Grey County

Committee Agenda

Long Term Care Redevelopment Planning Task Force

March 17, 2022 -1:00 PM

Electronic Meeting

1. **Call to Order**
2. **Declaration of Interest**
3. **Report**
    a. CAOR-RP-02-22 Financial Impact Assessment Rockwood Terrace Project

    That Report CAOR-RP-02-22 Financial Impact Assessment Rockwood Terrace Project be received; and

    That the taskforce provide direction on the scope and cost of future work to be undertaken; and

    That the taskforce provide direction on the preferred procurement option as required.

4. **Other Business**
5. **Next Meeting Date**

    To be determined

6. **Adjournment**

Taskforce Report

To:	Chair Burley and Members of the Long Term Care Redevelopment Taskforce
Committee Date:	March 17, 2022
Subject / Report No:	CAOR-RP-02-22
Title:	Financial Impact Assessment Rockwood Terrace Project
Prepared by:	Kim Wingrove, Mary Lou Spicer
Reviewed by:	
Lower Tier(s) Affected:	All
Status:	

Recommendation

1. **That Report CAOR-RP-02-22 Financial Impact Assessment Rockwood Terrace Project be received; and**
2. **That the taskforce provide direction on the scope and cost of future work to be undertaken; and**
3. **That the taskforce provide direction on the preferred procurement option as required.**

Executive Summary

On March 3, 2022, the Long-Term Care (LTC) Redevelopment Taskforce received presentations from consultants Colliers and Kasian Architects. The consultants were seeking direction on:

- the scope of work moving forward, i.e., LTC vs. LTC/village square/assisted living vs. full campus of care including independent living;
- approval to proceed based on the cost estimates provided; and
- direction regarding the procurement options to be used, i.e., continue with design, bid, build or move the project forward as a P3.

Project costing has risen significantly since the August 2021 estimates. Staff committed to bringing forward this report to provide an assessment of the financial and operational impacts of the new information.

Background and Discussion

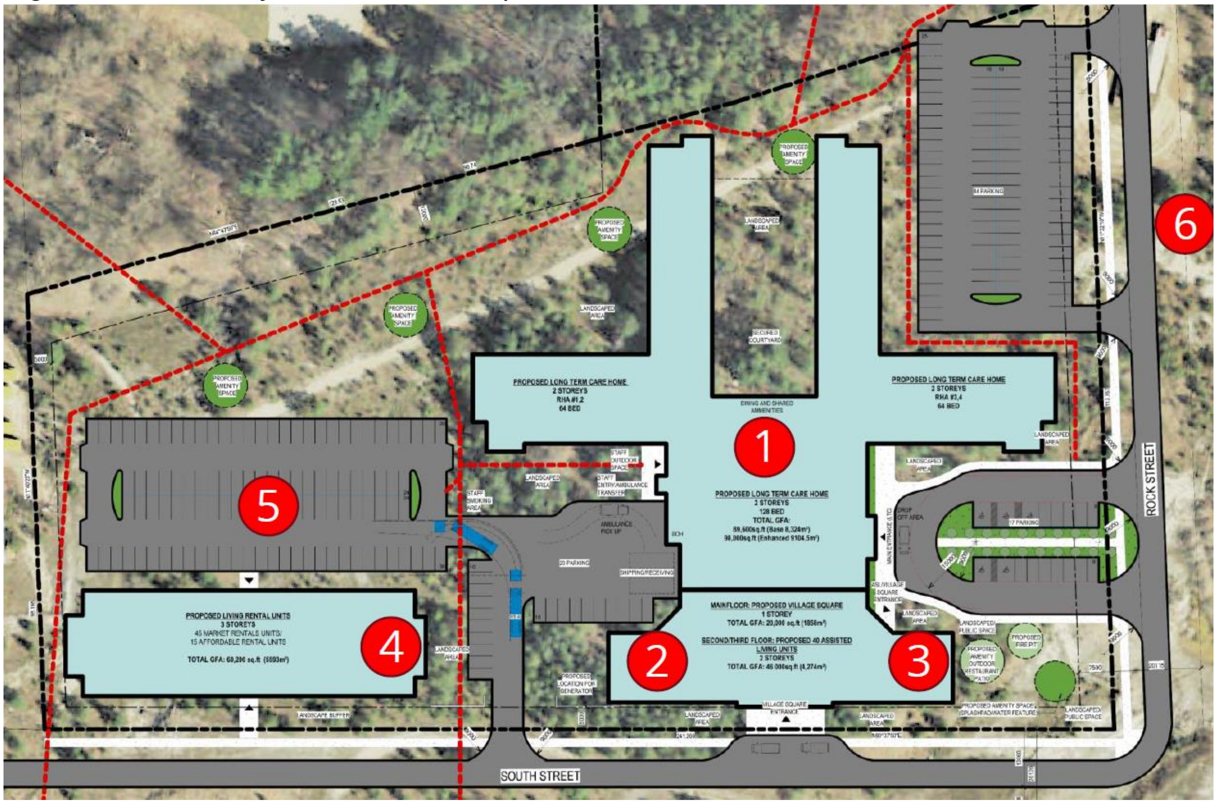
In August 2021, Council received report FR-CW-22-21 which outlined considerations related to the County's financial health, provided estimates of the costs and long-term financial implications of redevelopment projects at Rockwood Terrace. As part of their project management role, Colliers has obtained a Class D estimate from a cost consultant of the cost to construct the long-term care home. The consultant's report cautions a margin of 20-30% either plus or minus could be expected as more detailed information is obtained. Table 1 compares the August 2021 estimate to the present values.

Table 1: Change in Project Costs, 2021 to present

Rockwood Terrace Capital Project Component	**2021 Estimate**	**March 2022 Estimate**	**% Change**
128 bed LTC	$56,700,000	$75,287,990	33%

Since Council directed staff to proceed with the development of a campus of care in Durham, significant work has gone into developing a site plan and facility design that would best meet requirements. At the March 3, 2022, meeting, the redevelopment taskforce was presented with an overview of the proposed site plan. The design (shown below as Figure 1) has a central building with three components. The village square is ground floor commercial space for a café etc., above that is a 40-bed assisted living facility and the two-story, 128 bed long term care home adjoins the other two components. The 60-unit independent living seniors' apartment is an entirely separate building.

Figure 1: Preliminary Site Plan of Campus of Care



Under a separate contract, Colliers development specialists undertook an analysis of how the entire project could be phased, what the total cost would be of all components and what interest there would be from the private sector to take on the construction, financing, building operations and maintenance.

Colliers presented three options:

1. Build only the LTC (building 1)
2. Build the LTC, village square and assisted living (buildings 2 and 3)
3. Build the entire campus of care including the independent living seniors' apartments (buildings 1, 2, 3 and 4)

Table 2: Capital Costing of Options

	Option 1: Full Campus of Care	Option 2: LTC, ASL and Village Square	Option 3: LTC Only
Total Project Cost	$139,532,550	$108,498,050	$75,287,986
Less: Reserve	($5,073,249)	($5,073,249)	($5,073,249)
Less: Provincial Redevelopment grant	($3,743,488)	($3,743,488)	($3,743,488)
Less: DC Charges Current Study LTC	($5,516,895)	($5,516,895)	($5,516,895)
Less: DC Charges Next Study LTC	($1,368,105)	($1,368,105)	($1,368,105)
Less: Development Charges Independent Living	($4,335,000)	$0	$0
Principal Loan Amount	$119,495,813	$92,796,313	$59,586,249
Annual Repayment (assuming 4% interest with 25-year term)	$7,649,162	$5,940,074	$3,814,233
Annual Construction Funding Subsidy	($1,005,882)	($1,005,882	($1,005,882
Existing levy requirement	($1,361,000)	($1,361,000)	($1,361,000)
Increase required	$5,282,280	$3,573,192	$1,447,351

Determining the Preferred Project Option

In order to decide on the scope of work to be undertaken, the taskforce should consider the County’s borrowing capacity, other forecast spending/levy demands, the impact of levy increases on member municipalities and the public, the quality and outcome of the project.

County Borrowing Limits

The County Debt Management Policy endorsed by County Council April 23, 2020, determined that the County’s annual debt repayment should not exceed 10% of its own source revenue, with this threshold also including any amounts borrowed internally. Based upon the 2021 Annual Repayment Limit (as the 2022 document has not been released by the province), if the campus of care option is selected and the annual repayment totals $7,649,162, then the 10% threshold would have $89,177 remaining. To put this in context, with $89,177 remaining in the 10% threshold, an additional borrowing of $1.4 million would be possible.

The Municipal Act, 2001 as amended, provides the authority, and imposes restrictions regarding a municipality’s ability to issue debt such that the annual principal and interest payments do not exceed 25% of own source revenue. The 2021 Annual Repayment Limit estimated annual repayment ceiling was $18,518,534. It should be noted that as a municipality’s debt obligations increase, the province will note an escalating level of risk in the annual Financial Information Report.

County Planned Investments in Future Capital Projects

The levy requirement for capital projects included in the 2022-2031 10 Year Capital Forecast totals $245,750,800. 70% of this amount is to fund Transportation Services projects followed by 23% for Human Services capital projects.

Costing in the forecast does not reflect the higher-than-normal inflationary increases that have been occurring since the document was presented. The largest component of the Transportation Services capital requirement is for the road and structure construction, resurfacing and minor capital program that requires $157,283,400 in levy funding over the course of the forecast.

Staff strive to ensure that appropriate reserve contributions are made annually to fund future levy requirements without spikes in the levy and to avoid the need for debentures to fund projects. Given recent significant cost increases, the 10-year capital plan will need substantial review this year. Projects that cannot be deferred (for health and safety reasons) or scaled back, may require the County to borrow if reserve balances are insufficient. Furthermore, an increase to annual reserve contributions will be needed, also impacting levy requirements.

Finally, in addition to the impact of whatever option is chosen, the County has already committed to annual levy contributions of 1% for affordable housing, 1.21% for asset management and 0.75% for health sector funding.

Consideration of the County Levy

In the 2022 Budget, the total county operating and capital budget was $186.6 million. To fund those requirements, the County was required to raise $65.4 million through the levy. For 2022, a 1% levy increase equals $635,000. To maintain service levels and meet the COLA clauses in our collective agreements, the County's annual levy increase is expected to be close to the annual rate of inflation and for the past several years this has been less than 3%. Where there is new assessment growth, this can help keep the County increase below the rate of inflation, fund new or enhanced programs or services or offset funding reductions from the province. It is generally accepted that property owner's ability to absorb property tax increases is limited. If the County raises its levy requirements significantly, the member municipalities will have less room to raise the funds they need for their own operations.

Given the values in Table 2, the percentage impact of each option is as follows:

Option 1: Full Campus of Care – 8.29% levy increase

Option 2: LTC, ASL and VS – 5.61% levy increase

Option 3: LTC only – 2.28% levy increase

A debenture term of 25 years has been utilized in each of the options; this aligns with the timing of construction subsidy provided by the province. If the first debenture payment is made in 2026, an increase in the existing $1,361,000 transfer to reserve could be phased in beginning in 2023. The County will also incur costs for construction financing until the project is completed and debentured; these costs have not been factored in the analysis.

Possible Project Scope and Outcomes

Under all options, costing includes the servicing of the entire western side of the County's property and extending the road network to surround it. Road works will require an accelerated timeline for the County to gain access to the South Street extension property leased to DSPI until 2030. The property earmarked for future development would remain unserviced; however, services will be extended down Rock Street to service the western side of the County's property and therefore services will be adjacent to the western portion of the future development lands.

Option 1: The full campus of care provides for a separate 60-unit independent living, seniors' apartment. Fifteen of the units would be affordable (80% or less of average market rent) with rent for the remainder based on analysis of the market. This would address a need in the area and allow Grey County to redevelop or sell the current affordable housing facility in Durham. Colliers' analysis shows that adding the independent living further reduces the operating deficit position of the project, but not the overall cost to complete the project. This option had the most interest from the private sector as a P3 project.

Option 2: Completing the assisted living and village square components along with the LTC adds marginally to the cost of the project but provides a lot of value. Assisted living beds are in critically short supply. The commercial space in the village square would be welcomed by assisted living residents, LTC residents and their families as well as staff would appreciate the village square as a location to get food, drink, or other retail opportunities. This option would require the least modifications to the current design. Colliers' analysis shows that adding the assisted living (ASL) reduces the operating deficit position of the project but not the overall project cost to complete. It should be noted that costing for ASL is based on industry standards which may not be Grey County's experience. This option could be undertaken as a P3.

Option 3: Grey County is committed to providing the best quality of life to our long-term care residents. Under the terms of our operating license with the province, we are required to redevelop the long-term care facility by 2025. Earlier analysis demonstrated that increasing the number of beds from 100 to 128 was beneficial both financially and operationally. Colliers' analysis of the net operating position reflects an annual deficit of about $1.7M, slightly less than the $2M in 2022. The current design could be modified to build only the LTC. The scale of option 3 is not sufficient to attract interest from the private sector in a P3 model.

Current Procurement Model

Colliers Project Leaders were contracted to deliver the long-term care redevelopment project on CCDC2 Stipulated Price Contract basis. This means that as the design work for the home becomes progressively more detailed, more precise cost estimates are created and presented to the County for approval. Ultimately the project construction will be tendered for a known price with understood escalation thresholds.

P3 Model Considerations

The proposed public-private partnership model (P3) provides for one or more private-sector entities to contract with the County to design, construct, operate, and maintain a campus of care. The contract(s) would last for a significant period of time (25-30 years). In return for agreeing to leave the County with the campus of care asset in an agreed-upon condition at the end of the contract, the private side would take on some or all of the risks and potential rewards of building and operating the facilities. At the end of the contract, the County could expect to take control of a somewhat depreciated asset in a condition appropriate to its age at that time.

The core of the P3 approach is the legally enforceable contracts between the public entity and the private sector that define each side's obligations. More than one private entity may be involved on the private-sector side, depending on the nature of the bids submitted in response to a solicitation, and their roles in the design and construction of the facility, the operation and maintenance of the constructed facility, and the financing of all of the above. The precise blend of private-sector entities would depend on the nature of the P3 bids being solicited by the County and the response from the marketplace. For simplicity, the whole collection of private entities will be referred to simply as the "private partner".

A prospective private partner can be expected to base their bids on the financial return they intend to achieve over the life of the P3 contract. Those bids would likely aim to provide the County with some certainty over costs and capital asset status, with the private partner taking on the risks of losses and the rewards of profits from their operations. The specific nature of the risk/reward relationship will depend on the specifics of each bid made and the County's parameters for bids to be considered.

In light of these principles, staff have identified several considerations they recommend the Task Force consider in determining whether a P3 approach should be followed for a campus of care. They fit into three major topic areas:

1. Establishment of the P3 – intended relationships and legal structuring
2. Implementation of the P3 – management of contract and public expectations
3. Scope of financial certainty over the life of the P3 – operational costs and debt

Considerations re: establishment of a P3

The P3 will be a complex contractual relationship that will involve many aspects of the campus of care, both as an asset as well as an operational entity. These relationships will be defined by the terms established during the procurement of the private partner, and will result from a combination of the following:

1. The terms established by the County in any solicitation document (e.g., an RFP)
2. The terms of the bids submitted by proponents in response to that solicitation
3. The negotiation of final terms between the County and a selected bidder (if any)

In order to come to appropriate contract terms with the private partner, a number of considerations are recommended to consider:

1. Operational
    a. What is the role of the private partner in delivering residential housing, care services, and related services to be offered at the campus of care?

    b. What is the role of the County in delivering those services?

c. What operational considerations and impacts exist for the County?

d. How much flexibility would the County want the P3 to provide to allow the County to respond to issues that emerge over the life of the P3, such as issues of resident or public concern?

2. Financial
    a. What level of financial certainty does the County expect the P3 to deliver?

    b. What level of financial risk would the private side be expected to bear? How will the impact of major changes in financial considerations (e.g., shifts in interest rates, material costs, energy costs) be handled?

    c. What types of security would the County be asked to provide for its financial obligations (e.g., mortgages, liens, guarantees)? What would the impact of these be if the secured party exercised their rights under that security? How would they impact the County's finances as a whole?

    d. What incentives would the County be willing to provide to a P3 proponent (where they would be permitted under section 110 of the Municipal Act)?

3. Negotiation and documentation costs
    a. The negotiation of a P3 will be complex and may require the assistance of further outside consultants.

    b. Similarly, the assistance of outside legal counsel specializing in P3 project documentation will be strongly recommended in order to achieve final agreements that will provide as much certainty for the County as possible.

These considerations should form part of any solicitation the County would undertake to identify possible P3 arrangements.

The response to such a solicitation would be impacted by the level of financial certainty and operational control that the County expresses that wants to achieve in a P3, since it is reasonable to expect that private entities would only submit bids that they expect would be profitable to them.

Considerations re: implementation of a P3

Since a P3 is ultimately a contractual relationship, implementation of the contract should be considered carefully given the significant value of the contract to both parties, as well as the expected length of its term.

Under a P3 contact, each party would be legally expected to perform its responsibilities throughout the contract's lifespan (e.g., the private partner delivers the services, the County pays for those services). Given that the contract would be expected to be for a term of 25-30 years, it is quite possible that a party to the P3 may eventually be unable or unwilling to carry out its responsibilities at some time during the term. Risks would exist for the County if the private partner became unable or unwilling to carry out its contractual obligations to the satisfaction of the County and at the agreed-upon price.

There may be many reasons why the private partner would become unable or unwilling to carry out its obligations:

1. The County's expectations for service to be delivered may exceed the private partner's expectations of the service it must deliver
2. The private partner may seek to reduce its costs by reducing service delivery
3. The private party may cease operations, either voluntarily or involuntarily, either for business reasons or due to external issues such as insolvency or other actions by its creditors

Conversely, the private party may feel that the County is not satisfying its contractual obligations.

In either case, if a party to the P3 is not satisfied with the conduct of another party, and the matter could not be resolved through simple discussion, then legal dispute mechanisms would be engaged. These could be as simple as mandated negotiation, or as complex as formal legal arbitration or litigation proceedings. These would come with financial and staff time costs, as well the possibility of negative impacts on the relationships with the residents and users of the campus of care, as well as the general public as a whole, possibly for a protracted period of time as a dispute is resolved. Costs for arbitration or litigation would likely be significant, particularly if the impact of the dispute is viewed by at least one party as carrying a large cost they wish to avoid.

In extreme cases, the private partner may become unable to operate legally or functionally. These may arise due to a collapse of the business and may quite possibly arise where the private entity's creditors have taken legal action against it. Although the County may still have enforceable legal rights against the private partner in these situations, they may be of no benefit if the private partner is simply unable to fulfill them nor able to pay any judgment awarding contract damages to the County.

Should such a situation arise, there would likely be immediate operational issues for the residents and users of the campus of care that would need to be addressed, in addition to longer-term financial impacts due to the failure of the P3 entity. The operational issues would very likely require the County to step in and assume control of some or all of the facilities on short notice. If that occurred, it may occur in a situation of significant resident, user, and public concerns over the facility, and would require appropriate management as an acute issue.

Considerations re: financial certainty

Overarching the first two considerations is the issue of financial certainty. A P3 has been suggested to provide cost certainty for the County in respect of construction and operation of the campus of care, as well as a reduction in the scope of borrowing the County would need to undertake.

Any cost certainty offered by a P3 would be grounded in two important factors:

1. The negotiation of contract terms for the P3 that provide for the desired level of cost certainty

2. The successful long-term implementation of the P3 agreement and those terms

Current world events suggest that there may be a significant amount of uncertainty in financial and resource markets in the coming years. That uncertainty may influence the costs of facility construction and operation over the lifespan of a P3.

There will be a tension in the negotiation process in attempting to provide cost certainty in the present environment. Careful thought should be given to what levels of financial certainty can be offered by prospective private partners, and whether any proposal for cost certainty will be sustainable over the lifespan of the P3 and not lead to disputes between the County and the private partner that would be costly and time-consuming to resolve.

Similarly, any P3 proposal should be carefully analyzed to understand the impact of any security taking or other debt-related aspects on the County's ability to own and control the campus of care assets over the long term, as well as their impact on the County's overall debt position. It is possible that a lender involved in a P3 may seek security over some of the P3 assets (e.g., a mortgage or property lien) which the County may not want to grant. If that occurred, the County may be called on to directly guarantee the borrowing of the private entity; provisions of such guarantees may impact the County's overall borrowing capacity.

Potential Revenue Sources to Offset Costs

The County owns a total of 32 acres of land south of the existing Rockwood Terrace. The preliminary design for the full campus of care would take up approximately 10 acres of the County-owned land leaving approximately 22 acres of land that could support future development opportunities. Based on recent vacant land sales within the settlement area of Durham, the per acre property values are approximately $35,000 to $45,000 an acre. Even assuming that the vacant lands could be sold for $50,000 an acre, the 22 acres could be worth approximately $1.1 million. To maximize the land value, it is recommended that the zoning on the lands be amended to a mixed-use zone to allow for greater flexibility on what could be developed on the subject lands in the future. Further investigations on the property would also be required in order to determine the overall suitability of the lands to accommodate future development and to get the lands as 'shovel-ready' as possible. Noise attenuation would be required to ensure any separation/buffer between the future development and the existing low-volume gravel pit to the south.

There is also the possibility to divide up portions of the land through a plan of subdivision process and to sell portions of the land for different types of development opportunities. It is difficult to estimate what the actual revenue could be if all or a portion of the future development lands were sold. Further investigations would be required to understand the full revenue potential but at a minimum the 22 acres east of the future Rock Street extension could be worth approximately $1.1 million dollars based on recent vacant land sales in Durham.

Other potential revenue sources could be from the sale of the current County Housing building located on Queen Street South once the proposed Independent Living building has been constructed. The current assessed value of the property is $1.1 million. The property and building would need to be appraised at the time of disposition of this property. Based on the current policy however, any revenue from the disposition of County Housing lands would go towards the Affordable Housing Fund to help offset future Housing builds.

Another potential source of revenue would be from the disposition of the existing Rockwood Terrace building/lands once the new Rockwood Terrace has been constructed. Based on previous reviews of the current building, it would likely be too costly to renovate the existing building to another use and therefore any potential revenue would be in the land. There is approximately 2.5 acres of developable land should the existing building be demolished and therefore any potential revenue would be minimal.

If the independent living/seniors' apartments component of the campus is deferred, there may be funding programs in the future to assist with construction costs. The goal of the National Housing Strategy is to provide Canadians with access to affordable housing that meets their needs.

Legal and Legislated Requirements

Section 110 of the Municipal Act, 2001, provides municipalities with some flexibility to provide incentives to private sector entities when entering into agreements for the private sector entity to provide a municipal capital facility. These may include incentives that would be prohibited under the "bonusing rules" in section 106.

Financial and Resource Implications

The financial implications will be dependent upon the project option that is selected, the preferred procurement solution (design, build, bid or P3), refinement of costs as the current costing is based upon a Class D estimate with a margin of ± 20-30% as well as interest rates at the time the debenture is issued. If the campus of care option is undertaken, debt repayment costs would be close to the County's Debt Management Policy limit of 10% of own source revenue. This would limit the opportunity for 25 years to undertake further projects that require borrowing.

The current transfer to reserve of $1,361,000 is not sufficient to fund annual debt repayment costs and would require a levy increase ranging between $1.45 and $5.29 million depending on the option selected. The County is required to finance the project cost and in turn, the province will provide annual construction subsidy for 25 years. As a result, a debenture term of 25 years has been utilized to align with the timing of construction subsidy. The cost of interim construction financing until the project is debentured as well as potential sources of revenue from sale of land have not been reflected in this analysis.

The operating analysis of Independent and Assisted Living is based upon industry standards and may not be Grey County's experience.

Currently, the scope of work for our project manager (Colliers) includes oversight and management of projects at Durham and Markdale. This could be amended to cover a different scope of work if Option 1 or 2 is selected for Durham. The prime consultant's scope of work (Kasian) is for long term care only and will need to be adjusted to reflect an enhanced scope and additional costs.

Relevant Consultation

☒ Internal Director of Legal Services, Deputy CAO

☐ External (list)

Appendices and Attachments

FR-CW-22-21 Long Term Corporate Capital Overview