
Subject: Hospital Financing Strategy

Report to: Budget Review Committee of the Whole

Report date: Thursday, June 17, 2021

Recommendations

1. That the hospital financing strategy **BE APPROVED**; and
2. That the operating budget requirement for the hospital financing strategy **BE CONSIDERED** as part of the 2022 budget process.

Key Facts

- The purpose of this report is to seek Council's approval of a hospital financing strategy to accommodate for the West Lincoln Memorial Hospital (WLMH) redevelopment and the new South Niagara (SN) Hospital Development which have requested \$10.5 million and \$44.5 million to assist with project funding by substantial completion planned for 2024 and 2026 respectively
- On the January 14, 2021 Budget Review Committee of Whole, staff were directed to develop a comprehensive financing strategy for Regional contributions to hospital projects and be completed as part of the 2022 Budget process.
- The proposed strategy balances the use of transfers to Hospital Reserve as well as long-term financing. To accommodate for both hospitals an incremental \$715,000 (0.2% of the levy) in addition to the base \$1.5 million approved in 2021 will be requested as part of the 2022 Operating Budget.

Financial Considerations

On January 14, 2021 Budget Review Committee of the Whole, Council approved a Regional contribution to a maximum of 21% of the local contribution and directed staff to develop a comprehensive financing strategy to accommodate.

Council has requested that staff develop a hospital financing strategy to accommodate \$55.0 million; \$10.5 million for WLMH and \$44.5 million for SN. Table 1 below breaks out the timing and amount requested for the two hospitals.

Table 1 Hospital Cost and Regional Share Summary (in millions)

Hospital	Estimated Total Hospital Cost	Local Share	Niagara Region Share	Year Payment Required
WLMH Redevelopment	\$250+	\$60	\$10.5 ¹	2024
SN Development	\$1,000+	\$212	\$44.5	2026
Total			\$55.0	

¹The original request was \$12.6 million; however, this has subsequently been revised to \$10.5 million.

As part of the 2021 Budget, a contribution to the newly created Hospital Contribution Reserve of \$1.5 million was approved by Council. In CSD 17-2021 2020 Year-End Results and Transfer Report, the hospital reserve received \$6.6 million of surplus from the 2020 year end results. The hospital reserve will continue to increase through the \$1.5 million annual transfers from the operating base budget for a balance at the end of 2024 of \$12.6 million; sufficient to provide an upfront contribution to the WLMH Redevelopment in 2024 of \$10.5 million.

The \$44.5 million request for the SN Development requires incremental funding. There is an opportunity to spread the SN Hospital contributions over 30 years. Niagara Health will debt finance at substantial completion and incur the financing costs. The Region would then provide an annual contribution to Niagara Health to cover the Regional portion of Niagara Health's debt servicing costs.

Based on the timing of when payment is required, it allows the Region to build up reserves to reduce the overall obligation at substantial completion as seen in the table below.

In summary, the proposed Hospital Financing Strategy is as follows:

- Contributions to reserves, after payment in full to the WLMH in 2024 leaves \$2.1 million remaining and a further \$1.5 million in 2025 for a total reserve of \$3.6 million.

- An incremental \$715,000 to the \$1.5 million as part of the 2022 budget or 0.2% of the levy.
 - Contributes additional \$2.9 million to reserve by 2026 for total reserve of \$6.5 million.
 - The incremental request will reduce the debt obligation required in 2026 for the South Niagara Hospital to \$38 million.
 - Current estimates provided by Niagara Health is that a 30-year contribution plan will be serviced at 4% to cover the financing cost that Niagara Health will incur. This commitment remaining at the end of 2025 will be serviced through contributions of \$2.2 million (\$1.5 million transfer to reserve repurposed to debt servicing plus \$715,000) annually over 30 years.

The full detailed annual cash flow is in Appendix 1 of this report. The following table breaks down the summary of the cash flows up until 2025. After 2025, annual contributions of \$2.2 million will continue to Niagara Health for 30 years to fund the remaining balance.

Table 2 Summary of Reserve Cash flows up to 2025

Description	Reserve Contributions (millions)	Hospital Request (millions)
WLMH & SN Request		\$55.0
Hospital Reserves at the end of 2021	\$8.1	
2022-2025 Approved Contribution (\$1.5M/year)	\$6.0	
2022-2025 ² One-time Incremental Request (\$715K/year)	\$2.9	
2024 WLMH substantial completion payment		(\$10.5)
Reserve contributions for SN		<u>(\$6.5)</u>
Balance Remaining at the end of 2025		\$38.0

²Contingent on 2022 Budget approval

The request for an annual \$715,000 is recommended to be referred to the 2022 levy operating budget. The strategy being proposed at 2022 Budget Planning is to fund this cost with assessment growth. In alignment with the By-law 2019-79 Budget Planning, assessment growth is utilized for programs aimed at driving growth or Council priorities; the hospitals align to Council's priority of a Healthy and Vibrant Community through new health services to the Region. A summary of new hospital services that will be incremental to the Region are as follows:

- Complex Care Centre of Excellence – 170 beds for inpatient and specialized complex care.
- Stroke Centre of Excellence.
- Geriatric/Geriatric Psychiatry Centre of Excellence.
- Wellness in Aging Centre of Excellence.
- Indigenous Health Centre.

Analysis

On September 9, 2020 and April 14, 2021, the Region formally received funding requests from Hamilton Health Sciences and Niagara Health respectively. As part of the hospital funding requests, Council directed staff to prepare a financing strategy.

The Hospital financing strategy incorporates principle of By-law 2019-79 Budget Planning that dictates that approvals of programs will ensure the full annual budget impact will be approved in the year of the program approval. The incremental \$715,000 will increase the annual operating contributions to the hospital reserve to match the annual contributions required to fund both hospitals.

Alternatives Reviewed

Other alternatives were reviewed in addition to the proposed Hospital financing strategy:

- Fund with reserves at substantial completion - This would require an increase of \$10,225,000 or 2.5% increase of the levy in incremental annual transfers from the operating base budget. This is not proposed due to taxpayer affordability.
- Phase in the increases over multiple councils and multiple years - This is not recommended as it is not aligned with the By-law 2019-79 that dictates that the full budget impact be approved in the year of the program approval. In addition,

with an upcoming election year and new Council transition, there are restrictions to multi-year budgeting, which are outlined in the Municipal Act under section 291(2).

- Debt financing both hospitals – This strategy is not recommended as debt financing for both hospitals would cost more in interest since the existing base budget is already sufficient to pay for the WLMH upfront (without the requirement of debt) in 2024 at substantial completion. In addition, there are no financing options available through Hamilton Health Sciences and thus the Region would need to debenture for the cost of the Regional contribution. This would increase the Region's annual repayment limit which lowers the maximum amount for new long-term debt that the Region can approve.

Relationship to Council Strategic Priorities

The West Lincoln Memorial Hospital redevelopment and the new South Niagara Hospital development supports a Healthy and Vibrant Community by enhancing community wellbeing. The hospitals will increase the capacity of health services to meet the needs of the aging population.

Other Pertinent Reports

CSC-C 18-2020	Financing Request to Support West Lincoln Memorial Hospital
CSD 13-2021	Hospital Financing Contribution Policy
CSC Presentation	Partnering Together for the Future South Niagara Hospital

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Appendices

Appendix 1 Hospital Financing Strategy Detailed Annual Cash flow

Interest Rate Assumption: 4%

Increase on Levy Required: \$715,000

Year	Inflows Description	WLMH	SN	SN 30 year contributions	Total Inflows	Outflow Description	WLMH	SN	SN 30 year contributions	Total Outflows	Reserve Balance
N/A						Hospital - Regional Share	10,500,000	44,500,000			
2020	Year end Surplus	6,600,000			6,600,000					-	6,600,000
2021	Transfer from Operating	1,500,000			1,500,000					-	8,100,000
2022	Transfer from Operating	1,500,000	715,000		2,215,000					-	10,315,000
2023	Transfer from Operating	900,000	1,315,000		2,215,000					-	12,530,000
2024	Transfer from Operating		2,215,000		2,215,000	WLMH Substantial Completion	(10,500,000)			(10,500,000)	4,245,000
2025	Transfer from Operating		2,215,000		2,215,000					-	6,460,000
2026-2055	Transfer from Operating			65,995,710	65,995,710	SN Substantial Completion		(6,460,000)	(65,995,710)	(72,455,710)	-
						Contribution Balance Remaining at year 2025		-	38,040,000		