

Proposition 4

Children's Hospital Bonds

Placed on the Ballot by Petition Signatures

Research Assistant: Benjamin McAnally '21

Purpose

Proposition 4 would authorize the state to borrow \$1.5 billion in bonds for renovations, upgrades, and expansions of certain hospitals that treat children.¹

Background

The State of California can sell bonds that promise to repay the investment, with interest, over a period of years, often set to around thirty. California possesses two types of bonds common to public finance: revenue bonds and general obligation bonds. To repay investors, revenue bonds can only make use of the sale of commodities, while general obligation bonds commit the state to repay the bonds using all legally available sources. General obligation bonds are paid off from California's General Fund, comprised mainly of income and sales tax revenues.²

All state general obligation bonds require majority voter approval and are primarily used to finance infrastructures, such as roads, schools, and clean water projects. As of June of 2018, California held \$74.2 billion in debt from general obligation bonds. Another \$29.6 billion has been approved by the voters, but not yet issued.³

State law identifies eight private nonprofit hospitals and the children's programs at the five University of California academic medical center campuses as children's hospitals.⁴ Children's hospitals focus on treating infants and children with severe illness or injuries or complex chronic health conditions that require specialized care. These hospitals get a majority of their funding from Medi-Cal, the federal-state Medicaid program, which provides healthcare coverage to low-income children in California. The California Children's Services (CCS) program is a state-local program that pays for specialized treatment and other services for children with complex chronic health conditions. Most children in the CCS program are also enrolled in Medi-Cal.⁵ The state must approve hospitals and medical providers to

¹ <http://www.capradio.org/articles/2018/06/29/here-are-the-12-ballot-propositions-on-californias-november-2018-election/>

² <https://www.treasurer.ca.gov/publications/bonds101.pdf>

³ [https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_\(2018\)](https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_(2018))

⁴ <https://lao.ca.gov/BallotAnalysis/Proposition?number=4&year=2018>

⁵ Ibid.

receive payment in the CCS program. In addition to the children’s hospitals specifically identified in state law, hospitals with wings or centers that specialize in treating children are often approved for funding in the CCS program.

Funding from Medi-Cal, CCS, and other sources is often insufficient to pay for investments in new technologies and expansions to children’s hospitals.⁶ Because of this, the California Children’s Hospital Association (CCHA) has turned to taxpayers for help through general obligation bonds. The CCHA has proposed three ballot initiatives requesting state funding for children’s hospitals, Proposition 4 being only the most recent of these measures. The previous two initiatives were Proposition 61, which approved \$750 million in bonds for children’s hospitals in 2004, and Proposition 3, authorizing another \$980 million in 2008. Proposition 4 is similar to these two prior initiatives but requests a larger allocation, spread over a longer period.⁷

Proposal

Proposition 4 would authorize \$1.5 billion in general obligation bonds for the Children’s Hospital Bond Act Fund. The bonds would fund grants to construct, equip, renovate, and expand children’s hospitals.

The \$1.5-billion bond would be allocated to hospitals as follows:

HOSPITALS ELIGIBLE FOR BOND FUNDS (in Millions)⁸	
Private Nonprofit Children’s Hospitals – 72 Percent of Funds	\$1,080
Children’s Hospital and Research	\$135
Children’s Hospital of Los Angeles	135
Children’s Hospital of Orange County	135
Earl and Loraine Miller Children’s Hospital (Long Beach)	135
Loma Linda University Children’s Hospital	135
Lucile Packard Children’s Hospital at Stanford	135
Rady Children’s Hospital, San Diego	135
Valley Children’s Hospital (Madera)	135
University of California Children’s Hospitals – 18 Percent of Funds	\$270
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
Other Hospitals – 10 Percent of Funds	\$150
Roughly 150 public or private nonprofit hospitals that provide services to children eligible for the California Children’s Services program	\$150
TOTAL	\$1,500

⁶ <http://www.yesonproposition4.org/about/>

⁷ <https://lao.ca.gov/BallotAnalysis/Proposition?number=4&year=2018>

⁸ Ibid.

- \$1.08 billion to seven nonprofit hospitals that serve high volumes of children eligible for certain governmental programs or with special health needs
- \$270 million to five University of California general acute hospitals and clinics
- \$150 million to public and private hospitals that serve children eligible for California Children's Services⁹

Money raised from bond sales may be used for various purposes, including construction, expansion, remodeling, renovation, furnishing, equipping, financing, or refinancing of eligible hospitals.

Fiscal Impact¹⁰

The state's legislative analyst estimates that Prop. 4 would have the following fiscal consequences:

- State costs: \$2.9 billion to pay off principal (\$1.5 billion) and interest (\$1.4 billion) over 35 years
- Annual payments estimated at \$84 million for 35 years (less than 1/10 of 1 percent of the current General Fund budget)
- Annual payments will be relatively low in the initial and final few years and increase in the intervening years¹¹

Supporters

The California Children's Hospital Association submitted Proposition 4. The Yes on Children's Hospitals ballot measure committee raised \$10.22 million to support the initiative, with contributions from the following eight children's hospitals that would receive funds from the measure:

- Children's Hospital Los Angeles
- Miller Children's & Women's Hospital Long Beach
- Valley Children's Hospital
- Children's Hospital of Orange County
- Children's Hospital and Research Center Oakland
- Lucile Packard Children's Hospital
- Rady Children's Hospital - San Diego
- Loma Linda University Children's Hospital¹²

The California Teachers Association supports the initiative using a portion of its ballot measures fund. The measure has also been endorsed by the California Hospital Association board, the Children's Specialty Care Coalition Board, and Los Angeles County Supervisor Sheila Kuehl.¹³

⁹ [https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_\(2018\)](https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_(2018))

¹⁰ <https://lao.ca.gov/BallotAnalysis/Proposition?number=4&year=2018>

¹¹ [https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_\(2018\)](https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_(2018))

¹² Ibid.

¹³ <http://laschoolreport.com/california-teachers-association-to-spend-up-to-10-million-supporting-two-statewide-ballot-initiatives-and-opposing-three-others/>

Arguments of Supporters

Supporters say Prop. 4 would:

- Help children's hospitals keep pace with new breakthroughs in medicine as the demand for specialized pediatric care increases
- Partially compensate for low reimbursement rates from Medi-Cal, which prevent facilities from making needed investments¹⁴
- Be spent wisely, since California Children's Hospitals have a track record of good investments, such as ensuring seismic safety, providing inpatient beds, and acquiring new technology¹⁵

Opponents

No committees have been formed to oppose Proposition 4 as of August of 2018, but David Wolfe, a legislative director of the Howard Jarvis Taxpayers Association, has been outspoken against it.¹⁶

Arguments of Opponents

Opponents say Prop. 4 would:

- Create bonds that are not being spent in more needed areas, such as unfunded pension liabilities and K-12 education¹⁷
- Be partially allocated to privately owned, for-profit hospitals, which do not deserve more state funding
- Only add to the \$74.2 billion in debt from general obligation bonds for which California is currently liable¹⁸

Conclusion

Voting Yes on Prop. 4 authorizes the state to issue \$1.5 billion in bonds for constructing, equipping, renovating, and expanding children's hospitals in California.

Voting No on Prop. 4 does not authorize the state to issue \$1.5 billion in bonds for children's hospitals in California.¹⁹

For more information on Proposition 4, visit:

www.roseinstitute.org

www.yesonproposition4.org

¹⁴ <https://calmatters.org/articles/california-ballot-measures-2018-election/>

¹⁵ <https://www.ccha.org/post/ccha-sponsors-childrens-hospital-bond-act-2018>

¹⁶ <http://cal-access.sos.ca.gov/Campaign/Measures/Detail.aspx?id=1401376&session=2017>

¹⁷ <https://calmatters.org/articles/california-ballot-measures-2018-election/>

¹⁸ <http://cal-access.sos.ca.gov/Campaign/Measures/Detail.aspx?id=1401376&session=2017>

¹⁹ [https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_\(2018\)](https://ballotpedia.org/California_Proposition_4,_Children%27s_Hospital_Bonds_Initiative_(2018))