



Staff Report

DATE: May 25, 2018

FILE: H-FIN

TO: Chair and Directors
Regional Hospital District Board

Supported by Russell Dyson
Chief Administrative Officer

FROM: Russell Dyson
Chief Administrative Officer

R. Dyson

RE: North Island Hospitals Project – Long Term Debt, Fall Issue 2018

Purpose

To seek Board approval to enter into long term debt with the Municipal Finance Authority (MFA) for the North Island Hospitals Project (NIHP) in the fall of 2018.

Recommendation from the Chief Administrative Officer

That the Comox Strathcona Regional Hospital District Board approve participating in the Municipal Finance Authority's Fall 2018 Long Term Borrowing Issue, with a maximum 10 year debenture in the net amount of \$89,000,000.

Executive Summary

- In 2014, the Board supported using interim financing to fund the NIHP during the construction phase of the two hospitals to take advantage of the lower interest rate and principal paydown flexibility.
- The cash flow payments to Island Health will be completed in October 2018.
- Interest rates have been slowly but steadily increasing since the end of 2017.
- Staff are recommending participating in the MFA's Fall 2018 Long Term Debt Issue in the net amount of \$89,000,000 for a term of up to 10 years.
- The current indicative rate for a 10 year debenture is 3.21 per cent. Annual debt servicing costs for an \$89 million debenture at a rate of up to 3.5 per cent would be approximately \$11 million.
- Existing tax rates over the period of NIHP construction have yielded sufficient revenue to meet annual debt servicing costs of up to \$13,500,000.
- MFA needs a commitment of participation in their fall 2018 issue no later than July 31, 2018.

Prepared by:

B. Dunlop

Beth Dunlop, CPPB, CPA, CGA
Corporate Financial Officer

Stakeholder Distribution (Upon Agenda Publication)

Municipal Finance Authority	✓
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Background/Current Situation

The CSRHD's total commitment for its 40 per cent share of the capital costs for the NIHP is \$240,700,000 including the \$3,000,000 advanced for the original business case. The project has been funded to date by a combination of reserves and interim financing through the MFA. Each year during the NIHP construction, the annual requisition has been sufficient to allow for a minimum principal paydown of \$12,500,000 on the interim debt balance plus the interest. At the conclusion of the Island Health payment schedule in October 2018, there will be \$89,000,000 in interim financing to be converted to long term debt. If the interest rate at the time of the fall debt issue was 3.5 per cent, annual debt payments for a 10 year debenture would be \$10,998,400.

Interest rates have been slowly but steadily increasing since the end of 2017. Rates are projected to continue this upward trend and staff are recommending entering into a 10 year debenture at the rate in effect for MFA's fall 2018 issue. The rate is at yet unknown but with the current rate being 3.21 per cent and allowing for increases even up to 4.0 per cent, the existing tax rates are sufficient to cover the annual debt servicing costs. Locking in at this time removes the uncertainty of further increases in the interest rates, provides certainty for annual budgeting and will see the CSRHD's share of the NIHP fully paid within 10 years.

Policy Analysis

CSRHD Capital Expenditure and Borrowing Bylaw No. 270, adopted in 2012 and subsequently amended in 2014, authorizes the borrowing of \$177,854,000 for a term of up to 30 years for a capital project of \$237,700,000 (excluding the \$3,000,000 business case).

Options

1. To approve participation in the MFA's Fall 2018 Long Term Debt Issue for up to a 10 year term in the net amount of \$89,000,000.
2. Defer entering into long term until a later date.

As interest rates have been gradually increasing and are projected to continue on an upward trend, staff are recommending Option 1.

Financial Factors

The CSRHD's commitment for the NIHP construction was \$237,700,000 with funding as follows starting in 2013:

Interim financing drawdowns - MFA	\$141,501,437
CSRHD reserve funds	96,211,488
Total project costs (including \$2.9 Million project reserve not yet requested by Island Health)	\$237,712,925

Interim financing drawdowns	\$141,501,437
Debt paydowns through requisitions 2015–2018 (avg \$13 Million/yr)	(52,501,437)
Long term debt requirement	\$89,000,000

Approximate interest paid through to October 2018	\$5,000,000
Annual debt servicing costs for \$89 Million at 3.5% over 10 years	\$11,000,000

Legal Factors

Financing arrangements with the MFA are secured by an agreement signed by the CSRHD chair and the corporate financial officer.

Intergovernmental Factors

Ministerial approval is not required to enter into long term debt under the Hospital District Act.