



# Task Force Report

<b>To:</b>	Chair Matrosovs and Members of Long Term Care Redevelopment Planning Task Force
<b>Committee Date:</b>	March 21, 2023
<b>Subject / Report No:</b>	FR-RP-07-23
<b>Title:</b>	Financial Impact Assessment Rockwood Terrace Project
<b>Prepared by:</b>	Mary Lou Spicer, Director of Finance
<b>Reviewed by:</b>	Kim Wingrove, Chief Administrative Officer
<b>Lower Tier(s) Affected:</b>	
<b>Status:</b>	Recommendation adopted by Committee as amended per Resolution CW55-23; Endorsed by County Council April 13, 2023, per Resolution CC29-23.

## Recommendation

1. **That report FR-RP-07-23 Financial Impact Assessment Rockwood Terrace Project be received; and**
2. **That staff be authorized to prepare such bylaws as may be necessary to apply to Infrastructure Ontario to borrow \$108 million dollars for the redevelopment of Rockwood Terrace.**

## Executive Summary

Based on updated project costing and after taking into consideration ministry funding, development charges and reserve contributions, it is expected that a \$108 million debt will be required to finance this project. Staff have discussed a loan application with Infrastructure Ontario, to proceed with the application being considered by the board, a borrowing by-law is required.

A construction loan will be accessed during the build and converted into a 25-year debenture when the project is completed in 2026. An increase to the levy will be required between 2024-2027 to fund an annual debenture payment that is estimated at \$7,210,300 less ministry funding of \$1,940,300 for a net levy impact of \$5,270,000 annually. The payment is based upon assuming a 25-year term at an interest rate of 4.5% and would result in \$72.2 million in interest payments over the term of the debt. Considering the County's current own source revenue, borrowing bylaw and debt repayment limit, the County has the ability to make additional annual loan payments of \$1,973,827. This equates to \$29.3 million in principal assuming an interest rate of 4.5%- and 25-year term.

## Background and Discussion

In March 2022, CAOR-RP-02-22 provided an update on redevelopment options based on presentations from consultants Colliers and Kasian Architects. At that time, the consultants received direction to proceed based on a scope of 128 long term care beds, 40 assisted living beds and a village square. The estimated cost at that time was \$108,498,050 excluding HST and was based upon a Class D estimate with a  $\pm$  of 20-30%. Updated costing has recently been received. In addition, this report provides an update on changes since the last report in Ministry funding, the anticipated borrowing amount and annual repayment costs.

## Changes in Ministry Funding

The Ministry released *Long-Term Care Home Capital Development Funding Policy, 2022* in November 2022 (attached at end of report).

There are three funding components as outlined in the 2022 Funding Policy:

1. Construction Funding Subsidy per diem (CFS, or CFS per diem), which includes:
  - a Base CFS for all eligible projects adjusted by home size and market segment
  - a fixed, time-limited CFS Top-Up, for all eligible projects that meet specific requirements, (part of which is convertible to a CFS Construction Grant for eligible non-profit homes)
2. Development Grant; and
3. Planning Grant, available to non-profit homes.

## Value of Funding Components for Grey County's 128 beds

Table 1 outlines the financial impact of the funding component and identifies whether components are received annually over the 25 term or provided as one time subsidy.

Component	Per Day	Annual	One-Time	Total over 25 years
Planning Grant (received in 2022)			\$250,000	\$250,000
<b>CFS Construction Grant</b>	<b>\$15.00</b>		<b>\$17,520,000</b>	<b>\$17,520,000</b>
<b>CFS Discount if take in 2023</b>			<b>(\$7,152,000)</b>	<b>(\$7,152,000)</b>
Base Construction Funding*	\$20.78	\$970,842		\$24,271,040
Medium Home*	\$ 0.75	\$35,040		\$876,000
<b>CFS Top Up*</b>	<b>\$20.00</b>	<b>\$934,400</b>		<b>\$23,360,000</b>
Development Grant (\$29,246/bed) **			\$3,743,488	\$3,743,488
<b>Total</b>		<b>\$1,940,282</b>	<b>\$14,361,488</b>	<b>\$62,868,528</b>

Highlighted funding for meeting Aug 31 deadline = \$33,728,000				
* begins at first resident occupancy				
** begins at substantial completion				

In order to receive the CFS top up, the Rockwood redevelopment project must meet several criteria, including the ability to start construction by August 31, 2023. This allows an operator of a non-profit home to convert up to a maximum of \$15 per bed of the Construction Fund Subsidy (CFS) top-up into a CFS Construction Grant. The advantage of doing so is the CFS grant is payable following the start of construction vs receiving when the project is completed. This reduces the amount required to borrow and associated construction loan interest; if the funding is taken at the start of construction, the Ministry provides at a discounted present value as shown in Table 2 below. The funds are discounted as there is a cost to the province in providing the funds up front instead of over 25 years. To access this funding, a Statement of Readiness application was submitted in December 2022 and the Ministry was advised in that application that Grey County wished to convert the maximum \$15 per bed into the CFS Construction Grant.

Table 2 CFS Construction Grant

Amount per bed converted from top-up	# beds	Amount if taken over 25 years	Amount if taken in 2023	Funding reduction if taken up front	Cost to borrow \$17,520,000 for 25 years	Advantage if taken in 2023
\$15.00	128	\$17,520,000	\$10,368,000	\$7,152,000	\$12,996,808	\$5,844,808

## Project Funding

Assumptions have been made on the cash flow required each year, funds available from levy, development charges or provincial funding and interest rates to calculate the estimated borrowing amount, construction loan interest etc. As further information is received, these numbers will change and be updated. Infrastructure Ontario's construction loan rate is currently 4.88% with borrowing rates for 25 years at 4.56% and 4.55% for 30 years. At this time, staff recommends a 25-year term which aligns with the length of time the redevelopment subsidy will be provided. Should other options be required, the assisted living and village square portions of the development could have a borrowing term of 30 years to reduce the annual levy requirement, this would need to be considered against the increase in interest costs.

## Borrowing

Staff has been in contact with Infrastructure Ontario to discuss the borrowing process; for the application process to move forward and be presented to their board, a borrowing by-law will be required. Infrastructure Ontario has advised that the application process will take several

months.

For the estimated \$108 million debt, an annual payment of \$7,210,300 would be required; this would be offset by a construction grant of \$1,940,300 for a net levy requirement of \$5,270,000. This assumes a debt with a 25-year term at a 4.5% interest rate; over the term of the debt \$72.2 million in interest would be paid.

## Debt Management/Annual Repayment Limit

As discussed in CAOR-RP-02-22, Grey County has a Debt Management Policy that was endorsed by County Council April 23, 2020. This policy states 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.

*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 2023 ARL estimated annual repayment ceiling is \$17,557,213; as a municipality's debt obligations increase, the province notes an escalating level of risk in the annual Financial Information Return (FIR). Based upon the 2023 Annual Repayment Limit (ARL), the annual repayment limit available using the County's internal policy is \$8,089,017; after considering internal debt, the limit is reduced to \$7,243,821.

When there is redevelopment debt repayment, the Ministry does have a provision in the ARL that calculates debt after taking into consideration any provincial grant related to the debt, so the full debt amount does not impact the ARL amount. In this scenario, the internal limit of \$7,243,821 per year is greater than the estimated net long term care redevelopment payment of \$5,270,000.

The renovation of the supportive housing property in Owen Sound that is nearing completion and the future Paramedic Services' base in Durham and affordable housing build in Dundalk will require financing. The cost of financing these projects is not reflected in the limit that would be available after the Rockwood redevelopment project. Considering the County's current own source revenue, borrowing bylaw and debt repayment limit, the County has the ability to make additional annual loan payments of \$1,973,827. This equates to \$29.3 million in principal assuming an interest rate of 4.5%- and 25-year term.

## 2023 Grey County Approved Budget

The 2023 approved budgeted operating and capital expenditures total \$225.1 million with \$67.9 funded from taxation. A 1% levy increase equals \$669,400 an increase of \$34,400 over 2022.

Budgetary pressures include rising capital renewal and replacement costs due to inflation, the unquantified impact of costs to address climate change targets, recommended operational adjustments as the result of external reviews for our Transportation and Paramedic Services' departments, cost of living increases etc. Bill 23 reduces the development charges available to fund capital project. These pressures are in addition to commitments made for annual levy contributions of 1% for affordable housing and 1.57% and asset management. The annual contribution of 0.75% for health sector funding was removed from the 2023 budget as part of the strategy to achieve Council's target of a levy increase of 1.49% after growth.

Budgets are developed to support departmental requirements and required service levels while being cognizant that increases in inflation and interest rates are impacting both property owners and member municipalities.

## Investments in Capital

The 2023-2032 10-year capital forecast reflected a levy requirement of \$305.6 million, with \$19.6 of this amount in 2023. Of this amount 64.4% is to fund Transportation Services' projects followed by 30.4% for Human Services. As part of the 2023 budget process, the 2023 levy requirement for capital was adjusted to \$14.9 million or \$4.7 less than the 2023-2032 forecast. The strategic plan will be updated this year and will reflect the forward-looking priorities of this term of Council. The 2024-2033 10-year capital forecast will be presented in September and reflect the goals and objectives of the strategic plan as well as the impact of reduced development charges.

The forecasted 10 year capital levy requirement (in millions) and the requirements for the Rockwood redevelopment in the 2023-2032 10 year capital forecast are as follows:

	2023-2032 10 Year Capital Forecasted Levy Requirement (in 000's)										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Other	\$18.22	\$20.18	\$21.31	\$22.87	\$24.76	\$26.43	\$28.46	\$30.24	\$32.33	\$33.91	\$258.71
Rockwood	\$1.36	\$2.37	\$4.15	\$6.83	\$5.37	\$5.37	\$5.37	\$5.37	\$5.37	\$5.37	\$46.93
Total	\$19.58	\$22.55	\$25.46	\$29.70	\$30.13	\$31.80	\$33.83	\$35.61	\$37.70	\$39.28	\$305.64
y/y increase		15%	13%	17%	1%	6%	6%	5%	6%	4%	

## Potential Revenue Sources

Report CAOR-RP-02-22 discussed the potential of the approximate 22 acres of land that could support future development opportunities. As this has not been quantified, any potential revenue has not been incorporated into the financial modeling at this time.

## Legal and Legislated Requirements

Long-term borrowing by-laws must be enacted in accordance with the provisions of Part XIII of the Municipal Act, 2001 (Debt and Investment).

## Financial and Resource Implications

Based upon the financial modeling and assumptions above, it is anticipated that debt of \$108 million will be required and financed over a 25-year term at an assumed interest rate of 4.5%. After taking into consideration construction funding that will be received for the term of the debt, an annual levy requirement of \$5,270,000 will be required. Interest on \$108 million financed over 25 years will total \$72.2 million.

For the loan application with Infrastructure Ontario to be considered, a borrowing by-law is necessary. Debt estimates will be refined as the project moves along and will reflect changes in costing, borrowing rates, cash flow timelines etc.

The 2023 approved \$1,361,000 levy requirement would require increases from 2024-2026 to reach the estimated levy requirement of \$5,270,000. For comparison purposes, in 2023 a 1% levy increase totals \$669,400 and the redevelopment levy requirement represents an increase of 7.8%

This report does not take into consideration the increase in operating budget requirements resulting from increases in the size of the building envelope as well as adding resources to support additional long term care residents. Currently, the long term care total operating levy requirement of \$6,299,400 equates to \$19,747/resident. An additional 28 residents at that rate represents a cost of \$552,916 or a 0.83% increase to the levy based upon a 1% increase in 2023 equaling \$669,400.

## Relevant Consultation

- ☒ Internal – CAO
- ☒ External – Colliers Project Leaders, Ministry of Long-Term Care, Infrastructure Ontario

## Appendices and Attachments

[Long-Term Care Home Capital Development Funding Policy, 2022](#)

[2023 Annual Repayment Limit](#)