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Corporate Services

ITEM #5

**REPORT TO THE PLANNING & PROTECTIVE SERVICES COMMITTEE
MEETING OF WEDNESDAY, 25 JULY 2007**

SUBJECT: Royal Jubilee Hospital Patient Care Centre Project

PURPOSE/ISSUE:

Consideration of a request by the Vancouver Island Health Authority (VIHA) for a capital contribution toward the provision of a new 500-bed Patient Care Centre and related support facilities at the Royal Jubilee Hospital Site.

HISTORY/BACKGROUND:

Regional Hospital District Purposes:

The Capital Regional Hospital District (CRHD) operates under the *Hospital District Act (the Act)*. The purposes of a regional hospital district are contained in section 20.(1) of the *Act*:

- a. to establish, acquire, construct, reconstruct, enlarge, operate and maintain hospitals and hospital facilities
- b. to grant aid for the establishment, acquisition, reconstruction, enlargement, operation and maintenance of hospitals and hospital facilities
- c. to assume obligations of...any hospital corporation, with respect to the repayment of money borrowed and provided for the financing of hospital projects and interest on it, or to provide reimbursement to a ...hospital corporation for money provided for financing hospital projects that were raised or obtained otherwise than by borrowing
- d&e refer to acting as an agent of the government or a hospital (generally not used), and f. generally covers administration.

Cost Sharing:

Previously the *Act* stipulated that the province would pay 60% of the capital/equipment costs and regional districts would pay 40%. Although this fixed cost sharing was removed from the *Act*, it has continued to be the practice of the CRHD to contribute 40% of the capital/equipment costs.

At the Aug 11, 2004 meeting, the CRHD Board passed a motion that:

“Cost sharing in the amount of \$1 million for the District share of 40% of the capital cost for the planning phase of a new in-patient facility at the Royal Jubilee Hospital be supported in principle; and ...advising VIHA of the District’s support in principle for the planning phase of a new in-patient facility and urged VIHA to begin the planning work as soon as possible”

Staff discussed the Abbotsford Regional Hospital project with the staff at the Fraser Valley Regional Hospital District (FVRHD). That project was going ahead as a Public/Private/Partnership (PPP) but the FVRHD decided to not actively participate in the PPP process per se. The Hospital District agreed to contribute 40% to the cost of the project, based on an agreed upon capital cost. Subsequently, the scope of the project changed and construction costs escalated but the Hospital District did not participate in those increased costs.

Project:

At the May 9th CRHD meeting, a presentation was made by VIHA as was a request for funding towards the proposed new Patient Care Centre Project at the Jubilee Hospital Site. The project is estimated to cost \$269,372,000 based on a project cost report prepared by Thornley BKG Consultants Inc. (TBKG) plus project planning costs. The region’s share of capital costs requested by VIHA is 40%, or \$107,748,800. The project is expected to be completed by 2010.

The May 2007 RJH Patient Care Centre Project Report that was presented to the Board at the May 9th meeting provided background on the project, an overview of VIHA's alignment of the project with their Five-Year-Strategic Plan and Ministry of Health's Service Plan and Capital Planning direction, as well as details on the project scope and assumptions used to develop the Acute Care Projection Model. A summary of the VIHA Capital Project Plan is attached as Appendix No. 1.

CRD staff subsequently met with staff of VIHA and Partnerships BC and reviewed the PPP model, including assumptions for risk, construction cost escalation, population growth, and supply and demand for complex care beds. Staff have been provided with the Project Cost Report prepared by TBKG Quantity Surveyors and the VIHA Project Report as at May 2007 which included the VIHA Capital Infrastructure Plan, Technical Overview of the Acute Care Projection Model and Project Phasing. Clarification was received regarding the complex care beds being replaced and currently being constructed as additional beds within the region and staff feel that the project model and assumptions used by VIHA are reasonable.

It is noted that the size of the project is based upon a number of factors, including the building of additional complex care beds, which are currently under construction. An additional constraint is the site itself and the zoning. VIHA advises that if there was a need for a greater number of beds in the future, it would consider expanding into one of the existing buildings not proposed to be demolished or would require an additional building on site, as the proposed 500-bed building is basically the maximum size allowed on the site.

VIHA will use 2 methods of procurement to construct the project:

- Construction of the inpatient facility would be by a Public Private Partnership (approximately 75% of total project costs)
- Equipment purchases and support facilities construction are to be by traditional purchasing methods (approximately 25% of total project costs).

ALTERNATIVES:

1. Approve funding a maximum of \$107,748,800 for the RJH Patient Centre Care Project based on 40% of \$269,372,000 (\$202,744,000 for the PPP portion of the project and \$66,628,000 for the traditional portion of the project).
2. Approve the RJH Patient Centre Care Project and agree to fund 40% of the project capital cost through the proposed PPP and traditional financing methods.

FINANCIAL IMPLICATIONS:

VIHA has advised that the project plan is based upon the CRHD providing the traditional 40% capital funding. There are a variety of options for the actual debt repayment for the project itself. An estimate of the typical 15 year borrowing for 40% of the estimated costs of the RJH project would result in an annual average residential cost of approximately \$73.75. See Schedule 'A'. For every 5 years longer in the borrowing term, the total interest costs would increase by approximately \$25 million (e.g., an extra \$75 million if repaid over 30 years). See Schedule 'B'. The net effect of a longer borrowing term results in a decrease in the annual cost of approximately \$10 to \$21 per year. See Schedule 'C'. The estimated cost of the debt servicing by municipality, based on a 15 year borrowing term, is shown on Schedule 'D'.

The current 10 year Capital Plan for the CRHD includes a new in-patient facility at the Jubilee site. There has, however, been no increase in annual requisition to fund this project nor have any funds been saved up in anticipation of funding this major expenditure.

In anticipation of the eventual construction cost of the Abbotsford Hospital and Cancer Centre, the FVRD has been requisitioning as if it has already borrowed the full 40% share and started putting funds aside in a reserve fund. Their 40% share of the \$178 Million project is \$71 Million, of which they have currently saved up \$25 Million in the reserve fund. The FVRD will significantly reduce their overall cost to their project by these savings. As mentioned above, the CRHD currently does not have funds in reserve for the Royal Jubilee project. The FVRD will raise the balance of funds needed through a MFA borrowing bylaw.

VIHA has indicated that the CRHD capital share could be paid either by cash contributions during construction or by annual payments upon completion of construction:

- Cash Contribution – this would be consistent with the traditional financing undertaken by the CRHD and CRD. The funds would be borrowed through the MFA and repaid over a long term period, usually 15 years for the CRHD.
- Annual Payments upon construction completion – this would mean that the CRHD would basically borrow through the PPP financing and make annual debt servicing payments for a longer period (30 years) and at a higher rate than would be available through the MFA.

If the project was financed using the PPP financing, the CRHD would then have a significant interest in the PPP process, scope changes, and possible exposure to the difficulties/risks of evaluating the final proposal. This could be a costly process occurring in addition to the actual borrowing costs. Based on the experience with Abbotsford Hospital, this could be a costlier option for the CRHD. Since the CRHD is not involved in the actual operations of the facilities, the benefit to the CRHD of participating in the PPP process is questionable.


SUMMARY:

The CRHD Board has previously approved 40% funding for the project planning and has urged VIHA to proceed with the project. The procurement method used by VIHA does not have to have an impact on the CRHD, as the option for a traditional cash contribution is available. The CRHD can borrow the required funding through MFA and have the opportunity to commence raising funds in 2008 to create a small reserve to reduce the actual borrowing costs. VIHA has invited the CRHD to appoint a member to the RJH Patient Centre Care Project Joint Liaison Committee .

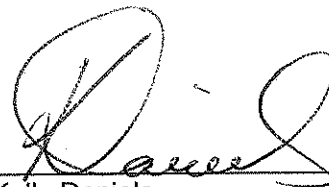
RECOMMENDATIONS:

That the Board:

1. Approve funding a maximum of \$107,748,800 for the RJH Patient Centre Care Project based on 40% of \$269,372,000 (\$202,744,000 for the PPP portion of the project and \$66,628,000 for the traditional portion of the project).
2. Direct staff to bring forward a borrowing bylaw to finance the CRHD share through MFA borrowings based on a 15 year term.
3. Authorize the Chair to appoint a member to the RJH Patient Centre Care Project Liaison Committee.



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Kelly Daniels
C.A.O. Concurrence

Attached: Appendix 1
Schedules A – D

Comments: