



# Regional Hospital District Board Report

**TO:** Regional Hospital District Board

**FROM:** Marilyn Rilkoff  
Director of Financial Services

**DATE:** January 27, 2018

**SUBJECT:** 2018 – 2022 Central Okanagan Regional Hospital District Financial Plan Draft #1

**Purpose:** To present the draft 2018 – 2022 Financial Plan

## Executive Summary:

The Draft Financial Plan presents a 0% increase per average home in 2018 for the Board's consideration. The Annual tax would be \$180.29 for an average home assessed at \$687,000 (vs. \$597,000 in 2017).

There is no impact on the average residential home anticipated for the next 5 years, and at the same time reserves will be built to pay down debt or fund future capital:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
% Increase per home	0.00%	0.00%	0.00%	0.00%	0.00%
Annual Tax	\$180.29	\$180.29	\$180.29	\$180.29	\$180.29
Residential Tax Rate (cents)	0.2624	0.2624	.2624	.2624	.2624

The capital project funding includes \$5.647 million in carryovers from the 2017 Financial Plan in addition to \$4.668 million for new projects requested in a letter from IHA attached to this report, dated December 12, 2017. IHA staff will be present at the Board meeting to answer questions about the funding requests. All projects have been included in the budget draft. All facilities except for the West Kelowna Health Centre and Rutland Health Centre are currently designated facilities under Section 49 of the *Hospital District Act*. Staff is working with IHA to have these facilities designated by the Minister prior to budget approval so that they may be funded by CORHD.

## RECOMMENDATION:

**THAT** the Regional Hospital Board receive the draft budget for information;

**AND FURTHER THAT** the Regional Hospital Board deny funding and capital bylaw approvals for any projects or facilities that do not qualify as designated facilities pursuant to the *Hospital District Act*.

Respectfully Submitted:

Marilyn Rilkoff  
Director of Financial Services

Approved for Board Consideration

Brian Reardon  
Chief Administrative Officer

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**Implications of Recommendation:**

**Financial:** 0.00% increase per average household. The average homeowner will pay \$180.29 for Hospital District taxes.

**Legal/Statutory Authority:** Hospital District Act – Part 1 – Definitions 1 and Part 3 – Functioning of Board Division 1, Purposes Section 20 (1)

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**Background:**

With the proposed budget, there are no tax increases to the average home for the next 5 years. This budget would continue to position the Board to make some important decisions in coming years.

In order to fund the recent multi-million dollar Ambulatory Care Centre (completed) and Interior Heart and Surgical Centre Projects (still underway), the Board had a long term strategy in place over several years to slowly increase the tax rate until it reached the forecasted maximum of \$0.37 - \$0.38. In 2016 and 2017, due to growth and for reasons below, the tax increase was 0%. We are again pleased to present the 5 year financial plan with 0% increases for all 5 years.

In 2017, IHA revised cash flow requirements and anticipated reductions in the IHSC project. The project continues to be forecast with \$9.187 million in savings, and this was reflected in last year's financial plan. IHA was able to remove many of the construction uncertainties and reduced the contingencies built into the projects. The total anticipated costs for CORHD have gone from \$84.69 million to \$75.503 million. (It should be noted that while it is not likely that this would change, CORHD is still committed to the approved project amount should it change.)

As presented originally in the 2016 financial plan, starting in 2018 the recommendation was to start setting aside excess funds, now projected to accumulate to \$16 million, to be used in one of two strategic ways:

1. Recent large projects have created a large debt load within the Regional Hospital District. Refinancing of these MFA debts will begin in 2020. At this time there would be an opportunity to pay down the principal amount.

CORHD Debt Renewal Information by Issue					
Issue	Year Borrowed	Original Debt Amount	Renewal Year	Balance at Time of Renewal	Current Rate
110	2010	43,699,186.99	2020	26,080,282.53	4.5
117	2011	8,638,211.38	2021	5,155,404.67	3.25
117	2011	38,826,219.51	2021	23,172,027.80	3.25
126	2013	10,071,396.00	2023	6,010,749.18	3.85
127	2014	13,500,000.00	2024	8,056,987.73	3.3
133	2015	5,700,000.00	2025	3,335,442.22	2.75
		120,435,013.88		71,810,894.13	

- Interest rates have been at historical lows. If they start to go up, CORHD would be positioned to pay off close to \$8 million at the first debt renewal opportunity in 2020 (at 4% over 10 years, that is over \$3 to 4 million in interest savings that could be put toward reserves or other capital projects instead. Another cumulative effect would be that the equivalent of the annual principal portion of the debt payment – almost \$700k can also now also be put toward reserves or capital.)
  - Approximately \$3.5 to \$7 million plus any annual debt payment reductions as above could be used to pay down principal for the other debt renewals in 2021, 2023, 2024 and 2025, saving the interest for the remaining 10 years, and freeing up the amounts going to annual debt repayment for other purposes.
2. IHA has indicated that they are looking at future infrastructure replacement funding gaps, and the reality is they are likely to continue to come to the Board to request funding assistance. The Board would be in a position to pay cash rather than borrow the funds. Estimates and indications are that future funding requests will be in the range of \$4 – 5 million. The financial plan has been adjusted accordingly for 2019 to 2022 to illustrate the possible effects. The largest impact will be to reserves.

By leaving tax rate increases at zero and effectively only increasing the requisition to account for growth, the reserves would allow the Board the ability to respond to either scenario or some strategic mix of both. As additional knowledge is gained and information is received, in future years the Board will be better positioned to respond accordingly.

This leaves a legacy of reducing debt load over the next 20 years, making a difference to the health of the community, and contributes to residual economic benefits by attracting people to live and work in the Central Okanagan.

#### **ACC & IHSC Debt Information Update:**

##### **Ambulatory Care Centre (ACC) 2008 - 2012:**

ACC Borrowing Bylaw #112 Amount Approved	\$99,356,757	
Project Total		\$99,356,757
<b>Actual Long Term Borrowing</b> <i>(20 year amortization, annual pmts \$6m, interest rates of 4.5% on \$43.7m and 3.25% on \$38.8m)</i>		<b>82,525,407</b>
<b>Principal Amount Outstanding Dec. 31, 2017</b>		<b>\$65,729,462</b>

##### **Interior Heart & Surgical Centre (IHSC) 2010 – 2019:**

IHSC Borrowing Bylaw #113 Amount	\$91,347,000	
<b>Revised Cost Estimate</b>	<b>75,503,000</b>	
Long Term Borrowing to date <i>(20 year amortization, annual pmts \$2.2m, interest rates of 3.25%, 3.3%, 3.85%, 2.75%)</i>	\$37,909,607	
Remaining Anticipated Borrowing	0	
<b>Total Anticipated Borrowing (only 50.2% of Cost!)</b>		<b>\$37,909,607</b>
<b>Principal Amount Outstanding Dec. 31, 2017</b>		<b>\$32,723,895</b>

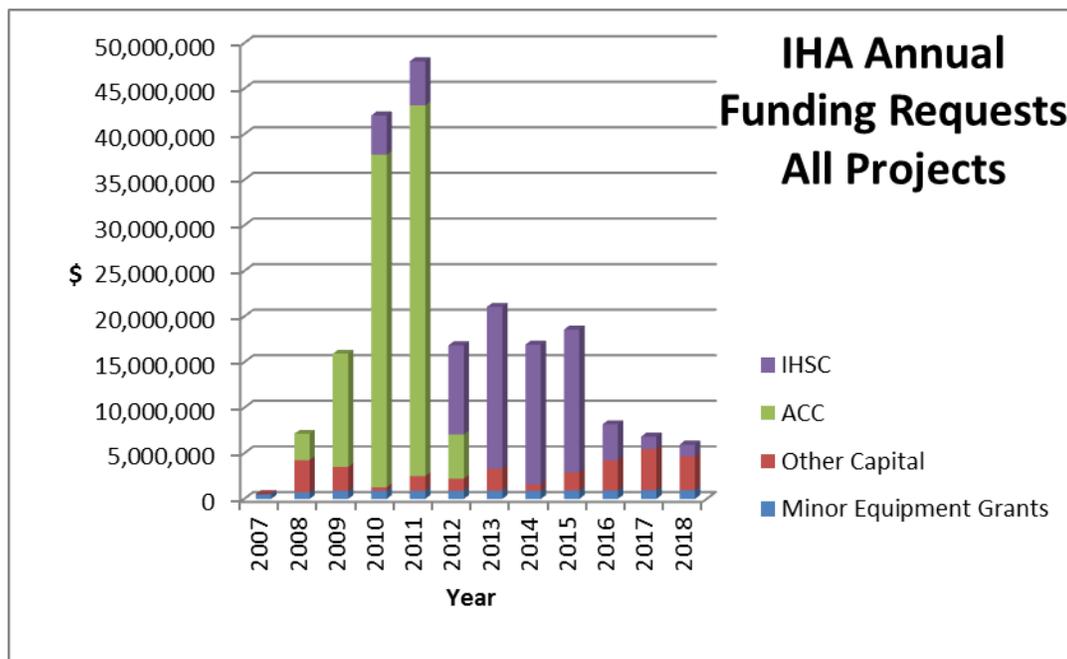
**Capital Request Process:**

The CORHD typically funds 40% of approved capital requests from IHA.

- **Large Projects:** There has been the occasional large project which has been treated uniquely. In these rare situations, the CORHD Board chose to fund certain portions of these projects at 100%. These projects all require Provincial Health Ministry approval, and are also funded by the Ministry. IHA comes to the Board when such a unique project arises, and makes a presentation and formal request. The Board has an opportunity to debate the matter and decides if it wishes to support and approve the project and put it in the next budget.
- **Smaller Items:** Annually, we receive a new funding request letter in December for funding of equipment and smaller construction projects. IHA staff are experts in the field, and have vetted and narrowed the list to these priorities. Historically, these requests include approximately \$950,000 for a global grant for various equipment under \$100,000, and last year and this year, an average of \$3 - \$4 million for various other projects. IHA staff attend a Board meeting to address any questions the Board may have regarding the items in the letter. These are included in the draft budget for the Board's approval. Items that were approved in prior years that have not been spent get carried over.

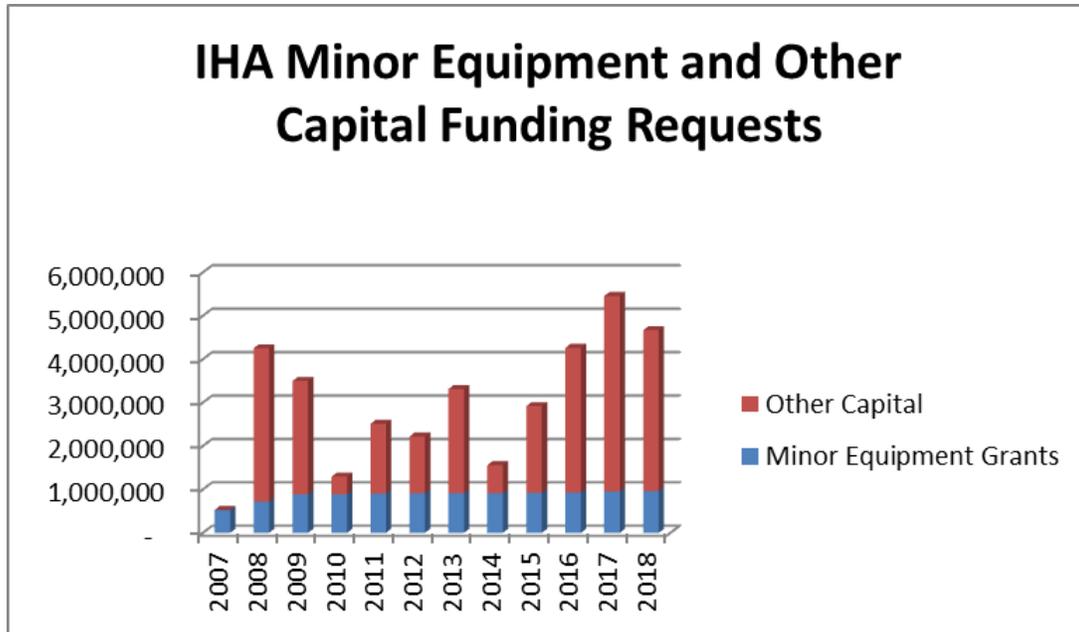
In addition to the budget bylaw, capital spending bylaws are issued for all approved projects as required under the Hospital District Act once the Financial Plan is approved. Historical information is provided for reference below:

**IHA Annual Historical Annual Capital Funding Requests including Extraordinary Projects:**



**IHA Annual Historical Request for Minor Equipment and Other Capital Funding:**

The graph below gives a better sense of “regular” levels of requests contained in IHA’s annual funding letter.



<b>Financial Considerations:</b>	As stated in this report.
<b>External Implications:</b>	Improved health care infrastructure.
<b>Alternative Recommendation:</b>	Staff can present additional scenarios if the Board wishes.

***Considerations not applicable to this report:***

- Organizational Issues

Attachment(s):

*In the Budget Binder:*

*CORHD 2018 – 2022 Financial Plan Draft #1*

*CORHD 2018 – 2022 Project Funding Listing*

*CORHD - Reconciling 2017 Budget vs. Actual, Cash and Debt Changes*

*Letter from IHA December 12, 2017: Capital Funding Request for 2018/19 Fiscal Year*

*2017 – 2021 CORHD Approved Amended Financial Plan for comparative purposes*