CAPITAL REGIONAL DISTRICT

Agenda Item #7

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

SUBJECT:

The Ten Year (2007-2016) Capital Regional Hospital District (CRHD) Capital Plan.

PURPOSE/PROBLEM:

The purpose of the CRHD Capital Plan is to identify likely capital expenditures for the ten-year period 2007-2016 and the financial implications for the CRHD including the requisition and future property tax charges.

HISTORY/BACKGROUND:

The Regional Hospital District Ten Year Capital Plan is submitted each year. The Plan outlines projected capital expenditures and their financial impact for the District and the property taxpayer. In 2007, the Board will consider funding applications for pending projects and project categories (e.g. equipment) for the first year of the Plan. The Plan derives mainly from the Vancouver Island Health Authority's (VIHA) Ten Year Capital Infrastructure Plan. Their Plan is a composite of priorities from the various sector plans (acute hospital, long term care/residential care, etc.). The Plan covers four main funding categories which are outlined in Table 1.

Table 1: CAPITAL PROJECT TYPES	
Major Projects	Projects valued at greater than $1.5 Million which modify, expand or replace health service/program spaces. Mainly acute care.
Minor Projects	Projects valued between $5,000 and $1.5 Million to refurbish existing facilities or replace building components and improve functionality.
Equipment	Medical equipment which board policy stipulates be expensed - Section 20(3); excludes information technology.
Other Projects/Activity	Non-acute or long-term care projects usually small in number and cost. Also includes land banking.

In 2003 the province, regional hospital districts and health authorities collaborated on a review of the roles and responsibilities of the parties and capital cost sharing options. One of the main outcomes was the broadening of eligibility for Regional Hospital District cost sharing to virtually all health sectors. However, it did not require RHD's to increase funding beyond the level historically associated with the previous confined eligibility (hospitals and extended care facilities). The District's share of hospital capital projects has historically been 40%. Equipment expenditures are different. There are more funding sources, including the various Foundations. The District's share of equipment has gradually declined to 16% of total expenditures last year.

With the exception of the Section 20(3) budget which is expensed every year, most other expenditures are debt financed. The Section 20(3) grant fund, which was $3,030,000 in 2006, is predominantly used for hospital equipment. A small amount ($100,000) is set aside for studies, (e.g. Carey Road due diligence), recoverable project development funding for non-profit societies (e.g. Sooke and Salt Spring Island).

The District also does land banking and funds off-site servicing components of major projects.

The primary sources of funding for the VIHA capital plan are the province (Ministry of Health) and the CRHD. VIHA also receives capital funding from hospital foundations (private donors), has internally generated funds (e.g. parking) and occasional Federal funding.

Over the last five years provincial funding has been limited with most of this region's share directed to minor capital and minor capital improvement projects. Provincial funding for major projects was largely curtailed in 2002. The 2007-2016 Capital Plan is the first plan in five years to include major health program related capital projects at funding levels commensurate with the advanced age and physical and functional obsolesce of much of the inventory.

Table 2 summarizes the projected capital expenditures in the 2007-2016 Plan compared to the 2006-2010 Plan. It shows a significant increase particularly in the major project category in which total costs have increased from $37 M (over five years) to $289 M (over 10 years). This significant change reflects the inevitability of undertaking major projects after years of not doing them (refer last year's 2006-2010 Capital Plan which advised of a backlog of unfunded high priority projects in excess of $200 M).

Table 2: CRHD CAPITAL PLAN SUMMARY	2006-2010 ($ M)		2007-2016 ($ M)		Annual % Increase
Health Facility Sectors	**Total**	**CRHD Share**	**Total**	**CRHD Share**	
Major Projects (Acute)	$37,327	$14,931	$288,701	$115,480	286%
Minor Projects (Acute)	$50,132	$20,053	$168,000	$67,200	68%
Minors (2005-2006)	-	-	$14,200	$5,680	-
Equipment - Section 20(3)	$12,650	$12,650	$35,100	$35,100	39%
Residential Care	$9,329	$3,732	$5,753	$2,301	(66%)
Other Health Facilities	$0	$0	$10,200	$10,200	100%
Sub-Total	**$109,438**	**$51,366**	**$521,954**	**$235,961**	**230%**
Land Acquisition (Carey Road)	$4,500	$4,500	$5,524	$5,524	
(Revenue Reserve)	N/A	$756	-	-	
(Mount St Mary Revenue)	N/A	($1,089)	($122)	($122)	
Total	**$113,938**	**$54,018**	**$527,356**	**$241,363**	

Notes: Revenue reserve excludes future recovery of sale of Carey Road consolidated properties estimated in excess of $5 M

Continuing construction cost increases are also a factor but the main change is that the Plan more closely reflects benchmark expenditure levels for maintenance and asset refurbishments and finally includes major projects. The Royal Jubilee Hospital Inpatient Facility at $200 M constitutes 38% of total projected expenditures.

A summary of activity in the various sectors and categories is in Appendix A.

ALTERNATIVES:

The 2003 Regional Hospital District Cost Sharing Review maintained the legislative obligation of RHD's to provide the local share of health facility capital funding. The level of funding forecasted in the 2007-2016 Capital Plan is more realistic than any of the last four years and represents a catch-up from years of under-funding.

1. Approve the proposed expenditures outlined in the 2007-2016 Ten Year Capital Plan

2. Reduce the number of projects and proposed expenditures

The current large scale plan is a response to historic under-funding and the delaying of projects. This practice has caught up with the system at a time of rapidly rising construction costs. Albeit that financing costs are low, there are few signs that the trend for increasing costs in the province will abate (see Appendix B for information on recent and projected construction cost inflation).

The District approved its share for planning the Royal Jubilee Inpatient Facility in July 2004 and planning funds were first approved for the Victoria General Hospital Emergency Department upgrade in 1998. These projects cannot be delayed any more.

3. **Limit the District's contribution to a lower amount set by the Board**

The Board has a statutory responsibility to fund the local share of health capital. Without the level of funding suggested in this plan, these priority projects will either not proceed to their full scope or will have to be financed by other means, which are usually more expensive. The proposed funding for major repairs and refurbishment of existing facilities appears to be on the low side. Any lower level of funding is likely to lead to deferred maintenance and upgrading, inevitably leading to more expensive work and premature replacements and unfit buildings. Also the long-term residential care sector, specifically five non-profit facility replacement projects totalling 420 beds, have no allocation in the Plan and no clear sense of where their financing will come from.

4. **Private financing**

Private financing is not common practice for hospitals and when applied it is usually for very large projects. The Royal Jubilee Inpatient Facility estimated at $200 M is currently the subject of a business case being prepared by Partnerships BC for VIHA. Private financing is an option. Under the provincial Capital Asset Management Framework, private financing and P3's are always considered for major projects. It is questionable whether the private finance option affects the District's position. The Fraser Valley Hospital is a P3 project but still received a full 40% capital contribution from the Fraser Valley Regional Hospital District. There are major cautions on the private financing of hospital facilities.

The Plan is implemented or approved in a number of ways. Multi-year funding is applied to both ***minor capital*** and ***equipment*** expenditures. This gives VIHA flexibility to plan and arrange the work. Generally, the Three Year approvals are for an identical amount each year. This practice is questionable in the current high inflation construction cost cycle with each successive year seeing 18% (for the last two years) less "capital purchasing power."

Most ***major*** projects are subject to individual approvals considered each year of the renewable Ten Year Plan. Individual major projects only proceed when the various funding sources; the province and VIHA, the District, foundations and others, have monies in place.

FINANCIAL IMPLICATIONS:

Appendices F and G summarize the financial implications of the 2007-2016 Plan for both capital debt levels, Section 20(3) funding and the impact on the average assessed residential value.
If all the projects and expenditure categories are undertaken according to the schedules found in Appendices C, D and E, the property tax requisition will steadily increase from the projected 2007 level of $99.29 to a peak of $221.84 in 2017, an increase of 119%.

A caution remains on the costs contained in the Plan. Most, if not all, of the pending projects are carrying old estimates, some pre-2006 and some before 2005. Construction costs are reportedly continuing to

increase in the Region at approximately 18% per annum. While there are projections for a decline in the current rate, inflation does not appear to be incorporated in the VIHA plan.

SUMMARY/CONCLUSIONS:

The 2007-2016 Capital Plan is much more expensive than previous years but more realistic of the requirements to replace obsolete facilities and provide appropriate funding to maintain, refurbish and upgrade existing facilities. Over the last four years, the Division has been advising of seriously understated Capital Plans emanating from VIHA. The biggest change is the incorporation of major projects including the VGH Emergency Department upgrade and the Royal Jubilee Inpatient Facility (refer Appendix H for a profile of this project).

The age and obsolescence of the inpatient facilities at the Royal Jubilee Hospital and length of time to advance improvements to the twenty-five year old, undersized, congested, VGH Emergency Department are representative of the challenges of keeping hospital services in good, functional spaces.

This plan is also a catch-up for years of under-funding capital. For the most part, the predicted work hasn't gone away and is unlikely to go away. The work will become more expensive year over year for the foreseeable future and the effects of construction cost inflation are not routinely incorporated in the Plan. There are also some sectors, like residential care, which are not included in the Plan. The level of capital works in the Plan is justified.

RECOMMENDATION(S):

That the Committee recommend to the Board:

1. That the 2007-2016 Ten Year Capital Plan be received and, subject to annual reviews, that the proposed capital expenditures be approved-in-principle and forwarded to the Regional Hospital District Board for incorporation with the overall Regional District Ten Year Capital Plan.

2. That the 2007-2016 Ten Year Capital Plan be forwarded to the member municipal councils and the Vancouver Island Health Authority for their information.

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COMMENTS: