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The Regional Municipality of Durham Report

To: Committee of the Whole
From: Commissioner of Finance, Acting Commissioner of Works, and
Commissioner of Social Services
Report: #2023-COW-34
Date: September 13, 2023

Subject:

Construction Progress and Request for Additional Financing for the Proposed Seaton 200-Bed Long-Term Care Home at 1550 Alexander Knox Road, in the City of Pickering

Recommendations:

That the Committee of the Whole recommends to the Regional Council:

- A) That the previously approved project budget for the Seaton Long-Term Care Home at 1550 Alexander Knox Road, in the City of Pickering, be increased by \$36,225,478 over the approved budget of \$126,025,000 for a revised project budget of \$162,250,478;
 - B) That the additional capital costs of \$36,225,478 be financed through additional debenture financing;
 - C) That the other sources of financing at the discretion of the Commissioner of Finance be applied to reduce the amount of debenture financing if possible, based on circumstances at the time debentures are required to be issued; and
 - D) That the Commissioner of Finance and Chief Administrative Officer be authorized to execute any contracts and waive any Regional policy requirements to facilitate an expedited construction approach to maintain eligibility for the construction funding subsidy supplement from the Province as previously reported with actions summarized at significant milestones to Regional Council.
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Report:**1. Purpose**

- 1.1 The purpose of this report is to provide an update on the project and to seek Regional Municipality of Durham (Region) Council approval for additional financing to advance the construction of the 200-bed long-term care facility in the City of Pickering (Pickering).

2. Background

- 2.1 In response to the window of interest opened by the Ministry of Long-Term Care (MLTC) in 2019 to create 15,000 new long-term care beds in Ontario within the subsequent five-year period, the Region applied for a new 200-bed long-term care home in Pickering (Seaton) as a Regional site was available, and Durham Region has a priority need for long-term care beds.
- 2.2 On March 18, 2021, the Minister of Long-Term Care advised the Region that the MLTC will allocate 200 long-term care beds to the Region's Pickering Project.
- 2.3 In November 2021, Regional Council approved [Report #2021-COW-30](#), directing staff to continue to advocate for additional funding from the Province, advance the development of the business case, and report back to Council.
- 2.4 At the August 2022 Association of Municipalities of Ontario (AMO) conference, a Regional delegation met with the Minister of Long-Term Care to advocate for additional funding for the project.
- 2.5 On November 25, 2022, the MLTC announced a time-limited Construction Funding Subsidy (CFS) Top-Up funding for projects receiving the Approval to Construct from the MLTC by August 31, 2023.
- 2.6 On August 31, 2023, the Region received MLTC's Approval to Construct the long-term care facility and, thereby, a requirement to qualify for the CFS Top-Up funding.

3. Previous Reports and Decisions

- 3.1 In June 2019, Regional Council approved [Report #2019-SS-7](#), authorizing the Regional Chair and Regional Clerk to sign the application for submission to the MLTC, indicating the Region's endorsement of the application to build a new 200-bed Long-Term Care Home in North Pickering and its acceptance of the terms and

conditions as outlined in the Long-Term Care Home Development and Redevelopment Application Declaration and Application Form.

- 3.2 In April 2021, Regional Council received [Report #2021-INFO-37](#), advising Regional Council of the allocation of 200 long-term care beds to the Region, subject to the approval by the MLTC of the project and meeting all conditions and requirements as set out in the Long-Term Care Homes Act 2007, with respect to licensing and operation of the beds and other conditions to be stipulated by the MLTC.
- 3.3 In June 2021, Regional Council approved [Report #2021-COW-17](#), authorizing staff to advance the preliminary work outlined in the report to inform the business case related to the Seaton Long-Term Care Home at an estimated cost of \$280,000 with financing to be provided at the discretion of the Commissioner of Finance.
- 3.4 In November 2021, Regional Council approved [Report #2021-COW-30](#), which provided updated project cost estimates for the Seaton Long-Term Care Home facility construction and directed staff to continue to advocate for additional funding from the Province, advance the development of the business case, and report back to Council in advance of the execution of the Development Agreement with the Province.
- 3.5 In December 2022, the Regional Council approved [Report #2022-COW-32](#), which identified a project cost estimate of \$126,025,000 for the Seaton Long-Term Care Home facility construction and directed staff to proceed with the retention of architectural design and contract administration services, with financing to be provided at the discretion of the Commissioner of Finance. Further, the Commissioner of Finance and Chief Administrative Officer (CAO) were authorized to execute any contracts and waive any Regional policy requirements to facilitate an expedited fast-track construction management approach, with actions summarized at significant milestones to Regional Council.
- 3.6 In March 2023, Regional Council approved the Region's 2023 Business Plans and Budget ([Report #2023-F-9](#)), which included approval of the Seaton Long-term Care Home capital project and associated financing of \$126,025,000.

4. Updated Construction Cost Estimate

- 4.1 Buttcon Limited (Buttcon) was awarded the Construction Management contract in early May 2023.

- 4.2 On July 28, 2023, the Region received Buttcon's draft 'Class C' estimated construction cost of \$179,030,936 based on the Architect's 100 per cent complete Design Development (DD) documents dated June 29, 2023. The estimated construction cost was significantly higher than the approved estimate. The project team undertook a Value Engineering (VE) exercise to reach a consensus on significant cost reductions. After adjustments to accurately reflect the 100 per cent DD documents, Buttcon's final 'Class C' Estimate listed the construction cost at \$173,517,264, which included an escalation allowance to January 2024, a post-contract construction contingency and a design contingency allowance. These costs did not include soft costs (design, permits, etc.), furniture, fixtures and equipment and the non-rebated HST.
- 4.3 Concurrent with the VE process, as due diligence, the Region engaged Turner and Townsend Canada Inc. (TT) to produce a 'Class C' Cost Report based on the Architect's 100 per cent complete Design Development documents dated June 29, 2023. The TT August 25, 2023, draft 'Class C' Cost Report estimated construction cost at \$167,611,110, which includes a design allowance, escalation allowance to Quarter 1, 2024 and post-contract construction contingency.
- 4.4 After the comprehensive VE process, Buttcon's 'Class C' construction estimate was reduced to \$144,764,228, reflecting the least expensive Zero Greenhouse Gas (GHG) building that satisfies the Regional pathway to Net Zero and an acceptable level of resident care. Similarly, this estimate does not include soft costs (design, permits, etc.), furniture, fixtures and equipment and the non-refundable HST. With these items included, the total estimated project cost is \$162,250,478.
- 4.5 Project-specific factors influencing the difference/variance between the approved cost estimate and the 'Class C' estimate are as follows:

FACTOR	COST VARIANCE
Required Structural Design in response to Site and Building Design	\$9.2 M
The real cost of Zero GHG – Energy efficiency upgrades	\$8.0 M
City of Pickering Sustainability Requirements	\$1.0 M

FACTOR	COST VARIANCE
Design Assumptions vs. Design Actual	\$3.0 M
The Site topography – Storm Drainage	\$7.0 M
Oversized Elements due to fast-track approach	\$2.0 M
General Requirements and Fees	\$6.0 M
Total	\$36.2 M

- 4.6 Tendering for the project is expected to be completed by the first quarter of 2024. Each tender package will be competitively bid as directed by the MLTC to ensure the best market value is received for work packages released to the industry. As noted in [Report #2022-COW-32](#) dated December 14, 2022, the final costs to construct are unknown as this type of Construction Management procurement is staged, and several factors influence costing as subsequent tenders are closed.
- 4.7 The industry is reporting significant construction cost escalation between the time of application to MLTC and receipt of Approval to Construct. This is due to various factors affecting the construction industry, such as supply chain disruptions resulting in limited availability of materials and equipment, skilled labour shortages and market volatility.
- 5. Construction Funding Subsidy Enhancements and Top-Ups Available for Capital**
- 5.1 Development Grants
- a. Total Development Grants from the Province are estimated at \$10,275,200. The Development Grant includes a one-time planning grant provided by the MLTC in the amount of \$250,000 and a development grant of \$51,376 per bed (total of \$10,025,200).
- 5.2 Construction Funding Subsidy
- a. The MLTC currently provides construction funding subsidy at a rate of \$23.78 per bed per day for a 25-year period. The Region would expect to receive an annual subsidy of approximately \$1,735,940 per year over the 25-year period. This funding would be applied to the repayment and debt

servicing costs of approximately \$24.0 million in debenture capital financing.

5.3 Construction Funding Subsidy Supplement (CFS-S)

- a. On November 25, 2022, the Ontario government announced that it would be implementing a fixed, time-limited construction funding subsidy supplement to support the cost of developing or redeveloping a long-term care home. This additional funding will help fast-track the construction of new long-term care beds, receiving MLTC Approval to Construct before the August 31, 2023, deadline, recognizing the shift in the economic environment since the release of the Long-Term Care Home Capital Development Funding Policy, 2020.
- b. Under this program, the Province offered up to an additional \$35 per bed per day for a 25-year period based on specific construction timelines being met. The Region expects to receive an additional \$2,555,000 per year over the 25-year period. This incremental funding will be applied to the repayment and debt servicing costs of approximately \$35.4 million in debenture capital financing.
- c. Eligible not-for-profit operators, including the Region, can also request to convert up to \$15 per bed per day of the \$35 per day per bed CFS Top-Up to a CFS Construction Grant. Any amount converted to a CFS Construction Grant is discounted to net present value and would be deducted from the \$35 per day per bed CFS supplement. The CFS Construction Grant may be used for eligible construction costs, land and development charges, and indirect costs such as building permits, architect and professional fees, financing and site surveys. It is in the better interest of the Region to maintain the option of the payment over 25 years, as noted in b.

6. Eligibility and Requirement for CFS Top-up

6.1 The eligibility period for the CFS supplement (top-up) is between April 1, 2022, and August 31, 2023.

- a. The Development Agreement between the Region and the MLTC was executed on June 22, 2023.

- b. The Region received MLTC's Approval to Construct on August 31, 2023, the first major milestone to receiving the CFS Top-Up.
- c. Completing the construction and a successful outcome of the MLTC Pre-Occupancy Inspection is the second major milestone to receiving the CFS Top-Up.

7. Project Financing

- 7.1 The following table summarizes the current provincial funding for the new long-term care home and the estimated amount to be funded by the Region, including the associated estimated annual debt repayment and debt servicing costs.

	Capital	Estimated Annual Debt Servicing Cost
Total Estimated Capital Cost (excluding land)	162,250,478	
Provincial Funding		
Development Grant	10,025,200	
Planning Grant	250,000	
Debenture (repaid through Provincial Construction Per Diem)	24,000,000	1,735,940
Debenture (repaid through Provincial Construction Funding Subsidy Supplement)	35,350,000	2,555,000
Subtotal Provincial Funding	69,625,200	4,290,940
Regional Funding		
Regional Financing - 2021 sources - at the discretion of the Commissioner of Finance (2021-COW-17)	280,000	
Regional Financing - 2022 sources - at the discretion of the Commissioner of Finance (2022-COW-32)	9,900,000	
Regional Financing - 2023 sources - at the discretion of the Commissioner of Finance (2023 BM Memo)	250,000	
Capital Project Reserve Contribution	10,591,154	
Development Charges	650,646	
Debenture (repaid through Regional Tax Levy)	34,728,000	3,373,999 *
Additional Debenture Financing (repaid through Regional Tax Levy)	36,225,478	3,519,486 *
Subtotal Regional Funding	92,625,278	6,893,485
Total Financing	162,250,478	11,184,425

* a portion of this debt servicing costs may be eligible for funding from Development Charges

- 7.2 A final financing strategy will be determined at the discretion of the Commissioner of Finance to reduce the amount of debt to be funded by Regional taxpayers based on available resources at the time of required debt issuance.

8. Operating Costs

- 8.1 Preliminary annual operating costs are estimated at between \$50.0 million and \$55.0 million, with provincial and residents per diem funding covering approximately 55 per cent of these costs. The balance of the net operating costs, estimated at between \$22.5 million and \$24.8 million, will be funded from annual property taxes, which approximates an increase in the levy of between three per

cent and four per cent. This increase would be phased in over the two years leading up to the operation of the facility.

- 8.2 The energy efficiency measures included in the proposed facility design will marginally reduce exposure to energy price volatility and reduce the future carbon tax obligations related to the operation of this facility.

9. Construction Update

- 9.1 All deliverables and milestones identified in Section 8 of [Report #2022-COW-32](#) have been achieved. The Region has also met the construction readiness requirement of August 31, 2023, by significantly accelerating the procurement, fast-tracking the design and early works tendering process. Bonding and Insurance Certificates will be submitted to the MLTC before construction starts.
- 9.2 The construction start date will be slightly delayed due to the VE process, which consumed the month of August. The Construction Documents (drawings and specifications), which have been in progress, will require revision to incorporate the VE cost savings.
- 9.3 The accelerated construction schedule required quick decision-making to remain on schedule. Dedicated staff from Works, Social Services, Finance and Legal have met the demands of this aggressive fast-track approach. Resourcing impacts must be considered and addressed to manage the accelerated process for this project. Staff at Pickering have been fully engaged and are available to expedite all approvals necessary to meet the accelerated schedule.

10. Premiums to Accelerate Project Work

- 10.1 Soft costs have been adjusted based on actual fees, resulting in a slight overall reduction in the soft costs and additional fees resulting from the need to redesign to incorporate the VE cost savings.
- 10.2 The construction managers (CM) fee has increased proportionately to the increase in construction cost. The increased CM fee is included in the VE updated construction cost estimate.
- 10.3 Given the delay due to the VE process, the tender process is expected to be completed by the first quarter of 2024. The updated VE construction estimates include escalation costs to the first quarter of 2024 as a contingency.

11. Risks and Uncertainties

- 11.1 Ongoing risks revolve around cost uncertainties due to the need to redesign to incorporate VE cost savings. Staff will work to mitigate the impacts of this different type of contract delivery. Until the full project tenders for all components are received, there will be uncertainty in the final project costs. Staff will report at significant milestones to keep Regional Council apprised.
- 11.2 The operating impact once the facility opens is estimated, and the cost of borrowing will be known at the time of debenture issuance in the capital markets. There are reports that are required when debt is issued to keep Regional Council informed.
- 11.3 This Zero GHG building will have no GHG emissions from operations; however, since it is only 25 per cent more efficient than the OBC SB-10, it falls short of the Durham Standard for energy efficiency in new buildings.
- 11.4 Future upgrades will be required to retrofit the building to meet the Region's target of Net Zero by 2045.

12. Relationship to Strategic Plan

- 12.1 This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:
- a. Goal #2 – Community Vitality
 - Support a high quality of life for all through human services delivery.
 - b. Goal #5 – Service Excellence
 - Optimize resources and partnerships to deliver exceptional quality services and value.
 - Collaborate for a seamless service experience.
 - Drive organizational success through innovation, and skilled workforce, and modernized services.

13. Conclusion

- 13.1 As noted within the Recommendations, Regional staff are seeking approval for a \$36,225,478 increase in the project budget, which incorporates the Value Engineering construction budget of \$144,764,228, resulting in the new total project budget of \$162,250,478.
- 13.2 The Construction Funding Subsidy Top-Up supplement is integral to allowing the project to proceed. There will be operating cost impacts of three to four per cent increase on the tax levy to service the additional 200 long-term care beds and related debt servicing requirements. There will also be short-term resourcing challenges to accomplish the accelerated commencement of construction. The capital Construction Funding Subsidy is critical to achieving the much-needed additional long-term care beds in Durham Region.

Respectfully submitted,

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