
For Information

REPORT TITLE: Hospital Funding

FROM: Gary Kent, CPA, CGA, ICD.D, Chief Financial Officer and Commissioner of Corporate Services

OBJECTIVE

To provide Regional Council with information on the Regional context and impact with regards to funding sources and options to support future health care and hospital development in Peel, as directed by Resolution 2021-1131.

REPORT HIGHLIGHTS

- Hospitals are a critical part of community building, just as transit, roads, libraries and schools are, and the recent announcements by the Province to expand William Osler Health System and Trillium Health Partner sites are important and welcomed.
 - The City of Brampton has requested that the Region of Peel contribute \$62.5M to, in part, fund the local share of the Brampton expansion and redevelopment.
 - The hospital ecosystem in Ontario does not follow municipal boundaries and every hospital has a different mix of service be they local or regionally focused.
 - Hospital funding in Ontario is the responsibility of the Province of Ontario, with no mandatory contribution from the municipality required.
 - Municipalities throughout the province have, however, chosen to contribute voluntarily, mostly by raising levies, to pay for a portion of the local share.
 - As hospitals are not the responsibility of the Region of Peel, no monies have been collected to establish a reserve for this purpose.
 - In 1997, the Province removed the ability for municipalities to collect Development Charges for hospitals, reducing the cost for the development community and creating a funding void.
 - Regional Council continues to include an infrastructure levy to fund its own services on both the tax and utility side.
 - No reserves are available for hospital funding without reducing the existing capital program or increasing the property tax through an increased infrastructure levy.
 - Any decision to contribute property taxes, whether at the local or regional level, will likely set a precedent for future asks.
 - This report outlines the context in which policy direction can be debated.
 - Should Council direct that all or a portion of the requested costs be funded through the Region of Peel, staff will return in a timely manner with the financial impact, after finalizing the details on matters such as the flow of funds and any associated conditions that need to be met.
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DISCUSSION

1. Hospitals Play a Critical Part in a Community

There is no doubt that all communities require access to modern healthcare facilities. The Region of Peel is fortunate to have existing facilities from William Osler, Trillium Health Partners and access to Headwaters Health Centre as well as multiple ancillary healthcare businesses and services.

These facilities and services, as is common in many Peel services, have struggled to keep up with the population growth in Peel due to underfunding. The Provincial redevelopment and expansion announcements are therefore important and welcome.

Appendix I outlines the announcement for William Osler and Appendix II for Trillium Health Partners.

The hospital system in Ontario does not follow municipal boundaries and every hospital has a different mix of service, be they local or regional, with a wider catchment area. Staff requested data on where their clients reside.

Headwaters Healthcare Centre Foundation advises that the Headwaters Health Care Centre, based in Orangeville, serves 5 per cent of its clients from Brampton, 24 per cent from Caledon, 0.5 per cent from Mississauga and the balance from outside those areas. (Emergency Department Fiscal 20/21 stats). Appendix V outlines their prioritized equipment and technology needs.

Both Trillium Health Partners and William Osler will provide the data with their presentation.

However, residents of Peel also have the benefits of accessing hospitals in Oakville, Milton, Vaughan, Toronto and others should the need arise.

What is clear however is that all hospitals benefit when they are all functioning well as they all have an important part to play in the healthcare ecosystem.

2. City of Brampton Request for Funding – William Osler

On November 3, 2021, Brampton Council committed to a 10 per cent local share of the new Brampton hospital and endorsed an ask to the Region for 50 per cent of this commitment. This ask was received on November 11, 2021, through a motion at Regional Council requesting a 50 per cent contribution from the Region of Peel in the amount of \$62.5M to help fund the City of Brampton's share of the construction costs for the proposed new full-service Hospital in Brampton (Resolution 2021-1131, Appendix III). The motion discussed the need for an additional full-service Hospital given that Brampton Civic Hospital has served as the only main full-service facility for the City of Brampton's approximately 650,000 residents since 2007 and has had long standing issues of overcrowding and long wait times in addition to serving the City's aging community with needs for continuing complex care and rehabilitation in emergency and intensive care units. The Province of Ontario made a commitment in the March 2021 budget to fund a new full-service Hospital in Brampton, and a 10 per cent local share under the provincial cost-sharing funding model will be required. On December 6, 2021,

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Brampton passed their 2022 budget with funding for \$62.5M which represents 50 per cent of the local share for the hospital to be sourced through municipal reserves thus having no impact on their 2022 City tax levy. The funding is cited as \$22M from monies in a hospital reserve from previous levies and \$40M from the City's capital infrastructure reserves.

The motion to Regional Council on November 11, 2021 was referred to staff for a future report to come back in January 2022 with information on the Regional context and impact with regards to funding sources and options to support future health care and hospital development in Peel. The report was delayed until March 2022 to allow the hospitals the time to focus on the Omicron variant response.

William Osler Health System is the Health Services Provider in the context of the Brampton request for the project referenced as, Peel Memorial Redevelopment and Expansion and Cancer Care Centre. City of Brampton staff received a briefing in October 2021 highlighting two projects for consideration with a combined estimated cost of \$1.1 billion, with \$700 million for redevelopment and expansion of Peel Memorial Hospital and \$365 million for a Cancer Care Centre. William Osler has estimated the local share required for these projects to be \$250 million or 22.7 per cent of the total \$1.1 billion estimated project costs and is requesting the City of Brampton to fund 50 per cent of the local share or \$125 million, with \$87.5 million for the Peel Memorial expansion and redevelopment and \$37.5 million for the Cancer Care Centre.

Regional staff have met with William Osler Health System, Trillium Health Partners and Headwaters Health Centre Foundation for the purpose of preparing this report.

3. Provincial Policy re: Hospital funding

Staff conducted preliminary research to identify Provincial legislation and/or policies regarding local share contributions. The report prepared by Brampton staff for their November 3, 2021 meeting reflects much of Peel's findings. Healthcare is a provincial responsibility and there is no legislative basis for the local share component; however, the details on what is eligible and ineligible for provincial funding lies with the Health Capital Cost Share Policy and associated guidelines (last updated 2016). Noted within this document are that the Ministry will provide only 90 per cent of funding for eligible capital construction / capital costs, and that hospitals are responsible for all costs associated with new furnishings and equipment and continue to be responsible for replacement equipment. The remaining funding gap of 10 per cent for capital construction/capital costs represents the 10 per cent local share requirement. When combined with the responsibility of hospitals to fund new furnishings and equipment, the local cost for these projects can rise to 30 per cent of total costs, in some cases.

4. Environmental Scan of Ontario Municipal Contributions to Local Share

A review of available information has confirmed that many of Ontario's municipalities have made contributions of varying sizes to the local cost shares of their community hospitals. Much of this information is coming from municipal reports that are publicly available but not necessarily inclusive of all requests made and supported or not supported. The scan is meant to provide some background of hospital funding arrangements from a Regional perspective and is attached as Appendix IV.

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While there are some high-level contributing factors, such as the location of the facility, there is no clear methodology to decide whether the Upper or Lower tier municipality pays and no obvious theme to what proportion each pays, if split. The conclusion is it is a local decision based on a number of factors including ideology.

5. Funding Options

Development Charges (DCs) are not available

DCs are collected for many services to fund growth. Unfortunately, DC funds no longer exist for contributions to hospital developments as this category of collection was removed from the *DC Act* with the 1997 update. Due to the fact that funds remained in a Regional DC Reserve under the old regime, the Region was able to contribute \$37M to the 2007 Brampton Civic Hospital without requiring a regional tax levy and no contribution was required from the City of Brampton for this example. For the Credit Valley expansion, circa 2005, \$25M was contributed from the same source, with no local contribution. The details can be seen in the chart of the funding in Appendix IV.

As DCs are no longer levied for hospitals, the funding source tied to population growth and development has been eliminated. This means municipalities have only property tax funding to rely on for any local share contribution.

Reserve Funding

As noted, Brampton has passed their 2022 budget which indicates that they will be funding \$62.5 million of the local share contribution from their reserves.

The Region of Peel's Tax Supported Capital Reserve ("Capital Reserve") is one of our key funding sources with 47 per cent of the 2022 – 2031 Capital Plan planned to be funded by the reserve. This capital work includes the Housing Master Plan, Paramedic Facilities and Ambulances, Long Term Care homes, Roads & Transportation, Waste Management and TransHelp.

Over the next 20 years, as presented in the 2022 Budget, there is a forecasted \$2 billion shortfall in the Capital Reserve compared to the forecasted capital expenditures. Through the 2022 Budget, Council approved a 1 per cent Infrastructure Levy to help address the shortfall. To fully fund the reserve shortfall, a 1 per cent Infrastructure Levy increase will also be required each year from 2023 up to and including 2030. The 2022 budget did not include hospital local share requests or any additional amounts to be levied.

Council also approved a 5 per cent utility infrastructure levy which will also be required for the next 3 years to fund from the utility bill a deficit of \$1.6B.

Should tax reserves be used for hospital funding, then to maintain the same capital program, the infrastructure levy would need a corresponding increase.

As indicated from the 2022 budget and the plan to fund ongoing capital needs, the Region would require an additional levy to address the hospital and other new requests for capital dollars to avoid erosion of the work being done to maintain the Region's capital infrastructure.

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6. Timing

In discussion with Brampton finance staff, Regional staff understand that the requested local share funding will be required in 2026 for approximately 70 per cent of the required local contribution and the remaining 30 per cent would be due for the end of 2027. This estimated timing has been used as an assumption to determine the possible number of years available to levy for the amount over time to smooth the annual impact.

Property Tax increase options:

There are effectively two property tax funded options for the local share requirement for William Osler.

1. Regional General Tax Levy

The Region of Peel can increase its annual levy amount to collect for additional funds to pay a portion of local share contribution to hospital funding or other such requests. This levy can occur over a number of years depending on when the funds are needed. The hospital amount would be raised through the Regional levy allocation to all three local municipalities in the same proportions as the general levied amount. The Region can also extend the period for the levied amount through borrowing. The Region could debenture for the amount required and levy to pay back the debenture with interest over a longer period of time. Debentures are matched to the lifecycle of the asset as required under the *Municipal Act, 2001*, as amended.

2. Local General Tax Levy

The City of Brampton could increase its support to fund the full required local share contribution request.

ANALYSIS OF LEVY IMPACTS:

The high-level impact analysis presented below is estimated based on the 2022 net tax levy and various other assumptions included in the 2022 budget. These numbers are illustrative versus an exact amount and represent finance staff knowledge and base information as best as possible at this point in time. At this point, the time value of money and the impact of interest earned or paid have not been factored in, unless stated otherwise.

The chart below shows how Regional taxes are shared by the residential property class across the three municipalities (using 2021 info).

Share of Regional Taxes (Residential Property Class - "R")*				
	Local	Regional	Education	Total
Brampton	44.88%	39.23%	15.89%	100.00%
Caledon	46.82%	34.18%	19.00%	100.00%
Mississauga	36.04%	44.90%	19.05%	100.00%
Region	40.51%	41.79%	17.70%	100.00%

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As we set the context for discussion, for the Region of Peel a 1 per cent levy increase raises approximately \$12M in new property tax revenues.

The following chart summarizes the impacts of a 1-, 3-, 5- and 10-year levy based on the contribution amount of \$62.5M (the 10 year does not include debenture interest as discussed below).

The residential impacts are based on the average residential CVA's used in the 2022 budget for each local municipality. Residential property classes (i.e., Residential, Multi-Residential, Managed Forest and Farm) contribute towards \$46.4M or about 74 per cent of the additional levy; whereas non-residential property classes (i.e., Commercial/Industrial/Pipelines) fund \$16M or 26 per cent of the amount.

Region of Peel Financial Impacts – Hospital Contribution of \$62.5M

Number of Years	Estimated Annual Tax Levy (\$million)	Region's Annual Levy Increase	Estimated Tax Impact by Local Municipality*			Average Residential Tax Increase by Local Municipality (\$)		
			Mississauga \$ %	Brampton \$ %	Caledon \$ %	Mississauga	Brampton	Caledon
1	62.5	5.26%	\$36.4M 2.34%	\$22.1M 2.00%	\$4.0M 2.38%	113	104	130
3	20.8	1.75%	\$12.1M 0.78%	\$7.4M 0.67%	\$1.3M 0.79%	38	35	43
5	12.5	1.05%	\$7.3M 0.47%	\$4.4M 0.40%	\$0.8M 0.48%	22	21	26
10	6.3	0.53%	\$3.6M 0.23%	\$2.2M 0.20%	\$0.4M 0.24%	11	10	13

* Region's 2022 Tax Levy Apportionment (General Levy), Mississauga – 58.2%, Brampton – 35.4% and Gallatin – 6.4%. **Based on the Average Residential CVA of \$598,053 -Mississauga, \$538,992-Brampton and \$677,105-Caledon. Note: Numbers may not add up due to rounding.

The chart can be explained as follows:

1. Regional levy in one year:

It is not suggested that the Region would levy for the \$62.5M in one year as the funds are not needed immediately; however, by discussing the entire impact it does put the overall request into context. The \$62.5M of hospital funding would represent a net levy increase at the Region of 5.26 per cent with an average residential tax increase of \$110.

2. Regional levy over three years:

As noted earlier in the report, City of Brampton staff has indicated that the bulk of the funding will be required in 2026 with the remainder in the following year. Given this current information, the Region could include a levy in each of 2023, 2024 and 2025 to have the monies available in 2026.

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3. Regional levy over 5 years:

This option may allow for the most amount of time for a general levy without borrowing and still provide for the monies as needed for the funding request should the timing and cash flow assumptions remain as indicated. This would result in about \$12.5M to be collected annually from 2023-2027. That equates to \$50M which would be available in 2026 and the remaining \$12.5M in 2027 to align with payment timeframes.

4. Debenture for 10 years/Levy for payments and interest:

The Region is permitted to issue a debenture to collect the requested funds for the hospital and a levy could be raised over the period of the debenture to pay back principal and interest (assumed ten years given the use of the funds). Given that the money is not needed today, the debenture would be taken closer to the time the cash is required (2026/2027). The current interest rate for a ten-year debenture is estimated to be 2.55 per cent based on current market condition (January 2022); however, these rates change over time and may be volatile. Based on the assumed rate and term, the estimated total cost would be approximately \$71.6M (estimated \$9.1M interest cost over life of debenture). Should market conditions change and underlying interest rates rise, it is expected the total cost of the debenture would rise. The only benefit of this option is it allows a property tax increase to be delayed to the date of the debenture issue, however the overall cost is higher due to interest charges.

General Scenario (Impact of \$50M):

Should Regional Council support the request by the City of Brampton we do anticipate additional requests for funding of other new hospitals. As such, the chart below provides a high-level impact analysis for each funding request of \$50M of dollars.

Region of Peel Financial Impacts – Sample Contribution of \$50.0M

Number of Years	Estimated Annual Tax Levy (\$million) ^	Region's Annual Levy Increase	Estimated Tax Impact by Local Municipality*			Average Residential Tax Increase by Local Municipality (\$) **		
			Mississauga \$ %	Brampton \$ %	Caledon \$ %	Mississauga	Brampton	Caledon
1	50.0	4.21%	\$29.1M 1.87%	\$17.7M 1.60%	\$3.2M 1.91%	90	83	104
5	10.0	0.84%	\$5.8M 0.37%	\$3.5M 0.32%	\$0.6M 0.38%	18	17	21
10	5.0	0.42%	\$2.9M 0.19%	\$1.8M 0.16%	\$0.3M 0.19%	9	8	10

* Region's 2022 Tax Levy Apportionment (General Levy), Mississauga – 58.2%, Brampton – 35.4% and Gallatin – 6.4%. **Based on the Average Residential CVA of \$598,053 -Mississauga, \$538,992-Brampton and \$677,105-Caledon. **Based on the Average Residential CVA of \$598,053 -Mississauga, \$538,992-Brampton and \$677,105-Caledon Note: Numbers may not add up due to rounding

Levying over 10 years results in the five-year impacts (as illustrated above) being reduced by half as the time to collect doubles. However, as noted previously, there is a higher risk that things could change over a longer period which may increase or decrease estimated total impacts.

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Future Implications:

Any decision made on funding will set precedent for other requests to fund local Hospitals.

In December an announcement was made on a new hospital for the City of Mississauga in partnership with Trillium Health Partners and the province. The website trilliumhealth.ca has more information on the build including that it will be a new 22 storey building at triple the size of the current hospital and approx. 2.8 million square feet with over 950 beds. The report states that, "The new Mississauga Hospital will allow Trillium Health Partners to increase flexibility to respond to future health care challenges, feature modern hospital facilities and technology, and reflect the latest standards in infection prevention and control. The hospital will continue to deliver highly specialized care through our regional programs, such as the regional centre for cancer care, advanced cardiac surgery, and geriatric mental health services among others." The Region is not aware of the total cost for the project or the local share contribution at this time. A timeline within the Trillium information indicates construction starting in 2025.

Advocacy:

Health care is a provincial responsibility, and the province collects for hospitals and other healthcare costs through an income tax. Municipalities do not charge development charges for hospitals since the 1997 *DC Act* amendments from the province, yet the province has asked for significant local contributions to these new hospitals which puts pressure on municipalities to raise additional levies or choose to decrease municipal service. Advocacy to the province for a funding model for healthcare that does not require municipal tax contributions has been ongoing with no change to the current funding model.

The Region appreciates the investments in local hospitals and healthcare in general as there is a need to build capacity and upgrade and expand these much-needed institutions as has been indicated throughout the reports of local municipalities, our health partners, and the Region. As an example of this advocacy, AMO stated in its report, Partners for a Healthy Ontario, "healthcare is a provincial area of responsibility under the Canadian Constitution, costs should not be born by the property tax base." Redirection of revenues or reserves towards hospitals implies a negative funding impact in service areas of municipal responsibility, for the benefit of an area of provincial responsibility.

AMO's 2022 pre-budget submission included a number of municipal priorities for the upcoming provincial budget including re-examining the local funding of provincial hospitals. The submission highlights the impact of the "local share" capital donations in funding provincial hospital construction and expansion. They state that the "local share" requirements have fiscal implications for municipal governments pressured to fill funding gaps to get hospital projects off the ground. AMO's submission calls on the provincial government to re-evaluate this approach. AMO has circulated a draft resolution (Appendix VI) if a municipal council would like to add its support.

FUNDING AGREEMENT

Should the Region contribute a significant amount to Brampton's local share for the hospital redevelopment and expansion it would be necessary to enter into a funding agreement with William Osler Health System that might address issues relevant to Regional services. As an example, staff may want to discuss areas of benefit such as Paramedic offloading as a Regional cost and service that can be affected by capital improvements.

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Offload delay is defined as the time from when the paramedics arrive at the emergency department with their patient to the time they transfer care of the patient from their stretcher to hospital staff. Offload delay is a result of overall health system pressures and capacity challenges which directly impact emergency departments resulting in no beds to place patients and potentially long delays for paramedics. In turn, this impacts the number of ambulances available to respond to new emergencies in the community, creating further pressures on emergency response. Recognizing that the transfer of patient care does require some time, current targets allow for 30 minutes to conclude transfer of care. Anything beyond this target, is considered an offload delay with negative impacts on the system.

Although William Osler, Brampton Civic site generally remains below this target of 30 minutes, incentives to remain at that target could be considered through part of the hospital levy provided to William Osler Health Systems from the Region of Peel. This model has been in place in York Region for several years, with positive impacts on system functioning and offload reduction. Financial support is contingent on meeting agreed upon offload delay targets along with frequent discussions with all stakeholders to address the core issues being faced and implementing change in the processes.

However, it is important to point out that staff have been working with all hospitals to improve offload delay, so it is not being suggested that a funding agreement is a requirement for these improvements to continue.

CONCLUSION

Peel requires new hospital beds and various healthcare needs for this large and growing area. The province has announced significant commitments to funding in healthcare; however, the current provincial funding model requires local contributions. Brampton has agreed to a \$125M commitment for their new hospital and have requested the Region share in local funding on a 50-50 basis.

Staff has provided analysis and impacts on the request for Regional funding in the amount of \$62.5M to provide for a redevelopment and hospital expansion in Brampton through an agreement with William Osler Health System. The impacts provide for annual tax levy increases and the effect by municipality under a few possible options. As noted, the Region is also aware of a new hospital planned for Mississauga which could have further impacts on the Regional and local levies and thus without further details on dollars and timing staff provided a generic analysis for each \$50M of dollars required for contributions of various kinds.

APPENDICES

Appendix I – William Osler Backgrounder
Appendix II – Trillium Health Partners Backgrounder
Appendix III – Region of Peel Resolution 2021-1131
Appendix IV – Environmental Scan of Ontario Municipal Contributions to Local Share
Appendix V – Headwaters Health Care Backgrounder
Appendix VI – AMO's Draft Resolution re Hospitals

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