

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**Children's Hospital Program of 2008**  
**Proposition 3**

**Staff Summary**  
**Resolution No. CHP-3 2011-01**  
**January 27, 2011**

**Applicant:** Rady Children's Hospital–San Diego CHSD-02-03  
3020 Children's Way  
San Diego, CA 92123-4282  
San Diego County

**Project Site:** 3030 Children's Way,  
San Diego, CA 92123-4282

**Amount Requested:** \$9,468,055

**Prior 2008 Program Amount Awarded:** \$15,437,693

**Prior 2004 Program Amount Awarded:** \$74 million

**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 2010 (year ending June 30) audited financial statements are free of "going concern" language.<sup>1</sup>

**Project:**

RCHSD is seeking grant funds to reimburse a portion (\$9,468,055 or 38.75%) of its overall costs (\$24,434,905) for the purchase of a ground lease which included a four-story pediatric specialist medical office building (PSMOB) on RCHSD's hospital campus. Prior to the purchase, RCHSD owned the underlying land and leased a portion of the building. The acquisition allows RCHSD to own and control both the land and the building in its entirety.

The PSMOB is 84.13% occupied by a pharmacy, an outpatient surgery center, and the offices of specialty care physicians. The physicians are part of the Rady Children's Hospital Medical Practice Foundation, a division of RCHSD. Approximately 15.87% of the PSMOB is leased to entities not related to RCHSD.

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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.

### **Proposition 3 Evaluation Factors:**

Based on the review of the application and other submitted materials, staff evaluated RCHSD project using the six factors identified in 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:*

By providing a continuum of care on its hospital campus, RCHSD reduces barriers to access for families with limited transportation options and improves care for children who need multiple specialized services. The PSMOB is adjacent to the hospital and connects to it by walkways and pedestrian bridges. Public transportation is easily accessible from throughout the city to RCHSD's campus. As an example of how the acquisition of the building and leasehold interests have provided RCHSD with an opportunity to expand health care access, since the acquisition of the improvements and leasehold interests, patient visits to two specialty clinics located in the PSMOB (Orthopedics and Otolaryngology) have increased by about 11%.

Approximately 54 percent of RCHSD's patients have government-sponsored health insurance. Indigent, underserved and uninsured children are most likely to have limited transportation options and therefore to benefit from co-located services.

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

By making available all required services in one campus location (including outpatient clinics, laboratory, pharmacy, radiology, and outpatient surgery) medical care is more closely coordinated for better outcomes, and injured and ill patients can meet their varied medical needs in a single location. Also, RCHSD has also been able to increase the number and variety of specialty physicians caring for its pediatric patients, and anticipates further increases until RCHSD's services include all medical and surgical pediatric sub-specialties.

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

RCHSD treats over 75 percent of poor children under the age of five who are hospitalized in the San Diego region. RCHSD provided \$5.7 million worth of uncompensated care in fiscal year 2009 and \$40 million of unreimbursed Medi-Cal costs. Approximately 54 percent of RCHSD's net patient revenues come from government programs such as Medi-Cal. RCHSD has financial counselors to assist patients in finding sources of payment from both public and private programs and Medi-Cal eligibility workers on site. It also has a financial assistance program to provide partial or full charity care based on ability to pay.

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

RCHSD is the only hospital in San Diego and Imperial Counties dedicated solely to pediatrics. More than 13,700 pediatric patients were admitted to RCHSD in fiscal year 2009 and approximately 263,600 patient visits were made to the hospital’s clinics, emergency department, and urgent care centers. RCHSD is a certified California Children’s Services (CCS) hospital.<sup>2</sup> RCHSD cared for over 7,000 CCS patients in fiscal year 2009. RCHSD’s Neonatal Intensive Care Unit is the region’s only one equipped to serve the most acute patients (Level 4). Providing care to children at RCHSD are more than 150 specialists in 27 specialties related to pediatric, adolescent and maternal/fetal medicine.

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

RCHSD is the only teaching and training hospital for pediatric medicine in the San Diego area. As such, five major residency programs use RCHSD as their pediatric training site including U.C. San Diego, Scripps–Chula Vista, Scripps–Mercy, Naval Medical Center San Diego, and Naval Hospital Camp Pendleton. RCHSD also has a registered nursing pediatric residency and a respiratory therapist residency.

The Center for Pediatric Clinical Research utilizes RCHSD’s infrastructure and clinical scientists to oversee and conduct research studies in conjunction with U.C. San Diego. The Center is currently conducting over 350 clinical trials investigating new drugs, devices and techniques. Research occurs in all medical disciplines within the hospital, but RCHSD is particularly known for its investigations and clinical trials in pediatric orthopedics and dermatology.

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

Title was transferred to RCHSD on December 5, 2008. The pediatric specialty medical office building is currently occupied and operational.

| <u>Sources of Funds:</u> |                     | <u>Uses of Funds</u> |                     |
|--------------------------|---------------------|----------------------|---------------------|
| CHFFA Grant              | \$ 9,468,055        | Acquire facilities   | \$24,434,905        |
| CSCDA Bond issue         | \$ 8,000,000        |                      |                     |
| Mortgage                 | \$ 6,966,850        |                      |                     |
| Total Sources            | <u>\$24,434,905</u> | Total Uses           | <u>\$24,434,905</u> |

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<sup>2</sup> CCS is a statewide program that arranges, directs, and pays for medical care, equipment, and rehabilitation for children and young adults under 21 years of age who have eligible medical conditions and whose families are unable to pay for all or part of their care.

**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. The Authority has been assured that an adverse finding will not materially or detrimentally impact the hospital. Authority staff will continue to keep the board informed as additional information on this issue is received.

**Staff Recommendation:**

Staff recommends the Authority approve Resolution No. CHP-3 2011-01 to provide a grant not to exceed \$9,468,055 (less cost of issuance and administrative costs) subject to all requirements of the Children's Hospital Program of 2008.