10
YORK REGION HOSPITALS CAPITAL FUNDING MEMORANDUM OF UNDERSTANDING MARKHAM STOUFFVILLE REDEVELOPMENT PROJECT

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report dated August 20, 2010, from the Commissioner of Finance.

1. RECOMMENDATION

It is recommended that:

1. Regional Council approve the amendment of Schedule A of the Memorandum of Understanding (MOU) between the Regional Municipality of York and York Region Hospitals as indicated in Attachment 1 of this report to include:
   a) the Redevelopment Project of Markham Stouffville Hospital as an approved Project
   b) associated Eligible Capital Costs of $50.9 million for the Redevelopment Project of Markham Stouffville Hospital.

2. PURPOSE

This report provides a review of the submission for Hospital Capital Funding by Markham Stouffville Hospital for the "Redevelopment Project" as submitted on August 18, 2010 (Attachment 2). The objective of this review is to examine whether the Project qualifies as an approved Project and to determine the amount of Eligible Costs associated with the project under the Hospital Capital Funding Memorandum of Understanding ("MOU") between York Region and the four Region Hospitals as executed on November 19, 2009.

3. BACKGROUND

YORK REGION AND THE FOUR REGIONAL HOSPITALS EXECUTED A HOSPITAL CAPITAL FUNDING MOU IN NOVEMBER 2009

The MOU provides direction for capital funding to the four Regional Hospitals from 2009 to 2031

On October 22, 2009 Regional Council approved a Hospital Capital Funding MOU between the Region and the four York Region Hospitals which was signed on

November 19, 2009. The MOU directs the Region to set aside capital funding of $8 million in 2009 and $12 million per year thereafter from 2010 to 2031 (adjusted for the previous year's assessment change) for distribution to the hospitals. The hospital shares and annual capital contributions are as follows:

Table 1
Annual Capital Contributions to Hospitals

York Region Hospital	% Share	2009 ($Millions)	2010 – 2031 ($Millions) (1)
Vaughan	45.0%	$3.60	$5.40
Markham Stouffville	27.1%	$2.17	$3.25
Southlake	14.3%	$1.14	$1.72
York Central	13.6%	$1.09	$1.63
Total	**100.0%**	**$8.00**	**$12.00**

(1) To be adjusted annually for previous year's percentage change in assessment

The hospital shares and total capital contributions over the life of the MOU are as follows:

Table 2
Total Capital Contributions to Hospitals

York Region Hospital	% Share	2009 – 2031 Total ($Millions) (1)	2009 – 2031 Total ($Millions) (2)
Vaughan	45.0%	$122.40	$153.96
Markham Stouffville	27.1%	$73.71	$92.72
Southlake	14.3%	$38.90	$48.93
York Central	13.6%	$36.99	$46.53
Total	**100.0%**	**$272.00**	**$342.14**

(1) Without assessment change
(2) With estimated annual 2.0% assessment increase

The process for approvals of projects, eligible costs and payments is outlined under the MOU

Under the MOU, the Region provides funding for approved projects and their associated approved Eligible Costs. The process for approval of projects and Eligible Costs for each project is as follows:

- Hospitals must provide a submission requesting project approval and associated Eligible Costs over the life of the project. The submission must include:
    - A Functional Approval Letter from Ministry of Health and Long-Term Care (MOHLTC) indicating the project has been approved
    - A project description including details of the total costs and funding sources
    - Total Eligible Costs requested. The amount must be less than one third of the Provincial contribution and cannot include financing, rebateable taxes, operating costs and parking lot costs.

- Subject to Council approval, Schedule A of the MOU is amended to include the approved project and the associated Eligible Costs.

Payments can only be made after actual Eligible Costs have been incurred and accepted by the Region. The process for payment of Eligible Costs is follows:

- A Funding Approval Letter from MOHLTC indicating the amount of funding the Province is providing must be issued prior to the payment of any funds.

- Hospitals must remit actual Eligible costs incurred for approved projects including statements and documentation. Regional staff reviews the remittance to determine the amount of Eligible Costs accepted based on the terms of the MOU and project submission.

- After acceptance, payment is made to the hospital.

Hospital funding is contingent upon efforts to improve EMS offload delays

In addition, provision of funding is subject to each hospital showing bona fide efforts to make progressive improvements in EMS Offload delays, reducing the annual average delays which currently range from 60 – 90 minutes to 30 minutes by 2014.

An approval of the Markham Stouffville Hospital Redevelopment Project would result in two projects eligible for capital funding under the MOU

The Cancer Clinic at Southlake Regional Health Center was approved in Schedule C as part of the execution of the MOU. The Region has made a payment for the hospital's 2009 share of $1.14 million. The Markham Stouffville Hospital Redevelopment Project is the first project submission to amend Schedule A since the execution of the MOU.

MARKHAM STOUFFVILLE HOSPITAL SUBMITS REQUEST FOR REDEVELOPMENT PROJECT

Markham Stouffville Hospital requests eligible costs of $50.9 Million for the Redevelopment Project from 2009 to 2024

Markham Stouffville Hospital has submitted a request for approval and funding of $50.9 million of Eligible Costs of the 'Markham Stouffville Hospital Redevelopment Project' (Attachment 2*)*. The amount represents the hospital's full share of Eligible Capital Costs (excluding assessment change) under the MOU from 2009 until 2024.

The total cost for the Redevelopment Project is estimated to be $445.5 million. The Project commenced in 2007 with enabling works beginning in 2009. Major building construction is expected to begin in late 2010 and completed by 2015. Purchase and installation of equipment represents the balance of the project until 2024. The Region has previously provided funding of $9.3 million under a pre-existing funding agreement. The following provides a breakdown of anticipated funding for the project:

Table 3
Markham Stouffville Hospital Redevelopment Project
Anticipated Sources of Funding

Funding Source	Total Project Cost ($Millons)	Total Project (%)
Proposed York Region share	**$50.9**	**11.3%**
York Region Previous Agreement (1)	$9.3	2.1%
Province of Ontario	$332.0	74.6%
Other Sources (2)	$53.3	12.0%
Total	**$445.5**	**100.0%**

(1) Per Council Approval March 9, 2000. Report No. 3, Clause 1.
(2) Other sources primarily include fundraising activities

The Markham Stouffville Hospital Redevelopment project includes construction of a new facility and renovations to the existing facility

Approximately 75% of the Redevelopment Project cost is for the construction of a new four storey 384,000 square foot facility. The remaining cost is for renovations and additions to the existing 330,000 square foot building. The project cost also includes:

- Construction of a Helipad

- Construction of an onsite energy plant by Markham District Energy
- Purchase of state of the art diagnostic equipment

The Project is expected to significantly increase the capacity and quality of patient services to address over occupancy (currently 106%) and expected future growth and demographic trends. Highlights include:

- A new Emergency Department resulting in increasing the capacity of emergency visits from 32,000 to 67,000
- Increasing in patient beds from 200 to 309
- Increasing the number of stretchers from 21 to 42
- Improved and expanded ambulatory clinics resulting in increasing visit capacity
- A new maternal childcare area thereby increasing the birth capacity from 3,000 to 4,000
- Improved safety of patients transported via helicopter
- Shorter wait times for emergency, diagnostic and in-patient services
- Implementation of Rapid Assessment Zones to more efficiently serve common emergency patient groups

The new facility has been registered and designed to achieve Silver Standard status under the Environmental Leadership in Energy and Environmental Design (LEED) program which recognizes the importance of sustainability, use of recycled materials, solar orientation and green roofs.

Markham Stouffville Hospital has committed to providing Offloading delays information prior to receiving funding.

4. ANALYSIS AND OPTIONS

The MOHLTC has approved the Redevelopment Project

The MOU indicates that approval by the Ministry is sufficient to allow for approval of the Project under the MOU. The hospital has submitted a “Functional Program Approval” letter from the Ministry of Health and Long Term Care (Attachment 3).

Eligible Capital Costs for this project meet the criteria outlined in the MOU

Markham Stouffville Hospital is anticipating Provincial funding of $332 million towards the Project. Under the MOU the Region can fund no more than one third of the Provincial contribution. The eligible cost request of $50.9 million represents 15.3% of the estimated Provincial contribution.

5. FINANCIAL IMPLICATIONS

Regional funding for Markham Stouffville Hospital will continue until 2024

Approval of the Markham Stouffville Hospital Redevelopment project and associated Eligible Costs would result in the potential payment to the hospital of $5.51 million in 2010. This amount represents Markham Stouffville Hospital's funding share under the MOU for 2009 ($2.17 million) and 2010 ($3.34 million including 2.7% assessment growth). The payments would only occur if Markham Stouffville Hospital remitted actual Eligible Costs in accordance with the conditions detailed in the MOU and Regional staff accepted the remittance.

Beginning in 2011, the Project would continue to be funded at $3.25 million per year (with adjustments for assessment change) until 2024.

6. LOCAL MUNICIPAL IMPACT

The Project has been partnered and co-coordinated with East Markham Community Centre which is being constructed on the lands adjacent to Markham Stouffville Hospital. The partnership is expected to result in a focus on overall health and fitness including rehabilitation, physiotherapy, mental health and community education.

The hospital currently employs 1,700 staff and 275 physicians. The expansion is expected to result in an additional 875 staff and 66 new physicians.

7. CONCLUSION

Markham Stouffville Hospital has met the conditions of providing the necessary documentation for the approval of the Redevelopment Project. The required conditions for the Eligible Cost request of $50.9 million from 2009 to 2024 have been satisfied since the request is less than one third of the anticipated Provincial contribution of $332.0 million.

Therefore, it is recommended that Schedule A of the Memorandum of Understanding between the Region and the York Region Hospitals be amended to a) include the Redevelopment Project of Markham Stouffville Hospital as an approved Project and b) associated Eligible Costs of $50.9 million with the Project.

For more information on this report, please contact Beth Kodama, Manager of Capital and Development Financing at Ext. 1699 or Kelly Strueby, Director, Business Planning and Budgets at Ext. 1611.

The Senior Management Group has reviewed this report.

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

Schedule A Amendment

Markham Stouffville Redevelopment Project.

The project includes:

- Construction of a new four storey 384,000 square foot facility
- Renovations and additions to the existing 330,000 square foot building
- Construction of a Helipad
- Construction of an onsite energy plant by Markham District Energy
- Purchase of state of the art diagnostic equipment

The associated Eligible Costs of the Project are $50.9 million.

Ministry of Health
and Long-Term Care

Assistant Deputy Minister
Health System Information
Management and Investment
Division

1075 Bay Street, 13th Floor
Toronto ON M5S 2B1

Telephone: 416 212-1852
Facsimile: 416 327-8835

Ministère de la Santé
et des Soins de longue durée

Sous-ministre adjoint
Division de la gestion de l'information
et de l'investissement pour
le système de santé

1075, rue Bay, 13e étage
Toronto ON M5S 2B1

Téléphone : 416 212-1852
Télécopieur : 416 327-8835

Ontario

HLTC3065FL-2010-96

MAR 18 2010

Mr. Gerard Gervais
Board Chair
Markham Stouffville Hospital
381 Church Street, P.O. Box 1800
Markham ON L3P 7P3

Dear Mr. Gervais:

Re: Authorization for Release of Request for Proposals (RFP) for the Markham Stouffville Hospital (MSH) – Main Redevelopment Project

By memorandum dated December 17, 2008, the powers set out in Sections 4(3), 5(1) and 5(2) of the *Public Hospitals Act* have been delegated to the public servant who occupies (or who may occupy from time to time) the position of Assistant Deputy Minister, Health System Information Management and Investment Division.

Accordingly, I am pleased to confirm the Ministry of Health and Long-Term Care's (the ministry) conditional approval to release the Request for Proposals (RFP) (RFP version 1.0 dated January 27, 2010, as amended) including the Project Agreement for the construction MSH's Main Redevelopment Project at the Markham Site as a Build-Finance (BF) Alternative Financing and Procurement (AFP) Project.

The ministry remains committed to cost sharing in MSH's Main Redevelopment Project in accordance with the ministry's 2006 policies and procedures. The total cost for the Main Redevelopment Project including furnishings and equipment, transaction and financing costs and the total ministry grant towards the project will be finalized by the ministry prior to achieving Commercial Close and Financial Close.

The ministry is in receipt of the RFP for the Hospital BF project. Having reviewed your request and the recommendation of the Ontario Infrastructure Projects Corporation (IO), the ministry is prepared to provide approval to release the RFP based on the following conditions:

1. MSH agrees to sign-off on the ministry's terms and conditions of funding in the form of a Development Accountability Agreement (DAA) for the Main Redevelopment Project at the time of sign-back of the ministry's funding and approval letter prior to Commercial Close. A summary of the key principles underpinning the DAA is set out in Appendix 1 attached to this letter.

2. Markham Stouffville Hospital acknowledges and agrees that the final RFP documentation (including Project Agreements and Design Documentation) is in form and substance satisfactory to the hospital and that its board has endorsed the release of the final RFP documentation. The board will provide such resolutions to the ministry.

...2

Mr. Gerard Gervais

3. Prior to Commercial Close (and Financial Close, where required), MSH agrees to work with IO to:
    a. Obtain any further required approvals from the ministry regarding any material changes to the RFP (including changes to the 100% working drawings);
    b. Provide the ministry with an estimate of the Markham Stouffville Hospital project costs based on the preferred bid selected;
    c. Provide a report from the process auditor outlining their findings regarding the procurement process.

4. Following the release of the RFP, MSH ensure all outstanding issues are addressed prior to Commercial Close and Financial Close.

5. Prior to Commercial Close the hospital will reach an agreement with IO respecting the Change Order process and protocol. Such an agreement must acknowledge that material changes to the project will require the approval of the ministry.

6. Prior to Commercial Close the hospital will ensure that appropriate policies and procedures are in place to ensure that hospital services are delivered in a safe, secure and reliable manner during construction.

Upon receipt of the Hospital's sign back, an administrative follow-up letter from the Director of the Health Capital Investment Branch will be sent to you. A draft DAA template will be appended to the administrative letter, for MSH's review. It is anticipated that the final DAA to be entered into by the ministry and the Hospital will be substantially in the form of the draft DAA template.

The ministry has completed its review of your Functional Program (FP) stage submission for the Main Redevelopment Project, your responses to ministry comments contained in Addendum #1 of August 22, 2008 and Addendum #2 of November 20, 2008. I am also pleased to confirm the ministry's approval of the September 2007 FP Stage submission (including subsequent addenda dated August 22, 2008 and November 20, 2008) for MSH's Main Redevelopment Project at the Markham Site.

The project scope includes redevelopment of 601,000 bgsf: a 385,000 bgsf four-storey addition, 145,000 bgsf of renovations as well as 71,000 bgsf of existing space at the MSH, Markham Site. Upon completion of the Main Redevelopment Project, the hospital will have capacity for a total of 309 acute and non-acute beds, 101,000 ambulatory care visits and 67,715 Emergency Department visits as projected out to 2015/16; consistent with the FP agreement reached with the ministry in Fall 2008 (as set out in MSH's letter to the ministry dated October 3, 2008).

The ministry's approval of the FP does not imply approval of additional staffing and operating costs. This will be addressed through the ministry's Post Construction Operating Plan (PCOP) process, and will be based on the ministry and Local Health Integration Network's (LHIN) policy at the time of opening.

We wish to thank you and your team for the work to date in preparing for the release of the RFP. We look forward to working with you to successfully complete this project.

...3

Mr. Gerard Gervais

Please indicate your acceptance of the terms and conditions set out in this letter, including Appendix 1, by signing below and returning a copy of this letter prior to proceeding with the release of the RFP.

Sincerely,

John McKinley
Assistant Deputy Minister

Enclosure: Appendix 1

c. Ken Morrison, Board Chair, Central Local Health Integration Network
Janet Beed, President & CEO, Markham Stouffville Hospital
Brad Duguid, Minister of Energy and Infrastructure
David Livingston, President and CEO, Ontario Infrastructure Projects Corporation

Acknowledged and agreed to on this 18th **day of** March**, 2010 by Markham Stouffville Hospital.**

Mr. Gerard Gervais
Board Chair

March 18, 2010
Date

Ms. Janet Beed
Chief Executive Officer

March 18, 2010
Date

Development Accountability Agreement (DAA)
Summary of Key Principles

The Ministry of Health and Long-Term Care (the ministry) is proceeding with the authorization for the release of Request for Proposals (RFP) based on its assessment of the need for expansion and redevelopment of Markham Stouffville Hospital (MSH) to increase service capacity in Markham and upon the recommendation of Infrastructure Ontario (IO) confirming that the proposed transaction approach meets the objectives of the government's infrastructure policy objectives.

The ministry's decision to authorize the transaction to proceed will be required to permit the execution by the Hospital of the Project Agreement (PA) at Commercial Close (and if materially amended, at Financial Close). Therefore, it is important that the ministry continue to be apprised regarding any material changes to the RFP, PA or Design Documentation prior to Commercial and subsequently Financial Close.

The ministry wishes to help ensure that this project will benefit the people of the catchment area of MSH.

The following sets out certain principles that will form the basis of an agreement between MSH and the ministry with respect to the terms and conditions for funding the Main Redevelopment project:

1. At the time of sign-back of the ministry's funding and approval letter prior to Commercial Close, the Hospital will have agreed to the terms and condition of funding set out in the "Development Accountability Agreement" (DAA), including the principles described herein.
2. Pursuant to the *Financial Administration Act (Ontario)*, the payment by the ministry of the ministry's share is subject to the appropriation of funds by the Provincial Legislature to which the payment may be charged being available in the fiscal year of the ministry in which the payment becomes due or the payment having been charged to an appropriation from a previous fiscal year. The power to appropriate belongs to the Legislature and accordingly there can be no assurance that an appropriation will be available in any future fiscal year.
3. Local Share:
   a. The Hospital will provide its proportionate share (Local Share) of the total project capital costs at substantial performance or, subject to the ministry's prior approval, at such other interim project milestones as may be agreed to by the Hospital and the successful proponent.
   b. The Hospital will be required to provide assurances satisfactory to the ministry that the Hospital will be able to meet its Local Share obligations throughout the term of the PA. Such assurances may include the creation of a special fund, such as a sinking fund and the delivery of an annual report detailing the Hospital's plans to meet its obligations for that year. A sinking fund means an amount of money that would be segregated and drawn down over a period of time to satisfy the Hospital's obligations with respect to its Local Share. Unless agreed by the Minister in writing, the sinking fund will not be available for other purposes.
   c. The Hospital will be solely responsible for and will pay from its own resources the costs of implementing any change orders, save and except for change orders directed by the ministry after the effective date of the DAA.
   d. The Hospital acknowledges and agrees that the ministry's grant towards shareable project costs will include approved post contract contingencies. The Hospital will be solely responsible and pay from its own resources the cost of implementing any unavoidable unforeseeable change orders or other payment obligations that arise after the approved post contract contingencies have been exhausted.

Development Accountability Agreement (DAA)
Summary of Key Principles

4. Equipment and Facilities:
   a. The Hospital must be appropriately equipped and furnished and able to function in accordance with the requirements of the approved functional program prior to opening. To this end, the Hospital agrees to work with IO to coordinate all aspects of the schedule for the purchase and installation of equipment with facility construction and the Project Implementation Plan.
5. Prior to Commercial Close the Hospital will ensure that appropriate policies and procedures are in place to ensure that Hospital services are delivered in a safe, secure and reliable manner during construction.
6. In the event of refinancing by the successful proponent and should the Hospital receive a benefit from such refinancing, the Hospital and the ministry will share in such benefit in accordance with their proportionate share of the funding of the Hospital Facility. In addition, should the Hospital receive any financial benefits pursuant to the Agreements, such benefits will be applied in a similar manner.
7. Audit and Reporting:
   a. The transaction will permit reporting to the ministry in accordance with ministry policies. Thus it will be necessary for the Hospital to break out from the successful proponent's reports all required information in order to compare the Hospital's performance against standards. Therefore, the reporting methodology of the successful proponent should be set out in the agreements and meet the Hospital's requirements.
   b. The Hospital will ensure that reporting, record keeping and audit requirements under the PA are consistent with the Hospital's obligations to the ministry with respect to such matters, and consistent with the Hospital's audit and reporting requirements.
   c. The Hospital will be required to keep books of account respecting the project in accordance with generally accepted accounting principles and the Hospital will have the right of inspection and access to records of the contractor and/or the project company.
8. The Hospital acknowledges and agrees that nothing in the PA shall be interpreted or construed to fetter or otherwise interfere with the right and authority of the Minister to exercise, at any time, any of the Minister's rights and powers under applicable legislation including the *Public Hospitals Act* if the Minister considers it in the public interest to do so.
9. The ministry will rely upon the Board of Directors of the Hospital to ensure that appropriate structures are in place to manage and enforce the terms and conditions with the successful proponent in accordance with its terms.