



Regional Hospital District Board Report

TO: Central Okanagan Regional Hospital District Board

FROM: Marilyn Rilkoff
Director of Financial Services

DATE: February 26, 2020

SUBJECT: 2020 – 2024 Central Okanagan Regional Hospital District Financial Plan Draft #2

Voting Entitlement: All Directors – Unweighted Corporate Vote – Simple Majority – LGA 208.1

Purpose: To present the 2nd Draft of the 2020 – 2024 Financial Plan.

Executive Summary:

As directed by the Board at the February 20, 2020 CORHD Meeting, the 2020-2024 CORHD Financial Plan Draft #2 proposes annual increases of 3% due to a long term financial planning strategy to set aside reserves. This enables the Board to have the ability to continue to fund its share of annual capital project requests or pay down debt and reduce the amount of debt financing that would be required for upcoming larger projects. The average homeowner with a house assessed at \$734,500 will pay \$188.86 for Hospital Taxes (vs. \$183.35 in 2019), an increase of \$5.51.

Annually, the Interior Health Authority (IHA) makes funding requests to CORHD in the range of \$5 million. There are indications that on the 10 year horizon, CORHD will be requested to fund an additional \$55 - \$65 million for its share of larger capital projects.

The CORHD Financial Plan has changed in accordance with revised project information for 2020 (minor) and 2021 (significant). The most significant change is the reduction in the parkade project estimate from \$20m in 2021 to \$4.6m. As a result, financing will no longer be required in 2021 and only \$6.5m from reserves would be required (vs. \$11.2m in Draft #1) to help fund 2021 projects. Additional amounts can now be transferred to continue to build reserves from 2022 – 2024.

RECOMMENDATION:

THAT the Regional Hospital District Board receive the 2nd 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's Consideration

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

Brian Reardon, CAO

Implications of Recommendation:

Financial: 3% increase per average household. The average homeowner will pay \$188.86 for Hospital Taxes (vs. \$183.35 in 2019). This is an increase of \$5.51. Results in future reduced taxpayer costs due to less debt financing.

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

Background:

Financial Considerations:

As directed by the Board at the February 23, 2020 CORHD Meeting, the 2020-2024 CORHD Financial Plan Draft #2 includes annual increases of 3% due to a long term financial planning strategy to set aside reserves.

This enables the Board to have the ability to continue to fund its share of annual capital project requests and special projects, or pay down debt and reduce the amount of debt financing that would be required for upcoming larger requests.

The average homeowner with a house assessed at \$734,500 will pay \$188.86 for Hospital Taxes (vs. \$183.35 in 2019), an increase of \$5.51.

	2020	2021	2022	2023	2024
% increase per house	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

Annually, the Interior Health Authority (IHA) makes funding requests to CORHD in the range of \$5 million. There are indications that on the 10 year horizon, CORHD will be requested to fund an additional \$55 - \$65 million for its share of larger capital projects.

Projects:

The CORHD Financial Plan has changed in accordance with revised project information for 2020 (minor) and 2021 (significant).

2020 – Changes in accordance with 2019 Year End Final Actual amounts affects amounts carried forward for projects previously approved:

- Bylaw 184 – KGH – Image Processing System Cellavision completed. Remove \$1,204.
- Bylaw 211 – KGH – Surface Parking -- increased from \$15,782 to \$524,218. Prior year funding was \$15,782, not \$524,218. Majority of project to be funded in 2020.

As a result, a net \$507,232 less is transferred to reserves in 2020 as this additional amount is required to fund current year projects.

2021

Reduction in the KGH Parkade project estimate from \$20m to \$4.6m. The impacts to the budget are:

- \$11.2m financing will no longer be required in 2021.
- Future budgeted debt payments of \$892k from 2022 – 2024 can be transferred to reserves instead.
- Only \$6.5m from reserves would be required (vs. \$11.2m in Draft #1) to help fund 2021 projects.
- At the end of 2024, reserves are forecast at \$25.7m (vs. \$18.7m in Draft #1). Reserves are \$7m higher, and there is no additional outstanding debt with 20 year debt payments.

Conclusion -- No change to 3% Increase Recommended in Draft #1:

The 3% increases and reserve strategy remains the recommendation as planned.

- While there is a reduction in the cost of the KGH Parkade project from \$20m to \$4.6m, Draft #1 of the Financial Plan reflected that over half of the project would have required debt financing of \$11.2m over 20 years, with annual debt payments estimated at \$892k. This is no longer required and as stated above. Instead, reserves can continue to be built for future project or debt reduction use.
 - This illustrates that it is better to continue with the strategy to reduce debt costs by setting aside reserves for the future \$55 - \$65m in projects so that less long term financing is required and less interest costs are incurred.
 - The annual debt payment costs (\$892k) equated to 4.9% of the current requisition (\$18.3m).
 - The requisition increases in the future would otherwise need to go up to fund the new debt payments, and rate increases would likely be higher than 3%.
 - This reduces costs to taxpayers over the long run due to less debt financing interest costs.

External Implications: Improved health care infrastructure.

Alternative Recommendation: None.

Attachment(s):

2020 – 2024 CORHD Financial Plan Mar 12 Draft #2 with Project Listing

2020 – 2024 CORHD Financial Plan Feb 20 Draft #1 for comparative purposes