CAPITAL REGIONAL DISTRICT

STAFF REPORT TO THE HEALTH FACILITIES PLANNING COMMITTEE
MEETING OF WEDNESDAY, NOVEMBER 16, 2005

SUBJECT:

The 2006-2010 Capital Plan for the Capital Regional Hospital District (CRHD).

PURPOSE/PROBLEM:

The purpose of the CRHD Capital Plan is to estimate capital expenditure for the five-year period from 2006-2010 and to estimate the financial implications for the CRHD including future property tax charges.

HISTORY/BACKGROUND:

The CRHD's capital plan (the Capital Plan) is derived from capital planning documents[1] authored by the Vancouver Island Health Authority (VIHA). Each year the CRHD reviews a slate of proposed capital projects for health facilities in the District for the coming five-year time period. The Capital Plan is primarily comprised of a series of four capital project types using financial thresholds outlined in Table 1.

Table 1: CAPITAL PROJECT TYPES	
Major Projects	Projects valued at greater than $1.5 Million to modify or expand health service/program spaces or building system upgrading.
Capital Improvement Projects	Projects valued between $100,000 and $1.5 Million to refurbish existing facilities or replace building components, improve functionality and upgrade information technology.
Minor Capital Improvement Projects	Projects valued between $5,000 and $100,000 to refurbish or replace building components and minor program-related improvement work.
Equipment	Medical equipment valued at over $100,000. Funding has been a combination of Section 20(3) grant funding and borrowing.

The District has funded up to 40% of Major Projects, Minor Capital and Capital Improvement Projects as well as smaller percentages for Equipment. The District also funds from Section 20(3), planning studies, land banking and periodically, off-site infrastructure historically the responsibility of local government. The Capital Plan is comprised of approved projects that are underway and proposed projects that are expected to come forward for approval in the immediate future.

VIHA's primary sources of capital funding are the Ministry of Health (MOH) and the CRHD. While the MOH continues to provide capital funding, it is primarily restricted to funding small and medium scale projects (minor capital & capital improvement projects). Provincial funding for major projects was largely eliminated in 2002. VIHA also receives capital funding from donors/hospital foundations, internal funds generated from operations (i.e. parking revenues) and periodically, indirect funding from the Federal Government for specific Federal health initiatives.

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[1] *VIHA 10-Year Capital Plan – submitted October, 2005*
VIHA 2006/07 Capital Plan – promised for February, 2006

While a few major projects are still undertaken[2], funding of the 60% portion must be afforded within VIHA's annual capital allocation from MOH which has seen little increase since 2002. Due to the lack of funding on the VIHA side, any major projects that have proceeded since 2001 were those that could achieve operational savings or were for urgent health and safety upgrading.

Table 2 summarizes the expected capital expenditure on District health facilities for the five-year period from 2006–2010:

Table 2: CRHD CAPITAL PLAN SUMMARY – (2006-2010)

Health Facility Sectors	**Total**	**CRHD Share**
Acute Care & Rehab Hospitals	$37,327,000	$14,931,000
Extended/Complex Care Facilities	$9,329,000	$3,732,000
MCI, CIP & Other Health Facilities	$50,132,000	$20,053,000
New Health Facilities	$0	$0
Non-Shareable Projects - Grants	$12,650,250	$12,650,250
Non-Shareable Projects - Land	$4,500,000	$4,500,000
Less Revenue Reserve (2005)	N/A	(756,400)
Less Mount St Mary Revenue	N/A	($1,089,390)
Total	**$113,938,000**	**$54,020,000**

A summary of activity in these sectors is outlined in Appendix A.

ALTERNATIVES:

The 2003 Regional Hospital District (RHD) Cost Sharing Review maintained the legislated obligation for RHD's to provide a local share of capital funding at levels determined by each RHD. The level of funding outlined in the Capital Plan represents a minimum amount. Large increases in future years appear inevitable as VIHA will likely request the CRHD to contribute to the redevelopment of the Royal Jubilee Hospital. Until VIHA can submit more detail on capital projects and their financing, no viable alternatives can be recommended at this time.

FINANCIAL IMPLICATIONS:

As detailed in Appendices B, C and D, if all the proposed projects in the Capital Plan are approved with no deletions and no subsequent additions, the five-year cash flow period of 2006–2010 forecasts a total expenditure of $113.9 Million and a CRHD share of $54.0 Million.

CRHD annual debt payments would be greatest in 2008 at $11,625,454, resulting in a property tax requisition of $108.57 against the 2005 average assessed residential value of $349,156. This scenario continues to be defined by modestly increasing debt being virtually offset by reduction in existing debt.

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[2] *EMP Asbestos Abatement – Royal Jubilee Hospital $5.4M*
Fire Protection Upgrade – Victoria General Hospital $1.57M

The graph in *Appendix E* depicts the overall debt picture, combining existing and estimated maximum future debt between 2005-2009.

Appendix F shows the estimated maximum annual debt servicing costs to the CRHD.

SUMMARY/CONCLUSIONS:

This is the first year of using a ten-year time frame for long range capital planning. Also, the Ten-Year Capital Plan is one of a number of what VIHA calls "Infrastructure Plans" - plans which identify what is needed to implement its 2010 Strategic Plan. The Strategic Plan was released in draft form in October 2005 and is currently going through a consultation process before it receives final consideration by the VIHA Board in February/March 2006.

To be informative and relevant, the Ten-Year Capital Plan should provide a detailed and comprehensive picture of the reasonable demand for capital, estimates of associated cost and annual allocations or cash flow schedules. Unfortunately, the current version of the Ten-Year Capital Plan is incomplete and lacks this information. The current version has much less information than last year's Capital Asset Management Plan. According to VIHA, the Ten-Year Capital Plan, like the other Infrastructure Plans, is still being developed.

Pending receipt of a proper Ten-Year Capital Plan, the current version appears to identify a limited range of projects based mainly on what it can afford within current constrained funding. As one example the Capital Plan shows the replacement of the in-patient facilities at Royal Jubilee at a total cost of $167,000,000 with only $1,500,000 in planning costs to be incurred in 2006 and 2007. The balance of planning and design and the construction costs are not shown. Incurring these planning costs without a continuous process through to design and construction encounters the risk of changing project parameters and the need to re-plan. It is more likely that VIHA intends to pursue a continuous process and the earliest construction but the Plan does not show this.

In addition to the incompletion of the Ten-Year Capital Plan, the 2006/07 Capital Plan is still in process. This means that the CRHD's provisional 2006 budget goes forward with a risk of excluding projects which VIHA will want to proceed with. In developing the Year One projections in this Plan we have used reasonable assumptions about expected capital project activity from discussions with VIHA staff. Meetings with VIHA expected in February 2006 should provide much more detail on both the 2006 Plan and the Ten-Year Plan.

The proposed CRHD Capital Plan is higher than the previous four years due to contingencies added for new capital projects that may be undertaken, existing capital projects that may need additional funding and land that may be acquired by the District. The budget reflects the District's maximum commitment if all projects proceed as forecast.

Notwithstanding last year's $1 Million increase in Minor Capital and Capital Improvement Projects, there remains a very large gap between projected funding levels and the amount reasonably required to maintain, upgrade and replace existing facilities. To date, staff calculates a backlog of high priority health capital in the CRHD in excess of $200M and this increases each year that major projects go unfunded.

As outlined in previous reports, under-investment in health facilities is false economy. In the long run it costs more to defer maintenance, to under-fund asset refurbishment and to retain facilities beyond their economic life.

While hospital foundations and major donors have attempted to fill the capital funding gap left by the absence of significant provincial funding, they can only do so periodically for smaller scale projects. Relying on donors and communities to provide 60% capital funding for medium to large scale health projects is not a realistic expectation. Large projects continue to be deferred for want of funding.

Until such time as a reliable, comprehensive plan is developed that examines capital demand and supply, the plans submitted to the Committee and Board will be incomplete and potentially understated.

RECOMMENDATION(S):

1. That the Health Facilities Planning Committee receive the annual Capital Plan as information regarding the estimated magnitude of future health facility capital requirements.

2. That the report be conveyed to the Regional Hospital District Board for information and comment.

3. That the report be conveyed to the Vancouver Island Health Authority.

4. That the report be forwarded to member municipal councils for information.

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COMMENTS:

C.A.O. Concurrence