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September 17, 2003

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative cited as the "Children's Hospital Bond Act of 2004" (File No. SA2003RF0033).

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 low-income and have significant health care needs. State law defines children's hospitals as those hospitals where 30 percent of the infants and children served by the institution qualify for Medi-Cal (one of the state's health insurance programs for low-income families and children), and the institution primarily serves children. Currently there are 13 children's hospitals. State law specifically identifies the eight nonprofit children's hospitals and the five University of California children's hospitals operating in California.

Proposal

This measure authorizes the state to sell $750 million in general obligation bonds for capital improvement projects at children's hospitals. The funding obtained through bond sales could be used to assist any of the nonprofit and University of California children's hospitals in the state with projects that may involve construction, expansion, remodeling, and financing of a children's hospital. Eighty percent of the bond funds would be available to nonprofit children's hospitals and the remaining 20 percent would be available to the University of California children's hospitals. A grant could not exceed the total cost of a project and would have to be completed within a reasonable period of time.

Children's hospitals would have to apply in writing for bond funds. The California Health Facilities Financing Authority (CHFFA), an existing state agency, would develop the grant application, review any applications that were submitted, and be responsible for processing and awarding the grants within 60 days of its receipt of an application. Grant awards would be based on several factors, including the potential contribution of a grant-funded project toward the expansion or improvement of health care for children who are eligible for governmental health programs, as well as children who are indigent, underserved, or uninsured. Other factors to be considered in determining grant awards are how a project might improve child health care or pediatric patient outcomes, and how such a project might promote pediatric teaching or research.

Fiscal Effect

Borrowing and Administrative Costs. 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 $750 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 $1.5 billion to pay off both the principal ($750 million) and the interest ($800 million). The average payment for principal and interest would be about $50 million per year. The measure would result in minor costs to CHFFA, paid for with bond proceeds, for development of a written application for awarding grants, processing applications, and awarding grants to eligible children's hospitals.

Summary

This measure would have the following fiscal effects:

- State cost of about $1.5 billion over 30 years to pay off both the principal ($750 million) and interest ($800 million) on the bonds. Payments of about $50 million per year.
- Minor administrative costs to CHFFA.

Sincerely,

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Elizabeth G. Hill
Legislative Analyst

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Steve Peace
Director of Finance