



The Regional Municipality of Durham Report

To: Committee of the Whole
From: Commissioner of Finance, Commissioner of Works and
Commissioner of Social Services
Report: #2022-COW-32
Date: December 14, 2022

Subject:

Time-Limited Construction Funding Subsidy Supplement - Update on the Proposed Long-Term Care Home in the City of Pickering

Recommendation:

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

- A) A Statement of Readiness to proceed with construction under the Long-Term Care Home Capital Development Funding Policy, 2022 be executed for additional capital funding from the Ministry of Long-Term Care to build an expedited 200-bed long-term care home in Seaton, City of Pickering;
 - B) That the updated overall capital cost estimate for the new long-term care home in North Pickering of \$126,025,000 be approved, with a financing plan to be provided as part of the 2023 Business Plans and Budget;
 - C) That the budget of \$9,900,000 be approved for the retention of architectural design and contract administration services, with financing to be provided at the discretion of the Commissioner of Finance; and
 - D) That the Commissioner of Finance and CAO be authorized to execute any contracts and waive any Regional policy requirements to facilitate an expedited construction approach, with actions summarized at significant milestones to Council.
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Report:**1. Purpose**

- 1.1 The purpose of this report is to provide information and seek approval from Regional Municipality of Durham (Region) Council on an intent and desire to continue to advance the next steps related to the Region's successful application for a 200-bed long-term care (LTC) home in Seaton, within the City of Pickering including endorsement of the project estimate, retention of architectural design and contract administration services and approval to execute the Statement of Readiness with the provincial government.

2. Background

- 2.1 In response to the window of interest opened by the Ministry of Long-Term Care (MLTC) in 2019 for the creation of 15,000 new long-term beds in Ontario within the subsequent five-year period, the Region prepared a detailed application for a new 200-bed long-term care home in Seaton, located along Whitevale Road west of Brock Road. The design of the proposed 200 bed new long-term care home in the application considered the challenges associated with an aging population that can be difficult to place.
- 2.2 On March 18, 2021, the Ontario Government announced a further investment of \$933 million in 80 new LTC projects to add 7,510 new beds and upgrade 4,197 beds. On the same date, the Minister of Long-Term Care advised the Region that the Ministry of Long-Term Care (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 in advance of the execution of the Development Agreement with the Province.
- 2.4 CAO's office staff worked with AdvantAge Ontario, the association representing not-for-profit and municipal senior care, to compare the projected costs with construction of new long-term care homes across the province. It was determined that the cost of the proposed long-term care facility in Pickering is in line with other municipally operated homes in Ontario.
- 2.5 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 to address rising project costs due to construction cost escalations and changes in infection prevention and control (IPAC).

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 for 200 long-term care beds to the Region, subject to the approval by the Ministry of Long-Term Care 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 Ministry.
- 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 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.

4. Ongoing Tasks and Updated Capital Cost Estimate

- 4.1 As approved in Report #2021-COW-17, to inform the business case, staff completed the following studies:
 - Geotechnical investigations
 - Environmental Site Assessments/Impact Studies
 - Topographical and legal survey work

- Arborist reviews
 - Preliminary assessment and costing for mandatory base design requirements and IPAC design enhancements (COVID impacts)
 - Energy and GHG feasibility studies
 - Other reviews as deemed necessary
 - Community consultation
- 4.2 The initial construction estimate presented in the application to the MLTC for the facility was \$67.610 million (excluding a provision of \$14.875 million for land). The estimate, based on 2018 values, was built around the design concept of the recently constructed Fairview Lodge, in the Town of Whitby (Whitby), but adjusted for the planned 200-bed capacity.
- 4.3 This initial estimate had been refined as a part of the business case development to reflect construction cost escalations, changes in infection prevention and control (IPAC) best practices and other standards resulting from the pandemic, and design changes for measures to reduce operational carbon emissions through enhanced energy efficiency that were not reflected in the application's initial capital cost estimate. Report #2021-INFO-115 in the November 5, 2021, Council Information Package speaks in greater detail to the current economic trends impacting construction costs.
- 4.4 Updated project costing was received in June 2022 to ensure the cost of the project was in line with inflation currently being experienced. The cost reported in Report #2021-COW-30 for the 16-bed IPAC design that included zero GHG options and readiness totalled \$110.44 million. The updated costing based on the same assumptions and reflecting forecasted pricing to Q1 of 2024 is \$123.96 million. As outlined in Section 9 of this report this budget estimate increases by \$2.07 million to \$126.03 million to accelerate project delivery to meet the required provincial timing.

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 \$10,525,200. This 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 \$10,275,200).

5.2 Construction Funding Subsidy

- a. Construction funding subsidy is currently provided by the MLTC 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 or \$43,398,500 over the 25-year period regardless of the build option chosen. This funding would be applied to the repayment and debt servicing costs of approximately \$24.6 million in debenture capital financing.

5.3 Construction Funding Subsidy Supplement (CFS-S)

- a. On November 25, 2022, the Ontario government announced that it will be implementing a fixed, time-limited construction funding subsidy supplement to support the cost of developing or redeveloping a long-term care home. It was noted that this additional funding will help fast-track the construction of new long-term care beds before August 31, 2023, 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 is offering up to an additional \$35 per bed per day for a 25-year period based on certain construction timelines being met. The Region could expect to receive up to an additional \$2,555,000 per year or \$63,875,000 over the 25-year period. Similar to the existing Construction Funding Subsidy, this incremental funding would be applied to the repayment and debt servicing costs of approximately \$36.2 million in debenture capital financing.
- c. Eligible not-for-profit operators, including the Region of Durham, 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, eligible land costs and development charges as well as indirect costs such as building permits, architect and professional fees, financing, site survey, etc.

- d. Given the current economic climate the discount factor applied by the Province when converting a portion of the CFS top-up to a CFS Construction Grant is significant and based on information currently available and the Region's current situation this may not be in the Region's best interests. Staff will advise Regional Council should additional information and context change, and the Region opt to convert a portion of the CFS top-up to a CFS Construction Grant.

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

	Capital	Estimated Annual Debt Servicing Cost
Total Estimated Capital Cost (excluding land)	126,025,000	
Provincial Funding:		
Upfront Provincial Development Grant	10,525,200	
Debenture - funded by Construction Funding Subsidy	24,600,000	1,735,940
Debenture - funded by new Construction Funding Subsidy Supplement	36,200,000	2,555,000
Subtotal Provincial Funding	71,325,200	4,290,940
Balance to be Funded by the Region:		
Debenture	54,699,800	5,226,900 *
Total Financing	126,025,000	9,517,840

* a portion of this debt servicing costs may be eligible for funding from development charges

5.5 A final financing strategy will be included in the 2023 Business Plans and Budget that considers debt, development charges and available reserve/reserve funds for Council's consideration.

6. Operational Costs

- 6.1 Preliminary annual operating costs are estimated at between \$50 million and \$55 million with provincial and resident 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, would need to be funded from annual property taxes which approximates an increase on the levy of between 3 per cent and 4 per cent. This increase would likely be phased in over the two years leading up to operations.
- 6.2 The energy efficiency measures included in the proposed facility design will reduce exposure to energy price volatility moving forward and reduce the future carbon tax obligations related to the operation of this facility.

7. Eligibility and Requirement for CFS Top-up

- 7.1 Eligibility period for the CFS supplement (top-up) is between April 1, 2022, and August 31, 2023.
- 7.2 To be considered for this funding, the Region will be required to:
- a. Declare intent to obtain approval to construct by completing a **Statement of Readiness** to be submitted to the ministry by December 20, 2022;
 - b. Complete the requirements under the Development Agreement and obtain approval to construct between April 1, 2022, and August 31, 2023; and
 - c. Be ready to start construction of the project in accordance with the project application, any applicable project approval, and the project development agreement by August 31, 2023.

8. Accelerated Construction Required

- 8.1 For the Region to meet the construction readiness requirement of August 31, 2023, the procurement, design and tendering process timelines must be significantly accelerated. The MLTC typical approval timeframe for development agreements is 30 days, meaning that the following work must be completed and be ready to submit to the MLTC no later than July 31, 2023:
- a. Completed design and construction documents;
 - b. Competitive public tender; and

- c. the Region's request to commence construction, including supporting documentation (site plan approval, building permits, etc.).
- 8.2 To determine the feasibility of achieving this accelerated timeframe, the Region reviewed and evaluated the construction delivery methods available against the requirements. Four options were considered:
- a. Integrated Project Delivery (IPD), an approach that involves the owner, designer and contractor working together collaboratively from the onset of the project, aligned by a single contract.
 - b. Design Build, an approach where the owner works with a design-builder who takes on the role of both architect and general contractor, with design and construction completed in overlapping phases, decreasing overall project timeframes.
 - c. Design Bid Build, (Traditional design) where the design and tendering process are separate and sequential. This is the typical model for the many Regional construction projects. Construction starts after a fixed price through tendering is received for the project.
 - d. Construction Management contract, an approach where a third party is hired (typically a Contractor) by the owner to oversee the construction of the project, including tendering the work in stages through competitive bidding. The owner typically issues an RFP that includes the preliminary schematic designs to procure the Construction Manager, and they will work together to complete the final detailed designs. There is no firm total project cost with this approach until tendering is complete. The Region has complete and unfettered insight into the contractor's and subcontractors' costs.
- 8.3 The MLTC does not accept IPD or Design Build construction contracts for long-term care builds. The only options left to evaluate are the traditional design bid build approach and the construction management approach.
- 8.4 The design bid build approach, or the CCDC 2 Stipulated Price (Construction) Contract typically has a 17-month timeframe for the design and approval phase, followed by the construction phase. All phases are competitively bid, which increases the timeframe to accommodate the procurement process. Although the Region is very familiar with this approach, it cannot be considered for the North Pickering project given the August 31, 2023, deadline to be construction ready.

8.5 The only other form of contract accepted by MLTC is the Construction Manager approach that is based on the CCDC 5B Construction Management Contract. This approach can be accelerated under certain conditions, and by using Early Work Tendering (site services, rough grading, electrical and communication duct banks, excavation and backfilling, concrete foundations), there is a potential to have construction commence within seven months after the start of the design. MLTC have confirmed that this would satisfy the requirements for the 2022 CFS Top Up. To meet the August 31, 2023 “construction ready” requirement, an extremely aggressive schedule would be necessary, reducing the traditional 17-month procurement, design and approval process to 7 months. There are requirements and deadlines that must be met to achieve the accelerated timelines as follows:

- a. January 2023:
- b. The RFP for the Architectural Consultant must be issued by January 3, 2023 and must be awarded by January 31, 2023.
- c. February 2023:
- d. On February 8, 2023, the Region must:
- e. Issue a Letter of Intent to the Architectural Consultant to start work on the project. The Architectural Consultant's schematic design work would commence immediately and must be completed by April 7, 2023. To achieve this, dedicated Regional staff from Works (1 FTE) and Social Services (1 FTE) must be assigned to this project full time to work collaboratively with the Architectural Consultant, and must be authorized to make quick design decisions to keep advancing the work.
- f. Commence the development of Supplementary General Conditions for the CCDC 5B contract which is new to the Region. The drafting of these conditions must be completed by April 3, 2023.
- g. March 2023:
- h. Construction Manager RFP is developed.
- i. Site Plan Application is developed.
- j. Design work ongoing.
- k. Supplemental General Condition development ongoing.

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- l. Work with City of Pickering staff to develop an expedited review schedule for the Site Plan Application and issuance of a Partial Building Permit.
 - m. April 2023:
 - n. By April 10, 2023, the Region must:
 - o. Submit the Preliminary Plan Submission to the MLTC for comment. The commenting period for MLTC has a 30-day turnaround; meaning that comments would be expected by May 8, 2023.
 - p. Submit a formal request to the MLTC for approval of the Early Works Tendering process, with approval expected by May 8, 2023.
 - q. Submit the Site Plan Application to the City of Pickering for approval, which must be received no later than June 9, 2023.
 - r. Issue the Construction Manager RFP, which will close May 1, 2023. The letter of intent must be issued by May 9, 2023, to onboard the Construction Manager.
 - s. May 2023:
 - t. By May 19, 2023, the Region must:
 - u. Submit Working Drawings for the Early Works packages to the MLTC for comments. With the 30-day turnaround, comments will be expected by June 16, 2023.
 - v. Submit the Partial Building Permit application to the City of Pickering for the Early Works packages. The Partial Building Permit will be required by July 14, 2023.
 - w. June 2023:
 - x. By June 16, 2023, the Construction Manager must issue the Early Work Tendering construction document subcontractor packages for pricing, with quotations to be received by July 14, 2023.
 - y. By July 21, 2023, the Construction Manager updates the construction estimates based on the tendering received and provides this information to the Region.

- z. July 2023
 - aa. By July 31, 2023, the Region must submit to the MLTC, requesting approval to construct:
 - bb. the Construction Manager's bid results for only one Early Works subcontractor package including the Region's Initial Estimate of Costs;
 - cc. the Region's proof of public advertising for the Early Works Tendering and Construction Manager RFP along with the evaluation of the proponent submissions in that process;
 - dd. Partial Building Permits for the Early Work;
 - ee. Construction Manager proof of bonding and insurance; and
 - ff. the Region's operational plan.
- 8.6 In this accelerated process, only the front end of the procurement, design and Early Work Tendering process is expedited. This schedule, if achieved without any delay, will allow the Region to meet the timeframe of August 31, 2023, required to secure the additional CFS funding. The construction period will reflect that of traditional project delivery, with occupancy of the facility in late 2025.
- 8.7 The accelerated construction schedule will require quick decision making to remain on schedule. Dedicated staff from Works, Social Services, Finance and Legal will be required at various stages of this project to meet the demands of this approach. Works staff will be involved in the project full time from its initiation to completion, and Social Services staff's role will reduce as the project moves into construction. Resourcing impacts will need to be considered and addressed to manage the accelerated process. Staff at the City of Pickering will also need to be fully engaged and available to expedite all approvals necessary to meet the accelerated schedule.

9. Premiums to Accelerate Project Work

- 9.1 Updated project costing was received in June 2022 to ensure the cost of the project was in line with inflation currently being experienced. The cost reported in Report #2021-COW-30 for the 16-bed IPAC design that included zero GHG options and readiness totalled \$110.44 million. The updated costing based on the same assumptions and reflecting escalation to Q1 of 2024 is \$123.96 million.

- 9.2 Architectural fees for a project are typically set at 6 per cent of the project's construction value. As the project acceleration relates to the design process exclusively, and the need for the Architectural Consultant's team to produce multiple bid packages, a premium on this work is expected. It is anticipated that the design costs for the accelerated Construction Manager model will be in the 9 per cent of construction value range, adding approximately \$3.36 million to the updated June 2022 estimate.
- 9.3 Although the duration of construction is not accelerated, the Construction Manager does take on additional roles as the tender time period for subcontractor work is divided over multiple stages. The typical premium for a project delivered under this approach is 1 per cent of the construction cost. Under an accelerated scenario, that premium will add approximately \$1.04 million to the updated June 2022 estimate.
- 9.4 Given that the tender time period will occur prior to Q1 2024 due to the accelerated timelines, escalation costs previously included in the June 2022 estimate will not be incurred, and a reduction to that estimate of \$2.33 million can be expected.
- 9.5 The net result of the accelerated Construction Manager approach is an increase of \$2.06 million to the updated June 2022 estimate, resulting in a revised estimated project cost of \$126.025 million.
- 9.6 In order to meet the aggressive timelines set by the Province for the additional funding it is recommended that staff retain architectural design and contract administration services at an estimated cost of \$9.9 million to be financed at the discretion of the Commissioner of Finance.

10. Risks and Uncertainties:

- 10.1 As with any project of this scope, there are several risks to be considered. Because of the significant time pressures related to the Ministry funding requirements, the most significant risk involves failing to meet the required time frames. As noted in Section 8.5 of the report, the timeframe outlined reflects a very aggressive approach where even minor slippage in the schedule can have significant impacts to achieving the deadline. The Region may have to incur additional costs both to keep the project on schedule and may not be eligible for the enhanced funding due to not meeting the requirements. Should this occur, the Region would make all attempts to get extensions to any components that are resulting from project milestone dates. If an extension is not granted and

timeframes are not met, the incurred costs would have to be covered by the Region. If it is the Region's goal to provide the additional new beds, the costs would have to be incurred regardless (except the expedited cost).

- 10.2 Other risks revolve around cost uncertainties due to the type of contracting method as noted in Section 8.2 (d). Staff will work closely to mitigate impacts of this different type of contract delivery. Until the full project tenders for all components are in, there will be uncertainty in the final project costs. Staff will report at significant milestones to keep Council apprised.
- 10.3 It is also worth noting that the operating impact once the facility opens are currently estimates and the cost of borrowing will not be known until the time of debenture issuance in the marketplace. There are reports that are required when debt is issued to keep Council informed.

11. Relationship to Strategic Plan

- 11.1 This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:
- a. Goal #2 – Community Vitality
 - b. Support a high quality of life for all through human services delivery.
 - c. 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.

12. Conclusion

- 12.1 As noted within the recommendation, staff are seeking approval to complete a Statement of Readiness to submit to the Ministry of Long-Term Care for the Region to take advantage of this time-limited construction funding subsidy supplement along with all necessary delegated approvals to comply with the Ministry requirements. The supplement will support the carrying costs for a debenture of approximately \$36.2 million additional funding to the project.

12.2 This supplement would allow the project to proceed but will result in the requirement to onboard operating cost impacts in a range of 3 to 4 percent additional on the levy to bring on the increased service level of 200 additional long-term care beds. There will also be short term resourcing challenges to accomplish the accelerated commencement of construction. The additional capital construction funding subsidy is a critical step to accomplish the needed additional long-term care beds in Durham.

Respectfully submitted,

Original signed by

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Commissioner of Finance/Treasurer

Original signed by

John Presta, P.Eng., MPA
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Original signed by

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Recommended for Presentation to Committee

Original signed by

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