

**STAFF REPORT TO THE PLANNING & PROTECTIVE SERVICES COMMITTEE
MEETING OF WEDNESDAY, APRIL 26, 2006**

SUBJECT: CRD Bylaw No. 345, “Capital Regional Hospital District Bylaw No. 137, 2006” and Section 20(3) Budget; Annual Equipment Funding for District Health Facilities

PURPOSE:

To request approval for capital equipment funding for 2006.

BACKGROUND:

Since inception in 1968, the Capital Regional Hospital District (CRHD) has provided funding to local health facilities for capital equipment. The two agencies eligible to receive funds from the District are the Vancouver Island Health Authority (VIHA) and the Mount St. Mary facility¹.

In 2004, the Board agreed to a three year (2004-2006) funding commitment for equipment at \$2.43M per annum for a total of \$7.29M.

This year, the final year of the three year funding period, VIHA is requesting CRHD to increase the District's funding by \$600,000 from \$2.43M to \$3.03M. Capital items to be acquired with District funds are summarized in Attachment One and are among VIHA's highest priorities for equipment.

VIHA is also requesting the District maintain its funding at \$3.03M for the period from 2007 to 2008. Funding for future years involves careful consideration of funding methods (i.e. requisition increases/borrowing costs) and will be addressed in a future staff report.

VIHA's capital equipment priorities are grouped into the following two categories:

- **Minor equipment - items costing less than \$100,000**
These items typically have an asset life of five years before requiring replacement. Items to be acquired consist of small devices (i.e. scopes and monitors) that get intensive daily use.
- **Major equipment - items costing more than \$100,000**
These items typically have an asset life of between five to seven years depending upon the intensity of utilization. Items to be acquired include diagnostic imaging machines, heart monitors and other major treatment units.

While many items simply replace existing and outdated equipment, newer models, or additional units, have the capacity to increase the diagnostic and treatment capacity (i.e. increasing throughput) which helps reduce wait times and eases pressure on the health system overall.

The demand for capital equipment continues to outpace available funding with no indication of abatement. In late 2005, VIHA submitted a draft Ten Year Plan for their facilities on Vancouver Island. Though RHD-specific estimates were unavailable, staff estimate the District's share for equipment could range between \$3.5M and \$6.5M² per annum to 2014. Given this rough estimate, demand for equipment over the next decade will be significant.

¹ Mount St. Mary is the last residential care facility in the District licensed under the *Hospital Act*. Over the past 12 years, similar facilities in the Capital Region have come under the management of VIHA and its predecessors.

² VIHA total estimate for 10 years = \$440M x 66% for Capital Region x range of 12% - 22% of total/10 years = CRHD equipment share per annum.

Since 1995, the CRHD's contribution has averaged \$2.4M per year before inflation. Allowing for general inflation, a contribution of \$2.4M in 1995 would have the purchasing power of approximately \$3.0M in 2006³ - a difference of approximately \$600,000. Therefore, increasing the CRHD contribution by \$600,000 would adjust for a decade of general inflation.

Unlike the 40% capital share for facilities, the District's share of equipment funding varies – typically from 12% to 22%. This year, the District's contribution amounts to 16% of VIHA's total equipment funding. The balance comes from the local Foundations/Auxiliaries (25%) and the Ministry of Health (59%).

As shown in Attachment Two, in recent years, the District's share of equipment funding has been stable while other sources have increased. The District's share is now the lowest of the three equipment funding partners.

Table 1: 2006 Equipment Allocation	Amount
VIHA – Major & Minor Equipment	\$3,000,000
Mount St. Mary Hospital	\$30,000
Total	\$3,030,000

Under-funding of equipment has been a perpetual problem which the equipment component of VIHA's draft Ten Year Capital Plan begins to highlight. The District might expect to see requests for increased equipment funding from VIHA over the coming ten years.

VIHA's request for additional funding has merit given the impact of inflation and their needs for equipment. Should the Board agree to increase the CRHD's contribution, the funds would be allocated as shown in Table 1.

ALTERNATIVES:

1) Maintain funding at \$2,430,000 without the requested increase.

This would cause VIHA to reduce their equipment acquisition plan to compensate.

2) Increase the overall 2006 funding level from \$2,430,000 to \$3,030,000.

This allows VIHA to maintain equipment funding at current costs and increase the CRHD's share consistent with increases from other funding partners.

FINANCIAL IMPLICATIONS:

For 2006, the CRHD has budgeted \$2.43M in the Section 20(3) budget (i.e. CRHD requisition).

Providing an additional \$600,000 would require funding through a borrowing bylaw. Such a bylaw has not been budgeted however it could be accommodated in 2006 due to a budgeted VIHA project⁴ being deferred until 2007 at the earliest. That deferred project creates borrowing and cash flow "room" in the CRHD Capital Plan for an equipment bylaw.

SUMMARY/CONCLUSIONS:

Since inception in 1968, the CRHD has provided funding local health facilities for medical equipment. In 2004, the Board agreed to a three year (2004-2006) funding commitment at \$2.43M per annum for a total of \$7.29M. The District's contribution is funded entirely from the requisition.

For 2006, the last year of three year funding period, VIHA is requesting the District to increase the District's grant by \$600,000 from \$2.43M to \$3.03M.

³ Bank of Canada Inflation Calculator, http://www.bankofcanada.ca/en/rates/inflation_calc.html

⁴ Eric Martin Pavilion, Asbestos Abatement – Ph 2, Royal Jubilee Hospital – Ttl Estim'd Cost = \$9.6M; Cash flow for 2006 = \$1.5M

The District's contribution has remained at an average of \$2.4M per year since 1995 while contributions from the Province and local hospital foundations/auxiliaries have continued to be significantly higher. Due to general inflation, the District's contribution has fallen by approximately \$600,000 in real terms.

VIHA's draft Ten Year Capital Plan indicates an increasing need for medical equipment which could see the District's share of equipment rising to between \$3.5M and \$6.5M per annum. Increasing the District's contribution is supported on the basis of general inflation and equipment need.

A \$600,000 increase in 2006 could be funded from a capital borrowing bylaw for five years equating to a \$0.92 annual charge against the 2006 average assessed residential value of \$409,319 or an annual charge of \$0.23 per \$100,000 of assessed residential value.

Though the increase is not in the CRHD's 2006 budget, it can be accommodated due to a budgeted project being deferred until 2007. A schedule of apportionment is included as Attachment Three.

RECOMMENDATIONS:

That the Committee recommends the Capital Regional Hospital District Board approve:

- 1) allocating \$2,430,000 from the 2006 Section 20(3) budget; and,
- 2) CRD Bylaw No. 345, "Capital Regional Hospital District Capital Bylaw No. 137, 2006" for \$600,000, for the CRHD's share of equipment funding with a financing term of five (5) years for a combined total of \$3,030,000 as the District's capital equipment contribution for 2006.

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COMMENTS: