

Senate Bill 388... relating to: increasing bonding authority for the University of Wisconsin Hospitals and Clinics Authority. (FE)

<p>BILL SPONSORS</p>	<p>Introduced by Senators Darling, Panzer, Erpenbach, A. Lasee, Risser, Wirch and Roessler.</p> <p>Cosponsored by Representatives Ward, Gard, Kreuser, Turner, Towns, Black, Kaufert, J. Wood, Plouff, Miller, Hahn, J. Lehman, Molepske, Krawczyk, Hines, Huber, Ott, Van Roy, Musser, Vrakas and McCormick.</p>
<p>BILL HISTORY</p>	<p>Senate Bill 388 was introduced on January 14, 2004 and referred to the Senate Committee on Health, Children, Families, Aging and Long Term Care. Executive action was taken on January 29, 2004, and the committee recommended concurrence on a vote of 9-0.</p> <p>On February 2, 2004, the Senate referred SB 388 to the Joint Committee on Finance. Executive action was taken on February 17, 2004.</p> <p>The committee recommended passage of SB 388 on a 14-1 (Lazich) – (Darling Absent) vote.</p>
<p>LRB ANALYSIS</p>	<p>Current Law: Under current law, the University of Wisconsin Hospitals and Clinics Authority may not issue bonds in an amount that exceeds \$175,000,000.</p> <p>Proposed Changes: This bill increases that amount to \$235,000,000</p> <p>Major Impact: The bill increases the limit on the amount of bonds that may be issued by UW Hospitals and Clinics Authority by \$60 million.</p>
<p>FISCAL EFFECT</p>	<p>Since the authority is financially independent from the state, this does not increase state obligation debt. There are no long-range fiscal implications.</p>
<p>SUPPORT</p>	<p>The following people appeared in favor of this bill: (1) Donna Sollenberger, UW Hospital and Clinics; (2) Gary Eiler, UW Hospital and Clinics; (3) David Berry, UW Children's Hospital; and (4) Representative David Ward.</p> <p>The following people registered in favor of this bill: (1) Lisa Maroney, UW Hospital and Clinics; (2) Eric Borgerding, Wisconsin Hospital Association; (3) Laura Leitch, Wisconsin Hospital Association; (4) Senator Alberta Darling, 8th Senate District; and (5) Lee Fanshaw, American Family Insurance.</p>
<p>OPPOSITION</p>	<p>No one appeared or registered in opposition to this bill.</p>
<p>CONTACT</p>	<p>Jennifer Halbur, Office of Senator Carol Roessler</p>
<p>DATE</p>	<p>February 25, 2004</p>



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

February 17, 2004

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 388 and Assembly Bill 757: Increase Bonding Authority for the University of Wisconsin Hospitals and Clinics Authority

Senate Bill 388 was introduced on January 14, 2004, and referred to the Senate Committee on Health, Children, Families, Aging and Long Term Care. On January 29, 2004, that Committee recommended passage of SB 388 on a vote of 9 to 0. The bill was referred to the Joint Finance Committee on February 3, 2004. Assembly Bill 757 was introduced on January 21, 2004, and referred to the Assembly Committee on Public Health. On January 28, 2004, that Committee recommended passage of AB 757 on a vote of 5 to 0. The bill was referred to the Joint Committee on Finance on January 29, 2004.

BACKGROUND

Under current law, the University of Wisconsin Hospitals and Clinics Authority (Authority) cannot issue bonds or incur indebtedness from the Wisconsin Health and Educational Facilities Authority (WHEFA), if, after the bonds are issued or the indebtedness incurred, the amount of all outstanding bonds and indebtedness would exceed \$175,000,000. Excluded from this limit is bonds or indebtedness issued to refund outstanding bonds or indebtedness.

The Authority was created to operate and manage the UW Hospital and Clinics, beginning July 1, 1996. The Authority is a public body corporate and politic that is defined and authorized by state law and governed by a public board. State law permits the Authority to issue bonds for any corporate purpose. Bonds issued by the Authority are not a debt of the state and do not obligate the state to levy any tax or make any appropriation for payment of the bonds. The state is not liable for debt service payments. The Authority is also allowed to seek financing and incur indebtedness from WHEFA, which provides financing to health facilities.

Under 2001 Act 16 (the 2001-03 budget act), the amount of bonds the Authority could issue or indebtedness it could incur was increased by \$68.5 million, from \$106.5 million to \$175 million. The Authority used or will use this \$68.5 million authorized in Act 16 to complete the following projects from October, 2002, through March, 2005: (a) relocating of the medical flight program and remodeling (\$3.7 million); (b) new ambulatory service facilities, including expansion of radiology patient amenities and diagnostic equipment and the Wisconsin Comprehensive Cancer Center Clinic and chemotherapy area, and the addition of a Breast Center (\$7.1 million); (c) relocating and remodeling the pediatric specialties clinic within the main clinic for growth in pediatric specialty areas, such as neurosurgery, oncology, and chemotherapy (\$1.3 million); (d) remodeling of radiology and rehabilitation medicine to accommodate an inpatient holding area and general waiting areas (\$4.0 million); (e) expanding the clinic to include an ENT clinic, neurosurgery clinic, and plastic surgery clinic to support the surgery clinic (\$3.6 million); (f) remodeling the cancer center to include an oncology patient education center, additional ambulatory care support space, and additional chemotherapy and transfusion stations (\$3.4 million); (g) remodeling the ambulatory services building to accommodate a magnetic resonance imaging system and infrastructure for miscellaneous needs (\$4.2 million); (h) remodeling inpatient facilities (\$17.6 million); (i) remodeling the Westin library, service line, and convenience store (\$4.0 million); (j) expanding radiotherapy (\$1.0 million); (k) remodeling and expanding the emergency department (\$10.0 million); and (l) expanding and remodeling the cardiology department (\$8.6 million).

As of January 14, 2004, the Authority had total outstanding debt of \$196.1 million. Debt that was in existence prior to the formation of the Authority is not subject to the cap. Of the total outstanding debt, the Authority has incurred indebtedness from WHEFA in the amount of \$21.1 million.

SUMMARY OF BILLS

Senate Bill 388 and Assembly Bill 757 would increase the amount of bonds the Authority could issue or indebtedness it could incur by \$60 million, from \$175 million to \$235 million.

As part of its strategic planning, the Authority has identified projects that would require additional borrowing, including: (a) building a new University of Wisconsin Children's Hospital 80-bed facility, which would expand and update the current facilities (\$35.0 million); (b) remodeling and expanding operating rooms off site or as part of the Children's Hospital (\$12.0 million); (c) remodeling and expanding off-campus office facilities to permit emergency room expansion and medical records relocation (\$6.2 million); and (d) enhancing information technology to continue development of electronic medical records (\$6.8 million). The Children's Hospital would also receive funding from a gift from American Family Insurance (\$10 million) and from other donations (\$17 million). Senate Bill 388 and Assembly Bill 757 would authorize the Authority to increase the amount of bonds it could issue or indebtedness it could incur by \$60 million to support these projects.

FISCAL EFFECT

Bonds issued by the Authority are not a debt of the state and do not obligate the state to levy any tax or make any appropriation for payment of the bonds. The state is not liable for debt service payments. The bonds are paid from whatever hospital revenues the Authority pledges at the time of bond issuance.

The Authority indicates that it has maintained, and will continue to maintain, appropriate financial ratios to attract lenders to purchase its revenue bonds, and to fund the principal and interest payments due on bonds.

Prepared by: Kim Swissdorf

**TESTIMONY BEFORE THE SENATE COMMITTEE ON HEALTH,
CHILDREN, FAMILIES, AGING AND LONG-TERM CARE
SB 388, University of Wisconsin Hospital and Clinics Authority Bonding Limit
Increase
January 29, 2004**

**by
Donna Sollenberger, President and CEO, UW Hospital and Clinics
David Berry, Vice President, UW Children's Hospital
and
Gary Eiler, Senior Vice President and Chief Financial Officer, UW Hospital and
Clinics**

Good Morning.

My name is Donna Sollenberger, and I am the president and CEO of University of Wisconsin Hospital and Clinics. With me today are David Berry, Vice President of UW Children's Hospital, and Gary Eiler, Senior Vice President and CFO at UW Hospital and Clinics.

Thank you all for the opportunity to provide testimony about the proposed increase of the Hospital's bonding limit by \$60 million, to \$235 million. I will offer a brief overview of hospital operations and introduce the primary reason for the bonding increase – funding for a new Children's Hospital as well as information technology upgrades, surgical space and office facilities to accommodate emergency department expansion and relocation. David Berry will then present information about the Children's Hospital project, and finally, Gary Eiler will summarize key financial

Over
5,000 hospitals
in U.S.

As you may know, the University of Wisconsin Hospital and Clinics ranks as one of the best academic medical centers in the country.* Just in the past year, we received three highly distinctive national rankings by outside organizations: UW was named a "Top 100 Hospital" by Solucient Corp., for financial performance, quality and patient care; UW was one of four recipients nationwide of the Quest for Quality awards presented by the American Hospital Association for excellence in patient safety; and most recently we learned that our emergency care for acute heart attacks and our Diabetes Clinic care were ranked the best performers among all programs ranked by the University Healthcare Consortium.

One of our centers of clinical excellence is the University of Wisconsin Children's Hospital. It began more than 80 years ago in what is now the Medical Sciences Center on campus and moved to its current home in the Clinical Science Center (the formal name for the building housing UW Hospital) in 1979. Since that time, we have carried out the mission of caring for some of the sickest children in the region, including those with childhood leukemia, cystic fibrosis or with conditions requiring complex surgery, including organ transplantation. [But the space that was suitable 25 years ago does not address the needs of children or, just as important, their families today.]

The current 62 rooms are small, at only 125 square feet. Today, children's hospital rooms are 300 to 350 square feet and have space for a family member to sleep in the room with the child. Our rooms have very limited space for parents or other family

The current 62 rooms are small, at only 125 square feet. Today, children's hospital rooms are 300 to 350 square feet and have space for a family member to sleep in the room with the child. Our rooms have very limited space for parents or other family members to stay overnight at their child's bedside. In fact, tonight parents will sleep in chairs and on the floor at UW Children's Hospital just to be with their children. In addition, population growth in the region and state translates into a greater demand for pediatric health care. To meet those needs, we have a vision for a new children's hospital – one that will serve our community and state for many years to come.

The Children's Hospital we plan to build will be

- larger in number of rooms
- more welcoming and comforting for children and families
- and more spacious to meet their health care needs.

The new building will have 80 beds instead of the current 62 and an average inpatient room size of 300 square feet instead of the current 125. It will bring existing programs like the hospital school and the Child Life program together with innovations such as a short-term stay area for children who need sedation for outpatient treatment; a special area for children whose disease or injury changes their appearance; and a "Safety Store" aimed at helping keep children out of the hospital whenever possible. Our plans for this hospital have prompted the well-known pediatrician T. Berry Brazelton MD to say that,

when it is complete, no other hospital in the country will offer a facility like it – a facility so well-designed for children and families in need of care.

The funding plan for the building relies on a strong public-private partnership. We are very pleased and grateful for the \$10 million lead gift from American Family Insurance, a gift that has already given the project visibility and momentum in the community.

Funding

Hospital bonding will generate another \$35 million. The balance (\$17 million) will be raised from individuals, corporations and foundations.

David Berry, vice president of UW Children's, will now briefly describe the role of the hospital today.

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Thank you, Donna.

It is no exaggeration to say that thousands of patients – most from outside Madison – depend on UW Children's Hospital every year. In the last fiscal year, UW Children's Hospital had more than 2,600 admissions. Many of those children come here because of expertise or services that are not available in or near their home communities: advanced cancer treatments, complicated surgeries performed on the smallest of children, organ transplants, severe burns or other critical injuries. It is painful to think about children who are ill or injured, but it is a fact of life we must address. At UW, we have assembled a truly world-class group of expert health care providers – including physicians, nurses, therapists and pharmacists and a state-of-the art technology to support their work. Now

we are planning to create the physical environment that supports the clinical care and the needs of the families we serve.

Donna has already explained some of the reasons we need more space to accommodate these children and their families more comfortably. Having worked in children's health care for more than 20 years, I can tell you another reason we need a new hospital is that the way we *care* for children has also changed – for the better.

First, medical care for infants, children and teenagers now typically involves a team approach. Particularly in a teaching hospital like ours, the special skills and talents of an interdisciplinary group come together to achieve the best possible outcome for every child. In practical terms, this requires space for people to meet, confer, plan and coordinate their various contributions to the child's treatment. And comprehensive care addresses the whole child and the whole family; we do not simply provide medicine and surgery, but emotional support, family education, a hospital school to help youngsters stay current and feel as normal as possible, and ongoing and special events for recreation and play which help cope with the fear and stress of hospitalization

We also seek to involve families in the plan of care for their children. Both they and their child will benefit, we believe, from learning more about the illness, the treatment plan, the challenges the family will face, and the strategies to overcome those challenges. { Consequently, the plans for our new Children's Hospital include a family resource center with meeting rooms to help prepare and train families about what to

expect both during and after the hospital stay; and a safety center to help families understand how to prevent childhood injury. }

Let me share just one example to illustrate both the difficulty and the promise of caring for children with major medical problems. A child from central Wisconsin was born at 25 weeks of gestation because her mother's life was in danger from the pregnancy. The baby was so tiny that her leg could fit through her mother's wedding ring. She survived many complications but remained on a ventilator to help her breathe. She came to UW for evaluation and, her mother hoped, to be freed from ventilator dependence.

Complicated surgery succeeded in getting the baby free of the ventilator, but she will need continuing treatment to resolve swallowing difficulties and to remove the tube in her windpipe. Her mother has needed education and support to learn how to care for the child. I am proud to say we have the human and technical resources in place to provide all of that. Our goal now is to create a children's health care environment that provides us adequate and appropriate space to deliver the highest quality care in a family and patient focused manner.

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I am Gary Eiler, chief financial officer for UW Hospital and Clinics, and I will present some specific financial information about the hospital's fiscal situation and the bonding request.

As you know, we are here because we seek to increase the limit of our bonding authority by \$60 million and under the terms of the legislation that created the hospital authority,

the Legislature must approve requests to increase the level of bonding or outstanding debt. We reached the current bonding limit in October 2002 and, in order to construct the new Children's Hospital next fall at a cost of up to \$62 million, a little more than half of that project will need to be financed through additional debt with the balance funded from contributions. We also need to expand our operating rooms and emergency rooms and continue to upgrade our information systems. Financing all or a portion of these projects results in total financing needs of \$60 million.

First, please note two important facts: this is not a bonding supported by general-purpose revenue. The hospital is able to incur this debt on its own creditworthiness and may obtain its own bonding insurance, as it has in the past on 80 percent of its debt. The state of Wisconsin is not held liable if the hospital cannot meet its bonding payments.

Secondly, the financial performance of UW Hospital and Clinics over the last three years has been consistently satisfactory. In the most recent fiscal year (ended June 30, 2003), the hospital had net income of \$24,829,000 or 4.4 percent of net revenues. For purposes of comparison, the Standard and Poor's "A" rated hospitals have an average total margin of 3.2 percent and Moody's "A" rated hospitals have an average total margin of 4.2 percent.

Thirdly, while the hospital's current outstanding debt is \$196 million, the ratio of debt to total capitalization is currently only 38 percent, a figure that closely approximates the averages of "A" rated institutions by both Moody's and Standard & Poor's. When additional debt is issued in the fall of 2004 the projected ratio is only 40 percent, again well within industry standards for "A" rated institutions.

75% of hosp. in U.S. have lower than A. 25% have more.

Finally, the hospital's bonds have an underlying "A" rating, the rating that would be received without the benefit of bond insurance that causes the insured bonds to have an "AAA" rating. In October of last year, we met with both Moody's and Standard & Poor's (S&P) to present our financial information and plans for expansion and construction. Included in the presentation were financial ratios consisting of debt to total capitalization, debt service coverage and cash reserves on hand. We have since then received reaffirmation of our underlying "A1 stable" rating from Moody's and "A positive" rating from S&P.

I am confident, and the figures bear out, that increasing the current statutory bond limit is not only prudent but also fiscally responsible.

I would be happy to respond to any questions. Thank you.

**UW CHILDREN'S HOSPITAL
BUILDING PROPOSAL**

An expanded and updated UW Children's Hospital is needed for Madison and most of the state of Wisconsin. Children are unable to receive critical care and treatment in a state-of-the-art facility, something which they actually deserve. UW Children's Hospital currently serves children from every county in Wisconsin, as well as Illinois and other Midwest states. Southwestern and South Central Wisconsin lack the proper facility to serve all children's needs.

NEED**1. INADEQUATE PHYSICAL FACILITY**

The current UW facility simply does not support what is needed to care for children in the 21st century:

- Our inpatient rooms are 125 square feet. The standard for a children's hospital inpatient room is 250 to 400 square feet.
- Our existing rooms do not allow for a parent to lie down and/or sleep in the same room.
- Parents do not have a place to shower or eat.
- Lack of space is inordinately difficult for leukemia patients and other children recovering from procedures such as bone marrow or stem cell transplants who are confined to a small room for eight weeks or more after the transplant.
- Having a brighter, larger facility with room for parent, visitors, exercise equipment and facility, computers access, and so forth can facilitate patient recovery. This is particularly true for children who are confined to their room, where the hospital stay can range between three to eight weeks.
- UW Children's Hospital has a school staffed by three Madison Metropolitan School District teachers to ensure that hospitalized children continue with their studies. The current space allocated for the school is inadequate; is very small and not ideally situated on the unit. The size should be doubled to allow for privacy during instruction.
- The new hospital will provide age-appropriate recreational and family spaces; in the current facility children and teens must share.
- We have well regarded physicians, nurses and staff. Since 1999 we have been increasing the number of pediatric surgical specialists. The physical facility does not match the world-class caliber of our staff.
- Many of our pediatric patients are admitted from local community hospitals. Our community hospitals have only a few pediatric beds (6 or less) and lack the special amenities required for pediatric extended stay or critical care. The new facility will allow pediatricians from Madison to admit their patients at the Children's Hospital.

PROPOSAL

Tentative plans are to build a \$62 million, 80-bed UW Children's Hospital within four to six years. The building is partially funded by a \$10 million gift from Madison-based American Family Mutual Insurance. Twenty-five million dollars of the building funds would be provided by the UW Hospital and Clinics and the remaining would come from private donations. The Hospital project is predicated on no increase in prices or costs beyond adjustments, which would occur regardless of this project. **No state tax dollars will be used to complete this facility.**

"We are never going to be the size of children's hospital in Boston, Philadelphia or even Milwaukee and we shouldn't try to be. But what we can do here is marry a first-class clinical facility for children to a world-class research university. That would be something unseen anywhere in this part of the country," said Dennis Lund, MD, surgeon-in-chief of UW Children's Hospital.



University of Wisconsin
Hospital and Clinics

University of Wisconsin Hospitals & Clinics

Proposed Tax Exempt 2004 Bond Financing

Projects To Be Financed

	Total	Amount Financed	
	Project	Low	High
Children's Hospital	\$56.8 m / \$62.0 m	\$ 25.0 m	\$ 35.0 m
Operating Rooms located off site or as part of Children's Hospital to meet patient demand	\$ 10.0 m / 12.0 m	\$ 10.0 m	\$ 12.0 m
Off Campus Office Facilities to permit ED expansion and medical records relocation (Note A)	\$ 6.2 m	6.2 m	6.2 m
Information Technology/Enhancements primarily for continued development of electronic medical records (Note B)	\$ 8.0 m - \$10 m	6.0 m	4.0 m
Financing Costs (Note C)	\$.8 m - 2.8 m	.8 m	2.8 m
		<u>\$ 50.0 m</u>	<u>\$ 60.0 m</u>

Note (A): Medical Records and other departments need to move offsite to accommodate expansion of Hospital Emergency Room. Building would be reconfigured and expanded in future years to accommodate other support areas which are currently at offsite rental locations. Tax exempt financing for purchase of off campus site would save approximately \$200,000 per year over rental options.

Note (B): Information Technology upgrades needed to complete electronic medical record development and other ancillary patient care systems needed to ensure patient safety and a high quality of patient care.

Note (C): Financing costs of \$2.8 m would only be incurred if bond insurance were utilized. Such bond insurance would possibly be used to achieve lower interest rates.

Rationale for Acquiring Additional Debt and Amending Statutory Debt Limit

- Statutory Limit established at formation of Authority out of concern for excess borrowing
- Over last three years financial performance has been favorable
- Rating agencies have provided "A" ratings
- Key current and projected ratios and projected cash flows reflect favorable debt to capital and debt coverage ratios
- UWHC cannot meet patient care needs on earnings alone. Need balance of debt and equity. Contributions and debt are only major source of outside capital.
- Cash reserves are low compared to "A" rated standards. Drawing down cash reserves to meet capital requirements is less responsible and more risky than borrowing. The key is to balance cash reserves, debt and equity.
- Projects all meet patient care demands:
 - Children's Hospital
 - Surgery capacity too low
 - Off campus office facilities to make room for new ER
 - Information Technology for patient care and patient safety
- Low interest rate environment reduces costs

UWHC Cash Flow Statements

	FY 2004 Budget	FY 2005 Estimate	FY 2006 Estimate	FY 2007 Estimate	FY 2008 Estimate
Sources of Cash:					
Operating, Investment and Philanthropy Income	\$ 31,400	\$ 32,550	\$ 34,900	\$ 37,400	\$ 40,300
Depreciation & amortization	23,950	27,260	30,740	32,586	32,009
Use of Trusteed assets	33,004	14,885	23,058	5,758	0
Long term debt proceeds	0	60,000	0	0	0
Capital Contributions for Children's Hospital	7,500	12,500	10,000	0	0
Total Sources of Cash	<u>95,854</u>	<u>147,195</u>	<u>98,698</u>	<u>75,744</u>	<u>72,309</u>
Uses of Cash:					
Long Term Debt principal payments	2,963	2,788	2,922	4,107	4,535
Other changes in Working Capital	5,488	2,685	5,020	3,190	2,678
Debt Proceeds Placed in Trust A/C	0	23,058	5,758	0	0
Total Uses of Cash	<u>8,451</u>	<u>28,531</u>	<u>13,700</u>	<u>7,297</u>	<u>7,213</u>
Cash Available for Property/Plant/Equipment	87,403	118,664	84,998	68,447	65,096
Additions to Property/Plant/Equipment	70,907	93,376	56,300	30,859	35,000
Capital Commitments	3,759	5,850	1,100	0	0
Net Cash Provided (Used)	<u>12,737</u>	<u>19,438</u>	<u>27,598</u>	<u>37,588</u>	<u>30,096</u>
Cash Balance, beginning of period	173,961	186,698	206,136	233,734	271,322
Cash Balance, end of period	<u>\$ 186,698</u>	<u>\$ 206,136</u>	<u>\$ 233,734</u>	<u>\$ 271,322</u>	<u>\$ 301,418</u>
Days Cash on Hand	120	127	135	146	154
Maximum Debt Service Coverage	4.7	4.0	4.4	4.6	4.7
Debt to Capitalization	0.36	0.40	0.37	0.34	0.32



University of Wisconsin
Hospital and Clinics

Performance Ratios

Industry Comparisons

	Budget	S&P 500	Moody's	Fitch	"A"	UWHCA Bond
	or Target	"A" Rated	"A" Rated	"A" Rated	"A" Rated	Covenant
Total Margin **	5.0	3.2	4.2	2.9		
Days Cash on Hand *	157***	157	152	155		90, 75 & 45
Days in Accounts Receivable	50	61	58	57		
Debt Service Coverage Ratio **	4.7	3.3	3.73	3.5		2.0, 1.25, 1.1 & 1.0
Long Term Debt to Capitalization	36.0%	36.0%	39.5%	39.3%		

* Days Cash on Hand calculated as a rolling 12 month average

** Excludes unrealized gain/loss on investments

*** Under the terms of the Affiliation Agreement KPMG recommended a range of days outstanding from 138 days (A- median) to 279 days (AA median).
UWHC has elected the A rated median as its goal which is currently 157 days.

Balance Sheet

The projected financial position of UWHC for FY 2004 is summarized below.

(000's omitted)	FY 2004	
	Budget*	with Children's Contributions & Debt**
Cash & Investments		
Unrestricted & Contributions	\$ 186,848	\$ 216,848
Restricted by Trustee - 2002 Bonds	14,885	14,885
- 2004 Bonds		60,000
Accounts Receivable	83,059	83,059
Property, Plant and Equipment, Net	286,362	286,362
Other Assets	30,969	30,969
Total Assets	<u>\$ 602,123</u>	<u>\$ 692,123</u>
Current Liabilities	\$ 71,451	\$ 71,451
Long-term Debt	191,746	251,746
Net Assets	388,926	368,926
Total Liabilities and Net Assets	<u>\$ 602,123</u>	<u>\$ 692,123</u>

* Excludes pledges and contributions of American Family Insurance and others that are expected in support of the new Children's Hospital. For cash flow planning purposes this document reflects contributions to the Children's Hospital project on a cash basis to coincide with actual expenditures. The hospital's financial statements will reflect pledges to the Children's project when they are received.

**Includes \$30,000,000 of contributions for Children's Hospital and \$60,000,000 of additional debt.

Note: Debt to total capitalization is 36% without debt and contributions and 40% with debt and contributions.

1-29-04

SB 388

Ward (author)

- Increase in bonding needed to finance a new UW children's hospital.
- Not GPR supported Bonding !!

UW Hospitals + Clinics - Submitted written testimony

Donna Sollenberger

Gary Eiler

David Berry

- Late 2006 or early 2007 completions of new hospitals.

- CR request: Diff. between Children's in mke + them. Milwaukee Hosp. ^(freestanding) stands alone - all services provided in hosp.

UW ~~the~~ children's hosp. Has some services but also depends on UW hosp. for emergency - radiology etc.

Reason - concerned about mandatory overtime for nurses. Concerned about new hospital straining nurses even more.

Response: They have improved their mand. o.t. issues.

Lower the vacancy rate - more assurance that no o.t. be req.

Aug - mandated 5 hrs per nurse for yr.



Alberta Darling
Wisconsin State Senator
Co-Chair, Joint Committee on Finance

Testimony in favor of Senate Bill 388
Senate Committee on Health, Children, Families,
Aging and Long Term Care
January 29, 2004

Good morning Chairman Roessler and members of the Committee on Health, Children, Families, Aging and Long Term Care. I am pleased to sit before you today for the purpose of testifying on Senate Bill 388. Representative Ward and myself have cosponsored SB 388 on behalf of the University of Wisconsin Hospital and Clinics Authority Board.

As you may know, the University of Wisconsin Hospital and Clinics Authority Board may not issue bonds without the approval of the legislature. This bill would increase their current bonding amount of \$175,000,000 to \$235,000,000. Please know the State of Wisconsin **will not be responsible** for the bonding cost as the UW Hospital and Clinics has its own bonding insurance.

The University Hospital System plans to use this increase in bonding to update a much-needed update to their Children's Hospital (please see attachment for specifics). Twenty five million of the building funds would be provided by the UW Hospitals and Clinics and the remaining would come from private donations. The hospital has already secured a generous \$10 million gift from Madison-based American Family Insurance. The additional bonding will be used to increase the operating rooms located off site or as part of the Children's Hospital to meet patient demand, to build additional off campus facilities for medical records relocation so they can expand and improve their current emergency room, and information technology updates.

The UW Hospitals and Clinics take great pride in their service to patients and the rewards it has received at a national level prove of their success. This bonding increase will ensure that UW Hospitals and Clinics will continue their pursuit of a nationally recognized, first class facility.

Thank you, again, Chairmen Roessler and members of the committee for letting me testify before you today. I am happy to answer any questions you may have.

**UW CHILDREN'S HOSPITAL
BUILDING PROPOSAL**

An expanded and updated UW Children's Hospital is needed for Madison and most of the state of Wisconsin. Children are unable to receive critical care and treatment in a state-of-the-art facility, something which they actually deserve. UW Children's Hospital currently serves children from every county in Wisconsin, as well as Illinois and other Midwest states. Southwestern and South Central Wisconsin lack the proper facility to serve all children's needs.

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- We have well regarded physicians, nurses and staff. Since 1999 we have been increasing the number of pediatric surgical specialists. The physical facility does not match the world-class caliber of our staff.
- Many of our pediatric patients are admitted from local community hospitals. Our community hospitals have only a few pediatric beds (6 or less) and lack the special amenities required for pediatric extended stay or critical care. The new facility will allow pediatricians from Madison to admit their patients at the Children's Hospital.

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Tentative plans are to build a \$62 million, 80-bed UW Children's Hospital within four to six years. The building is partially funded by a \$10 million gift from Madison-based American Family Mutual Insurance. Twenty-five million dollars of the building funds would be provided by the UW Hospital and Clinics and the remaining would come from private donations. The Hospital project is predicated on no increase in prices or costs beyond adjustments, which would occur regardless of this project. **No state tax dollars will be used to complete this facility.**

"We are never going to be the size of children's hospital in Boston, Philadelphia or even Milwaukee and we shouldn't try to be. But what we can do here is marry a first-class clinical facility for children to a world-class research university. That would be something unseen anywhere in this part of the country," said Dennis Lund, MD, surgeon-in-chief of UW Children's Hospital.

Schultz 2nd

SB 388

Vote Record

Committee on Health, Children, Families, Aging and Long Term Care

Date: 1/29

Moved by: Roessler

Seconded by: Schultz

AB _____ SB 388 Clearinghouse Rule _____
AJR _____ SJR _____ Appointment _____
AR _____ SR _____ Other _____

A/S Amdt _____
A/S Amdt _____ to A/S Amdt _____
A/S Sub Amdt _____
A/S Amdt _____ to A/S Sub Amdt _____
A/S Amdt _____ to A/S Amdt _____ to A/S Sub Amdt _____

Be recommended for:
 Passage Adoption Confirmation Concurrence Indefinite Postponement
 Introduction Rejection Tabling Nonconcurrence

<u>Committee Member</u>	<u>Aye</u>	<u>No</u>	<u>Absent</u>	<u>Not Voting</u>
Senator Carol Roessler	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Ted Kanavas	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Ronald Brown	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Robert Welch	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Dale Schultz	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Judith Robson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Charles Chvala	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Robert Jauch	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Senator Tim Carpenter	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Totals: 9 _____

Open



University of Wisconsin
Hospital and Clinics

600 Highland Avenue
Madison, WI 53792

**TESTIMONY BEFORE THE SENATE COMMITTEE ON HEALTH,
CHILDREN, FAMILIES, AGING AND LONG-TERM CARE
SB 388, University of Wisconsin Hospital and Clinics Authority Bonding Limit
Increase
January 29, 2004**

**by
Donna Sollenberger, President and CEO, UW Hospital and Clinics
David Berry, Vice President, UW Children's Hospital
and
Gary Eiler, Senior Vice President and Chief Financial Officer, UW Hospital and
Clinics**

Good Morning.

My name is Donna Sollenberger, and I am the president and CEO of University of Wisconsin Hospital and Clinics. With me today are David Berry, Vice President of UW Children's Hospital, and Gary Eiler, Senior Vice President and CFO at UW Hospital and Clinics.

Thank you all for the opportunity to provide testimony about the proposed increase of the Hospital's bonding limit by \$60 million, to \$235 million. I will offer a brief overview of hospital operations and introduce the primary reason for the bonding increase – funding for a new Children's Hospital as well as information technology upgrades, surgical space and office facilities to accommodate emergency department expansion and relocation. David Berry will then present information about the Children's Hospital project, and finally, Gary Eiler will summarize key financial

As you may know, the University of Wisconsin Hospital and Clinics ranks as one of the best academic medical centers in the country. Just in the past year, we received three highly distinctive national rankings by outside organizations: UW was named a "Top 100 Hospital" by Solucient Corp., for financial performance, quality and patient care; UW was one of four recipients nationwide of the Quest for Quality awards presented by the American Hospital Association for excellence in patient safety; and most recently we learned that our emergency care for acute heart attacks and our Diabetes Clinic care were ranked the best performers among all programs ranked by the University Healthcare Consortium.

Over 5000 Academic DATA Rankings

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One of our centers of clinical excellence is the University of Wisconsin Children's Hospital. It began more than 80 years ago in what is now the Medical Sciences Center on campus and moved to its current home in the Clinical Science Center (the formal name for the building housing UW Hospital) in 1979. Since that time, we have carried out the mission of caring for some of the sickest children in the region, including those with childhood leukemia, cystic fibrosis or with conditions requiring complex surgery, including organ transplantation. But the space that was suitable 25 years ago does not address the needs of children or, just as important, their families today.

The current 62 rooms are small, at only 125 square feet. Today, children's hospital rooms are 300 to 350 square feet and have space for a family member to sleep in the room with the child. Our rooms have very limited space for parents or other family

The current 62 rooms are small, at only 125 square feet. Today, children's hospital rooms are 300 to 350 square feet and have space for a family member to sleep in the room with the child. Our rooms have very limited space for parents or other family members to stay overnight at their child's bedside. In fact, tonight parents will sleep in chairs and on the floor at UW Children's Hospital just to be with their children. In addition, population growth in the region and state translates into a greater demand for pediatric health care. To meet those needs, we have a vision for a new children's hospital – one that will serve our community and state for many years to come.

The Children's Hospital we plan to build will be

- larger in number of rooms
- more welcoming and comforting for children and families
- and more spacious to meet their health care needs.

2007

The new building will have 80 beds instead of the current 62 and an average inpatient room size of 300 square feet instead of the current 125. It will bring existing programs like the hospital school and the Child Life program together with innovations such as a short-term stay area for children who need sedation for outpatient treatment; a special area for children whose disease or injury changes their appearance; and a "Safety Store" aimed at helping keep children out of the hospital whenever possible. Our plans for this hospital have prompted the well-known pediatrician T. Berry Brazelton MD to say that,

when it is complete, no other hospital in the country will offer a facility like it – a facility so well-designed for children and families in need of care.

The funding plan for the building relies on a strong public-private partnership. We are very pleased and grateful for the \$10 million lead gift from American Family Insurance, a gift that has already given the project visibility and momentum in the community. Hospital bonding will generate another \$35 million. The balance (\$17 million) will be raised from individuals, corporations and foundations.

David Berry, vice president of UW Children's, will now briefly describe the role of the hospital today.

.....

Thank you, Donna.

It is no exaggeration to say that thousands of patients – most from outside Madison – depend on UW Children's Hospital every year. In the last fiscal year, UW Children's Hospital had more than 2,600 admissions. Many of those children come here because of expertise or services that are not available in or near their home communities: advanced cancer treatments, complicated surgeries performed on the smallest of children, organ transplants, severe burns or other critical injuries. It is painful to think about children who are ill or injured, but it is a fact of life we must address. At UW, we have assembled a truly world-class group of expert health care providers – including physicians, nurses, therapists and pharmacists and a state-of-the art technology to support their work. Now

more than 100,000 patients

we are planning to create the physical environment that supports the clinical care and the needs of the families we serve.

Donna has already explained some of the reasons we need more space to accommodate these children and their families more comfortably. Having worked in children's health care for more than 20 years, I can tell you another reason we need a new hospital is that the way we *care* for children has also changed – for the better.

First, medical care for infants, children and teenagers now typically involves a team approach. Particularly in a teaching hospital like ours, the special skills and talents of an interdisciplinary group come together to achieve the best possible outcome for every child. In practical terms, this requires space for people to meet, confer, plan and coordinate their various contributions to the child's treatment. And comprehensive care addresses the whole child and the whole family; we do not simply provide medicine and surgery, but emotional support, family education, a hospital school to help youngsters stay current and feel as normal as possible, and ongoing and special events for recreation and play which help cope with the fear and stress of hospitalization

We also seek to involve families in the plan of care for their children. Both they and their child will benefit, we believe, from learning more about the illness, the treatment plan, the challenges the family will face, and the strategies to overcome those challenges. Consequently, the plans for our new Children's Hospital include a family resource center with meeting rooms to help prepare and train families about what to

expect both during and after the hospital stay; and a safety center to help families understand how to prevent childhood injury.

Let me share just one example to illustrate both the difficulty and the promise of caring for children with major medical problems. A child from central Wisconsin was born at 25 weeks of gestation because her mother's life was in danger from the pregnancy. The baby was so tiny that her leg could fit through her mother's wedding ring. She survived many complications but remained on a ventilator to help her breathe. She came to UW for evaluation and, her mother hoped, to be freed from ventilator dependence.

Complicated surgery succeeded in getting the baby free of the ventilator, but she will need continuing treatment to resolve swallowing difficulties and to remove the tube in her windpipe. Her mother has needed education and support to learn how to care for the child. I am proud to say we have the human and technical resources in place to provide all of that. Our goal now is to create a children's health care environment that provides us adequate and appropriate space to deliver the highest quality care in a family and patient focused manner.

.....

I am Gary Eiler, chief financial officer for UW Hospital and Clinics, and I will present some specific financial information about the hospital's fiscal situation and the bonding request.

As you know, we are here because we seek to increase the limit of our bonding authority by \$60 million and under the terms of the legislation that created the hospital authority,

Oct. last yr.

the Legislature must approve requests to increase the level of bonding or outstanding debt. We reached the current bonding limit in October 2002 and, in order to construct the new Children's Hospital next fall at a cost of up to \$62 million, a little more than half of that project will need to be financed through additional debt with the balance funded from contributions. We also need to expand our operating rooms and emergency rooms and continue to upgrade our information systems. Financing all or a portion of these projects results in total financing needs of \$60 million.

Open

First, please note two important facts: this is not a bonding supported by general-purpose revenue. The hospital is able to incur this debt on its own creditworthiness and may obtain its own bonding insurance, as it has in the past on 80 percent of its debt. The state of Wisconsin is not held liable if the hospital cannot meet its bonding payments.

Secondly, the financial performance of UW Hospital and Clinics over the last three years has been consistently satisfactory. In the most recent fiscal year (ended June 30, 2003), the hospital had net income of \$24,829,000 or 4.4 percent of net revenues. For purposes of comparison, the Standard and Poor's "A" rated hospitals have an average total margin of 3.2 percent and Moody's "A" rated hospitals have an average total margin of 4.2 percent.

Thirdly, while the hospital's current outstanding debt is \$196 million, the ratio of debt to total capitalization is currently only 38 percent, a figure that closely approximates the averages of "A" rated institutions by both Moody's and Standard & Poor's. When additional debt is issued in the fall of 2004 the projected ratio is only 40 percent, again well within industry standards for "A" rated institutions.

Finally, the hospital's bonds have an underlying "A" rating, the rating that would be received without the benefit of bond insurance that causes the insured bonds to have an "AAA" rating. In October of last year, we met with both Moody's and Standard & Poor's (S&P) to present our financial information and plans for expansion and construction. Included in the presentation were financial ratios consisting of debt to total capitalization, debt service coverage and cash reserves on hand. We have since then received reaffirmation of our underlying "A1 stable" rating from Moody's and "A positive" rating from S&P.

*— 75% A ratings
most hospitals*

I am confident, and the figures bear out, that increasing the current statutory bond limit is not only prudent but also fiscally responsible.

I would be happy to respond to any questions. Thank you.

Maroney Lisa A.

From: Ward, Dave [Dave.Ward@legis.state.wi.us]
Sent: Friday, December 19, 2003 2:49 PM
To: *Legislative Assembly Democrats; *Legislative Assembly Republicans; *Legislative Senate Democrats; *Legislative Senate Republicans
Subject: Co-sponsorship/Reps. Ward, Gard, Krueser; Sens. Darling, Panzer, Erpenbach/LRB's 3756 and 3908: Bonding for UW Hospital and Clinics Authority/DEADLINE: January 8, 2004



UW Hospital
Bonding Final.pdf

TO: Legislative Colleagues

FROM: Representatives Ward, Gard and Krueser
Senators Darling, Panzer and Erpenbach

DATE: December 19, 2003

RE: Co-sponsorship of LRB 3756/4 and LRB 3908/2 relating to increasing bonding authority for the University of Wisconsin Hospitals and Clinics Authority

DEADLINE: Thursday, January 8th, 2004

A strong need exists for an expanded and updated UW Children's Hospital. The Hospital has formed a project plan to construct a much needed \$62 million, 80 bed facility. American Family Insurance is generously donating \$10 million for the project, with \$35 million coming from private bonding and the remainder from private donations. Other projects to be funded from the proceeds of the bonding include operating rooms, off-campus office facilities to permit emergency room expansion and information technology enhancement.

To make this project a reality, the Legislature needs to authorize additional bonding authority to the UW Hospitals and Clinics Authority (UWHC). In 1995 when the Legislature created the UWHC Authority they also created a provision in the statutes that requires legislative approval to increase their statutory debt limit. These companion bills increase the level needed by \$60 million. This is NOT GPR SUPPORTED BONDING. These are bonds issued by the UWHC Authority. As a public-private authority, UWHC is required to obtain bonding insurance and in the event that they would not be able to meet the bonding payments, the state is not held liable. Rating agencies have provided "A" ratings for UWHC Authority bonds.

The UWHC Board has approved this increase. Statute provides that the Co-Chairs of the Joint Finance Committee or their designees are voting members of the UWHC Board. Both Representative Ward and Senator Darling, as those members, support this legislation.

Attached is a copy of the legislation. If you are interested in adding your name as a co-sponsor, please contact Representative Ward's office at 6-3790 or Senator Darling's office at 6-5830 by Thursday, January 8th, 2004. You will be signed onto both companions unless otherwise indicated. Please do not hesitate to contact any of our offices if you have any questions or concerns.

<<UW Hospital Bonding Final.pdf>>

**UW CHILDREN'S HOSPITAL
BUILDING PROPOSAL**

An expanded and updated UW Children's Hospital is needed for Madison and most of the state of Wisconsin. Children are unable to receive critical care and treatment in a state-of-the-art facility, something which they actually deserve. UW Children's Hospital currently serves children from every county in Wisconsin, as well as Illinois and other Midwest states. Southwestern and South Central Wisconsin lack the proper facility to serve all children's needs.

NEED**1. INADEQUATE PHYSICAL FACILITY**

The current UW facility simply does not support what is needed to care for children in the 21st century:

- Our inpatient rooms are 125 square feet. The standard for a children's hospital inpatient room is 250 to 400 square feet.
- Our existing rooms do not allow for a parent to lie down and/or sleep in the same room.
- Parents do not have a place to shower or eat.
- Lack of space is inordinately difficult for leukemia patients and other children recovering from procedures such as bone marrow or stem cell transplants who are confined to a small room for eight weeks or more after the transplant.
- Having a brighter, larger facility with room for parent, visitors, exercise equipment and facility, computers access, and so forth can facilitate patient recovery. This is particularly true for children who are confined to their room, where the hospital stay can range between three to eight weeks.
- UW Children's Hospital has a school staffed by three Madison Metropolitan School District teachers to ensure that hospitalized children continue with their studies. The current space allocated for the school is inadequate; is very small and not ideally situated on the unit. The size should be doubled to allow for privacy during instruction.
- The new hospital will provide age-appropriate recreational and family spaces; in the current facility children and teens must share.
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MAR 17 2004

Hospital Administration
600 Highland Avenue
Madison, WI 53792

608.263.8000
608.263.9830 Fax

UWHealth

University of Wisconsin
Hospital and Clinics

MM

JHX

CR

SB388

March 2, 2004

Senator Carol Roessler
State Capitol
PO Box 7882
Madison, WI 53707-7882

Dear Senator Roessler:

A sincere thanks for co-sponsoring the bill increasing our bonding authority.

The American Family Children's Hospital at University of Wisconsin Hospital and Clinics will offer compassion and hope to children and families throughout the state. This would not be possible without your supportive efforts.

I realize this is such a busy time for you, and your affirmative vote and co-sponsorship of the bill is greatly appreciated by everyone involved with this project.

Again, thank you for helping us with this important bill. If there is ever anyway we, on behalf of the Hospital, can assist you, please feel free to contact us.

Sincerely,

Donna Sollenberger

Donna K. Sollenberger
President & CEO

DKS/ka