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# City Agenda Report Form

**Report To:** CITY COUNCIL

**Report Date:** May 29, 2001 (12:47PM) **Meeting Date:** June 14, 2001

**Subject**: Capital Redevelopment of Pioneer Manor - Long Term Care Facility

| Department Review: | Recommended for Agenda: |
|---|---|
| Mark Mieto,<br>General Manager | Jim Rule,<br>Chief Administrative Officer |

## Recommendation:

Whereas the development of a seniors campus on the grounds of Pioneer Manor as outlined in the General Manager's Report dated May 29, 2001 offers an opportunity to enhance services to seniors within this community now and into the future; and

Whereas the seniors campus will involve the expertise and commitment of various partners locally and throughout northern Ontario such as the Alzheimer Society, Laurentian University, Cambrian College, College Boreal Sudbury Regional Hospital, Northeast Mental Health Centre, and other northern health partners, and

Whereas the redevelopment of the City's long term care facility is an integral component to the evolution of a seniors campus on the grounds of Pioneer Manor; and

Whereas the City of Greater Sudbury owns and operates a long term care facility with multiple levels of structural conformity to Ministry of Health and Long Term Care accommodation standards; and

Whereas 220 of the 342 beds at Pioneer Manor are structurally unacceptable to the Ministry of Health and Long Term Care and are required to be upgraded to Ministry of Health and Long Term Care standards by the year 2006 to the estimated cost of construction of $22.1 million; and

Whereas the City of Greater Sudbury has undertaken a thorough review of options related to construction, operation and finance through consultation with EHE International Inc., as enclosed with this report; and

Whereas the City of Greater Sudbury has access to a provincial capital revenue stream to offset the $9 million in capital cost which exists over the City of Greater Sudbury contribution to capital; and

Whereas the City of Greater Sudbury capital policy (April 2001) identifies debt as the preferred method of financing where there is an identified source of new revenue which will fund the repayments over time;

Therefore be it resolved that the City of Greater Sudbury commence the capital redevelopment of Pioneer Manor for the replacement of 128 beds with new construction and the renovation of 92 beds as required by the Ministry of Health and Long Term Care; and

That the City Treasurer be authorized to negotiate the required loan for approximately $9 million; and

That the capital per diem received for the remaining 122 beds classified as "B" and "C" level structural compliance be placed into the reserve for Pioneer Manor's capital redevelopment until required for repayment; and

That the portion of the space in zones Copper and Diamond that will no longer be required at Pioneer Manor following construction of the new wings be made available to the Alzheimer Society on a cost recovery basis related only to the costs associated with their occupancy; and

That a request for proposal for a supportive housing owned and operated by a non profit or private provider, on the grounds of Pioneer Manor be issued.

## Background:

### PROVINCIAL COMMITMENT TO LONG TERM CARE IN THE PROVINCE OF ONTARIO

Certainly, as demographics continue to be studied, there is one conclusive finding that the number of individuals aging is on the increase. The Provincial Government has taken these statistics seriously and have responded with increases within the long term care operation and capital funding envelopes. For that reason, on July 1, 1998, the Ministry of Health announced that 102 of the 498 long term care facility operators were required to upgrade their physical structures or risk losing their ability to operate and be funded for their portion of those 16,000 structurally deficient beds. Pioneer Manor is one of the facilities in need of upgrading and is eligible to receive sufficient funding to repay $ 9 million over 20 years to renovate its 220 structurally deficient beds. The total estimated cost of construction and renovation is $22.1 million.

In addition, for the first time in 10 years new long term care beds are being built in Ontario. Over the last 4 years, all of the newly awarded beds to the amount of 20,000 have been announced and awarded to private and non-profit operators. Certainly the competition was high for these new beds and was shared amongst charitable, municipal non profit and private operators of long term care facilities. Despite these increases in new beds and the commitment to upgrade existing beds there are still concerns that those numbers may not be sufficient to keep up with the growing demand in long term care and the increasing health care needs of our seniors population.

The issue of capital funding for Pioneer Manor and the need for renovations is not new. In fact, previous capital envelopes have been reserved since 1995 for the redevelopment of the oldest wings of the facility. In the latest contribution the Region of Sudbury committed $1.7 million to the dietary services renovation at Pioneer Manor. The new out-sourced system of food services and decentralized dining areas across the building were required to provide a higher quality of service to the residents and to meet the changing needs of the clientele at Pioneer Manor and their increasing level of nursing care requirements.

With the new announcement, the Ministry of Health has committed capital funding for the renovation of 220 beds to meet current design standards. This Ministry assignment of capital funding to Pioneer Manor affords the opportunity to both upgrade the facility and pursue other opportunities.

## SENIORS CAMPUS OPPORTUNITY THE FIRST OF ITS KIND IN NORTHERN ONTARIO

Beyond the necessary upgrading of 220 beds at Pioneer Manor, an opportunity presents itself to optimize the use of the long term care facility and the grounds for the benefit of seniors in the northeast of this Province.

### Community Partnership

In 1994, an extensive study was initiated by Regional Council and the Ministry of Community and Social Services for the purpose of master planning for seniors services on the site of Pioneer Manor. The study was accepted by Regional Council on January 26, 1994 through resolution #94-10:

> THAT the Master Plan for Pioneer Manor be accepted.

The report spoke to several recommendations including:

. Investigate the opportunity to have Pioneer Manor become a seniors campus
. Bring rooms at Pioneer Manor up to current government standards in long term care
. renovations for decentralized dining areas
. supportive housing to be explored
. regional commitment of one (1) central long term care facility for the Regional Municipality of Sudbury on one site.

In 1998, at the request of the Alzheimer Society, further consultation with key stakeholders indicated continued general support for a comprehensive geriatric service site for seniors on the grounds of Pioneer Manor. It being understood that agencies/institutions with specialization in respective service components would be the administrators of those services resulting in a wide range of expertise and opportunities within the community and as far reaching as northeastern Ontario.

On June 24, 1998, Regional Council ratified the following resolution #98-46 which stated in part:

> THAT the Regional Municipality of Sudbury explore the opportunities to address the future and current needs of the growing seniors population in relation to long term care services...

The partners supporting this concept are:

The Regional Municipality of Sudbury
Hospital régional de Sudbury Regional Hospital
North East Mental Health Centre
The Manitoulin-Sudbury Community Care Access Center
Seniors Advisory Council of The Regional Municipality of Sudbury
Société Alzheimer Society Sudbury-Manitoulin

Manitoulin Sudbury District Health Council
Laurentian University
Northern Health Care Partners

The partnership includes health care providers, acute care institutions, Alzheimer societies, and physicians throughout northeastern Ontario through tele-health connections: North Bay, Elliot Lake, Espanola, Manitoulin, Sault Ste. Marie, Chapleau, Timmins... The linkage of services as described above will enable a wealth of collaboration, coordination, and expertise in the field of geriatrics to develop, and be available in the north. A key to the functioning of the Seniors Campus is the proposed catchment area of northeastern Ontario. Through tele-health communications, the health care facilities in northern Ontario, practicing physicians and specialists will have the opportunity to tap into the resources of the northern campus located in Sudbury.

## SERVICE COMPONENTS

The proposed seniors campus would have several components:

1. Memory Assessment Center

The memory assessment center will be the first of its kind in Northern Ontario. It is proposed that the Northeast Mental Health Centre operate the center on the grounds of Pioneer Manor to enable the concept of a holistic community based seniors concept to ensue. It is anticipated that with a memory assessment centre that a geriatrician could be recruited and would be able to service all of the long term care facilities and seniors within the district. In May 2001, the Minister of Northern Development and Mines supported the concept of the memory assessment centre by announcing $100,000 to fund a business plan. A consultant has been hired to research and present the best model for northern Ontario and that report should be complete by December 2001.

2. Clinical and Geriatric Research

Laurentian University, Cambrian College, and College Boreal, all offer specialty programs in gerontology and are interested in specialized research. The opportunity to conduct clinical trials out of Sudbury would be pursued and could be funded through research grants. As well, other geriatric research opportunities are currently being explored with other community partners.

3. Long Term Care Facility

Pioneer Manor is the largest long term care facility in northern Ontario with 342 beds. It has been a leader in long term care through initiatives such as the gentle care model of dementia, pain management, and out-sourcing of dietary services. The proposed redevelopment of 220 of 342 long term care beds are included in this component of the campus, and would include beds dedicated to a dementia residents and would provide all of the residents with the best standard of accommodations available today in the Province of Ontario.

4. Société Alzheimer Society Manitoulin-Sudbury

The Société Alzheimer Society Manitoulin-Sudbury is currently located on the property of Pioneer Manor in a portable building. The Alzheimer Society has been planning a move to a permanent structure for several years and such a move would enable the agency to expand its services to meet the increasing demands of its clientelle. The Alzheimer Society services 2,000 individuals per year and the proposed expansion of service is expected to double its clientele.

The Alzheimer Society intends to provide respite services for Alzheimer and dementia clients in a new setting, which would also be on the site of Pioneer Manor. Their Board is looking at the opportunity for redevelopment on the vacated space within the sections of Copper and Diamond at Pioneer Manor. The Society is estimating a need for approximately 10,000 square feet of the available 19,000 square feet of unuseable space at Pioneer Manor and is prepared to undertaken a capital campaign to support that renovation. See attached letter from the Soceite Alzheimer Society.

5. Supportive Housing

In many seniors campuses a component that is found is seniors apartments with supportive housing. With the recent budget from the Provincial Government the availability of supportive housing dollars will likely not be present this fiscal year. However, given the demands in long term care and provincial commitment to keeping seniors in their homes longer it is anticipated that additional supportive housing dollars will be available. In the meantime preliminary work can commence on the search for a partner to develop the complex, conduct a market analysis... It is recommended that a request for proposal be issued to find a partner either private or non profit to begin to develop this future initiative.

## LONG TERM CARE FACILITIES

There are 498 long term care facilities including Homes for the Aged, Nursing Homes, and Charitable Not for Profit Homes in Ontario. Generally speaking, each municipality enjoys a mix of profit and non profit alternatives for families requiring long term care services.

The mix of long term care beds is as follows:

| Mix of Long Term Care Beds | | |
|---|---|---|
| **Type of Facility** | **Provincial** | **Regionally** |
| Non Profit Nursing Homes | 45% | 47 % |
| Private Nursing Homes | 55% | 53% |
| **TOTAL** | 100% | 100% |

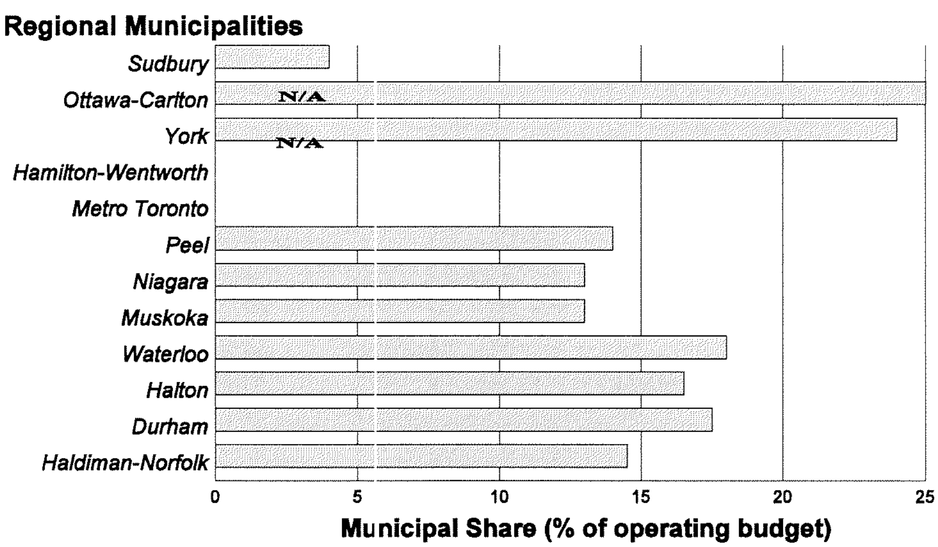
The long term care market is serviced by both the private and municipal/charitable sectors with identical funding mechanisms. The ratio of non profit to privately operated beds are similar within our city as compared to the province. The benefits of having multiple sectors involved with delivery of service work well within a competitive market and serve the customers well overall.

## Operating Budget

While the overall budget at Pioneer Manor has increased to $12 million as a direct result of increasing care levels of the residents, the municipal contribution to the budget over the past 7 years has been reduced due primarily to operating efficiencies.

Although the size of the structure will increase, it is expected that ongoing operational efficiencies and increases in Provincial funding will not lead to increased municipal contributions to the operating costs.

Compared to the other regionally operated long term care facilities, the cost to operate Pioneer Manor is minimal, however the commitment to capital is critical. In municipally run homes such as those in Peel, Ottawa, Halton and Toronto the standard municipal contribution is $1 million for every 100 beds. If Pioneer Manor were funded at that level of municipal contribution would be $3 million annually from the tax base as opposed to the $400,000 currently being contributed.



## Demographic Impact and Demand for Long Term Care

The population of seniors over 65 years in the Province of Ontario will increase substantially over the next several years. This trend is evident in the City of Sudbury as indicated by the following data from the City of Sudbury Planning Department:

| Year | Seniors over 75 in the City of Sudbury |
|---|---|
| 1996 | 34410 |
| 2016 | 53810 |

In specific reference to dementia prevalence rates in the Region of Sudbury statistics show 1,376 in 1998, a projection of 1,959 in the year 2006 and 3,213 by the year 2021. The number of dementia cases will almost triple by the year 2031 whereas the population will increase by a factor of 1.4 (Canadian Study on Health and Aging March 1994). By the year 2000 the number of moderate to severe cases of dementia will increase by nearly one third (33%) over 1992 levels. By 2010, 85% and by 2021 by 150%. It is estimated that 2/3 of residents in long term care suffer from dementia. Therefore, there will be a significant increase in demand for long term care into the future.

| Year | Cases of Dementia in the Region of Sudbury | Percentage of Case Increase |
|---|---|---|
| 1998 | 1376 | - |
| 2021 | 3213 | 43% |
| 1992-2000 | N/A | 33% |
| 2010 | N/A | 85% |
| 2021 | N/A | 150% |

The waiting list for long term care facilities illustrate a critical point related to demand for long term care and ability to accommodate needs for high quality accommodations.

## Waiting List for Long Term Care Facilities as of March 31, 1999

| Facility | Applicants of Waiting List | |
|---|---|---|
| Pioneer Manor | 173 | (62%) |
| Extendicare Falconbridge | 50 | (18%) |
| Extendicare York | 37 | (13%) |
| Garson Manor | 19 | (7%) |
| **TOTAL** | **279** | |

## Waiting List for Long Term Care Facilities as of May 29, 2001

| Facility | Applicants of Waiting List | |
|---|---|---|
| Hoivakoti (Previously Garson Manor) | 203 | (50%) |
| Pioneer Manor | 131 | (33%) |
| Extendicare York | 38 | (10%) |
| Extendicare Falconbridge | 30 | (7%) |
| **TOTAL** | **402** | |

As noted in the change in status of the waiting list Hoivacoti which was previously located at Garson Manor has seen their waiting list move from the least desired location to the most desired location. This is as a result of the closure of Garson Manor and re-opening of the facility at Hoivacoti. Pioneer Manor like Garson Manor is a "D" structural level facility. For years Pioneer Manor enjoyed the status as the most desired long term care facility. There has been a shift recently where Pioneer Manor has dropped to second desired due to the building at Hoivacoti. As additional "A" type facilities open in Sudbury by the Sisters of St. Joseph and Jarlette Nursing Home in the Valley, Pioneer Manor will move down the list in desirability despite the high standards of nursing care provided at the facility. The proposed redevelopment of Pioneer Manor will enable the facility to offer citizens of the community high quality care it is accustomed to, while also meeting their need for high quality accommodations.

## RESIDENTS IN LONG TERM CARE FACILITIES

There are 57,000 residents living in long term care facilities in Ontario and when the 20,000 new beds are added to the mix in the next few years there will be 77,000 residents living in long term care. Most of those residents are frail, elderly people who require nursing care and supervision beyond which can be provided in their own homes. There are also younger residents with conditions such as multiple sclerosis, acquired brain injuries, quadriplegia, ALS, etc. Upon admission to long term care most residents have several diagnosed disease processes (i.e. Parkinson's, Diabetes, Alzheimer disease, etc.). The average age of a resident in a long term care facility is 85. Further description of the resident in long term care facilities in northern Ontario include: 99% are on medication, 31% require assistance with feeding, 56% are incontinent and 60% of all residents have Alzheimer disease or some form of dementia.

As part of the heath care restructuring process, long term care facilities will be asked to care for residents with more complex medical needs. In response to these changes in levels of care the provincial funding flowed to long term care facilities has increased steadily over the past 6 years. In the case of Pioneer Manor it is expected to continually increase over the next 5 years.

## CAPITAL FINANCING AVAILABILITY - PIONEER MANOR

Pioneer Manor has been designated a structurally non-compliant facility and as one of the 102 facilities requiring renovations. Renovations to Pioneer Manor are mandatory. The structural non-compliance status entitles Pioneer Manor and other such facilities to a capital per diem from the Ministry of Health for the next 20 years. It is calculated as $10.35 per resident/day for 220 beds. These are additional operating funds to support payment of loans secured by operators to pay for the construction and renovation of beds. These funds are flowed once the renovations have been completed.

## IMPACT OF PROPOSED REDEVELOPMENT

### Rebuild 128 Beds

***A) 96 Heavy Care Beds To Be Rebuilt - Copper and Diamond***

In the heaviest care areas of Pioneer Manor residents share ward rooms (4 residents per room) and gang washrooms (common washrooms located in the hallway). One of the heavy care units (zone D) is 10,000 square feet, with 53 beds. It was first constructed in 1952, with an addition in 1961. There have been no renovations to this area since its original construction. Another heavy care unit (Zone C) is 15,000 square feet with 43 beds. The area was first constructed in 1966, with no renovations to the area since its original construction. This area is the only other area of the facility of original construction prior to 1970.

The expectations and standards for residents have changed significantly since that time as there is now more emphasis on quality of life and environment for residents. As this area is original construction, it does not meet the Ministry requirements for physical standards of long term care facilities. Due to the extent of renovations required, new construction is needed.

The renovations to this heavy care area have been identified by the Ministry, residents, families, and the Health and Social Services Committee of Regional Council as in need of improvement.

### *B) 32 Moderate Care Beds to be Rebuilt*

The moderate care wing of Pioneer Manor was the residential care wing prior to the implementation of long term care. It is composed of 6 units, 3 per floor, with a total of 122 beds. There have been many minor renovations done to the units over the past 4 years within the operating budget. Call bells and a therapeutic tub were installed, and 75% of the residential beds were replaced with hospital beds. These renovations were primarily funded 100% by the Ministry of Health and amounted to over $200,000 in equipment investment. The 122 residents living in these areas do not have sufficient lounge and dining space. Renovations are required to bring these areas to current standards for common areas. Renovations to the resident rooms are not recommended as to do so would require complete rebuilding of the rooms to attain proper bathroom size compliance.

Further, the Ministry of Health requires 40% of accommodations to be available at ward rates and these 122 rooms (35% of total beds) would qualify and provide the need for basic accommodations within the facility.

When the renovations are complete, 32 beds will be lost due to the creation of dining rooms, lounges, and other common areas, and must be rebuilt to maintain the overall bed count of 342 beds.

### *C) 92 Dementia Care Beds to be Renovated (Heritage Lane and Zone B)*

In order to maximize the capital revenue formula for the Ministry of Health, minor renovations to 2 wings (Heritage Lane and B Zone) will be undertaken.

Heritage Lane requires modifications to the sitting rooms and the servery, while zone B requires modifications to the sitting rooms, dining area, and the width of doorways.

## Cost of Construction

Two years ago the estimated capital cost for the construction of Pioneer Manor $17.3 million (excluding the dietary renovations). With the escalation of the cost of construction and the cost of using piles on the property the cost per square foot has increased from $115 square foot to $130 square foot, or $127,000 per bed. According to the Ministry of Health Capital Redevelopment Branch the current costs of building beds is in the range of $80 - $158,000 per bed. The proposed costs for Pioneer Manor are within an average range.

## CAPITAL FINANCING

The total estimated value of this capital project is $22.1 million. The municipal share of this project is $13.1 million and the provincial share is $9 million. The $13.1 million municipal share is composed of $7.1 millions cash on hand previously assigned to this project and $6 million from the health and social service capital envelope achieved over the next 11 years. The portion of the project which requires debt financing can be covered by the provincial revenue stream principle and interest over the next 20 years. The capital per diem retro of $60,000 for the 122 beds classified as "B" and "C" level structural compliance should be placed into the reserve for Pioneer Manor's capital redevelopment until required for repayment.

## Capital Policy

The capital policy passed by Budget Committee of the Whole in April 2001 cited the two objectives of the capital policy as: the preservation of existing infrastructure, and the promotion of economic development. To achieve that goal it was recommended that the City make every effort to reduce operating costs thus liberating funds for capital projects, the City continue to make every effort to optimize user fees to generate revenue for capital projects, the City make every effort to maximize grants and or subsidies for capital projects and that the City continue to seek alternative methods of maintaining, building and financing capital infrastructure. It was further recognized that debt financing would be the best method of financing projects where there is an identified source of new revenue which will fund the repayments over time.

## Preferred Accommodation

As discussed in the report of EHE International Inc., the number of preferred accommodation billings have doubled each year over the past two years at Pioneer Manor. It is projected that Pioneer Manor will experience 15% annual growth in preferred accommodation billings which will enable the facility to maximize the number of rooms billed at preferred rates within a period of 10 years. The preferred accommodation principles as provided by the Provincial Government permit facilities to charge preferred rates for up to 60% of their accommodations leaving 40% at basic or subsidizable rates. As identified in the consultant's report conservatively $550,000 in revenue could be available once the preferred accommodation revenue is actualized. The capital formula does not account for these revenues but the option is there to reduce the debt more quickly should they be received as predicted.

## SUMMARY, NEXT STEPS

The report of EHE International Inc., examined the options of lease to own through the private sector and debt financing by the City. Given the cash on hand to commit to this project and the provincial revenue stream to offset the $9 million contribution received from the Ministry of Health over time, it is recommended that the City of Greater Sudbury commit to the redevelopment of Pioneer Manor through debt financing funded by a revenue stream from the Ministry of Health over a period of 20 years.

file

# *Société* Alzheimer *Society*

S U D B U R Y - M A N I T O U L I N

RECEIVED
FEB 21 2000
CS
Pioneer Manor

February 16, 2000

Ms. Catherine Sandblom,
Administrator,
Pioneer Manor,
960 Notre Dame Avenue,
Sudbury ON P3A 2T4

Dear Catherine,

At the January 17, 2000 meeting of the Board of Directors of Société Alzheimer Society Sudbury-Manitoulin the following motion was passed:

"That the Society express their intent to explore the possibility of relocating at Pioneer Manor".

The Board asked me to indicate to you their intention of renovating a portion of C and /or D wings, once your residents have been relocated. By the end of this month we expect to provide you with an estimate of the square footage which we would require.

We look forward to continuing to work with you in the development of the Seniors Campus.

Sincerely,

Patricia Montpetit

Patricia Montpetit
Executive Director

Forget Me Not
Ne m'oubliez pas

SOCIÉTÉ ALZHEIMER SOCIETY SUDBURY-MANITOULIN
970 NOTRE DAME AVENUE
SUDBURY, ONTARIO P3A 2T4
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Société Alzheimer Society
SUDBURY-MANITOULIN

June 1, 2001

Ms. Catherine Sandblom,
Administrator,
Pioneer Manor,
960 Notre Dame Avenue,
Sudbury ON P3A 2T4

Dear Ms. Sandblom,

As you are aware, the Société Alzheimer Society Sudbury-Manitoulin has been a founding member of the Steering Committee for the development of a Seniors Campus on the grounds of Pioneer Manor. We are continuing to pursue our goal of establishing a new Alzheimer Centre which will allow us to meet the growing demand for our services.

During the past year, we received a grant from the Ministry of Health and Long Term Care which enabled us to engage the firm of Nicholls, Yallowega, Belanger Architects to prepare a space requirements program and preliminary design for the development of our new facility. We propose to renovate 10,500 square feet of Wings C and D in Pioneer Manor to create a new Adult Day Centre, overnight respite area and office space for the Alzheimer Society.

Preliminary estimates indicate that these renovations will cost approximately 1.5 million dollars. Our Board of Directors is preparing to embark upon a capital fundraising campaign.

We agree that the Société Alzheimer Society Sudbury-Manitoulin will be responsible for the costs of water, hydro and maintenance of the area which we will occupy in Pioneer Manor, similar to our present arrangements in our temporary building on your grounds. We understand that there would be no further charges incurred by the Society for the use of the space.

Our Board has asked if additional space in Wing D (up to the present dining room and servery) could be earmarked for future needs and expansion by the Alzheimer Society, if it is not needed for other development.

We look forward to continuing a fruitful partnership with Pioneer Manor and other community agencies in the development of a continuum of services on the Seniors Campus.

Sincerely,

Patricia Montpetit

Patricia Montpetit
Executive Director

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REPORT

**FINANCING, CONSTRUCTION AND OPERATING ADVICE**

**PIONEER MANOR**
**LONG TERM CARE FACILITY**

**CITY OF GREATER SUDBURY**
**SUDBURY, ONTARIO**

**Prepared by**
**EHE INTERNATIONAL INC.**

**June 2001**

18

## Executive Summary

EHE was engaged by the City of Greater Sudbury to provide advice on operating, financing and construction options for the required redevelopment of Pioneer Manor. Designated a "D" facility by the Ministry of Health, Pioneer Manor requires redevelopment to meet current standards and to attend to the current and future needs of residents. The estimated cost to rebuild 128 long term care beds at Pioneer Manor and to renovate 92 long term care beds (total 200 beds) is $22.1 million.

An examination of construction, operation and financing was undertaken and are presented in this report. The two financing options presented are lease to own through the private sector and debt financing with a provincial revenue stream to offset principle and interest payments. The debt financing method is financially more economical given the higher financing costs associated with leases and the additional costs associated with GST charges and changes in property status and taxes.

# Table of Contents





20

## Introduction

This document was produced by EHE International Inc., a health services consulting firm with experience in all aspects of developing long term care facilities. EHE was engaged by the City of Greater Sudbury to provide advice on operating, financing and construction options for the required redevelopment of Pioneer Manor. A review of the documentation available to the consultants shows the desire and need to redevelop Pioneer Manor, designated a long term care facility 8 years ago. The 342-bed facility is the largest of its kind in northern Ontario, and the 11th largest facility in Ontario. The 168, 000 square feet of interconnected buildings, developed over time, occupy a site of approximately 20 acres, and consist essentially of single-storey facilities, with a small area of two-storey accommodation. The physical accommodations do not meet current standards of design for long term care in accordance with Ministry of Health and Long Term Care guidelines produced in May, 1998.[1]

As one of three operators of long term care in the City of Greater Sudbury (Extendicare operates two facilities, Finlandia Koti and the City of Greater Sudbury), and given that additional new beds have been awarded to the area by the Ministry of Health and Long Term Care, it will be necessary for Pioneer Manor to keep abreast of trends and needs to ensure that its excellent reputation for exemplary care is maintained and enhanced.

Partly based on affordability to bring Pioneer Manor to full compliance of redevelopment to Category D requirements, the Ministry agreed to redesignate Pioneer Manor as a "multi-level" facility[2], to consist of the following designations along with capital funding eligibility:

| | |
|---|---|
| 32 beds as Category "B"; | $1.25 per diem forever |
| 90 beds as Category "C"; | $.50 per diem forever |
| 220 beds as Category "D"; | up to "$10.35 per diem adjusted against a maximum construction cost of $75,000 per bed . . . paid as operating funds for 20 years on opening of the replacement beds." |

As a result of the above, the City of Greater Sudbury agreed to embark upon a phased approach to redeveloping and upgrading its facilities. Upgrading dietary services and improving the supply

1 ***Long Term Care Facility Design Manual.*** Long-Term Carre Division. Ministry of Health. May, 1998.

2 Refer to correspondence from Ministry representative to Director of Pioneer Manor and Seniors Services, dated May 5, 1999.

and distribution of meals for residents to ensure both a compliance to Ministry planning guidelines and to make conditions more acceptable for the residents became a priority for Pioneer Manor. The expected completion of the dietary renovations is July 2001. The City of Greater Sudbury is using its own funds, as an advancement of the redevelopment of Pioneer Manor, to carry out the much needed changes.

*Representatives of EHE International Inc., have reviewed the scope and magnitude of the dietary physical and equipment changes, and how they might fit in to the overall scheme of redevelopment for Pioneer Manor. It would appear that the proposals and plans make eminent sense functionally, providing a much improved dietary service for residents in terms of their comfort and staff in terms of improved efficiency and working environment.* ***EHE fully supports this development and Phase of dietary work, recommending that it proceed according to the schedule for its completion regardless of how the overall redevelopment plan and requirements for financing proceed.***

Corporate Services, Health and Social Services, and Administration for Pioneer Manor have produced a number of papers and drafts on how best to address the redevelopment needs of Pioneer Manor, including identifying appropriate methods for financing the physical redevelopment plans. As part of a larger vision to provide a comprehensive range of geriatric services for seniors citizens of the City, Pioneer Manor is an important component, offering considerable potential to the future of long term care in the area.

It is understood by EHE International Inc., that the City of Greater Sudbury has a policy of incurring debt under 2 conditions: 1) if there is a revenue stream to offset capital costs. 2) there is a large scale project which will serve the public for generations to come. Given the past municipal restructuring process in Sudbury as well as other changes taking place in restructuring health services in Sudbury, the City of Greater Sudbury wishes to find and explore practical ways of financing the necessary upgrade of Pioneer Manor. In this regard, the

City of Greater Sudbury decided to retain consultants to assess financial and construction options that could meet the redevelopment needs of Pioneer Manor.

In November, 1999, EHE International Inc., was awarded the project through a tendering process. The recommendation of a selection committee was presented to and accepted by Regional Council November 24, 1999.

**Terms of Reference**

Objective: *Retain a consultant to undertake a comprehensive analysis and recommendation for financing, construction and operation of Pioneer Manor. Identify impact upon the Corporation, the facility and the community.*

*Financing:* *Explore the financing options which are available in the current market and make a recommendation. Example; bond issue, lease to buy back, management fee for the construction and operation of the newly renovated areas, internal financing from municipal reserves and others.*

*Construction:* *Explore construction options such as Project Management, Traditional Tender or others. What are the costs, benefits and risks of each.*

*Operation:* *Explore options for the operation of Pioneer Manor;*

Considerations:

A number of considerations and previous policy decisions were also to be addressed.

*1)* *In keeping with the Master Plan authority of 1994, Regional Council has recommended: 1 facility, 1 site, Upgrade to current long term care standards and develop a Seniors Campus.*

EHE has reviewed the Master Plan and the Region's intentions to develop a Seniors Campus. While this project focuses on Pioneer Manor and how best it might be redeveloped and capitally financed, there is strong support for the redevelopment of the Manor to meet the growing needs of an aging population. Redevelopment of Pioneer Manor and its site should be cognizant of current and future needs of seniors residing in the community and the provision of a full continuum of care. The development of a seniors campus, possibly in the direction of a northern site for geriatric research, while ambitious is possible, is underway and should be given every encouragement to succeed.

2) *Architectural review has recommended replacing 128 long term care beds at Pioneer Manor with newly constructed beds, and renovating the other 92 long term care beds at the site of Pioneer Manor, the remaining 122 beds would have the common areas renovated. Therefore, 220 long term care beds would be at the A standard accommodation level through a mix of new construction and renovation. The remaining 122 long term care beds will have the common areas brought to A standard accommodations but will be maintained at the B and C standard level of accommodation for bedrooms.*

3) *In any new construction there will be the need to consider the viable mix of private and semi-private rooms given current market trends.*

There will also be the need to consider palliative care residents and those with dementia in the layout of accommodation. Families and staff also need to be considered in terms of accessibility and efficiency of services. The provision of one and two-bed rooms must be flexible in assignment and provision. There are many emerging examples of rooms design and arrangement that will better respond to the needs seniors.

4) *Need to position facility for changing demographics and the expectation of the community for higher quality accommodations.*

Additional, newly constructed long term care beds are required in the City of Greater Sudbury (254) according to government studies (Ministry of Health). These new beds have been awarded to Jarlette in the Valley East location and the sisters of St. Joseph in the City. The growing needs of seniors and the increase in supply of new long term care beds will place Pioneer Manor in a competitive position in the general market place. Pioneer Manor is the only D facility in Sudbury and this means it has substandard physical accommodation in Long Term Care. Providing beds in new construction is one sure way of meeting the expectations of a changing society, and remaining competitive within a growing field.

5) *Municipal Contribution to Pioneer manor's operating budget.*

The Municipality currently supports the Manor in the amount of $3.00 per resident day based on 100% occupancy ($400,000 annually). This contribution will be maintained as long as the Municipality retains possession of Pioneer Manor. In similar urban municipalities it is common to find municipal contributions at $24 per resident day ($3 million annually) for a facility the size of Pioneer Manor. Certainly economy of scale and operating effectively are the contributing factors to the reasonable municipal contribution at Pioneer Manor.

6) *Ministry of Health's position on alternate financing and construction options.*

The Ministry of Health is looking at all options to progress the development of new beds and of re-development D level beds. There are moves on the part of government to examine private sector involvement in all aspects of capital investment related to the redevelopment of health care facilities. Opinions vary, and generally proceed on a case-by-case basis.

**Recommendation(s)**

While a recommendation for financing, constructing and operating Pioneer Manor is a prime objective of this analysis, this document provides information on what is available in the health field and other sectors generally, and how they might apply to the health field, and in particular to Pioneer Manor and the City of Greater Sudbury.

Before proceeding with the analysis the following observations can be made that help to make the project viable and feasible:

- the City of Greater Sudbury is open to alternative ways to finance, construct and operate Pioneer Manor;
- the facility appears to be well run and clean, with many signs of a truly caring staff and residents who seem to be contented. We understand that a policy of "hush, no rush" is in place "Gentle Care" for dementia.

- the size of Pioneer Manor (342 beds) is, based on our experience, an economical size to operate efficiently, although we have noted the very long corridors that can make for inefficiency (e.g., transporting food carts, etc.). However, improvements are planned in current renovations, but a tighter building design and layout could improve efficiency as well as make the living environment more suitable for the residents.

- the vision of the City with respect to developing a Seniors Campus is, in our view, a most worthy objective, one that will enhance geriatric services not only locally but in Northern Ontario.

Following the Background section, the analysis is presented under the three main headings of construction, financing and operation, completing with two alternatives for consideration.

## Public Private Partnerships in Health Care

### Background

The Ontario health care system continues to undergo major stress in responding to ever-increasing financial pressures and with preparation of unprecedented growth in the seniors population. New planning and capital funding guidelines and approaches in long term care have been added to manage the challenges ahead.

It is estimated that Ontario's health system, essentially hospitals and long term care facilities, is considering more than $10 billion capital development over the next five years, of which at least $7 billion is required by hospitals and another $1.5 billion is required for implementing Information Technology. The Long Term Care sector of Ontario's health industry is looking at more than $1.5 billion to replace and upgrade facilities required to meet a rapidly aging society where dementia places an added emphasis on meeting long term care needs.

The Ministry of Health and Long Term Care (MOHLTC) current capital funding policies for capital projects include, generally, 70% for capital projects arising out of restructuring directives issued by the Health Services Restructuring Commission and 50% for other approved capital projects. MOHLTC does not fund information technology investments for Ontario hospitals (nor for long term care facilities). To date, health care organizations have used reserves and internal resources to fund the owner's share of capital and information technology projects. These sources are drying up. Debt is on the increase while competitive fund-raising opportunities are facing massive challenges, making the realization of new projects using traditional approaches for funding of capital projects almost formidable. The Long Term Care sector is no exception.



26

There are pressures on municipalities to enhance their own long term care services. The provincial government has required owners to contribute to the required financing to upgrade current facilities to meet new planning and design standards that will meet the growing needs of an increasing acuity and number of older seniors. In 1998, the provincial government shifted the responsibility of financing capital projects, requiring owner operators of municipal public long term care facilities to finance capital projects themselves with the support of grants issued over time. While some authorities have the means to cover the capital financing requirements, others do not. Some municipalities have chosen to not approach the tax-payer for more contributions. Others have chosen to remain debt free, leaving them to seek alternative ways to raise the necessary funds, either from within their own reserves or through external sources.

Health care facilities need to invest if they are to meet the future demands and needs of a developing society.

## Construction

Construction has its own risks, and requires an experienced professional to contain and manage them. There are many entities experienced in helping all kinds of users to articulate their needs. Sadly to say, TRUST and INTEGRITY does not exist in all of them. However, most of them can use their expertise to create facilities that optimize long-term quality, efficiency, flexibility for future changes, use of leading-edge technology, and ongoing costs.

Construction markets also have their own dynamics. The ability to anticipate "movements" has significant ramifications. (For example, in 1990, a building design was switched from concrete to steel because it was foreseen that other large concrete construction projects were going to extend delivery times, increase costs, and strain supply for that material. As a result, the particular building was completed more economically and earlier than projects that had started before the project.).

There are also many opportunities to reduce general operating costs of a building through careful design. The mechanical and electrical systems, communications systems and other working parts of a building need to be sized according to the specific needs of the building occupants, at the same time providing flexibility for future use and changes in occupancy use over time. The design of a building will also make an impact on how it is used by its occupants for the functions identified. A well prepared functional specification based on thorough user input will generally make a good base on which to develop optimal design layouts and arrangements of space that will consider operational efficiency as a prime objective.

Economies in the building process can also be achieved through good design, and GOOD PROJECT MANAGEMENT. The management can be obtained by the operator hiring a skilled technical person to oversee the design and construction of the project: either directly or indirectly. The Ministry of Health and Long Term Care has, over time, expressed varying opinions on the use of Project Management to control capital projects. Currently, there appears to be support on the part of the Ministry for health care organizations for which it is responsible to obtain the services of a Project Manager or firm to oversee and manage all aspects of a significant capital development program.

## Construction Contracts

Generally, they fall into the following categories.

| TYPE | POSITIVES | NEGATIVES |
|---|---|---|
| Tender-stipulated sum | Price guarantee<br>Lower risk<br>Higher fee | Lack of flexibility for changes<br>Slower - must wait for all tenders + plans<br>Difficult to phase<br>"Adversarial" viz extras |
| Cost Plus | Flexible<br>Fast - can begin before plans completion<br>Some teamwork | Higher risk re cost<br>No guarantee |
| Project/Construction Management | Fast - can begin before plans completion<br>Flexibility<br>Good teamwork | Risk re cost<br>No guarantee |
| Design/Build | Client work mostly done at start of build<br>Benefits of expertise<br>Price guarantee<br>Fast<br>Designer/Builder improved co-ordination | While not a negative, the client must be well prepared at the beginning of the project, and ready to sign off early in the process. |
| Hybrids | Combination of above positives and negatives, depending on approach | |

# Finance

## Private Sector Involvement

There are a number of key considerations when seeking financing for capital expenditures including:

- cost of funds
- risk
- access to capital markets
- ability to repay debt.

The ability to repay debt is the most important of these prime considerations. While there is considerable sensitivity around the issue of debt repayment, at least as much sensitivity centres around private sector involvement in the publicly-funded and controlled health care system. However, there are opportunities for public sector/private sector partnerships in which both parties have mutual respect for each other, and share a common vision and approach to working together.

A scan of financing approaches in Ontario's health care system reveals that there are a large number of options and opportunities under consideration. Implicit in all of these "options" is the question of risk, a factor that must be considered in any private/public sector relationship. Government and those within the public sector who are empowered with the responsibility and accountability for operating health care services wish to maintain control over their operations and capital assets. There is a strong focus on balancing operating budgets and not operating at a loss (deficit). At the same time, they seek to minimize their risks. The private sector also has a responsibility for making a business work, and is accountable to its shareholders for making a profit. How to balance these responsibilities and accountabilities, is key to a successful venture between the public and private sectors.

Financial markets are not totally rational from a customer's perspective. On any different day, certain institutions have different appetites for each type of business. A recent example was that of an institution had a directive to increase its share of MUSH[3] business and priced more aggressively (lower) to get it. As soon as it reached its objective, its pricing went from best to worse in this sector.). An understanding and anticipation of these elements can influence the deal-making opportunities.

[3] **M**unicipalities **U**niversities **S**chools **H**ospitals

## Partnerships

Capital financing approaches are quickly being identified by both public and private sector entities. Each seek to protect their interests while, at the same time, seeking to maximize the best return on a "deal". The ability to repay debt is still the main issue. However, new financing initiatives will emerge as the public and private sectors begin to trust and collaborate with each other. At least lowering, if not completely removing the barriers between these two sectors will help pave the way for new opportunities where both parties will WIN. Ontario's Health Care System is on the edge of major change in how it goes about the business of health care delivery. There are many examples of how private sector can work with the public sector where risk is transferred from the public sector to the private sector, but for a price! Achieving value for money is a real test for the many "partnerships" that will be forged between the private and public sectors. These partnerships will depend on each identifying their own respective needs and their abilities to respond to each other's needs in a way whereby the products (building and technologies) and services (health care, and related research and education) will suit the identified needs of those using the health care facilities (patients in hospitals and residents of long term care facilities).

There are several financing options to be considered. In general, these concepts of finance are straightforward and relatively uncomplicated, although the vocabulary can be confusing and unhelpful at times. Basically, the alternatives include:

- debentures
- bonds
- mortgages
- loans
- leases

Each alternative has the common element of a fixed payment stream (typically monthly, quarterly, semi-annually) that returns investor capital and a return on that capital. The first four (debentures, bonds, mortgages and loans) are on balance sheet items: they appear as a liability. These direct borrowings have the advantages for the financial markets of clarity, familiarity, lowest perceived risk and consequentially, lowest costs. However, these direct borrowings theoretically use capital that could have funded something else. Leases, depending on whether they are capital or operating, may or may not appear on the balance sheet, but will contain similar provisions of a fixed payment obligation over time.

### Debentures and Bonds

These (and loans) are very similar because they call for fixed principle and interest payments. Bonds have typically been used to divide a loan amongst many investors. The best known example is the Canada Savings Bond. Bond issues tend to have higher legal, underwriting, and ongoing administrative fees, but offer (in public issues) the opportunity to sell the units on any day in the public market. In return for this liquidity, investors will accept a lower (slightly) interest rate than with a private illiquid investment (i.e., a mortgage). A recent prominent example of using a bond process in the health care field is that of the University Health Network, Toronto that secured from the capital markets $251 million financing through a 25 years amortizing bond issue for redeveloping its facilities, requiring repayment through elimination of redundant assets, lower maintenance costs, and reduced capital expenditures on facility upgrades.

### Mortgages

Mortgages tend to be private (1 or a few investors), and are secured by real estate. There are numerous examples of mortgages.

### Leases

The benefit of leases is that they are generally off-balance sheet items. Notwithstanding, the organization continues to undertake a binding obligation, and will pay a higher implicit financing cost for the off-balance sheet structure. The organization will need to decide whether it prefers direct borrowing which shows a debt liability on the balance sheet or an alternative structure (i.e., a lease) at a premium of up to 1% on the amount required to be financed. The following structure is possible. An organization would lease its land to a private sector developer for, say, 20 years for $1, on which the developer would build a building in accordance with specified needs. At the end of the lease, the building ownership would revert to the organization.

Corporate Services states the following under "External Financing" in its June 3, 1999 **Committee of the Whole** document:

> "A lease/buy-back arrangement for only a portion of an expansion to a building may be available through the capital leasing arm of a bank, or through a developer/contractor. **However, indications are that a lease/buy-back arrangement could actually add up to 1% more in financing costs."**

While Corporate Services acknowledges the benefit of not showing the debt on the balance sheet of the City of Greater Sudbury, it emphasizes private sector costing more money, and makes this statement in its submission.

"It is more than likely that any arrangement with the private sector will cost more to finance than by going to government directly for funds or by borrowing from internal resources," as suggested by Corporate Services.

**Other Considerations**

*Pricing*

Pricing in this context relates to technical risk the investors assess a client's credit to carry. In Canada, the federal government has the highest credit rating (i.e., lowest risk) and achieves the lowest interest rate. Ontario is very close in these matters and pays slightly more (40-45 basic points or .40 to .45 of a percentage point). A municipality would achieve the lowest cost to the extent that it can present itself to be as near as possible to a provincial risk. Should a municipality receive an excellent rating, lenders will accept its signature favorably on an unsecured basis. Certain lenders may improve the interest rate if the bond is secured by a first assignment of provincial funding, up to the limit of the loan payment. This gives the lender a position technically closer to the ultimate source of funds, in this case the province, and can earn a lower interest rate. These pricing variables will likely apply to a bond, mortgage or lease financing structure.

*Prepayment Options*

These are generally possible in bond issues. Similar to the pricing premium between fixed and flexible mortgages, a client will want to evaluate the interest rate premium against the flexibility of being able to prepay some or all of the loan, particularly should fund raising proceed faster than budgeted. Alternatively, prepayment fees, payable only of exercised may be negotiated.

*Customization*

In general, there are many opportunities to customize financing to meet particular needs. Borrowers experienced in high-grade financing arrangements, can assist in identifying a client's priorities, opportunities and constraints, and create financing arrangements that match closely a specific situation. This includes achieving best costs with needed flexibility. For example, a client may have a preference for one of monthly, quarterly or semi-annual payments. The client may have a preference to have no payments during construction or lower payments in the early years of operation. These opportunities, and many others, can be identified, but they come with a cost that will need to be evaluated.

*Term and Amortization*

A 20-year term and 20-year amortization are desirable characteristics today as they tend to attract excellent (low) pricing. The purer and simpler the instrument, the lower the interest rate, but a rational cost-benefit analysis would be required on custom items.

## Operation

Pioneer Manor is owned and operated by the City of Greater Sudbury. The Municipality is responsible for no other similar facilities thus requiring it under provincial government legislation, to continue to own and operate the facility. Many municipalities have considered relinquishing their responsibilities in long term care, while others have considered alternative ways to manage their responsibilities, perhaps working with other public sector organizations (e.g., hospitals) or the private sector (e.g., nursing homes) in some form of a joint arrangement (e.g., sharing support and/or administrative services). Any consideration of this approach will need to address the requirements of the Provincial Government with respect to transfer of the operating license, and the transfer of assets as described in a policy document[4]. Further, given the minimal operating cost levied to the municipality in Sudbury the opportunity of transferring management to obtain greater efficiencies does not present itself as dramatically as it has in municipalities with millions of dollars in operation deficits. It has been expected for some time that municipalities will have the choice of being a provider of Long-Term Care versus being obligated to provide Long-Term Care. The legislation for Long-Term Care which includes that language of choice of operation is with the legislator at this time.

[4] ***Policy: Disposition of Ministry Funded (Real) Asset and (Moveable) Assets.*** Long Term Care Division of Ministry of Health (now Ministry of Health and Long Term Care).

Pioneer Manor has an annual operating budget of approximately $12.0 million (approximately $35,000/bed based on 342 beds), of which a little more than $10.0 million covers wages and benefits of 129 full time staff positions. Provincial grants and user fees make up almost 100% of the revenue. The Municipality contributes approximately $450,000 to the operating budget (about 4%). The 342-bed facility is large by comparison to other long term care facilities in Ontario (largest in northern Ontario), helping it to draw upon its scale to be efficient and relatively self-supporting. Pioneer Manor runs close to a break-even point in operation, compared to other municipal homes. Its current Case Mix Index of less than 90 provides an opportunity for growth in the overall acuity of its residents and provincial operating revenues. As the community ages there will be a greater dependence on a long term care facility. An increase in the acuity of its residents will qualify the facility for an increase in provincial funding.

Two of the three alternative redevelopments considered by the City of Greater Sudbury for upgrading its facilities is that of relocating the identified 128 new beds to another site (Alternative 2), possibly to be run by another organization (Alternative 3). Experience shows that a free-standing facility of this size is not efficient to operate unless associated with another facility where administrative and support services can be shared, thus taking advantage of economies of scale to be achieved through a larger arrangement. Furthermore, this proposal would see Pioneer Manor's bed complement reduced to 214, moving the facility in a direction of less than optimal efficiency based on a smaller operating scale and less revenue with which to operate. While the Municipality's own analysis indicates that the $32,000 per bed times 128 beds would be a loss to Pioneer Manor, the cost to operate each remaining bed (214 remaining beds) would likely increase. Analysis of other municipal long term care facilities show costs per bed above $40,000 for those in the 128-bed range and between 35,000 and $40,000 per bed in the 214-bed range. While caution must be exercised in using these numbers as a comparison due to differences in operations, etc., they do, nonetheless, indicate a potential problem for the Manor should it consider splitting its beds and services along the lines indicated.

Developing the 128 beds in new accommodation will not only permit needs of residents to be more appropriately met, but will introduce efficiency benefits in operating the beds through improved design of building systems as well as the functional layout of the facility.

If the new beds, in new accommodation, remain on the present site and linked into the on-site administrative and support services, then economies of scale will be retained, if not improved as a result of the proposed upgrading of services.

Should Pioneer Manor make use of the space vacated by resident living accommodation, then opportunities exist to rent or lease the vacated space to other parties, perhaps as part of the Seniors Campus, which will result in sharing support services and broadening community partnership.

In terms of Public/Private Partnership arrangements with respect to operating the facilities as part of a redevelopment and financing process, a number of alternative methods are possible. However, in the case of Pioneer Manor, and the fact that its operations are efficient and effective as shown by its budget, there may be little advantage in pursuing such arrangements other than should a private sector investor wish to cover the risk aspect of the selected financing venture by taking over the operation and management of the facility. Consideration might be given to having the private sector taking care of the built environment in the most optimal way possible, leaving the public sector, in this case Pioneer Manor, to look after providing the programs and services for residents in the most efficient way possible. A simple concept to present, but not necessarily easy to achieve.

## Alternatives

This last section of the report discusses two possible alternative ways for Pioneer Manor to be re-developed. None of the alternatives discuss private sector involvement in operating the facility while the City maintains ownership of Pioneer Manor, mainly because there would appear to be no advantage to either the private sector or the City to go this route. Complete or partial transfer of Pioneer Manor to the private sector would, at this time, involve consideration of tax exemption, transfer of assets, transfer of licence and changes in employment situations.

### Options

Option 1 — Build 128 new beds and renovate 92 beds and upgrade other areas as identified in architect's list of renovation projects.

The City would be responsible for financing the building of the 128 new beds and for upgrading of Pioneer Manor (92 beds) using both internal and external financing. The City would be responsible for financing the upgrading of Pioneer Manor (92 beds) using its own funds and that of provincial government flowed through the per diem allowances described later.

Option 2 — Build 128 new beds (4x32-bed units in two-level accommodation - more economical to build on two levels versus a single level) consisting of all accommodation required in a Resident Home Area (as defined in the Ministry's Planning Guidelines); renovate 92 beds and upgrade other areas as identified in architect's list of renovation projects - refer to later section.

The City would be responsible for financing the upgrading of Pioneer Manor (92 beds) using its own funds and that of provincial government flowed through the three per diem allowances described later. The Private Sector would finance the new beds (128) using lease-back financing to the City.

The essence of this alternative is that the private sector involvement would be limited to financing the new building only, leaving the City to cover the costs of upgrading the remaining existing space in Pioneer Manor.

## Project Cost

The project cost essentially includes the cost for building new space and upgrading the existing facilities of Pioneer Manor to the requirements of the City and Ministry of Health and Long Term Care. The costs for renovating existing spaces in Pioneer manor and building new space have been provided by the architects currently working with Pioneer Manor on upgrading dietary services and support areas in various locations throughout the existing complex. The estimated capital costs were provided by the architects. ***It must be noted that the architect has made it quite clear that the cost estimates provided at this time are preliminary, and are not to be regarded as final. We cannot over emphasize the importance of not using these preliminary estimates as final costs for the project.***

The architects preliminary cost estimates have been used to produce a basic capital cost breakdown for EHE's purposes in providing capital costs for the two options.

## Capital Cost

Using figures provided in documents produced by the City, the discrete project capital costs are as follows:

| | |
|---|---|
| Upgrade 92 beds in Heritage Lane and 'B' Zone to current standards | $ 2.2 million |
| Common areas M,S,K,T | $ 3.6 million |
| 128 new beds based on $127,000/bed | $16.3 million |
| **Total Project Cost** | |
| 220 new beds using the $127,000/bed estimate | $22.1 million |

## Revenue - City of Greater Sudbury Contribution

The City of Greater Sudbury's contribution would be up front, contributing to the capital construction costs identified, leaving the balance to be financed through external financing.

**PIONEER MANOR UPGRADING**
**Estimates re Financing**

| | | $ |
|---|---|---|
| **Total cost of project $22.1 million** | | **22,100,000** |
| Upon completion of the project, the Ministry subsidy as follows | | |
| | **Annual New Funding** | |
| $10.35/day/bed for the 220 new/renovated beds, for 20 years | 831,105 | |
| $1.25/day/bed for 32 beds, forever | 14,600 | |
| $0.50/day/bed for the remaining 90 beds, forever | 16,425 | |
| This additional funding is adequate to repay external borrowing of $9,000,000 based on 7% interest rate, amortized over 20 years | | |
| **External borrowing** | | **(9,000,000)** |
| **Municipal Share** | | **13,100,000** |
| Cash on Hand | **Cash on Hand** | |
| PM Reserve Fund | (4,028,000) | |
| HSS Reserve Fund | (875,000) | |
| 2001 Envelope | (764,000) | |
| Capital remaining for C and D | (200,000) | |
| **Total Cash on Hand** | | **(5,867,000)** |
| 2001 additional funding | | **(500,000)** |
| Annual capital envelope for H & SS is $763,740 | | |
| **Commit Health and Social Services Envelope in 2002** | | ***(764,000)*** |
| **Internal Financing Required....** | | **5,969,000** |



37

**Financing Recommendations:**
**That the Capital Fund finance the balance of the project, at a 5% interest rate**

**That the annual Health and Social Services envelope be committed to repay this amount over a period of 11 years commencing in 2003.**

**However, it should be noted that upon completion of the project, and over time thereafter, the revenue at Pioneer Manor related to preferred accommodation will increase substantially.**

**It is therefore further recommended that any of this preferred revenue not required to offset increased operating expenses be applied to the internal financing loan, to decrease the term of repayment.**

## Internal Financing Health and Social Services

| Year | Interest | Repayment Cap. Env. | Principal Repayment | Outstanding Balance | HSS Env. Available |
|---|---|---|---|---|---|
| | $ | | $ | $ | $ |
| 2002 | | | | 5,969,000.00 | |
| 2003 | 298,450.00 | 718,601.00 | 420,151.00 | 5,548,849.00 | 45,139 |
| 2004 | 277,442.45 | 718,601.00 | 441,158.55 | 5,107,690.45 | 45,139 |
| 2005 | 255,384.52 | 718,601.00 | 463,216.48 | 4,644,473.97 | 45,139 |
| 2006 | 232,223.70 | 718,601.00 | 486,377.30 | 4,158,096.67 | 45,139 |
| 2007 | 207,904.83 | 718,601.00 | 510,696.17 | 3,647,400.50 | 45,139 |
| 2008 | 182,370.03 | 718,601.00 | 536,230.97 | 3,111,169.53 | 45,139 |
| 2009 | 155,558.48 | 718,601.00 | 563,042.52 | 2,548,127.01 | 45,139 |
| 2010 | 127,406.35 | 718,601.00 | 591,194.65 | 1,956,932.36 | 45,139 |
| 2011 | 97,846.62 | 718,601.00 | 620,754.38 | 1,336,177.97 | 45,139 |
| 2012 | 66,808.90 | 718,601.00 | 651,792.10 | 684,385.87 | 45,139 |
| 2013 | 34,219.29 | 718,605.17 | 684,385.88 | (0.00) | 45,135 |
| | 1,935,615.17 | | 5,969,000.00 | | |

A small portion ($45,000) of the Health and Social Services envelope has not been allocated for repayment of the internal financing in order to allow any small miscellaneous capital projects to be undertaken during this period. It is also recommended that any additional preferred accommodation revenue not required to offset operating expenses be applied against this internal financing to decrease the term.

## Provincial Revenue Cash Flow

| Year | Interest<br>$ | Repayment<br>$ | Principal Repayment<br>$ | Outstanding Balance<br>$ | Provincial Funding<br>$ | Annual Funding to Operating<br>$ |
|---|---|---|---|---|---|---|
| 2002 | | | | 9,000,000.00 | | |
| 2003 | 613,298.97 | 837,322.80 | 224,023.83 | 8,775,976.17 | 862,130.00 | 24,807.20 |
| 2004 | 598,033.02 | 837,322.80 | 239,289.78 | 8,536,686.39 | 862,130.00 | 24,807.20 |
| 2005 | 581,726.77 | 837,322.80 | 255,596.03 | 8,281,090.36 | 862,130.00 | 24,807.20 |
| 2006 | 564,309.35 | 837,322.80 | 273,013.45 | 8,008,076.91 | 862,130.00 | 24,807.20 |
| 2007 | 545,705.04 | 837,322.80 | 291,617.76 | 7,716,459.15 | 862,130.00 | 24,807.20 |
| 2008 | 525,832.94 | 837,322.80 | 311,489.86 | 7,404,969.29 | 862,130.00 | 24,807.20 |
| 2009 | 504,606.67 | 837,322.80 | 332,716.13 | 7,072,253.16 | 862,130.00 | 24,807.20 |
| 2010 | 481,933.95 | 837,322.80 | 355,388.85 | 6,716,864.31 | 862,130.00 | 24,807.20 |
| 2011 | 457,716.22 | 837,322.80 | 379,606.58 | 6,337,257.73 | 862,130.00 | 24,807.20 |
| 2012 | 431,848.18 | 837,322.80 | 405,474.62 | 5,931,783.11 | 862,130.00 | 24,807.20 |
| 2013 | 404,217.39 | 837,322.80 | 433,105.41 | 5,498,677.70 | 862,130.00 | 24,807.20 |
| 2014 | 374,703.71 | 837,322.80 | 462,619.09 | 5,036,058.61 | 862,130.00 | 24,807.20 |
| 2015 | 343,178.84 | 837,322.80 | 494,143.96 | 4,541,914.65 | 862,130.00 | 24,807.20 |
| 2016 | 309,505.73 | 837,322.80 | 527,817.07 | 4,014,097.58 | 862,130.00 | 24,807.20 |
| 2017 | 273,537.99 | 837,322.80 | 563,784.81 | 3,450,312.77 | 862,130.00 | 24,807.20 |
| 2018 | 235,119.25 | 837,322.80 | 602,203.55 | 2,848,109.22 | 862,130.00 | 24,807.20 |
| 2019 | 194,082.49 | 837,322.80 | 643,240.31 | 2,204,868.91 | 862,130.00 | 24,807.20 |
| 2020 | 150,249.31 | 837,322.80 | 687,073.49 | 1,517,795.43 | 862,130.00 | 24,807.20 |
| 2021 | 103,429.15 | 837,322.80 | 733,893.65 | 783,901.78 | 862,130.00 | 24,807.20 |
| 2022 | 53,418.46 | 837,322.80 | 783,904.34 | (2.56) | 862,130.00 | 24,807.20 |
| | | | | | | 31,025.00 |
| | 7,746,453.44 | 16,746,456.00 | 9,000,002.56 | | 17,242,600.00 | |

## Preferred Accommodation

Preferred accommodation billings have doubled each year over the past two years. It has dipped in the last half of 2000 which reflects the opening of new beds at Hoivakoti. This trend may not sustain itself over the short-term as other new beds are opened in the Sudbury area, however for the mid- to long-term, it is not unreasonable to project that Pioneer Manor will experience 15% annual growth. At this rate, it is predicted that Pioneer Manor would achieve full preferred accommodation billing within ten years.

In a best case scenario, based on current trends in preferred accommodation requests and the predicted mix of private and semi-private accommodation demands, it is estimated that Pioneer Manor could, within ten years, realize total preferred accommodation revenues in the order of $1,000,000 on an annual basis.

In a more conservative scenario, where it is assumed that new accommodation is billed at semi-private rates only, Pioneer Manor could, within ten years, realize total preferred accommodation revenues in the order of $700,000 on an annual basis.

NOTE
In its 2001 budget, estimated preferred revenues of $145,000 were used to offset operating expenditures. This amount should be reserved from the projected potential future revenues for operating purposes. This would leave an amount of $850,000 for capital purposes in the best case scenario, or if projecting conservatively, an amount of $550,000 for capital purposes.

## Summary of Options

| OPTIONS | 1City of Greater Sudbury Rebuild 200 beds, renovate 92, through debt financing with provincial revenue stream to cover payments of principle and interest | 2 Lease to Own 128 New beds, City of Greater Sudbury responsible for renovation of 92 beds. |
|---|---|---|
| **CAPITAL EXPENDITURES** | | |
| **PROJECT COST**<br><br>Costs based on architect preliminary cost data | $22.1 million | $22.1 million |
| **REVENUE** | | |
| **The City of Greater Sudbury contribution**<br><br>The amounts identified represent "up-front" money for the project | $13.1 million | $13.1 million |
| **Finance Requirement** | $9 million | $9 million |
| **Ministry of Health and Long Term Care contribution**<br><br>Annually<br><br>20 years Total<br><br>Total per annum<br><br>TOTAL OVER 20 YEARS | <br><br><br>$862,130<br><br>$17.2 million | <br><br><br>$862,130<br><br>$17.2 million |
| Principal and interest repayment<br><br>Principal and interest repayment | $837,322 annually<br><br>$16.7 million over 20 years | $903,355 annually<br><br>$18.0 million over 20 years<br><br>This repayment is not fully supported by provincial funding. Therefore, there would be a funding impact on the City of $66,000 per year for 20 years. |
| Differential in Cost of Project if External Borrowing vs. Lease to Own is $1.3 million in financing costs over 20 years<br><br>Further considerations related to Lease to Own include the Costs of:<br>1) Property Tax Status if Ownership Outside Municipal Hands<br>2) GST Charge on Lease Payments | | |

In summary, from a pure financial perspective it would appear that option 1 provides a better value for money solution to meeting Pioneer Manor's future needs. There is a difference of $66,000 per year for 20 years in direct financing costs in the lease to own methodology. Further there would be additional costs associated with the property tax status given the leaser would technically own the property as opposed to the City of Greater Sudbury. As well, there would be additional charges for GST on the lease payments that do not exist on the loan payments.