

Proposition 3: Children's Hospital Bond Act of 2008

Board Recommendation:

NO POSITION

Background

California has 13 Children's Hospitals, including eight private, not-for-profit hospitals and five University of California Children's Hospitals. These hospitals serve as regional, tertiary-care centers and provide specialized care to treat children with the most serious and life-threatening diseases like childhood leukemia, cancer, heart defects, sickle cell anemia, diabetes and cystic fibrosis.

In November 2004, California voters passed Proposition 61, the Children's Hospital Bond Act of 2004. Proposition 61 authorized the state to sell \$750 million in general obligation bonds for capital improvement projects at children's hospitals. Of the \$750 million in bonds approved, approximately \$500 million in bonds have yet to be issued and dispersed to hospitals. Proposition 3 is a merely a duplicate of the measure presented to voters in 2004.

The San Diego County Taxpayers Association (SDCTA) opposed Proposition 61 due to the measure's piecemeal approach to addressing the infrastructure needs of hospitals within the state.

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 other children's hospitals likely to meet the eligibility criteria specified in the measure, which include providing at least 160 licensed beds for infants and children. The potentially eligible hospitals are outlined in Figure 1.

Figure 1
Children's Hospitals Eligible for Proposition 61
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's Children's Hospital, 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 will be required to submit an application in order to receive funds. The California Health Facilities Financing Authority (CHFFA), an existing state agency, must process submitted applications and award grants within 60 days. Those monies awarded are limited to the following factors:

- 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
- The grant will contribute toward the improvement of child healthcare or pediatric patient outcomes
- The children's hospital provides uncompensated or undercompensated care to indigent or public pediatric patients
- The children's hospital provides services to vulnerable pediatric populations
- The children's hospital promotes pediatric teaching or research programs
- Demonstration of project readiness and project feasibility

Rady Children's Hospital

Of the \$750 million approved in Proposition 61, Rady Children’s Hospital was authorized to receive \$74 million. Approximately \$62 million of the total amount received was dedicated to completing a \$260 million construction project for the completion of a new Acute Care Pavilion. The remaining \$12 million was spent on remodeling the neonatal intensive care unit, technical equipment, and the renovation of the first floor emergency room to expand capacity. A detailed list of Proposition 61 allocations is listed in Figure 2.

If this measure were to pass, Rady would be eligible to receive an additional \$98 million. The hospital does have the option of moving forward with an initiative within either the City of San Diego or the county in order to receive funding to fulfill infrastructure needs. The regional authority (i.e. the San Diego City Council or County Board of Supervisors) also has the option of placing a measure on the ballot.

Rady is expected to be in full compliance with the SB 1953 mandated by the year 2010. Currently plans for two buildings, the Rose Pavilion and Hahn Pavilion, are awaiting approval by the state to move forward with renovation. Once those plans have been approved, the buildings are expected to be in compliance by late 2009. A third building, the Nelson Pavilion, is currently under assessment to determine the extent of the necessary renovation. The total cost to comply with the seismic mandate has been estimated at approximately \$12 million.

Figure 2	
Rady Children's Hospital Proposition 61 Expenditures	
Phase I	
Patient Care Equipment	

Hematology/Oncology Clinic Remodel	\$ 1,122,038
Phase II	
Rose Pavilion First Floor Remodel	
Rose Pavilion Helipad Upgrade	
Picture Archiving and Communicating System (PACS)	
CT Scanner and Remodel	
Patient Care Equipment	
	\$ 10,136,143
Phase III	
Acute Care Building	
Patient Care Equipment	
	\$ 62,686,319
Total	\$ 73,944,500

Fiscal Effect

If the total amount of the bonds is sold at an interest rate of 5.5 percent and paid over 30 years, the total cost to the General Fund, including interest, would equal approximately \$2 billion. The average payment for principal and interest will total approximately \$67 million per year.

Even though \$500 million in Proposition 61 bonds remain un-issued, over 70 percent of the \$750 million total will be granted by fall of 2008. Dollars are only issued to hospitals as they submit invoices for work completed. The bond monies are granted to hospitals for specific projects that are submitted, but the actual dollars are not released to those hospitals until work is completed.

It has been stated the \$980 million outlined within this measure will not cover the total need of all children's hospitals throughout the state. Each of the UC hospitals are eligible to receive up to \$39.2 million, while the non-UC hospitals are eligible to receive up to \$98 million.

Policy Discussion

It is difficult to determine whether the monies allocated to the various hospitals are strictly for seismic compliance or to satisfy future need and demand. Even though the total need of these hospitals goes above and beyond the \$980 million outlined within the measure, the Children's Hospital Association has stated the amount is a product of political feasibility from the passage of Proposition 61 and the current fiscal condition of the state.

It is also unknown if the monies allocated to each hospital will be dedicated specifically to address the seismic mandate or to upgrade capacity and facilities. It has been stated these funds will be used to address both of these issues, but the percentage of use has not been indicated.

Though the dollars are allocated to hospitals, the disbursement of the monies will be delayed because the total amount of the bonds has not been issued. Given the conditions of the state budget, officials will be hesitant to issue more debt as the repayment of bonds takes precedent over the funding of social programs, education, transportation, etc. Figure 3 below is a summary of the state's current and future debt¹.

Figure 3			
Summary of Current and Future Debt (Dollars in Billions)			
Bond Type	Outstanding	Authorized But Unissued	Total
General Obligation	\$ 41.3	\$ 63.7	\$ 105.0
Lease Revenue	\$ 7.7	\$ 10.8	\$ 18.5
Economic Recovery	\$ 8.3	\$ 3.7	\$ 12.0
Total	\$ 57.3	\$ 78.2	\$ 135.5

Date as of July 1, 2007

With the SB1953 mandate, the overall need for hospitals to expand and upgrade facilities and the reliance on public dollars (at a state and local level), it is likely this measure will be placed on the ballot once again in the near future. Rather than rely on a broken state funding system to finance critical infrastructure piece-by-piece, implementing local control to finance critical needs may be more fiscally prudent.

¹ California State Treasurer's Office