7
HOSPITAL FUNDING – AGREEMENT AMENDMENT

(Regional Council at its meeting on January 26, 2012, adopted this clause with the record to note that funding for hospitals comes from hospital foundations and other sources.)

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report dated December 21, 2011, from the Chief Administrative Officer.

1. RECOMMENDATION

It is recommended that:

1. Council authorize an amendment to the current Hospital Capital Funding Memorandum of Understanding to align with recent Provincial changes to the hospital capital funding process and permit advancing up to 2/3 of the costs of planning and design stages for hospital expansions.

2. PURPOSE

This report provides Council with information regarding changes to Provincial policy for funding capital hospital projects and recommends the existing Memorandum of Understanding be amended to advance up to 2/3 of the hospital community share subject to the remaining 1/3 funding from the Hospital foundations. This amendment will affect the timing of payment but not the overall amount.

3. BACKGROUND

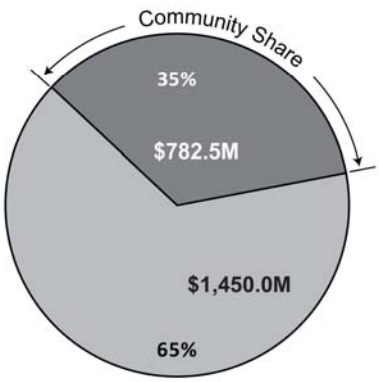
Healthcare costs, including hospital construction, are primarily a Provincial responsibility

In 2008, the hospitals engaged a consulting firm to forecast capital needs through 2026. The resulting report projected capital cost requirements estimated at $2.235B.

The Province funds up to 90% of the "bricks and mortar" for hospital construction. However, once equipment and furnishings are accounted for, the Provincial share is reduced to approximately 65%. Thirty-five percent remains to be funded from "community sources". Regional funding was requested as part of the "community sourced" funding in an effort to advance the provincial approved process and funding. The balance of

"community sourced" funding is expected to be raised by the four hospital foundations (*see Figure 1*).

Figure 1: Funding Breakdown of Projected Hospital Capital Costs ($2,232.5M in 2009 dollars)



Council approved a funding agreement for hospitals at the end of November 2009

On October 8, 2009, Council authorized the Regional Chairman and the Chief Administrative Officer to execute the Hospital Capital Funding MOU.

On November 19, 2009 the MOU was executed by York Region and the Region's hospital beneficiaries:

- Markham Stouffville Hospital
- Southlake Regional Health Centre
- York Central Hospital
- Vaughan Health Campus of Care

The current funding agreement extends to 2031 and builds upon a long history of capital contributions to hospitals in York Region

Municipal contributions to capital costs for hospital expansions pre-date the Region of York's formation in 1970 with contributions from York County. Between 1972 and 1977, York Region agreed to contribute one-third of the portion of costs not covered by Provincial funding. Contributions continued over the next 20 years, in varying amounts, with combinations of tax-levy, lot levy and development charge funding applied to offset costs otherwise needing to be raised by hospital foundations. Since 1997, hospital expansions have been ineligible for development charge funding.

Cumulatively to the year 2000, York Region contributed about $51 million to York Region hospitals for expansions. From 2001 to 2009, Council agreed to a cost-sharing formula across the three existing York Region hospitals of $62.4 million over nine years based on tax levy funding of 2% in 2000 dollars.

The current funding agreement extends to 2031 and provides up to $12 million per year (2009 dollars) towards hospital capital projects in York Region.

There are many key provisions included in the funding agreement as approved previously by Council

The current MOU includes the following provisions:

- $12M will be set aside annually by York Region for distribution among the York Region hospitals to fund eligible capital construction through 2031. Table 1 summarizes the total obligation and apportionment to hospitals as mutually agreed upon in constant (2009) dollars. Eight million dollars was allocated in 2009 to complete the previous hospital funding agreement and $12M per year (plus assessment growth) was applied from 2010 onward. Table 2 summarizes those same contributions assuming indexing to match assessment growth as set out in *Places to Grow*, the *Provincial Growth Plan*.

Table 1
Capital Contributions to Hospitals
(in 2009 dollars)

York Region Hospital	% Share	2009 – 2031 Total ($ million)
Vaughan	45.0	122.40
Markham Stouffville	27.1	73.71
Southlake	14.3	38.90
York Central	13.6	36.99
	100.0	**$272.00**

Table 2
Capital Contributions to Hospitals
(estimated 2.0% assessment increase annually)

York Region Hospital	% Share	2009 – 2031 Total ($ million)
Vaughan	45.0	153.96
Markham Stouffville	27.1	92.72
Southlake	14.3	48.93
York Central	13.6	46.53
	100.0	**$342.14**

- The hospitals can redistribute their percentage shares based upon unanimous consent of all parties in order to accommodate the scheduling of projects. To date, this option has been exercised only once, by Southlake Hospital – an arrangement that continues through to the end of 2011.

- Provision of funding is subject to each hospital showing bona fide efforts to progressive improvements in EMS offload delays, resulting in a reduction in the annual average delays, which currently range from 60 – 90 minutes, to 30 minutes by 2014. In the event EMS Offload delay targets are not achieved, and bona fide efforts are not satisfactorily proven, York Region can reduce funding in the amount of the additional operating costs incurred by York Region EMS.

- The Region reserves the right to review the MOU from time to time to determine whether to continue to set aside hospital funds taking into account the funding available to the hospitals from other sources and the Region's annual budget commitments. The Region may terminate the MOU with one-year's written notice, maintaining only the obligations made to approved construction projects.

- The hospitals are committed to support the Region's requests that hospital capital funding be restored as an eligible cost for recovery through Development Charges.

- Should the *Development Charges Act* be amended to allow hospitals to be eligible for funding, the MOU will be reviewed by Regional Council to determine whether the amount of hospital funds should be increased, taking into account the amount of funding anticipated to be provided through development charges.

The current agreement provides for up to $12 million per year commencing in 2009 with adjustments to reflect assessment growth and EMS Offload Delay

As per the MOU, the Schedule of Deposits has been indexed based on assessment growth in the previous year (see Table 3). Assessment growth is determined by MPAC on an annual basis. This indexing resulted in an increase in available 2010 funding from $12 million to $12.324 million and an increase in potential 2011 funding to $12.706 million.

Table 3
Schedule of Deposits with Actual Assessment Growth

Regional Contribution	**2009 $8 million**	**2010 $12.324 million**	**2011 $12.706 million**			**2031** ***Total - in constant dollars***
Vaughan (45.0%)	$3.600 million	$5.546 million	$5.718 million	*2012 through 2030 contributions to be maintained at agreed-upon shares subject to indexing*	…	$122.40 million
Southlake (14.3%)	$1.144 million	$1.762 million	$1.817 million		…	$38.90 million
Markham-Stouffville (27.1%)	$2.168 million	$3.340 million	$3.443 million		…	$73.71 million
York Central (13.6%)	$1.088 million	$1.676 million	$1.728 million		…	$36.99 million
		Increase of $324,000	Increase of $382,044		**TOTAL**	**$272 million**

The MOU signing partners agreed to ambulance off-load delay targets for each year decreasing in 10 minute increments from 70 minutes in 2010 to 30 minutes from 2014 onward. Thirty minutes was chosen as the desirable goal for the time between when an ambulance arrives with a patient at the hospital and when the ambulance leaves the hospital because this is consistent with the target set in the 2005 Report of the Hospital Emergency Department. Off-load delay at hospitals is the largest single contributing factor to delayed response times for ambulances. While a number of measures have been deployed to address this limitation (i.e., emergency room nurses, first responder paramedics, etc), failure to reduce ambulance turn around time at hospitals will necessitate more ambulances.

According to the MOU, in the event the EMS offload delay targets are not achieved, York Region may, at the sole discretion of Council, reduce hospital funding by the amount of the additional operating costs incurred by EMS for time above the targets.

On May 5, 2011 Council approved the allocation of $12.706 million *less* $0.691 million for EMS offload delays for a total 2011 contribution of $12.015 million (see Table 4).

Table 4
Summary of 2011 Hospital Funding
($000's)

Hospital	2011 Potential Funding	EMS Costs due to Offload Delays	2011 Actual Funding Available
Markham Stouffville	3,443.0	(62.9)	3,380.1
Southlake	1,817.0	(37.0)	1,780.0
York Central	1.728.0	(591.3)	1,136.7
Vaughan	5,718.0	n/a	5.718.0
Total	**$12,706.0**	**($691.2)**	**$12,014.8**

Regional funding is currently confirmed after the Ministry approves a construction project

Based on the current MOU, the hospitals may only apply to the Region for funds once they are in receipt of both a Functional Program Approval Letter and a Funding Approval Letter from the Ministry of Health and Long Term Care (MOHLTC). This Funding Approval Letter is received once the planning and design portion of the hospital project is completed, along with completion of RFP evaluation to award construction of their project.

Recent decisions by the Province with respect to cash flowing the early stages of capital improvements have caused the hospitals to request an amendment to the Regional funding agreement

The Ministry has recently changed their funding practices and now require all Ontario hospitals to advance their community funding portion much earlier in the hospital Capital Planning Process (*see attachment 1*). Hospitals are now required to advance their community funding at the planning and design stage of their projects replacing 100% provincial funding that previously addressed these early stages up to completion of RFP evaluation. The hospitals have asked York Region to consider releasing funds to the hospitals at an earlier stage of project development to offset the deferral of provincial funding for this component. The process stages for hospital funding by the province are outlined in Table 5. This request represents a significant policy change for the Region. The Region would be advancing part of what will ultimately be the Province's share of the project rather than contributing a portion of the community share at a later stage.

Table 5
Hospital Funding Stages

Stage #	Task	Outcome
	Review 'pre-capital' requests	Approval to proceed to the Proposal Stage
Regional funds requested under new process		
Stage 1	Stage 1: Proposal / Business Case	Approval to proceed to the Functional Program stage
Stage 2	Stage 2: Functional Program – outlining needs and program details	Approval to proceed to preliminary design stage
Stage 3	Stage 3: Preliminary Design	Approval to proceed to detailed design stage
Regional funds accessed under current MOU		
Stage 4	Stage 4: Working Drawings – detailed tender documents	Approval to proceed to tender/RFP – based on bid results, approval to enter the construction contract or project agreement with Funding Approval Funding Approval
Stage 5	Stage 5: Implementation	Construction

This means that the MOU definition of 'Eligible Costs' and the requirement for Funding Approval prior to the release of Regional funds would require an amendment to align the MOU with the new Ministry process.

Vaughan Hospital Project is the first to be impacted by these changes

These changes impact the most recent funding request by York Central Hospital for the Vaughan Health Campus of Care hospital project (*see attachment 2*). The new Vaughan hospital has been included in the Provincial Government's multi-year infrastructure investment plan, and the Province has flowed a planning grant of $7M towards the estimated $39M planning and design stages. Planning costs are calculated roughly by the

Province to represent up to 15% of total construction costs. The remaining $32M is being requested to be funded by York Region. The Vaughan Health Campus of Care has adequate funds within the MOU agreement to access this amount.

4. ANALYSIS AND OPTIONS

There are cost implications associated with the proposed amendment

Under the existing MOU, the designated hospital funds are to be deposited into an interest-bearing reserve fund with the interest going to the Region. Under the new MOHLTC process, York Region will be providing funds to the hospitals at an earlier stage in the Capital Planning Process, and will therefore be foregoing any interest that may otherwise have been accrued. For example, advancing up to $21 million over the next, say, four years would result in approximately $2 million in foregone interest earnings (at 4% interest per year).

Provincial staff at the Ministry of Health and Long Term Care who are responsible for capital funding of hospitals have confirmed the changes

On November 16, 2011 the Chief Administrative Officer and Commissioner of Finance & Regional Treasurer met with staff from MOHLTC. MOHLTC staff confirmed the changes to the funding requirements of Ontario hospitals, and assured the Region that the overall funding model of 65% Provincial Share to 35% Community Share remains consistent. The MOHLTC continues to fund 100% for the initial planning and design phases of hospital capital projects, however the MOHLTC money will not flow to the hospitals until after the initial planning and design work is completed.

MOHLTC has included a provision that once the design and planning stages are approved to proceed, the Ministry will guarantee pay back of all funds should the project be abandoned before it has been constructed (*see attachment 3*). Amendments to the MOU will include the requirement for hospitals to repay all York Region funds in the event this should occur.

Staff considered 3 options and <u>recommend Option 2</u> - funding up to 2/3 of the community sources contribution

There are three options to consider as illustrated in Table 6 below.

Table 6
Options for Consideration

Options	Risk Factor	Additional Points to Consider
1. No Changes to MOU	Lowest risk to York Region	• Hospital foundations will be responsible to advance funding for the planning and design stages • Current MOU remains
2. Fund up to 2/3 of Community Sources with remainder to flow from Hospital Foundations	Shared risk with Hospitals	• Up to 2/3 funding remains in line with current MOU • Equivalent reduction in Regional contribution later in the capital planning process
3. Fund 100% of the request to cover entire cost previously borne by Province	Greatest risk to York Region	• Equivalent reduction in Regional contribution later in the capital planning process

Option 1 would require no changes to the current MOU and would require the hospitals to fund the planning and design stages of their capital expansions through Hospital foundation funds. This option has the lowest financial risk to the Region, but may jeopardize some hospital expansion projects.

Option 2 would require some changes to the current MOU. This option would require hospitals to fund the remaining 1/3 of the community share through their foundations. In the case of the current request, the foundation would be expected to fund $11 million over the next four years (*see attachment 4*). This involves shared risk to both the Region and hospitals, and provides enough financial support to ensure hospital expansions continue in York Region.

Option 3 requires significant changes to the MOU as it funds 100% of the funding request. This option is of greatest financial risk to the Region, but would ensure hospital expansion projects continue.

Link to Key Council–approved Plans

Investing in York Region hospitals meets the priority area to *Improve Social and Health Support* outlined with the 2011-2015 Strategic Plan. Changes to the current funding agreement will also meet the priority area to *Manage the Region's Finances Prudently* by ensuring the recovery of Regional funds should MOHLTC-identified hospital projects not be completed.

The need for hospital infrastructure must be balanced with placing realistic tax pressures on residents.

5. FINANCIAL IMPLICATIONS

There is no proposed change to the overall funding amount committed to this agreement

The potential funding of $12M per year (indexed annually for assessment growth) from now until 2031 remains unchanged.

Funding will continue to be committed only upon Provincial approval. The request for $32 million is currently more than the approximate $6 million in the hospital reserve. The Finance Department recommends against drawing down other reserves for this purpose but rather, pursuant to the existing MOU, committing subsequent years cash flow subject to receiving Provincial approvals.

There is an additional cost attributable to foregone interest earnings

In the current example, if the Region were to agree to commit up to $21 million for planning and design, the funding would need to flow over several years from the York Central and Vaughan allocations under the MOU, unless the other hospitals agreed to reallocate their shares as well.

Given the planned tendering of the project in the 2014-15 provincial fiscal year, planning and design would need to be completed by the end of 2013. The York Central and Vaughan allocations under the terms of the MOU amount to $7 million year.

The Region will also forego interest it could have earned on reserves, which could be in the range of $220,000 in the first year and up to $880,000 in 2015 (based on prevailing interest rates) for a total opportunity cost of $2.2 million.

The amendment will obligate the hospitals to fully recover the funds advanced by the Region

The proposed amendment will also place onus on hospitals to ensure Regional funds are fully recovered in subsequent stages, and that the funds are used only for those activities directed and specified by the MOHLTC and the Central Local Health Integration Network. This may offer an opportunity to recapture some of the foregone interest.

6. LOCAL MUNICIPAL IMPACT

All of our local municipalities contemplate hospital care as part of a complete community

Residents in all of our local municipalities rely primarily on hospitals situated within York Region for their healthcare needs.

All our growing municipalities require that hospitals keep pace with our growing community needs

As a requirement of the Provincial *Places to Grow* legislation, York Region is projected to grow by 450,000 people and reach a population of 1.5 million by 2031. Combine this high pace of growth with an increasingly aging demographic, and the need to support and increase York Region's capacity to provide appropriate levels of health care have never been greater.

For York Region hospitals to be able to demonstrate to the Province Regional Council's commitment to fund a significant portion of the required community sources of funding enables them to be in a strong position to respond to the increasing needs of our residents through capital expansion and the construction of new hospitals.

7. CONCLUSION

York Region has a long history of contributing to hospital construction

Municipal contributions to capital costs for hospital expansions pre-date the Region of York's formation in 1970 with contributions from York County. Cumulatively to the year 2000, York Region has contributed about $50.9 million to York Region hospitals for expansions. From 2001 to 2009, Council agreed to a cost-sharing formula across the three York Region hospitals of $62.4 million over nine years.

On November 19, 2009, York Region signed the current MOU with the York Region hospitals and the Vaughan Health Campus of Care. This MOU sets aside $12M per year for distribution among the York Region hospitals to fund capital construction through 2031.

Hospitals have requested an amendment to the current funding agreement in response to provincial changes in cash flow

Based on changes to the Province's Capital Planning Process for funding hospital projects, and their requirement that hospitals fund a portion of the planning and design stages through community sources, York Region hospitals have requested amendments to the current MOU to reflect these changes.

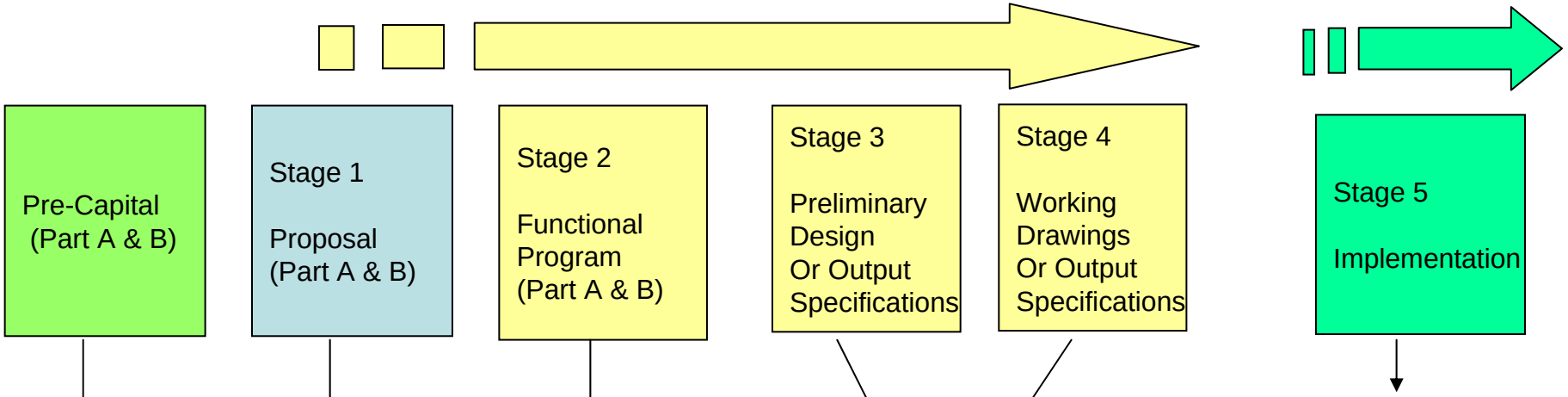
It is recommended that the existing Memorandum of Understanding be amended align with the new Provincial capital funding process and only advance up to 2/3 of the hospital community share subject to the remaining 1/3 funding coming from the Hospital foundations.

For more information on this report, please contact Bruce Macgregor, Chief Administrative Officer at Ext. 1200.

The Senior Management Group has reviewed this report.

(The four attachments referred to in this clause are attached to this report.)

Overview of the Capital Planning Review and Approvals Process



Review and support of Pre-Capital Submission.

Review and approval of Stage 1 Submission.

Review and approval of Stage 2 Functional Program.

Review and approval of blocks and sketch plans; approval to proceed to working drawings OR blocks/output specifications

Review and approval to tender & implement/issue RFP OR approval to award construction contract/ Project Agreement.

Requires Government approval to plan

Requires Government approval to construct

Ontario

Council Attachment #1

Office of the President and CEO

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Canada L4C 4Z3

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www.yorkcentral.on.ca

September 29, 2011

Mr. Bruce Macgregor
Chief Administrative Officer
The Regional Municipality of York
17250 Yonge Street
Newmarket, ON L3Y 6Z1

Dear Bruce:

I would like to thank you and Krista South for meeting with David Stolte, Richard Tam and me on September 16 to discuss the new Vaughan hospital project.

Our meeting provided an excellent opportunity to provide updates on the recent developments of the new Vaughan hospital project. As well, as discussed at our meeting, York Central Hospital is requesting York Region to re-align the timing of a portion of the York Region Hospital Fund in order to advance planning and design of the new Vaughan hospital project. The background and rationale for this request is further described in this letter.

New Vaughan Hospital Project Approval

The July 21, 2011, announcement by the Minister of Health and Long-Term Care was a significant approval and milestone. Prior to the announcement, the provincial government's status of the Vaughan hospital was that of a proposal, and provincial support was limited to a $7 million planning grant to develop a proposal and business case. Based on the recent announcement, York Central Hospital's Vaughan hospital project is approved as a project in the government's infrastructure plan with a procurement timeline in the 2014/15 fiscal year. As well, the ministry has set a budget of $39 million to fully support planning, design and procurement. Attachment 1 contains the approval letter from the Minister of Health and Long-Term Care.

Cash Flow for Planning and Design Costs

For the most recent hospital project approvals across the province, including the YCH Vaughan hospital project, the ministry requires each hospital to assume initial responsibility for the cash flow requirement of the capital costs associated with planning and design. The ministry will treat these planning and design costs as part of the project. The cost share of the planning and design will be part of the final cost sharing arrangement upon approval to proceed to Commercial Close.

…/2

To support the ministry's new direction, York Central Hospital was required to develop a plan in a business case format (see Attachments 2 and 3) to demonstrate that it will have sufficient funds available to complete the balance of planning and design. YCH's approach utilizes committed and highly secure sources of funds within the local share plan as per the Stage 1 submission.

We are holding discussions with our major funding partners, including York Region, to review this change in ministry approach and to request re-alignment of the timing of a portion of the secured funds to support the hospital through this period.

The York Region Hospital Fund Agreement anticipated formal approval from the ministry at the point of functional program approval which would serve as a trigger for local share contribution. Under the ministry's recent approach, the formal approval of the Vaughan project has been provided based on the July 21, 2011, announcement and the August 26, 2011, approval letter from the Minister of Health and Long-Term Care.

As discussed, ministry staff are receptive to meeting with you directly in order for the region to obtain further clarification of the change in ministry approach.

We look forward to continuing to work closely with York Region to advance this important project.

Sincerely,

Altaf Stationwala
President and CEO

Attachments

Ministry of Health
and Long-Term Care

Assistant Deputy Minister
Health System Information
Management and Investment
Division

1075 Bay Street, 13th Floor
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Ontario

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JUL 2 0 2011

Mr. Altaf Stationwala
President and Chief Executive Officer
York Central Hospital
10 Trench Street
Richmond Hill ON L4C 4Z3

Dear Mr. Stationwala:

The Ministry of Health and Long-Term Care (the ministry) has recently held discussions with you with respect to York Central Hospital's (YCH) new Vaughan hospital project.

The ministry has previously approved a capital planning grant for your project, which will form part of the ministry's overall grant when this project is approved for implementation. Of the approved planning grant, $7M has been flowed to date. The hospital has agreed that it will assume initial cash flow responsibility for the capital costs associated with the balance of planning and design. The costs for the balance of planning and design through to tender or Request for Proposal issuance and bid evaluation are currently estimated at $32M. In addition, the hospital has confirmed through submission of an acceptable business case that under its current working capital situation, it will have sufficient funds available to complete the balance of planning and design and will not need to finance, or require a cash advance from the Local Health Integration Network for any funds for the planning and design.

The ministry will treat these planning and design costs as part of YCH's new Vaughan hospital project. The ministry share of eligible planning and design costs will be considered for cost sharing as part of the new Vaughan hospital project. The cost share of the planning and design costs will be provided in accordance with ministry policies and will be part of the final cost sharing arrangement for the new Vaughan hospital project upon approval to proceed to commercial close or award a construction contract. The ministry's cost share policy provides for reimbursement of eligible planning costs in the event of ministry approved changes to your project.

.../2

Mr. Altaf Stationwala

Please acknowledge your agreement with the terms and conditions of this letter by returning a signed copy of this letter at your earliest convenience.

Sincerely,

D. Hewitt /For

Don Young
Assistant Deputy Minister

York Central Hospital acknowledged and agreed this 20th day of July, 2011.

Dina Palozzi

Dina Palozzi
Chair of the Board

Altaf Stationwala
President and Chief Executive Hospital

York Region's Hospital Foundations 'Statement of Financial Position'

March 31, 2011

Foundation	2010/2011 March 31, 2011 $
Markham Stouffville	10,459,068
Southlake Hospital *	16,884,783
Vaughan Health Care	6,661,157
York Central	12,337,931

** March 31, 2010 – 2011 information not available as of December 23, 2011*

Source: Canada Revenue Agency