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## Report 2023-002

**Report Title:** Construction Funding for Long-Term Care Homes

**Committee Name:** Community Health

**Committee Meeting Date:** January 9, 2023

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**Council Meeting Date:** January 25, 2023

**Strategic Plan Priorities:**  Economic Prosperity and Innovation  
 Sustainable Growth  
 Thriving and Inclusive Communities  
 Leadership in Change

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### Recommendation

“That the Community Health Committee, having considered Report 2023-002 ‘Construction Funding for Long-Term Care Homes’, recommend that County Council direct staff to send a letter to the Honourable Paul Calandra (Minister of Long-Term Care) regarding extending the eligibility of the supplemental funding to long-term care projects currently in the construction phase or provide a separate funding program to assist municipalities with the additional financial burden of these projects as a result of the current economic circumstances.”

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## **Purpose**

To provide Council with information on recently announced construction funding for Long-Term Care Homes and to recommend further action by staff and Council to advocate for this funding to be extended to projects currently under construction, not just projects within the planning stages.

## **Background**

The pre-design and conceptual plans for the Golden Plough Lodge and Northumberland County Archives and Museum (GPL/NCAM) were initiated in 2016 and endorsed by County Council in 2017. Salter Pilon Architecture was retained in April 2018 to undertake the Architectural and Engineering Design for the project including preparation of tender documents and drawings.

In November 2019, a Request for Supplier Qualification (RFSQ) was issued for General Contractors, Mechanical Sub-Contractors, Electrical Sub-Contractors and Structural Sub-Contractors to pre-qualify for the construction of the new GPL/NCAM and in September 2020 Invitation To Tender (ITT) 20-08 was issued to the General Contractors on the Pre-Qualified Contractor List.

In December 2020, the County received all required permits and authorizations to officially award the contract for the construction of the new GPL/NCAM to Matheson Constructors Ltd. (the Contractor). The Contractor mobilized to site and began construction on December 14, 2020.

The project is divided into three phases:

1. Phase 1 – Construction of the new GPL/NCAM
2. Phase 2 – Demolition of the existing GPL
3. Phase 3 – Site remediation and Campus Siteworks

The project schedule has recently been updated with a new projected occupancy date in late January 2024 (completion of Phase 1). Subsequently, the new facility will be cleaned, furniture, fixtures, and equipment will be moved into the new facility and GPL staff will be training in the new facility to ensure efficient workflows prior to resident move-in anticipated for Summer 2024. Substantial completion of the project including demolition of the existing GPL and completion of campus site works is projected for October 2024 (completion of Phase 2 and 3).

## **Consultations**

The project has included extensive communication and consultation with the community and project stakeholders throughout all phases including; Alderville First Nation, Town of Cobourg, County staff, GPL residents and families, Courthouse Road neighbours and other community members and businesses. The County maintains a project website for the GPL/NCAM and provides updates through the County's various media outlets.

Monthly progress reporting is also submitted to the Ministry of Long-Term Care to comply with current funding requirements.

## **Legislative Authority / Risk Considerations**

The replacement of the current GPL with a new long-term care home is part of the Ministry of Long-Term Care's proactive redevelopment strategy to provide residents and staff with a modern home that is a warm, bright, welcoming environment and is non-institutional in character.

The current economic environment and the impact of construction cost escalations and increasing costs for borrowing continues to put pressure on the County budget and the ability to deliver critical infrastructure projects.

## **Discussion / Options**

On November 25, 2022, the Ontario government announced an increase to its construction funding subsidy to support the cost of developing or redeveloping long-term care homes under the Long-Term Care Home Capital Development Policy, 2022. The Province has committed to build more than 30,000 net new beds and 28,000 upgraded beds across the province by 2028.

The announcement cites financial barriers such as the increased construction costs and long-term borrowing interest rate escalation over the past few years as the rationale for the increased funding. However, the funding is targeted at long-term care developments or redevelopments currently in the planning stages and those already under construction are not eligible for additional funding.

The new policy stipulates that long-term care construction under a Development Agreement, where the Ministry provided any construction commencement approval for a project (or any project phase) before April 1, 2022, will not be eligible for funding under this policy. Staff reached out to the Ministry of Long-Term Care contact for the GPL/NCAM project for clarification, and it was confirmed that the GPL/NCAM project is not eligible for funding under the new policy. In the response, the Ministry contact indicated that the shift in the economic environment since the release of the Long-Term Care Home Capital Development Funding Policy has caused additional barriers to long-term care capital development projects and has been identified as one of the main barriers to getting construction started.

While these barriers may exist during the planning stages, they also exist for projects currently under construction. The GPL/NCAM project timeline has been extended and is driven by various economic circumstances as it relates to excessive demand for construction materials impacting on both supply chains and shortages of skilled and unskilled labour that became entrenched in the economy upon the easing of COVID-19 restrictions. Further, demand in the broader economy has been one of the factors driving up inflation this year with it rising to its highest level in four (4) decades. This is very much evident in inflation related to construction activities which results in significant cost escalations for projects such as the GPL/NCAM Redevelopment. Material and labour shortages causing delays and extending timelines coupled with cost escalations from inflation are key factors.

The annual Non-Residential Building Construction Index at the 3<sup>rd</sup> quarter 2022 was 15.6% and 12.6% for Toronto and Ottawa, respectively. This index reflects the changes in costs for non-residential construction activities. In 2021, inflationary pressures began to become evident in the Canadian economy driven by global supply chain constraints and heightened consumer

demand with the index reaching 15.3% for Toronto in Q4 2021. Inflation has been entrenched within the Canadian economy for almost a 2-year period now with CPI reaching a high of 8.1% in 2022 (June 12-month change). Sustained inflation of this magnitude has resulted in significant cost escalations for the GPL/NCAM project.

In an effort to temper inflation, the Bank of Canada (BOC) has tightened its monetary policy by raising its trend setting overnight interest rate from its lower bound of 0.25% at the beginning of 2022 to its current level of 4.25% representative of interest rate levels not seen since 2008. Interest rate increases by the BOC to the overnight rate translate into similar increases for construction financing and long-term debt borrowing. As a result, the GPL/NCAM project has realized significant increases to financing costs during the current construction period and will also incur significantly more in debt servicing costs over the 25 years contemplated for the term of a debenture to be secured with Infrastructure Ontario (IO) upon project completion.

For these reasons, staff recommend further action and advocacy to the Province to extend the eligibility of the supplemental funding to long-term care projects currently in the construction phase such as the GPL/NCAM project or provide a separate funding program to assist municipalities with the additional financial burden of these projects as a result of the current economic circumstances.

### **Financial Impact**

The following is a list of the various sources of financing that have been secured (or are anticipated to be available) for the overall GPL/NCAM project.

Ministry Development Grants	\$4,486,140
Canada Cultural Spaces Fund Grant (NCAM)	\$295,000
County Reserve Funds	\$18,082,559
County Development Charge Revenue	<u>\$1,778,967</u>
TOTAL	\$24,642,666

The balance of the project (including the hard construction costs and project soft costs) are being financed through IO by way of construction financing converting to a debenture issuance(s) upon, or leading up to, project completion that has been approved up to a maximum amount of \$96,770,321. The original budget had contemplated utilization of debt amounting to \$92,706,927. As a result of project cost escalations, if the shortfall in financing is sourced from debt it will increase to \$102,945,918 or approximately \$10.2M more than originally anticipated. County reserves are financing the additional interest costs for construction financing as a result of higher interest rates.

A summary of the project budget (inclusive of contingency), payments as of November 2022 and the budget forecast is provided in the table below.

	<b>Budget</b>	<b>To date</b>	<b>Projected</b>
Construction Costs	\$ 92,420,180	\$ 39,852,534	\$ 101,139,664
Project Soft Costs (Project Management, etc.)	\$ 18,902,773	\$ 8,551,891	\$ 19,801,968
Property Purchase	\$ 956,043	\$ 956,043	\$ 956,043
Non-recoverable HST	\$ 1,852,851	\$ -	\$ 2,023,413
Interest on Construction Financing	\$ 1,297,151	\$ 415,352	\$ 3,394,720
<b>Total</b>	<b>\$ 115,428,998</b>	<b>\$ 49,775,820</b>	<b>\$ 127,315,808</b>

Currently, only 3.5% of the total upfront project budget is funded by the Ministry of Long-Term Care, and the majority is funded by County tax dollars (money allocated from levy to reserves, or levy funding that will be allocated to pay back the debenture over the next 25 years).

Under the current Development Agreement with the Ministry of Long-Term Care, the County will receive funding from the Ministry under the Long-Term Care Home Capital Development Funding Policy, 2020. This includes a Construction Funding Subsidy (CFS) that provides a daily per diem per bed based on market segment classification over 25 consecutive years upon project completion. For the County this translates into \$1.3M per annum or \$33.7M over the 25 years.

Under the new Long-Term Care Home Capital Development Policy, 2022 the Ministry is adding a CFS top-up per diem. The new CFS top-up will provide eligible operators with an additional per diem amount of up to \$35 per bed. The GPL/NCAM project, as a 180-bed facility, would garner up to an additional \$2.3M per annum over 25 years if eligible or \$57.5M over the 25 years.

The news release from the Ministry of Long-Term Care states that “construction costs and long-term borrowing interest rates have escalated over the past few years”. Although this statement solidifies recognition that projects such as the GPL/NCAM have incurred significant cost escalations as a result of price escalations and higher interest rates, the project is deemed ineligible having received construction commencement approval prior to the threshold date of April 1, 2022.

Prior to cost escalations, the original financing for the project included \$92.7M in long-term debt being acquired through IO on debt approved up to \$96.8M. At the onset of 2022, the interest rate for a 25-year debenture with IO was 2.95% and it is currently 4.33%. Total interest costs on the original amount of debt being contemplated would have been \$39.0M at the start of 2022 and now, at current interest rates, would be \$60.0M representing an increase of \$21.0M. Further to this, cost escalations in the project overall will require sourcing additional financing. This will likely result in the County now acquiring additional debt as the only viable alternate source for financing the shortfall. Assuming this, the total interest on required debt of \$102.9M equates to \$66.6M vs. what would have been incurred of \$39.0M had interest rates not increased and price escalations not been realized. This will further compound the increased debt servicing burden for both interest and principle. At current interest rates, total debt

servicing costs over 25 years for the County would equate to \$169.5M (\$102.9M principle / \$66.6M interest).

The County is limited in the amount of debt that it can acquire, and service based on its own debt policies and limits as set by the Ministry of Municipal Affairs and Housing in the form of an Annual Repayment Limit. Increased debt servicing costs as a result of the GPL/NCAM project limit the County's ability to secure debt financing for other critical infrastructure and affordable housing projects that are contemplated in the future putting them at risk for moving forward. Based on the County's current infrastructure deficit, canceling key infrastructure projects would further compound the deficit with a reduced level of future capital investments risking not only meeting service level standards but also sustainability.

A report (attachment 1) was completed by KPMG on behalf of the Eastern Ontario Wardens' Caucus (EOWC) in January 2022 to test and validate the impacts of the Provincial capital funding formula and calculate the cost of capital for the construction of a long-term care home. For this study, the GPL/NCAM project was drafted under the Long-Term Care Home Capital Development Funding Policy, 2020. The study and data confirmed Provincial funding under the policy will:

1. Not fully fund the capital costs for projects;
2. Not adequately compensate for interest on borrowing;
3. Adversely affect the borrowing capacity of a municipality and the Annual Repayment Limit (ARL) as prescribed by the Province;
4. Negatively impact rural municipal homes as a result of market segmentation model implemented by the Province; and
5. Not recognize local priorities like larger room sizes and common spaces for the comfort of residents and COVID related social distancing requirements.

Financial impacts have been further exasperated since the study was completed as a result of project cost escalations and higher interest rates than what was assumed in the KPMG study.

### **Member Municipality Impacts**

The successful completion of the GPL/NCAM redevelopment project is essential for all residents of the County to ensure the delivery of high-quality, resident-centred care of current residents and to meet the increasing need and complexity of care for future residents. The development of the NCAM is also vital to the greater community and GPL residents to allow for expanded services and programs including additional storage and capacity for collections, a display and exhibition space to showcase a diverse range of County stories and allow for social engagement and community building.

### **Conclusion / Outcomes**

It is recommended that County Council through the Warden send the attached letter (attachment 2) to the Minister of Long-Term Care, advocating for the GPL/NCAM project to be eligible to receive increased supplemental funding for construction to assist with offsetting the financial burden on the County levy as a result of the current economic circumstances.

## **Attachments**

1. Eastern Ontario Warden's Caucus (EOWC) Long-Term Care Capital Construction, Final Report January 6, 2022
2. Letter to Minister of Long-Term Care