Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of July 17, 2008

ENDORSEMENT OF CHILDREN’S HOSPITAL BOND ACT OF 2008

EXECUTIVE SUMMARY

The Children’s Hospital Bond Act of 2008 (“Bond Act”) has qualified as a statewide ballot initiative for the November 2008 statewide election (Initiative Number 07-0034). The Bond Act would authorize $980 million of state General Obligation (GO) bonds for capital improvement projects at Children’s Hospitals. The Bond Act defines the UC Academic Medical Centers (“Medical Centers”) as Children’s Hospitals and earmarks 20% of the total Bond Act proceeds ($196 million) to the Medical Centers. These resources would be distributed as grants to Children’s Hospitals, including approximately $39 Million in total grant funding to each Medical Center. The State of California would be responsible for the annual debt service of the Bond Act, which is expected to total over $2 Billion over the life of the bonds.

The Regents have been periodically briefed on the capital needs and projects underway at the Medical Centers. The Medical Centers remain a capital-intensive operation and financial assistance from the Bond Act in meeting the strategic capital demands would prove favorable.

RECOMMENDATION

The President recommends that the Committee on Finance recommend that the Regents endorse the Bond Act and direct the President to inform UC constituents and supporters of the benefit to the Medical Centers, consistent with what is allowable under current state law, Regental policy and Presidential authority.

BACKGROUND

The Bond Act has officially qualified as a ballot measure through a signature gathering process for and been certified by the Secretary of State for the November 2008 election. The private not-for-profit Children’s Hospitals are the sponsors of the Bond Act and have hired a political consultant with a successful track record of pursuing statewide ballot initiatives and have developed a $5 million fund for a “yes campaign.”
Twenty percent (20%) or $196 million of the total Bond Act proceeds are earmarked for the UC Medical Centers. These resources would be distributed as grants of $39.2 Million to each Medical Center and do not have to be paid back. The grants must be utilized by each Medical Center hospital for project expenses incurred between January 2008 and June 2018 or the funds become available to other Children’s Hospitals. The projects eligible for grant funding include constructing, expanding, remodeling, renovating, furnishing, equipping, financing, or refinancing capital assets. These activities must be related to providing pediatric services.

**Cost to State**

The overall cost to the State is expected to total approximately $2 billion over 30 years to pay off both the principal ($980 million) and the interest ($1 billion) costs of the Bond Act, resulting in payments of approximately $67 million per year.

**Benefit to Medical Centers**

The resources made available by the Bond Act to the Medical Centers would provide a significant opportunity for capital investment in the UC clinical enterprise. The clinical enterprise is an enormously capital-intensive operation and assistance in meeting the capital demands would prove valuable. Additionally, a 10-year horizon in accessing the allotted funds provides an important planning opportunity to address capital needs that will develop over this time, and help with projects currently in the pipe-line. Lastly, these resources would help the Medical Centers address some significant ongoing challenges, including, but not limited to, rapidly changing medical technology, costly clinical care advancements, rising cost of capital, and various payment externalities.

The escalating cost of construction and technology, as well as the growing number and clinical complexity of pediatric patients will continue to present significant capital and capacity challenges for the Medical Centers. The Bond Act allotment of $39 million over 10 years for each Medical Center will provide needed financial assistance. The Board of Regents will continue to review and approve projects to ensure they remain consistent with the strategic needs and direction of the clinical enterprise.

**Precedent of Proposition 61 of 2004**

A similar statewide bond measure – Proposition 61 – was approved by 58% of the voters in 2004 with no organized opposition. Proposition 61 authorized the state to issue $750 million in bonds for capital projects at Children’s Hospitals. Of this amount, $150 million was earmarked for UC Children’s Hospitals. Given the projects underway, all of the Children’s Hospitals will have used approximately 70% of the $750 million available under Proposition 61 by the spring of 2008.

The $150 million earmarked in Proposition 61 for UC Children’s Hospitals has been a critically valuable component of Medical Center capital planning. Of this total, $30 million was allotted to each UC Children’s Hospital. A summary of the UC earmarked funds is as follows:
• UCLA Medical Center has received $30 million
• UCD Medical Center has received $8 million and has indicated it will request the remainder of its $30 million allotment in 2008
• UCI Medical Center has indicated it will request its entire $30 million allotment in 2008
• UCSF Medical Center has indicated it will request its entire $30 million allotment in 2008
• UCSD Medical Center has indicated it will request a component of its $30 million allotment in 2009

These funds must be paid to our medical centers by 2014 or they become available to other Children’s Hospitals. We fully expect that all the UC funds will be exhausted by that time.

UC did not to pursue a support position on Proposition 61 in 2004.