

**REPORT TO THE CAPITAL REGIONAL HOSPITAL DISTRICT BOARD
MEETING OF WEDNESDAY, OCTOBER 30, 2019**

SUBJECT **2020 Capital Regional Hospital District Provisional Budget**

ISSUE

Approval of the 2020 Capital Regional Hospital District (CRHD) Provisional Budget.

BACKGROUND

The *Hospital District Act* requires the 2020 CRHD Provisional Budget for the coming fiscal year be adopted by the Board on or before December 31, 2019. The Budget is comprised of the debt servicing charges on funds borrowed for CRHD capital projects as well as grants for medical equipment and Minor Capital Projects (MCPs), and the administration budget for the CRHD functions performed by the Health and Capital Planning Strategies Division.

ALTERNATIVES

Alternative 1

That the 2020 Capital Regional Hospital District Provisional Budget be approved as submitted.

Alternative 2

That the 2020 Capital Regional Hospital District Provisional Budget be referred back to staff for revision based on Board direction.

FINANCIAL IMPLICATIONS

The 2020 Provisional Budget summary and its comparison to the 2019 Final Budget are included in Appendix A. The overall CRHD requisition decrease is 4.4% as compared to 2019.

Appendix B shows the 2020-2024 future budget projections for information purposes; the overall CRHD requisition is forecast to continue decreasing year-over-year based on the current capital plan and forecasted debt servicing impacts.

Appendix C presents a summary of planned CRHD 2020 capital expenditures.

Appendix D provides a summary of Reserves. The total anticipated reserve balance at 2019 year-end is \$17 million (M) and projected to decrease to \$11.3M by December 31, 2020.

The following summarizes the primary components of the Budget:

2019 Performance

The current year surplus (\$215,000) is the net result of higher than budgeted revenues and expected expenses. The increase in revenue is primarily attributable to higher returns related to interest earnings. Interest earnings were budgeted conservatively based on anticipated cash flow and interest rates. Changes in timing of significant expenditures and favourable interest rates contributed to the surplus.

The increase in expenses is attributable to savings in new debt-issuance related expenses, the early repayment of a renewing debt issuance, and increased property management expenses for the current CRHD land holdings.

2020 Budget

There is a change in the expected 2020 requisition of -4.6% (estimated in last year's 5-year plan for 2020) to -4.4%, primarily the result of less debt being issued based on changes in the capital plan and overall lower interest rates for any new and renewing debt issuances, offset by an increased RHFP Reserve contribution and the surplus carry forward from 2019.

Revenue

In 2020, there are two new revenue sources: Summit annual lease payments of \$4.3M commence, and the 2015 MCP Reserve expires and results in a surplus that will be transferred to the Land Holding Management Reserve.

Debt Servicing

This represents principal and interest payments for Board-approved projects. The Board approved major projects are explained as part of the accompanying CRHD 10-year Capital Plan staff report. CRHD 10-year Capital Plan and related approved capital bylaws are the basis of future debt servicing projections. The total debt servicing for 2020 is \$23M.

Section 20 - Expenditures

Administration Expenditures:

The 2020 CRHD portion of the budget for the Health and Capital Planning Division is \$741,519; made up of Division staff, other administration costs, and charges for other corporate allocations.

Studies and Property Management:

The Property Management budget increase over 2019 is attributed to the fact that CRHD will have property management expense attributed to 950 Kings, Oak Bay Lodge and Summit commencing in 2020. The property management budgets include expenses for insurance, utilities and minor repairs.

Section 20 - Grants

Equipment & Planning/Research:

The *Hospital District Act* Section 20(3) enables Regional Hospital Districts to grant aid to hospitals and designated health care facilities for diagnostic and medical equipment purchases. The District also retains an amount under this category for Divisional activities such as healthcare related research and studies. The \$2.955M proposed for 2020 Section 20(3) expenditures remains unchanged from 2019.

Hospital District Act Section 20(4) Reserve Account Balances:

CRHD is able to maintain reserve accounts for various purposes; Appendix D shows the estimated 2020-2024 Section 20(4) reserve account balances. These reserves have been set aside for fixed purposes.

Section 20 – Reserves

Summit Management Reserve:

As Summit is scheduled to be complete at the end of 2019, there will be an annual contribution of \$263,952, as defined in the project development agreement, made to the Summit Management Reserve to be used for future capital costs.

Land Holdings Management Reserve:

In 2020 an anticipated contribution of \$88,759 for the management of CRHD land holdings such as 950 Kings Road and Oak Bay Lodge is budgeted.

Land Development Reserve:

This reserve is for future development expenses. The estimated reserve balance at December 31, 2019 is \$6M and is forecast to be expended in 2020.

Regional Housing First Program (RHFP) Reserve:

In 2020 a contribution of \$3.75M will be made to the RHFP Reserve as we work toward meeting the 2021 \$10M Hospital District obligation. The total Reserve balance at Dec 31, 2021 is forecast to be \$6.25M and will be used to reduce the total debt servicing.

Non-traditional Projects Reserve

The estimated reserve balance at December 31, 2019 is \$2M. \$1M has been committed to Nigel House. The remaining \$1M has been notionally committed to the Victoria Hospice Society.

Minor Capital Projects Reserve:

Under the *Hospital District Act* Section 20(4), the CRHD maintains a MCP Reserve account. Minor capital projects are cash flowed over three years, with an annual contribution of \$3.75M. The 2015 minor capital reserve is expiring and the anticipated surplus of \$560,000 will be transferred to the land Holding Management Reserve. 2016-2019 Minor Capital Reserve accounts are still active for expenses by Island Health. The 2020 beginning balance in the reserve is \$3.5M with \$1.5M anticipated to be spent in 2020 to Island Health's MCPs. We anticipate \$2M in reserve at the end of 2020. The \$3.75M proposed for 2020 expenditures is the same amount as 2019. Details on approved MCPs can be found in the accompanying CRHD 10-year Capital Plan staff report.

Tax Requisition:

The 2020 CRHD tax requisition is estimated at \$29.4M or a 4.4% decrease over the 2019 requisition. For 2020, the tax impact on the average household will be \$156.71 (2019 Assessment of \$779,233).

Table 1 provides a comparison of CRHD's forecasted tax impact, on assessed residential values, for the previous five years. It illustrates the requisition impact each year and how it has trended year-over-year.

Table 1 Forecast Requisition

Budget Year	Residential Assessment	2019	2020	2021	2022	2023	2024
2016 ^a	\$530,059	160.39	155.79				
2017 ^a	\$529,136	164.97	153.36	149.91			
2018 ^a	\$724,009	168.79	154.65	150.07	146.95		
2019 ^a	\$779,233	163.96	154.45	155.98	155.38	154.03	
2020 ^b	\$779,233	n/a	156.71	149.84	146.39	140.96	129.61

^a Final Budget

^b Provisional Budget

CONCLUSION

The 2020 CRHD Provisional Budget must be adopted on or before December 31, 2019. The 2020 Provisional Budget presents the administrative costs of the Hospital District and a reasonable reflection of the actual costs for Board-approved and future year capital projects.

The 2020 CRHD Provisional Budget 5-year total projected anticipates considerable reductions in tax requisition beginning in 2020 as a result of lease payments from the Summit project. The overall budget proposes a requisition decrease of 4.4%. Alternative 1 is recommended.

RECOMMENDATION

That the 2020 Capital Regional Hospital District Provisional Budget be approved as submitted.

Submitted by:	Michael Barnes, MPP, Senior Manager, Health and Capital Planning Strategies
Concurrence:	Kevin Lorette, P.Eng., MBA, General Manager Planning & Protective Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
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Attachments: Appendix A – CRHD 2020 Provisional Budget
Appendix B – CRHD 2020-2024 Future Budget Projections
Appendix C – CRHD 2020 Capital Expenditures
Appendix D – CRHD Reserve Summary Schedule 2019-2024