EASTERN ONTARIO WARDENS' CAUCUS

LONG-TERM CARE CAPITAL CONSTRUCTION

Final Report

January 6th, 2022

Disclaimer

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Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and recommendations as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the Eastern Ontario Wardens' Caucus. KPMG has not and will not perform management functions or make management decisions for the Eastern Ontario Wardens' Caucus.

This final report may include or make reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this final report are not intended, nor should they be interpreted, to be legal advice or opinion.

KPMG has no present or contemplated interest in the Eastern Ontario Wardens' Caucus nor are we an insider or associate of the Eastern Ontario Wardens' Caucus. Accordingly, we believe we are independent of the Eastern Ontario Wardens' Caucus and are acting objectively.

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Project Overview

Project Overview

Project Objectives – *How will we define success?*

KPMG was engaged to assist in the development of a financial model to test and validate the impacts of the current Provincial capital funding formula and calculate the cost of capital for the construction of a long-term care home.

KPMG developed a pro-forma budget model that calculates the cost of capital over the amortization period of the home. The financial model has the ability to calculate:

- The impact of a 15% increase in construction costs over the course of the project
- The impact of "over-building" by 10% on the overall size of the facility to permit the construction of amenities not supported by Provincial funding
- The impact of "green" construction elements that are required to meet emissions commitments, but are not recognized by the Provincial funding formula
- The application of the four market segments funding on similar hypothetical construction
- The impact of a zero-interest loan provided by a senior level of government

The findings from the project will assist other EOWC member municipalities with their construction planning and inform advocacy efforts with the Federal and Provincial Governments.

Project Drivers – *What problem are we trying to solve?*

The EOWC is concerned that Provincial funding for the capital costs related to the construction of new long-term care homes 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
5. Not recognize local priorities like larger room sizes and common spaces for the comfort of residents and COVID related social distancing requirements.

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Project Schedule

Project Timeline

This engagement commenced on October 27, 2021, and will be complete once the final report is submitted to the EOWC on January 6, 2022.

01	02	03	04
Completed ✓	Completed ✓	Completed ✓	Completed ✓
Project Initiation	Current State Analysis	Draft Financial Model	Final Report & Presentation
October	October - November	December - January	January

01 Project Initiation

Meet with the Project Sponsor and EOWC's Project Team to clarify expectations, refine lines of inquiry, and develop a subsequent work program for the engagement.

02 Current State Analysis

Collect relevant information on current capital projects and conduct stakeholder engagement exercises.

03 Draft Financial Model

Develop the financial model and validate inputs with the project team. The model will be constructed to allow EOWC member municipalities to use it for their own LTC capital projects.

04 Final Report & Presentation

Develop a draft final report and recommendations for the EOWC's consideration. Incorporate the EOWC's feedback and present the final report.

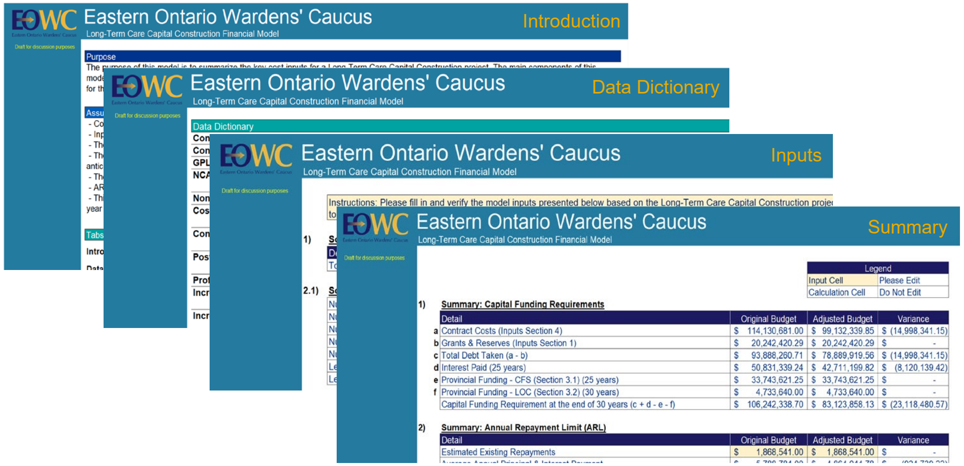
Overview of Financial Model

Overview of Financial Model

The purpose of the Long-Term Care Capital Construction Financial Model is to provide a summary of the capital funding requirements, which is defined as the funds that will be required to repay the long-term debenture used to finance the project, in excess of provincial funding sources received.

The financial model is an excel spreadsheet document, which includes the following tabs;

1. **Introduction** – provides an overview of the model's purpose, underlying assumptions and tabs included
2. **Data Dictionary** – defines key terms included within the financial model
3. **Inputs** – includes the costs and key inputs as editable values that are subsequently used in the calculation of capital funding requirements
4. **Summary** – provides an overview of the resulting model, including the capital funding requirement and impact on annual payment limit (ARL)



The baseline model has been prepared to re-model the Golden Plough Lodge (GPL) by the County of Northumberland. Instructions are also included in the introduction tab which can be used by EOWC member municipalities to assist with their construction planning and inform advocacy efforts with the Federal and Provincial Governments.

Note: For the purposes of the analysis performed, we have considered the annual provincial funding amounts and other funding amounts received, for example construction funding subsidies (CFS), level of care (LOC) and Ministry of Health (MOH) grants for the remodeling of the GPL.

Overview of Financial Model - Findings for Northumberland County

The remodel of the Golden Plough Lodge (GPL) started in 2016 and is anticipated to be completed in 2023. Upon completion, the following key metrics will be achieved:

- 180 Total Beds
- $6.4M in Grants Received
- $1.5M in Annual Provincial Funding
- LEED Silver Compliance

The financial model that has been prepared has resulted in the following key findings;

01 Capital Funding Deficit
Provincial funding received is insufficient to cover the cost of debt relating to construction

02 No Incentive to Build Above Ministry Minimums
Costs to improve amenities and meet LEED standards above ministry minimums are not covered by provincial funding

03 Non-Residential Construction Inflation
Increasing costs of construction in recent years have caused the cost of construction to increase

04 Static Funding Formulas
Provincial funding formulas incorporate small differences in funding based on market segment, but do not reflect cost of construction

05 Impact on ARL
Debt incurred to finance construction imposes a substantial strain on the municipalities ability to take on future projects

06 Significant Interest on Debt
Interest paid over the course of the 25 year debenture is a significant cost incurred, which is currently not funded

Financial Model Insights

Summary of Financial Model Insights

1. Capital Funding Deficit

Funding received by the province over the life of the 25-year debenture used to finance the construction costs of the project are insufficient from an operational perspective.

Over a 30 year period, to account for the extra 5 years that the LOC funding is received, a **total capital funding requirement of $105,645,045** is accumulated based on the original contract budget. In addition to an already growing gap in core infrastructure needs, an **additional increase of $72.40 in taxes annually (for 30 years) required for each household** within Northumberland County would be required to cover project costs.

A deficit of approximately $4.3M is incurred annually in order to make the principal & interest payments over 25 years ($5.8M annually).

Provincial funding amounts ($1.5M annually) relating to CFS received over 25 years (~$1.35M annually) and LOC received over 30 years (~$150K) do not fully cover the cost of debt.

$1,349,744.85
Annual Provincial Funding (CFS)

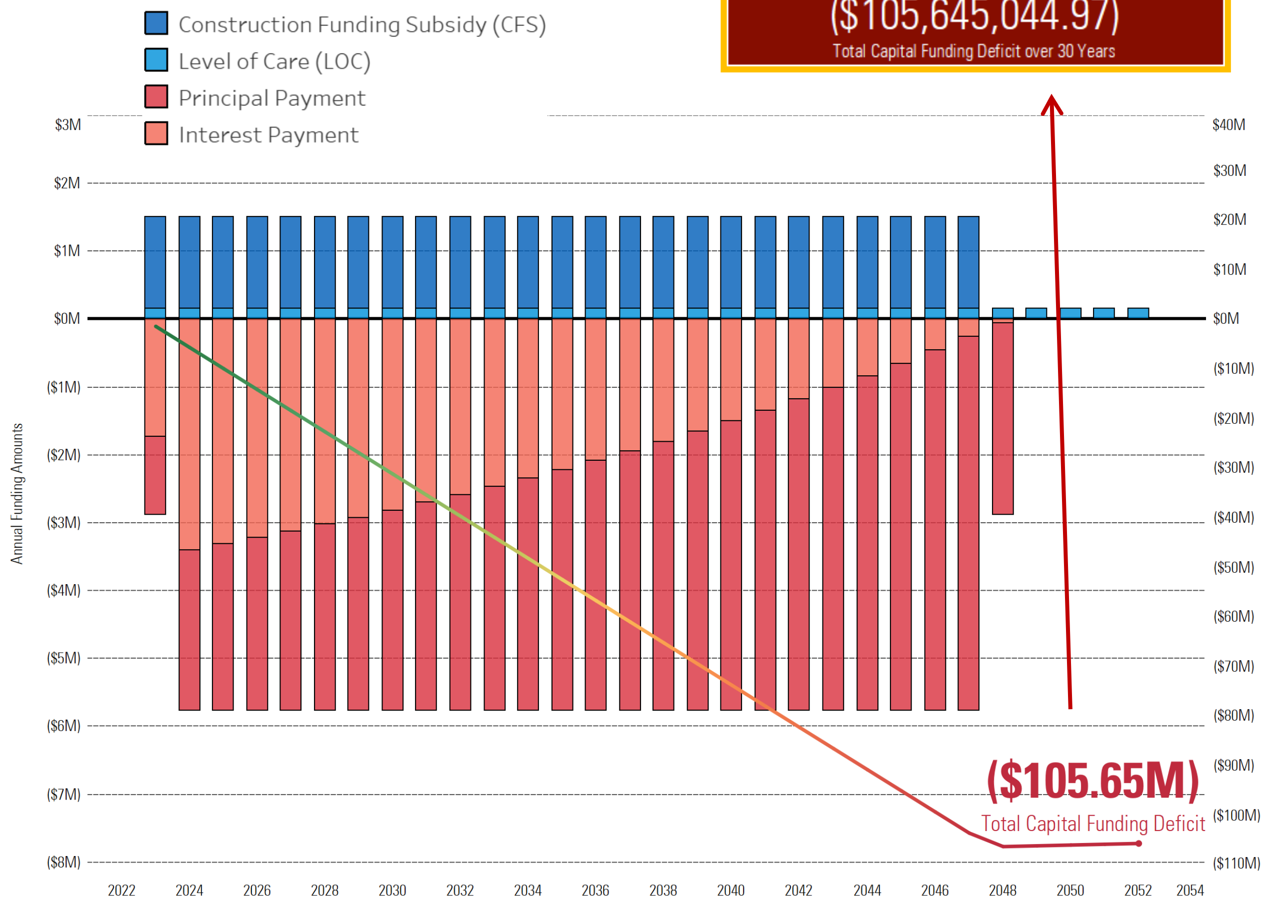
$157,788.00
Annual Provincial Funding (LOC)

$1,507,532.85
Total Annual Provincial Funding

$5,764,892.25
Annual Principal & Interest Payments

($4,257,359.40)
Annual Capital Funding Deficit

($105,645,044.97)
Total Capital Funding Deficit over 30 Years



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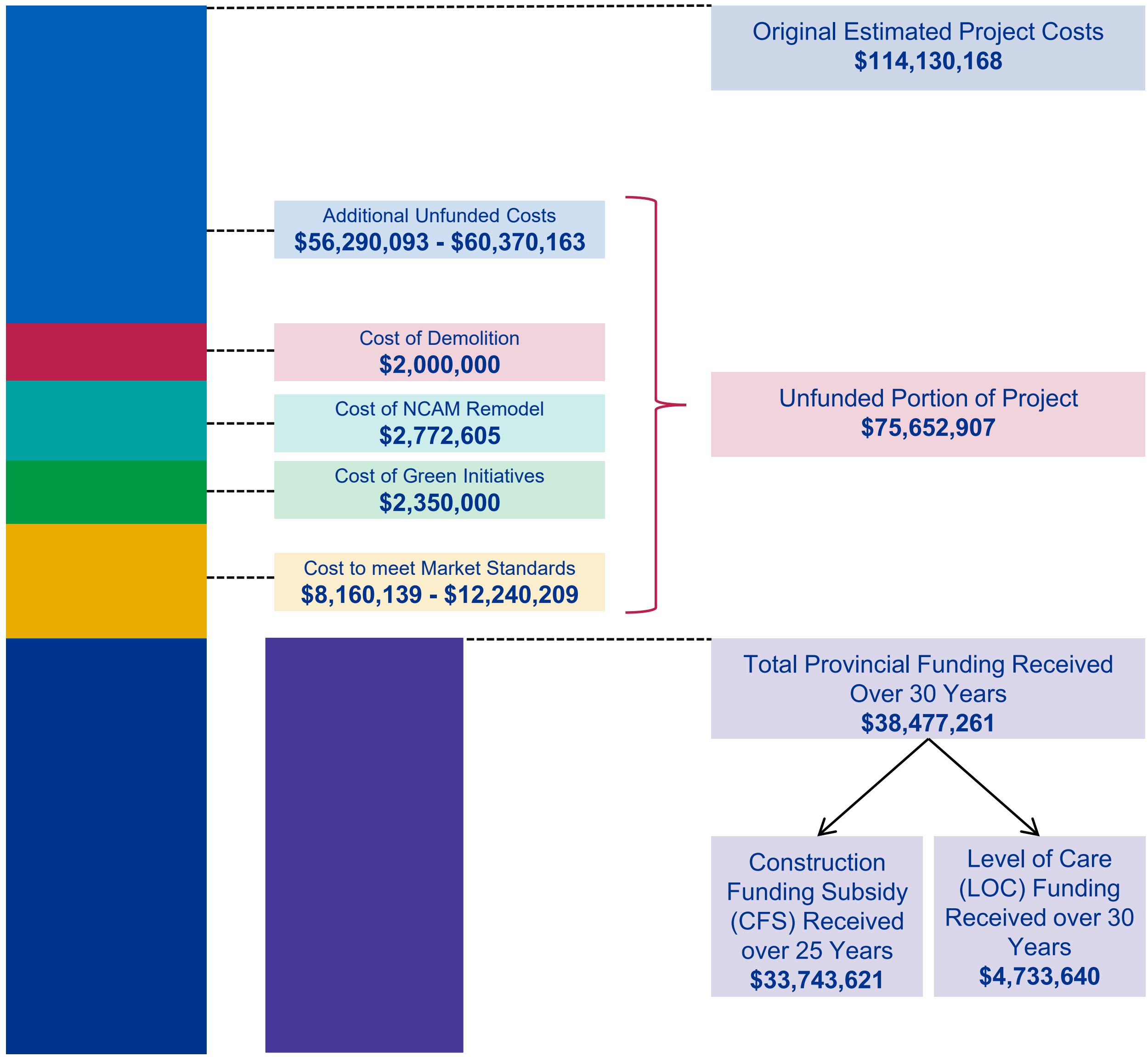
Summary of Financial Model Insights

2a. No Incentive to Build Above Ministry Minimums

Provincial funding formulas calculated based on **static per diem rates multiplied by the number of beds** within a long-term care facility.

Costs to meet Market Standards are estimated between 10% ($8,160,139) and 15% ($12,240,209) to create more livable rooms with square footage above ministry minimums to provide an adequate amount of space for residents. Costs of green initiatives ($2.3M) to achieve LEED silver certification improve the building life cycle but are no longer compensated in the updated ministry funding model (previously an extra dollar per diem, per bed).

Overall, the provincial funding received over a 30 year period **($38M) is insufficient** to **cover the estimated project costs ($114M)** without undertaking significant debt to cover the project costs.



Summary of Financial Model Insights

2b. Adjusted Capital Funding Deficit

Reducing the overall contract amount to exclude project costs relating to the factors noted on the previous slide, the capital funding deficit **decreases from $105.6M to $82.9M**.

Funding received by the province over the life of the 25-year debenture is still insufficient in this case to cover the cost of the project. The $82.9M capital funding deficit would cause further increases to an already growing gap in core infrastructure needs with an estimated increase of an **additional increase of $56.82 in taxes annually (for 30 years) required for each household** within Northumberland County to cover project costs of this project.

A deficit of approximately $3.3M is incurred annually in order to make the principal & interest payments over 25 years ($4.9M annually).

Provincial funding amounts ($1.5M annually) relating to CFS received over 25 years (~$1.35M annually) and LOC received over 30 years (~$150K annually) do not fully cover the cost of debt.

$1,349,744.85
Annual Provincial Funding (CFS)

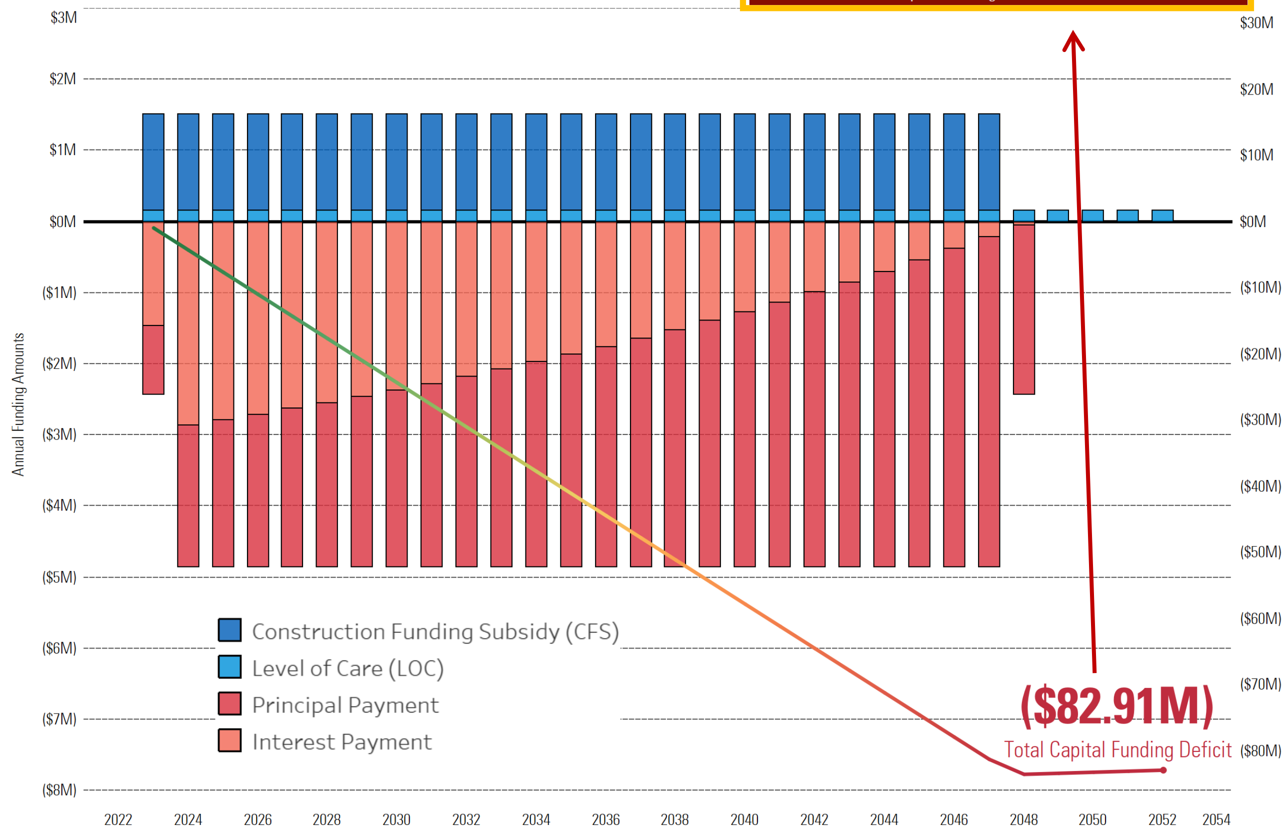
$157,788.00
Annual Provincial Funding (LOC)

$1,507,532.85
Total Annual Provincial Funding

$4,855,531.99
Annual Principal & Interest Payments

($3,347,999.14)
Annual Capital Funding Deficit

($82,911,038.41)
Total Capital Funding Deficit over 30 Years

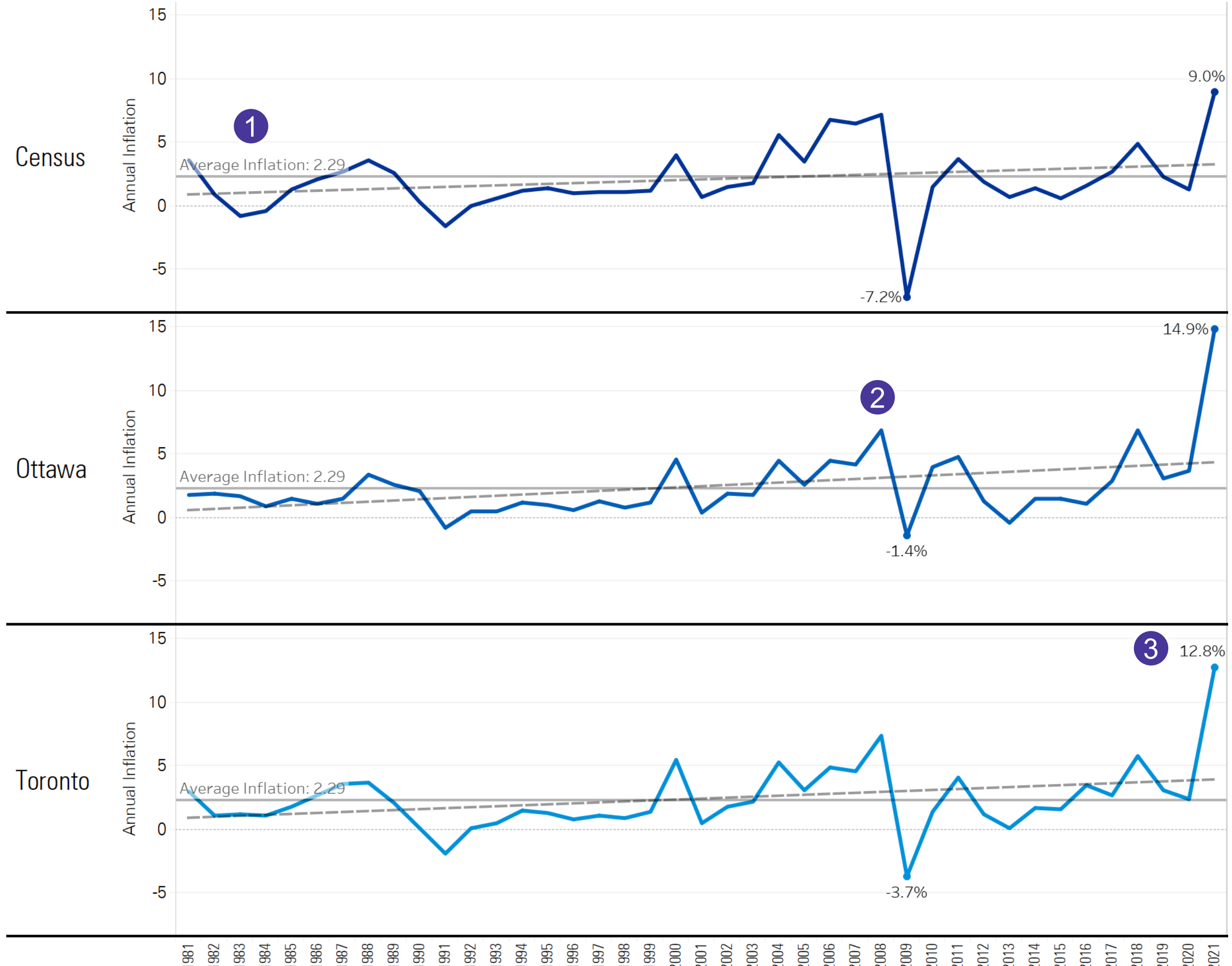


Summary of Financial Model Insights

3. Non-Residential Construction Inflation

Inflation amounts for non-residential construction are at an all-time high across Canada, with an average inflation amount of approximately 9% in 2021. Amongst the 11 metropolitan regions analyzed, Toronto (12.8%) and Ottawa (14.9%) are the highest.

Increases in the cost of construction due to inflation are factored into the original budget to remodel the GPL. However, future long-term care home projects will need to budget for substantial increases in the cost of construction which are currently not considered in provincial funding formulas. Continued increases in inflation will generate proportional increases capital funding requirements for upcoming projects.



Source: Statistics Canada Building construction price indexes

1. Average inflation amounts over the last 40 years have been approximately 2.29%
2. The comparable last peak in inflation amounts was in 2008 at approximately 7.1%
3. Inflation amounts in 2021 is the highest recorded amount in the 40 year time-span

Summary of Financial Model Insights

4. Static Funding Formulas

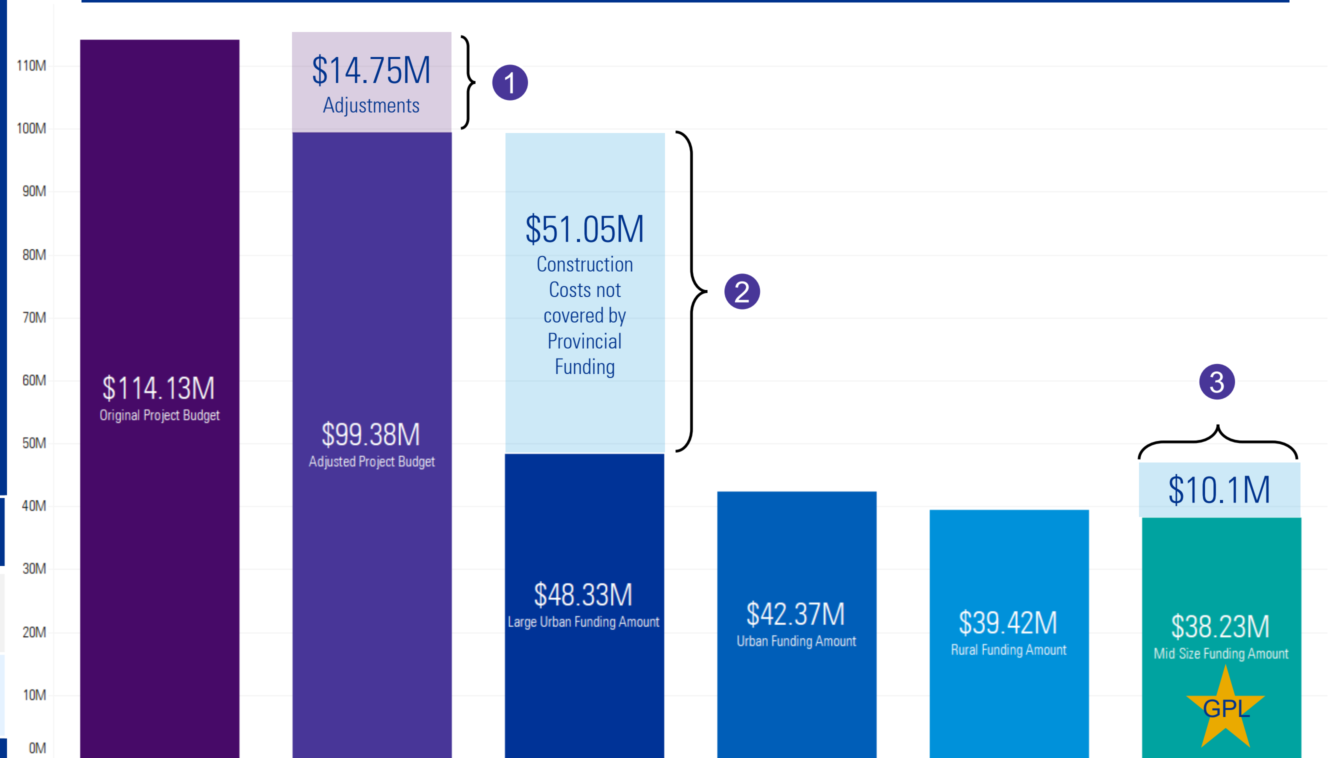
Provincial funding formulas are static in nature, apart from differences in the per diem rates depending on market segment for the construction funding subsidies and development grants received from the Ministry of Health (MOH), summarized below;

Funding Component	Large Urban	Urban	Mid-Size	Rural
Maximum CFS per bed, per diem	$23.78	$20.53	$20.53	$20.78
Maximum Development Grant per bed	$51,376	$47,926	$24,923	$29,246

The construction funding subsidy recognizes differences in the location of the long-term care home, but does not consider that the costs of construction are similar across each market segment.

Level of care subsidies received are also static at $2.40 per bed, per diem and do not factor in any additional factors to determine the amount of funding received.

To cover the entire project cost of $114.13M, the CFS funding would have to increase from **$20.53** to **$66.71**, per bed per diem.



1. Adjustments made to the original budget include costs that are assumed to not be covered by provincial funding including the cost of building to meet market standards (assumed 10% - $8.16M), the cost of green initiatives ($2.35M), the cost of NCAM construction ($2.77M), the cost of demolition ($2M) and the aggregated differences in anticipated costs to complete the project (-$0.5M) based on the GPL budget provided to KPMG.
2. If the GPL was considered to be within the Large Urban market segment, the shortfall of provincial funding in relation to the cost of construction would still be around $51.05M.
3. Over a 25 year funding period, the differences in the total amount received between the highest funded market segment, large urban ($48.33M) and mid-size ($38.23M) is $10.1M, which is equal to approximately 9% of the original project budget of $114.13M

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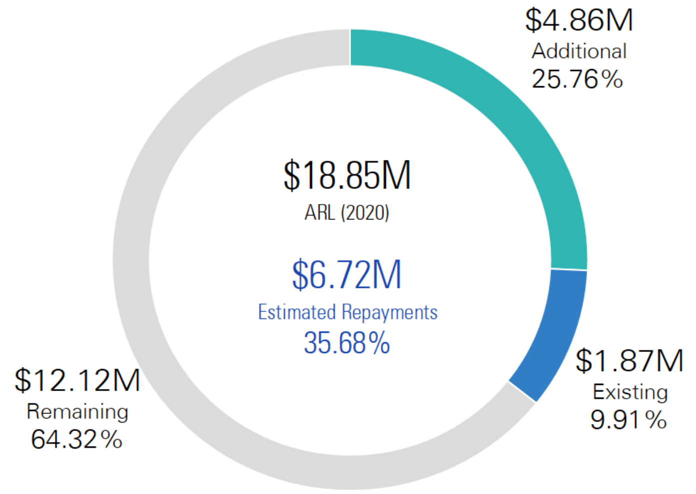
Summary of Financial Model Insights

5. Impact on Annual Repayment Limit (ARL)

The Capital Funding Requirements for the remodeling of the GPL will increase Northumberland County's annual repayments by $4.86M for the next 25 years. Carrying a large portion of debt payments will hinder the counties ability to propose any additional capital projects that would require funding as there may be a risk of the debt payments exceeding the annual limit.

Based on 2020's financial performance, the additional $4.86M will account for approximately 26% of the estimated ARL, which is almost three times more than the counties existing repayments ($1.87M).



In comparison to other municipalities within the Eastern Ontario Wardens' Caucus, Northumberland County will be the third highest ARL % with the additional payments being made to fund the remodel of the GPL

Municipality Name	Estimated Repayments	2020 ARL	2020 ARL %
City of Cornwall	$6,738,066	$30,545,412	22.06%
City of Kawartha Lakes	$15,482,442	$40,787,105	37.96%
County of Frontenac	$1,324,693	$3,892,988	34.03%
County of Haliburton	$174,180	$4,911,894	3.55%
County of Hastings	$3,655,583	$8,273,048	44.19%
County of Lanark	$1,162,342	$11,038,089	10.53%
County of Northumberland	$6,724,073	$18,846,667	35.68%
County of Renfrew	$1,119,254	$17,110,366	6.54%
County of Peterborough	$1,131,208	$12,852,488	8.80%
County of Prince Edward	$3,688,966	$14,808,592	24.91%
United Counties of Leeds and Grenville	$1,604,153	$12,920,240	12.42%
United Counties of Prescott and Russell	$1,171,069	$14,392,238	8.14%
United Counties of Stormont, Dundas and Glengarry	$4,826	$13,722,871	0.04%

Source: 2020 FIR Data (https://efis.fma.csc.gov.on.ca/fir/MultiYearReport/MYCIndex.html)

Summary of Financial Model Insights

6. Significant Interest Incurred on Debt

Interest payments are a substantial contributor to the overall capital funding requirements for the project. Over 25 years, a total of $50.62M is paid in interest, which is 54% of the total debt taken to fund the project ($93.5M), based on the original d contract amount of $114.13M.

Based on current estimates from Infrastructure Ontario, interest of approximately 3.7% would be accrued on the debt and paid out over the 25 year period.

If Northumberland County were to receive an interest-free loan from Infrastructure Ontario, principle payments alone of approximately $3.74M will generate a capital funding requirement of $55M over the 30 year period.

Summary of Financial Model

Summary of Financial Model

1 The unfunded Capital Funding Requirement to cover the cost of the project is **$105,645,045** based on the original contract budget which represents the excess of cost to service a **$93,500,761 25-year debenture** and provincial funding received

2 The implication of this additional Capital Funding Requirement is the requirement for **additional tax increases to households** within Northumberland County above an already increasing amount of core infrastructure requirements

3 Provincial **funding formulas are static** based on number of beds and do not consider any factors that improve the overall end product of the home (i.e. LEED certifications)

4 Construction funding subsidy rates would have to **more than triple** to cover the project costs

5 The cost of interest to service the $93,500,761 25-year debenture taken to cover the cost of construction is **$50,621,546 or 54% of the principal amount** based on the current amortization payment schedule

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