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REPORT
Meeting Date:2022-03-10
Regional Council

REPORT TITLE: **Interim Financial Incentive Program for New Long-Term Care Homes and Hospice Development in Peel**

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

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RECOMMENDATION

That the Interim Financial Incentive Program Framework attached as Appendix II to the report of the Chief Financial Officer and Commissioner of Corporate Services, listed on the March 10, 2022 Regional Council agenda titled "Interim Financial Incentive Program for New Long-Term Care Homes and Hospice Development in Peel", be approved;

And further, that a new reserve titled "DC Financial Incentive Reserve" be established to provide funding for grant-in-lieu of development charges for eligible developments;

And further, that an initial transfer from the Tax Rate Stabilization Reserve to the DC Financial Incentive Reserve in the amount of $4 million be approved to provide 2022 funding, with future contributions of a similar amount reviewed and funded as a tax pressure in the Region's annual budget process;

And further, that the Region's advocacy to the province include proposed legislation changes which could provide health care developments such as Long-Term Care Homes and Hospice units with statutory development charge exemptions;

And further, that the updated Development Charge Interest Rate Policy attached as Appendix I to the report of the Chief Financial Officer and Commissioner of Corporate Services, listed on the March 10, 2022 Regional Council agenda titled "Interim Financial Incentive Program for New Long-Term Care Homes and Hospice Development in Peel", be approved.

REPORT HIGHLIGHTS

- The province amended the *Development Charges Act, 1997* (DC Act) in 2020 to provide for deferral of development charge (DC) for Long-Term Care Homes (LTC) and Hospice units. Council approved the deferral interest rate of zero per cent to provide additional support.
- COVID-19 has heightened the senior care needs in Peel Region. Staff received a few requests for development charges relief in relation to new development projects, most notably in scale the Trillium Health Partners development application.
- The Region and the local municipalities have been working together exploring financial tools to support LTC and Hospice developments in Peel while being mindful of financial sustainability.
- The Region's existing DC By-law came into force a year ago and would not be up for renewal until 2025.

Interim Financial Incentive Program for New Long-Term Care Homes and Hospice Development in Peel

- Staff recommend an interim Financial Incentive Program Framework that would provide extended DC deferral and grant-in-lieu of development charges to help support eligible LTC and Hospice developments.
- Applications for grants will only be available for a not-for-profit organization.
- Only the DC portion payable that is not funded by Federal or Provincial funding will be eligible.
- Currently the Region has a capital infrastructure deficit of $2 billion over the next 20 years and holds approximately $1.2 billion in DC debt to be serviced by future DC collections.
- Any additional financial incentives will need to be funded from property taxes; the estimated averaged annual cost is projected in the order of $3 - $5 million.
- A transfer of $4 million from the Tax Rate Stabilization Reserve will fund 2022, however the proposed 2023 budget will include a tax pressure of around $4m to sustain this program until the DC by-law is reviewed in 2025.
- The health care system is primarily a provincial responsibility to be funded through income taxes, however, it has become highly suggestive that municipal contribution funded from property taxes should be a mandatory measure.
- The recommended policy framework is an interim measure to support post-COVID service needs and to help urgently needed projects to maintain critical path on project construction.
- Advocacy efforts should continue for stimulus capital funding as well as COVID-relief operating funding that could provide direct and targeted financial relief.
- Further advocacy opportunities to the province may include proposed changes to DC Act legislation which would include LTC and hospice units as statutory DC exemptions. Regional staff have been continuing the collaboration with local municipalities' staff to implement the DC Interest Rate Policy and to enhance the development charges collection processes.

DISCUSSION

1. Background

Development charge is a primary revenue source used to fund capital projects required to meet the increased needs for services resulting from growth and development. Staff have been reviewing DC policies periodically to ensure "growth pays for growth" and to support financial sustainability. These ongoing efforts have been undertaken in consultation with local municipalities' staff to promote policy harmonization when appropriate. This report presents findings related to DC By-law administration for Council's considerations and direction.

2. Findings

a) DC Relief

i) Existing DC Policy Related to DC Relief

The DC Act provides statutory DC exemption to buildings or structures owned by and used for the purposes of any municipality, local board, Board of Education.

The Region's DC By-law provides exemptions to hospitals, and agricultural societies. In addition, an annual operating budget of $500,000 has been established to fund partial grant-in-lieu of development charges for building space owned by a religious organization for the conduct of group worship.

The amendments to the *Development Charges Act, 1997* made by Schedule 3 of Bill 108 provide for the deferral of development charges for:

- Rental housing development that is not non-profit housing development;
- Institutional development, such as a long-term care home, a retirement home, or a hospice;
- Non-profit housing development.

LTC and hospice projects are eligible for DC deferral where the development charges would be paid in six annual equal instalments, and the first instalment payment would be deferred from building permit to building occupancy time. Council approved, in July 2020, the DC deferral interest rate of zero per cent to provide additional support. As a result, deferred DC payments associated with LTC and Hospice projects are not subject to interest charge.

ii) Emerging Requests for DC Exemption

There have been a number of requests for development charges relief in relation to new developments, some are related to projects of facility development for health services and housing.

COVID-19 has highlighted the housing and homelessness challenges and senior care needs in Ontario including Peel Region. The Region of Peel is a critical partner in Ontario's COVID-19 response. While the Region is advocating for sustainable and predictable funding from senior levels government to ensure Peel's health services needs are met, staff is continuing to explore solutions to address those challenges with a focus on short and medium-term visions.

As a Housing Service Manager in Peel Region, the Region plays a leadership role in addressing housing initiatives in partnership with the development community, private service providers and local municipalities. Staff is continuing to assess existing measurers and explore additional tools to support housing services and community needs in Peel. This report does not deal with potential DC grants or exemptions for social and affordable housing. Staff continue to work on housing initiatives, to assess appropriateness of potential financial relief policies and financial strategies for housing purposes and will report back separately.

Measures related to development charges for new development projects for LTC and Hospice are discussed herein.

iii) LTC and Hospice

Long-term care homes provide accommodation to eligible Ontarians that require the availability of 24/7 nursing care and frequent assistance with daily activities. Long-Term care homes can be for-profit, not-for-profit or municipal organizations which are governed by the *Long-Term Care Homes Act, 2007*. LTC homes must be licensed by the Ministry of Long-Term Care. Hospice facilities provide key services in Ontario's health care system, including providing residents with high quality palliative care outside of hospitals.

As mentioned in the Region's January 1, 2021 staff report "Update on Supporting Seniors in Peel", the Region is experiencing a demographic shift much like other jurisdictions across Ontario, where seniors are the fastest growing age group in the population. By 2041, the number of seniors in Peel is expected to grow to 415,000 which is an increase of 134 per cent from 2014. As a result of this shift in population wait times for LTC beds have substantially increased in Peel and in the province as a whole. Studies also suggest that wait time for LTC placement is also a major reason contributing to the "hallway health care" issue (i.e. patients receiving health care in the hallways of our hospitals), which as a result has overwhelmed our hospitals in Peel and the province.

The Ontario Government has committed to increase its investment in LTC homes and hospices. The province has pledged to build 30,000 new long-term care beds over the 10 years, expanding on its existing commitment to create 15,000 beds by 2023-2024. In October 2021 the Province announced that it will invest up to $23 million in hospice residences across the province, which is in addition to the province's annual investment of over $74 million in palliative care.

While the long-term care wait list remains considerable in Peel Region, the COVID-19 pandemic has further highlighted the need for safe, enhanced and innovative accommodations for Peel senior residents.

<u>Treatment of DCs for LTC and Hospice</u>

While LTC homes and hospices may provide services similar to those at a hospital, LTC homes and hospices are not exempt from DCs according to the Act. How a municipality treats LTCs and hospices in terms of DC collection can vary depending on how it is stated in each individual DC by-law. Some of the different methods are summarized below:

1. *DC per Apartment Unit*
   This method is currently the method used in the Region of Peel's current DC by-law. What this means is a LTC or hospice unit is treated the same as a regular small apartment unit.

2. *DC per Special Care Unit*
   Some municipal DC by-laws have a special care unit charge for LTC and hospice units which are typically lower than small unit DC rates.

3. *DC per Institutional Gross Floor Area*
   Some municipal DC by-laws choose to treat LTC and hospice units as institutional development and the DC paid is calculated on a per gross floor area basis.

4. *DC Exemption or Partial Exemption*
   The City of Hamilton and the Region of Niagara provide 50 per cent DC exemptions to certain types of long term or hospice units. The City of Ottawa may exempt DCs where specifically authorized by Council resolution. The City of Toronto offers DC deferral provided that units maintain the qualified usage.

5. *Financial Incentive Program*
   Council's authority to exempt development charges determined in accordance with the Region's DC By-law or to provide any incentive is limited in accordance with section 106 of the *Municipal Act, 2001* and the DC Act, which prohibits the provision of financial relief to individual for-profit organizations. However, financial relief or grants may be provided to a class of development where the Region creates a program that provides such relief or grant on the same terms to all who all wish to take advantage of the benefits of said program. The Region is taking this holistic approach to put a policy driven grant program in place rather than dealing with individual request on ad-hoc basis.

<u>Interim Financial Incentives Program for LTC and Hospice</u>

One of the most effective ways to bolster long-term care and palliative services is to support development of new care units. The Region's existing DC By-law came into force in January 2021. A DC by-law change prior to by-law expiry (i.e. January 2026) requires the Region to undertake a new DC Background Study and go through a new by-law enactment process including a statutory public consultation. Staff plan to assess alternative DC treatment for LTC and Hospice development projects as part of the Region's next DC By-law review.

In the interim, Staff recommend an interim financial incentive pilot program to provide future grant-in-lieu of development charges for eligible not-for-profit long-term care homes and hospice facilities. The general terms and conditions of the recommended framework are included as Appendix II and are summarized below:

- Applications for grants will only be available to a not-for-profit organization
- A DC deferral agreement shall be entered between the Region and the landowner with terms and conditions satisfactory to the Chief Financial Officer and Commissioner of Corporate Services
- The deferral interest rate is recommended to be zero per cent as set out in the Region's existing Development Charge Interest Rate Policy
- An extended DC deferral can be entertained to ensure sufficient funds are accumulated in the Region's DC Financial Incentive Reserve to provide grant payment
- Only the portion of DC payable that is not funded by Federal or Provincial funding can be eligible
- Maximum grant after Federal and Provincial funding amounts up to 50 per cent of the eligible DC payable (up to 100 per cent for hospice developments as well as for an eligible public not-for-profit organization under hospitals in Peel such as the Trillium Health Partners or the William Osler Health System)

- The program application is open to those LTC and Hospice projects that currently have an existing DC deferral agreement with the Region

The health care system is primarily a provincial responsibility to be funded through income taxes. Municipalities however have been confronted with various requests for financial support; it has become highly suggestive that municipal contribution funded from property taxes should be a mandatory measure. One of the key policy considerations in developing the general terms of this financial incentive program is to identify an approach that strikes a balance between providing a sound public benefit policy and utilizing scarce public funding in an effective and efficient way.

The proposed interim financial incentive program may help bolster LTC and Hospice developments in Peel by offering a financial support that can potentially fill gaps when provincial funding is insufficient. It should be noted that the recommended policy framework is an interim measure to support post-COVID service needs while prioritizing development projects delivered by those publicly funded non-for-profit organizations operating within a hospital in Peel to help maintain critical path on project construction for those urgently needed projects. These collective efforts generate value for the public and they promote the Region's Term of Council priority of "Enhance Senior's Supports and Services" and align with Provincial goals of modernizing and transforming health care services with a focus on integrated care.

Advocacy

With changes to the DC Act in 2020, the province introduced DC deferral and instalment payments for LTC and hospice developments as opposed to providing DC exemption through the DC Act. While the Region and the local municipalities have been working together to identify viable tools to support the new developments of LTC and hospices in Peel Region, Municipalities are currently limited in how to fund development that is exempt outside from the DC Act. Staff recommend that further advocacy opportunities to the province may include proposed changes to DC Act legislation which could include health care developments such as LTC and hospice units as statutory DC exemptions. Advocacy efforts should continue for stimulus capital funding as well as COVID-relief operating funding that could provide direct and targeted financial relief.

b) DC Interest Rate Policy – DC Freeze

Regional staff are recommending a small housekeeping change to the DC interest rate policy which can be found as Appendix I. The recommended change at the Region would be consistent with the local municipalities' practice. This approach provides the development community with sufficient time to prepare their payment after the invoice issuance which in turn would help mitigate risks of DC complaints.

In response to the amendments to the DC Act, Council approved the Development Charge Interest Rate Policy and associated By-law 21-2020 in July 2020. Local municipalities have since implemented their respective DC interest rate policies that are in harmony with the Regional policy. Regional staff have been continuing the collaboration with local municipalities' staff to implement the DC Interest Rate Policy and to enhance the development charges collection processes.

The DC Act and the Region's existing DC Interest Rate Policy provides that for those developments that are eligible for DC freeze, the interest may be accrued from the date of the site plan or rezoning application to the date when the DC is payable. In order to prevent the need to recalculate interest and simplify the process, Regional staff recommend the introduction of a "holding period" for administrative purposes. The length of the holding period is recommended to be 10 business days or as authorized by the Chief Financial Officer and Commissioner of Corporate Services for a period of time matching the local municipality's program.

FINANCIAL IMPLICATIONS

COVID-19 has heightened community service needs associated with health services, mental health, the housing and homelessness challenges and senior care in Ontario including Peel Region. The Region has been on the frontlines of the COVID-19 crisis. Since the Regional emergency was declared in March 2020, staff have focused on protecting the health of residents and promoting the economic well-being of the people and businesses that make up our community.

Financial incentive requests from private developers and service providers could be in a range of DC relief, tax relief, fees waiver, and etc. Discretionary DC relief/exemption beyond what is currently available under the Region's existing DC by-laws will need to be made up through a non-DC funding source. Generally speaking, financial incentives regardless of types will need to be funded from property taxes or fundings from senior level of governments. Therefore, there are limitations as to the extent to which a municipality is able to provide tax funded incentives. Further discussions on some financial risks are outlined in the "Risk Consideration" section that follows.

As of the time of writing, approximately 1,500 new beds by not-for-profit organizations in Peel Region have been announced by the Province. They include projects(new beds) such as:

- 632 new beds Trillium Health Partners - Mississauga
- 320 new beds Mississauga Seniors Care Partnership - Mississauga
- 192 new beds Indus Community Services - Brampton
- 160 new beds Golden Age Village for the Elderly – Brampton
- 160 new beds Guru Nanak - Brampton
- 43 new beds Ivan Franko Homes Village – Mississauga

The cost for the interim program is projected to be approximately $25 million based on the prevailing DC rate assuming 1,500 eligible units according to the announcements. Final costs could vary which would be driven primarily by actual number of beds being built and future DC rates. Since these developments are eligible for deferred DC payments in six equal instalments with the first instalment being payable at the first building occupancy, the averaged annual cost of the program is estimated at approximately $4 million. To help smooth out the tax implication, staff is recommending following program funding and grant payment processes:

- A DC Financial Incentive Reserve be established with an initial transfer from the Tax Rate Stabilization Reserve in the amount of $4 million, to provide 2022 funding, with

future contributions of a similar amount reviewed and funded as a tax pressure in the Region's annual budget process;
- Program funding and financial risks will be managed and reported as a part of the Region's corporate reserve management;
- DC will continue to be deferred at zero per cent interest until all grant payments are made provided that the development continues to meet the eligibility criterion;
- Payment of the grant would not be administered until after at lease the first occupancy of the building as defined under the section 26.1 of the DC Act*;* and,
- Grant payment may be made through six payments following the instalment payment schedule set out in the DC deferral agreement

RISK CONSIDERATIONS

Similar to other municipalities, the Region is facing budget pressures. For example, there is a forecasted $2 billion shortfall over the next 20 years in the Tax Supported Capital Reserve compared to the forecasted capital expenditures. The onset of the COVID-19 pandemic and associated measures triggered significant changes in an already rapidly changing economic environment including changes in the commodity markets. The rising prices on construction costs are expected to impact Regional capital projects costs in the short to medium-term which would further widen the funding gap. The Region also currently carries approximately $1.2 billion in outstanding DC debt due to significantly lower than anticipated DC revenues over a number of years.

Given the funding constraints, key policy questions to be addressed include:
- What is the intended depth, breadth and length of a financial incentive program;
- How to ensure that scarce tax funding be utilized to address the most urgent and deepest issues in an efficient and effective way; and,
- What is the Region's financial affordability.

The Region has adopted a financial risk management approach for financial policy decisions that promotes the Region's financial sustainability priority of maximizing value for Peel taxpayers by optimizing fund utilization collectively and holistically. The long-term vision of those collective efforts is a comprehensive approach to support service needs and priorities that incorporates stacking of incentives from all levels of government including our local municipalities. The Region of Peel, in partnership with its local municipalities, is continuing to strive to explore available tools to meaningfully address service needs and support community for life while giving considerations to the Region's financial condition and sustainability.

CONCLUSION

There have been a few requests for development charges relief in relation to new developments in Peel Region. Staff is recommending an interim Financial Incentive Framework that would provide future grant-in-lieu of development charges for eligible properties to support advancing Long-Term Care Homes and Hospice development in Peel. A comprehensive Development Charge (DC) policy review will be included as a part of the Region's next DC By-law review.

Interim Financial Incentive Program for New Long-Term Care Homes and Hospice Development in Peel

APPENDICES

Appendix I - Updated Development Charge Interest Rate Policy
Appendix II – Proposed Interim Financial Incentive Program Framework for Long-Term Care Homes and Hospice

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