

YUKON HOSPITAL CORPORATION

3 Year Funding Agreement Proposal
April 1, 2017 to March 31, 2020



yukon
hospitals

CORE FUNDING

| Fiscal Year | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---|------------------|------------------|------------------|------------------|
| (000's) | | | | |
| Total original 3 year funding agreement | \$ 53,399 | | | |
| Addendums | | | | |
| Addition for core funding - Dawson City Hospital | \$ 4,539 | | | |
| Addition for pressures (blood and ER) | \$ 405 | | | |
| Addition for Teleradiology | \$ 159 | | | |
| Addition for E-Health LIS staffing & ongoing maintenance | \$ 245 | | | |
| Addition for capital (increase from \$1.2M to \$3.5M) | | \$ 2,300 | | |
| Addition for reduction in patient revenues (new agreement) | | \$ 500 | | |
| Addition for WGH Expansion including MRI (rolled into Core) | \$ - | \$ - | \$ 2,894 | |
| | \$ 58,747 | \$ 64,009 | \$ 69,579 | \$ 72,362 |
| Proposed percentage increase in Core Funding | | 4% | 4% | 4% |

ISSUES TO BE ADDRESSED IN CORE FUNDING

1. Amendments added to Core
 - Dawson City Community Hospital core funding
 - Pressure funding (Blood products and ER staffing)
 - Teleradiology
 - E-Health projects – LIS only (CR and DIS to be added by way of addendum once final costs established)
2. Capital Funding Increase
3. Patient Revenue
4. WGH Expansion including MRI O&M Funding
5. Loan Servicing
6. Pension Solvency
7. Rational for Percentage Increase in Core Funding

CAPITAL FUNDING INCREASE

- YHC is not funded separately for capital and each year allocates a portion of the core funding for capital acquisitions.
- Historically, approximately \$1.2M has been earmarked for capital purchases with supplemental capital funds provided by the Yukon Hospital Foundation.
- YHC capital needs far exceed the funding that is currently allocated and proposes the annual envelope should be closer to \$3.5M to \$4M with an annual escalation similar to O&M.
- The following two slides provide the historical envelope for the past three year agreement as well as YHC's 5 year capital requirements for items over \$500K. These items cannot be managed within the current capital envelope allocation.
- YHC prioritizes its capital requirements annually and the replacement requirements each year far exceeds the allocated envelope.

HISTORICAL CAPITAL ENVELOPE

| | Fiscal 2014-15 | Fiscal 2015-16 | Fiscal 2016-17 |
|---------------------------------|-------------------|-------------------|-------------------|
| (000,s) | | | |
| Core Capital - Yukon Government | \$ 1,270 | \$ 1,295 | \$ 1,165 |
| Annual contribution from YHF | \$ - | \$ 600 | \$ 300 |
| Total Capital Envelope | \$ 1,270 | \$ 1,895 | \$ 1,465 |

5 YEAR CAPITAL – OVER \$500K

| Equipment and Estimated Cost | Fiscal 2016 | Fiscal 2017 | Fiscal 2018 | Fiscal 2019 | Fiscal 2020 |
|--|-------------|-------------|-------------|-------------|-------------|
| Medical Imaging | | | | | |
| Digital Fluoroscopy (\$400K - \$800K) | | X | | | |
| Ultrasound Unit (\$750K) | | | X | | |
| Mammo Machine (\$750K) | | | | X | |
| CT Machine (\$1.2M) | | | | X | |
| Digital Radiography (\$600K) | | | | | X |
| | | | | | |
| Facilities | | | | | |
| Fit-up of 2nd floor expansion (\$??) | | | X | | |
| Medical oxygen (\$750K) | | X | | | |
| Electric Boilers DCH /upgrade WGH boilers (\$??) | | X | | | |
| Re-purposing of vacated space (\$??) | | | X | | |
| | | | | | |
| Information Systems | | | | | |
| Meditech upgrade (\$4.6M) | | X | X | | |
| Advanced clinical modules (\$3.8M) | | | X | X | X |
| Data Center (Expansion project) (\$1.2M) | X | X | | | |
| | | | | | |
| Pharmacy and Nursing | | | | | |
| Auto dispensing cabinets (\$500K to \$1.5M) | X | X | X | X | |
| | | | | | |
| Operating Room | | | | | |
| Multi purpose scope suite (\$?) | | X | | | |

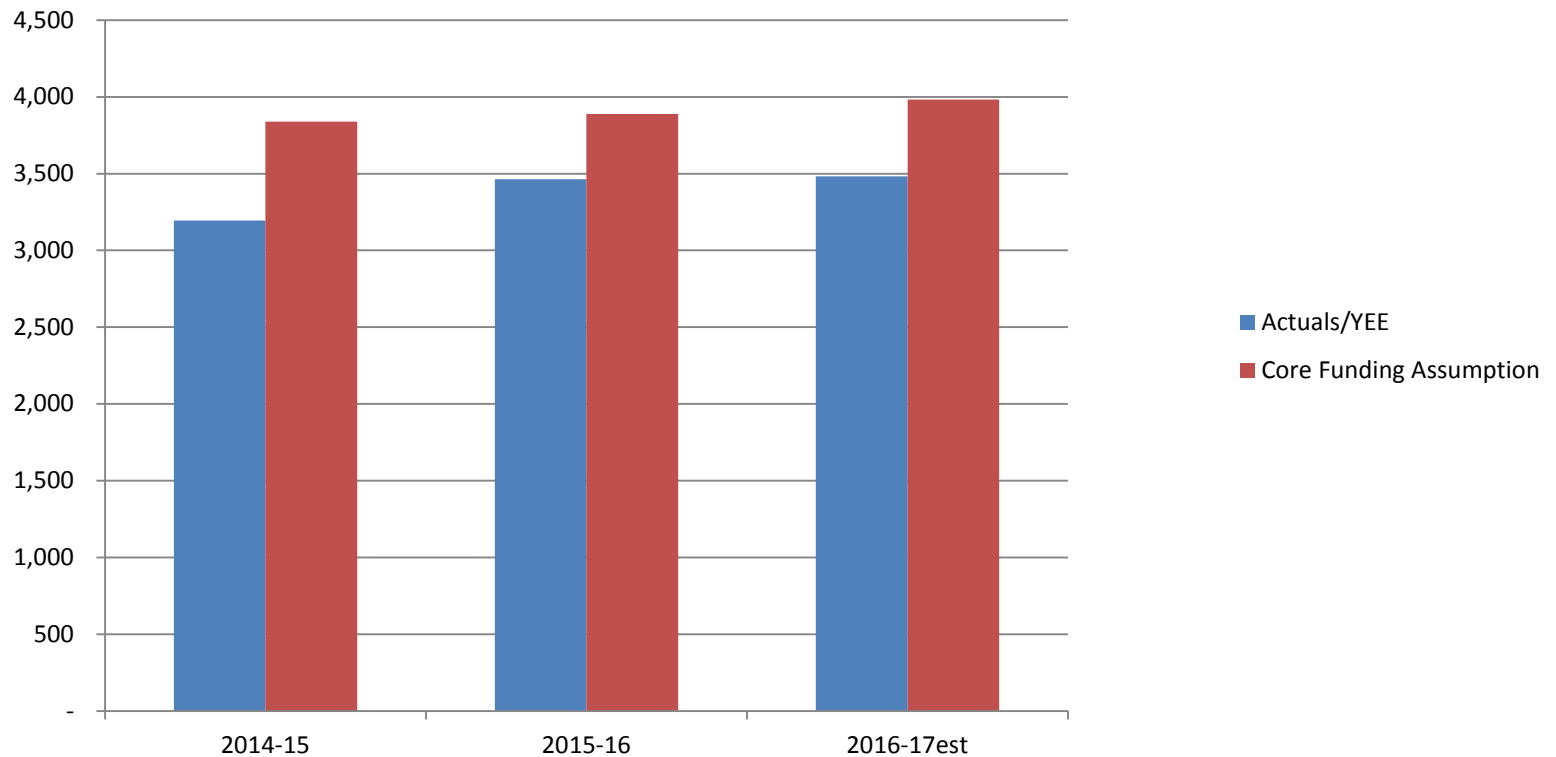
YHC capital needs for items over \$500K cannot be covered by the current envelope of \$1.2M

PATIENT REVENUES

- Over the past three year funding agreement, YHC has seen a significant decrease in inpatient revenue in its WGH facility. This decrease is related to less Out of Territory and Out of Country patients admitted to hospital including reduced length of stays and is expected to reach \$1.570M by March 31, 2017.
- The new proposed agreement reflects that patient revenues will remain flat over the 3 year agreement term (\$3.4M per year).
- YHC does not have the ability to recover significant unfavorable variances in patient revenue and recommends that an additional point be added to the funding agreement. YHC proposes that at the end of the three year agreement if patient revenues result in a variance of +/- \$300K, the Department and YHC will reconcile this variance upon negotiation of the new three year agreement.
- YHC is proposing an increase to the Core Funding base of \$500K in year one of the agreement to account for the level-setting of expected patient revenue in the future.
- YHC is proposing one time funding for shortfall in patient revenues for the current three year agreement and proposes the +/- \$300K rule apply thus requesting funding of \$1.270M (\$1.570M-\$300K).
- The following slide provide historical information on total patient revenues for all YHC facilities during the past three year funding agreement.

YHC PATIENT REVENUE CURRENT 3 YEAR AGREEMENT

PATIENT REVENUES



WGH EXPANSION O&M (INCLUDING MRI)

- YHC and the Department currently have a separate agreement for additional O&M relating to the MRI and WGH Expansion projects. This agreement ends on March 31, 2018.
- YHC proposes that the O&M funding be rolled into core funding for the fiscal year ended March 31, 2019.
- **NOTE:** Five years of MRI maintenance has been included in the capital funding and will not need to be added to core funding until the next agreement in fiscal 2021.

LOAN SERVICING

- YHC has loans in place with the CIBC for the Crocus Ridge, Watson Lake and Dawson City projects. The amortization period for these loans are 17 years, 15 years and 15 years respectively.
- The Department provides funding to service these loans (principle and interest) by way of lease agreements and additional core funding.
- YHC will require an additional \$11.6M in core funding to service the debt over the life of the new three year funding agreement.

LOAN SERVICING

| Fiscal Year | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|-----------------------------------|---------------------|---------------------|---------------------|
| LOAN SERVICING | | | |
| CROCUS RIDGE | \$ 1,452,739 | \$ 1,452,739 | \$ 1,452,739 |
| WATSON LAKE COMMUNITY HOSPITAL | \$ 1,916,711 | \$ 1,916,711 | \$ 1,916,711 |
| DAWSON CITY COMMUNITY HOSPITAL | \$ 1,777,179 | \$ 1,722,904 | \$ 1,671,034 |
| TOTAL LOAN SERVICING | \$ 5,146,629 | \$ 5,092,354 | \$ 5,040,484 |
| | | | |
| LEASE AGREEMENT | | | |
| CROCUS RIDGE | \$ 905,047 | \$ 905,047 | \$ 905,047 |
| WATSON LAKE HOSPITAL - CN | \$ 69,160 | \$ 69,160 | \$ 69,160 |
| WATSON LAKE HOSPITAL - MC & PHARM | \$ 74,308 | \$ 74,308 | \$ 74,308 |
| DAWSON CITY HOSPITAL - CN | \$ 94,920 | \$ 94,920 | \$ 94,920 |
| DAWSON CITY HOSPITAL - MC & PHARM | \$ 69,158 | \$ 69,158 | \$ 69,158 |
| TOTAL LEASE AGREEMENTS | \$ 1,212,593 | \$ 1,212,593 | \$ 1,212,593 |
| | | | |
| CROCUS RIDGE - NET OF LEASE PMTS | \$ 547,692 | \$ 547,692 | \$ 547,692 |
| WLH - NET OF LEASE PMTS | \$ 1,773,243 | \$ 1,773,243 | \$ 1,773,243 |
| DCH - NET OF LEASE PMTS | \$ 1,613,101 | \$ 1,558,826 | \$ 1,506,956 |
| TOTAL FUNDING REQUIRED | \$ 3,934,036 | \$ 3,879,761 | \$ 3,827,891 |

PENSION SOLVENCY

- It is expected that the YHC Pension Plan will continue to have a significant pension solvency deficit throughout the term of the new three year agreement.
- In December 2015, YHC's pension actuaries provided a projection of estimated solvency requirements for the next 5 years. This estimate as well as an estimate for letter of credit interest charges has been provided in the following slide.
- It is assumed that YG will continue to fund this shortfall by way of separate agreement each year upon completion of the annual actuarial valuation.

PENSION SOLVENCY

| Fiscal Year | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---|-----------------|-----------------|-----------------|
| (000's) | | | |
| PENSION SOLVENCY (000'S) | | | |
| Estimated required solvency payments | \$ 5,490 | \$ 5,281 | \$ 5,140 |
| Additional letter of credit secured | \$ (1,950) | \$ (1,982) | \$ (2,029) |
| Total Cash payments required | \$ 3,540 | \$ 3,299 | \$ 3,111 |
| Interest on letter of credit | \$ 104 | \$ 117 | \$ 130 |
| Total estimated commitment from YG | \$ 3,644 | \$ 3,416 | \$ 3,241 |

RATIONAL FOR PERCENTAGE INCREASE IN CORE FUNDING

- Salaries and benefits account for 60% to 65% of YHC's total budget and YHC budgets and is funded for an occupancy level of 75%.
- Merit and promotion increases for non-management employees is prescribed and negotiated through collective agreements with both unions. Increases for both non-management and management employees is approximately 3% each year.
- Occupancy pressures above the 75% are not funded and may result in additional requests for funding.

RATIONAL FOR PERCENTAGE INCREASE IN CORE FUNDING CONTINUED

YHC continues to experience increased demand for services and realized significant volume increases over the first two years of the current agreement.

| | % |
|---------------------------------|-----------------|
| Service | Increase |
| Laboratory | 13.2% |
| Medical Imaging (excluding MRI) | 6.1% |
| Chemotherapy | 43.4% |
| Therapies | 11.8% |
| Nutrition Services | 18.8% |
| Specialist Clinic Visits | 4.0% |

WGH STATISTICS

| | <u>For the Month of</u> | | | <u>12 Months Ending</u> | | | Change YOY |
|---|-------------------------|---------------|---------------|-------------------------|---------------|---------------|-----------------------|
| | <u>Mar-14</u> | <u>Mar-15</u> | <u>Mar-16</u> | <u>Mar-14</u> | <u>Mar-15</u> | <u>Mar-16</u> | |
| Admissions | 266 | 284 | 305 | 3,085 | 3,172 | 3,329 | 4.9% |
| Patient days - Adults & Children | 1,471 | 1,461 | 1,574 | 16,213 | 17,311 | 17,215 | -0.6% |
| Newborn days | 77 | 102 | 69 | 973 | 977 | 980 | 0.3% |
| Total patient days | 1,548 | 1,563 | 1,643 | 17,186 | 18,288 | 18,195 | -0.5% |
| <i>% Occupancy</i> | 86.3% | 85.7% | 92.3% | 80.8% | 86.2% | 85.8% | |
| <i># of patient days > 30 days</i> | 423 | 366 | 405 | 3,360 | 4,351 | 3,847 | -11.6% |
| <i>% of patient days (A & C) > 30 days</i> | 28.8% | 25.1% | 25.7% | 20.7% | 25.1% | 22.3% | -11.0% |
| <i>% of days = / > 100% occupancy</i> | 12.9% | 16.1% | 35.5% | 4.2% | 20.1% | 21.4% | 6.4% |
| Revenue Patient Days | | | | | | | |
| Out of Territory | 48 | 52 | 27 | 754 | 462 | 393 | -14.9% |
| Out of Country | 4 | 2 | - | 98 | 89 | 149 | 67.4% |
| Other | 5 | 4 | 1 | 84 | 28 | 40 | 42.9% |
| | 57 | 58 | 28 | 936 | 579 | 582 | 0.5% |
| Births | 36 | 43 | 30 | 391 | 397 | 407 | 2.5% |
| Emergency visits | 2,813 | 3,018 | 3,196 | 31,044 | 32,797 | 32,923 | 0.4% |
| Visits to visiting specialists | 802 | 691 | 666 | 8,536 | 8,548 | 8,885 | 3.9% |
| Surgical visits - Inpatients | 51 | 60 | 53 | 599 | 658 | 666 | 1.2% |
| Same day surgery | 218 | 216 | 200 | 1,960 | 2,357 | 2,272 | -3.6% |
| Allied Services | | | | | | | |
| Laboratory | 2,171 | 2,514 | 2,490 | 24,768 | 26,549 | 28,163 | 6.1% |
| Imaging | 1,401 | 1,577 | 1,567 | 17,122 | 17,323 | 18,190 | 5.0% |
| Chemotherapy | 30 | 69 | 87 | 558 | 676 | 827 | 22.3% |
| Therapies | 394 | 644 | 479 | 5,152 | 5,499 | 5,777 | 5.1% |
| Nutrition | 36 | 40 | 41 | 411 | 461 | 492 | 6.7% |
| Diabetic Education Clinic | 41 | 50 | 56 | 677 | 647 | 686 | 6.0% |
| MRI | - | 172 | 154 | - | 414 | 1,868 | N/A |

WLCH STATISTICS

| | <u>For the Month of</u> | | | <u>12 months Ending</u> | | | Change YOY |
|---|-------------------------|---------------|---------------|-------------------------|---------------|---------------|-----------------------|
| | <u>Mar-14</u> | <u>Mar-15</u> | <u>Mar-16</u> | <u>Mar-14</u> | <u>Mar-15</u> | <u>Mar-16</u> | |
| Admissions | 24 | 14 | 14 | 176 | 129 | 135 | 4.7% |
| Patient days - Adults & Children | 95 | 114 | 90 | 817 | 1089 | 901 | -17.3% |
| <i>% Occupancy</i> | 51.1% | 61.3% | 48.4% | 37.3% | 49.7% | 41.1% | |
| Revenue Patient Days | | | | | | | |
| Out of Territory | 6 | 9 | 4 | 67 | 196 | 51 | -74.0% |
| Out of Country | 6 | 0 | 0 | 26 | 0 | 0 | |
| Other | 3 | 5 | 0 | 4 | 10 | 2 | -80.0% |
| | 15 | 14 | 4 | 97 | 206 | 53 | -74.3% |
| Emergency visits | 136 | 140 | 250 | 2119 | 1816 | 2291 | 26.2% |
| Allied Services | | | | | | | |
| Laboratory | 153 | 176 | 193 | 1755 | 1812 | 1622 | -10.5% |
| Imaging | 45 | 33 | 43 | 346 | 475 | 537 | 13.1% |

DCCH STATISTICS

| | <u>For the Month of</u> | | | <u>12 months Ending</u> | | Change YOY |
|---|-------------------------|---------------|---------------|-------------------------|---------------|-----------------------|
| | <u>Mar-14</u> | <u>Mar-15</u> | <u>Mar-16</u> | <u>Mar-15</u> | <u>Mar-16</u> | |
| Admissions | 4 | 7 | 5 | 92 | 69 | -25.0% |
| Patient days - Adults & Children | 5 | 114 | 71 | 1075 | 1007 | -6.3% |
| <i>% Occupancy</i> | 3.0% | 67.9% | 38.2% | 49.1% | 46.0% | -6.3% |
| Revenue Patient Days | | | | | | |
| Out of Territory | 1 | 3 | 1 | 38 | 19 | -50.0% |
| Out of Country | 0 | 0 | 0 | 8 | 0 | -100.0% |
| Other | 0 | 0 | 0 | 0 | 0 | |
| | 1 | 3 | 1 | 46 | 19 | -58.7% |
| Emergency visits | 191 | 170 | 247 | 2810 | 3018 | 7.4% |
| Allied Services | | | | | | |
| Laboratory | 207 | 183 | 178 | 1932 | 2176 | 12.6% |
| Imaging | 40 | 57 | 44 | 475 | 529 | 11.4% |