



# Regional Hospital District Board Report

**TO:** Regional Hospital District Board

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

**DATE:** February 1, 2020

**SUBJECT:** 2020 – 2024 Central Okanagan Regional Hospital District Financial Plan Draft #1

**Voting Entitlement:** All Directors – Weighted Corporate Vote – Simple Majority – LGA 210

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**Purpose:** To present the draft 2020 – 2024 Financial Plan

## Executive Summary:

The Draft Regional Hospital District Financial Plan presents a 3% increase per average home in 2020 for the Board's consideration. The Annual tax would be \$188.86 for an average home assessed at \$734,500 (vs. \$741,000 in 2019).

Tax increases of 3% are being proposed in order to continue to build reserves to fund future capital or pay down debt. IHA has indicated that there may be several large projects on the 10 year horizon.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
% Increase per home	3.00%	3.00%	3.00%	3.00%	3.00%
Annual Tax	\$188.86	\$194.51	\$200.34	\$206.34	\$212.52
Residential Tax Rate (cents)	0.2571	0.2648	0.2728	0.2809	0.2893

In 2020, the capital project funding includes \$5.32 million in carryovers from the 2019 Financial Plan in addition to \$4.65 million for new projects requested in a letter from IHA attached to this report, dated December 12, 2019. IHA staff will be present at the Board meeting to answer any Board questions.

## RECOMMENDATION:

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

**AND FURTHER THAT** the budget be forwarded to the March 23, 2020 Board Meeting for final adoption.

Respectfully Submitted:

A handwritten signature in black ink, appearing to read "M. Rilkoff".

Marilyn Rilkoff  
Director of Financial Services

Approved for Board Consideration

A handwritten signature in black ink, appearing to read "Brian Reardon".

Brian Reardon  
Chief Administrative Officer

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**Implications of Recommendation:**

**Financial:** 3.00% increase per average household. The average homeowner will pay \$188.86 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:**The Future:

The Draft CORHD Financial Plan proposes 3% 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. IHA has indicated that in the next 10 years there are likely to be further large projects coming forward.

The Recent Past – ACC & IHSC Projects:

In order to fund the large multi-million dollar Ambulatory Care Centre (completed) and Interior Heart and Surgical Centre Projects (nearing funding completion), taxes had increased. Then from 2016 – 2019 tax increases on the average home remained at the same with 0% increases except for growth contributions.

In 2017, IHA revised cash flow requirements and anticipated reductions in the IHSC project. The project was forecasted with \$9.187 million in savings, and this was reflected in the past three financial plans. IHA was able to remove many of the construction uncertainties and reduced the contingencies built into the projects. The total anticipated costs for CORHD went from \$84.69 million to \$75.503 million. (It should be noted that while it was not likely that this would change, CORHD was still committed to the approved project amount.) The project is substantially complete, and it is anticipated that it will be financially complete in 2020, at approximately \$74 million.

Setting Aside Reserves:

As presented originally in the 2016 financial plan, the Board's plan was to be in a position by 2018 to start setting aside excess funds into unrestricted reserves. That plan became a reality and at the end of 2019, reserves are \$4.986 million. The proposed financial plan continues to set aside funds with a balance of \$11.6 million at the end of 2020. In 2021, it is anticipated that there will be some larger than normal project requests totaling \$32.3 million, and with the use of reserves, only \$11.3 million (including debt reserve and expenses) would need to be financed over 20 years.

Debt Financing:

1. Recent large projects have created a large debt load within the Regional Hospital District. Refinancing of these MFA debts will begin in 2020.

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	

While there was an opportunity to pay down some of the principal amount for Debt Issue 110 for the spring refinancing, interest rates are expected to be very low, and given the likelihood for the need to finance further debt in 2021, it would be prudent to take advantage of the MFA's expected low long term rates forecasted to be in the range of 1.91% - 2.32%.

The strategy is to keep all debt at the lowest rates possible, and to finance as little as possible using reserves. Bringing Issue 110 from 4.5% to the 2% range cuts the interest costs in half for this large portion of financing and adds to the amount that can be transferred to reserves.

This current debt is at 4.5% and the refinancing will result in debt payment reductions which have not been reflected in the budget at this time as the amount of the reduction is not known exactly. Once known, it would be possible to amend the budget to transfer that reduction in debt payments to reserves.

As other Debt Issues come up for refinancing over the years, each situation will be reviewed to determine how reserves and financing should best be used to pay for projects and debt.

#### IHA and Future Project Requests:

IHA has indicated that they are looking at future infrastructure replacement funding and construction, and the reality is that they are likely to continue to come to the Board to request funding assistance. The Board would be in a position to pay a higher portion of the projects with cash and reserves rather than borrowing all the funds. Indications are that future annual funding requests will be in the range of \$5 million, plus additional special projects.

As additional knowledge is gained and information is received, in future years the Board will be better positioned to respond accordingly.

This continues the strategy to leave 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, 2019</b>		<b>\$54,981,214</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, 2019</b>		<b>\$29,688,249</b>

**Annual Capital Request Process for Budget:**

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

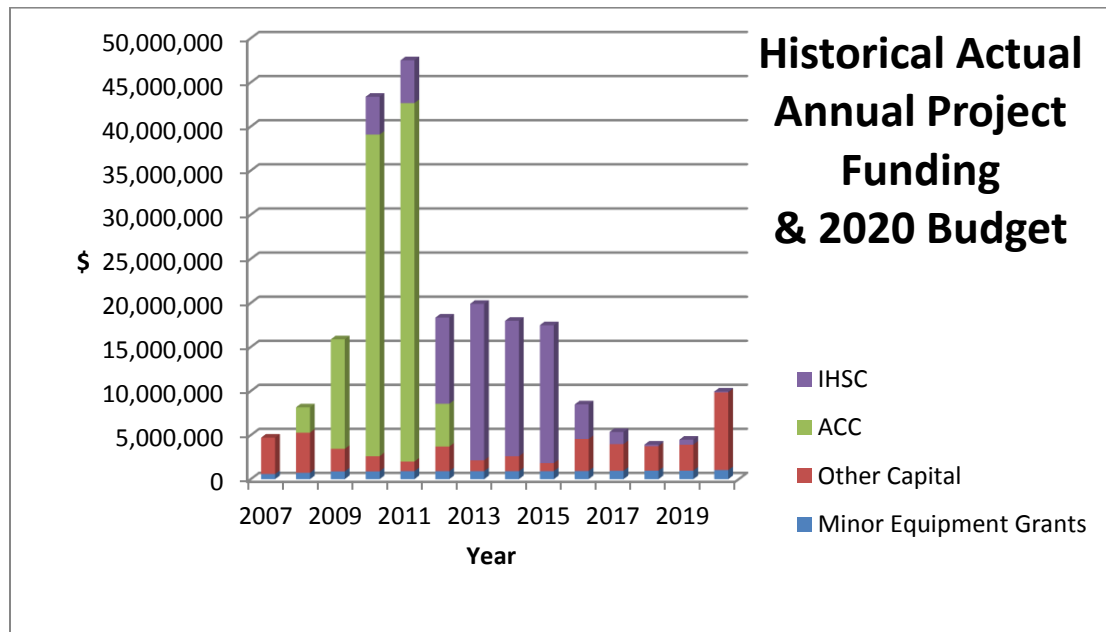
- **Large Projects:** There has been the occasional large project which has been treated uniquely. In these rare situations, the CORHD Board chose to fund certain portions of these projects at 100%. These projects all require Provincial Health Ministry approval, and are also funded by the Ministry. IHA 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. This \$4 to \$5 million request includes approximately \$1.05 million for a global grant for various equipment under \$100,000, and various other projects average \$4 million per year, excluding extraordinary 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 Funding:

Actual historical funding and budgeted 2020 information is provided for reference below:

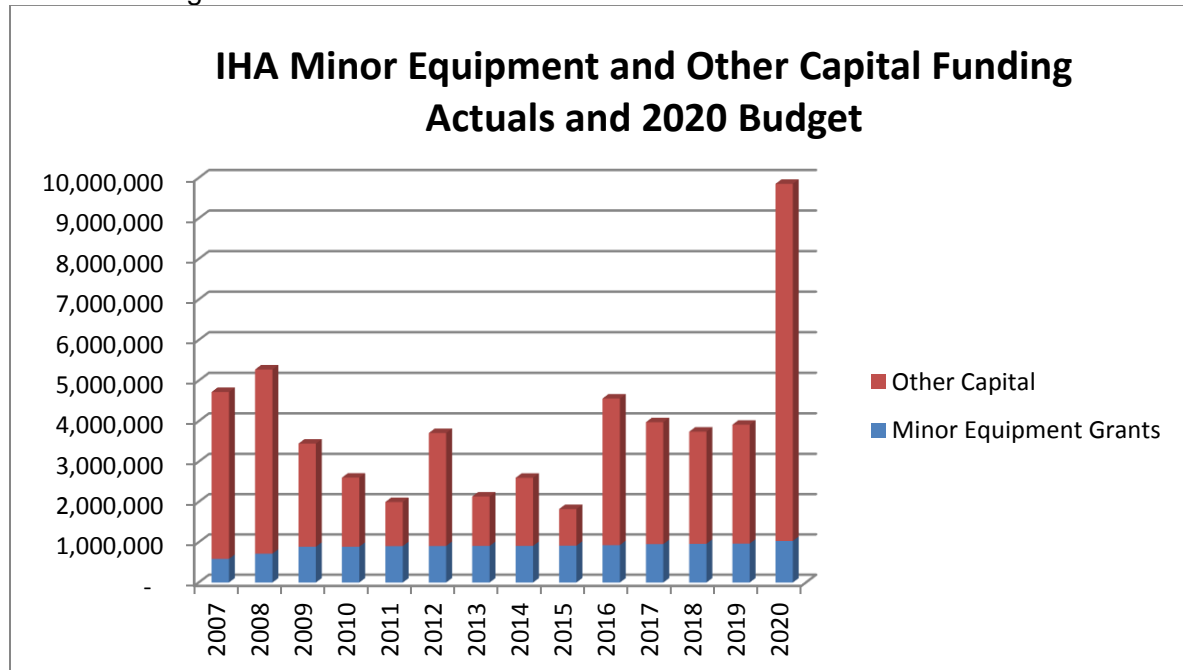
#### IHA Annual Historical Actual Annual Capital Funding and 2020 Budget, including Extraordinary Projects:



*Note: 2020 budget includes carry forward of unspent approved project carryovers from prior years.*

#### 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.



*Note: 2020 Budget includes carry forward of unspent approved projects*

**Financial Considerations:** As stated in this report.

**External Implications:** Improved health care infrastructure.

**Alternative Scenario:**

An alternative scenario is presented in the attachments with lower increases of 2.4% in 2020 followed by 2% from 2021 to 2024.

In this scenario, \$400k more debt financing would be required in 2021, and the reserve balance would be \$2.2m less in 2024, meaning that additional future financing would be required for projects.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
% Increase per home	2.40%	2.00%	2.00%	2.00%	2.00%
Annual Tax	\$187.74	\$191.50	\$195.33	\$199.23	\$203.22
Residential Tax Rate (cents)	0.2556	0.2607	0.2659	0.2713	0.2767

The difference per average home between the two scenarios:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
3% option	\$188.86	\$194.51	\$200.34	\$206.34	\$212.52
2.4% and 2% option	\$187.74	\$191.50	\$195.33	\$199.23	\$203.22
Difference	\$1.12	\$3.01	\$5.01	\$7.11	\$9.30

**Alternative Recommendation:**

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

**AND FURTHER THAT** the budget be forwarded to the March 23, 2020 Board Meeting for final adoption with the Alternative Scenario presented in the CORHD Financial Plan Draft 1 Report Dated February 1, 2020.

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

- Organizational Issues

Attachment(s):

Also In the Budget Binder:

*CORHD 2020 – 2024 Financial Plan Draft #1 with Project Listing*

*CORHD - Reconciling 2019 Budget vs. Actual, Cash and Debt Changes*

*Alternative 2020-2024 Financial Plan Scenario with 2.4 and 2% Increases.*

*2019 – 2023 CORHD Approved Amended Financial Plan for comparative purposes*