

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

**Staff Summary**  
**Resolution No. CHP-3 2017-03**  
**June 16, 2017**

**Applicant:** Rady Children’s Hospital - San Diego #CHSD-08-03  
3020 Children’s Way  
San Diego, California 92123-4282  
San Diego County

**Project Sites:** 3030 Children’s Way  
San Diego, California 92123-4282

**Amount Requested: \$20,038,881**

<b>Summary of Grant Amounts</b>	<b>Proposition 3</b>
Eligible Amount	\$98,000,000
less previous awards	(77,961,119)
less requested amount	(20,038,881)
<b>Remaining Amount Eligible</b>	<b>\$0</b>

**Description of Applicant:**

Rady Children’s Hospital - San Diego (“RCHSD” or the “Hospital”) is a nonprofit general acute care hospital with a current license from the California Department of Public Health. The Hospital’s Fiscal Year 2015-16 audited financial statements were submitted and are free of “going concern” language.<sup>1</sup>

**Project:**

RCHSD is seeking grant funds to renovate and equip the first, second, and fourth floors of a Medical Office Building (“MOB”) located at 3030 Children’s Way, adjacent to the Hospital. The floors being renovated previously contained leased medical office space and will be converted into licensed specialty clinics. Additional building changes include ADA<sup>2</sup> accessibility improvements, elevator upgrades, and replacement of the HVAC system and roof. In 2013, the third floor of the building was converted from an outpatient surgery center into a licensed orthopedics clinic and will remain as is. The Hospital previously received a Proposition 3 grant award in January 2011 of \$9,468,055 to partially reimburse costs associated with the purchase of the building.

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<sup>1</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 sections 7030(n) and 7051(n) for Proposition 61 and Proposition 3, respectively.

<sup>2</sup> Americans with Disabilities Act of 1990 – imposes accessibility requirements on public accommodations

Building improvements are expected to benefit clinics currently located within the MOB, clinics that will be relocated to the MOB, and ancillary services. Clinics currently located within the MOB that will be renovated include Ophthalmology, Otolaryngology, and Pediatric Surgery. Clinics currently located elsewhere that are expected to be relocated to the MOB include Endocrinology/Metabolic Medicine, Dermatology, Allergy/Asthma, Pulmonary Medicine/Respiratory Care, Gastroenterology, Infectious Disease, and Rheumatology. Ancillary services planned to be added to the MOB include clinical nutrition, a blood draw laboratory, and palliative care. The Hospital expects that upon project completion all of the clinics located within the MOB will be licensed as part of the General Acute Care Hospital.

### **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:*

RCHSD provides access to all children who need care regardless of socio-economic status, culture, severity of illness, or ability to pay and is committed to providing access to the same high standard of care for all children in facilities that are designed to be child and family friendly. Additionally, the Hospital serves a large portion of children covered by governmental health insurance programs such as Medi-Cal and California Children's Services ("CCS"), which comprised approximately 60% of patient revenue in FY 2015-16.

The renovations and associated building improvements contribute toward expansion or improvement of health care access by providing increased clinic space, increases in the number of exam rooms, an extension of the useful life of the building, and ADA accessibility improvements. The MOB project expands the physical size and number of exam rooms available to the specialty clinics and will allow them to serve more patients. Clinics such as Endocrinology and Infectious Disease have already outgrown their current locations and are expected to continue to grow. The Hospital estimates patient visit growth in FY 2018-19 of approximately 20% for the Endocrinology clinic and 50.5% for the Infectious Disease clinic. The larger clinic space and additional exam rooms are expected to accommodate the anticipated increases in patient volume. Access to care is also expected to be improved by centralizing clinic support services such as check-in areas and waiting rooms, that are planned to be shared among clinics located on same floor, thus providing more space for the clinics themselves. Additionally, in the planned design, clinics are expected to be located next to each other to allow for flexible use of exam rooms as demand varies between clinics. Flexibility in use of clinic space is anticipated to expand access by more efficiently accommodating fluctuations in demand thereby allowing the clinics to serve more patients.

The MOB currently has an HVAC system and a roof that have surpassed their respective useful lives. Additionally, the current MOB HVAC system will not be able to meet the supply demands of the expanded clinics. Replacing the roof and HVAC system will extend the useful life of the building and accommodate the expected additional supply demands. Without replacement of the roof and HVAC system, the interior renovations would be unable to proceed and the clinics would be unable to expand as planned, restricting access to

care. The MOB will also receive ADA accessibility upgrades as part of the renovations, which will provide easier access within the clinics for those who use wheelchairs or other mobility aids. The ADA accessibility improvements will allow the Hospital to better accommodate children with disabilities in each of the clinics when compared with their current locations.

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

A goal of the MOB renovation project is to consolidate many of the specialty clinics currently located in buildings throughout the Hospital campus into a unified location. The close proximity and shared resources planned to be available in the MOB are expected to facilitate collaborative and patient-centered approaches to care and result in improved pediatric patient outcomes. A pediatric palliative care team consisting of board-certified pediatric palliative medicine physicians, certified pediatric palliative care nurses, social workers, and spiritual counselors is planned to be located within the MOB. The palliative care team is expected to provide patients receiving care at the MOB and their families with guidance on complex treatment choices, emotional support, and facilitate communication with other care providers. Housing clinics together is also expected to increase coordination among providers. The project design plans for respiratory care services to be located between allergy and pulmonology clinics allowing for better communication among providers resulting in improvements to care delivery. Centralizing the clinics and co-locating them with ancillary services such as the palliative care team, blood draw laboratory, respiratory care, and an outpatient pharmacy is expected to be more efficient which will save patients time and decrease the number of repetitive tests or procedures thus resulting in higher quality care and improved outcomes.

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

RCHSD provides medically necessary care to patients regardless of their ability to pay. Over half of the hospital's patients do not have private health insurance, and most patients are covered by Medi-Cal. Moreover, RCHSD treats over 75% of children under age 5 in the San Diego region who require hospitalization and are living in poverty. RCHSD has a Financial Assistance Program to provide partial or full charity care based on a family's ability to pay, as defined by the Federal Poverty Income guidelines. Financial counselors are available on-site to assist families with signing up for Medi-Cal, Healthy Families, California Children Services (CCS), or private insurance depending on their eligibility; these services are provided in multiple languages.

In FY 2015-16, RCHSD provided approximately \$63.7 million in community benefit in the form of Financial Services for persons living in poverty including approximately \$56.5 million in undercompensated costs of treating Medi-Cal patients.

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

RCHSD is the sole pediatric-dedicated hospital and trauma center for San Diego and Imperial Counties. Hospital statistics for patient volume in FY 2015-16 include 19,180 discharges, 92,154 Emergency Department visits, 55,814 Urgent Care visits, and 20,325 surgeries.

The Hospital participates in California Children’s Services, a statewide program that provides medical care, case management, and rehabilitation to children with medically complex conditions. Specific CCS services provided by RCHSD include pediatric emergency services, pediatric and neonatal intensive care, social and family services, occupational therapy, physical therapy, and speech and hearing services.

The Hospital also sponsors numerous educational and community outreach programs and provides pediatric public support within its service area. Some of the public programs offered include child safety and injury prevention, pediatric dental services, trauma counseling, mental health counseling, a high-risk infant clinic, developmental screening, family support, health referral services, and clinical education.

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

RCHSD serves as the primary pediatric teaching hospital for the University of California San Diego (“UCSD”) School of Medicine and is the only pediatric teaching hospital in San Diego. RCHSD provides clinical training in approximately 35 program specialty areas including clinical rotations at the main Hospital campus as well as at outpatient locations in the community. The Hospital also offers unique five-month-long nursing and respiratory therapist residency training programs tailored to the orientation needs of recent graduates. In FY 2014-15, RCHSD served as a training facility for approximately 284 medical students, 468 interns and residents, 156 post-doctoral fellows, over 1,600 nursing students, and other students pursuing training in disciplines such as social work and research.

RCHSD participates in clinical research to identify new solutions to treat childhood illnesses and conditions and to promote child health. As of FY 2015-16, more than 140 investigators at RCHSD, in conjunction with UCSD, are participating in 609 active research studies including investigations of new drugs, devices, and techniques in a variety of pediatric areas with the goal of improving the medical care of children.

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

RCHSD has submitted proof of property ownership, a project timeline, applicable permits, CEQA compliance, and executed contracts for architecture, project management, and construction.

Construction will be conducted in two phases. The first phase consisting of renovation to floors two and four began in March 2017 and is expected to be completed in December 2017. The second phase, comprising of renovations to the first floor, is planned to begin immediately following the first phase and expected to be completed by October 2018. RCHSD expects to move into second and fourth floors following completion of the first phase scheduled for December 2017, and the first floor of the building upon completion of the second phase scheduled for October 2018. Construction is currently on schedule, and RCHSD does not anticipate delays in the project.

**Sources of Funds:**

Grant Request	\$ 20,038,881
Applicant Internal Funds	<u>3,958,486</u>

**Total** **\$ 23,997,367**

**Uses of Funds:**

Renovation	\$ 22,105,403
Equipment	685,421
IT	1,091,320
Grant COI and Admin	<u>115,223</u>

**Total** **\$ 23,997,367**

**Legal Review:**

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

**Staff Recommendation:**

Staff recommends the Authority approve Resolution No. CHP-3 2017-03 for Rady Children's Hospital – San Diego to provide a grant not to exceed \$20,038,881 (less issuance and administrative costs), subject to all requirements of the Children's Hospital Program of 2008.

**RESOLUTION NO. CHP-3 2017-03**

**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 \$20,038,881 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 \$20,038,881, less 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, 2019.

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, 2019

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 renovation of, and patient care equipment for, a Medical Office Building located on the hospital campus at 3030 Children's Way, San Diego, CA 92123 that will contain licensed pediatric specialty clinics. Renovation work will include layout changes to the first, second, and fourth floors, as well as Americans with Disabilities Act of 1990 ("ADA") accessibility improvements, elevator upgrades, and replacement of the roof and HVAC system.