



Regional Hospital District Board Report

TO: Regional Hospital District Board

FROM: Marilyn Rilkoﬀ
Director of Financial Services

DATE: February 9, 2021

SUBJECT: 2021 – 2025 Central Okanagan Regional Hospital District Financial Plan Draft #1

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

Purpose: To present the draft 2021 – 2025 Central Okanagan Regional Hospital District Financial Plan.

Executive Summary:

The attached draft Regional Hospital District Financial Plan incorporates the previously approved 3% increase per average home in 2021, along with options of a 3.5% and 4% increase for the Board’s consideration. The Annual taxes and increases for an average home assessed at \$751,500 (vs. \$734,000 in 2020) under each scenario are in the table below, along with projected reserve balances at the end of 2025.

Alternatives:	2021	2022	2023	2024	2025
Planned 3% Annual Increases per 2020 Financial Plan:					
Annual Tax per average home	\$194.59	\$200.43	\$206.44	\$212.63	\$219.01
Incr. per home over prior year	\$5.66	\$5.84	\$6.01	\$6.19	\$6.38
Residential Tax Rate (cents)	0.2589	0.2667	0.2747	0.2829	0.2914
Reserve Balance					\$33.5m
Alternative A: 3.5% Annual Increases:					
Annual Tax per average home	\$195.54	\$202.39	\$209.47	\$216.80	\$224.39
Incr. per home over prior year	\$6.61	\$6.84	\$7.08	\$7.33	\$7.49
Residential Tax Rate (cents)	0.2602	0.2693	0.2787	0.2885	0.2986
Reserve Balance					\$35m
Alternative B: 4% Annual Increases:					
Annual Tax per average home	\$196.49	\$204.35	\$212.52	\$221.02	\$229.86
Incr. per home over prior year	\$7.56	\$7.86	\$8.17	\$8.50	\$8.84
Residential Tax Rate (cents)	0.2615	0.2719	0.2828	0.2941	0.3059
Reserve Balance					\$36.6m

Based on IHA's letter attached to this report, staff are recommending Alternative B - 4% tax increase in order to continue to build reserves to fund future capital to reduce or eliminate future debt. IHA has indicated that there are likely to be several large projects on the 10-year horizon. Currently, CORHD pays \$3.1 million annually in interest costs alone, (in 2019 it was \$4.5m) and in the future, rather than incurring additional debt, the equivalent interest dollars could be better spent on actual equipment and projects, earning a direct return to the community.

IHA services that leverage the 40 cent dollars provided by the CORHD return significant social and economic benefits in terms of capital investments and operating expenses within the Central Okanagan Region. Associated employment and business investments also result. These are becoming critical elements in our economic recovery from the COVID-19 pandemic.

The more that is put into reserves, the more responsiveness and flexibility the CORHD Board will have.

In 2021, the capital project funding to IHA is \$23.15m which includes \$12.9 million in carryovers from the 2020 Financial Plan. There is an additional \$10.25 million for new projects requested in a letter from IHA, dated December 17, 2020. IHA staff will be present at the Board meeting to answer any Board questions.

In 2021, there will be a large debt refinancing initiative carried out in the fall, which is anticipated to result in a significant debt payment reduction due to lower interest rates. This should then enable increased reserve transfers in 2022, to assist in meeting future IHA requests.

RECOMMENDATION:

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

AND FURTHER THAT the 2021 – 2025 Financial Plan be forwarded to the March 29, 2021 Board Meeting for final adoption with an increase of 4%.

Respectfully Submitted:



Marilyn Rilkoff
Director of Financial Services

Approved for Board's Consideration



Brian Reardon, CAO

Implications of Recommendation:

Financial: See Table in Executive Summary.

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

Background:**The Future:**

The Draft CORHD Financial Plan includes three potential tax increase scenarios with increases of – 3%, 3.5% and 4% to the average home for the next 5 years. IHA has indicated that in the next 10 years there will be further large projects coming forward. Recognizing in camera and confidentiality constraints, staff has been working with IHA staff to try to get an idea of long term planning estimates. A ballpark estimate of over \$100 million in additional funding may be required.

Annual Capital Request Process for Budget:

The CORHD typically funds 40% of approved capital requests from IHA. Historical actual spending is illustrated in Appendix B.

- **Large Projects:** 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.
 - 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%.
- **Smaller Projects and Equipment:** 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 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.

CORHD 40 Cent Dollars a huge benefit to Central Okanagan Economy:

CORHD's 40% investment brings a huge return to the Central Okanagan Region.

- For every 40 cents spent, the Province and IHA put in 60 cents to this economy for the capital investment portion of these projects.
- With first class health care, a diverse workforce and their families are attracted to the area.
- With a healthy, vital workforce, businesses are also attracted.
- Ongoing related operating expenditures and employment result.

Regardless of the option chosen, at a cost between \$194.59 to \$196.49 for an average home, the benefits to Central Okanagan residents are immense. This business and employment attraction is even more important in light of the pandemic and rebuilding the Central Okanagan's economy.

Current Debt Payments & the ACC & IHSC Projects History (Appendices A & B):

The first time the Hospital District was asked to assist in a major funding for the substantial replacement of aging facilities, and the construction of new facilities:

- **CORHD funded a total of \$179.8 million** for two projects -- the Ambulatory Care Centre (ACC) and Interior Heart & Surgical Centre (IHSC).
- **\$120 million in debt was incurred from 2010 to 2015**, resulting in current large annual payments of over \$7.3m. (in 2019 Payments were \$8.5 m with \$4.5 m in interest).
- **Even so, CORHD was still able to fund almost \$60 million**, or 33% with cash.

During those years, in order to fund the large multi-million dollar Ambulatory Care Centre and Interior Heart and Surgical Centre Projects, taxes had to be increased.

Then from 2016 – 2019 tax increases on the average home remained at the same level, with 0% increases except for growth contributions. Based on information from IHA, no further large projects were expected or on the horizon at that time.

Strategy:

As mentioned above, current information suggests that larger requests, (while not the same scope as the ACC and IHSC) will now continue occasionally over time. We need to try to ensure the Hospital District is equipped to handle this type of funding.

- Annual 20-year debt payments have been over \$8.5 million. **This has meant over \$4.5 million in interest costs annually** until 2020 refinancing. We would rather not keep incurring debt.
- In the future, it is recommended that we try to get ahead of anticipated requests and continue to **increase and build reserves to see the equivalent portion of the budget**

go directly toward funding equipment and projects, where it can do more good, instead of being paid toward interest costs. (Refer back to the section on the return on 40 cent dollars above...)

- We have been requesting that IHA, (and through them, our Provincial partners) provide us with better long term estimates and information in this area so that CORHD can do longer term financial planning. There has definitely been some good progress made in this area, again, recognizing in camera and confidentiality constraints.

Solution: Setting Aside Reserves:

- As presented originally in the 2016 financial plan, CORHD 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 2020, reserves are \$11.6 million.
- The proposed financial plan options continue to set aside funds at varying amounts depending on the tax increase option:

<u>Alternatives:</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Planned 3% Annual Increases per 2020 Financial Plan:					
Annual Tax per average home	\$194.59	\$200.43	\$206.44	\$212.63	\$219.01
Reserve Balance					\$33.5m
Alternative A: 3.5% Annual Increases:					
Annual Tax per average home	\$195.54	\$202.39	\$209.47	\$216.80	\$224.39
Reserve Balance					\$35m
Alternative B: 4% Annual Increases:					
Annual Tax per average home	\$196.49	\$204.35	\$212.52	\$221.02	\$229.86
Reserve Balance					\$36.6m

- In 2021, there are larger than normal project requests, and some reserves will be required to assist with current year funding (between \$3,050,852 to \$2,865,852 depending on the option chosen). In 2022 project requests are expected to be in the neighborhood of \$14.2 million. This will also require the use of some reserve funding (between \$1,882,015 to \$1,503,240). In 2023 – 2025 it is hoped that transfers to reserves can resume for the future anticipated requests.

Refinancing Bonus – Additional Capacity to Transfer to Reserves

- In 2020, MFA Debt Issue 110 was refinanced. The interest rate was reduced from 4.5% to 1.28%, **reducing annual payments by a whopping \$1.27 million**, which contributed to financing this year's additional project requests and enabled the transfer to reserves. This rate is now locked in for the remaining 10 years of the debt which expires in 2030.

- In 2021, MFA Debt Issue 117, currently at 3.25%, will be refinanced, likely at a lower interest rate, and the difference in the future debt payment reductions can be transferred to reserves starting in 2022. The above reserve balances would then increase to further close the gap. Please note:
 - These anticipated debt payment reductions have not been reflected in the budget at this time as the amount of the reduction is not known exactly.
 - It should be noted that MFA no longer allows partial repayment of debt on refinancing. The entire amount outstanding must be repaid, so reserves would not be used to pay down some of the existing debt at this time.

The Future Recapped:

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 funds. Indications are that regular annual funding requests will be in the range of \$5 million, PLUS additional special projects anticipated to be over \$100 million over the next 10 years.

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

This continues the Board's strategy to leave a legacy of reducing debt load over the next 15 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.

The 4% increase option has been recommended to set aside as much in reserves as possible and leverage CORHD's 40% capital contributions in the community.

Financial Considerations: As stated in this report.

External Implications: Improved health care infrastructure.

Alternative Recommendation:

AND FURTHER THAT the budget be forwarded to the March 29, 2021 Board Meeting for final adoption with an increase of X%

Considerations not applicable to this report:

- Organizational Issues

Attachment(s):

- Appendix A – ACC & IHSC Debt Information Update
- Appendix B – Historical IHA Project Funding Graphs

(Also in the Budget Binder):

- *Projects Listing - Same for all three options*
- *CORHD 2021 – 2025 Financial Plan Draft #1 and Planned 3% Increase*
- *CORHD 2021 – 2025 Financial Plan Draft #1 Alternative Scenario A - 3.5% Increase*
- *CORHD 2021 – 2025 Financial Plan Draft # 1 Alternative Scenario B – 4% Increase*
- *CORHD - Reconciling 2020 Budget vs. Actual, Cash and Debt Changes*
- *Letter from IHA December 17, 2020: Capital Funding Request for 2021/22 Fiscal Year*
- *2020 – 2024 CORHD Approved Amended Financial Plan for comparative purposes*

APPENDIX A: ACC & IHSC Debt Information Update:**Ambulatory Care Centre (ACC) 2008 - 2012:**

ACC Borrowing Bylaw #112 Amount Approved \$99.357m		
Actual Total Project Cost (CORHD share)	\$99,356,757	
Actual Long Term Borrowing in 2010 & 2011 <i>(20 year amortization, 2020 revised annual pmts \$4.7m, interest rates of 1.28% on \$43.7m (4.5% previously) and 3.25% on \$38.8m)</i>	82,525,407	
Total Borrowing was 83% of total costs. <i>Paid 17% or \$16,831,350 with cash</i>		
Principal Amount Outstanding Dec. 31, 2020		\$51,108,099

Interior Heart & Surgical Centre (IHSC) 2010 – 2020:

IHSC Borrowing Bylaw #113 Amount \$91.347m		
Actual Total Project Cost (CORHD Share)	\$80,459,562	
Actual Long Term Borrowing in 2013, 2014, & 2015 <i>(20 year amortization, annual pmts \$2.2m, interest rates of 3.25%, 3.3%, 3.85%, 2.75%)</i>	37,909,607	
Total Borrowing was only 47.11% of total costs, vs 83% above! <i>Paid 52.89% or \$42,549,955 with cash</i>		
Principal Amount Outstanding Dec. 31, 2020		\$28,080,429

Combined Totals:

Total Costs – Both Projects	\$179,816,319	
Total Borrowed 66.98%	\$120,435,014	
Total Outstanding Dec. 31, 2020		\$79,188,528

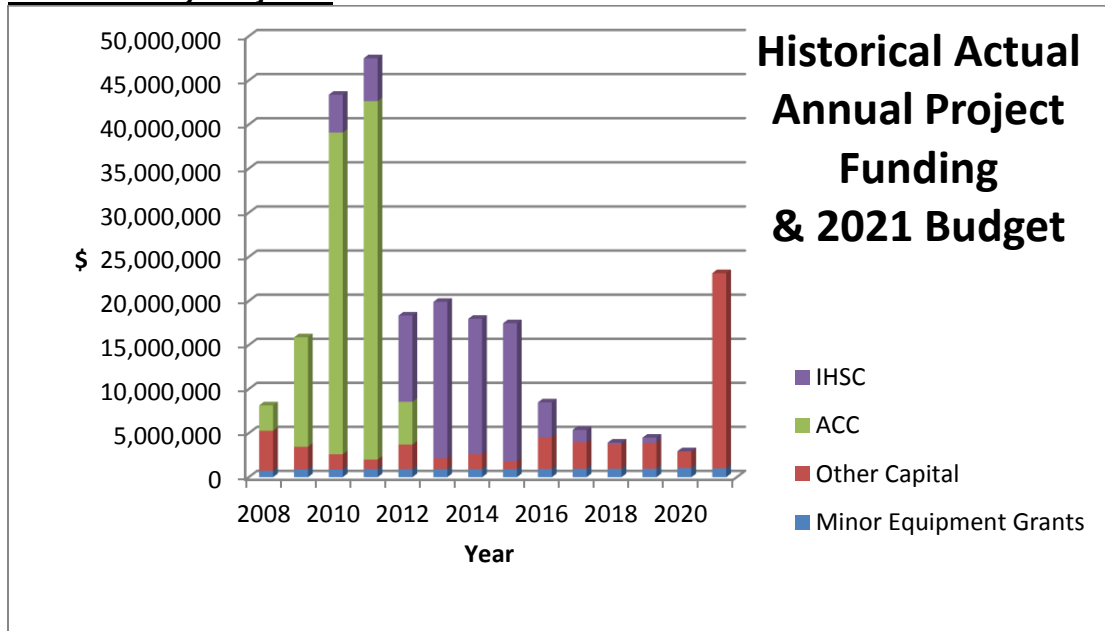
MFA Debt Issue Information:

CORHD Debt Information by Issue							
Issue	Year Borrowed	Original Debt Amount	Renewal Year	Completion Year	Annual Payment As at Jan. 2021	Balance at 2020 Year End	Current Rate
110	2010	43,699,186.99	2020	2030	2,165,806.90	26,080,282.53	1.28
117	2011	8,638,211.38	2021	2031	2,565,704.55	5,568,287.87	3.25
117	2011	38,826,219.51	2021	2031	570,828.12	25,027,816.34	3.25
126	2013	10,071,396.00	2023	2033	725,961.85	7,400,073.48	3.85
127	2014	13,500,000.00	2024	2034	898,853.63	10,492,916.48	3.3
133	2015	5,700,000.00	2025	2035	358,308.14	4,619,151.36	2.75
		120,435,013.88			7,285,463.19	79,188,528.06	

APPENDIX B - Historical Funding Graphs:

Actual historical funding and budgeted 2021 information is provided for reference:

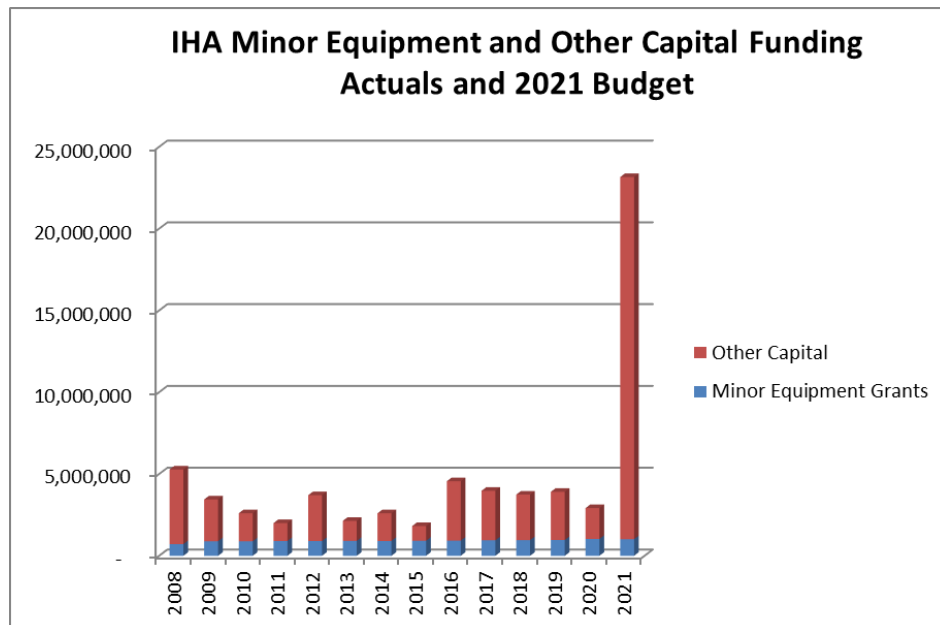
CORHD funding to IHA: Historical Actual Capital Funding from 2007 to 2020 has totaled \$218 million and for 2021, \$23.15 million is Budgeted, including Extraordinary Projects:



Note: 2021 budget includes carry forward of unspent approved project carryovers from prior years.

CORHD funding to IHA: Historical 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: 2021 Budget includes carry forward of unspent approved projects