



Regional Hospital District Board Report

Request for Decision

To: Regional Hospital District Board
From: Director of Financial Services
Date: February 20, 2025

Subject: 2025–2029 Five-Year Financial Plan - DRAFT

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

Purpose: To consider the Central Okanagan Regional Health District's draft 2025-2029 Five-Year Financial Plan for review and approval.

Executive Summary:

The draft Central Okanagan Regional Health District (CORHD) 2025-2029 Five-Year Financial Plan (Plan) is based on the continuation of an annual 5.0% increase in the tax requisition as approved by the Board in 2023. There was growth in the total assessment value for 2025, which has helped reduce the tax rate increase. The impact is a 3.2% increase in the cost/\$1,000 of assessment value.

Total operating expenditures are \$7.0 million, excluding funds being set aside for future capital projects, have increased by \$376 thousand. The primary drivers are:

1. Renewal of issued debt that resulted in higher debt servicing costs (\$225 thousand).
2. Interest costs for temporary borrowing to fund the Cottonwoods Long-Term Care project during construction. The project requires long-term borrowing to fund it. Because the project will take several years to complete, temporary financing will be used while it is in progress. When the project is complete, the temporary financing will be converted to long-term debt (\$150 thousand).

The transfer to capital reserves has increased \$0.7 million to \$15.8 million for 2025. This reflects the intention to incorporate regular transfer increases in the annual requisition.

The total planned capital projects for 2025 are \$40.3 million, of which \$25.7 million is for new projects. This represents a \$7.8 million increase from the prior year. The increase is related to the Cottonwoods Long-Term Care project, which will begin in 2025. It is a \$74.75 million project that is projected to take four years to complete.

Reserves are projected to decrease over the first two years of the five-year period of the financial plan, and then grow over the remaining three years. This reflects the plan to fund the Cottonwoods Long-Term Care project from reserves to the extent possible, to minimize future borrowing costs. With aging infrastructure, increased demands on existing facilities, and the potential need for new facilities in the future, it will be important to focus on building reserves in the future to position the CORHD to be able to fund future capital projects with minimal debt.

Recommendation(s):

THAT the Central Okanagan Regional Hospital District Board approve the draft Central Okanagan Regional Hospital District 2025-2029 Five-Year Financial Plan;

AND THAT the Regional Hospital District Board direct staff to prepare the 2025-2029 Five-Year Financial Plan bylaw based on the approved 2025-2029 Five-Year Financial Plan.

Report Approved by: Tania McCabe, CPA, CA, Director of Financial Services

Approved for Agenda: Sally Ginter, Chief Administrative Officer

Strategic Plan Alignment:

- | | |
|---|---|
| <input type="checkbox"/> Emergency preparedness | <input type="checkbox"/> Truth and reconciliation |
| <input checked="" type="checkbox"/> Health and wellness | <input type="checkbox"/> Environment and climate – Regional priority |
| <input type="checkbox"/> Regional transportation | <input type="checkbox"/> Growth and development – Electoral Area priority |

Background:

Each year, the Central Okanagan Regional Health District (CORHD) must develop a Five-Year Financial Plan detailing expenses and revenues, both operating and capital. The CORHD Board must approve the annual budget and adopt the Five-Year Financial Plan bylaw before March 31st each year.

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. Where required, modifications to the previous year's plan may be made based on the continuing evaluation of emerging Interior Health Authority (IHA) priorities.

The draft 2025-2029 Five-Year Financial Plan (Plan) is derived from IHA's capital priorities. It represents CORHD's ongoing capital commitments, anticipated new capital expenditure commitments, and operating expenses. The financial implications of the CORHD's planned tax requisition is provided in this report.

Operating Plan:Revenues

Total revenue is \$63.1 million, increasing \$8.9 million from the prior year. The change is comprised of the following:

- Continuance of the tax requisition increase of 5% (\$1.1 million) approved by the Board as part of the 2023-2027 Five-Year Financial Plan.

- Funding from reserves has decreased (\$7.2 million). Capital projects are typically funded fully from reserves. With reserves being insufficient to fund all the new capital projects in 2025, a portion of the Cottonwoods Long-Term Care project will be funded from debt. The planned amount of borrowing has been set to maintain a minimum level in reserves for future capital project requests from IHA.
- Temporary borrowing will be used, as required, to fund the current year spending on the Cottonwoods Long-Term Care project. The anticipated amount is shown as Debt Proceeds under the capital revenue section of the plan. Planned spending on this project, in 2025, is \$19.3 million. The plan estimates funding \$15.0 million of that with temporary borrowing.

The detailed 2025 draft Plan is included in Appendix A. The change in revenue from the preceding year is provided in Table 1 below:

Table 1: Changes in Revenue

Revenue Type	2025 Plan Draft	2024 Plan	\$ Change	% Change
Tax Requisition:				
City of Kelowna	\$ 16,444,339	\$ 15,621,832	\$ 822,507	5.3%
District of Peachland	572,061	547,122	24,939	4.6%
District of Lake Country	1,522,004	1,490,783	31,221	2.1%
City of West Kelowna	3,539,089	3,344,784	194,305	5.8%
Electoral Area Central Okanagan West	390,995	382,348	8,647	2.3%
Electoral Area Central Okanagan East	361,510	355,986	5,524	1.6%
TOTAL TAX REQUISITION	\$ 22,829,998	\$ 21,742,855	\$ 1,087,143	5.0%
Capital Project Funding:				
Transfer from reserves/surplus	25,253,832	32,418,109	(7,164,277)	(22.1%)
Debt proceeds	15,000,000	-	15,000,000	100.0%
Capital Funding from Reserves	\$ 40,253,832	\$ 32,418,109	\$ 7,835,723	24.2%
TOTAL REVENUES	\$ 63,083,830	\$ 54,160,964	\$ 8,922,866	16.5%

Requisition

The 2025 Requisition is budgeted at \$22.8 million, increasing \$1.1 million (5.0%) from the prior year. While individual home assessments decreased, the total value of the assessment pool increased. This helped to keep the increase in the cost per \$100,000 of assessed value at 3.2%.

Table 2 illustrates the cost per \$100,000 of assessed value and the year-over-year change.

Table 2: Change in Requisition

Description	2025 Plan Draft	2024 Plan	\$ Change	% Change
Requisition (\$ millions)	\$ 22,829,998	\$ 21,742,855	\$ 1,087,143	5.0%
Cost/\$100,000 of assessment value	\$ 19.81	\$ 19.19	\$ 0.62	3.2%

Expenditures

The Plan includes \$7.0 million in operating expenditures which represents a \$375 thousand increase over the prior year. The Plan also includes a transfer to reserves of \$15.8 million. The transfer to the reserve represents the additional requisition collected for the purposes of setting funds aside for future capital projects. The transfer is \$0.7 million higher than in 2024.

The 2025 draft plan, with the 2024 plan for comparison, 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:

Table3: Changes in Operating Expenditures

Expense Type	2025 Plan Draft	2024 Plan	\$ Change	% Change
Debt servicing	\$ 6,816,318	\$ 6,591,534	\$ 224,784	3.4%
Administration	44,000	43,000	1,000	2.3%
Audit & contract services	11,845	11,845	-	0.0%
Board remuneration	8,000	8,000	-	0.0%
Temporary borrowing interest	150,000	-	150,000	0.0%
Operating expenditures before transfers	\$ 7,030,163	\$ 6,654,379	\$ 375,784	5.6%
Transfer to reserve	15,799,835	15,088,476	711,359	4.7%
TOTAL OPERATING EXPENDITURES	\$ 22,829,998	\$ 21,742,855	\$ 1,087,143	5.0%

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 2025 is \$6.8 million, a \$225 thousand increase. Two of the four loans secured to fund the Kelowna General Hospital Heart & Surgical Centre were renewed in 2024 at higher interest rates. The remaining four loans will also be renewed during the term of the five-year financial plan. If they are renewed at higher interest rates, the costs to service them will increase. This is not reflected in the Plan due to the uncertainty regarding what rates will be at the time of renewal.

The administration budget covers the cost of the support provided to the CORHD by RDCO staff throughout the year. Adjustments have been made to reflect increasing costs. Audit and contract service fees reflect the anticipated cost of the 2025 financial audit.

CORHD Board members are remunerated for each meeting they attend. The total cost of this is estimated based on bi-monthly meetings and the assumption that all CORHD Board members are in attendance.

Temporary borrowing interest is necessary in 2025 for the first time in many years. This is driven by the need to borrow funds for the Cottonwoods Long-Term Care project. Because the project will take several years to complete, temporary financing will be used while it is in progress. When the project is complete, the temporary financing will be converted to long-term debt

Transfers to reserve are possible because the total requisition has been intentionally increased over the years so that it exceeds the amount required for operating expenditures, which then allows funds to be set aside for capital spending.

Capital Projects

Total planned capital expenditures for 2025 are \$40.2 million, an increase of \$7.8 million over 2024. This is the result of:

- An increase in IHA’s request for new capital projects from the prior year (\$17.1 million).
- Offset by a decrease in project costs carried forward from the prior year (\$9.3 million)

Table 4 shows the value of the previously approved capital projects being carried forward, as well as IHA’s new capital initiatives for 2025:

Table 4: Capital Plan Summary

Description	Project Request Year	2025 Plan Draft	2024 Plan	\$ Change	% Change
Previously approved projects	2017	\$ 39,250	\$ 39,250	\$ (0)	(0.0%)
	2019	334,126	476,950	(142,824)	(29.9%)
	2020	284,351	347,663	(63,312)	(18.2%)
	2021	3,397,061	4,519,112	(1,122,051)	(24.8%)
	2022	6,516,161	14,737,167	(8,221,006)	(55.8%)
	2023	975,596	3,703,707	(2,728,111)	(73.7%)
	2024	2,005,048	-	2,005,048	100.0%
Previously approved projects		13,551,592	23,823,849	(10,272,257)	(43.1%)
Additions to previously approved projects	2025	998,120	5,044,640	(4,046,520)	(80.2%)
Total previously approved projects		14,549,712	28,868,489	(14,318,777)	(49.6%)
Construction projects over \$100K		21,199,120	514,000	20,685,120	4024.3%
Construction Projects under \$100,000		203,600	56,000	147,600	263.6%
Property Acquisitions		-	360,000	(360,000)	(100.0%)
IH-wide Digital Health		1,256,800	1,425,500	(168,700)	(11.8%)
Digital Health under \$100K		-	-	-	100.0%
Equipment over \$100K		1,785,440	-	1,785,440	100.0%
Equipment under \$100K		1,259,160	1,194,120	65,040	5.4%
Total		\$ 40,253,832	\$ 32,418,109	\$ 3,789,203	11.7%

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

Table 5: Significant Capital Projects

Description	Facility	Total Project Cost	CORHD Share	2025 Plan
Cottonwoods Long-Term Care	Cottonwoods LTC	\$ 186,870,000	\$ 74,748,000	\$ 19,290,000
MRI replacement and addition	Kelowna General Hospital	\$ 37,753,000	\$ 13,381,200	\$ 6,034,000
Boiler replacement and building automation system upgrade	Brookhaven Care Centre	4,341,375	1,736,550	1,736,550
Pharmacy storage system replacement & expansion	Kelowna General Hospital	4,003,900	1,601,560	1,601,560
Strathcona heating plant replacement	Kelowna General Hospital	3,895,300	1,558,120	1,558,120
Total		\$ 236,863,575	\$ 93,025,430	\$ 30,220,230

Appendix B – 2025 – 2029 Five-year Financial Plan includes future budget projections based on information provided by IHA.

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

Reserves

Table 6 details the five-year cash flow in the reserve fund and summarizes planned activity through the end of 2029. The 2024 projected ending balance of \$41.4 million is projected to decrease by \$8.2 million to \$33.2 million in 2025. This is driven by the increase in the capital project spending planned for 2025 that will be funded from reserves.

Table 6: Changes in Reserve/Surplus

Activity	2025	2026	2027	2028	2029
	Plan	Plan	Plan	Plan	Plan
Opening Balance	41,408,885	33,197,154	29,737,485	34,747,311	44,160,736
Transfer To	15,799,835	16,139,739	16,151,702	16,305,005	17,624,784
Interest	1,242,267	995,915	892,125	1,042,419	1,324,822
Transfer From	(25,253,832)	(20,595,323)	(12,034,000)	(7,934,000)	(6,144,000)
Closing Balance	33,197,154	29,737,485	34,747,311	44,160,736	56,966,342

If annual spending on capital projects stays within the amounts requested by IHA, while the reserves will be drawn down in the first two years to reduce the amount of debt required to fund the Cottonwoods Long-Term Care project, they will start to grow again in the remaining years of the plan. With aging infrastructure and increased demands on facilities, this growth will put the CORHD in a stronger financial position to be able to fund future capital projects from reserves rather than debt.

Table 7 presents the annual cost per average home and reserve balance changes based on different annual tax requisition increases. Lower tax increases result in lower reserve balances at the end of each year. And, conversely, higher tax increases, result in higher reserve balances. Of course, the cost to homeowners also changes in the same manner.

Table 7: Forecasted Requisition, per \$100K of Assessed Value, and Reserve Balance

Tax Increase	Indicator	2025	2026	2027	2028	2029
0.00%	Annual cost	\$ 18.87	\$ 18.87	\$ 18.87	\$ 18.87	\$ 18.87
	Increase/(decrease) over prior year	\$ (0.32)	\$ -	\$ -	\$ -	\$ -
	Reserve balance	\$ 32,110,011	\$ 27,508,842	\$ 31,320,094	\$ 39,475,014	\$ 50,959,192
3.00%	Annual cost	\$ 19.43	\$ 20.01	\$ 20.61	\$ 21.23	\$ 21.87
	Increase/(decrease) over prior year	\$ 0.24	\$ 0.58	\$ 0.60	\$ 0.62	\$ 0.64
	Reserve balance	\$ 32,762,297	\$ 28,832,982	\$ 33,336,243	\$ 42,203,934	\$ 54,422,265
4.00%	Annual cost	\$ 19.62	\$ 20.40	\$ 21.22	\$ 22.07	\$ 22.95
	Increase/(decrease) over prior year	\$ 0.43	\$ 0.78	\$ 0.82	\$ 0.85	\$ 0.88
	Reserve balance	\$ 32,979,726	\$ 29,283,059	\$ 34,034,994	\$ 43,168,225	\$ 55,669,844
5.00%	Annual cost	\$ 19.81	\$ 20.80	\$ 21.84	\$ 22.93	\$ 24.08
	Increase/(decrease) over prior year	\$ 0.62	\$ 0.99	\$ 1.04	\$ 1.09	\$ 1.15
	Reserve balance	\$ 33,197,154	\$ 29,737,485	\$ 34,747,311	\$ 44,160,736	\$ 56,966,342
6.00%	Annual cost	\$ 20.00	\$ 21.20	\$ 22.47	\$ 23.82	\$ 25.25
	Increase/(decrease) over prior year	\$ 0.81	\$ 1.20	\$ 1.27	\$ 1.35	\$ 1.43
	Reserve balance	\$ 33,414,583	\$ 30,196,259	\$ 35,473,327	\$ 45,182,013	\$ 58,313,181

This analysis is based on a static assessment assumption. If the assessment pool continues to grow, the cost to homeowners would be lower. The analysis also excludes the impact the change in reserve balance would have on estimated interest earnings.

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 2025 – 2029 Financial Plan incorporates the financial implications of Interior Health's funding request letter dated December 16, 2024.

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:

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.

Alternate Recommendation:

THAT the Regional Hospital District Board approve the draft Central Okanagan Regional Hospital District 2025-2029 Five Year Financial Plan, as amended;

AND THAT the Regional Hospital District Board direct staff to prepare the 2025-2029 Five Year Financial Plan bylaw based on the amended 2025-2029 Five Year Financial Plan.

Attachment(s):

1. Appendix A – 2025 Financial Plan
2. Appendix B – 2025-2029 Five-Year Financial Plan
3. Appendix C – Capital Projects
4. PowerPoint Presentation
