APPENDIX A: EXPLANATORY NOTES - 2007-2016 CAPITAL PLAN FOR THE CRHD
STAFF REPORT TO THE PLANNING & PROTECTIVE SERVICES COMMITTEE
MEETING OF WEDNESDAY, NOVEMBER 22, 2006

Table 2: CRHD CAPITAL PLAN SUMMARY	2007-2016	
Health Facility Sectors	**Total**	**CRHD Share**
Major Projects (Acute)	$288,701	$115,480
Minors Projects (Acute)	$168,000	$67,200
Minors (2005-2006)	$14,200	$5,680
Equipment - Section 20(3)	$35,100	$35,100
Residential Care	$5,753	$2,301
Other Health Facilities	$10,200	$10,200
Sub-Total	**$521,954**	**$235,961**
Land Acquisition (Carey Road)	$5,524	$5,524
(Revenue Reserve)	-	-
(Mount St Mary Revenue)	($122)	($122)
Total	**$527,356**	**$241,363**

SECTOR AND EXPENDITURE CATEGORY BREAKDOWN

Major Projects – Acute Care

This class of projects comprises 55% of the Plan's total cost and is dominated by the Royal Jubilee Hospital Inpatient Facility replacement estimated at $200 M (38% of total projected expenditures). This and the VGH renovation/expansion are VIHA's highest priority projects in the South Island. There are an additional $31.1 M in specific projects at RJH, $2.6 M at VGH and $10.0 M in currently unidentified projects at both sites in the final three years of the Plan (2014, 2015 and 2016).

There is one major project at Lady Minto Hospital ($3,240,000) and two at Saanich Peninsula Hospital ($8,600,000).

Minor Capital Improvement and Capital Improvement Projects – Acute Care

The 2006 allocation for this class of projects is $4.0 M or 40% of $10,000,000. In March 2006, the Board approved three year funding with the 2007 and 2008 budget rising to $5 Million per annum (40% of $12,500,000). The higher amounts for 2007 and 2008 were justified by increasing construction costs, increasing safety standards and a history of under-funding asset refurbishment projects. The Plan projects increasing Three Year Funding to $6.0 M per annum for 2009 to 2011, $7.0 M for 2012 to 2014, and $8.0 M for the final two years of the Plan (2015 and 2016).

This funding method of increasing funding every three years is suspect in the current cycle of high construction cost inflation. By 2009, the first year of increased funding, construction costs are projected to have increased by 39%. The 2006, 2007 and 2008 allocation of $14 M (District share) will cost $18.44 M if construction cost increases continue as projected.

There are still significant questions on whether an annual allocation of $12,500,000 is sufficient to maintain existing facilities in good condition. VIHA received an external evaluation of its facilities which concluded $195 Million to bring existing facilities to standard. The Capital Region share was estimated at $117 and priority levels 1 and 2 at $28 Million were to be included in the 2004 – 2008 Capital Plan. VIHA's 2006 Capital Infrastructure Plan comments on the 2004 VFA inventory assessment and mentions that a review is underway which will be followed by an Action Plan. There are industry benchmarks for asset refurbishment/maintenance which are based as a percentage of asset replacement values. Unfortunately, there is no asset replacement value for VIHA-owned or affiliated facilities but previous estimates suggest that funding has been below industry benchmarks.

Equipment - Section 20(3)

With the exception of $100,000 set aside for the District's own studies and project development funding (usually recoverable), the balance of $2,930,000 is available each year to VIHA for equipment purchases.

The Board's 2006 approval included a $600,000 increase which was the first increase in eleven years. The Board accepted that inflation had eroded equipment purchasing power, that equipment requirements were very costly and that the District's share of total equipment funding had lagged behind increased senior government, foundations and auxiliaries shares. VIHA's request was that the $3,030,000 funding level be maintained for 2007 and 2008. The $3,030,000 level of funding is included in the Ten Year Plan under the Section 20(3) grant account. The 2006 increase was approved after budget approval (and requisition setting) and the increase was therefore borrowed rather than expensed. It has been District policy to expense equipment funding as opposed to borrowing. This means a $600,000 (25%) increase in the requisition for the Section 20(3) account.

The Plan also foresees equipment funding increases for the Three Year Allocations: 2009-2011, 2012-2014, and for 2015 and 2016. These projected increases are based on the very preliminary information contained in VIHA's 2006-2015 Strategic Plan. The Plan has no detail beyond 2006/07 but shows projected total equipment expenditures at $446,267,000 for the entire Vancouver Island. The South Island (Capital Region) equipment share has been previously estimated at 60% which converts to $267,800,000 or $26,800,000 per annum. At the District's current share of 16% of total equipment funding, the District's annual share would be $4,300,000. This compares with the 2006 level of $2,930,000 ($3,030,000 less the District's retained $100,000 for studies and project development funding). The District has not received an application or case for additional equipment funding from VIHA. From recent discussions with VIHA staff, additional funding beyond an inflation adjustment is not expected. The entry for 2007 is therefore $3,130,000 of which $3,010,000 is for VIHA and Mount St. Mary equipment and $120,000 for the Division's research and project development funding. The allocation for future years is the current base of $3,130,000 plus an annual 2.5% inflation allowance.

Residential /Complex Care

There are only three projects, the 2005 approved complex care upgrading projects at Luther Court, Beckley Farm Lodge and Rest Haven Lodge. The Rest Haven Lodge project has not started and when it proceeds the original budget will be short. The Society is seeking VIHA approval to borrow the shortfall associated with the approved scope of work and cover it through an adjustment to their operating grant.

There has been some discussion on the District's participation in funding residential care facilities. The 2003 Regional Hospital District Cost Sharing review allowed for it. At the VIHA/VI-RHDs' Joint Capital Planning meeting last October, VIHA asked whether Regional Hospital Districts would consider such funding. The District has contributed to residential care project upgrading projects (see above), also provided recoverable project development funds for projects on Sooke and Salt Spring and provided 40% of the costs of the replacement Mount St. Mary project.

Also in April 2006, the Board approved a policy of limited funding for residential care facilities. The policy allows the District to contribute grants to non-profit owners on a case by case basis where societies lack the equity to complete private financing loans (the province no longer provides capital to the residential care sector).

No further information has been received from VIHA on its request. The 185 new residential care beds approved in August 2006 went to a private for-profit corporation with their own capital financing. A separate VIHA Request for Proposals issued to four non-profit societies (and a for-profit corporation) to replace five facilities has been delayed due to insufficient funding and insufficient capacity on VIHA's part to manage them. The Baptist Housing Ministries Society (two facilities), Salvation Army, Chinatown Care and Greenwoods are all affected by this. All four societies have enquired about Regional Hospital District participation and/or funding assistance and have been advised of the limited room the District has with the very high capital demands for hospital capital. Similar to the recently approved Sooke residential care/assisted living project, there is potential for these projects to be financed with the assistance of B.C. Housing. However, recent information from B.C. Housing suggests that the Federal/Provincial agreement which allowed BC Housing to finance 100% of the cost of the Sooke project is not available to the five non-profit replacement facility projects (420 beds at an estimated cost of $126 M). The District has its residual lending policy for non-profit residential care facility projects. However, the situation is so unclear that the residual lending policy cannot be realistically estimated and therefore there is no allocation in the 2007-2016 Plan. The status of the four replacement facility projects also affects the Plan insofar as the District ownership and eventual sale of the Carey Road site to the Baptist Housing Ministries Society for the replacement of its two projects (see Land Banking below).

Other Projects

The Plan includes two projects which fall outside the normal categories.

These are the Pender Island Heath Centre expansion (unfunded component at $350,000) and the Victoria Hospice Society's 22-unit palliative unit as part of the Carey Road development (the unfunded component after the Society's fundraising is not yet estimated). This category is projected at $1,000,000 per annum.

Land Bank

The second Carey Road parcel is held under an agreed conditional offer to purchase with School District 61. The purchase is slated for completion no later than September 31, 2007. The consolidated property (including Parcel 1 already owned by the District) is then intended to be sold to the Baptist Housing Ministries Society for the replacement of its two existing residential care facilities plus the Victoria Hospice palliative unit and assisted living. The exact timing and sale price of the consolidated property are not confirmed at this time and the sale to the Baptists could be delayed to 2008.

There is a potential recovery of $5.3 M. Given the uncertainty on schedule and recovery, the $5.3 M is shown in the Plan as an unassigned reserve account. As the Carey Road recovery details become clearer, the Plan will identify options for the use of the $5.3 M reserve.