REPORT TO PLANNING, TRANSPORTATION & PROTECTIVE SERVICES COMMITTEE MEETING OF WEDNESDAY, OCTOBER 24, 2012

SUBJECT **Capital Regional Hospital District 2013-2022 Ten Year Capital Plan**

ISSUE

Approval of the Capital Regional Hospital District (CRHD) Ten Year Capital Plan identifying ongoing previously approved capital commitments, likely new capital expenditures for the ten-year period 2013-2022, and the financial implications for the CRHD requisition and future property tax charges.

BACKGROUND

A list of projected CRHD capital expenditures over the next 10 years (the "Capital Plan") is submitted for Board approval each year. The 2013-2022 Capital Plan (Appendix "A") is derived mainly from the Vancouver Island Health Authority's (VIHA) composite of priorities identified from the various health sectors (acute hospital, long term care/residential care, etc.),[1] and illustrates anticipated capital expenditures and their financial impact for the Region and property taxpayers.

Capital Plans are forward-looking documents that present the best estimate of cash flows expected in future years for ongoing and new projects and initiatives. Although the planning process is iterative, the Capital Plan is generally subjected to multiple revisions and alterations depending on factors such as: the availability of provincial funding; how projects fit into overall VIHA and CRHD priorities; and, more detailed project planning, design and cost estimation.

Some of the projects included in the 2013-2022 Plan have been changed or reassessed based on conversations with VIHA staff, and the current activity of projects in the CRHD catchment area continues to reflect VIHA's emphasis on the development of major healthcare facilities in all regions on Vancouver Island.

FUNDING DETAILS

Major Projects

For 2013 the following three potential new major projects (greater than $2 million) are anticipated, subject to final VIHA prioritization based on Island-wide planning and funding availability. The CRHD would contribute 30 percent of project costs.

i) $3 million (M) upgrade and renovation to the Endoscopy Unit at Victoria General Hospital (deferred from 2012 due to Provincial funding constraints);
ii) $2M upgrade and renovation to the Victoria General Hospital to accommodate a Maternity Clinic; and,
iii) $3.45M to upgrade and renovate the Saanich Peninsula Hospital for a surgery Post Anesthetic Recovery Room. Based on an estimated $2M contribution from the Saanich Peninsula Hospital Foundation, the CRHD would contribute 30 percent of the remaining $1.45M.

Minor Projects

Minor Capital Project contributions have been set at a maximum of $3.75M annually as a 40 percent contribution towards projects totaling $9.375M. Staff recommends moving from debt servicing to expensing all minor capital expenditures by 2016.

Section 20(3) Equipment & Planning/Research

Bio-medical and diagnostic equipment funding has been set at $3.075M in the Section 20(3) requisition funding, allocated as follows: $2.925M to VIHA for equipment; $30,000 to Mount St. Mary's Hospital for equipment; and, $120,000 for health facilities planning and research.

[1] VIHA funding sources: Ministry of Health, CRHD, Hospital Foundations, and VIHA ancillary-generated revenues (e.g. parking).

Non-Traditional Projects

The Plan also contains a $1M annual allocation for Non-Traditional Projects (NTP). CRHD staff continues to work with community agencies to identify potential projects that meet the NTP guidelines. Any unallocated NTP funding remaining at year end has been effectively used to pay down outstanding funding obligations including acquisition and development costs associated with the Mount View project.

ALTERNATIVES

1. Approve the 2013-2022 Ten Year Capital Plan as submitted, transitioning to expensing all Minor Capital commitments by 2016; or,

2. Approve the 2013-2022 Ten Year Capital Plan, but expense all Minor Capital commitments beginning in 2013; or,

3. Direct staff to amend the proposed 2013-2022 Ten Year Capital Plan reducing the amount of health capital funding to be contributed to projects and equipment.

FINANCIAL IMPLICATIONS:

Alternative 1:

This option would transition over the next three years from the current process of debt servicing to expensing $3.75M in planned Minor Capital contributions by using anticipated surplus funds from the prior year and debt servicing the balance. In 2013 and 2014, $2M of Minor Capital funding is proposed to be expensed from the current requisition and prior year surplus, with $1.75M borrowed. Cash flow over 2013 and 2014 will be managed to regularize requisition increases over this period transitioning to fully expensing Minor Capital by 2016 with $3M expensed in 2015 along with $0.75M borrowed.

Surplus funds are a result of several factors, including: reduced borrowing charges from the Municipal Financing Authority; delay of some ongoing projects; managing cash flow and borrowing and, some planned projects being deferred to future years. The requisition increase would be managed by applying reserve funds in 2014.

Appendix “B” graphically illustrates the existing and estimated debt service implications of the 2013 Ten Year Capital Plan on the average assessed residential value. These implications are summarized in Appendix “C”. This Alternative continues to reflect significant debt management and control on the overall CRHD requisition established in previous years. For example, in the 2010 Capital Plan the projected peak requisition expected in 2017 was $210.27 per household. The 2012 Capital Plan projected a peak maximum requisition of $195.93 in 2017. The current plan indicates an estimated peak of $184.33 in 2017 – an overall decrease of 6 percent. It is noted that this is a decrease of 27.5 percent from the previous highest peak of $254.13 projected in the 2008 Capital Plan.

Alternative 2:

This Alternative would involve expensing all Minor Capital contributions beginning in 2013 including prior year commitments and the proposed new 2013 contributions. While this would immediately reduce CRHD debt, it would also see an increase in the 2013 requisition of approximately 7.2 percent.

Alternative 3:

Considering the most recent Provincial 2012/13 actual and 2013-2015 provisional capital funding allocations, not approving this Plan may jeopardize the ability of the CRHD to leverage Regional funds to secure Provincial healthcare capital.

CONCLUSION

As graphically illustrated in Appendix "B", the proposed 2013-2022 Capital Plan includes projects VIHA may implement in future years within the Capital Region and portrays a partial road map for future anticipated healthcare capital projects and related cash flows. The proposed 2013-2022 Capital Plan is also the best indication at this time of VIHA's long term healthcare capital requirements within the Region.

CRHD staff continues to work with VIHA to refine details on specific projects and develop robust plans and projections of the Region's acute healthcare capital requirements for VIHA facilities. The Plan also presents an accurate reflection of cash flow to complete ongoing (Board previously approved) projects and estimated cash flow for new projects to be approved.

Given the Board's strategic priority of healthcare capital, staff recommends approving the 2013-2022 Capital Plan as submitted. The proposed 2013 CRHD provisional budget is based on the financial implications of this recommendation.

RECOMMENDATION

That the Planning, Transportation and Protective Services Committee recommend that the Capital Regional Hospital District Board:

1. Approve the 2013-2022 Ten Year Capital Plan as submitted, transitioning to expensing all Minor Capital commitments by 2016.

Original Signed

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Attachments:

A. 2013-2022 CRHD Capital Plan
B. Capital Plan Debt Servicing Graph
C. Existing and Estimated Debt Servicing Implications