

Corporate Report

DEPARTMENT/ DIVISION	Community Services Homes For The Aged	REPORT NO.	2007.005
DATE PREPARED	December 13, 2006	FILE NO.	10.4
MEETING DATE	January 22, 2007		
SUBJECT	Update - D-Listed Homes for the Aged Information		

RECOMMENDATION

FOR INFORMATION ONLY

EXECUTIVE SUMMARY

At the December 11, 2006 Committee of the Whole meeting, Administration was directed to provide Council with a report to update the existing information on the design, construction, property and financing cost estimates of the construction of both a single 300 bed facility and two 150 bed facilities to replace the D-listed Homes. In addition, the report is to include the economic impact of running or not running the City Homes including the impact on commercial, industrial, and residential taxes.

The Province through the Minister of Health and Long Term Care has affirmed that it is their intention to keep the 300 beds from the D-listed Homes in the Thunder Bay community no matter who operates the beds (Attachment A). Administration is working with the Province to ensure a smooth transition. Both parties are committed to ensuring that the current residents of the D-listed Homes will have continuous, ongoing, and appropriate care.

The capital cost of constructing two 150 bed facilities has risen from the 2002 estimate of \$44.0 million to an estimate for 2007 of \$52.0 million (Attachment B).

The capital cost of constructing one 300 bed facility is estimated to be 15% to 20% less than the cost of two 150 bed homes (Attachment C). This reduction would yield a cost of about \$44 million.

The projected net operating cost to the City for the two D-listed Homes in 2007 is \$3.8 million. The estimated operating cost of a 300 bed facility would be an estimated \$400,000 lower than two 150 bed facilities. Therefore, the annual net operating cost to the City for a 300 bed facility is estimated to be \$3.4 million.

The current financial position of the original \$45 million which were debentured for developing the Homes is illustrated in Attachment D. Council could choose to use \$29 million, \$19.8 million, or \$13.8 million of the available debenture funds.

The six financial options which are available under the rebuild scenarios and for Council's consideration are illustrated in Attachment E. They provide for tax increases ranging from \$4.6 million to \$6.8 million producing estimated 3.6% to 5.3% increases in the tax levy.

DISCUSSION

At the December 11, 2006 Committee of the Whole meeting, Administration was directed to provide Council with a report to update the existing information on the design, construction, property and financing cost estimates of the construction of both a single 300 bed facility and two 150 bed facilities to replace the D-listed Homes. In addition, the report is to include the economic impact of running or not running the City Homes including the impact on commercial, industrial, and residential taxes.

The situation with regard to the Homes for the Aged in the City of Thunder Bay has not changed significantly since the last report (Report No. 2005.250 Homes for the Aged) which was introduced at the October 31, 2005 Committee of the Whole meeting. One change that has occurred is that on August 11, 2006, the Minister of Health and Long Term Care wrote to Mayor Peterson confirming that the Ministry intends to keep the City's 300 D-listed beds in Thunder Bay (See Attachment A). This issue was a concern to Council when the 2005 Report was considered.

Another issue which was raised in 2005 was the concern that there may be differing standards of care in Homes operated by different sectors. It should be noted that the standards of care in all long term care facilities continue to be a major focus of the Ministry of Health and Long Term Care. It needs to be emphasized that the same standards apply to all long term care facilities no matter which sector operates them. The proposed Bill to establish the new Long Term Care Homes Act (Bill 140) brings new attention to this fact. Standards that were previously in regulations are being proposed to be enshrined in the legislation and fines and imprisonment and being used as incentives for Boards of Management to abide by the standards. Long term care facilities, whether in the private for profit sector, the private non-profit sector, or the public sector will be governed by the one Act once Bill 140 is passed into law.

Legislation

The municipality is still required to maintain one Home for the Aged as specified in The Homes for the Aged & Rest Homes Act. The legislation does not reference the number of beds in this Home. Bill 140 does not propose to change this requirement. Even with the closure of the two D-listed Homes, the City will continue to meet its legislated obligation by operating the 150 long term care beds in Pioneer Ridge.

Property Tax Issues

Property taxes in Thunder Bay continue to be a competitive disadvantage for the municipality when competing with municipalities in other Provinces for private sector investment. The situation as described in the previous Report is relatively the same except for the following point:

- The D-listed municipally run Homes for the Aged will cost property taxpayers an estimated \$3.8 million in 2007 which is a 22.6% increase over the \$3.1 million which was reported in 2005. This net increase reflects higher compliance requirements, health sector inflationary increases, and reduced revenue from the Province.

Local Market

According to the estimate provided by the Ontario Government's Finance Department, the number of people over 75 years of age has grown from 10,410 in 2005 to 10,680 in 2006. Based on the Provincial Planning Guideline of 99.1 beds per 1,000 people over 75 years of age, Thunder Bay should have 1,058 beds. There are 1,057 beds including the 450 beds which the City of Thunder Bay operates but not including the 65 interim care beds (Alternate Level Care) at the old Pinewood Court site. The City of Thunder Bay continues to provide 43% of the Long Term Care beds in this marketplace. In the 2005 Report, 7 of 450 beds (1.6%) were occupied by residents who were from outside of Thunder Bay. This figure is now 29 or 6.4%. It is clear that the vast majority of residents in the City's Homes for the Aged come from within the municipal boundaries.

Cost of Care

The most recent benchmarking figures are for 2005. These figures show that the average cost per bed per day was \$174.02 among municipalities in Ontario compared with \$167.35 in Thunder Bay. These figures continue the trend reported in the last report where this municipality's costs are significantly lower than the Provincial average. The relationship between these costs support Administration's conclusion that the Homes for the Aged operate efficiently and significant reductions in the cost of care are unlikely to be achieved through further efficiencies.

Capital Financial Requirements

The capital cost of constructing two 150 bed facilities has risen from the 2002 estimate of \$44.0 million to an estimate for 2007 of \$52.0 million. This estimate has been calculated by Mekinda Snyder Architects who were working on the design of the Homes when work was stopped (Attachment B). They used detailed cost estimates as calculated in 2005 and construction inflation adjustments to arrive at the 2007 projection.

The capital cost of constructing one 300 bed facility has been estimated by Mekinda Snyder to be 15% to 20% less than the cost of two 150 bed homes (Attachment C). This reduction would indicate a cost, conservatively, of approximately \$44.0 million.

The City originally debentured \$45.0 million to address Homes issues including the Pioneer Ridge retrofit. As outlined in Attachment D, at the end of 2005, the net amount of money available from the debenture was \$45,165,070. Of this amount, it is estimated that \$13,823,709 remains uncommitted in Administration's financial plan. It is important to note that three of the projects listed in the Attachment (2006, 2007, and 2008 Capital Projects) are specifically funded by the debenture funds so that capital from revenue can be lowered by over \$2.9 million. This method was used to capture the savings that will accrue to the budget when the two D-listed Homes no longer operate. In 2009, the budget will reduce by the operating deficit of the D-listed Homes and capital from revenue will rise by a like amount to offset the absence of the debenture funds as a source of financing. In this way, the debenture funds have been used to reduce the overall budget to capture the savings from Homes closure in advance of the actual event. As of the closing of the two Homes, the debenture funds will not be needed for this purpose.

As of December 31, 2006, \$19.8 million of the original debenture is available apart from funds which have been put aside to offset capital from revenue. If Council wishes to use the full \$19.8 million remaining as of December 31, 2006 to finance of the original debenture funds to finance part of the construction of new Homes, then the 2007 tax supported budget would need to be increased by almost \$3 million (2.3%). The 2007 tax supported budget includes approximately \$3.0 million of the unallocated debenture proceeds as a source of financing for 2007 capital. If Council wishes to use \$13.8 million of the debenture funds to finance part of the construction, then the 2009 tax supported budget would need to increase by the same amount.

Three of the projects listed in Attachment D have significant money allocated but not committed at this time. These are the Pento Yard, Fire Training Tower, and Marina Park projects. If Council wishes to make use of debenture funds which have been employed in the future financial plan of the City but have not been spent, then \$9.2 million dollars could be added to the available debenture funds.

Operating Costs

The projected net operating cost to the City for the two D-listed Homes in 2007 is \$3.8 million. It is estimated that this net operating cost would continue with health care inflationary increases for the functional life of two new 150 bed Homes for the Aged if constructed by the City.

The operating savings in a one large home scenario are estimated to be \$50,000 in staffing costs and \$350,000 in utility and building maintenance costs. It is anticipated that operating a 300 bed Home will have a \$3.4 million (in today's dollars) net cost to the taxpayers for the functional life of the Home if constructed by the City.

Future Needs

The Area Plan for future needs for long term care in Thunder Bay which the Province promised some 18 months ago, and which was referenced in the 2005 Report, has not been delivered and there is no indication about when it might be forthcoming.

Economic Impact

Council's resolution included the direction to provide the economic impact of the City deciding not to operate the two D-listed homes. Given that short term construction jobs are assumed to be the same regardless of who builds the Homes, construction will not be a factor in the economic impact of the various options.

The economic impact has proven to be very difficult both conceptually and technically. Conceptually, the difficulty is that, in this case, lost salaries produce savings in property taxes. Salaries normally add to the economy while property taxes take away or dampen the economy. It would appear that in this case the two effects would offset each other in that by reducing salaries, taxes are lowered. Technically, there is no data available to determine whether the two effects exactly offset each other or not. While speculative projections can be made about private sector operations, there is no public information which allows for a more detailed analysis.

It is also important to note that a private sector operator would be obligated to pay property taxes. Property taxes would yield an estimated \$774,532 to the municipality annually.

- The total property taxes paid by private operators of 300 long term beds would be the same whether the beds are in one facility or two and are estimated to be \$1.42 million with the municipal portion being \$774,532 and the education portion being \$645,990

- A private non-profit organization (like St. Joseph's Care Group) would be exempt from property taxes but would pay \$75 per bed levy or \$22,500 annually.

Impact of the Delay in the Final Decision

The Province's delay in issuing the Request for Proposal (RFP) for the new Homes and Council's decision to re-visit the information about building new Homes are making the operations of the Municipal Homes very difficult. The uncertain situation does not allow staff nor residents and their families to plan for their respective futures.

For example, many residents are being admitted to the D-listed Homes because of high demand for beds in the Thunder Bay Regional Health Sciences Centre; but then are immediately transferring to a more stable situation. This situation is greatly increasing the demand for admission services. These services are being wasted because residents are immediately transferring to another facility. In addition, the skilled non-union staff are understandably looking for work with a more obvious future. When they leave, recruiting replacements is increasingly difficult because the duration of the work assignment is not known.

Council needs to finalize this matter as quickly as possible so that one way or another, pressure can be increased to speed the construction of the new beds along.

Options

Continue to Close the D-listed Homes

The impact of continuing to close the two D-listed Homes is the following:

- Pressure continues on the Province to issue the RFP for construction of the new Homes for the Aged
- The City's financial plans for capital works and major projects remain in place and the municipalities bond rating remains at its current high level
- There are \$13.8 million remaining to allocate to other capital priorities
- There will be tax revenue generated from these operations where now there is none

Build Two 150 Bed Homes

As illustrated in Attachment E, the impact of building two new 150 bed Homes would be the following:

- Option 1: By using \$29 million of the existing debenture, \$23 million of new debt would be required which would cost \$1.8 million annually. The City's subsidy of the D-listed Homes costs \$3.8 million. The total annual cost of this option then is \$5.6 million or a tax increase of 4.3%. The Pento Yard, Fire Training Tower, and Marina Park projects would be cancelled.
- Option 2: By using \$19.8 million of the existing debenture, \$32.2 million of new debt would be required which would cost \$2.6 million annually. The City's subsidy of the D-listed Homes costs \$3.8 million. The total annual cost of this option then is \$6.4 million or a tax increase 5.0%. The 3 projects would continue to the extent that they are funded now.
- Option 3: By using \$13.8 million of the existing debenture, \$38.2 million of new debt would be required which would cost \$3.0 million. The City's subsidy of the D-listed Homes costs \$3.8 million. The total annual cost of this option then is \$6.8 million or a tax increase of 5.3%. The 3 projects would continue to the extent that they are funded now.

Build One 300 Bed Home

As illustrated in Attachment E, the impact of building one 300 bed Home would be the following:

- Option 1: By using \$29 million of the existing debenture, \$15 million of new debt would be required which would cost \$1.2 million annually. The City's subsidy would be \$3.4 million. The total annual cost of this option then is \$4.6 million or a tax increase of 3.6%. The Pento Yard, Fire Training Tower, and Marina Park projects would be cancelled.
- Option 2: By using \$19.8 million of the existing debenture, \$24.2 million of new debt would be required which would cost \$1.9 million annually. The City's subsidy would be \$3.4 million. The total annual cost of this option then is \$5.3 million or a tax increase of 4.1%. The 3 projects would continue to the extent that they are funded now.

- Option 3: By using \$13.8 million of the existing debenture, \$30.2 million of new debt would be required which would cost \$2.4 million annually. The City's subsidy would be \$3.4 million. The total annual cost of this option then is \$5.8 million or a tax increase of 4.5%. The 3 projects would continue to the extent that they are funded now.

Build a Cheaper Home(s)

Members of Council have made reference to long term care facilities which have been built for less cost than was projected for the City's new construction. The City's Architect has confirmed that the cost could be reduced; however, typically municipal Homes are not built in that fashion because municipalities require a longer life from the building. Private Homes are typically built to last the twenty years to coincide with required investment windows and the Provincial grant program. Municipal Homes are typically built to last 40 to 50 years. The lower cost for a cheaper Home would have to be considered with the knowledge that there would likely be at least two buildings built over the time that the municipal Home would operate. In the long term, building the cheaper Home is not considered to be a good option for a municipality.

Likewise for the option of building the Homes to the absolute minimum standard. A functional plan was drawn up for the two City Homes before the construction process was stopped. The rooms were designed to be larger than the absolute minimum for operational considerations including the ease with which wheel chairs are able to maneuver in the rooms. It was felt that the community would not accept the minimum standard from municipally run Homes.

FINANCIAL IMPLICATIONS

As discussed when the City's long term financial plan was presented to Council, any significant deviation from the existing debt financing plan could result in a downgrading of the City's credit rating. If the D-listed Homes are to be rebuilt, the City must increase the municipal budget by the amounts indicated in Attachment E.

CONCLUSION

The conclusion arrived at in the 2005 Report is still relevant today and Council should continue with the course of action as specified in 2005.

BACKGROUND

At the December 11, 2006 Committee of the Whole meeting, Administration was directed to provide Council with a report to update the existing information on the design, construction, property and financing cost estimates of the construction of both a single 300 bed facility and two 150 bed facilities to replace the D-listed Homes. In addition, the report is to include the economic impact of running or not running the City Homes including the impact on commercial, industrial, and residential taxes.

REFERENCE MATERIAL ATTACHED

Attachment A – Letter from Minister Smitherman - Beds in Thunder Bay

Attachment B – Letter from Mel Mekinda - Two New Homes

Attachment C – Letter from Mel Mekinda - One 300 Bed Home

Attachment D – Homes Debenture

Attachment E – Additional Debenture Funds Required Under Re-build Scenarios

PREPARED BY: Greg Alexander, General Manger - Community Services

This report signed and verified by Greg Alexander, General Manager - Community Services on January 18, 2007