



# Regional Hospital District Board Report

## Request for Decision

**To:** Regional Hospital District Board

**From:** Director of Financial Services

**Date:** March 16, 2023

**Subject:** 2023 – 2027 Five-Year Financial Plan - DRAFT

***Voting Entitlement:*** All Directors – Weighted Vote – Majority (HDA s.9, LGA s.196, s.210)

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**Purpose:** To present the Central Okanagan Regional Health District's draft 2023-2027 Five-Year Financial Plan for review.

### **Executive Summary:**

The draft Central Okanagan Regional Health District (CORHD) 2023-2027 Five-Year Financial Plan (Plan) is based on the continuation of an annual 3% increase in the tax requisition which results in an 11% decrease in the cost for property owners. Another year of assessment growth higher than the requisition increase means the cost to the property owner is diluted.

Total operating expenditures, excluding funds being set aside for future capital projects, are consistent with the prior year, seeing a small increase of \$10,000 for a total of \$6.6M. The transfer to capital reserves has been re-introduced for 2023 at \$4.6M.

Table 5 in this report provides other options for higher increases in the requisition. While these options result in a higher cost for property owners, they also allow more funds to be retained in reserves. This in turn will help CORHD become financially resilient in the face of increasing construction costs.

The total planned capital funding requirements for 2023 are \$36.7M, a \$4.1M or 12.4% increase over the prior year. A significant portion of this increase is the result of 2022 capital projects being carried forward into 2023 (\$27.7M). New capital funding requests for 2023 have decreased from the prior year (\$9.1M versus \$13.1M in 2022).

### **Recommendation(s):**

**THAT** the Regional Hospital District Board receives the draft Central Okanagan Regional Hospital District 2023-2027 Five Year Financial Plan from the Director of Financial Services, dated March 16, 2023, for information;

**AND THAT** the Regional Hospital District Board approve in principle the draft Central Okanagan Regional Hospital District 2023-2027 Five Year Financial Plan;

**AND THAT** the Regional Hospital District Board direct staff to prepare the 2023-2027 Five Year Financial Plan bylaw based on the approved 2023-2027 Five Year Financial Plan.

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Approved by:



Tania McCabe, CPA, CA  
Director of Financial Services

Attachment(s):   Appendix A – 2023 Financial Plan  
                          Appendix B – 2023 – 2027 Five-Year Financial Plan  
                          Appendix C – 2023 Capital Projects

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#### **Strategic Plan Alignment:**

Priorities:       Sustainable Communities

Values:         Good Governance, Resiliency

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#### **Background:**

Each year, the Central Okanagan Regional Health District (CORHD) must develop a Five-Year Financial Plan detailing expenses and revenues for the five year period, including capital expenditures by project and any surplus or deficit resulting from the prior year. The CORHD Board must approve the annual budget before March 31<sup>st</sup> each year.

The draft 2023 - 2027 Five-Year Financial Plan (Plan) is derived from Interior Health's capital priorities. It represents the CORHD's ongoing capital commitments, anticipated new capital expenditures, operating expenses, and financial implications for the CORHD's requisition and future property tax changes.

In preparation for annual updates to the Plan, CORHD staff monitors the CORHD's contribution to ongoing capital projects and reviews planned new capital projects with Interior Health staff throughout the year. Some modifications to the previous year's plan may occur based on the continuing evaluation of emerging Interior Health Authority (IHA) priorities.

Significant new capital projects included in the Plan (greater than \$1 million) include:

**Table 1: Significant New Projects**

Description	Facility	Total Project Cost	CORHD Share
Endovascular treatment equipment (new costs)	Kelowna General Hospital	3,060,000	1,224,000
Additional acute care beds	Kelowna General Hospital	2,500,000	1,000,000
IH-Wide Digital Health	Various	3,716,500	1,486,600
Equipment under \$100,000	Various	2,540,500	1,016,200
<b>Total</b>		<b>11,817,000</b>	<b>4,726,800</b>

### Financial Implications:

The Plan includes \$6.6 million in operating expenditures and is 0.1% more (\$10K) than the prior year. The Plan also includes the return of a planned transfer to reserves of \$4.6M. This represents the additional requisition being collected each year, for the purposes of setting funds aside for future capital projects. The detailed 2023 draft plan compared to the 2022 final plan is included in Appendix A. Appendix B provides the five-year financial plan. The following table summarizes the year over year change in operating expenditures:

**Table 2: Changes in Operating Expenditures**

Expense Type	2023 Draft Plan	2022 Plan	\$ Change	% Change
Debt servicing	\$ 6,591,534	\$ 6,591,534	\$ -	0.0%
Administration	42,000	41,000	1,000	2.4%
Audit & contract services	11,500	9,555	1,945	20.4%
Board remuneration	7,000	-	7,000	0.0%
<b>Operating expenditures before transfers</b>	<b>\$ 6,652,034</b>	<b>\$ 6,642,089</b>	<b>\$ 9,945</b>	<b>0.1%</b>
Transfer to reserve	4,587,819	-	4,587,819	0.0%
<b>TOTAL EXPENDITURES</b>	<b>\$ 11,239,852</b>	<b>\$ 6,642,089</b>	<b>\$ 4,597,764</b>	<b>69.2%</b>

The debt servicing budget reflects the cost of servicing the existing debt. These costs are influenced by long-term lending rates on new and renewing issuances and debt retirements. The total debt servicing cost for 2023 is \$6.6 million and is unchanged from 2022.

The administration budget recognizes resources provided by RDCO staff in supporting the CORHD throughout the year. Adjustments have been made to reflect forced growth in wages and additional staff time. Audit and contract service fees reflect the contract awarded to BDO by the CORHD Board to perform the 2023 financial audit.

There is a new expenditure for CORHD Board remuneration. CORHD Board members will be remunerated for each meeting they attend. The total expenditure is estimated based on bi-monthly meetings where all CORHD Board members attend.

Transfers to reserve have been reintroduced in 2023, as planned. They were not done in 2022 due to a significant increase in new funding requests from the IHA in that year. The funding requests for 2023 are reduced, allowing a portion of the 2023 requisition to be set aside for future capital projects.

## Annual Revenue

Total revenue is \$47.9 million, increasing \$8.6 million or 22% from the prior year. The detailed 2023 draft plan is included in Appendix A. The change in revenue from the preceding year is shown in Table 3 below:

**Table 3: Changes in Revenue**

Revenue Type	2023 Draft Plan	2022 Plan	\$ Change	% Change
Tax Requisition:				
City of Kelowna	\$ 14,391,091	\$ 13,867,985	\$ 523,106	3.77%
District of Peachland	533,098	539,389	(6,291)	-1.17%
District of Lake Country	1,426,654	1,434,022	(7,367)	-0.51%
City of West Kelowna	3,235,163	3,152,791	82,373	2.61%
Electoral Area Central Okanagan West	389,195	380,675	8,520	2.24%
Electoral Area Central Okanagan East	337,850	346,549	(8,698)	-2.51%
<b>TOTAL TAX REQUISITION</b>	<b>\$ 20,313,052</b>	<b>\$ 19,721,410</b>	<b>\$ 591,642</b>	<b>3.00%</b>
Capital Project Funding:				
Transfer from reserve	8,881,667	11,535,782	- 2,654,115	-23.01%
Transfer from prior year surplus	18,749,582	8,038,449	10,711,134	133.25%
<b>TOTAL CAPITAL FUNDING</b>	<b>\$ 27,631,249</b>	<b>\$ 19,574,231</b>	<b>\$ 8,057,019</b>	<b>41.16%</b>
<b>TOTAL REVENUES</b>	<b>\$ 47,944,302</b>	<b>\$ 39,295,641</b>	<b>\$ 8,648,661</b>	<b>22.01%</b>

The increase in revenue requirements is primarily driven by increased use of surpluses to fund capital spending requirements related to capital projects approved for funding, from requisition or surplus, in prior years. If any of this funding is not needed for capital spending, it will be left in the surplus.

## Requisition

The 2023 Requisition is budgeted at \$20.3 million, increasing \$0.5 million (3.00%) from the prior year. Table 3 illustrates the cost per \$100,000 of assessed value and the year-over-year change.

**Table 4: Change in Requisition**

Description	2023 Draft Plan	2022 Plan	\$ Change	% Change
Requisition (\$ millions)	\$ 20,313,052	\$ 19,721,410	\$ 591,642	3.00%
<b>Cost/\$100,000 of assessment value</b>	<b>\$ 18.72</b>	<b>\$ 21.07</b>	<b>\$( 2.35)</b>	<b>(11.14%)</b>

This table shows that when assessment growth is higher than expenditure increases, which is the situation in 2023, it has a dilutive impact on the cost per \$100,000 of assessed value.

Table 5 presents the annual cost per average home and reserve balance changes based on different tax increases. As the tax increase rises, so does the balance in reserve because the increased requisition amounts are transferred to the reserve. The cost to homeowners also rises due to increased taxation.

This analysis is based on a static assessment assumption. If assessment value growth continues to outpace the requisition increase, the cost to homeowners would be lower.

**Table 5: Forecast Requisition per \$100K of Assessed Value and Reserve Balance**

Tax Increase	Indicator	2023	2024	2025	2026	2027
3.00%	Annual cost per avg home	\$ 18.72	\$ 19.28	\$ 19.86	\$ 20.46	\$ 21.07
	Increase/(decrease) over prior year	\$ (2.35)	\$ 0.56	\$ 0.58	\$ 0.60	\$ 0.61
	Reserve balance	\$ 8,111,164	\$ 12,623,539	\$ 17,897,581	\$ 23,974,964	\$ 30,899,174
3.50%	Annual cost per avg home	\$ 18.81	\$ 19.47	\$ 20.15	\$ 20.86	\$ 21.59
	Increase/(decrease) over prior year	\$ (2.26)	\$ 0.66	\$ 0.68	\$ 0.71	\$ 0.73
	Reserve balance	\$ 8,209,771	\$ 12,827,163	\$ 18,212,944	\$ 24,409,115	\$ 31,459,503
4.00%	Annual cost per avg home	\$ 18.90	\$ 19.66	\$ 20.45	\$ 21.26	\$ 22.11
	Increase/(decrease) over prior year	\$ (2.17)	\$ 0.76	\$ 0.79	\$ 0.82	\$ 0.85
	Reserve balance	\$ 8,308,378	\$ 13,031,772	\$ 18,531,368	\$ 24,849,603	\$ 32,030,765
4.50%	Annual cost per avg home	\$ 18.99	\$ 19.85	\$ 20.74	\$ 21.68	\$ 22.65
	Increase/(decrease) over prior year	\$ (2.08)	\$ 0.85	\$ 0.89	\$ 0.93	\$ 0.98
	Reserve balance	\$ 8,406,985	\$ 13,237,368	\$ 18,852,869	\$ 25,296,491	\$ 32,613,119
5.00%	Annual cost per avg home	\$ 19.09	\$ 20.04	\$ 21.04	\$ 22.09	\$ 23.20
	Increase/(decrease) over prior year	\$ (1.98)	\$ 0.95	\$ 1.00	\$ 1.05	\$ 1.10
	Reserve balance	\$ 8,505,592	\$ 13,443,950	\$ 19,177,461	\$ 25,749,840	\$ 33,206,726

## Capital Projects

The CORHD 5-year capital plan is the basis of expenditures and related debt servicing included in the draft Plan. Total 2023 capital expenditures are \$36.7 million, an increase of \$4.2 million or 13% from 2022. Costs summarized in Table 6 include previously approved projects, as well as IHA's new capital initiatives.

**Table 6: Capital Plan Summary**

Description	2023 Draft Plan	2022 Plan	\$ Change	% Change
Previously approved projects	\$ 27,631,249	\$ 14,627,252	\$ 13,003,997	88.9%
Additions to previously approved projects	3,151,000	-	3,151,000	100.0%
Construction projects over \$100K	2,257,000	2,541,600	(284,600)	(11.2%)
Construction Projects under \$100,000	-	56,000	(56,000)	(100.0%)
Property Acquisitions	440,000	-	440,000	100.0%
IH-wide Digital Health	1,486,600	-	1,486,600	100.0%
Digital Health under \$100K	48,000	1,032,000	(984,000)	(95.3%)
Equipment over \$100K	674,400	13,215,700	(12,541,300)	(94.9%)
Equipment under \$100K	1,016,200	1,181,000	(164,800)	(14.0%)
<b>Total</b>	<b>\$ 36,704,449</b>	<b>\$ 32,653,552</b>	<b>\$ 4,215,697</b>	<b>12.9%</b>

Appendix B – 2023 – 2027 Five-year Financial Plan includes future budget projections based on the IHA requesting an average of \$10 million per year for the next four years as per their most recent information provided.

Appendix C details planned capital expenditures by project and the related cost-sharing commitment.

## Reserves

Table 7 details the five-year cash flow in the reserve fund and summarizes planned activity through the end of 2027. The 2023 opening balance of \$22.4 million is projected to decrease by \$3.9 million to \$8.1 million in 2023. The decrease is driven by funding \$8.8 million in prior year capital projects that were approved for funding from reserves. The funds will not be transferred out unless needed.

**Table 7: Changes in Reserve**

Activity	2021	2022		2023	2024	2025	2026	2027
	Actual	Plan	Actual	Plan	Plan	Plan	Plan	Plan
Opening Balance	11,638,751	11,732,226	11,732,226	12,043,702	8,111,164	12,623,539	17,897,581	23,974,964
Transfer To	-	-	-	4,587,819	14,269,040	14,895,336	15,540,455	16,204,961
Interest	93,475	1,964	311,476	361,311	243,335	378,706	536,927	719,249
Transfer From	-	11,535,782	-	8,881,667	10,000,000	10,000,000	10,000,000	10,000,000
<b>Closing Balance</b>	<b>11,732,226</b>	<b>198,408</b>	<b>12,043,702</b>	<b>8,111,164</b>	<b>12,623,539</b>	<b>17,897,581</b>	<b>23,974,964</b>	<b>30,899,174</b>

Staff collaborates with IHA to refine capital plans to serve the region's needs best. All projects listed in the plan are subject to prioritization by IHA and CORHD Board approval. The CORHD 2023 – 2027 Financial Plan incorporates the financial implications of Interior Health's funding request letter dated December 15, 2022.

## Considerations:

### Organizational/External:

The CORHD funding contribution to the IHA assists the health authority to deliver on important capital projects that benefit the Central Okanagan as well as purchase necessary equipment to provide vital health services to the region.

### Financial:

All financial considerations are outlined in the report above.

### Legal/Statutory Authority:

As per Section 23(5) of the Hospital District Act, on or before March 31 in each year, the board must adopt, by bylaw, the annual budget of the board and the board must at once transmit to the Minister a copy of the bylaw and budget certified by the Secretary.

**Approved for Agenda**



**Brian Reardon, CAO**