

January 25, 2022

The Honourable Paul Calandra
Minister of Long-Term Care
438 University Avenue, 8th Floor
Toronto, ON M5G 2K8

Dear Minister Calandra,

Northumberland County received the November 25, 2022 funding announcement for increased construction funding for Long-Term Care Homes in Ontario. Northumberland County is supportive of the Provincial Government's commitment to build more beds and upgrade existing long-term care beds across the province.

To demonstrate support for this commitment, Northumberland County is currently redeveloping the Golden Plough Lodge (GPL), the long-term care home that is owned and operated by Northumberland County, including an increase from 151 to 180 beds. The new building will also include the Northumberland County Archives and Museum (NCAM), which is a vital and innovative development 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.

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 3rd 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.

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.

	Budget	To date	Projected
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
Total	\$ 115,428,998	\$ 49,775,820	\$ 127,315,808

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 01, 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.

Based on the current economic circumstances and the on-going challenges to deliver the GPL/NCAM construction project, Northumberland County is requesting that the Ministry of Long-Term Care extend this funding to projects currently in the construction stage. As outlined above, the challenges and barriers in delivering this project align with the objectives of the supplementary construction funding announced by the Province on November 25, 2022.

Sincerely,

Warden Mandy Martin
Northumberland County

cc: The Honourable David Piccini, Minister of the Environment, Conservation and Parks and MPP for Northumberland-Peterborough South

Attachments:

1. Eastern Ontario Warden's Caucus (EOWC) Long-Term Care Capital Construction, Final Report dated January 6, 2022