



CORPORATE REPORT

To: CAO for the Fraser Valley Regional Hospital District Board

Date: March 20, 2019

From: Mike Veenbaas, Director of Financial Services

File No: HD1700 / 30

Subject: 2019-2023 Annual Budget Bylaw No. 0073, 2019

RECOMMENDATION

THAT the Fraser Valley Regional Hospital District Board consider giving three readings and adoption to *Fraser Valley Regional Hospital District 2019 Annual Budget bylaw No. 0073, 2019*.

BACKGROUND

In December 2018, the Hospital District Board adopted the 2019 Provisional Budget and as per Section 23 of the Hospital District Act, the Board must consider and adopt a 2019 Annual Budget bylaw by March 31, 2019.

DISCUSSION

The 2019 Annual Budget is being presented to the Board for consideration following the adoption of the 2019 Provisional Budget. The 2019 Annual Budget reflects actual financial results realized in 2018 and any new information received since the provisional budget. This includes a slight adjustment to expected non-market change growth from 2.0% up to 2.8% based on the 2019 BC Assessment Completed Roll.

Administration Recovery – Regional District

The budget proposal includes an Increase in the Administration Recovery that is allocated back to the Regional District as no staffing, building or administrative costs are directly expensed to the Hospital District budget. Prior to 2018, the recovery level had been unchanged for 5 years at \$294,000. To address the many years of costs increasing without a corresponding recovery increase and to recognize the increased focus on Hospital District operations and capital planning, the Board supported an increase to \$350,000 for 2018. Staff are proposing to see the final increase to \$400,000 be incorporated into the 2019 budget.

The Administration Recovery recognizes the costs associated with supporting the Hospital District function and the synergies created by co-administering it alongside the Regional District. The internal costs include the shared building, shared fleet and shared IT infrastructure & financial software system along with staffing resources from administration, finance, corporate affairs, and engineering. External costs include an allocated share of the annual financial audit.

Early Debt Retirement Reserve

The 2019 budget continues with the Board directive of allocating funds to a new operating reserve called "Early Debt Retirement" which will provide options for the Board at the time of debenture refinancing. The funding comes from interest savings on existing debt refinanced and requisition increases from new construction growth. The projected balance in this reserve at the end of 2019 is \$1.4 million.

There are two debt refinancing options available in 2019, Issue 105 and Issue 106. The table below summarizes their particulars:

Issue #	Maturity	Interest Rate	Pay Down Date	Original Loan	Pay Down Amount
105	2029	4.90%	Jun 3, 2019	\$4,750,000	\$2,834,866
106	2029	4.13%	Oct 13, 2019	\$10,000,000	\$5,968,139

Information from the Municipal Finance Authorities website estimates 5 year borrowing in the Spring Issue to be around 2.60% which will almost reduce the interest payments on the above issues by 50%. Combined annual interest payments currently are \$645,750.

To help the Board in consider allocating funding from the Early Debt Retirement Reserve, it is prudent to consider the Investment returns on hospital district reserves. While interest rates have increased over the past year, returns continue to remain on par or just lower than the estimated rate for the Spring Issue. As a result of the interest indifference, the decision to pay down debt earlier is more related to the Board wishing to accumulate a larger balance in the reserve for a future debt pay down vs. using the funds towards the 2019 pay down opportunities. Two smaller pay down opportunities exist in 2020 (\$2.9 million and \$1.6 million) that the Board may wish to consider.

Lastly, the proposed 2019 Annual Budget maintains the following items from the 2018 Annual Budget:

- Continuing to put funds into a Major Capital Projects reserve to be used to fund the Board's financial commitment to Fraser Health Authority (FHA) for regional healthcare projects.
- Continuing to allocate \$1.8 million per annum to fund the Hospital District's share of FHA minor and medium facility/equipment projects.

COST

The proposed 2019 Annual Budget maintains the base taxation requisition at existing levels while anticipating an additional \$312,900 to be collected from new construction assessment growth. This is in keeping with the Board resolution from the 2018 financial planning process to increase the requisition by non-market change assessment growth and to put aside these funds into an early debt retirement reserve.

CONCLUSION

The Hospital District Act requires the Board to adopt an annual budget by March 31st which is then used to set taxation rates. The proposed Annual budget aligns with the previously presented Provisional budget with a slight change to estimated requisition growth from new construction assessment based on the 2019 Completed Assessment Roll.

COMMENT BY:

Paul Gipps, Chief Administrative Officer

Reviewed and supported.