



# BRIEFING NOTE

**Date:** February 21, 2024  
**Issue:** 2024-25 Capital Budget & Multi-Year Capital Plan  
**Prepared for:** Board of Directors  
**Purpose:**  Approval  Discussion  Information  Seeking Direction  
**Prepared by:** Valerie Smith-Sellers, Director, Finance and Interim CFO  
**Approved by:** Patrick Gaskin, President & Chief Executive Officer

**Attachments/Related Documents:** Appendix A – Draft Multi-Year Capital Plan

## Alignment with CMH Priorities

2022-2027 Strategic Plan No <input type="checkbox"/>	2023-24 CMH Priorities No <input type="checkbox"/>	2023-24 Integrated Risk Management Priorities No <input type="checkbox"/>
<input type="checkbox"/> Elevate Partnerships in Care	<input type="checkbox"/> Ensure Equitable Care For CND Residents	<input checked="" type="checkbox"/> Change / Project Management
<input type="checkbox"/> Advance Health Equity	<input type="checkbox"/> Grow Clinical Services	<input type="checkbox"/> Staff Shortages
<input type="checkbox"/> Increase Joy In Work	<input type="checkbox"/> Increase Staff Engagement	<input type="checkbox"/> Access to Care
<input checked="" type="checkbox"/> Reimagine Community Health	<input checked="" type="checkbox"/> HIS/ERP Planning and Implementation	<input checked="" type="checkbox"/> Revenue & Funding
<input checked="" type="checkbox"/> Sustain Financial Health	<input checked="" type="checkbox"/> Grow Ministry Revenue	

## Recommendation/Motion

### **Board**

Following review and discussion of the information provided, the Board approves the fiscal 2024-25 Capital Budget, with a budget allocation of \$28.7M.

### **Resources Committee**

Following review and discussion of the information provided, the Resources Committee of the Board recommends to the Board of Directors the approval of the fiscal 2024-25 Capital Budget, with a budget allocation of \$28.7M.

### **Capital Projects Sub-Committee**

Following review and discussion of the information provided, the Capital Projects Sub-Committee of the Board recommends to the Board Resources Committee the approval of the fiscal 2024-25 Capital Budget, with a budget allocation of \$28.7M.

### **Executive Summary**

A \$28.7M capital budget is being recommended for Cambridge Memorial Hospital (CMH) in fiscal 2024-25, broken down by the following major categories:

	<b>\$M</b>
Medical/General Equipment	3.7
Information Technology	1.0
Plant and Property	3.5
Contingency	0.5
	<u>8.7</u>
Health Information System	15.0
Enterprise Resource Planning	5.0
<b>Total</b>	<b><u>28.7</u></b>

A number of large capital investments have been identified in the 2024-25 capital plan including:

- \$2.2M for the purchase and installation of a new MRI (Magnetic Resonance Imaging) machine (renovations and installation will occur in 2025-26 costing \$2.1M);
- \$1.5M for MDRD Steam to Steam Generation;
- \$750K for Wing D Elevators;
- \$500K for Sanitary Pipe replacement in Wing C.

The capital budget includes a \$15.0M allocation for a new health information system (HIS) with implementation anticipated to start in June 2024. The ten-year total cost of ownership (TCO) for the new HIS is estimated to be \$60.0M. The capital component of the TCO is \$30.0M, assuming \$15M in 2024-25 and \$15M the second year. The enterprise resource planning (ERP) system includes \$5M to support critical corporate functions, prioritizing Workforce management (WFM) in 2024-25.

Funding sources for the capital budget, excluding the new HIS, include net amortization from the hospital's operating budget (\$5.2M), funding from the CMH Foundation (\$3.0M for medical and general equipment) and Health Infrastructure Renewal (HIRF) funding provided by the Ministry of Health (MOH) to support building improvement projects (\$500K).

The HIS will be partially funded through surpluses generated from hospital operations and debt financing. The funding strategy will be confirmed with the Resources Committee once the vendor has been selected and the implementation timelines have been confirmed.

Uncommitted working capital available at the start of fiscal 2024-25 is forecast to be \$10.5M. This working capital will be preserved to offset any further local share cost increases for the CRP and to partially fund the HIS capital costs.

The multi-year capital plan will be updated on an annual basis to incorporate new capital items identified through the other corporate plans and to prioritize expenditures. CMH will apply for Exceptional Circumstance Project funding through the Health Infrastructure Renewal Fund (HIRF) to assist with funding the Wing B Podium Roof replacement \$3.9M in 2025-26 and \$3.5M for Wing C Roof Replacement in 2026-27.

## **Background**

Cambridge Memorial Hospital (CMH) has launched a new strategic plan for the five-year period ending March 31, 2027. The multi-year capital plan supports the strategic plan. The development of the capital plan is a key organizational activity overseen by the Resources Committee. The annual capital budget is approved by the Board before the start of each fiscal year. The 2024-25 capital budget has been developed in conjunction with the new multi-year capital plan.

The multi-year capital plan is a five-year plan that prioritizes capital investments in hospital building infrastructure, medical and general equipment, and information technology. The five-year success goal is to have made the required investments by March 31, 2029 to complete the Capital Redevelopment Project (CRP), improve hospital building infrastructure, replace end-of-life equipment and upgrade core clinical and ERP systems while maintaining financial sustainability.

The multi-year financial plan has been developed in conjunction with the multi-year capital plan to identify objectives that need to be achieved in order to support required capital investments while maintaining financial health. Due to the number of hospital funded capital projects being planned for, amortization expenses and ongoing operating costs to support the capital investments will grow significantly. These new costs will create a budget pressure that is factored into the operating budget.

Beginning April 1, 2024, the capitalization threshold increases from \$2,500 to \$5,000 per unit. This change will align CMH policy with the guidance provided by the Ministry of Health for the CRP which defines minor equipment as items with a per unit cost of less than \$5,000. In anticipation of this change, Finance has increased the 2024-25 operating budget for minor equipment by \$50K based on the equipment requests received during the capital budget process.

## **Analysis**

### **Fiscal 2024-25 Capital Budget**

In October 2023, departmental and physician leaders were engaged in the development of capital request lists. Each department/program completed a template identifying all planned capital requirements by fiscal year for the five-year period ending March 31, 2029. \$48.7M in capital requests were identified through the intake process.

Key support teams including Biomedical Engineering, Facilities, IT Services, and the Capital Redevelopment team were consulted throughout the process. The Purchasing team supported the process by estimating the costs of capital requests identified. Ongoing operating costs associated with the capital requests were identified on the template and will be factored into the 2024-25 operating budget and multi-year financial plan. All capital requests were approved by the program Vice President/Senior Director.

Preliminary budget allocations including a contingency budget were established by major spending category to support the decision making process. The contingency budget will be used for investments required to meet Accessibility for Ontarians with Disabilities Act (AODA), unplanned medical and general equipment breakdowns, unanticipated IT investments and unexpected building maintenance.

The finance and capital redevelopment teams facilitated a collaborative review process in January with department/program leaders to prioritize capital requests, identified items that could be taken off the capital list, purchased before the end of fiscal 2023-24 or deferred into future fiscal years to work within the approved annual capital allocation for each year in the five-year planning period.

A \$28.7M capital budget is recommended for fiscal 2024-25 broken down by the following major categories:

	<b>\$M</b>
Medical/General Equipment	3.7
Information Technology	1.0
Plant and Property	3.5
Contingency	0.5
	<hr/>
	8.7
Health Information System	15.0
Enterprise Resource Planning	5.0
<b>Total</b>	<hr/> <b>28.7</b> <hr/>

See Appendix A for a breakdown of capital asset items included in the 2024-25 capital budget and multi-year capital plan (excluding the HIS and ERP). Key highlights by major category are summarized below.

Medical/General Equipment

\$3.7M has been budgeted for medical and general equipment in fiscal 2024-25, including \$2.2M for the MRI Scanner (with an additional \$2.1M scheduled in 2025-26), 12 Centrella Max Air beds (\$192K total), surgical tourniquets (\$108K) and a coagulation analyzer (\$100K).

\$2.8M of planned expenditures were outstanding at the end of January. Approved capital assets not completed from the current plan will be carried forward into fiscal 2024-25. Existing capital assets will be utilized as long as possible without putting patient safety at risk. The replacement of equipment not included in the multi-year Capital Plan which unexpectedly breaks down will be funded through contingency funds.

Information Technology

\$1.0M has been budgeted for information technology in fiscal 2024-25. Key investments include Wing A closet refresh (\$300K) and cyber security (\$300K).

\$2.2M of planned expenditures that are required were outstanding at the end of January. Approved capital assets in the current plan not completed will be carried forward into next year.

Plant and Property

\$3.5M has been budgeted for plant and property in fiscal 2024-25. \$1.5M has been allocated for the Medical Device Reprocessing Department (MDRD) steam to steam generation, 750K for Wing D Elevators and \$500K for Wing C sanitary line replacement.

\$3.6M of planned expenditures that are required were outstanding at the end of January. Approved capital assets in the current plan that are not completed will be carried forward into next year.

Contingency

A contingency budget has been created to ensure funds are available for unplanned expenses. The hospital's C and D Wings are aging, and investments are expected to maintain these facilities. Contingency funds have been designated for unplanned medical/general equipment (\$200K), plant & property (\$200K) and information technology (\$100K).

**Multi-Year Capital Plan**

\$83.7M in requirements have been identified for the multi-year capital plan, for the five-year period ending March 31, 2029. Budget allocations include \$48.7M for medical and general equipment, information technology and plant and property, \$30M for a new HIS, and \$5M for a new ERP system.

Budget allocations by major category are summarized in Table 1.

**Table 1- Multi-Year Capital Plan (\$M)**

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
<b>Major Projects</b>						
Health Information System	15.0	15.0				30.0
Enterprise Resource Planning	5.0	0.0				5.0
	<b>20.0</b>	<b>15.0</b>				<b>35.0</b>
<b>Annual Capital Budget</b>						
Medical/General Equipment	3.7	5.0	5.0	3.9	4.4	22.0
Information Technology	1	1.8	0.8	2.5	1.6	7.7
Plant & Property	3.5	1.9	2.9	3.9	4.3	16.5
Contingency	0.5	0.5	0.5	0.5	0.5	2.5
	<b>8.7</b>	<b>9.2</b>	<b>9.2</b>	<b>10.8</b>	<b>10.8</b>	<b>48.7</b>
<b>Total Planned Budget</b>	<b>28.7</b>	<b>24.2</b>	<b>9.2</b>	<b>10.8</b>	<b>10.8</b>	<b>83.7</b>

Key highlights by major category are summarized below.

**Major Projects**

Health Information System (HIS)

The revised TCO is estimated to be \$60M, this has been increased from our original TCO of \$42M to \$54.4M as a result of information provided in the pricing envelopes. The TCO includes \$30M in capital costs to be incurred over the 18-month project implementation period. Capital costs will be depreciated over a 15-year period after the system goes live.

Enterprise Resource Planning System (ERP)

As a result of a higher TCO for HIS and to stay within the \$70M overall budget, \$10M has been set aside for the ERP with \$5M estimated for capital. Management has prioritized the various corporate solutions and Workforce Management (WFM) will be the first project.

Capital Redevelopment Project (CRP)

\$3M is being carried forward in the multi-year financial plan to offset the cost of CRP phase 3 owner-initiated orders.

Management has been in discussions with the MOH Capital Branch to review the current approved Capital Redevelopment Project budget (called Final Estimate of Cost 3) and develop an updated Final Estimate of Cost 4 with the objective to maximize the MOH portion of the budget grant. CMH is expecting to reach substantial completion on CRP in October 2024.

**Annual Capital Budget**

Medical/General Equipment

Significant medical equipment expenditures in the multi-year capital plan include an MRI (Magnetic Resonance Imaging) machine (\$4.3M), PACS (Picture Archiving and Communication System) hardware refresh (\$1.7M), CT (Computed Tomography) scanner (\$1.5M), pharmacy

medication packager and carousel (\$1.1M), patient entertainment/engagement system (\$0.7M), anesthetic gas machines (\$0.7M), operating room tables (\$0.7M), X-ray room (\$0.5M), bone mineral density unit (\$0.5M) and sterilizers (\$0.4M).

Information Technology

Key IT investments over the next 5 years include storage and back up infrastructure (\$1.4M), wireless servers (\$0.7M), phone infrastructure refresh (\$0.6M) and cyber security (\$0.5M).

Plant and Property

Key items identified in the multi-year capital plan includes the BWXT Lot 5 Resurfacing (\$3.2M), MDRD steam to steam generation \$1.5M, new sterile compounding room for the pharmacy (\$1.5M) and full system field device upgrade \$1.2M. \$3M has been budgeted for owner-initiated change orders for the CRP. HIRF funding approvals will be prioritized towards roof replacements. HIRF ECP applications will be submitted for both the Wing B podium roof replacement in 2025-26 and Wing C roof replacement in 2026-27.

**Multi-Year Capital Plan Funding Sources**

There are a number of funding sources for the multi-year capital plan as summarized in Table 2. The annual capital budget, excluding major projects, does not exceed the net amortization on hospital funded assets, CMHF donations and MOH HIRF funding.

**Table 2- Multi-Year Capital Plan Funding Sources (\$M)**

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
<b>Major Projects</b>						
Debt Financing	10.0	10.0				20.0
CMH	10.0	5.0				15.0
	<b>20.0</b>	<b>15.0</b>				<b>35.0</b>
<b>Annual Capital Budget</b>						
CMH	5.2	4.7	4.7	5.3	5.3	25.2
CMH Foundation	3.0	4.0	4.0	5.0	5.0	21.0
MOH- HIRF	0.5	0.5	0.5	0.5	0.5	2.5
	<b>8.7</b>	<b>9.2</b>	<b>9.2</b>	<b>10.8</b>	<b>10.8</b>	<b>48.7</b>
<b>Total Funding</b>	<b>28.7</b>	<b>24.2</b>	<b>9.2</b>	<b>10.8</b>	<b>10.8</b>	<b>83.7</b>

HIS / ERP

For the HIS project, the ten-year total cost of ownership (TCO) is estimated to be \$60M and is anticipated to start in June 2024. The capital component of the TCO is \$30M, that will be funded by a \$15M down payment and \$20M in debt financing. A \$5M placeholder for the ERP - corporate solution has been included in the multi-year capital plan starting in fiscal 2024-25.

A debt financing strategy will be finalized when the vendor negotiations are completed. CMH has pre-approved financing through TD Bank and is working with the MOH and Ontario Financing Authority (OFA) to secure financing at a more favorable interest rate.

## **Working Capital Position**

CMH is forecasting to start fiscal 2024-25 with \$10.5M in unrestricted working capital as summarized in Table 3.

**Table 3 - Forecast Working Capital Position - April 1, 2024**

	(\$M)
<b>Unrestricted bank balance - January 31, 2024</b>	<b>79.3</b>
Add: Other Current Assets (\$0.3 Due from CMH Foundation - Capital Funding)	17.8
Less: Current Liabilities (\$18.2M due to MOH)	(85.8)
Add: Vacation Bank Accrual (consistent with MOH working capital calculation)	4.8
<b>Working capital available - January 31, 2024</b>	<b>16.1</b>
Add: Federal Grant - Staff Entrance	0.2
Add: MOH Health Infrastructure Renewal Funding	0.6
Add: MOH Bill 124 Estimated Incremental Funding	6.6
Add: Other Capital Program Funding	0.1
Less: Outstanding Capital Budget Commitments	(11.6)
Less: Outstanding Approved POs	(1.5)
<b>Forecast working capital position - April 1, 2024</b>	<b>10.5</b>

The hospital is required to maintain a working capital ratio between 0.8 and 2.0, as per the Hospital Service Accountability Agreement entered into with Ontario Health. The working capital ratio at the end of January 2024 is currently 1.13. The addition of \$20.0M in debt financing for the new HIS/ERP would reduce the working capital ratio within the required range.

## **Risk Assessment**

The following risks are associated with the multi-year capital plan:

- There is potential of unforeseen capital costs associated with the CRP renovation of Wing B, increasing owner-initiated change orders above the current forecast amount;
- The building infrastructure in Wing C and D is aging and may require unplanned investments to address urgent needs;
- The investment required to implement new HIS and ERP solutions have not been confirmed. Actual pricing may be higher than amounts budgeted for multi-year capital plan;
- As corporate plans in support of the strategic plan are finalized, additional capital needs may be identified;
- A master planning exercise is being planned in fiscal 2024-25 that will identify areas in the facility requiring capital investment;
- CMHF has committed to provide CMH with between \$3.0M - \$5.0M annually to support the purchase of medical and general equipment. The Foundation is focused on fundraising to support the purchase of an MRI machine (\$4.3M), which represents a significant capital outlay. The community's response to supporting the hospital's ongoing medical and general equipment needs in the current economic climate is unknown;
- The Wing B Podium Roof is in need of replacement, CMH is currently applying for an Exceptional Circumstances Project (ECP) grant through HIRF to help fund this project, should this application be denied other projects may need to be deferred in order to complete this project

- The MOH has indicated that the HIRF program will be wound down at some point in the future, and it is unknown whether this program will be replaced with another funding source to help hospitals address building infrastructure needs.