

May 15, 2018

# **Initiative Statute: Authorizes Bonds Funding Construction at Hospitals Providing Children's Health Care.**

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L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:

Assembly Health Committee

Hon. Jim Wood, Chair

and

Senate Health Committee

Hon. Ed Hernandez, Chair





## LAO Role in Initiative Process

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### **Fiscal Analysis Prior to Signature Collection**

- State law requires our office, alongside the Department of Finance, to prepare an impartial fiscal analysis of each initiative.
- State law requires this analysis to provide an estimate of the measure's fiscal impact on state and local governments.
- A summary of the fiscal impact is included on petitions that are circulated for signatures.



### **Analysis After Measure Receives Sufficient Signatures to Qualify for the Ballot**

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide.
- This analysis includes a description of the measure and its fiscal effects.
- We are currently in the process of preparing these materials for initiatives that have qualified—or have a reasonable likelihood of qualifying—for the November 2018 ballot.



## Background

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### **Children's Hospitals**

- 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 on treating injured, disabled, and sick infants and children.
- A majority of children's hospitals' 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 commercial health coverage, other government health coverage programs, and private donations. The UC medical centers receive a small amount of state support.



### **California Children's Services (CCS) Program**

- The CCS program is a state health coverage program that pays for specialized treatment and other services for children with special health care needs. (Most children in the CCS program are also enrolled in Medi-Cal.)



### **Other Hospitals Also Treat Children**

- Other hospitals in California that are not specifically identified as children's hospitals in state law also focus to varying degrees on treating children. These hospitals are often approved to treat children in the CCS program.
- Local governments operate some of these hospitals and in some cases provide local government funding support.



## Background

*(Continued)*

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### **General Obligation (GO) Bonds**

- The state may borrow to pay for long-term capital projects by issuing GO bonds.
- Their repayment is guaranteed by the state's general taxing power.
- The state repays GO bonds using General Fund dollars.
- GO bonds must be approved by a majority of voters.



### **Previous Children's Hospital Bond Measures**

- Proposition 61 (2004) provided \$750 million in GO bond funding for capital projects at the 13 children's hospitals.
- Proposition 3 (2008) provided an additional \$980 million in GO bond funding for the same purposes at the 13 children's hospitals.
- Funds from these previous measures are anticipated to be fully committed to projects at eligible hospitals by the end of the summer.



# Proposal



## Authorizes Additional Bond Funds for Children’s Hospitals

- The measure authorizes the state to sell an additional \$1.5 billion in GO bonds for capital improvement projects at hospitals that treat children, namely the eight private nonprofit children’s hospitals, the five UC children’s hospitals, as well as roughly 150 public or private nonprofit hospitals that provide services to children eligible for CCS.

<b>Hospitals Eligible for Bond Funds</b>	
<i>(In Millions)</i>	
<b>Private Nonprofit Children’s Hospitals—72 Percent of Funds</b>	<b>\$1,080</b>
Children’s Hospital and Research Center, Oakland	\$135
Children’s Hospital of Los Angeles	135
Children’s Hospital of Orange County	135
Earl and Loraine Miller Children’s Hospital	135
Loma Linda University Children’s Hospital	135
Lucile Salter Packard Children’s Hospital at Stanford	135
Rady Children’s Hospital, San Diego	135
Valley Children’s Hospital (formerly Children’s Hospital Central California)	135
<b>University of California Children’s Hospitals—18 Percent of Funds</b>	<b>\$270</b>
Mattel Children’s Hospital at University of California, Los Angeles	\$54
University Children’s Hospital at University of California, Irvine	54
University of California, Davis Children’s Hospital	54
University of California, San Diego Children’s Hospital	54
University of California, San Francisco Children’s Hospital	54
<b>Other Hospitals—10 Percent of Funds</b>	<b>\$150</b>
Roughly 150 public or private nonprofit hospitals that provide services to children eligible for the California Children’s Services program.	\$150
<b>Total</b>	<b>\$1,500</b>



## Proposal

*(Continued)*



### **Use of Funds**

- The measure allows for the money raised from bond sales to be used for various purposes, including “construction, expansion, remodeling, renovation, furnishing, equipping, financing, or refinancing of eligible hospitals in the state.”



### **Application Process**

- Eligible hospitals would apply for funds to the California Health Facilities Financing Authority (CHFFA), an existing state agency housed within the State Treasurer’s Office.
- The CHFFA would decide whether to award a grant 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 government health insurance programs or who are low income, underserved, or uninsured.
  - Whether the grant would contribute to the improvement of child health care or pediatric patient outcomes.
  - Whether the applicant hospital would promote pediatric teaching or research programs.



## Fiscal Effects

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### State Bond Repayment Costs

- Total General Fund costs of \$2.9 billion to pay off both the principal (\$1.5 billion) and the interest (\$1.4 billion) over a 35-year period.
- This would result in average repayment costs of about \$80 million annually over the next 35 years.



### Uncertain Effects on Public Hospitals' Finances and Pressure on Funding From State and Local Governments.

- Some hospitals might use funding from this measure to finance projects that would have been undertaken even if the measure does not pass. By providing funds for these projects, this measure would reduce the amount of funding required from other sources, freeing up those resources for other priorities.
- On the other hand, other hospitals might use funding from this measure to finance projects that would not have been undertaken if the measure does not pass. These projects could create ongoing maintenance costs that hospitals would not have had if the measure does not pass. This would increase the amount of funding required from other sources, reducing the amount of this funding available for other priorities.
- For *public* hospitals, such as the UC medical centers and hospitals operated by local governments, the availability of the funding provided by this measure may therefore reduce or increase the pressure on other funding from state and local governments for hospitals' operations and/or planned capital improvements. The magnitude and direction of these possible fiscal effects, on net, are unknown.