

CAPITAL REGIONAL DISTRICT
STAFF REPORT TO THE HEALTH FACILITIES PLANNING COMMITTEE
MEETING OF WEDNESDAY, MARCH 16, 2005

SUBJECT:

Funding of 19 Capital Improvement Projects and 29 Minor Capital Improvement Projects (CIP's&MCI's) for 2005; Capital Regional Hospital District Bylaw No. 134, 2005.

BACKGROUND:

For 2005 VIHA is requesting the District:

- Renew the CIP&MCI funding commitment for an additional three years (2005-2007).
- Increase the annual funding level from \$3M to \$4M.

In 2001, the Ministry of Health Services developed a funding system for health authorities to address the under funding of health facility upgrading. The original allocation under this system for Capital Region health facilities was \$9.6M per annum, of which \$7.5M was cost-shareable with the District's 40% share at \$3.0M.¹

In 2001 the Board agreed to a maximum three year funding of \$9.0M (\$3.0M per annum) for upgrading projects. That commitment has expired.

The types of capital projects covered under this funding are:

Capital Improvement Projects (CIP's)	Value: \$100,000 to \$1.5M and an asset life of 10 years Projects of moderate size intended to keep buildings in good useable condition within their intended life span. They include upgrading or replacement of malfunctioning or failed building systems or components like roofs, boilers and generators. They also include information technology upgrading, equipment acquisition and program-related projects involving changes to clinical spaces.
Minor Capital Improvements (MCI's)	Value: \$5,000 to \$100,000 and an asset life of at least 5 years Small upgrading projects historically funded by VIHA. In 2004, the District shared in these projects due to the low level of funding for CIP's and a strong submission from VIHA for MCI's.

¹ The balance (\$2.1M) was for minor capital improvements which had historically been funded totally by the province.

For 2005, VIHA has submitted a list of 19 CIP's and 29 minor capital improvement (MCI) projects. These are summarized in Attachments 1 and 2. The total cost of all the projects is \$10,000,000 and all are eligible for cost sharing at the District's normal 40% share or \$4,000,000.

RENEWAL OF THE THREE YEAR COMMITMENT:

A three year guaranteed maximum contribution for CIP&MCI projects helps VIHA. It helps their capital planning process when they can plan over three years. VIHA involves the District in the review and prioritization of eligible projects and regularly works with District staff to apply capital funds to the areas of greatest need.

Granting a renewal to the three year commitment may not however be in the District's best interest. The following factors influence consideration of the funding request:

1. The release of VIHA's strategic integration plan (May/June 2005) – which could see VIHA proceed with planning for the RJH Inpatient Facility project and/or other large capital priorities. The Five Year Plan brought to Committee in November 2004 suggested a very preliminary cost of \$90M for the Royal Jubilee Hospital inpatient facility.
2. Other non-acute hospital projects. The District's Assisted Living Review identified that many intermediate care facilities required upgrading to accommodate higher acuity residents. The Committee is apprised of VIHA's request for cost sharing in five projects, also on this agenda.
3. Notwithstanding the upcoming election, the next government will have to rebound from three years of very low funding, particularly for major projects.
4. The 2005/06 provincial budget increases health spending; however, it is unclear if it includes a capital component.
5. Potential increased capital costs from one or more ongoing major capital projects as construction costs continue to climb.

Given these expected upward pressures on District funding, it would be prudent to not commit to additional three year funding but to limit the requested additional funding to one year.

IS A FUNDING INCREASE JUSTIFIED? :

As per Attachment 3, based on continuing construction cost inflation, increased infection control standards, the current state of local facilities and historic under funding of capital upgrading, VIHA is justified in requesting the District increase its contribution from the \$3M per annum level to \$4M.

ASSET REFURBISHMENTS AND BETTERMENTS:

All capital improvement projects and minor capital improvement projects are classified as ***betterments*** or ***asset refurbishments***.

- **BETTERMENTS:** Include modifications and/or expansion of the useful life or service potential of health services/program spaces and modifications to building systems or components which improve buildings and operational performance. Betterment work has a minimum life span of ten years, is considered capital and funds are borrowed.
- **ASSET REFURBISHMENTS:** Projects which upgrade or replace malfunctioning or failed building systems or components to ensure major capital assets achieve their intended life span. Asset refurbishment work has a minimum life span of five years, is considered operating and funding is expensed.

There are 19 capital improvement projects valued at \$8,009,000. These are all classified as betterments.

There are 29 minor capital projects valued at \$1,991,000. These are all classified as asset refurbishments.

FUNDING SOURCES FOR THE 2005 CIP&MCI INCREASE REQUEST:

Based on generally accepted accounting principles, ***Board policy is to borrow for betterments and expense asset refurbishment projects***. The Section 20(3) budget is the normal source to expense projects. It is also the sole source of funding for hospital equipment contributions. It currently stands at \$2,430,050 in the 2005 provisional budget.

The allocation of the Section 20(3) budget funds between equipment and asset refurbishment work is made more difficult by VIHA's capital planning cycle which doesn't generate detailed project information until after the provisional budget approval in November. This information is needed to classify projects as either betterments or asset refurbishments. The distribution between betterments and asset refurbishments is also different each year making it difficult to have precise figures in the provisional budget.

With the Section 20(3) budget fixed at \$2,430,050 and fully committed as the Region's capital equipment contribution, there is no room to cover the Region's \$796,400 share of the asset refurbishment projects.

There are however some one-time funding sources which would allow the asset refurbishments to be expensed. These are outlined in Table 1. This would involve an increase in the Section 20(3) budget of \$469,950 and application of \$326,450 of the Department's accumulated surpluses in its research/studies budget.

The Section 20(3) budget increase would be offset by a \$154,950 revenue increase from the Provisional Budget surplus carry forward attributable to the Municipal Finance Authority debt reserve fund recovery.

The additional \$315,000 would be offset by a corresponding \$315,000 decrease to the 2005 CRD Legislative and General Government preliminary-to-final budget requisition. The Section 20(3) budget would increase by \$469,950 but there would be no change to the combined CRHD and CRD requisitions.

Table 1 – Funding Sources for 2005 Asset Refurbishment Projects

Description	Amount
2005 CRHD Requisition increase	\$315,000
Unanticipated MFA debt reserve fund recovery surplus	\$154,950
Subtotal – 2005 Section 20(3) balance adjustment	\$469,950
Accumulated Section 20(3) Studies surplus	\$326,450
Total for 2005 Asset Refurbishment	\$796,400

The capital improvement projects totaling \$3,203,600 are all betterments and would be funded from a ten year capital borrowing bylaw requiring a \$2.78 annual charge against the 2005 average assessed residential value of \$346,909. For reference, the annual Capital Plan approved by the Board last November set a borrowing allowance for these projects at \$3,800,000.

CONCLUSIONS:

Given the evidence of continuing construction cost inflation, increased safety standards, the facility condition assessment and industry benchmarking there is sufficient justification for an annual \$1M increase (33%) to the Region's contribution for capital improvement and minor capital improvement projects. However there are other capital cost pressures on the horizon from more legitimate capital (betterment) projects. These potentially very large future expenditures for major projects suggest holding off a three year \$12,000,000 approval for capital improvement projects and minor capital projects and instead limiting additional funding to the current year.

Staff will report, probably in July, on any movement on major capital projects and how this might affect capital improvement and minor capital improvement funding for 2006 and 2007.

The 2005 schedule of projects represents VIHA's highest priority CIP&MCI needs for the South Island area. These projects have been reviewed by staff and considered supportable for cost sharing.

RECOMMENDATIONS:

That the Committee recommend to the Capital Regional Hospital District Board:

1. Deferring extension of the three year funding for capital improvement and minor capital improvement projects.
2. Approval of 19 capital improvement projects listed in Attachment 1 with a District share of \$3,203,600.

3. Approval of Capital Regional Hospital District Capital Bylaw No. 134, 2005 for \$3,203,600, for the District share of 40% of the capital cost of 19 capital improvement projects with a financing term of 10 years.
4. Approval of 29 minor capital improvement projects listed in Attachment 2 for a District share of \$796,400 from accumulated funds.
5. A \$469,950 increase in the 2005 Section 20(3) budget to \$3,000,000 from the provisional budget amount of \$2,530,050.

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Comments of the Director of Finance:

Comments of the Executive Director: