

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Children’s Hospital Program of 2008 (Proposition 3)

Staff Summary
Resolution No. CHP-3 2014-02
October 30, 2014

Applicant: Rady Children’s Hospital - San Diego #CHSD-06-03
3020 Children’s Way
San Diego, California 92123-4282
San Diego County

Project Sites: Same as above
and
3665 Kearny Villa Road
San Diego, CA 92123

Amount Requested: \$18,672,142

Summary of Grant Amounts	Proposition 61	Proposition 3
Eligible Amount	\$74,000,000	\$98,000,000
less previous awards	(\$74,000,000)	(\$70,652,164)
less requested amount	-	(\$18,672,142)
Remaining Amount Eligible	\$0	\$8,675,694

Description of Applicant:

Rady Children’s Hospital - San Diego (RCHSD) is a nonprofit general acute care hospital with a current license from the California Department of Public Health. The Fiscal Year 2013 (year ending June 30) audited financial statements were submitted and are free of “going concern” language¹.

Project

RCHSD is seeking grant funds to reimburse the cost of renovating and equipping three floors of a medical office building known as the Rady Children’s Health Services – Developmental and Behavioral Sciences building, previously named Children’s Plaza, and acquiring patient care equipment that will be located on the main hospital campus.

¹ 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 sections 7030(n) and 7051(n) for Proposition 61 and Proposition 3, respectively.

Background

The transformation of the Rady-owned medical office building, Children's Plaza was precipitated by the need to relocate Rady's Children's Developmental Services Division ("Developmental Services") when the lease on the prior building was due to expire on June 30, 2014. To keep Developmental Services close to the main campus, RCHSD determined that the best course of action was to relocate these services to the Children's Plaza building and to remodel the available space to create a comprehensive outpatient developmental and behavioral health care facility by co-locating complementary services in the same building. As a result, Developmental Services, which treats children with developmental delays, the Chadwick Center for Children and Families, which provides trauma counseling services for victims of child abuse, and Outpatient Psychiatry will be relocated to the Children's Plaza enabling families to access multiple services in a "one-stop shop". Planning for the remodel project began in 2013 and construction is expected to be completed by the July 2015.

Proposition 3 Evaluation Factors:

Based on the review of the application and other submitted materials, staff evaluated RCHSD's project using the six factors identified in the Proposition 3 language.

Factor 1: 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:

Children's Plaza Remodel

Since Developmental Services lost its lease, RCHSD used this opportunity to find a space where physical therapy, occupational therapy and trauma counseling services could be housed in one location. There was no space on the hospital campus; thus, the Children's Plaza was the logical location for Developmental Services. Over 50% of the patients served by Developmental Services utilize the State's Medi-Cal.

In Fiscal Year 2013, the Chadwick Center provided over 9,400 therapy sessions to 738 children affected by child abuse, domestic violence, and other forms of trauma. In conjunction with the Division, it treated 201 children with over 6,000 psychiatry, case management, and therapy sessions through its KidSTART program. KidSTART serves young children with complex developmental, mental health, medical and family needs.

Patient Equipment

The availability of up-to-date clinical patient care equipment improves access to up-to-date specialized pediatric health and is especially for a children's hospital such as RCHSD that draws patients from a large geographic area that includes San Diego, Imperial County and southern Riverside County. For example, the new ultrasound equipment with improved image quality will spare patients unnecessary radiation exposure. The new machine will be used in the outpatient radiology department, while the older one will be repurposed for bedside diagnostics. RCHSD anticipates the new equipment will reduce the radiology department's waiting list by 75%. The radiology department currently evaluates more than 1,200 patients a month.

Factor 2: The grant will contribute toward the improvement of child health care or pediatric patient outcomes:

Children's Plaza Remodel

RCHSD reports approximately one in eight children in the general population show signs of developmental delay and research demonstrates the earlier a developmental delay is identified and treated, the better the long-term outcome is for the child. Developmental Services helps developmentally delayed children through coordinated programs and services which include screening, triage, assessment, referral and treatment. According to RCHSD, the vast majority of children diagnosed with developmental deficits have multiple needs. Consequently, the families often travel to various appointments. Those appointments sometimes were held at different locations. This availability of complementary services under one roof is both convenient for families that have transportation limitations and improves care by enhancing collaboration and coordination between programs. It allows families, if they can, to coordinate multiple appointments for the same day at one location and pay for parking only once.

Patient Equipment

The new RetCam will be used by ophthalmologists primarily in a telemedicine capacity. The machine displays images using real-time video and real-time patient data reports. One of the primary uses for the RetCam is in diagnosing retinopathy in premature babies. The machine is also easily transported to clinics and community hospitals. It is also used in the emergency room for evaluating infants that have injuries resulting in retinal hemorrhages.

The new radiology imaging unit replaces 20 year-old equipment. The updated digital equipment replaces the outdated method of running each image through a processor and enables radiology technicians to take images at a significantly increased speed. It allows for the radiology technicians to immediately review images and determine if an image needs to be repeated. RCHSD anticipates the new unit will enable RCHSD to provide x-rays to 25 percent more patients. The new technology is also expected to reduce radiation exposure to patients by 50%.

Factor 3: The children's hospital provides uncompensated or undercompensated care to indigent or public pediatric patients:

RCHSD is the hospital where most children in poverty receive treatment in the San Diego region. For example, over 75% of impoverished children under age five who require hospitalization are admitted to RCHSD. Children are treated regardless of their ability to pay. Almost 59% of RCHSD's gross patient revenues are from Medi-Cal and California Children's Services (CCS)². At RCHSD, Medi-Cal eligibility counselors and other financial counselors are available on site to assist eligible families with enrollment in public health insurance programs.

² California Children's Services is a state program managing care and covering treatment costs for children and youth with certain diseases, physical limitations or chronic health problems.

In fiscal year 2013, RCHSD provided approximately \$3.9 million in charity care. Also, it received \$7.6 million in Disproportionate Share Funding from the state and federal governments because the hospital sees a disproportionate share of the underinsured and uninsured.³

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

The regulations for the Children's Hospital Program define "vulnerable pediatric populations" as pediatric patients served by government health insurance programs and pediatric patients with special health care needs irrespective of insurance status. CCS patients are therefore, by definition, vulnerable pediatric patients since they have special health care needs and CCS is a government health insurance program. RCHSD cared for over 7,900 children in the CCS program in fiscal year 2013. RCHSD maintains CCS-approved clinics throughout San Diego County. RCHSD has the only Level-1 pediatric trauma center⁴ in the region, and its emergency room and urgent care visits exceeded 100,000. RCHSD maintains pediatric sub-specialist physicians on RCHSD's medical staff. In its 2014-15 edition of "Best Children's Hospitals," U.S. News & World Report ranked RCHSD's cancer, cardiology and heart surgery programs among the nation's best. For the fourth straight year, RCHSD achieved rankings in all 10 specialties surveyed.

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

As the only teaching and training hospital for pediatric medicine in the San Diego area, RCHSD serves as the training site for over 300 pediatric family practice and specialty residents from five San Diego based residency programs: University of California San Diego (UCSD) Medical School, Scripps (Chula Vista and Mercy), Naval Medical Center San Diego; and Naval Hospital Camp Pendleton Naval Medical Center. The hospital also offers fellowships in approximately 21 pediatric sub-specialties.

In partnership with the UCSD, RCHSD's hospital and research center are participating in almost 500 research studies, covering a wide range of specialty areas. Research occurs in all medical disciplines within RCHSD such as cardiology, orthopedics, dermatology, and infectious diseases, as well as within specialized research organizations such as the Laboratory for Research on the Neuroscience of Autism, the Child and Adolescent Services Research Center, and the Center for Child Health Outcomes.

Factor 6: Demonstration of project readiness and project feasibility:

The Children's Plaza renovation project started in February 2014 and expects the renovation to be completed no later than June 30, 2015. RCHSD acquired or will acquire the patient care equipment between July 1, 2012 and June 30, 2015.

³ Disproportionate Share Hospital (DSH) adjustment payments provide financial help to those hospitals that serve a significantly disproportionate number of low-income patients; eligible hospitals are referred to as DSH hospitals. States receive an annual DSH allotment to cover the costs of DSH hospitals that provide care to low-income patients that are not paid by other payers, such as Medicare, Medicaid, the Children's Health Insurance Program (CHIP) or other health insurance.

⁴ Trauma centers vary in their specific capabilities and are identified by "Level" designation: Level-1 is the highest. Higher levels of trauma centers will have highly sophisticated medical diagnostic equipment and trauma surgeons available, including those trained in such specialties as neurosurgery and orthopedic surgery.

Sources of Funds:

Grant Request	\$18,672,142
Donations	<u>193,028</u>
Total	<u>\$18,865,170</u>

Actual Uses of Funds:

Construction	\$3,781,340
Equipment	<u>15,083,830</u>
Total	<u>\$18,865,170</u>

Legal Review:

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

Staff Recommendation:

Staff recommends the Authority approve Resolution No. CHP-3 2014-02 for Rady Children's Hospital – San Diego to provide a grant not to exceed \$18,672,142 (less issuance and administrative costs), subject to all requirements of the Children's Hospital Program of 2008.

RESOLUTION NO. CHP-3 2014-02

**RESOLUTION OF THE CALIFORNIA HEALTH
FACILITIES FINANCING AUTHORITY APPROVING
EXECUTION AND DELIVERY OF GRANT FUNDING
UNDER THE CHILDREN'S HOSPITAL BOND ACT OF 2008
TO RADY CHILDREN'S HOSPITAL – SAN DIEGO**

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 2008 (Pt. 6.1 (commencing with Section 1179.50), Div. 1, Health and Safety Code; hereafter the “Act”) and implementing regulations to award grants from the proceeds of general obligation bonds in an amount not to exceed \$98,000,000 less the bond issuance and administrative costs to Rady Children’s Hospital – San Diego (“Grantee”) to finance eligible projects; 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 approval of a grant in an amount not to exceed \$18,672,142 less the 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. The Authority hereby approves a grant of \$18,672,142 less the bond issuance and administrative costs to the Grantee to complete the Project as described in the Children’s Hospital Program Application and Exhibit A to this Resolution (Exhibit A is hereby incorporated by reference) within a project period that ends on December 31, 2016.

Section 2. The Executive Director is hereby authorized for and on behalf of the Authority, to approve any minor, non-material changes in the Project described in the application submitted to the Authority and extend the project period completion date identified in Section 1 as authorized under the Act and implementing regulations. Nothing in this Resolution shall be construed to require the Authority to provide any additional funding, even if more grants are approved than there is available funding. Any notice to the Grantee shall indicate that the Authority shall not be liable to the Grantee in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Children’s Hospital Bond Act Fund (2008) not to exceed those amounts approved by the Authority for the Grantee. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Grantee any and all documents necessary to complete the transfer of funds that are consistent with the Act and implementing regulations.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this Resolution and the transactions contemplated hereby.

Section 5. This Resolution expires December 31, 2016.

Date Approved: _____

EXHIBIT A

PROJECT DESCRIPTION

The proceeds of the grant will be used by Rady Children's Hospital – San Diego to reimburse the costs associated with renovating and equipping Rady Children's Health Services – Developmental and Behavioral Sciences building located at 3665 Kearney Villa Road, San Diego, California 92123 and the acquisition of patient care equipment for the hospital campus at 3020 Children's Way, San Diego, California 92123.