

County of Santa Clara Santa Clara Valley Health & Hospital System

Valley Medical Center
Ambulatory & Community Health Services



HHS05 020706

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Director, Ambulatory &
Community Health Services

DATE: February 7, 2006

TO: Board of Supervisors

FROM:

A handwritten signature in black ink, appearing to read "R. Sillen".

Robert Sillen
Executive Director, Santa Clara Valley Health & Hospital System

SUBJECT: Response to Board Referral Regarding Financing of a New Linear Accelerator and Peripheral Equipment
for the Valley Specialty Center's Cancer Center

RECOMMENDED ACTION

Accept report on exploration of financing of a new linear accelerator and peripheral equipment at Valley Specialty Center's Cancer Center and consider the following options:

- a. Approve Option A to add \$4.2 million to the Bond Program authorization; or
- b. Approve Option B to include \$4.2 million in the County's FY 2007 Capital Budget recommendations; or
- c. Approve Option C to reallocate \$3.5 million of San Jose Redevelopment Agency funds remaining from the Building 2314 Charcot construction and \$0.7 million from the Contingency Reserve. (The Administration recommends approval of this option.); or
- d. Approve Option D to take no action at this time.

FISCAL IMPLICATIONS

On December 13, 2005, Supervisor Beall made a referral requesting Administration to explore the financing of a new linear accelerator and peripheral equipment at VSC's Cancer Center. The cost to acquire a linear accelerator (and associated simulator and other peripherals) and to finish the space for the equipment will be \$4.2 million. Funds for the accelerator acquisition and installation were not included in the Board of Supervisors April 2005 budget authorization for the VSC project.

In December 2005, the VMC Foundation Board committed to raising half the required equipment acquisition funds and asked the Board of Supervisors to "front-end" the total capital funding for the project (\$4.2 million), with the VMC Foundation repaying the County \$1.85 million before VSC opens. This will enable the VMC Foundation to challenge its potential donors to match the Board of Supervisors contribution, while at the same time allowing the equipment to be selected and incorporated into the building's construction in a timely manner. (See attached letter from the VMC Foundation submitted previously to each member of the Board of Supervisors.)

This report presents several options for the Board's consideration regarding financing of the linear accelerator and peripheral equipment.

Under Option A, the Bond Program initially increases by \$4.2 million; the VMC Foundation repays \$1.85 million within two years; and the approximate annual debt repayment on the \$2.35 million balance is \$153,000 (assuming 30 years at 5% on \$2.35 million).

Under Option B, initially \$4.2 million less is available for all other projects under consideration for funding from the County's FY 2007 Capital Budget; the VMC Foundation repays \$1.85 million within two years; and the net long-term commitment of capital budget funding is \$2.35 million.

Under Option C, there is no impact on the General Fund at this time and the VMC Foundation repays \$1.85 million within two years.

Under Options D, there is no impact on the General Fund; however, costs are increased significantly in the future.

REASONS FOR RECOMMENDATION

The new linear accelerator will enable Santa Clara Valley Medical Center to provide state-of-the-art radiation therapy services to our patients consistent with community standards. Further the accelerator's acquisition will let us complete the consolidation of cancer services in VSC, combining the medical and radiation oncology clinics, the infusion unit, and radiation therapy services. Cancer treatment services for our patients are best provided in a single location, especially given the increasing frequency with which patients receive both medical and radiation oncology treatments for their cancers.

In order to begin operation of the entire Cancer Center at the same time as all other clinical programs in VSC, funding for the linear accelerator would need to be identified by mid-calendar 2006 so that an RFP can be issued, the equipment vendor selected and contract awarded, the construction details specific to the selected equipment designed, and the construction work accomplished by the VSC contractor.

Approval of a financing option at this time will enable the VMC Foundation to proceed with fulfilling its pledge to raise funds for this project with full commitment from the Board of Supervisors.

If a decision is not made now, the work cannot be incorporated into the existing VSC contractor's scope of work and would need to be deferred until the current contractor firm has completed its work and VSC opened. There would be a significant premium cost associated with deferring the construction work and inflationary cost rise on both the equipment and construction. A new project would have to be created and run, design and project management costs would be much higher, an entire bid package would need to be created, and Building Department review time and costs would be higher. Significantly, in terms of both cost and negative operational impacts, the work would be occurring in an occupied building in the middle of a functioning clinical area. If acquisition and installation of the linear accelerator were deferred until after the Valley Specialty Center opens, the cost and the County funds required are estimated to increase by \$1.5 million.

Option A acquires and installs the linear accelerator within the current VSC construction schedule with funding from a combination of the VMC Foundation and the County Bond Program. A comprehensive, consolidated Cancer Center is available to treat patients concurrent with the availability of all other VSC specialty services and the project is accomplished at the least capital cost. The Board's timely commitment of Bond Program funding to the project supports the VMC Foundation fundraising effort.

Option B differs from Option A only in that the funding source for the County's contribution to the project is the annual County capital budget rather than the Bond Program. Option B makes the linear accelerator a "pay-as-you-go" project rather than including it with the rest of the VSC project within the scope of the Bond Program. Option B reduces the funds available for other projects under consideration for capital funding in FY 2007.

Option C differs from Option A only in that the funding sources for the County's contribution to the project are \$3.5 million of San Jose Redevelopment Agency funds remaining from the Building 2314 Charcot construction and \$0.7 million from the Contingency Reserve. The Administration recommends approval of this option.

Option D (taking no action at this time) would defer to some indefinite future time the "completion" of a comprehensive, integrated Cancer Center within VSC, significantly increase the eventual cost, and fail to give support to the VMC Foundation's efforts to raise close to \$2 million dollars for this critical clinical program.

BACKGROUND

On April 19, 2005, the Board of Supervisors was presented with a prioritized list of the elements of the VSC project and approved a budget, which included all space and a portion of the equipment and furniture for the project. Four project elements totaling \$6.135 million were outside the approved project budget including \$3.75 million for the Cancer Center's Radiation Oncology Treatment equipment (a linear accelerator and treatment simulator). It was noted in the April transmittal that the new linear accelerator and simulator were "not recommended...because a new linear accelerator was installed at VMC two years ago, and the maximum VSC project bond limit...is not large enough to include this..item."

The County's FY 2006 Capital Improvement Plan submitted to the Board in June 2005 shows the \$6.13 million in unfunded components of VSC and indicates that "Funding...from a variety of sources will be sought between now and VSC's opening." The commitment of the VMC Foundation to raise half the cost of the linear accelerator and associated peripherals represents a significant step in this process.

As directed by the Board of Supervisors, a number of financing approaches were explored. The VMC annual capital budget was not considered a reasonable option to put forth for consideration because of the huge disparity between the size of this single project and those maintenance and minor remodeling projects for which the VMC capital budget must be used to continue effective operations within existing buildings.

CONSEQUENCES OF NEGATIVE ACTION

Failure to approve a financing option (Option A, B or C) at this time will impact the VMC Foundation's ability to proceed with fulfilling its pledge to raise funds for this project with full commitment from the Board of Supervisors.

STEPS FOLLOWING APPROVAL

Upon Board approval, the Clerk of the Board shall provide Keyboard notification to Robin Roche, Health & Hospital System, and Larry Jenkins, Facilities & Fleet.

ATTACHMENTS

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- VMC Foundation Ltr