



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning, Administration and Policy Division**

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	November 15, 2023
<b>SUBJECT/REPORT NO:</b>	Hospital Capital Contribution (FCS23108) (City Wide) <b>(Outstanding Business List Item)</b>
<b>WARD(S) AFFECTED:</b>	City Wide
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<b>SUBMITTED BY:</b>	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION(S)**

- (a) That City of Hamilton staff be directed to continue discussions with Hamilton Health Sciences Corporation and St. Joseph's Healthcare Hamilton related to the municipal contribution to the local share plan of the capital redevelopment plans of the two hospital organizations;
- (b) That City of Hamilton staff be directed to report back to the General Issues Committee with recommendations on financing options for the City's local share contribution in Q1 of 2024;
- (c) That the requirements for the feasibility of municipal local share contribution to Hamilton Health Sciences Corporation and St. Joseph's Healthcare Hamilton be identified as complete and removed from the General Issues Committee Outstanding Business List.

**EXECUTIVE SUMMARY**

Over the years, there has been growing emphasis by the Provincial Government of Ontario for municipalities to participate in the local share plan for hospital capital projects with numerous municipalities across the Province contributing to the local share at various levels.

The development of new or redevelopment of existing hospital facilities can provide many benefits to the local community including improving patients' experience and the ability to attract healthcare professionals and other team members to work and live in the community.

On June 14, 2023, at the General Issues Committee (GIC) meeting, Hamilton Health Sciences Corporation and St. Joseph's Healthcare Hamilton provided an overview of major hospital redevelopment projects to seek support to work with City staff to explore local share funding options. Subsequently, a working group of senior staff from the City, Hamilton Health Sciences Corporation (HHSC) and St. Joseph's Healthcare Hamilton (SJHH) convened a number of meetings.

The Ontario Government provides funding for hospital capital projects under the Health Infrastructure Renewal Fund, Major Capital Projects Program and project planning. Ontario funds 90% of eligible hospital construction project costs and 100% of eligible planning, design, financing and transaction costs. The balance of the construction project costs, hospital furniture / equipment and non-shareable costs including constructing a parking facility or renovating or constructing a gift or coffee shop which are revenue producing are the financial responsibility of the hospital funded under the Local Share Plan. The Local Share Plan (LSP) developed by the hospital staff will include:

- Financial support available from the hospital or its foundation for the capital project;
- Fundraising campaign(s) planned by the foundation;
- Various revenue sources including parking and retail (e.g., food service vendors);
- Federal, municipal contributions;
- Hospital's capital budget; and
- Sources of bridge financing.

For any uncertain funding sources, such as fundraising or revenue forecasts, the hospital must provide a contingency plan as part of its LSP submission to Ontario.

The Ontario Government (Ontario) approved HHSC's plan for the construction and redevelopment of Juravinski Hospital and Cancer Centre through the submission in Stage 1.1 Pre-capital Submission and Stage 1.2 Proposal Development. Under the next stage of Ontario's funding program, Stage 1.3 Functional Program, updated cost estimates and a Local Share Plan with a municipal government commitment are planned for submission in Q1 of 2024. The project is expected to be completed in multiple phases from 2027 to 2035. SJHH's construction and redevelopment plan submission to the Ontario Government in 2019 is pending.

Updated estimates for project costs of the capital redevelopment plans of both hospitals are \$3.7 B, the Ontario share is \$3.1 B or 83% of the total and the local share is \$628.6 M or 17% of the total. The local share is estimated at \$363.6 M for HHSC and \$265.0 M for SJHH. Staff with HHSC and SJHH have advised that there is no financial capacity to contribute to these capital redevelopment plans through debt financing or their own reserves. With expected contributions from the hospital foundations of between 25% and 28% of the local share, there is a balance of approximately \$462 M requested from contributions by the City of Hamilton.

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Regarding a financial framework and guiding principles to explore this hospital funding request, the Analysis and Rationale section of Report FCS23108 includes considerations of the Council Priorities 2022 to 2026. With limited fiscal capacity of municipalities and, the City of Hamilton, in particular, Council should consider advocacy efforts with the Ontario Government to re-examine the local share of hospital capital contribution. Regional hospitals and healthcare, including HHSC's Juravinski Hospital and Cancer Centre, that are available to residents of the City of Hamilton and non-residents living beyond the City of Hamilton borders, support the need for increased funding from the Ontario Government rather than local City of Hamilton taxpayers.

Under the current hospital funding formula, if Council approves any commitment for a hospital municipal share capital contribution, the financing strategy could include reserves and / or long-term financing, possibly in the form of long-term debt. Staff is in the process of determining whether the City can provide long-term financing in the form of long-term debt for Hospital capital works. Any annual payment of long-term financing through the property tax levy should be spread over many years to reduce the impact on City taxpayers.

The City will request terms and conditions in any agreements for hospital capital contributions that will include, but not limited to, risk mitigation (price risk: assurances that construction cost increases, equipment price increases and cost increases are not the responsibility of the City) and operational improvements in off-loading delays. During the design and application process, City staff will work with staff at HHSC and SJHH to address City standards and policies including the incorporation of sustainable design features, protection of natural heritage areas such as the escarpment, safe and efficient multi-modal transportation.

Staff of the City of Hamilton will continue to work with staff at HHSC and SJHH following consideration of Report FCS23108 at GIC and Council.

### **Alternatives for Consideration – See Page 12**

### **FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: Report FCS23108 has no current financial implications. However, if commitments are made to HHSC and SJHH for their capital redevelopment plans, there will be longer term impacts on the City's finances if Council approves a municipal contribution to the local share plan. The City will require assurances that construction cost increases, equipment price increases and cost increases are not the responsibility of the City. The final estimate of costs is due to Ontario for the award of the contract.

Staffing: None.

Legal: Section 408 of the *Municipal Act, 2001* provides that a municipality can authorize the issue of debentures or other financial instruments for long-term borrowing only to provide financing for a capital work. The issue of whether the capital work of a hospital is “capital work” under section 408 of the *Municipal Act, 2001* is an issue being examined by Legal Services.

Legal Services will be required to prepare and / or review agreements between the City of Hamilton and the hospital organizations for any capital contributions.

## **HISTORICAL BACKGROUND**

Healthcare funding of hospitals has historically been the responsibility of provincial and federal governments. However, according to the Association of Municipalities Ontario (AMO), there has been an increase of 38% in municipal spending for health costs since 2009. Currently, the ministry funds approximately 90% of eligible capital project costs (mostly construction) and 100% of eligible planning, design, financing and transaction costs. Funding of both the remaining 10% of all eligible project costs and any costs not eligible for ministry funding are the financial responsibility of the hospital which is known as “local share” for the project.

On June 14, 2023, at a meeting of the General Issues Committee (GIC), Hamilton Health Sciences Corporation and St. Joseph’s Healthcare Hamilton provided an overview of major hospital redevelopment projects to seek support to work with City staff to explore local share funding options.

As a result of the presentation, Council, through GIC Report 23-019, Item 7.2, approved a motion directing staff to engage in a working group with Hamilton Health Sciences and St. Joseph’s Healthcare Hamilton to explore their multi-year development needs and plans and local share funding options and report back on: (1) the municipal portion of the local share contribution request; and (2) the financial framework and guiding principles to allow Committee and Council to explore the municipal local share and investment options for a municipal local share contribution. Report FCS23108 addresses this direction.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

### Long-term Financing and Debt

In Part XIII, Subsection 408 (2.1) of the *Municipal Act, 2001*, it states that “A municipality may issue a debenture or other financial instrument for long-term borrowing only to provide financing for a capital work”. The assumption is that the capital works would be owned by the municipality. The funding to be contributed for the hospitals local share is being used for an entity other than the municipality, which could be seen as a grant rather than for capital work. Other municipalities have provided financial contributions as a grant with respect to the building of the hospital and have authorized the use of debentures for the grant provided that certain sections of the *Municipal Act* are fulfilled. Staff are reviewing and researching these provisions of the *Municipal Act*.

## Development Charges (DC)

Currently, in the *Development Charges Act, 1997*, there is a list of DC-eligible services that includes “Services related to public health” but no clear indication whether hospitals fall into this category. As confirmed by the DC team, the City does collect funds related to this category but it is not related to growth related hospital capital works. The City does not collect DCs from developers to fund growth related hospital capital works and, therefore, City DC reserves are not available to fund any growth component of these hospital capital projects.

Hospitals are required to pay City municipal development charges for new development and may be eligible for DC credits for redevelopment for any building demolition. Hospitals are exempt for Education development charges if receiving aid under the *Public Hospitals Act*.

## Reserves

The City has several discretionary reserve funds that have been established by Council to offset extraordinary and unforeseen issues / expenses. These reserves can be used at Council’s discretion as outlined in the recent Reserve Report FCS23027. Although discretionary reserve funds are a potential source of one-time and short-term funding, there are many other competing initiatives / priorities and organizations that could also utilize these funds.

## RELEVANT CONSULTATION

### Other Ontario Municipalities: Hospital funding survey

- Staff in Financial Planning, Administration and Policy Division sent out a survey on hospital funding to the Ontario Regional & Single Tier Treasurer’s (ORSTT) group to gain a better understanding of their past and current policies on hospital capital funding. Emails were also sent out to several municipalities, that were identified by the hospital organizations as having made recent commitments to fund the local share of hospital capital development, to understand their contributions and policies.

City Legal Services Team: Legalities of issuing or incurring City municipal long-term debt and executing a long-term agreement for hospital capital contributions

- Staff will continue to review and research prior to and following receipt of Report FCS23108 by GIC and Council.

### Other City Departments and Divisions

- There is support for the redevelopment plans of HHSC and SJHH. Hamilton Paramedic Services staff have an interest in improving off-loading delays. Planning Division staff will be working staff at HHSC and SJHH on their redevelopment plan applications.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

At the GIC meeting on June 14, 2023, Hamilton Health Sciences Corporation and St. Joseph's Healthcare Hamilton provided an overview of major hospital redevelopment projects planned between 2023 and 2040 including HHSC's East Hamilton Mountain Site, HHSC's St Peters Hospital and SJHH's Charlton Site.

Benefits of Hamilton Hospital Redevelopment were stated as:

- Provide care for patients in a modern, safe environment
- Enhance ability to attract healthcare professionals and other team members to work and live in Hamilton
- Maintain partnerships with McMaster and Mohawk to engage learners and advance research
- Improve environmental sustainability; utilize existing transit and other infrastructure
- Economic benefits of investment in the City
- Advance the City's vision "to be best place to raise a child and age successfully"

Factors Driving Redevelopment were stated as:

- Accommodating future projected patient care needs associated with population growth and aging
- Facility age, cost of ongoing infrastructure repair
- Need to meet modern standards for infection prevention and control, accessibility and safety Improving the patient and family experience and accommodating leading technology advancements
- Continuing to attract the best and brightest health care providers to provide care in modern care spaces

The Ontario Government provides funding for hospital capital projects under the Health Infrastructure Renewal Fund, Major Capital Projects Program and project planning.

Summary of Ontario Health Funding:

1. Health Infrastructure Renewal Fund Projects (HIRF): HIRF is designed to supplement a hospital's existing renewal program and to help address infrastructure repair and replacement requirements on a priority basis (i.e., health and safety, code compliance, imminent breakdown).
2. Major Hospital Projects: The Ministry provides capital funding directly to hospitals for major capital grant(s). The source of funding is derived from annual allocations approved by government. As currently defined by the Ministry, major hospital capital projects have a total project cost of over \$20 M. Funding is prioritized based on need including the primary and secondary factors outlined in section 2.2 of Hospital Capital Policy and Planning Manual (not attached to Report FCS23108).

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Ontario funds 90% of eligible hospital construction project costs and 100% of eligible planning, design, financing and transaction costs. The balance of the construction project costs, hospital furniture/ equipment and non-shareable costs including constructing a parking facility or renovating or constructing a gift or coffee shop which are revenue producing are the financial responsibility of the hospital funded under the Local Share Plan.

Submissions to the Ontario Government for Hospital Funding and Updated Estimates

In 2019, submissions to the Ontario Government include gross project costs of \$1.1 B for HHSC and \$568 M for SJHH. HHSC's redevelopment plans for the Juravinski Hospital and Cancer Centre on East Hamilton Mountain have been approved by Ontario.

While SJHH has submitted redevelopment plans for the Charlton site, the application is pending approval by Ontario.

Following Council direction in June 2023, City staff and staff from Hamilton Health Sciences (HHSC) and St. Joseph's Healthcare Hamilton (SJHH) have met to gain an understanding of the redevelopment plans, project costs and project funding.

HHSC has provided an updated estimate of \$2.3 B, an increase of 130%, primarily due to inflation in the construction industry. The estimate includes contributions from Ontario of \$1.9 B and local share of \$364 M. The parking garage construction and hospital construction (three phases) are expected to be fully completed by 2035. Local share payments are due to ProjectCo in 2029, 2033 and 2035.

SJHH's 2019 Pre-Capital submission to the Ontario Government was about \$568 M. SJHH has provided an updated estimate of \$1.435 B based on 2023 costs plus 30% inflation. Substantial completion of the project is expected to be in 2035, at which point, the majority of the local share would be required. The estimate includes contributions from Ontario at \$1.170 B and local share at \$265 M.

Staff with HHSC and SJHH have advised that there is no financial capacity to contribute to these capital redevelopment plans through debt financing or their own reserves. With expected contributions from the hospital foundations of between 25% and 28% of the local share, there is a balance of approximately \$462 M (HHSC of \$263.6 M and SJHH of \$198.8 M) requested from contributions by the City of Hamilton.

Updated estimates of the project costs and funding contributions are shown in Table 1 and Table 2. The final estimate of costs is due to Ontario for the award of contract.

Table 1 – Hamilton Health Sciences Redevelopment

	Total \$M	% of Total
A	B	C
<b>Costs</b>		
Hospital Planning & Ancillaries	304.0	13%
Parking Construction	50.0	2%
Hospital Construction	1,827.0	79%
Hospital Equipment	91.0	4%
Minor Non-Depreciable Equipment	34.0	1%
<b>Total</b>	<b>2,306.0</b>	<b>100%</b>
<b>Funding</b>		
Province	1,942.4	84%
Local Share	363.6	16%
<b>Total</b>	<b>2,306.0</b>	<b>100%</b>
<b>Local Share Funding</b>		
Local Share - Foundation	100.0	28%
Local Share - Hospital	-	0%
Local Share - Municipal	263.6	72%
<b>Total</b>	<b>363.6</b>	<b>100%</b>

Table 2 - St. Joseph's Healthcare Hamilton Redevelopment

	Total \$M	% of Total
A	B	C
<b>Costs</b>		
Hospital Construction	1,282.0	89%
Hospital Equipment	153.0	11%
<b>Total</b>	<b>1,435.0</b>	<b>100%</b>
<b>Funding</b>		
Province	1,170.0	82%
Local Share	265.0	18%
<b>Total</b>	<b>1,435.0</b>	<b>100%</b>
<b>Local Share Funding</b>		
Local Share - Foundation	66.3	25%
Local Share - Hospital	-	0%
Local Share - Municipal	198.8	75%
<b>Total</b>	<b>265.0</b>	<b>100%</b>



## Jurisdictional Scan of Ontario Municipalities

There are a number of municipalities, including Peel Region, that have asked Ontario to re-examine the “local share” hospital capital calculation methodology to better reflect the limited fiscal capacity of municipalities and acknowledge the contributions to health care services that municipalities already provide to their community. A number of municipalities have provided funding to hospitals over recent years. Appendix “A” to Report FCS23108 provides an overview of municipal hospital contributions, funding source, timelines and restrictions / conditions.

## Financial Framework, Guiding Principles and Funding Options

Regarding a financial framework and guiding principles, Council could consider the following guiding principles to support the work and recommendations as follows:

- Minimal financial burden to the taxpayers
- Supports the City Council’s priorities for 2022 to 2026

### Minimal Financial Burden to the Taxpayers.

Regional hospitals and healthcare, including HHSC’s Juravinski Hospital and Cancer Centre, that are available to residents of the City of Hamilton and non-residents living beyond the City of Hamilton borders support the need for increased funding from the Ontario Government rather than local City of Hamilton taxpayers.

Several funding options are reviewed below should Council decide to contribute to the local share plan for the hospital capital contributions. The funding options have different implications on the financial burden to taxpayers.

#### 1. Development Charges (DC)

Currently, the City does not collect any DCs in relation to hospitals and, therefore, DCs would not be available as a funding option for the local share plan.

#### 2. Reserves

The City can consider utilizing funds from discretionary reserves, including but not limited to, the Tax Stabilization Reserve, Hamilton Future Fund Reserve and Investment Stabilization Reserve. Based on the forecast outlined in 2022 Reserve Report (Appendix “A” to Report FCS23027), projected balances at end of 2024 for the Tax Stabilization Reserve is \$33.6 M and Hamilton Future Fund Reserve is \$70.0 M. Utilizing these reserves toward a hospital capital contribution will reduce the ability to offset extraordinary and unforeseen operating expenditures for the City, to fund grants for other non-profit organizations and to offset budget pressures identified for 2024.

3. Long-Term Financing

Debentures or other long-term debt are generally issued or incurred for the purposes of funding capital works of the municipality. Staff is reviewing and researching long-term debt issued or incurred by some municipalities for their hospital capital contribution. Any long-term debt issued or incurred for hospital capital contributions, if permitted by legislation and City policies, should be for a term up to the capital asset useful life to a maximum of 40 years as per the *Municipal Act*. Useful lives for the capital construction of buildings and facilities can be more than 25 years. Any long-term commitment would likely require municipal capital financing costs, i.e. principal and interest.

4. Annual Hospital Property Tax Levy

The municipal share of the local share contribution could be included in future tax supported operating budgets and collected through the property tax levy and transferred to a hospital reserve fund. A hospital property tax levy is a very common source of funding for several municipalities that have contributed to the local share plan.

An example of a City hospital capital contribution with scenarios is shown below.

Example: Long-term financing of \$300 M approximating 10% of capital construction costs and Reserves of \$162 M for a total of \$462 M in municipal contribution:

- a. The annual levy for long term financing of \$300 M of construction costs is estimated as follows:
  - \$20 M; 20 years at 3% interest rate, if debt
  - \$24 M; 20 years at 5% interest rate, if debt
  - \$15 M; 30 years at 3% interest rate, if debt
  - \$19 M; 30 years at 5% interest rate, if debt
  - \$15 M; 20 years at 0% interest rate
  - \$10 M; 30 years at 0% interest rate
- b. The remaining municipal share of \$162 M could be paid and funded from discretionary reserves over the construction period or longer.

City Council's priorities for 2022 to 2026

Hospital capital redevelopment projects can have economic benefits during and after construction, can provide opportunities for community benefits and improvements to the public realm, can assist in making Hamilton a great place to live, can assist in maintaining and attracting talented healthcare professionals, all of which align with the following Council Priorities for 2022 to 2026.

- **Priority 1: Sustainable Economic and Ecological Development**  
Great cities need strong, resilient economies and Hamilton's commitment to being a sustainable global city is part of its competitive advantage. As we facilitate job creation, business growth and industry excellence, we will protect our unique natural landscape and waterways and mitigate the impacts of climate change.
- **Priority 2: Safe and Thriving Neighbourhoods**  
We want Hamilton to be a great place to live for everyone. That means making sure people of all ages and income levels can afford to live here, that our neighbourhoods are cared for and vibrant and that people can move around safely and effectively no matter how they travel.
- **Priority 3: Responsiveness and Transparency**  
Government plays an important role in people's lives through the provision of vital services, programs and support systems. To fulfil those responsibilities, the City must continue to develop its approach to public engagement, respond effectively and efficiently to public need and feedback and communicate its approach in an accessible and transparent manner.

#### Contributing to a High-quality Built Environment

HHSC and SJHH hospital facilities are large buildings that are landmarks in the City and have significant influence on their surroundings. The development and redevelopment of these sites offers opportunities for community benefits and improvements to the public realm. Planning and Economic Development staff will work with HHSC and SJHH through their design and planning application processes to address City of Hamilton standards and policies for a high-quality public realm in the context of the unique needs of the hospital use. Design considerations will include but are not limited to, the retention and adaptive reuse of significant cultural heritage resources, the protection of natural heritage areas such as the Niagara Escarpment, consideration of views from the lower city of escarpment edge sites, the incorporation of sustainable design features, the use of materials and other design elements to reduce the perceived size of large buildings, and the provision of safe, comfortable and efficient access to, within and around the site for pedestrians, cyclists, transit, truck deliveries, drivers and patient transportation.

#### Terms and Conditions in Future Agreements – Risk Mitigation and Improving Off-loading Delays

Should Council approve a hospital funding contribution, Council should consider risk mitigation strategies and operational improvements with off-load delay targets as implemented in other jurisdictions. York Region successfully tied their contribution levels to progress on reducing processing time for emergency patients to help manage the costs of Paramedic Services.

The partners to a Memorandum of Understanding agreed to off-load delay targets for each year, reaching 30 minutes by 2014, a standard that holds until 2031. The MOU provides that in the event the 30 minute Paramedic Services off-load delay targets are not achieved, York Region may, at the discretion of Council, reduce hospital funding by an amount approximating the additional operating costs incurred by Paramedic Services for the time above the targets.

### **ALTERNATIVES FOR CONSIDERATION**

City Council can choose not to participate in the local share plan for the hospital capital contributions as there is not a mandate for municipalities to participate. However, this decision could impact the Ontario approval for these hospital capital projects and, indirectly, the services that patients receive and reduce the hospital's ability to attract top talented healthcare professionals.

### **APPENDICES AND SCHEDULES ATTACHED**

Appendix "A" to Report FCS23108 – Hospital Capital Contributions Summary

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