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CAPITAL FUNDING FOR HOSPITALS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, May 30, 2008, from the Chief Administrative Officer:

1. RECOMMENDATIONS

It is recommended that:

1. Staff investigate alternative funding opportunities for contributing to the capital costs of hospital construction and report back to the Finance and Administration Committee in the Fall of 2008 with options.

2. The Regional Chair be requested to 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.

2. PURPOSE

This report responds to a December 2007 direction to the CAO to report on capital cost contributions towards the expansion of three existing hospitals; York Central Hospital, Markham Stouffville Hospital, Southlake Regional Health Centre and a fourth hospital proposed in the City of Vaughan.

3. BACKGROUND

At its December 13, 2007 meeting, Regional Council directed the CAO to report back to Council with a plan to provide for long-term capital funding for York Region hospitals, including a proposed hospital in the City of Vaughan.

There is a long history of Regional contributions to capital costs for expanding hospitals

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. Since 1997, hospital expansions have been ineligible for Development Charge funding.

The current funding commitment is tax-levy funded and expires in 2009

In considering the 2001 Operating Budget, Regional Council confirmed the current capital cost contributions for the three existing hospitals serving York Region communities. At the time, the existing hospitals had collaboratively agreed to a cost-sharing formula for distributing the Regional contribution. The criteria also focused Regional capital contributions to specifically fund expansion projects approved and funded by the Provincial Ministry of Health and Long Term Care. In 2001 the Region undertook a funding program to meet a $62.4 million funding request from the hospitals. The program was spread over a nine year time frame as indicated below. In 2001 Regional Council increased taxes by 2% to meet the hospital funding requirement.

Table 1
Currently approved funding for hospital expansions

Year	Tax-levy Funding ($million)
2001	7.3
2002	7.3
2003	7.3
2004	7.3
2005	7.3
2006	7.3
2007	7.3
2008	7.3
2009	4.0
Total	**62.4**

The current funding commitment expires in 2009 with a final payment of $4 million.

Local municipalities are also contributing to the capital costs of hospital expansions

Several local municipalities are also contributing to the portion of hospital expansion costs not funded by the Province. Specifically, the local municipalities of East Gwillimbury, Vaughan and Whitchurch-Stouffville either have or are expecting to introduce a voluntary capital cost contribution for development in their communities. The Town of Richmond Hill has contributed $10 million from the proceeds of the sale of Richmond Hill Hydro to the York Central Hospital Foundation. Markham and Newmarket participate vigorously in local fundraising for hospitals within their municipalities.

Health care funding, including hospitals, is a Provincial responsibility and has been chronically under-funded in GTA growth centres

In 2006, the Strong Communities Coalition (a coalition of human service providers in York, Durham, Halton and Peel Regions) commissioned Price Waterhouse Coopers to audit Provincial funding in community services. The report concluded that hospital services in growing GTA municipalities are funded at a per capita rate that is 18% to 25% less than the provincial average.

Currently, Provincial policy provides for up to 90% of the cost of "bricks and mortar" for hospital expansions and/or new construction. After taking into account the necessary equipment, the amount of Provincial funding drops to between 65% and 75%. Fully 25% to 35% of capital funding is expected to be raised from "community sources". Securing this component of funding is seen to advance consideration for Provincial funding.

Three existing hospitals and the Vaughan hospital foundation collaborated in preparing a summary of capital cost requirements for an 18 year period (2009 – 2026)

On February 26, 2008, staff met with all three hospital CEOs and representatives of the Vaughan hospital foundation. Several local municipal CAOs also attended since municipal funding is also being sought at the local level. The hospitals presented information on their current capital expansion plans and funding priorities. It is clear that the existing hospitals have been planning for expansions within the strict limits prescribed by the Ministry of Health and Long Term Care – generally, with an 8-year outlook. As a prospective new health care facility, the outlook for the Vaughan hospital was more long term. None of the hospitals were planning to fund expansions meeting the needs likely to result from Places to Grow – the Provincial growth plan for the Greater Golden Horseshoe.

The hospitals and the Vaughan foundation agreed to work collaboratively and prepare a consensus position relative to funding. The group retained the services of IBI Group to summarize the funding requirements and recommend sources of "community funds". A copy of the report's Executive Summary is appended to this report as Attachment No. 1.

Total expenditures of $2.235 billion are anticipated for hospital expansions through 2026 – an 18 year outlook. Table 2 provides a summary of how the funding is expected to be broken down.

Table 2
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 request for Regional funding amounts to a contribution of $21 million in year 1 (2009), growing to $33 million in year 18 (2026). Funded strictly from tax levy, the amount would represent the equivalent of a 3% tax increase in 2009.

The IBI report completed on behalf of the hospitals also provides an indication of where Regional funding would be directed to meet the expected expansion plans. Table 3 summarizes the projected distribution of capital funding among the participating hospitals.

Table 3
Distribution of Capital Funding (2009 to 2026)

($million)

Hospital	Total Capital Funding	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 hospitals have requested that the Regional contribution be set aside annually in an interest bearing reserve to be drawn upon, as necessary, to meet projected funding requirements.

The report provides further details concerning the number of jobs at the hospitals, which presently total approximately 5,660, growing to 11,560 and further addresses the direct and indirect benefits stemming from the additional employment.

4. ANALYSIS AND OPTIONS

Funding sources for a potential $486 million Regional contribution need to be explored

The 2008 Operating Budget includes $7.3 million in capital funding contributions to Regional hospitals. This amount is proposed to be reduced to $4 million in 2009 and eliminated entirely in 2010. The proposed funding requires a contribution of $21 million in 2009, in addition to the $4 million remaining from prior commitments. Every $7 million represents a 1% tax levy increase. In 2009, the impact of funding the requested amounts from tax levy sources would amount to approximately a 2.5% increase.

Contributions for subsequent years have been indexed in the request at 2.5% so that the final annual instalment in 2026 would be $33 million. The increased costs would be partially offset, through 2013, by phased reductions in pooling costs of approximately $13 million per year.

The Province of Ontario should be asked, once again, to include capital funding for hospital expansion as an eligible cost under the Development Charges Act

In 1998, amendments to the Development Charges act eliminated eligibility for hospital, solid waste facilities and municipal administration buildings. It is abundantly clear that hospital expansions are required, at least in part, to service demands resulting from growth in our communities. The Region's Development Charge for a single-family home in York Region, as of June 18, 2008 is $23,743. Funding the entire capital request for hospital expansion through development charges would result in an increase of about $2,200 per unit or 9%, bringing the single-family rate to $25,943.

A more practical funding model might seek an appropriate balance between tax levy and development charge sources. To include any component of development charge funding requires that the Province of Ontario amend the applicable legislation to permit capital funding for hospitals. Regional Council last sought an amendment for this purpose in 2004. It is recommended that the Chair be requested to communicate with the appropriate Provincial Cabinet Ministers and local MPPs to renew this request.

Previous funding commitments were subject to criteria and limits that remain applicable

In considering the last round of capital funding for hospital expansions, Council also considered several applicable criteria. In light of the significant increase in funding now requested, it is suggested that the following criteria should serve as the basis for any further funding commitments:

- Regional funding should only apply to capital projects approved and funded by the Province
- The proportion of Regional funding should be limited to the lesser of 22% of overall expansion costs or the total Regional contribution estimated for each hospital (per Table 3)
- The hospital boards and foundations should also request that the Province reinstate eligibility for hospital capital funding in the Development Charges Act, particularly for communities faced with high growth expectations in the Provincial Growth Plan (Places to Grow)
- If Regional Council chooses to use a Reserve Fund, any interest earned should be attributed towards the Region's maximum contribution.

Other criteria, such as EMS off-load delays, should be linked to capital contributions

A growing concern in all GTA hospitals is the issue of "off-load delays". Off-load delays are the time spent by paramedics attending to patients pending admittance to hospital emergency rooms. As recently as 2001, hospitals were only marginally exceeding the 30 minute turn-around time normally required to put ambulances back in service after delivering a patient to an emergency ward. The delays have grown steadily over the intervening years to the point where the average off-load delay across the Region is approaching 90 minutes – a three-fold increase. There is a growing incidence of delays well in excess of 2 hours. There is a clear trend is to the higher end of the range, resulting in decreased available service hours. Off-load delays and the resulting reduction in paramedic crews available to respond to emergency calls, is the largest single factor affecting targeted response times in York Region. It is absolutely imperative that the Region and hospitals work cooperatively to reduce off-load delays to a more acceptable level. The capital funding criteria should include a factor to incent performance in this area.

Relationship to Vision 2026

Investment in York Region hospitals is necessary in order to meet 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, and therefore an appropriate mechanism to fund hospitals, including priority funding from the Ministry of Health and Long Term Care and Development Charges, should be pursued.

5. FINANCIAL IMPLICATIONS

The financial implications of the proposed capital contribution to hospital expansions in York Region amounts to either (i) an approximate tax levy increase of 3% or, with

enabling legislation, (ii) a development charge increase of up to $2,200 for a single-family unit. A more practical approach might be to consider both sources of funding.

Further details breaking down the estimated capital costs into projects are also required to balance funding commitments with an expected level of service.

Over the coming months, staff will be pursuing sufficient details so that the requested funding can be considered in the 2009 Operating Budget review.

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. It is not entirely clear whether these sources of funding would continue in the event of Council approving a new Regional financing arrangement. Any offsets could result in freeing up funds for other purposes.

Hospital and health care funding is expected to be derived from the broader revenue base available to the province – including income taxes, lottery proceeds, sales tax, OHIP premiums, etc. Funding hospital expansions through property taxes, while laudable, reduces the overall funding available to municipally mandated services such as transportation, recreation, emergency services, environmental protection, asset management, etc. It is important to ensure that first priority is given to maximizing Provincial funding for hospital expansions to maintain a fair balance between the services expected by our residents.

7. CONCLUSION

The current program of Regional contributions to funding hospital expansions will end in 2009. Council has directed the CAO to work with the existing 3 hospitals and representatives of a proposed hospital in Vaughan to explore a new funding model.

The hospitals and their foundations have worked collaboratively to determine their capital needs over an 18 year period from 2009 to 2026 and identified a total funding requirement of $2.235 billion. 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, equates to a 3% tax levy impact. Capital funding for hospital expansions was considered eligible under the Development Charges Act until 1998. Since that time, it has been ineligible. It is recommended that the Province be

requested to reinstate eligibility for capital cost contributions to hospital expansions under the Development Charges Act.

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

(The attachment referred to in this clause was included in the agenda for the June 5, 2008 Committee meeting.)