

Staff Report to the Planning & Protective Services Committee
Meeting of Wednesday, April 25, 2007

SUBJECT: **CRD Bylaw No. 348, “Capital Regional Hospital District Bylaw No. 139, 2007”;
Expansion of the Bishop Coleman Memorial Health Centre**

PURPOSE/ISSUE:

Consideration of a request by the Pender Islands Health Care Society for a capital contribution toward the expansion of the Bishop Coleman Memorial Health Centre.

HISTORY/BACKGROUND:

The Pender Islands Health Care Society (PIHCS) is responsible for the delivery of health care services on Pender Islands. It owns and operates the Bishop Coleman Memorial Health Centre (BCMHC) out of which most of the services are operated or coordinated. The services include both publicly funded services (emergency treatment room, community nurses, lab services/collection, mental health counseling, community volunteer services, etc.) and private services (doctors, dentists, physiotherapists, optometrists, etc.). The Health Centre was built in 1980. Subsequent increases in the population and visitors have created additional health service demand which the building can no longer accommodate. The Society has developed an expansion plan which will see the health centre increase by 70%, sufficient to accommodate likely demands for the next 10 to 15 years. The design and costing of the expansion plan have been completed and a building permit applied for. The Society sought the project to be included in the VIHA Ten Year Capital Plan but it did not make the cut. A letter confirming VIHA's support of the expansion plan but their inability to provide funding in this year's Minor Capital Projects budget is in Attachment A.

The Society has received estimates that the expansion will cost \$1,137,130 to complete. This includes a 10.3% construction contingency. A final quantity survey review of the updated budget was in process at the time of the report writing.

Of the total projects cost, the Society has raised \$552,135 and is committed to a total of \$682,278. This leaves \$454,852 unfunded which is the value of the grant being requested of the CRHD.

The District's Ten Year Capital Plan includes an allowance of \$1M a year for small projects outside the VIHA Capital Plan (and the Minor Capital Plan component). There is therefore room in the budget to consider this request.

With rent-paying private practitioner tenants in the Health Centre, the capital grant request was subjected to an independent analysis of the prospect that the Society could borrow the unfunded share of the costs (\$454,852) and repay a mortgage from increased rental income.

The report shows that the Society receives revenue from both the private practitioners and government tenants, mainly BCBC and VIHA. With respect to the private practitioners, who occupy 43% of the total building, the analysis concludes their recently increased rents are above market leaving no room for higher rents. Private tenant rents would have to increase by approximately 50% to around \$24.50 per square foot compared to current rents of approximately \$16.38 and the comparable market rents of \$15.52.

On the government tenant side, the report reveals that BCBC and VIHA provide comparable rent to private practitioners for space utilized except for the Emergency Treatment Room that is now paid for by PIHCS. The PIHCS has requested that VIHA assume rent for this space which will comprise 15% (1,237/8,249) of the expanded total building occupancy. Numerous efforts to obtain adequate funding have failed and the prospects of obtaining increased funding are remote. If VIHA were to pay rent for the Emergency Treatment Room, the annual rental income would increase by approximately \$13,565. This additional income could be applied to reduce the above market rents of the private tenants (\$5,000), establish a replacement reserve (\$8,000) or reduce the amount of the grant.

ALTERNATIVES:

1. Approve a grant of \$454,852 to the Pender Islands Health Care Society for the expansion of the Health Centre.
2. Approve a grant of \$298,467 subject to the Vancouver Island Health Authority agreeing to pay a market rent of \$15.55 per square foot for the ETR expansion. This would entail the Society borrowing the balance of the unfunded expansion cost (\$156,385).
3. Reject the grant application and require the Society to borrow the \$454,852.

FINANCIAL IMPLICATIONS:

The capital grant request from the Society is relatively small in large part due to the significant community fundraising undertaken to support the project.

Requiring the Society to borrow the funds will entail additional costs for placing the mortgage, legal and administrative costs. These costs are not budgeted. Also the cost of borrowing is significant. A twenty year, 6.0% mortgage entails interest costs of \$322,400 or 71% of the cost of the project. The provision of capital grants is standard practice for the Regional Hospital District and this project is eligible.

The Regional Hospital District budget does not have the cash available to provide the Society with a \$454,852 grant. Instead it would have to be borrowed. The cost of borrowing \$454,852 over 5 years at 6% would entail a \$0.69 charge to the average assessed residential value (\$477,646) or \$0.15 per \$100,000. The estimated interest costs under the shorter term CRD financing is \$136,456.

SUMMARY/CONCLUSIONS:

An expanded community health centre for Pender Island is necessary. The Society has raised 60% of the cost of the project, a significant feat for a small community. The balance of the project funding at \$454,852 is being requested of the Regional Hospital District. The project is eligible for a Regional Hospital District grant but did not make the recently approved 2007 Minor Capital Plan schedule. The Regional Hospital District Ten Year Capital Plan has an allowance of \$1M to cover off smaller projects which do not make it on the VIHA Capital Plan. At this time the Pender Island project is the only one under consideration in 2007.

Due to the fact that there are private tenants in the health centre, staff requested an independent review of the potential to increase rents to help defray an alternative approach of the Society raising the \$454,852 through private mortgage financing. The independent analysis concludes there is no potential to increase private practitioner rents, which are already above comparable market rents. Any further rent increases could lead to a loss of tenants and a diminishment of the advantages of a health team in a single location.

The review also showed that VIHA is not paying rent for the Emergency Treatment Room and that repeated and recent efforts by the Society to obtain additional funding from VIHA have failed.

The Committee could ask VIHA to reconsider their position but any additional rental income would not necessarily go toward reducing the grant (Alternative 2). The Society's position is that extra funding would firstly be applied to equalizing rents (reducing the private practitioner rents) and then establishing a small replacement reserve fund. After applying additional rental income to these adjustments, there would be approximately \$565 of the \$13,565 left to apply to reduce the grant.

Mortgage financing will also entail additional placement, legal and administration costs and interest costs equivalent to 71% of the capital cost. Regional Hospital District funding is normally provided as grant with no expectation of recoveries from the recipient. The value of this grant is quite small in relation to the costs and the benefits of the expansion. There are advantages to issuing a full \$454,852 grant rather than a partial grant combined with a small private mortgage. The interest costs are lower and there will be less administration fees and transactions. Alternative One is preferred.

Also attached is a letter of support from the Southern Gulf Islands Community Health Advisory Committee (Attachment B).

RECOMMENDATION:

That the Planning & Protective Services Committee recommend to the CRHD Board:

1. That a grant of \$454,852 be approved for the Pender Islands Health Care Society for the expansion of the Bishop Coleman Memorial Health Centre.
2. That CRD Bylaw No. 348, "Capital Regional Hospital District Capital Bylaw No. 139, 2007" for \$454,852, for the CRHD's grant to enable the expansion of the Bishop Coleman Memorial Health Centre, with a financing term of five (5) years be introduced and read a first time, read a second time, read a third time and be adopted.

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COMMENTS: