

1

UPDATE ON THE MEMORANDUM OF UNDERSTANDING FOR CAPITAL FUNDING OF HOSPITALS

(Regional Council at its meeting on June 25, 2009 amended this Clause by renaming Table 2 in the clause and adding the words “Estimated Capital Funding Costs (2009 to 2026) as Provided by the Hospitals”.)

The Finance and Administration Committee recommends:

- 1. Receipt of the deputation from Michael O’Flanagan; and**
- 2. Adoption of the recommendation contained in the following report dated May 20, 2009, from the Commissioner of Finance and the Chief Administrative Officer.**

1. RECOMMENDATION

It is recommended that:

1. Council authorize the Chief Administrative Officer to finalize the terms of the Hospital Capital Funding MOU in consultation with York Region hospitals and report back to Council in the Fall of 2009.

2. PURPOSE

This report responds to a Council Motion of February 19, 2009 (see Attachment #1) that gave direction to staff to report back on the details of funding and principles of an MOU with the three York Region hospitals (Southlake Regional Health Centre, Markham Stouffville Hospital and York Central Hospital) and the Vaughan Health Campus of Care.

3. BACKGROUND

On June 19, 2008 Regional Council approved Report 6 of the Finance and Administration Committee *Capital Funding for Hospitals*. This report provided background information on the long history of Regional contributions to capital costs for expanding hospitals in York Region, and recommended that staff report back on options for future hospital funding. This report also requested the Regional Chair communicate with applicable Provincial Cabinet Members and local MPPs to advance legislation that would reinstate

the collection of Development Charges to fund hospital expansions necessitated by community growth.

The hospitals collaborated to prepare a summary of capital cost requirements from 2009 to 2026

The hospitals and their foundations worked collaboratively to project their capital needs over an 18 year period from 2009 to 2026 and identified a total funding requirement of \$2.235 billion. This estimate includes construction of the Vaughan Campus of Care and expansion of the Southlake Regional Health Centre, Markham Stouffville Hospital and York Central Hospital.

Table 1 provides a summary of how the funding was proposed to be broken down.

Table 1
Hospital Capital Funding Projections (to 2026)

Source of Funding	Amount (\$ million)	%
Province	1,450	65
Region	486.3	22
Other “community” sources	296.2	13
TOTAL	2,232.5	100

The Province funds up to 90% of the “bricks and mortar” for hospital construction. Once equipment and furnishings are accounted for, the Provincial share is reduced to approximately 65%.

With an expected Provincial contribution of 65%, 35% remains to be funded from “community sources”. Approximately 2/3 of this amount is proposed, by the hospitals, to be funded through a Regional contribution.

Regional funding sources are currently limited to tax levy. The requested funding of \$21 million annually, commencing in 2009, would have equated to a 3% tax levy impact (every \$7 million represents a 1% tax levy increase). Capital funding for hospital expansions was considered eligible under the *Development Charges Act* until 1998. Since that time, it has been ineligible.

Table 2 summarizes the projected distribution of capital funding among the participating hospitals.

Table 2
Distribution of Capital Funding (2009 to 2026)
(\$million)

Hospital	Total Capital Funding	Proposed Regional Share	%
Markham-Stouffville	605	131.8	27.1
Southlake	319.3	69.6	14.3
Vaughan	1,004.6	218.8	45.0
York Central	303.6	66.1	13.6
TOTAL	2,232.5	486.3	100

The pre-existing (since 2001) funding arrangement with the hospitals committed to 2009 funding of \$4 million. In the proposed 2009 base Operating Budget, \$7.3 million was included for hospital capital funding. On January 23, 2009 Regional Council reduced capital asset replacement contributions by \$4.7 million and transferred that amount over to Hospital Reserve Fund to bring this year's contribution to \$12 million.

A Council Workshop was held on January 29, 2009 to discuss the Region's future funding of York Region hospitals. Presentations were heard from York Region's Chief Administrative Officer as well as representatives from Southlake Regional Health Centre, Markham Stouffville Hospital, York Central Hospital and the Vaughan Health Campus of Care.

Council has directed staff to explore a new funding model and commitment

On February 19, 2009 Regional Council adopted a motion to continue funding capital costs of hospitals guided by certain principles (see Attachment #1). These principles, expected to be included in a Memorandum of Understanding with the hospitals, included:

- i. A multi-year funding commitment extending to 2031
- ii. Participating only in those projects approved and funded by the Province
- iii. Proportion of funding limited to lesser of:
 - Council's approved portion of overall expansion costs, *OR*
 - 1/3 of Provincial contribution, *OR*
 - approved Regional Contribution
- iv. Any borrowing against the projected cash flows be undertaken by the hospitals and any associated financing costs will be ineligible
- v. Any interest earned towards the Hospital Financing Reserve Fund be attributed towards the Region's maximum contribution and flow funds as funds are available
- vi. Improved EMS off-load delays be incorporated as an incentive for funding

- vii. Annual contributions be increased at the actual rate of assessment growth in the previous year
- viii. Hospital Boards and Foundations must also support, at the appropriate time, Council's subsequent request that the Province reinstate eligibility for hospital capital funding in the Development Charges Act
- ix. The Region's funding commitment be subject to review in 2011 for the purpose of considering a further increment with additional funding from development charges
- x. Clarification of when payments are made
- xi. The MOU contain a process for review in the event that new federal or provincial capital funding becomes available to hospitals at any time during the term of the MOU

4. ANALYSIS AND OPTIONS

A draft MOU has been prepared to reflect these principles and circulated to the hospitals for comment. More specifically, the draft MOU includes the following measures addressing the principles:

- \$12M will be set aside annually by York Region for distribution among the York Region hospitals through 2031. Attachment #2 reflects the total obligation and apportioning to hospitals as mutually agreed upon in constant (2009) dollars. Attachment #3 reflects those same contributions assuming assessment growth as set out in Places to Grow, the Provincial Growth Plan.
- Provision of funding is subject to each hospital showing progressive improvements in EMS Offload delays; reducing the annual average delays from 60 – 90 minutes, to 30 minutes by 2012.
- Attachment #4 summarizes the principles approved by Council on February 19, 2009 and references how each one is addressed in the draft MOU.

The draft MOU was circulated to the hospitals and is expected to be further reviewed with them over the next two months. It is expected that a final version will be recommended for execution in the Fall of 2009.

Relationship to Vision 2026

Investing in York Region hospitals meets several goals outlined in Vision 2026, including 'Responding to the Needs of Our Residents' and 'Infrastructure for a Growing Region'. However, the need for hospital infrastructure must be balanced with placing realistic tax pressures on residents.

5. FINANCIAL IMPLICATIONS

In 2009, Council committed \$12M towards hospital capital funding.

Finalization of the Hospital Capital Funding MOU will provide the funding model from now until 2031. Details of this funding model will be included for Council's consideration as part of the report back in Fall 2009.

6. LOCAL MUNICIPAL IMPACT

Residents in all of our local municipalities rely primarily on hospitals situated within York Region. In addition to engaging in local fund raising campaigns, several local municipalities are currently contributing to the portions of capital costs required for expansions that are not funded by the Province. The local municipal Chief Administrative Officers have participated in earlier discussions with the hospital representatives to help frame the currently suggested MOU.

7. CONCLUSION

On February 19, 2009 Council approved a Motion that gave direction to staff to report back on the details of the principles of an MOU for hospital capital funding. With Council's authority, the Chief Administrative Officer will negotiate the terms of the Hospital Capital Funding MOU with the York Region hospitals and report back to Council in Fall 2009.

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.)

2

HOSPITAL CAPITAL FUNDING IN THE 2009 OPERATING BUDGET

(Regional Council at its meeting on February 19, 2009 was adopted as follows:

“and that the balance of required funding be re-allocated from within the overall non-program budgets to stay within the 2.5% overall increase.”)

The Finance and Administration Committee recommends:

1. receipt of the communication from Alice Sheridan, resident of the Town of Newmarket; and
2. adoption of the following:

WHEREAS York Region Council firmly believes that the funding of hospital capital projects should be the sole responsibility of the Province of Ontario;

AND WHEREAS the Provincial funding model for the construction of hospitals and/or healthcare centres will provide funding for approximately 65% of the costs of new capacity;

AND WHEREAS an additional “community contribution” is required to fully fund hospital expansions that are needed to serve growing demands in our communities;

AND WHEREAS the hospitals servicing our communities have appealed to York Region Council to contribute up to 2/3 of the required “community contribution” for the purpose of advancing the Provincial priority for hospital expansions in our communities;

AND WHEREAS successive Regional budgets since 2001 have included a \$7.3M provision to share in the costs of needed hospital expansions;

AND WHEREAS there is a specific Council obligation remaining from prior commitments to hospital funding of approximately \$4M in 2009;

NOW THEREFORE BE IT RESOLVED THAT:

1. The existing budgeted contribution to hospital financing be increased from \$7,312,000 to \$12,000,000 and this amount be partially offset by reducing the 2009 increase in the contribution to the asset replacements reserve from \$7,100,000 to \$3,549,000 and

that any of these funds not required to meet the existing specific Council obligations to hospitals be contributed to a new hospital financing reserve fund;

AND BE IT FURTHER RESOLVED THAT:

- 2. Staff be directed to report to Council by June 2009 with further details of funding and the principles of an MOU with the participating three hospitals and Vaughan Health Campus of Care including the following elements:**
 - i. A multi-year commitment extending to 2031**
 - ii. Participating only in those projects approved and funded by the Province**
 - iii. Proportion of funding limited to lesser of:**
 - Council's approved portion of overall expansion costs**
 - OR**
 - 1/3 of Provincial contribution OR**
 - Approved Regional Contribution**
 - iv. Any borrowing against the projected cash flows be undertaken by the hospitals and any associated financing costs will be ineligible**
 - v. Any interest earned towards the Hospital Financing Reserve Fund be attributed towards the Region's maximum contribution and flow funds as funds are available**
 - vi. Improved EMS off-load delays be incorporated as an incentive for funding**
 - vii. Annual contributions be increased at the actual rate of assessment growth in the previous year**
 - viii. Hospital Boards and Foundations must also support, at the appropriate time, Council's subsequent request that the Province reinstate eligibility for hospital capital funding in the Development Charges Act**
 - ix. The Region's funding commitment be subject to review in 2011 for the purpose of considering a further increment with additional funding from development charges**
 - x. Clarification of when payments are made**
 - xi. The MOU contain a process for review in the event that new federal or provincial capital funding becomes available to hospitals at any time during the term of the MOU**
- 3. Staff be directed to prepare any by-laws necessary to execute this Motion.**

Proposed Capital Contributions to Hospitals (in 2009 dollars)
(\$millions)

	% Share	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Vaughan	45.0%	\$3.600	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400
Markham-Stouffville	27.1%	\$2.168	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252
Southlake	14.3%	\$1.144	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716
York Central	13.6%	\$1.088	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632
	100%	\$8.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000

	% Share	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
Vaughan	45.0%	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$5.400	\$122.40
Markham-Stouffville	27.1%	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$3.252	\$73.71
Southlake	14.3%	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$1.716	\$38.90
York Central	13.6%	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$1.632	\$36.99
	100%	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$12.000	\$272.00

Proposed Capital Contributions to Hospitals
(with assessment increase of approximately 2.0% as projected in Provincial Growth Plan)
(\$millions)

	% Share	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Vaughan	45.0%	\$3.600	\$5.508	\$5.618	\$5.731	\$5.845	\$5.962	\$6.081	\$6.203	\$6.327	\$6.453	\$6.583	\$6.714
Markham - Stouffville	27.1%	\$2.168	\$3.317	\$3.383	\$3.451	\$3.520	\$3.590	\$3.662	\$3.736	\$3.810	\$3.886	\$3.964	\$4.043
Southlake	14.3%	\$1.144	\$1.750	\$1.785	\$1.821	\$1.857	\$1.895	\$1.932	\$1.971	\$2.011	\$2.051	\$2.092	\$2.134
York Central	13.6%	\$1.088	\$1.665	\$1.698	\$1.732	\$1.767	\$1.802	\$1.838	\$1.875	\$1.912	\$1.950	\$1.989	\$2.029
	100%	\$8.000	\$12.240	\$12.485	\$12.734	\$12.989	\$13.249	\$13.514	\$13.784	\$14.060	\$14.341	\$14.628	\$14.920

	% Share	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	TOTAL
Vaughan	45.0%	\$6.849	\$6.985	\$7.125	\$7.268	\$7.413	\$7.561	\$7.713	\$7.867	\$8.024	\$8.185	\$8.348	\$153.96
Markham - Stouffville	27.1%	\$4.124	\$4.207	\$4.291	\$4.377	\$4.464	\$4.554	\$4.645	\$4.738	\$4.832	\$4.929	\$5.028	\$92.72
Southlake	14.3%	\$2.176	\$2.220	\$2.264	\$2.310	\$2.356	\$2.403	\$2.451	\$2.500	\$2.550	\$2.601	\$2.653	\$48.93
York Central	13.6%	\$2.070	\$2.111	\$2.153	\$2.196	\$2.240	\$2.285	\$2.331	\$2.378	\$2.425	\$2.474	\$2.523	\$46.53
	100%	\$15.219	\$15.523	\$15.834	\$16.150	\$16.473	\$16.803	\$17.139	\$17.482	\$17.831	\$18.188	\$18.552	\$342.14

Assessment Increase 2.00%

SUMMARY OF PRINCIPLES

February 19, 2009 Council direction	Draft MOU consideration
i. A multi-year funding commitment extending to 2031	A base annual amount of \$12M (2009) is set out in the MOU. The amount is subject to adjustment to reflect assessment growth (or decline). The amount is further apportioned to the 4 hospitals in the amounts mutually agreed upon.
ii. Participating only in those projects approved and funded by the Province	“Eligible Costs” is a defined term with the Region reserving the right to determine eligible costs based on Provincial funding criteria.
iii. Proportion of funding limited to lesser of: • Council’s approved portion of overall expansion costs, OR • 1/3 of Provincial contribution, OR • Approved Regional Contribution	All three limits are set out in the MOU.
iv. Any borrowing against the projected cash flows be undertaken by the hospitals and any associated financing costs will be ineligible	The draft MOU contains specific exclusions from “Eligible Costs”: a) Costs incurred prior to executing the MOU b) Financing charges and interest payment on loans c) PST and GST for which the applicant or a third party is eligible for a rebate and all other costs eligible for a rebate
v. Any interest earned towards the Hospital Financing Reserve Fund be attributed towards the Region’s maximum contribution and flow funds as funds are available	Included in the draft MOU.

February 19, 2009 Council direction	Draft MOU consideration								
vi. Improved EMS off-load delays be incorporated as an incentive for funding	In 2007, EMS off-load delays ranged from 60 to 90 minutes (annual averages) at the 3 existing hospitals. Some improvement was achieved in 2008 however, the desirable target is 30 minutes. The draft MOU requires that the annual average delay at each hospital be reduced as follows: <table data-bbox="1073 532 1640 678"> <tr> <td>2009</td><td>60 minutes</td></tr> <tr> <td>2010</td><td>50 minutes</td></tr> <tr> <td>2011</td><td>40 minutes</td></tr> <tr> <td>2012 – 2031</td><td>30 minutes</td></tr> </table>	2009	60 minutes	2010	50 minutes	2011	40 minutes	2012 – 2031	30 minutes
2009	60 minutes								
2010	50 minutes								
2011	40 minutes								
2012 – 2031	30 minutes								
vii. Annual contributions be increased at the actual rate of assessment growth in the previous year	Given the lengthy potential term (to 2031), the draft MOU allows for assessment growth (or decline).								
viii. Hospital Boards and Foundations must also support, at the appropriate time, Council's subsequent request that the Province reinstate eligibility for hospital capital funding in the Development Charges Act	The draft MOU includes a specific provision obligating the hospitals to support the Region's position.								
ix. The Region's funding commitment be subject to review in 2011 for the purpose of considering a further increment with additional funding from development charges	The draft MOU includes the provision for amendment triggered by changes to the DC Act and a broader right to review funding obligations in light of funding from other sources and competing budgetary interests.								
x. Clarification of when payments are made	The draft MOU sets out an annual payment of balances available at year end. This is consistent with the practice used for similar purposes between 2001 and 2008.								

February 19, 2009 Council direction	Draft MOU consideration
xi. The MOU contain a process for review in the event that new federal or provincial capital funding becomes available to hospitals at any time during the term of the MOU	This broader review opportunity is included. The draft MOU currently provides for termination with one year's prior notice. It is expected that the hospitals will seek to amend this provision to provide better certainty to funding of committed projects only.