CALIFORNIA STATE AUDITOR

Elaine M. Howle, State Auditor

FACT SHEET

Date: **July 12, 2012** **Report: 2012-042**

The California State Auditor released the following report today:

Children's Hospital Program

Fund Disbursements Are Appropriate but Estimates of Cash Needs Have Been Consistently High

BACKGROUND

California voters approved two propositions—one in 2004 and the other in 2008—to establish and fund the Children's Hospital Program (program) to improve the health and welfare of California's critically ill children by providing funds for capital improvement projects for certain hospitals. Together, the approved propositions authorize the State to sell $1.72 billion in general obligation bonds to fund the program. Five University of California (UC) hospitals and eight non-UC hospitals that offer general acute care to children are eligible for the program. The California Health Facilities Financing Authority (authority) awards grants for the purpose of funding eligible projects and, thus, reviews applications for grants, evaluates the proposed projects, and recommends to its governing board grant applications for approval or rejection. As of January 2012, the authority had awarded about $1.02 billion of the program grants and disbursed $883 million.

KEY FINDINGS

During our review of the authority's efforts to award the 2004 and 2008 bond act funds, we noted the following:

- The authority sold bonds before the proceeds were needed and did not distribute the proceeds promptly.
    - ✓ Nearly 27 percent of the State's $7.9 billion in unspent proceeds from general obligation bonds at December 2011 were from bonds issued in 2009 and had been idle for almost three years.
    - ✓ As of January 2012 the authority had a fund balance of $355 million in unspent proceeds from bond sales, costing the State's General Fund roughly $16 million a year in interest.
    - ✓ Many of the bonds sold in excess of what was needed occurred in 2009 when the State's credit rating was low and interest-rate volatility was high—increasing the State's interest cost during a period of financial crisis and cash shortfalls.
- The authority has a long history of over-projecting its cash needs—from June 2005 through January 2012 it consistently overestimated its cash needs. For the time period of May 2006 through April 2007, the authority projected cash needs for approximately $347 million but only disbursed $64 million, while for fiscal year 2009–10 it estimated cash needs of $628 million yet disbursed only $303 million.
    - ✓ While outside factors such as project delays may have contributed to the authority's large cash balance, it could reasonably have mitigated some of those issues by taking them into account prior to securing bond proceeds for the projects.
    - ✓ The authority requested bond proceeds in advance of approving project applications, which contributed to its balance of idle funds.

KEY RECOMMENDATIONS

We made several recommendations to the authority including that it limit future bond sales to the level of disbursements it reasonably expects to make during the following six-month period and that it reduce its current cash balance prior to requesting additional bond sales. Further, we recommended that the authority refine its cash projection process to more accurately reflect its near-term cash needs and not request bond sales for projects that have not yet received project approval.