

**REPORT TO CAPITAL REGIONAL HOSPITAL DISTRICT BOARD
MEETING OF WEDNESDAY, SEPTEMBER 21, 2022**

SUBJECT 2023 Capital Regional Hospital District Provisional Budget

ISSUE SUMMARY

This report presents the 2023 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, maintenance and replacement for 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 marked the fourth and final year of the four-year strategic and corporate planning cycle. The four year planning cycle is designed to ensure alignment and implementation of Board strategic objectives during the election term. A new Corporate Plan will be prepared to incorporate new Board strategic and corporate priorities following the local government elections this fall. Any changes to service levels and financial plans will be brought forward in the next planning cycle.

As part of the planning process, the Executive Leadership Team (ELT) met in August 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 constraints, organizational 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 2023 Capital Regional Hospital District Provisional Budget be approved as submitted.

Alternative 2

That the 2023 Capital Regional Hospital District Provisional Budget be given provisional approval with specific directions on amendments.

IMPLICATIONS

Financial Implications

The 2023 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 2022 forecasted actuals are expected to be on budget for the year with an estimated net surplus of \$0.03 million or 0.1%. The difference is largely a result of savings on planned debt servicing costs due to timing of capital expenditures. The surplus has been carried forward to reduce 2023 budgeted revenue.

Operating Expenditures

The 2023 provisional budget includes \$32.8 million in operating expenditures, a decrease of \$1.1 million or 3.2% from the prior year. The detailed 2023 Provisional Budget with comparison to the 2022 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	2023 Provisional	2022 Final	\$ Change	% Change
Debt Servicing	20.4	20.8	(0.4)	(1.9%)
Capital Funding	3.0	3.0	-	-
Operations	2.0	3.0	(1.0)	(33.3%)
Transfers to Reserves	7.4	7.1	0.3	4.2%
Total	\$32.8	\$33.9	(\$1.1)	(3.2%)

The Debt Servicing budget includes existing and projected incremental debt requirements based on 2023 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 2023 is \$20.4 million, a decrease of \$0.4 million or 1.9% over 2022 as a result of debt repayment on historical issuances.

The Capital Funding budget includes grant expenditures for medical equipment. The CRHD's annual contribution towards medical equipment in the Capital Region is \$3.0 million and remains unchanged from the prior year.

The Operations budget includes costs for administration, feasibility studies and property management. The net decrease of \$1.0 million or 33.3% is driven by the following:

- (\$0.9) million less for planned feasibility studies in support of development of properties at Oak Bay Lodge and 950 Kings. Island Health will fund feasibility studies related to the Royal Bay development.
- (\$0.2) million decrease in property management expenses due to completion of the abatement and demolition project at Oak Bay Lodge in July 2022.

The CRHD property holdings and related cost estimates for 2023 include the Summit, 950 Kings, Oak Bay Lodge and Royal Bay. All four properties incur holding costs such as insurance, security and maintenance.

Transfers to Reserves includes funding for Minor Capital Projects, Debt Management, Land Holdings Management and Summit Management Reserves. Transfers to reserve total \$7.4 million in 2023, an increase of \$0.3 million or 4.2% over prior year. The increase is primarily related to an increase of \$0.4 million in contributions to the Debt Management Reserve, net of a \$0.1 reduction in transfers to the Summit Management Reserve.

A transfer of \$3.2 million to the Debt Management Reserve is in response to mitigating future revenue requirements where significant investments are identified in the 10-year capital plan. The CRHD portion of the capital plan increased by \$43 million to a total \$474 million to be funded through 2032. The Debt Management reserve will be used to help fund capital investment while mitigating impact to requisition.

Annual Revenue

Total revenue is \$32.8 million, a decrease of \$1.1 million or 3.2% from the prior year. The detailed 2023 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	2023 Provisional	2022 Final	\$ Change	% Change
Tax Requisition	26.4	26.4	-	-
Payments in Lieu of Taxes (PILT)	0.8	0.8	-	-
Lease and Other Property Revenue	4.4	4.4	-	-
Other Revenue	0.7	0.5	0.2	40.0%
Transfers from Reserve	0.5	1.7	(1.2)	(70.6%)
Surplus – MCP Bylaw Expiry	-	0.1	(0.1)	(100.0%)
Surplus – Operating	0.0	-	-	-
Total	\$32.8	\$33.9	(\$1.1)	(3.2%)

The decrease in revenue is primarily driven by a reduction in transfers from reserve of \$1.2 million or 70.6%. Fewer reserve funds will be required to support property management and feasibility studies as discussed above in the operating expenditures section. The balance is driven by increased debt reserve fund recovery, increased interest earnings and carry-forward of the 2022 estimated operating surplus, offset by lower MCP Bylaw surplus. The combined revenue decrease is \$1.1 million or 3.2% when compared to 2022.

Requisition

The 2023 CRHD requisition is \$26.4 million, consistent with the prior year. Table 3 illustrates the cost per average household based on the current average residential assessment of \$999,766.

Table 3: Change in Requisition

Description	2023 Provisional	2022 Final	\$ Change	% Change
Requisition (\$ millions)	\$26.4	\$26.4	\$0.0	0.0%
Cost / Average Household	\$140.63	\$140.50	\$0.13	(0.0%)
Average Household (\$M)	\$1.0	\$1.0	-	-

The estimated cost per average household for 2023 is 140.63 consistent with the 2022 final budget. 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	2022	2023	2024	2025	2026	2027
2018 ^f	\$724,009	146.95					
2019 ^f	\$779,233	155.38	154.03				
2020 ^f	\$778,883	143.24	138.54	128.02			
2021 ^f	\$811,623	138.50	133.75	129.47	130.62		
2022 ^f	\$1,002,606	140.50	142.92	144.30	145.88	151.09	
2023 ^p	\$999,766	n/a	140.63	145.53	150.78	158.55	165.40

^fFinal Budget

^pProvisional Budget

In the 10-year capital plan, Island Health has identified several significant projects ramping up in the next 5 years. If all projects advance as forecasted by Island Health, the cost per average household is expected to increase significantly. Beginning in 2025 transfers from the Debt Management Reserve fund will be used to reduce borrowing and mitigate revenue requirements.

For additional detail regarding future budget projections, refer to Appendix B, 2023-2027 Future Budget Projections.

Capital Plan

The CRHD 10-year capital plan is the main driver of debt servicing and capital reserve transfers included in the provisional budget. 2023 capital expenditures total \$30.2 million, an increase of \$6.2 million from 2022. Expenditures summarized in Table 5 include CRHD led initiatives, Island Health major capital initiatives, and Island Health minor capital and equipment.

Table 5: Capital Plan Summary (\$ millions)

Description	2023 Provisional	2022 Final	\$ Change	% Change
Island Health Initiatives	13.4	3.8	\$9.6	252.6%
CRHD Initiatives	10.1	13.5	(\$3.4)	(25.2%)
Island Health Minor Capital and Equipment	6.7	6.7	-	-
Total	\$30.2	\$24.0	\$6.2	25.8%

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

Reserves

Appendix D details the five-year cashflow by reserve fund while Table 6 provides a summary of planned activity through the end of 2023. The \$24.1 million opening balance is projected to decrease by (\$5.6) million to \$18.5 million through 2023. The net decrease is primarily driven by funding the \$10 million RHFP contribution from reserve and funding \$2.8 million in contributions to Island Health minor capital projects

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

Description	2023 Opening (Estimate)	2023 Plan Activity		2023 Ending (Projection)
		Funding	Expenses	
Operating Reserves	1.0	-	(0.1)	0.9
Capital Grant Reserves	8.0	3.8	(2.8)	9.0
CRHD Capital Reserves	12.3	0.4	(10.3)	2.4
Financing Reserves	2.8	3.4	-	6.2
Total	\$24.1	\$7.6	(\$13.2)	\$18.5

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 Island Health and incorporates CRHD identified capital initiatives. The recommendation is that the 2023 Capital Regional Hospital District Provisional Budget be approved as submitted. The Provisional Budget will be subject to change as a result of the final 2022 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, 2023.

RECOMMENDATION

That the 2023 Capital Regional Hospital District Provisional Budget be approved as submitted.

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

ATTACHMENT(S)

Appendix A: CRHD 2023 Provisional Budget
Appendix B: CRHD 2023-2027 Future Budget Projections
Appendix C: CRHD 2023 Capital Expenditures
Appendix D: CRHD Reserve Summary Schedule 2022-2027