August 28, 2007

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Toni Melton
Initiative Secretary

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory initiative entitled the "Children's Hospital Bond Act of 2008" (File No. 07-0034). This measure would authorize the sale of general obligation bonds in the amount of $980 million to provide funding for certain children's hospitals.

Background

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.

Proposition 61, which voters approved at the November 2004 statewide general election, authorized the sale of $750 million in general obligation bonds to provide funding for children's hospitals. The hospitals eligible to receive funds under Proposition 61 are the same as those that would be eligible for funding under this measure. As of December 31, 2006, about $124 million of the funds from Proposition 61 had been disbursed to these hospitals.

Proposal

This measure authorizes the state to sell $980 million in general obligation bonds for capital improvement projects at children's hospitals. The measure specifically identifies the five University of California children's hospitals as eligible bond fund recipients. There are additional children's hospitals that meet the other eligibility criteria specified in the measure, which are based on hospitals' performance in 2001 or 2002. These criteria include providing at least 160 licensed beds for infants and children. Figure 1 lists the children's hospitals that currently could receive funding under this measure.

Figure 1

Children's Hospitals Eligible for Bond Funds

Specifically Identified as Eligible
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 Hospital Children's Hospital
University of California, San Francisco Children's Hospital
Additional Eligible Hospitals
Rady Children's Hospital, San Diego (formerly Children's Hospital and Health Center, San Diego)
Children's Hospital Los Angeles
Children's Hospital and Research Center at Oakland
Children's Hospital of Orange County
Loma Linda University Children's Hospital
Lucile Salter Packard Children's Hospital at Stanford
Miller's Children's Hospital, Long Beach
Children's Hospital Central California

The money raised from the bond sales could be used for the construction, expansion, remodeling, renovation, furnishing, equipping, financing, or refinancing of children's hospitals in the state. Eighty percent of the monies would be available to nonprofit children's hospitals and the remaining 20 percent would be available to University of California children's hospitals. 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."

Children's hospitals would have to apply in writing for funds. The California Health Facilities Financing Authority (CHFFA), an existing state agency, would be required to develop the grant application. It must process submitted applications and award grants within 60 days. The CHFFA's decision to award a grant would be based on several factors, including 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 toward the improvement of child health care or pediatric patient outcomes; and whether the applicant hospital would promote pediatric teaching or research programs.

Fiscal Effects

The cost of these bonds to the state would depend on the interest rates obtained when they were sold and the time period over which this debt would be repaid. If the $980 million in bonds authorized by this measure were sold at an interest rate of 5.5 percent and repaid over 30 years, the cost to the state General Fund would be about $2 billion to pay off both the principal ($980 million) and the interest ($1 billion). The average payment for principal and interest would be about $67 million per year. Administrative costs would be limited to CHFFA's actual costs or 1 percent of the bond funds, whichever is less. We estimate these costs will be minor.

Summary

State costs of about $2 billion over 30 years to pay off both the principal ($980 million) and the interest ($1 billion) costs of the bond. Payments of about $67 million per year.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Michael C. Genest
Director of Finance