December 29, 2017

Hon. Xavier Becerra
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory initiative that would authorize $1.5 billion in general obligation bonds to provide funding for certain hospitals that treat children (A.G. File No. 17-0045, Amendment No. 1).

Background

Children's Hospitals. Existing state law identifies eight private nonprofit hospitals and the children's programs at the five University of California (UC) academic medical center campuses as "children's hospitals." Children's hospitals focus their efforts on the health care needs of children by providing diagnostic, therapeutic, and rehabilitative services to injured, disabled, and sick infants and children. Many children receiving services in these hospitals are from low-income families and have significant health care needs. Children's hospitals are funded from a variety of sources. The majority of children's hospital funding comes from the federal-state Medicaid program (known as Medi-Cal in California), which provides health coverage to many low-income children in the state. Children's hospitals also receive funding from other sources, including commercial health coverage, other government health coverage programs, and private donations.

California Children's Services (CCS) Program. One of the government health coverage programs that provides for treatment at children's hospitals is the CCS program. The CCS program is jointly administered by counties and the California Department of Health Care Services (DHCS) and provides diagnostic and treatment services, medical case management, and physical and occupational therapy to children with special health care needs who meet certain eligibility requirements. DHCS approves individual providers and institutions (including hospitals) for participation in the CCS program based on a set of established standards. The majority of CCS is funded through Medi-Cal (for children who are eligible for Medi-Cal coverage).

Other Hospitals Also Treat Children. Other hospitals in California that are not specifically identified in state law as children's hospitals also focus to varying degrees on treating children.

For example, some hospitals house wings or centers that specialize in treating children. More than 100 of these hospitals are approved for participation in the CCS program.

Previous Children's Hospital Bond Measures. Voters have twice previously approved statewide measures that authorized the sale of general obligation bonds to provide funding for capital projects at children's hospitals—$750 million through Proposition 61 of 2004 and $980 million through Proposition 3 of 2008. Only the 13 specifically identified children's hospitals are eligible to receive funds under these previous measures. As of November 1, 2017, about $47 million of Proposition 61 bond funds and $260 million of Proposition 3 bond funds remained to be issued. These funds are expected to be fully committed to projects at eligible hospitals by the end of June 2018.

Proposal

Authorizes Additional Bonds for Children's Hospitals. This measure authorizes the state to sell $1.5 billion in general obligation bonds for capital improvement projects at the 13 children's hospitals as well as other public or private nonprofit hospitals that provide services for children eligible for the CCS program. Specifically, each of the eight private nonprofit children's hospitals would be eligible to apply for up to $135 million of total bond funds, for a total of 72 percent available for the private nonprofit children's hospitals. Each of the five UC children's hospitals would be eligible to apply for up to $54 million of total bond funds, for a total of 18 percent available for UC children's hospitals. The remaining $150 million (10 percent) of bond funds would be available for other public or private nonprofit hospitals that treat children who are eligible for the CCS program. (The measure does not set aside specific amounts for individual hospitals eligible for this portion of the bond funds. Instead, this portion of the funds would be available to eligible hospitals on a competitive basis.) These allocations are summarized in Figure 1 (see next page).

Use of Funds. As under Proposition 61 and Proposition 3, the money raised from bond sales pursuant to this measure could be used for the construction, expansion, remodeling, renovation, furnishing, equipping, financing, or refinancing of eligible hospitals in the state. The monies provided could not exceed the total cost of a project and funded projects would have to be completed "within a reasonable period of time."

Application Process. Eligible hospitals would apply to the California Health Facilities Financing Authority (CHFFA), an existing state agency, for funds. CHFFA's decision to award a grant would be based on several factors, some of which include whether the grant would contribute toward the expansion or improvement of health care access for children who are eligible for governmental health insurance programs or who are indigent, underserved, or uninsured; whether the grant would contribute to the improvement of child health care or pediatric patient outcomes; and whether the applicant hospital would promote pediatric teaching or research programs.

Figure 1

Hospitals Eligible for Bond Funds

Hospitals Eligible for Bond Funds
Private Nonprofit Children's Hospitals—72 Percent of Funds
Children's Hospital and Research Center, Oakland.
Children's Hospital of Los Angeles.
Children's Hospital of Orange County.
Earl and Loraine Miller Children's Hospital.
Loma Linda University Children's Hospital.
Lucile Salter Packard Children's Hospital at Stanford.
Rady Children's Hospital, San Diego.
Valley Children's Hospital (formerly Children's Hospital Central California).
University of California Children's Hospitals—18 Percent of Funds
Mattel Children's Hospital at University of California, Los Angeles.
University Children's Hospital at University of California, Irvine.
University of California, Davis Children's Hospital.
University of California, San Diego Children's Hospital.
University of California, San Francisco Children's Hospital.
Other Hospitals—10 Percent of Funds
Various public or private nonprofit hospitals that provide services to children eligible for the California Children's Services program.

Fiscal Effects

This measure would allow the state to borrow $1.5 billion by selling additional general obligation bonds to investors, who would be repaid with interest using the state's general tax revenues. The cost to the state of repaying these bonds would depend on various factors such as the interest rates in effect at the time they are sold, the timing of bond sales, and the time period over which they are repaid. We assume that (1) the interest rate for bonds would average 5 percent, (2) they would be sold over the next five years, and (3) all bonds would be issued for a 30-year term. Based on these assumptions, the cost to taxpayers to repay the bonds would average $84 million annually over the next 35 years—totaling $2.9 billion to pay off both the principal ($1.5 billion) and interest ($1.4 billion). Annual debt service costs would ramp up in the initial few years, peak at about $100 million per year, and ramp down in the final few years. Administrative costs, paid from the bond funds, would be limited to CHFFA's actual costs or 1 percent of the bonds funds, whichever is less. We estimate these costs would be minor.

Summary of Fiscal Effects. We estimate the measure would have the following major fiscal effect:

- State costs of $2.9 billion to pay off principal ($1.5 billion) and interest ($1.4 billion) on bonds over a 35-year period. Annual payments would average $84 million. Annual payments would be lower than this average in the initial and final few years, and somewhat higher in the intervening years.

Sincerely,

Mac Taylor
Legislative Analyst

Michael Cohen
Director of Finance