 2023, CHOC served approximately 240,000 pediatric inpatient and outpatient individuals, resulting in approximately 909,000 pediatric patient visits. Approximately 61.6% of the children receiving services at CHOC were Medi-Cal recipients, and 51.3% of CHOC's \$1.3 billion in net patient revenue in FY 2023 came from governmental health insurance programs, such as Medi-Cal and California Children's Services (CCS).

CHOC prioritizes its role as a community information resource and has established a community education services department devoted to this purpose. CHOC's community-based activities and community partner collaborations include, among others, an after-hours clinic, the Breathmobile Asthma Clinic, adolescent and young adult special events and support groups, bereavement and grief support groups, child passenger safety instruction, Clinica CHOC Para Los Ninos, CHOC's Medical Group Centrum Clinic aimed at serving healthcare needs of high-risk and disadvantaged populations, in-school programming to increase safety awareness, hygiene and infection prevention and good food choices, pediatric oncology patient and family support groups, and the CHOC Clinic at the Garden Grove Boys and Girls Club.

*Factor 5: The children's hospital promotes pediatric teaching programs or pediatric research programs.*

CHOC partners with UCI to offer 15 fellowships across the following medical and surgical specialties: Child Neurology, Child Psychiatry, Epilepsy, Neonatal Intensive Care, Neurophysiology, Neurosurgery, Pediatric Emergency Medicine, Pediatric Endocrinology, Pediatric Hospital Medicine, Pediatric Infectious Disease, Pediatric Intensive Care, Pediatric Oncology, Pediatric Surgery, and Urology. CHOC and UCI have also partnered to offer a fellowship in clinical informatics to study how information technology can improve the quality of

care delivered to all pediatric patients. Additionally, CHOC partners with the University of California Los Angeles to offer a metabolic diseases and genetics fellowship, possibly extending to two fellowships in the future. Further, CHOC's research institute has over 500 research studies focused on more than 30 specialties that aim to improve pediatric patient access to improved and advanced treatments. One of CHOC's projects is looking at how high-stress events affect the brain and if pediatric patients are at an increased risk of developing physical and mental illnesses as a result.

*Factor 6: Demonstration of project readiness and project feasibility.*

The construction of the SWT started in October 2020, and CHOC anticipates it will be completed by September 2025. The construction cost of the entire 333,000-square-foot SWT is approximately \$319 million. Approximately 161,525 sqft of the SWT space, or 48.51%, will be dedicated to sub-specialty clinics providing medical services to pediatric and adult patients, for a total cost of approximately \$155 million. Since Proposition 4 grant funds can only cover the pediatric proportionate share of the sub-specialty clinic space, and approximately 8.47% of the sub-specialty clinics' patients will be adults, Authority staff has determined that the eligible proportionate share of the eligible sub-specialty clinic cost is 91.53%, or \$141,624,901.70.

**Legal Review:**

Although disclosures were made by the applicant, the information disclosed does not appear to detrimentally affect its financial viability or legal integrity.

**Description of Applicant:**

CHOC is a nonprofit 501(c)(3) general acute care hospital licensed by the California Department of Public Health. Established in 1964 as a California nonprofit benefit corporation, CHOC is the largest single provider of pediatric hospital services in Orange County, with 334 beds in Orange and 54 beds in Mission Viejo. CHOC's hospital facility is a regional tertiary/quaternary<sup>3</sup> referral center that provides care through more than 30 specialty care services and operates one of the nation's dedicated teen and young adult cancer programs. CHOC's financial audit for FY 2023 was submitted and is free of "going concern" language.<sup>4</sup>

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<sup>3</sup> Tertiary and quaternary care represent the most advanced form of health care and may include complex surgery, such as neurosurgery, cardiac surgery, plastic surgery, and transplantation as well as neonatology, psychiatry, cancer care, intensive care, palliative care, and many other complex medical and surgical interventions. Quaternary care may even involve experimental treatments and procedures. Quaternary-level care is an extension of tertiary-level care, which is the highest-level designation. The quaternary-level designation for perinatal-neonatal programs is only given to units that meet highly rigorous standards set by the state and is staffed and equipped to care for high-risk pregnancies and for newborns who are critically ill/extremely sick, premature or may require surgical intervention. It is considered an extension to tertiary care due to the advanced and specialized care that is provided by the hospital in the designated area of expertise.

<sup>4</sup> The absence of "going concern" language tends to suggest the organization is in good operational health for that fiscal year. The Authority's regulations define "Going Concern Qualification" in Section 7000(q).

## EXHIBIT A

### Campus orientation of the new Southwest Tower Medical Office Building labeled New Ambulatory Tower



Current sub-specialty clinic location

New sub-specialty clinic location

### Concept Design of Southwest Tower Medical Office Building



Current view of Southwest Tower Medical Office Building



**RESOLUTION NO. CHP-4 2023-05**

**RESOLUTION OF THE CALIFORNIA HEALTH  
FACILITIES FINANCING AUTHORITY APPROVING  
EXECUTION AND DELIVERY OF GRANT FUNDING  
UNDER THE CHILDREN’S HOSPITAL PROGRAM OF 2018  
TO CHILDREN’S HOSPITAL OF ORANGE COUNTY**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the Children’s Hospital Bond Act of 2018 (Health & Safety Code, §1179.81 et seq; the “Act”), and implementing regulations (Cal. Code Regs., § 7000 et seq.) to award grants from the proceeds of general obligation bonds to finance eligible capital improvement projects for the construction, expansion, remodeling, furnishing, equipping, financing, or refinancing of a children’s hospital, as defined in the Act; and

WHEREAS, Children’s Hospital of Orange County (“Grantee”) qualifies as an eligible children’s hospital under Health and Safety Code section 1179.82(b); and

WHEREAS, Authority staff reviewed the Grantee’s application against the eligibility requirements of the Act and implementing regulations and, pursuant to the Act and implementing regulations, recommends the approval of a grant in an amount not to exceed \$135,000,000.00, less bond issuance and administrative costs, to the Grantee for the eligible project (the “Project”) described in the application;

NOW, THEREFORE, BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to Health and Safety Code section 1179.85, the Authority hereby approves a grant of \$135,000,000.00, less bond issuance and administrative costs, to the Grantee to complete the Project as described in the Children’s Hospital Program of 2018 application and Exhibit A to this Resolution (Exhibit A is hereby incorporated by reference) by April 1, 2027 the end of the grant period.

Section 2. For and on behalf of the Authority, the Executive Director and the Deputy Executive Director are hereby authorized and directed to do all of the following:

a) Approve any minor, non-material changes in the Project described in the application submitted to the Authority. Nothing in this Resolution shall not be construed to require the Authority to provide any additional funding. Any notice to the Grantee shall indicate that the Authority shall not be liable to the Grantee in any manner whatsoever should funding not be completed for any reason whatsoever.

b) Extend the grant period end date identified in Section 1. However, any extension approved by the Executive Director and the Deputy Executive Director shall not extend past the grant resolution repeal date.

c) Allocate moneys from the Children's Hospital Bond Act Fund of 2018, created pursuant to Health and Safety Code section 1179.83, not to exceed those amounts approved by the Authority for the Grantee.

d) Execute and deliver to the Grantee any and all documents necessary to complete the transfer of moneys that are consistent with the Act and implementing regulations.

e) Do any and all things and to execute and deliver any and all documents that the Executive Director and the Deputy Executive Director deem necessary or advisable to effectuate the purposes of this Resolution and the transactions contemplated herein.

Section 3. This Resolution shall repeal on April 1, 2028 unless extended by action of the Authority prior to that date.

Date Approved: \_\_\_\_\_

## **EXHIBIT A**

### **PROJECT DESCRIPTION**

The proceeds of the grant will be used by Children's Hospital of Orange County to reimburse and fund the pediatric portion of constructing a new nine-story 333,000 square-foot medical office building known as the Southwest Tower (SWT) located on a previously vacant lot directly across the street from CHOC's main hospital building. The pediatric sub-specialty care services that will be relocated to the SWT include but are not limited to dentistry, orthodontics, craniofacial services, a cancer center, pulmonology, endocrinology, orthopedics, and orthopedic imaging.