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REPORT TO CAPITAL REGIONAL HOSPITAL DISTRICT BOARD MEETING OF WEDNESDAY, OCTOBER 27, 2021

SUBJECT 2022 Capital Regional Hospital District Provisional Budget

ISSUE SUMMARY

This report presents the 2022 Capital Regional Hospital District (CRHD) Provisional Budget for review and approval.

BACKGROUND

Each year, the CRHD must develop an annual financial plan bylaw detailing expenses and revenues for the upcoming calendar year, including capital expenditures by project and any surplus or deficit resulting from the current year. The annual budget 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 primary cost driver of the provisional budget is the 10-year capital plan, which is presented for approval in an accompanying staff report. The 10-year capital plan consists of projects identified and managed by the Vancouver Island Health Authority (Island Health), in addition to projects identified and managed by CRHD. CRHD managed projects are primarily land development opportunities and asset maintenance and replacement for CRHD owned assets.

In addition to supporting the capital plan, the provisional budget delivers initiatives identified in the 2019-2022 corporate plan specific to the Health community need. The 2022 service planning process marks the fourth and final year of the four-year strategic and corporate planning cycle. As part of the service planning process, in September, the Executive Leadership Team (ELT) met over multiple days to review individual service plans, initiative business cases (IBCs), and financial implications in alignment with the corporate plan and approved financial planning guidelines. ELT has prioritized initiatives in consideration of fiscal challenges, organizational change capacity, and workforce pressures.

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 2022 Capital Regional Hospital District Provisional Budget be approved as submitted.

Alternative 2

That the 2022 Capital Regional Hospital District Provisional Budget be referred back to staff for revision based on Board direction.

IMPLICATIONS

Financial Implications

The 2022 Provisional Budget includes operating expenditures, capital expenditures by project, 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 2021 forecasted actuals are expected to be on budget for the year with an estimated net surplus of \$0.05 million. The difference is largely a result of savings on planned debt servicing due to timing of capital plan expenditures.

To balance the 2021 budget, a transfer to the Summit Management Reserve in the amount of \$0.05 million is recommended. Funds in this reserve are accumulated to fund capital lifecycle replacement costs. A lifecycle replacement plan will be developed in 2022 and will establish long term funding requirements for the building during the lifecycle.

Operating Expenditures

The 2022 provisional budget includes \$33.8 million in operating expenditures, a decrease of \$2.3 million or 6.4% from the prior year. The detailed 2022 Provisional Budget with comparison to the 2021 Final Budget is included in Appendix A. The following table summarizes the year over year change in operating expenditures;

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

Expense Type	2022 Provisional	2021 Final	\$ Change	% Change
Operations	2.7	1.7	1.0	58.8%
Debt Servicing	20.8	21.3	(0.5)	(2.3%)
Capital Funding	3.0	4.3	(1.3)	(30.2%)
Transfers to Reserves	7.3	8.8	(1.5)	(17.0%)
Total	\$33.8	\$36.1	(\$2.3)	(6.4%)

The Operations budget includes costs for administration, feasibility studies and property management. The increase of \$1.0 million is driven by an increase of:

- \$0.8 million in planned feasibility studies in support of development of properties at Oak Bay Lodge, Royal Bay and 950 Kings.
- \$0.1 million in administration recovery to CRD, and
- \$0.1 million in property management expenses

The CRHD property holdings and related cost estimates for 2022 include the Summit, 950 Kings, Oak Bay Lodge and Royal Bay. All four properties incur holding related costs such as security, maintenance and insurance.

The Debt Servicing budget includes existing and projected incremental financial requirements based on 2022 capital expenditures identified in the 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 2022 is \$20.8 million, a decrease of \$0.5 million over 2021 as a result of debt repayment on historical issuances.

The Capital Funding budget includes grant 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. In the last quarter of 2021, the CRHD expects to transfer the previously approved \$1.3 million non-traditional project (NTP) grant to the Broadmead Care Society for the Nigel House redevelopment in Saanich. There are no NTP project grants planned for 2022. The result is a \$1.3 million decrease in Capital Funding for 2022.

Transfers to Reserves includes funding for Island Health Minor Capital projects, Debt Management, Land Holdings Management and Summit Management Reserves. Transfers to reserve total \$7.3 million in 2022, a decrease of \$1.5 million over prior year. The decrease is primarily related to a reduction of \$4.2 million in contribution to the RHFP Reserve net of an increase of \$3.0 million in Debt Management Reserve. With \$4.2 million transferred to the RHFP reserve in 2021, the reserve balance is \$10 million or the full CRHD commitment in support of the program. An RHFP health contribution is planned in 2022.

A transfer of \$3.0 million to the Debt Management Reserve (formerly the Land Development Reserve) is in response to a significant increase in capital investment signaled in the 10-year capital plan. This reserve is a mitigation response to future borrowing requirements driven by Island Health projects detailed in the 10-year capital plan, and reflects a significant increase when compared to previous iterations of the 10-year plan. Island Health has reprioritized and introduced several new major health care projects for the Capital Region including redevelopment of Oak Bay Lodge and a new Long Term Care Facility at Royal Bay. The CRHD portion of the 10-year capital plan increased by \$150 million to a total \$429 million to be funded between 2022-2031. The Debt Management reserve will be used to help fund capital investment while mitigating impact to requisition.

Annual Revenue

Total revenue is \$33.8 million, a decrease of \$2.3 million or 6.4% from the prior year. The detailed 2022 Provisional Budget is included in Appendix A. The change in revenue from the prior year is shown in Table 2 below:

Table 2: Changes in Revenue (\$ millions)

Revenue Type	2022 Provisional	2021 Final	\$ Change	% Change
Tax Requisition	26.4	28.1	(1.7)	(6.0%)
Payments in Lieu of Taxes (PILT)	0.9	0.9	-	-
Lease and Other Property Revenue	4.4	4.4	-	-
Other Revenue	0.5	0.5	-	-
Transfers from Reserve	1.5	1.8	(0.3)	(16.7%)
Surplus – MCP Bylaw Expiry	0.1	0.4	(0.3)	(75.0%)
Total	\$33.8	\$36.1	(\$2.3)	(6.4%)

The decrease in revenue requirements is primarily driven by a reduction in requisition of \$1.7 million or 6.0%. The balance is driven by the MCP Bylaw surplus and in transfers from reserves to fund operating and equipment grants; both are lower by \$0.3 million when compared to 2021.

Requisition

The 2022 CRHD requisition is \$26.4 million, a decrease of \$1.7 million or 6.0% from prior year. Table 3 illustrates the cost per average household and change based on the current average residential assessment of \$811,623.

Table 3: Change in Requisition

Description	2022 Provisional	2021 Final	\$ Change	% Change
Requisition (\$ millions)	\$26.4	\$28.1	(\$1.7)	(6.0%)
Cost / Average Household (2021 = \$811,623)	\$137.97	\$146.75	(\$8.78)	(6.0%)

The decrease of (\$8.78) equates to an annual requisition reduction of (6.0%) per average household; moving from \$146.75 in 2021 to an estimated \$137.97 for 2022.

Table 4 below provides a summary of CRHD’s forecasted requisition per average household for the previous and future five years.

Table 4: Forecast Requisition per Average Household

Budget Year	Residential Assessment	2021	2022	2023	2024	2025	2026
2017 ^f	\$625,883	149.91					
2018 ^f	\$724,009	150.07	146.95				
2019 ^f	\$779,233	155.98	155.38	154.03			
2020 ^f	\$778,883	145.78	143.24	138.54	128.02		
2021 ^f	\$811,623	146.75	138.50	133.75	129.47	130.62	
2022 ^p	\$811,623	n/a	137.97	138.62	140.69	142.34	147.55

^fFinal Budget

^pProvisional Budget

As a result of changes to the 10-year capital plan by Island Health, the cost per average household in the 5-year operating plan has increased significantly. Staff are developing a CRHD reserve guideline to mitigate and smooth requisition increases driven by the 10-year capital plan. This work is underway and includes assessment of long term capital investment and funding. Results will be reported through the Hospital and Housing Committee in 2022.

For additional detail regarding future budget projections, refer to Appendix B, 2022-2026 Future Budget Projections.

Capital Plan

The CRHD 10-year capital plan is the basis of expenditures and related debt servicing included in the provisional budget. 2022 capital expenditures total \$21.4 million, a decrease of \$13.6 million

from 2021. Expenditures summarized in Table 5 include CRHD lead initiatives, Island Health major capital initiatives, and Island Health minor capital and equipment.

Table 5: Capital Plan Summary (\$ millions)

Description	2022 Provisional	2021 Final	\$ Change	% Change
CRHD Initiatives	10.9	23.7	(12.8)	(117.4)
Island Health Minor Capital and Equipment	6.7	6.7	-	-
Island Health Initiatives	3.8	4.6	(0.8)	(21.1%)
Total	\$21.4	\$35.0	(\$13.6)	(63.6%)

Appendix C details planned capital expenditures by project and the related cost sharing commitment.

Reserves

Appendix D details five-year cashflow by reserve fund while Table 6 provides a summary of planned activity through the end of 2022. The \$19.0 million opening balance is projected to decrease by (\$8.3 million) to \$10.7 million through 2022. The net decrease is driven by funding the \$10 million RHFP contribution from reserve.

Table 6: Changes in Reserves (\$ millions) (in order of Appendix D)

Description	2022 Opening (Estimate)	2022 Plan Activity		2022 Ending (Projection)
		Funding	Expenses	
Admin & Feasibility Studies Reserve	1.3	-	(1.1)	0.2
Non-Traditional Projects Reserve	1.1	-	-	1.1
Minor Capital Projects Reserve	4.8	3.8	(4.0)	4.6
Land Holdings Management Reserve	1.0	0.2	(0.4)	0.8
Debt Management Reserve	-	3.0	-	3.0
RHFP Projects Reserve	10.0	-	(10.0)	-
Summit Management Reserve	0.8	0.3	(0.1)	1.0
Total	\$19.0	\$7.3	(\$15.6)	\$10.7

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 10-year capital plan, which is presented to the Board for approval in an accompanying staff report. The 10-year capital plan captures projects identified by the Vancouver Island Health Authority (Island Health) and incorporates CRHD identified capital initiatives. The recommendation is that the 2022 Capital Regional Hospital District Provisional Budget be approved as submitted. The Provisional Budget will be subject to change as a result of the final 2021 surplus/deficits, revised assessment information and any directed amendments prior to final budget approval by the Board as part of the annual budget bylaw by March 31, 2022.

RECOMMENDATION

That the 2022 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, FCPA, FCMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

ATTACHMENT(S)

- Appendix A: CRHD 2022 Provisional Budget
- Appendix B: CRHD 2022-2026 Future Budget Projections
- Appendix C: CRHD 2022 Capital Expenditures
- Appendix D: CRHD Reserve Summary Schedule 2021-2026