

1. CRHD Capital Plan - Funding Guidelines for Major and Minor Projects

MOVED by Director Fortin, SECONDED by Director Derman,

- 1) that debt funding and relative borrowing terms be established for health capital projects based on the overall nature, scope, total project cost and related life expectancy; and
- 2) that the following funding guidelines for Major and Minor Capital Projects be adopted:

| FUNDING GUIDELINES – MAJOR PROJECTS | | |
|--|-----------------------------------|---------------------------|
| Total Project Cost | CRHD Share (40% share) | Financing Term |
| \$2 M - \$5 M | \$0.8 M - \$2 M | 5 years |
| \$5 M - \$12.5 M | \$2 M - \$5 M | 10 years |
| Over \$12.5 M | Over \$5 M | 15 years |

| FUNDING GUIDELINES – MINOR PROJECTS | | | |
|--|-----------------------------------|-----------------|---------------------------|
| Project Cost | CRHD Share (40% share) | Lump Sum | Financing Term |
| Less than \$500,000 | Less than \$200,000 | Up to \$2 M | 5 years |
| Greater than \$500,000 | Greater than \$200,000 | Over \$2 M | 10 years |

OVERALL FUNDING GUIDELINES

Evaluation of cash financing will be considered annually to manage cash flow and overall financial capacity.

CARRIED

2. CRHD Capital Borrowing for Minor Capital Projects at Health Facilities

MOVED by Director Fortin, SECONDED by Director Brownoff, that:

- 1) the Minor Capital Projects listed in Attachment One, of the staff report, be approved with a District share of \$4,019,400 in cash flow for 2009;
- 2) a three year funding agreement (2009 – 2011) for Minor Capital Projects to a maximum of \$14.02 M be approved;

CARRIED

MOVED by Director Blackwell, SECONDED by Director Evans, that CRHD Bylaw No. 361, “Capital Regional Hospital District Capital Bylaw No. 149, 2009” be introduced and read a first time.

CARRIED

MOVED by Director Blackwell, SECONDED by Director Evans, that Bylaw No. 361 be read a second time.

CARRIED

**STAFF REPORT TO THE PLANNING & TRANSPORTATION COMMITTEE
MEETING OF MAY 27, 2009**

SUBJECT: CRHD CAPITAL PLAN - FUNDING GUIDELINES FOR MAJOR & MINOR PROJECTS

PURPOSE/ISSUE:

The Capital Regional Hospital District (CRHD) health capital funding program focuses primarily on debt financing for Major and Minor Capital Projects. Since debt is an integral component of the CRHD's capital planning structure, and is firmly integrated into the District's overall long-term plans and strategies, it is important to develop guidelines that effectively address procedures and goals for the use of debt funding.

This report sets forth funding guidelines for Major and Minor Capital Projects and is mainly intended to:

- Identify the timing and amount of debt.
- Provide flexibility to cope with changing economic conditions.
- Maximize the value of effective capital planning and debt management.
- Promote long term financial stability by establishing predictability on capital borrowing decisions.
- Establish a framework for measuring the financial impact of services.

BACKGROUND:

To sustain and enhance the health infrastructure in the Capital Region, the CRHD capital program employs a debt funding approach that focuses exclusively on debt financing for Major and Minor Capital Projects. This strategy ensures services and facilities are responsive to community needs because:

- It allows construction of large projects that would otherwise require a large amount of cash.
- It provides improvements to the existing health infrastructure.
- It achieves a degree of equity because current and future users share in paying for the facility.
- It assists in the development of facilities that improve the overall social, economic and environmental value to create a sustainable region.

Current Borrowing Approach:

The CRHD uses debt financing to fund both major¹ and minor² health capital projects. Generally, in order to minimize interest costs, debt issuance follows a practice of amortization period up to a maximum of 15 years. The debt servicing guidelines currently followed are:

- CRHD capital borrowing bylaw authorizes both the loan and security issuance for the projects.
- Interim financing and long-term debt are obtained through the Municipal Finance Authority.
- Borrowing terms for major and minor capital projects are based on broad CRD guidelines of 5, 10 and 15 years (dependent on the total project cost).
- All projects other than equipment funding (Section 20 (3) grant funding) are interim-financed until debenture debt is issued by MFA (semi-annually).

Detailed analysis of the current CRHD debt and the related ratios is presented in Appendix 1. The analysis is based on data from 2005 forecasted up to 2012.

The analysis reinforces that the CRHD capital program, excluding equipment, focuses exclusively on debt financing in order to expand the District's ability to fund health capital projects. It is therefore critical to endorse debt financing guidelines that will maximize the value of money and in addition enable the costs of the project to be supported by those who will benefit from the project.

Since debt is an effective tool for financing infrastructure investments today and in the future, it is important to use debt in a planned and strategic manner, and not as an ad-hoc financing source.

¹ Projects valued at greater than \$2 M which modify, expand/enhance or replace health service/program spaces.

² Projects between \$100 K and \$2 M to sustain existing health infrastructure, replace building components & improve functionality.

ALTERNATIVES:

1. Continue with the current borrowing terms for health capital projects primarily based on total project cost and annual budget priorities.
2. Establish debt funding guidelines and relative borrowing terms for health capital projects based on the overall nature, scope, total project cost and related life expectancy.

FINANCIAL IMPLICATIONS:

Alternative 1 - Current Debt Funding Approach

The CRHD current employs the following methodology to fund major and minor health capital projects:

- Major Capital Projects – All projects under this category are generally financed over a term of 5, 10 and 15 years. The total project varies from \$ 2 M to up to \$350 M.
- Minor Capital Projects – All projects under this category are financed over a term of 10 years. Typically, the projects included in this request sustain the existing health infrastructure, improve service delivery and improve the long term infrastructure value. The total project cost ranges from \$100,000 to \$ 2M.

Without comprehensive debt funding guidelines in place, existing capital borrowing bylaws vary considerably, creating a lack of consistency and predictability in the overall capital planning and funding process. In addition, there is a greater likelihood that the project may be funded over a longer period than its actual life.

Typically, a major capital project builds an effective long term infrastructure value as compared to a minor capital improvement which would typically improve efficiency or the service delivery potential of an existing building. It is therefore necessary to develop funding guidelines that differentiates specifically between growth projects and lifecycle projects.

Alternative 2 – Establish Debt Funding Guidelines

Alternative Two builds on the principles described in Alternative One by introducing further discipline and predictability into the health capital funding system. The strategy takes into consideration the amount of the CRHD share of the total project cost and analyzes the scope of the project and its relative financing over a period not exceeding the estimated useful life of the project to be financed.

According to this Alternative for Major Capital Projects, the following guidelines are proposed:

| TABLE 1: PROPOSED FUNDING POLICY – MAJOR PROJECTS | | |
|--|-------------------------------|-----------------------|
| Total Project Cost | CRHD Share (40% share) | Financing Term |
| \$2 M - \$5 M | \$0.8 M - \$2 M | 5 years |
| \$5 M - \$12.5 M | \$2 M - \$5 M | 10 years |
| Over \$12.5 M | Over \$5 M | 15 years |

The financing term for projects in this category is based on the CRHD share. This option aligns the financing term with the type and scope of the project, assists in improving the long term value of the health infrastructure in the Region and tries to balance the payment between current and future generations. The proposal also takes into consideration the total project cost and the relative CRHD share and suggests a financing term accordingly.

Any other larger investment/project with a capital cost of over \$12.5 M with a potential to provide significant long-term and community benefit will be considered financing over a longer period.

The Minor Capital Projects list includes projects ranging from \$100,000 (CRHD share \$40,000) up to \$2 M (CRHD share \$800,000). The CRHD annual contribution of \$5 M is included in the overall funding envelope (related cash flow) for all of these projects in a specific year. Currently, the Minor Capital Projects are funded through a borrowing bylaw financed over 10 years.

The scope of projects included in the Minor Capital list is smaller and generally, projects are cash flowed over a three-year period. As these projects are short term in nature and are generally carried out to upgrade the existing infrastructure, following funding guidelines are proposed:

| TABLE 2: PROPOSED FUNDING POLICY – MINOR PROJECTS | | | |
|--|-------------------------------|-----------------|-----------------------|
| Project Cost | CRHD Share (40% share) | Lump Sum | Financing Term |
| Less than \$500,000 | Less than \$200,000 | Up to \$2 M | 5 years |
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All projects with a CRHD share up to \$200,000 and a lump sum total up to \$2 M, will be financed over a five-year term. Projects with a CRHD share greater than \$200,000 and a lump sum of over \$2 M, will be financed over a ten-year term. Depending on the composition of projects in VIHA’s project list, there is a likelihood of approving two distinct borrowing bylaws.

This implies reviewing the list of capital projects submitted by VIHA on the basis of the scope of the project and the overall total project cost to differentiate between the projects that can debt financed over five years and/or ten years. Depending on the nature of the projects included in the list, and based on the overall CRHD financial capacity from a budgetary perspective, staff will also explore the possibility to cash finance part of the overall funding request.

A review of previous Minor Capital Projects lists indicates that the projects included within this category are generally completed within three years. The approach differentiates the financing of high cost, long-lived physical upgrades from low cost improvements. This combination would evenly spread out payments proportionate to the length of the projects. In general, debt will be effectively structured in way that is fair and equitable to those who pay and benefit from the underlying assets over time.

It is important to consider the following elements for debt financing: cost minimization, fair distribution of costs within periods, capital life cycle implications. This alternative encompasses all these elements and presents an effective sustainable financing strategy capable to meet present needs without compromising the ability to meet future needs.

SUMMARY/CONCLUSION:

A fixed debt policy demonstrates commitment to long term and efficient financial and capital planning. With a significant emphasis on debt for funding all major and minor health capital expenditures, establishing formal debt funding guidelines will assist in improving the overall quality of financing decisions. The foundation of a well-managed debt program is a framework that sets forth the parameters for issuing debt, managing outstanding debt, and provides guidance to the Board. The standards constitute realistic and achievable goals and will guide, but not bind, debt management decisions.

Adopting Alternative Two as the formal CRHD debt funding guideline document enhances the value of decisions by imposing discipline, and promoting consistency and continuity in decision making. These guidelines rationalize the decision making process and demonstrate a commitment to long-term financial planning objectives by better matching the project’s scope to its financing term.

RECOMMENDATION:

That the Committee recommends the Capital Regional Hospital District Board:

1. Establish debt funding guidelines and relative borrowing terms for health capital projects based on the overall nature, scope, total project cost and related life expectancy.
2. Adopt the following funding guidelines for Major and Minor Capital Projects:

| FUNDING GUIDELINES – MAJOR PROJECTS | | |
|-------------------------------------|---------------------------|-------------------|
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OVERALL FUNDING GUIDELINES

Evaluation of cash financing will be considered annually to manage cash flow and overall financial capacity.

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COMMENTS: