



To: Chair and Members
Health Service Committee

From: Suzanne Oliner
Commissioner, Finance and Corporate Services

Julie Stevens
Chief Administrative Officer

Date: September 21, 2023

Subject: Funding of Hospital Local Share and Other Health Care Facility Requests

Report: HS-10-2023-1

Recommendation

WHEREAS high quality health care available close to home is critical for so many residents of Muskoka;

AND WHEREAS with an aging population, investing in health care facilities is one of the most important priorities for all levels of government;

AND WHEREAS Muskoka Algonquin Health Care has created a vision for a Made-in-Muskoka Healthcare system which is anchored by two, new, state-of-the-art acute care hospitals that will serve the entire region and communities around the District such as Almaguin and East Parry Sound;

AND WHEREAS there are ongoing grant requests from health care facilities serving the residents of Muskoka including hospitals and hospices and staff have been developing a policy to assist with the evaluation of such requests;

NOW THEREFORE BE IT RESOLVED THAT The District Municipality of Muskoka (District) **commits to contribute** a total of \$77.3 million as of December 31, 2036 towards the local share cost of developing two new hospitals in Muskoka, one in Bracebridge and one in Huntsville;

AND THAT the tax levy **be increased** annually to achieve the funding commitment and allocated to the Muskoka Hospital Local Share Reserve Fund;

AND THAT a new general tax rate **be established** to finance the Muskoka Hospital Local Share and to highlight the associated costs to property owners;

AND THAT any interest or investment income earned on the Muskoka Hospital Local Share Reserve Fund **be retained** by the District to reduce the impact on taxation;

AND THAT staff **be directed** to work with Muskoka Algonquin Health Care on an agreement for the Local Share, including reporting requirements, and report back to Health Services Committee and District Council;

AND THAT the Hospital Reserve Fund **be renamed** the Health Care Facilities Reserve Fund;

AND THAT the annual contribution to the Health Care Facilities Reserve Fund **be reestablished** in 2026 at \$100,000 with an increase of \$100,000 per year for three additional years to fund ongoing health care facilities requests in accordance with the policy, once established and approved.

Executive Summary

- The current hospitals are over capacity, outdated and do not meet best practices for patient care delivery.
- Muskoka Algonquin Health Care (MAHC) has created a vision for the future, branded a Made-in-Muskoka Healthcare system that will serve current and future generations for the next 50 years.
- The flex-design in both new hospital sites will allow MAHC to optimize service delivery depending on future innovation and access to new technologies.
- Made-in-Muskoka Healthcare is about continuing to explore how MAHC provides or supports services outside the hospital walls, closer to home, and throughout MAHC's catchment area, from Severn Bridge to Almaguin.
- There are positive economic impacts to the redevelopment including leveraging provincial funding of \$742 million or almost 77% of the project cost, 400 new construction jobs, maintaining almost 800 positions at MAHC and attracting new families for Muskoka's workforce.
- MAHC is in the early planning stages of Hospital Redevelopment and preparing to submit the Stage 1.3 documentation.
- Stage 1.3 of the capital planning process requires the community to demonstrate that it has a plan to raise the estimated local share costs related to the redevelopment project.
- The local share typically equates to around 25% to 30% of overall project costs. The local share generally comes from local hospital foundations; local municipalities, including upper-tier and lower-tier municipalities; and through re-use of existing hospital equipment and revenue streams from parking or retail operations.

- The total redevelopment project is estimated to cost \$967 million with an estimated local share of \$225 million.
- The Towns of Bracebridge, Gravenhurst and Huntsville, as well as, some municipalities from East Parry Sound have made commitments totalling \$30.5 million toward the local share.
- Benchmarking data shows that municipalities are contributing to hospital redevelopments across the Province and upper tier municipalities represent a significant portion of these contributions.
- Staff is recommending that the District make a commitment of \$77.3 million toward the local share.
- By making increasing contributions over the next 13 years, the increase in taxes for a property assessed at \$300,000 is estimated at \$4.29 per year and \$14.30 per year for a property assessed at \$1 million.
- There are ongoing capital needs for hospitals and hospices that serve Muskoka residents both within the District and outside. Once a policy is drafted and approved, staff is proposing to allocate the remaining balance in the Hospital Reserve fund of \$722,600 to finance grant requests over 2024 and 2025.
- Staff is recommending to change the name of the reserve to the Health Care Facilities Reserve Fund and to reestablish the annual contribution of \$400,000 over four years from 2026 to 2029 to finance these ongoing capital needs in accordance with the approved policy.

Origin

This report is a follow up to direction received through the 2023 budget process regarding providing options and timelines for funding MAHC's redevelopment project for two hospitals, as well as other health care facilities, the respective value proposition, reporting arrangements and the structure of reserve funds to facilitate these grants over time ([motion 52/2023](#)).

Background

In 1972, the District established a Hospital Reserve to support the development and acquisition of hospitals and their associated maintenance, equipment, and operational costs. Requests from public, municipal and isolation hospitals as well as public sanatoria and other health care facilities would be considered.

The Hospital Reserve was not utilized until 1997 when the District extended \$2.2 million to support the expansion of South Muskoka Hospital over a two-year horizon.

No health-related capital was provided between 1999 and 2009. From 2009 to 2020 contributions from the levy totalling \$5.7 million were accumulated. A total of \$5.1 million in grants have been issued since 2009. [Report HS-4-2023-4](#) provides an Appendix of

the projects that have been funded. An additional grant to Hospice Huntsville totalling \$54,000 has also been approved in 2023. There is currently \$722,600 remaining in this reserve following contributions to Hospices Muskoka and Huntsville in 2023.

During the budget deliberations in 2021, the annual levy contribution of \$600,000 was dedicated to the redevelopment of the two new hospitals in Muskoka and transferred in a new reserve fund called the Muskoka Hospital Local Share Reserve Fund. This annual contribution has been increased to \$954,000 in 2022 and \$1,396,500 in 2023 through the annual budget processes. The balance in this Reserve Fund is projected to be \$3.1 million at the end of 2023.

Analysis

Value Proposition

Current Constraints

MAHC is managing chronic over-capacity challenges where the facilities can be up to 140% occupancy. The hospitals are out of space.

The existing buildings are old (1964 and 1978) and are very difficult to adapt to new standards. Short term solutions are not the best for patient care and for the flow of staff and materials. In addition, MAHC's facilities do not meet current best practices for health care delivery – both privacy and infection control.

MAHC's Emergency Departments are half the size that is recommended for today's volumes alone.

The current facilities are negatively impacting recruitment and retention of the best care providers. Team members deserve to work in an environment that is safe and equipped with the tools and the space needed to provide excellent care.

Future Vision: Made-in-Muskoka Healthcare

This section includes information drawn from MAHC's brand vision and provides the value proposition requested by the District.

In response to the requests for a communication strategy related to the redevelopments, MAHC created a vision for the future, branded as a Made-in-Muskoka Healthcare system that will ensure what is developed is sustainable, adaptive and always aligned with where residents and visitors live, work and play.

Made-in-Muskoka Healthcare will be anchored by two, new, state-of-the-art acute care hospitals that will serve the entire region and communities around the District like Almaguin and East Parry Sound.

It's about more than bricks and mortar: MAHC is planning and building a healthcare system with its partners. Made-in-Muskoka Healthcare is about continuing to explore

how MAHC provides or supports services outside the hospital walls, closer to home, and throughout MAHC's catchment area, from Severn Bridge to Almaguin.

MAHC is partnering with the Muskoka and Area Ontario Health team, multiple hospitals including Orillia's Soldiers' Memorial and Royal Victoria in Barrie, mental health and addiction care providers and the Georgian Bay Information Network to build out the Made-in-Muskoka Healthcare system.

MAHC believes that the value for our communities is an acceptable hospital footprint that is deserved and one that will serve future generations for the next 50 years. Flex-design in both new hospital sites will allow MAHC to optimize services delivery depending on future innovation and access to new technologies.

In addition, the new facilities will attract healthcare professionals to live and play in our communities – not just to Bracebridge or Huntsville, but across the District. MAHC's Made-in-Muskoka healthcare vision is a competitive advantage. Over the last three years alone, MAHC has attracted over 60 physicians, in addition to nursing professionals, allied health workers and other staff.

The positive economic effect of building a new, multi-site healthcare infrastructure is undeniable. A great regional hospital attracts investment both directly and indirectly. The Province is funding approximately \$742 million of the total estimated cost, while the local share is \$225 million. For every dollar invested in the local share, the Province will fund three dollars. There will be almost 400 construction jobs required to complete the redevelopment. This is in addition to the almost 800 employees that are employed by the hospitals today. These hospitals will also attract new families to the region which will help with the District's workforce development objective.

There is no other region in Canada that is comparable to Muskoka. That is why MAHC is building the equally unique Made-in-Muskoka healthcare system to service a catchment area of over 4,000 square kilometers, a diverse population that varies between 60,000+ permanent residents, 80,000+ seasonal residents and over 3.2 million visitors per year; plus 1 million more to Algonquin Park.

Hospital Capital Planning Process

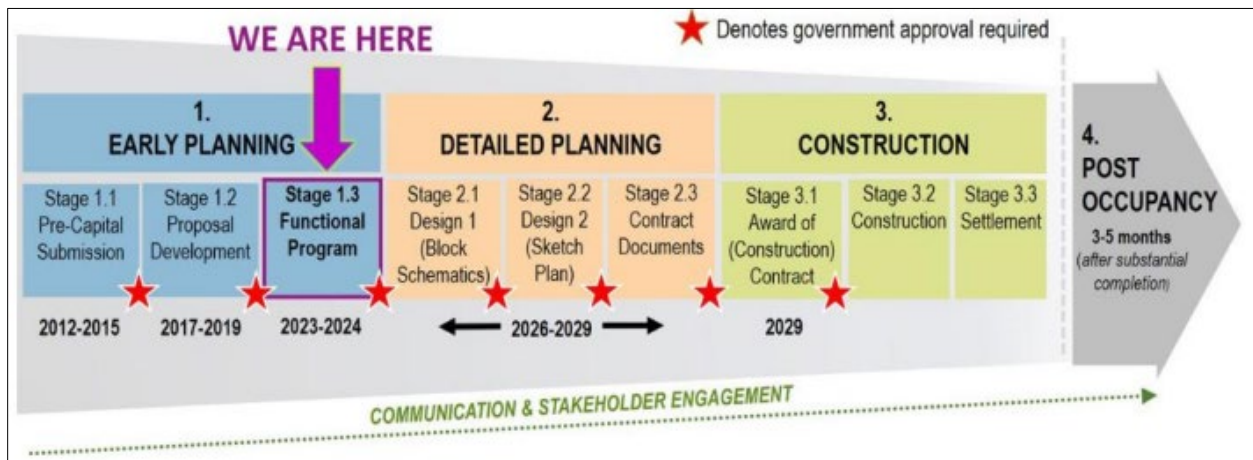
Muskoka Algonquin Healthcare (MAHC) provides emergency health care services and inpatient care at two acute care sites in Huntsville (Huntsville District Memorial Hospital (HDMH)) and Bracebridge (South Muskoka Memorial Hospital (SMMH)). Patient care is also supported through numerous outpatient programs at both hospital sites and at the Almaguin Highlands Health Centre in Burk's Falls.

For over a decade, MAHC has been planning to redevelop its hospital sites to accommodate future anticipated growth and ever-changing health care demands.

MAHC is working through the Ministry's capital planning process, which includes new hospital construction to replace existing facilities in Bracebridge and Huntsville. It is a lengthy process and one that requires Ministry approval to continue through the various planning stages.

The Stage 1.3 capital planning process requires the community to demonstrate that it has a plan to raise the estimated local share costs related to the full redevelopment project.

MAHC is currently working through the Stage 1.3 Functional Program phase, as shown in the graphic below:



Local Share Funding Framework

According to the Ministry's Capital Cost Share Guide, the Province pays 90% of construction costs of new hospital facilities, while local communities pay 10% of construction costs and 100% of ineligible costs, such as equipment, parking, site acquisition, site servicing, as well as any financing costs, all to be funded by the local community.

The local community's contribution, known as the local share, typically equates to around 25% to 30% of overall project costs. The local share generally comes from local hospital foundations; local municipalities, including upper-tier and lower-tier municipalities; and through re-use of existing hospital equipment and revenue streams from parking or retail operations.

In December 2022, MAHC announced an updated preliminary order of magnitude cost estimate for the two hospitals of \$967 million. Based on this estimate, the local share would be approximately \$225 million. These estimates are subject to change as MAHC progresses through its planning process and cost projections become more refined.

According to the Ministry's cost share model for hospital capital projects, the local community would need to provide most of the local share funding during construction. For the purposes of establishing its contribution, the District has assumed the local share funding would be required by 2036.

The Local Share Working Group, comprised of Board members and staff from Muskoka Algonquin Health Care (MAHC), Board members and staff from MAHC's two hospital foundations, and elected officials and staff from the municipalities within the Muskoka region and the East Parry Sound area, have been meeting regularly to review new

information and collaborate on strategies related to the project, including the planned contributions to fund the Local Share.

To date, the Town of Huntsville Council has approved a direct contribution target of \$10 million towards local share cost. The Town of Gravenhurst Council approved a funding commitment of \$1 million to improved healthcare inclusive of any necessary contributions to the local share of MAHC’s two hospital model of care. The Town of Bracebridge Council has approved the contribution of \$10 million in land and funding. Several other municipalities in East Parry Sound are working towards a local share commitment totaling \$9.5 million.

The value of the assets to be transferred by MAHC and the contributions from the local hospital foundations have yet to be fully approved.

Benchmark of Municipal Contributions to Hospitals Across the Province

Staff performed some preliminary benchmarking through the annual Financial Information Returns submitted to ascertain whether other municipalities are funding hospitals. The following table provides a summary from across the province for 2019 through 2021:

Description	2019	2020	2021
Annual contributions to Hospitals from municipalities	\$11.9 million from 38 municipalities with 73% of the funding from upper tiers	\$67.1 million from 37 municipalities with 95% of the funding from upper tiers	\$11.6 million from 38 municipalities with 68% of the funding from upper tiers
Long term commitments to hospital support	\$179.1 million from 18 municipalities with 87% of the funding from upper tiers	\$118.9 million from 18 municipalities with 77% of the funding from upper tiers	\$128.8 million from 18 municipalities with 86% of the funding from upper tiers

An informal survey of the Ontario Regional and Single Tier Treasurers group was completed in 2022 to ascertain the level of municipal funding of hospitals around that table. Of the 18 municipalities polled, 13 responded that contributions to reserves to support hospital or health care development were currently included in the tax levy or had been in the past.

In 2017, MAHC staff provided information from the KCI consulting group which monitored municipal government support of hospital and healthcare campaigns and reported the following trends:

- Approximately 70% of hospital campaigns in Ontario received some form of municipal support.
- The range of support was difficult to determine, but where known, the proportion ranged from 14% to over 50%.

- Campaigns in smaller communities tend to have a larger proportion of municipal support relative to the total campaign level.

During the Association of Municipalities of Ontario (AMO) conference in 2020, District Councillors advocated to the Ministry of Health for a change in the Provincial funding model to eliminate, or at the very least place a cap on, the local share contributions of municipalities as a funding mechanism for the acute care health system in Ontario. The rationale for a change in the funding model is to recognize that smaller municipalities do not have the same capacity to raise funds through donations or the tax levy due to the smaller population and smaller commercial and industrial base. The Province indicated that all redevelopments moving through the approval process have contributions from municipalities. The proportion of municipal contributions was not disclosed.

In summary, municipalities are contributing to hospital redevelopments across the Province and upper tier municipalities represent a significant portion of these contributions.

The District's Local Share Contribution

The District has had a number of reports on the local share since 2017. As noted above, during the budget deliberations in 2021, the annual levy contribution of \$600,000 was dedicated to the redevelopment of the two new hospitals in Muskoka and transferred in a new reserve fund called the Muskoka Hospital Local Share Reserve Fund.

In 2022, the overall project cost was estimated at \$560.9 million and the local share was estimated at \$129.2 million. The District approved an allocation to the Reserve Fund in the 2022 budget of \$954,000, increasing by \$354,000 per year that would raise \$64 million or approximately 49.5% of the local share at that time. In 2023, the budget was increased by \$442,500 to a total allocation of \$1,396,000 in anticipation of an increase in the project's estimated total cost and the associated local share.

The overall project cost is now estimated at \$967 million and the local share is estimated at \$225 million. Staff are recommending to commit funding from the District of \$77.3 million which is approximately 34.4% of the total needed to be raised. With the other municipal contributions that have been proposed or approved, the total commitments to date are \$107.8 million, leaving \$117.2 million to be committed.

The following table shows the annual dollar and percentage levy increase that would need to be implemented each year over the 13-year time horizon for the District to meet the local share target of \$77.3 million:

District Contribution to Local Share	\$77.3 million
Annual Increase to Levy each year from 2024 to 2036 \$	\$442,500
Average Annual Increase to Levy from 2024 to 2036 %	0.42%
Increase in Tax for property assessed at \$300,000 each year in 13-year time horizon	\$4.29
Increase in Tax for property assessed at \$1,000,000 each year in 13-year time horizon	\$14.30
Total of Tax Levy Contributions between 2024 and 2036	\$61.4 M
Total Estimated Interest Earned between 2024 and 2036	\$15.9 M

The table provided above is based on the following assumptions:

- Release of the funds takes place in late 2036;
- The balance in the Muskoka Hospital Local Share Reserve Fund at the end of 2023 is \$3.1 million;
- Increases to the contribution to the Muskoka Hospital Local Share Reserve Fund of \$442,500 are continued in 2024 and increased consistently each year over the 13-year time horizon such that the 2024 contribution would be \$1,839,000 and the 2036 contribution would be \$7,149,000;
- Interest on the reserve balances is calculated assuming returns of 4% are achieved annually which is consistent with target results through the ONE Joint Investment Board;
- The percentage average annual increase to the levy is calculated by dividing the proposed increase by the previous year’s projected levy. This projected levy is based on the 2023 general levy plus an inflation factor of 6.5% in 2024, 2.5% in 2025 and 2% per annum thereafter; and
- The increase in tax for a property assessed at \$300,000 and \$1,000,000 is based on the actual weighted assessment in 2023 plus growth of 1.5% per annum thereafter.

In summary, staff is recommending a commitment of \$77.3 million to the two new hospitals that is achieved by increasing contributions to the Local Share Reserve Fund each year over 13 years. This gradual increase over time results in an increase in taxes to a property assessed at \$300,000 of \$4.29 per year and a property assessed at \$1,000,000 of \$14.30 per year over the 13-year time horizon to 2036.

Members of Council have indicated a desire to have the cost associated with the Muskoka Local Share Reserve Fund segregated on the tax bills for clarity. Staff is recommending that a separate general tax rate be established for this purpose.

Next Steps for Local Share

The Local Share working group will be meeting in mid-September so that stakeholders can provide updates on their respective financial commitments. Once the stakeholders agree that the figures can be made public, staff will provide an updated report to Health Service Committee. In addition, staff will work with MAHC and other stakeholders to establish reporting requirements as the project progresses and to develop a grant agreement.

Contributions to other health care capital projects

The primary focus of this report has been on the District's contribution to the local share for the redevelopment of the two acute care hospitals in the District. However, other health care facilities serve Muskoka residents.

A Hospital Reserve Fund was established in 1972 to support health care facilities' capital and operational costs. Annual contributions to this reserve ranged from \$400,000 to \$600,000 between 2009 and 2020. There have been no additional contributions to this reserve since 2021. As noted at the beginning of this report, a total of \$5.1 million in grants from this Reserve Fund have been issued or approved for issuance since 2009 as follows:

- Royal Victoria Regional Health Centre - \$3,250,000
- Muskoka Algonquin Health Care - \$817,500
- Orillia Soldiers' Memorial Hospital - \$270,000
- West Parry Sound Health Centre - \$124,900
- Georgian Bay General Hospital - \$15,000
- Hospice Muskoka - \$410,152
- Hospice Huntsville - \$254,000

The balance in the Hospital Reserve Fund is estimated at \$722,600 at the end of 2023, following the allocations totalling \$250,000 for Hospices Muskoka and Huntsville.

The Health Services Committee has directed staff to create a policy for the evaluation of health care facilities grant requests and approved a budget amendment to retain a consultant to provide utilization rates at health care facilities by Muskoka residents that will inform the policy. Staff met with a consultant in summer 2023 and was informed that specific utilization information cannot be collected due to personal health information privacy limitations. Staff are considering alternative approaches to garner utilization information such as surveys by hospitals upon admission.

Staff anticipate that a policy will be available for consideration in Q2 of 2024. Once approved, this policy will enable consideration of grant requests in 2024 and 2025 by utilizing the available funds within the Hospital Reserve Fund of \$668,600. Staff recommend renaming this reserve the Health Care Facilities Reserve Fund and reestablishing the contribution to this reserve in 2026 at \$100,000 and increasing by \$100,000 per year for 3 additional years to reach the historical allocation of \$400,000.

Financial Considerations

The majority of the financial considerations are reported within the Analysis section.

Council requested that staff consider the structure of the reserves to finance the Local Share contribution and other health care facilities requests. There are currently two reserves established: Muskoka Hospital Local Share Reserve Fund and the Hospital Reserve Fund.

Staff recommend retaining these two reserves until such time that the Local Share contribution has been released to MAHC. This will facilitate a more streamlined administration of the two different streams of contributions, investment income and disbursements.

Climate Change Implications

The District assesses climate implications in all staff reports using the Clean Air Partnership's '[Municipal Climate Lens Tool](#)' to consider climate impacts or benefits associated with any project, program or initiative. There is no climate impact related to this report.

Communications

MAHC is in the process of finalizing its vision for the redevelopment branded "Made-in-Muskoka Healthcare". The draft framework for this vision and frequently asked questions were provided to the Local Share working group in early September for review. It is anticipated that this framework can be used by the local share stakeholders to provide consistent messaging regarding the value of the redevelopment and opportunity to create a Made-in-Muskoka Healthcare system. MAHC will take the lead on press releases and collaborate with District staff to expand its reach.

For the ongoing health care requests, once the policy is established and approved, staff will launch a campaign to seek requests.

Strategic Priorities

This section is being updated based on the recently approved Strategic Plan and related pending Action Plans.

Respectfully submitted,

Norm Barrette, Commissioner of Health Services;
Suzanne Oliner, B.Com, CPA, CMA, Commissioner, Finance and Corporate Services; and
Julie Stevens, CPA, CA, Chief Administrative Officer