JOINT HEARING ON PROPOSITION 61:
CHILDREN'S HOSPITAL PROJECTS.
GRANT PROGRAM. BOND ACT.

Assembly Health Committee
AND
Senate Health and Human Services Committee

September 14, 2004
10:30 a.m. – 1:30 p.m.
Santa Clara Valley Medical Center
Administrative Office Building - First Floor Conference Room
2325 Enborg Lane, San Jose, CA

On November 2, 2004, voters in California will consider Proposition 61, which provides funding to eligible children's hospitals for capital improvement projects. This hearing will examine whether the state should sell $750 million in general obligation bonds to fund such projects.

Background. Currently, there are 13 regional children's hospitals in California, five of which are University of California children's hospitals. These hospitals are all defined in statute. The eight private, non-profit children's hospitals are located in Palo Alto, Oakland, Madera, Los Angeles, Long Beach, Loma Linda, Orange and San Diego. The University of California Children's Hospitals (UCCH) are located at the University of California's five academic medical centers in San Francisco, Davis, Los Angeles, Irvine and San Diego. These hospitals provide specialized care and traditionally treat the most serious and life threatening diseases like childhood leukemia, cancer, heart defects, sickle cell anemia, diabetes and cystic fibrosis.

<u>Proposition 61</u>. Specifically, this initiative:

1) Authorizes the state to sell $750 million in general obligation bonds for capital improvement projects. The money may be used for the construction, expansion, remodeling, renovation, furnishing, equipping, financing or refinancing children's hospitals.

2) Requires 80% of the bond proceeds be awarded to hospitals that meet specific eligibility criteria, which include providing at least 160 licensed beds for infants and children. The following children's hospitals meet these criteria:

   a) Children's Hospital and Health Center San Diego
   b) Children's Hospital Los Angeles
   c) Children's Hospital and Research Center at Oakland
   d) Children's Hospital of Orange County
   e) Loma Linda University Children's Hospital
   f) Lucile Salter Packard Children's Hospital at Stanford
   g) Miller's Children's Hospital, Long Beach
   h) Children's Hospital Central California

3) Requires 20% of the bond proceeds be specifically awarded to the following University of California hospitals:

   a) Mattel Children's Hospital at University of California, Los Angeles
   b) University Children's Hospital at University of California, Irvine
   c) University of California, Davis Children's Hospital
   d) University of California, San Diego Hospital Children's Hospital
   e) University of California, San Francisco Children's Hospital

4) Requires children's hospitals to apply for grants funded by this initiative. Requires the California Health Facilities Financing Authority (CHFFA), an existing state agency, to develop, process and award the grants within 60 days.

5) Specifies consideration of the following factors in awarding grants:

   a) Expansion or improvement of health care access by children eligible for governmental health insurance programs, and indigent, underserved, and uninsured children;
   b) Improvement of child health care or pediatric patient outcomes;
   c) Provision of uncompensated or undercompensated care to indigent or public pediatric patients;
   d) Provision of services to vulnerable pediatric populations;
   e) Promotion of pediatric teaching or research programs; and,
   f) Demonstration of project readiness and project feasibility.

6) Limits the amount of grants that may be awarded to each children's hospitals.

7) Requires projects funded by grants to be completed within a reasonable period of time. Allows CHFFA to take specific remedies, including requesting the return of all or a portion of a grant, if it determines that a children's hospital failed to complete a project as specified. A certification of project completion must be submitted to CHFFA.

LAO Fiscal Analysis. According to the Legislative Analyst's Office (LAO), the cost of the bonds to the state would depend on the interest rates obtained when they were sold and the time period over which the 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 LAO also points out that the initiative 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.

Hospital Seismic Safety Act. This initiative allows eligible hospitals to use bond proceeds for capital projects which could include hospital seismic safety improvements as mandated by the Hospital Seismic Safety Act (Act), Senate Bill 1953, Chapter 740, Statutes of 1994. This Act required the Office of State Health Planning Development to establish seismic standards for retrofit design, construction, and field reviews of hospital systems and identification of the most critical non-structural systems putting priority for upgrading those systems most at risk of failure from earthquake. The goal of the Act is to have general acute care hospital buildings that not only are capable of remaining intact after a seismic event, but also capable of continued operation and provision of acute care medical services after a seismic event.

Support. According to the California Children's Hospital Association (CCHA), the sponsor of Proposition 61, California children's hospitals treat over one million children's injuries and illnesses each year without regard to a family's income or ability to pay. These facilities handle: 87 percent of all inpatient care for kids who need heart surgery, 64 percent of care for children with cancer, 92 percent of care for those who undergo organ transplants, and more than 70 percent of pediatric intensive care. They also educate 68 percent of pediatricians, pediatric subspecialists, nurses and other health professionals. CCHA points out that Medi-Cal, California's Medicaid program, covers more than half of children treated at children's hospitals. However, Medi-Cal reimbursements are often lower than the actual cost of care. CCHA also states that advances in technology and research are bringing hope to children and their families where there was no hope before. Medical technology improvements occur rapidly, especially with regard to the most serious childhood illnesses. Children's hospitals must have access to the latest technology in order to effectively treat seriously ill children. CCHA specifies that the bond money would be used to purchase new medical technologies and ensure access for seriously ill and injured children.

Opposition. According to the Secretary of State's website, Mr. Gary Wesley, an attorney, is the only registered opposition to this initiative at this time. Mr. Wesley was invited to this initiative hearing but declined the invitation. In his opposition that is on file with the Secretary of State, Mr. Wesley indicated that borrowing money for this bond at a time when the state is experiencing deficits and high debt is irresponsible.

Related Legislation. SB 953 (Dunn) of 2003, would have enacted the Children's Hospital Bond Act of 2004 and is substantially similar to the provisions of this initiative. In its opposition to this measure, the Alliance of Catholic Health Care pointed out this bill would only benefit a small, restricted list of hospitals even though many hospitals, other than children's hospitals, are in need of financial assistance, especially at a time when all hospitals are required to undergo seismic retrofit to comply with existing law. This bill was held in the Senate Appropriations Committee.