

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

Staff Summary

Applicant: Children's Hospital Los Angeles **Amount Requested:** \$74 million
(CHLA)
4650 Sunset Blvd.
Los Angeles, CA 90027
Los Angeles County

Project Site: 4650 Sunset Blvd., Los Angeles, CA

Description of Applicant:

CHLA 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:

CHLA is in the third and final stage of a facility expansion and modernization program. The first phase, which commenced in 1999 and was completed in 2001, involved the construction of a new main entrance and lobby area to the hospital, 14 new operating rooms and surgery support areas, preoperative testing facilities and patient and family waiting areas. The \$65 million cost for the phase was funded by a combination of funds made available by the Federal Emergency Management Agency, donations, cash derived from operations and a portion of the proceeds of certificates of participation issued through the California Statewide Communities Development Authority (CSCDA).

The second phase involved the construction of a research and laboratory building that was completed in 2003 at a total cost of approximately \$50 million that was funded by donations and a portion of the proceeds from bonds issued through CSCDA.

The last phase, to be funded in part by the proposed Children's Hospital Program Grant, involves the construction of a new hospital building to replace inpatient space in three existing buildings (Duque, Page, and McAllister), now almost four decades old and the addition of a new underground parking facility for families and visitors. The hospital plans to move all inpatient beds (other than those designated as rehabilitation beds) to the new building. The first phase of the new underground parking facility was completed in May 2004 at a cost of approximately \$28 million financed from proceeds of bonds issued in 2002 and cash. The second phase of the parking facility will be completed (and an existing parking structure razed) concurrently with the construction of the new hospital building. The remaining estimated cost of phase three of the expansion and

modernization program including the construction of the new hospital building and phase two of the underground parking facility is approximately \$280 million.

Proposition 61 Evaluation Factors:

Staff concludes CHLA'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:

The new hospital building is designed to encourage and support multidisciplinary care by including an emergency department, imaging facilities, a cancer day hospital, cardiothoracic intensive care, pediatric intensive care, and neonatal intensive care units. There will be an addition of 16-ICU beds that will enable CHLA to treat 16 more critical children every day which equates to 5,840 more intensive care patient days per year. CHLA serves a patient population of which 70% is eligible for governmental health insurance programs, including indigent, underserved and uninsured children.

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

The new hospital building has been designed to integrate family participation into a child's healing process by featuring private rooms containing a clinical area housing medical equipment, a family area with space for parents to stay overnight with access to telephones and computers, and a patient area that will feature lighting and designs to help make children feel at home. The environment will encourage families to heal and learn together as they learn about the challenges of the particular illness or injury, how to better manage their lives, and become better caregivers. Semiprivate rooms will be available for children who can benefit from social contact, a vital component for those with chronic disease.

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

The most recent audited financial statements indicate CHLA provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates which is consistent with its tax-exempt status and community service responsibilities. Under the CHLA policy, charity care may be provided to children who are uninsured or underinsured and cannot afford to pay for their own medical care.

In addition, CHLA provides additional community support through the unpaid cost of public programs, which is defined as the cost of treating Medicaid and indigent beneficiaries in excess of government payments.

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

CHLA has the highest market share of pediatric Medi-Cal patient days in Los Angeles County. Excluding normal newborns, newborns with minor complications, mental health, alcohol/drug dependency, OB/GYN, and rehabilitation, CHLA provides service to approximately 30% of the market, in an area served by a total of six hospitals.

CHLA is also the leading provider of California Children's Services (CCS), a statewide program of specialized medical care providing medical case management, physical/occupational therapy services and financial assistance for children with certain healthcare needs. Based on CCS discharge data from July 2002 through June 2003 (excluding unavailable data from Miller and Loma Linda Children's Hospitals)**, CHLA had 39,503 CCS days or a 25.4% market share.

**Source: California Children's Hospital Association

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

CHLA promotes both doctor and registered nurse teaching. The medical training programs currently include 250 medical students, 83 full-time residents and 64 fellows. Over the last six years, each resident graduating from the program passed the American Board of Pediatrics exam on the first attempt.

The hospital also administers a 22-week registered nurse residency in pediatrics program that provides new nursing school graduates a comprehensive guided clinical experience to prepare them for work in an acute care environment.

CHLA conducts pediatric research through its Saban Research Institute and the University of Southern California-CHLA Institute for Pediatric Clinical Research. The Saban Research institute, dedicated exclusively to children, has 91 investigators engaged in 239 laboratory studies, clinical trials and community-based research and health services. Programs relate to cancer, cardiovascular research, community outcomes and intervention research, development biology, gene, immune and stem cell therapy. Initiatives include body and bone composition, imaging research and microbial pathogens.

The USC-CHLA Institute for Pediatric Clinical Research combines resources from both the USC's Keck School of Medicine and CHLA to conduct clinical trials that focus primarily on childhood leukemias.

Demonstration of project readiness and project feasibility:

CHLA has an executed construction contract with a maximum agreed-to price and do not expect any delays with their project. They have completed a lot line adjustment with a hospital adjacent to CHLA property, resolved various issues with the Office of Statewide

Health Planning and Development and the City of Los Angeles and are ready to begin their final phase of construction. The hospital is either actively acquiring permits or has received permits for the various construction components. CHLA has provided staff with a legal opinion and a letter from the City of Los Angeles that it is exempt from the California Environmental Quality Act (CEQA). The hospital has provided staff with an extensive timeline that extends through 2008, upon which the project is expected to be complete.

The hospital expects patient visits to increase 5,840 annually (16 more children each day) upon completion of the project and is adequately prepared to adjust staffing levels. While planning the construction of the new building, CHLA completed an internal analysis of patient need and determined the private room configuration was the most optimal. The historical California Medical Assistance Corporation (CMAC) per diem rate has supported the CHLA operational budget and thus CHLA budgeted that the operational incremental expense would be covered by the increased reimbursement (more patients equals more revenue). CHLA has provided an org chart and third-party prepared utilization and financial ten-year projections to document the project will generate sufficient revenues to provide on-going support for the expanded services.

CHLA’s project funding is detailed as follows:

<u>Sources of Funds:</u>		<u>Uses of Funds</u>	
CHFFA Grant	\$ 74,000,000	Construct Facilities	\$279,000,000
Internal Funds	168,000,000	Purchase equipment	29,000,000
FEMA Grant	<u>66,000,000</u>		
TOTAL	<u>\$308,000,000</u>	TOTAL	<u>\$308,000,000</u>

CHLA was awarded a \$95 million FEMA Grant and has spent the \$45.7 million through January 2005 on various pre-construction and initial construction costs. The remaining expenses will be paid from the requested grant, operating cash and funds obtained through fundraising efforts. 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. Pledges receivable expected within the next five years total \$67 million. Grant funds will be used to pay construction-related costs, not equipment costs.

Legal Review:

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

Staff Recommendation:

Staff recommends the Authority approve a resolution to provide a grant not to exceed \$74 million (less costs of issuance), subject to all requirements of the Children’s Hospital Program.