



BRIEFING NOTE

Date: February 19, 2025
Issue: 2025-26 Capital Budget and 2026-30 Multi-Year Capital Plan
Prepared for: Board of Directors
Purpose: Approval Discussion Information Seeking Direction
Prepared by: Valerie Smith-Sellers, Director, Finance
Approved by: Trevor Clark, VP Finance and Corporate Services / CFO

Attachments/Related Documents: Appendix A – 2026-30 Multi-Year Capital Plan

Alignment with CMH Priorities

2022-2027 Strategic Plan No <input type="checkbox"/>	2024/25 CMH Priorities No <input checked="" type="checkbox"/>	2024/25 Integrated Risk Management Priorities No <input type="checkbox"/>
<input type="checkbox"/> Elevate Partnerships in Care	<input type="checkbox"/> Improve Patient Flow (PIA, Time to Bed, ALC)	<input type="checkbox"/> Access to Care
<input type="checkbox"/> Advance Health Equity	<input type="checkbox"/> Embrace Diversity, Build a Culture of Inclusion	<input checked="" type="checkbox"/> Business Continuity
<input type="checkbox"/> Increase Joy In Work	<input type="checkbox"/> Increase Staff Engagement Through Improved Staffing	<input type="checkbox"/> Workforce Planning
<input checked="" type="checkbox"/> Reimagine Community Health	<input checked="" type="checkbox"/> Prepare for Digital Health Transformation	<input checked="" type="checkbox"/> Change Management
<input checked="" type="checkbox"/> Sustain Financial Health	<input type="checkbox"/> Earn the Maximum Eligible PCOP Funding	<input checked="" type="checkbox"/> Revenue & Funding

Recommendation/Motion

Board

That, the Board approves the fiscal 2025-26 Capital Budget, with a budget allocation of \$29.8M upon recommendation of the Resources Committee at the meeting of February 24, 2025. None opposed. **CARRIED.**

Resources Committee

Following review and discussion of the information provided, the Resources Committee of the Board recommends to the Board the approval of the fiscal 2025-26 Capital Budget, with a budget allocation of \$29.8M. **CARRIED.**

Executive Summary

A \$29.8M Capital Budget is being recommended for Cambridge Memorial Hospital (CMH) in fiscal 2025-26, broken down by the following major categories:

2025-26 Capital Budget	\$M
Medical and General Equipment	7.3
Information Technology	1.1
Plant and Property	4.0
Contingency	0.5
	<hr/> 12.9
<u>Project Quantum</u>	
Health Information System (HIS)	14.2
Enterprise Resources Planning (ERP)	2.7
Total Budget	<hr/> 29.8 <hr/>

A number of large investments are included in the 2025-26 Capital Budget including:

- \$4.4M for the purchase and installation of the new Magnetic Resonance Imaging (MRI) machine, which is in addition to the \$2.3M approved in the 2024-25 Capital Budget, to cover the full cost of \$6.7M;
- \$2.2M for the Wing D roof replacement. CMH has submitted an Exceptional Circumstance Project (ECP) funding request to the Ministry of Health (MOH) through the Health Infrastructure Renewal Fund (HIRF) to offset this cost;
- \$0.5M for data center core switches in Wings A and B;
- \$0.4M for a steam to steam generation exchanger in the Medical Device Reprocessing Department (MDRD);
- \$0.4M for the creation of a seclusion room and conversion of a consult room in the Emergency Department (ED);
- \$0.4M to optimize the boiler plant;
- \$0.4M for a firewall cluster and Intrusion Prevention Service (IPS) blades refresh to improve the hospital's Information Technology (IT) cybersecurity posture.

The 2025-26 Capital Budget includes a \$14.2M allocation for the Oracle Health HIS with implementation expected to start in October 2025. An estimate of \$2.7M has been included in the budget for the remaining modules of the ERP system which includes supply chain management, human resources, payroll and finance modules. Phase 2 timelines for the ERP and the cost to implement the outstanding modules will be confirmed in May. For planning purposes, it has been assumed that all modules will be implemented by March 31, 2027. The estimated capital cost for these modules is based on the ten-year total cost of ownership previously developed by Deloitte.

Funding sources for the capital budget, excluding Project Quantum, include net amortization from the hospital's operating budget (\$5.1M), funding from the CMH Foundation (\$5M), HIRF funding (\$2.7M) and a third-party grant from Abbott (\$148K). Project Quantum costs will be funded with unrestricted working capital and debt financing. Unrestricted working capital available at the start of fiscal 2025-26 is forecast to be \$22.9M. In addition to helping fund Project Quantum, unrestricted working capital will be used to fund critical plant and property projects not currently identified.

The 2026-30 Multi-Year Capital Plan has been developed incorporating new capital requests identified through the capital intake process in October. Excluding Project Quantum, \$58.8M in capital requirements are included in the five-year plan. CMH will apply for ECP funding through HIRF to assist with funding major plant and property projects including Wing D roof replacement

(\$2.2M) and the supply fan 8 replacement (\$1.5M) to offset the cost. If this funding is not approved, then unrestricted working capital will be used to fund these projects.

The organization is in position to achieve the five-year success goal identified in support of the 2022-27 Strategic Plan.

Background

CMH's current five-year 2022-27 Strategic Plan ends in March 2027. The development of the multi-year capital plan in support of the strategic 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 2025-26 Capital Budget has been developed as part of the multi-year capital plan refresh through March 2030. The multi-year capital plan is a five-year rolling plan that prioritizes capital investments in medical and general equipment, information technology and plant and property. The multi-year capital plan is developed in conjunction with the multi-year financial plan to identify objectives that need to be achieved in order to support required capital investments while maintaining financial health.

The five-year success goal identified in support of the 2022-27 Strategic Plan is to have made the required investments by March 31, 2027, 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.

Analysis

2025-26 Capital Budget

In October 2024, 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, 2030. \$63.4M in new 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 have been factored into the 2025-26 Operating Budget and 2026-30 Multi-Year Financial Plan. All capital requests were approved by the department/program Vice President.

Preliminary budget allocations including a contingency budget were established by major spending category to support the decision making process. The contingency budget is used for unplanned medical and general equipment breakdowns, unanticipated IT investments and unexpected building maintenance.

A \$29.8M Capital Budget is recommended for fiscal 2025-26 broken down by the following major categories:

2025-26 Capital Budget	\$M
Medical and General Equipment	7.3
Information Technology	1.1
Plant and Property	4.0
Contingency	0.5
	12.9
<u>Project Quantum</u>	
Health Information System (HIS)	14.2
Enterprise Resource Planning (ERP)	2.7
Total Budget	29.8

See Appendix A for a breakdown of capital asset items included in the 2025-26 Capital Budget and 2026-30 Multi-Year Capital Plan. Key highlights by major category are summarized below.

Medical and General Equipment

\$7.2M has been budgeted for medical and general equipment in fiscal 2025-26. Key investments include:

- MRI machine purchase and installation (\$4.4M in 2025-26 + \$2.3M carryover from 2024-25)
- Seclusion room and consult room conversion in ED (\$385K)
- Automated differential analyzer (\$270K)
- Portable X-ray units (\$250K)

Information Technology

\$1.1M has been budgeted for information technology in fiscal 2025-26. Key investments include:

- Data center core switches for Wings A and B (\$500K)
- Firewall cluster and IPS blades refresh (\$400K)

Plant and Property

\$4.0M has been budgeted for plant and property in fiscal 2025-26. Key investments include:

- Wing D roof replacement (\$2.2M)
- Steam to steam generation exchanger in MDRD (\$400K)
- Boiler plant optimization (\$350K)

Contingency

A contingency budget has been created to ensure funds are available for unplanned expenses. Contingency funds have been designated for unplanned medical and general equipment (\$200K), plant and property (\$200K) and information technology (\$100K). Existing capital assets not approved in the 2025-26 Capital Budget will be utilized as long as possible without putting patient safety at risk. If the equipment unexpectedly breaks down contingency funds will be used to replace this equipment.

Carryforward

Approved capital assets not completed from the previous capital plans will be carried forward into fiscal 2025-26. Total carryforward from 2024-25 is expected to be \$3.9M and it is made up of \$2.4M in medical and general equipment, \$1.2M in plant and property, and \$0.3M for information technology.

2025-30 Multi-Year Capital Plan

\$94.9M in requirements have been identified for the 2025-30 Multi-Year Capital Plan, for the five-year period ending March 31, 2030. Budget allocations include \$58.8M for medical and general equipment, information technology and plant and property and \$36.1M for major projects.

Budget allocations by major category are summarized in Table 1.

Table 1- 2025-30 Multi-Year Capital Plan (\$M)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Annual Capital Budget						
Medical and General Equipment	7.3	5.0	5.0	6.2	5.0	28.5
Information Technology	1.1	1.7	3.1	0.3	1.3	7.5
Plant and Property	4.0	4.9	1.7	4.9	4.8	20.3
Contingency	0.5	0.5	0.5	0.5	0.5	2.5
	12.9	12.1	10.3	11.9	11.6	58.8
Project Quantum						
Health Information System	14.2	13.7	0.0	0.0	0.0	27.9
Enterprise Resource Planning	2.7	5.5	0.0	0.0	0.0	8.2
	16.9	19.2	0.0	0.0	0.0	36.1
Total Planned Budget	29.8	31.3	10.3	11.9	11.6	94.9

Key highlights by major category for the years between 2026-27 to 2029-30 are summarized below.

Medical and General Equipment

Major expenditures in the multi-year capital plan include:

- CT (Computed Tomography) scanner and renovation costs (\$5.5M)
- Pharmacy renovation and relocation (\$4.2M)
- Picture Archiving and Communication System (PACS) hardware refresh (\$2.2M)
- Omnicell cabinets (\$0.9M)
- Anesthetic gas machines (\$0.7M)
- Operating room tables (\$0.7M)
- X-ray room (\$0.5M)

Information Technology (IT)

Key IT investments over the next 5 years include storage and back up infrastructure (\$0.8M), wireless servers (\$0.8M), VDI refresh (\$0.8M) and phone infrastructure refresh (\$0.7M).

Plant and Property

Key items identified in the multi-year capital plan include:

- Wing C roof replacement (\$3.3M)
- Lot 5 resurfacing (\$3.2M)
- Wing C renovations (\$2.1M)
- New sterile compounding room for the pharmacy (\$1.5M)

- Wing C elevator replacement (\$1.5M)

Project Quantum

The HIS project is expected to kick-off by October 2025 followed by a twelve-month project implementation period, with a targeted go-live by October 2026. Project costs to be capitalized have been incorporated into the multi-year capital plan based on the most current costing for a shared instance as previously approved by the Board in December 2024.

The Workforce Planning (WPF) system is on schedule to go-live in the spring of 2025. Project costs to be capitalized were budgeted in the 2024-25 Capital Budget. For planning purposes, the remaining ERP modules are expected to be implemented by March 2027. A review of system options and updated ten-year total cost of ownership (TCO) will be brought to the Digital Health Subcommittee and Resources Committee when completed.

2025-30 Multi-Year Capital Plan Funding Sources

There are a number of funding sources for the 2025-30 Multi-Year Capital Plan as summarized in Table 2.

Table 2- 2025-30 Multi-Year Capital Plan Funding Sources (\$M)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Annual Capital Budget						
Amortization	5.1	5.1	4.8	5.2	6.1	26.3
CMH Foundation	5.0	5.0	5.0	5.0	5.0	24.0
MOH HIRF	2.7	2.0	0.5	0.5	0.5	6.7
Third-party funding	0.1			1.2		1.3
Total	12.9	12.1	10.3	11.9	11.6	58.8
Project Quantum						
Debt financing – HIS	10.0	10.0				20.0
CMH working capital	6.9	9.2				16.1
	16.9	19.2				36.1
Total Funding	29.8	31.3	10.3	11.9	11.6	94.9

Annual Capital Budget

There are a number of funding sources for the annual capital budget including:

- Amortization of self-funded assets.
- Donations from the CMH Foundation are targeted to provide the hospital with \$5M in funding per year for medical and general equipment.
- HIRF funding grants from the MOH to repair aging building infrastructure.
- Third-party grants for specified purposes.

Project Quantum

HIS capitalized project costs will be funded through a combination of debt financing (\$20M) and CMH unrestricted working capital (\$7.9M). Capitalized project costs for the remaining ERP modules (\$8.2M) will be funded using unrestricted working capital.

Working Capital Position

CMH is forecasting to start fiscal 2025-26 with \$22.9M in unrestricted working capital as summarized in Table 3.

Table 3 - Working Capital Forecast – Post Project Quantum

	\$M
Unrestricted bank balance – January 31, 2025	83.4
Add: Other current assets (\$0.5M Due from CMH Foundation - capital funding)	18.4
Less: Current liabilities (\$5.4M due to MOH)	(77.7)
Subtotal - Net current assets	24.1
Add: Vacation bank accrual (consistent with MOH working capital calculation)	4.8
Forecast working capital available - January 31, 2025	28.9
Less: Outstanding 2024-25 Capital Budget commitments	(7.6)
Less: Outstanding approved purchase orders	(4.2)
Add: CMH Foundation funding for approved equipment (February-March)	0.4
Add: MOH HIRF funding (February-March)	0.2
Add: Unused forecast contingency	0.3
Add: 2022-23 PCOP funding reconciliation	5.6
Less: Decrease in forecast surplus + net amortization (February- March)	(0.7)
Forecast unrestricted working capital - April 1, 2025	22.9
Add: 2023-24 PCOP funding reconciliation (subject to MOH review)	8.4
Add: 2024-25 PCOP funding reconciliation (subject to MOH review)	1.4
Less: HIS capital costs to be funded with unrestricted working capital	(7.9)
Less: ERP system capital costs to be funded with unrestricted working capital	(8.2)
Less: Controlled deficit in 2026-27 to support Project Quantum implementation	(3.9)
Forecast unrestricted working capital after Project Quantum	12.7

There are many potential uses for the remaining unrestricted working capital which include:

- The 2025-30 Multi-Year Capital Plan assumes that CMH will receive two ECP HIRF funding grants over the five-year period with a total value of \$3.7M – \$2.2M in 2025-26 and \$1.5M in 2026-27. If the hospital does not get approval for this funding, these building infrastructure projects will need to be self-funded.
- The hospital needs to complete a final CRP spending reconciliation with the MOH. This will be a negotiation which could have a positive, negative or neutral impact on working capital.
- While the hospital has a new Wing A and renovated Wing B, two Wings (C and D) are very old and in need of revitalization. There are consistently unexpected repairs / building improvements required in these two areas.
- Adjacent land surrounding the hospital as it becomes available. Currently 647 Coronation Blvd. is for sale and management is bringing forward a recommendation to the February 24 Resources Committee meeting that an offer be made to purchase for additional parking or future development.
- The hospital is conducting a master planning exercise in fiscal 2025-26 which will inform how to best utilize Wings C and D to support the delivery of high quality patient care. Renovations may be required in these spaces to prepare them for their intended use.

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 2025 is currently 1.31. Based on the planned financial strategies, the

hospital will continue to have a working capital ratio in the required range after Project Quantum has been completed.

Risk Assessment

The following risks are associated with the Multi-Year Capital Plan:

- As the CRP project winds down and the final spending reconciliation is completed by the MOH, costs originally believed to be funded by the MOH may be rejected and require funding from CMH.
- The costs of the MRI renovation have not been finalized, final costs may exceed the current budget of \$6.7M.
- CMH Foundation has committed to providing CMH with \$5M annually to support the purchase of medical and general equipment. The community's response to supporting the hospital's ongoing medical and general equipment needs in the current economic climate is unknown.
- Wing D Roof and Supply fan unit 8 both require replacement. CMH is currently applying for ECP grants through HIRF to help fund these projects. If the applications are denied, unrestricted working capital will be used, reducing the amount of working capital for other priority projects that are identified in the future.
- Due to the number of planned hospital-funded capital projects, amortization expense and ongoing operating costs to support the capital investments will grow significantly. These new costs will create a budget pressure that will need to be addressed in future year budget processes.