

**STAFF REPORT TO THE PLANNING & PROTECTIVE SERVICES COMMITTEE  
MEETING OF WEDNESDAY, FEBRUARY 22, 2006**

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**SUBJECT: Vancouver Island Health Authority's (VIHA) Draft Ten-Year Capital Plan (2005 - 2014)**

**PURPOSE/ISSUE:**

Review of the draft VIHA Capital Plan and its potential financial impact on the Capital Regional Hospital District (CRHD).

**HISTORY/BACKGROUND:**

In 2005, the provincial government and VIHA moved to a Ten-Year Capital Plan framework. The previous year's version, the 2004 Capital Plan (the Capital Asset Management Plan) covered a five year period.

VIHA's Ten-Year Capital Plan (2005 to 2014) was released on October 13, 2005, ahead of the October 21<sup>st</sup>, VIHA/Vancouver Island Regional Hospital Districts' Joint Capital Planning meeting in Nanaimo.

As reported to Committee in November, the Ten-Year Capital Plan does not have the content expected of a long range capital plan. The standard content of a capital plan is summarized in **Attachment One**. At the October 21, 2005 Joint Capital Planning meeting, VIHA acknowledged that the current Ten-Year Capital Plan was incomplete and a more detailed version would be available in early 2006.

Pending the more detailed VIHA Ten-Year Capital Plan, this report estimates health facility capital expenditures under three scenarios.

The three capital funding scenarios shown in Table 1 are order of magnitude estimates due to the fact that the VIHA plan generally does not define projected funding by community or Regional Hospital District, and most of the major projects have not had detailed scope and cost analysis.

**Scenario One (Minimal funding):**

This Scenario is generally equivalent to the current VIHA Draft Ten-Year Plan. The CRHD share is based on the assumption that 50% of all maintenance and asset refurbishment is for South Island facilities with one or two major program/strategic projects, the unscheduled \$165.5 M Royal Jubilee Hospital Inpatient Facility, historic funding levels for equipment and no contribution for information technology.

**Scenario Two (Medium funding):**

Scenario One plus the scheduled construction of the RJH Inpatient Facility, Eric Martin Pavilion Phase 2 Asbestos Abatement and planning for the VGH Emergency Department upgrade.

**Scenario Three (Approximate Benchmark Level):**

Scenario Two plus increased funding on maintenance and asset refurbishment, increased major program/strategic projects and increased equipment contributions. Notwithstanding that basic information to validate it against the industry benchmark is absent; this Scenario is probably close to benchmark funding.

**Attachment Two** shows Scenario One estimated total costs, the South Island (CRHD) facility share and the CRHD share of six classes of expenditures:

- Maintenance projects under \$1 M
- Program/strategic projects under \$1 M
- Equipment under \$1 M
- Information technology
- Maintenance projects over \$1 M (asset refurbishments)
- Program/strategic projects over \$1 M
- Equipment over \$1 M

The attachment also includes comments on the deficiencies of Scenario One.

**ALTERNATIVES:**

The alternatives are equivalent to the three previously described scenarios. The scenarios are shown in Table 1 along with the CRHD estimated ten-year and average annual cost shares. It also compares these forecast funding levels to actual cash flow over the ten year period 1995-2004.

<b>Table 1: Capital Funding &amp; Debt Servicing Scenarios (in 2005 dollars)</b>					
<b>Funding Scenario</b>	<b>Cash Flow</b>		<b>Debt Servicing Costs on Cash Flow</b>		
	<b>10 Yr Funding (CRHD Share)</b>	<b>Avg Per Annum (CRHD Share)</b>	<b>Peak Year</b>	<b>Per \$100,000</b>	<b>Per Avg Assessed Res. Value</b>
<b>Scenario 1</b> <i>VIHA 10 Yr Cap Plan (2005)</i>	\$151,700,000	\$15,200,000	2017	\$37	\$127
<b>Scenario 2</b> <i>Medium Funding</i>	\$155,800,000	\$15,600,000	2016	\$40	\$140
<b>Scenario 3</b> <i>Benchmark Funding</i>	\$218,900,000	\$21,900,000	2016	\$49	\$172
<b>1995 – 2004 Actual</b>	\$118,600,000	\$11,800,000	2008	\$31	\$109
<b>2006</b>	-	-	2006	-	\$ 92

Notes:

- Debt service (requisition) calculations based on 2005 Average Assessed Residential Value of \$349,156.
- Forecast debt service (requisition) estimate of \$109 peak in 2008 derived from November 2005 CRHD Capital Plan.
- Cash flow assumes 2005 construction pricing; no inflation forecasting.

**FINANCIAL IMPLICATIONS:**

The three scenarios have different debt service and peak year property tax impacts. These are summarized below. They compare to the 2006 requisition of \$92 and a projected peak of \$109 (in 2008) on the current capital plan.

<b>Scenario</b>	<b>Peak Rate</b>	<b>% Increase</b>	<b>Year</b>
1	\$127	17	2017
2	\$140	28	2016
3	\$172	58	2016

**SUMMARY/CONCLUSIONS:**

The three scenarios represent different levels of health facility capital expenditures over the next ten years. These scenarios are not independent choices for the Regional Hospital District. The District is a

funding partner and cannot proceed without the involvement of other funders. The report does not cover other sources of funding, including VIHA internal sources and the various foundations.

**Scenario One** is the least reasonable of the three options. It significantly underestimates the ongoing work and cost required to maintain, refurbish/upgrade and replace existing health facilities.

**Scenario Two** is more reasonable because it accommodates the Region's single largest remaining project, the Royal Jubilee Inpatient facility. It accommodates one other project and planning for another. However, it makes no meaningful provision for other major projects or for increased equipment contributions.

**Scenario Three** is the approximate benchmark funding level. It is likely the most accurate estimate of the level of activity over ten years to maintain, upgrade and replace existing facilities. A review of the list of excluded program/strategic projects (over \$1 M in Scenario Three) in Attachment Two gives some sense of the difference between Scenarios Two and Three. Scenario Two has none of these projects. For the most part these projects have a long history and are considered necessary. While some of them will need to be revisited in terms of scope and cost, the prospect of reducing this list is limited because of the system's tendency to underestimate both scope and cost and the emergence of unidentified projects.

In the current circumstances, waiting for VIHA's completion of its Ten-Year Capital Plan, this report is a preliminary view of the District's expected funding and its financial implications for the property tax.

#### **RECOMMENDATIONS:**

1. That Committee accepts this report as information pending a more detailed report in April following the review of VIHA's final version of its Ten-Year Capital Plan.
2. That Committee recommends this report be forwarded as information to the CRHD Board of Directors.

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attachments: 3

COMMENTS: