

**REPORT TO THE CAPITAL REGIONAL HOSPITAL DISTRICT BOARD
MEETING OF WEDNESDAY, OCTOBER 28, 2020**

SUBJECT 2021 Capital Regional Hospital District Provisional Budget

ISSUE SUMMARY

Approval of the 2021 Capital Regional Hospital District (CRHD) Provisional Budget.

BACKGROUND

Each year, the CRHD must develop an annual financial plan bylaw detailing expenses and revenues for the upcoming calendar year, including any surplus or deficit resulting from the current year. The annual financial plan bylaw must be approved by the CRHD Board before March 31, each year. Additionally, as prescribed by the *Hospital District Act Regulation B.C. 406/82*, the CRHD Board is required to approve a provisional budget for the upcoming calendar year before December 31.

The 2021 Provisional Budget has been developed based on funding required to deliver initiatives identified in the 2019-2022 Corporate Plan (which incorporates the Board Strategic Priorities) specific to the Health Facilities Community Need. The 2021 planning process marks the third year of the four-year strategic and corporate planning cycle.

In September 2020, the Executive Leadership Team met over multiple days to review individual service plans, initiative business cases (IBCs), and financial implications in consideration of Board Strategic Priorities, the Corporate Plan, and the approved financial planning guidelines. The identified resource implications to implement prioritized initiatives with proposed service level adjustments, in addition to standing committee and commission recommendations, will be presented to the Committee of the Whole on October 28, 2020.

The primary cost driver for the development of the CRHD Provisional Budget is the 2021-2030 CRHD Capital Plan, which is presented to the Board for approval in an accompanying staff report. The 10-year capital plan captures projects identified by Vancouver Island Health Authority (Island Health) and incorporates CRHD identified property acquisition and development projects. For the 2021 capital expenditures, all projects are a 'planned' status and not yet approved.

The provisional budget approval will be subject to changes as a result of final year-end adjustments, revised assessment information and any other amendments prior to final approval.

ALTERNATIVES

Alternative 1

That the 2021 Capital Regional Hospital District Provisional Budget be approved as submitted.

Alternative 2

That the 2021 Capital Regional Hospital District Provisional Budget be referred back to staff for revision based on Board direction.

IMPLICATIONS

Financial Implications

The 2021 Provisional Budget includes operating and capital expenditures, transfers to reserves, and sources of revenue; including an estimated surplus from the current year.

The surplus is based on an estimated budget variance projected to year end and is subject to change based on actual year end results. The 2020 estimated net surplus is \$0.9 million and is driven by savings in debt servicing costs, and lower administration and feasibility study expenditures. Debt servicing costs have a direct correlation to the capital plan and timing of capital projects. The COVID-19 pandemic has impacted both capital projects and related studies in deferrals and reprioritization resulting in lower expenditures incurred during the year.

The proposed use of the 2020 estimated surplus is a transfer to the Administration and Feasibility Studies Reserve in the amount of \$0.1 million, returning dedicated funds to the reserve. The balance of the surplus will be transferred to the Regional Housing First Program (RHFP) Reserve in the amount of \$0.8 million to help fund the CRHD commitment to the RHFP program. The balance of the RHFP Reserve is estimated to be \$5.8 million following this transfer.

2021 Budget Overview

Operating Expenditures

The 2021 Provisional Operating Budget and comparison to the 2020 Final Budget is included in Appendix A.

The 2021 Provisional Budget includes \$36.3 million in operating expenditures, a decrease of (\$1.1) million or (2.9%) from the prior year. The decrease is largely driven by lower debt servicing costs based on outstanding debt, and lower interest rates on new borrowings and renewals of existing borrowings. Table 1 summarizes the change in operating expenditures.

Table 1: Change in Operating Expenditures (\$ millions)

Expense Type (\$M)	2021 Provisional	2020 Final	\$ Change	% Change
Operations	1.8	1.3	0.5	38.5%
Debt Servicing	21.4	23.1	(1.7)	(7.4%)
Capital Funding	4.3	4.3	0.0	0.0%
Transfers to Reserves	8.8	8.7	0.1	1.1%
Total	\$36.3	\$37.4	(\$1.1)	(2.9%)

The Operations budget includes costs for administration, studies and property management. The \$1.8 million budget is an increase of \$0.5 million driven by \$0.3 million in property management expenses for Oak Bay Lodge and \$0.2 million in administration costs related to Health and Capital Planning Division.

The Debt Servicing budget is based on the 2021 Capital expenditures as identified in the CRHD 10-year Capital Plan. Debt servicing costs are influenced by short and long-term lending rates on

new and renewing issuances, and debt retirements. The total debt servicing cost for 2021 is \$21.4 million, a decrease of \$1.7 million over 2020.

The Capital Funding budget includes expenditures for medical equipment and non-traditional project grants. The CRHD's annual contribution towards medical equipment in the Capital Region is \$3.0 million and remains unchanged from the prior year. Capital funding also includes the previously approved non-traditional project grant commitment of \$1.4 million to the Broadmead Care Society for the Nigel House redevelopment in Saanich. The project was deferred from 2020 into 2021.

Transfers to Reserves includes funding for Island Health Minor Capital projects, RHFP, Land Holdings Management, Summit Management and Non-Traditional Projects. Total transfers of \$8.8 million is an increase of \$0.1 million over prior year, and is driven by an increase in the transfer to RHFP of \$0.5 million and Non-Traditional Projects of \$0.4 million. Net transfers are offset by a decrease in the transfer to the Land Holdings Management Reserve of (\$0.7) million.

Appendix B shows the 2021-2025 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.

Operating Revenue

The changes in revenue are summarized in Table 2 below:

Table 2: Changes in Revenue (\$ millions)

Revenue Type (\$M)	2021 Provisional	2020 Final	\$ Change	% Change
Tax Requisition	28.3	29.4	(1.1)	(3.7%)
Payments in Lieu of Taxes (PILT)	0.9	0.9	0.0	0.0%
Lease and Other Property Revenue	4.4	3.9	0.5	12.8%
Other Revenue	0.3	0.5	(0.2)	(40.0%)
Transfers from Reserve	2.0	1.5	0.5	33.3%
Surplus – MCP Bylaw Expiry	0.4	0.7	(0.3)	(42.9%)
Surplus – Operating	-	0.5	(0.5)	(100.0%)
Total	\$36.3	\$37.4	(\$1.1)	(2.9%)

The total revenue of \$36.3 is a decrease of (\$1.1) million or (2.9%). The decrease is primarily a reduction in requisition of (\$1.1) million or (3.7%). Changes in other revenue sources such as surplus, lease and other property revenue, and transfer from reserves have a net zero impact.

Of note in 2021, Summit annual lease payments of \$4.3 million will contribute to Summit related annual debt servicing and fixed overhead charges. The 2016 Minor Capital Project Reserve (MCP) expires at the end of 2020, resulting in a surplus \$0.4 million that will be transferred to the Non-Traditional Projects Reserve in 2021.

Requisition

The 2021 CRHD requisition is \$28.3 million, a decrease of (\$1.1) million or (3.7%) from prior year. Table 3 illustrates the cost per average household of change based on the current average residential assessment of \$0.8 million.

Table 3: Change in Requisition

Description	2021 Provisional	2020 Final	\$ Change	% Change
Requisition (\$ millions)	\$28.3	\$29.4	(\$1.1)	(3.7%)
Cost / Average Household (2020 = \$778,883)	\$146.54	\$152.25	(\$5.71)	(3.7%)

Table 4 provides a summary of CRHD's forecasted requisition per average household for the previous five years. The continued downward trend is driven by projects in the capital plan, implemented financing strategies, the external interest rate environment, and the Summit project.

Table 4: Forecast Requisition per Average Household

Budget Year	Residential Assessment	2020	2021	2022	2023	2024	2025
2016 ^f	\$530,059	155.79					
2017 ^f	\$625,883	153.36	149.91				
2018 ^f	\$724,009	154.65	150.07	146.95			
2019 ^f	\$779,233	156.45	155.98	155.38	154.03		
2020 ^f	\$778,883	152.25	145.78	143.24	138.54	128.02	
2021 ^p	\$778,883	n/a	146.54	142.01	136.96	132.45	131.31

^fFinal Budget

^pProvisional Budget

For additional detail regarding future budget projects, refer to Appendix B, 2021-2025 Future Budget Projections.

Capital Plan

The CRHD 10-year Capital Plan is the basis of the 2021 capital expenditures and related debt servicing included in the 2021 Provisional Budget. 2021 capital expenditures total \$34.8 million, an increase of \$2.4 million over 2020. The capital expenditures summarized in Table 5 include the CRHD share of Island Health initiatives totalling \$3.1 million, CRHD initiatives totalling \$25 million and the CRHD share of Island Health Minor Capital and Equipment of \$6.7 million.

Table 5: Capital Plan Summary (\$ millions)

Description	2021 Provisional	2020	\$ Change	% Change
Island Health Initiatives	3.1	5.4	(2.3)	(42.6%)
CRHD Initiatives	25.0	20.3	4.7	23.2%
Island Health Minor Capital and Equipment	6.7	6.7	0.0	0.0%
Total	34.8	32.4	2.4	7.4%

Appendix C presents a list of planned capital projects, the 2021 capital expenditure planned for each project and the related cost share.

Reserves

Appendix D details a five year cashflow schedule by reserve fund while Table 6 provides a summary of reserve activity to the end 2021. The 2020 year end balance of \$22.3 million and is projected to decrease to \$8.8 million for 2021 year end.

Table 6: Changes in Reserves (\$ millions)

Description	2021 Opening (Estimate)	2021 Plan Activity		2021 Ending (Projection)
		Funding	Expenses	
Administration and Feasibility Studies	1.3	-	(0.1)	1.2
Non-Traditional Projects	2.0	0.4	(1.4)	1.0
Minor Capital Projects Reserve	5.7	3.8	(4.9)	4.6
Land Holdings Management	1.0	0.2	(0.5)	0.7
Land Development Reserve	6.2	0.0	(6.0)	0.2
RHFP Projects Reserve	5.8	4.2	(10.0)	0.0
Summit Management Reserve	0.2	0.9	-	1.1
Total	22.2	9.5	(22.9)	8.8

The planned transfers to reserve are \$9.5 million and the transfers out of reserve are (\$22.9) million. The transfers to reserve are explained earlier in the report in the operating expenditures section. The notable transfers out of reserve consist of (\$4.9) million for the CRHD % share of Island Health Authority minor capital, (\$6.0) million for potential CRHD land acquisition and (\$10.0) million for the % share of the RHFP. The remaining transfers out of reserve are to fund expenses in the operating budget related to administration, non-traditional grant expense and property management activities.

CONCLUSION

As prescribed by the *Hospital District Act Regulation B.C. 406/82*, the CRHD Board is required to approve a provisional budget for the upcoming calendar year before December 31. The primary cost driver for the development of the CRHD Provisional Budget is the 2021-2030 CRHD Capital Plan, which is presented to the Board for approval in an accompanying staff report. The 10-year capital plan captures projects identified by Vancouver Island Health Authority (Island Health) and incorporates CRHD identified property acquisition and development projects. The recommendation is that the 2021 Capital Regional Hospital District Provisional Budget be approved as submitted. The Provisional Budget will be subject to change as a result of the final 2020 surplus/deficits, revised assessment information and any directed amendments prior to final budget approval by Board as part of the annual budget bylaw by March 31, 2020.

RECOMMENDATION

That the 2021 Capital Regional Hospital District Provisional Budget be approved as submitted.

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Concurrence:	Kevin Lorette, P.Eng., MBA, General Manager Planning & Protective Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

Attachments: Appendix A – CRHD 2021 Provisional Budget
Appendix B – CRHD 2021-2025 Future Budget Projections
Appendix C – CRHD 2021 Capital Expenditures
Appendix D – CRHD Reserve Summary Schedule 2020-2025