

## REPORT

### COUNCIL

MEETING DATE: AUGUST 11, 2014

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**FROM:** Mayor Rob Burton  
Chief Administrative Officer Ray Green

**DATE:** August 7, 2014

**SUBJECT:** Halton Healthcare Services Local Share Update

**LOCATION:** Town wide

**WARD:** Town wide

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#### RECOMMENDATION:

1. That the report from Mayor Rob Burton and CAO Ray Green on the Halton Healthcare Services Local Share Update be received;
2. That the key principles for the transfer of the existing Oakville Trafalgar Memorial Hospital property at 327 Reynolds Street from Halton Healthcare Services Corporation to the Town be endorsed;
3. That the Town Solicitor be authorized to negotiate a transfer agreement consistent with the key principles; and
4. That the agreement be executed in accordance with By-law 2013-057.

#### KEY FACTS:

The following are key points for consideration with respect to this report:

- In April 2010, Council committed to providing up to \$200 million toward the local share plan for the new Oakville hospital; subject to Halton Healthcare Services ("HHS") meeting the specific criteria outlined in this report, and directed staff to report back to Council on the precise amount and financing for this contribution.
- On May 20, 2011, HHS eliminated the potential option to incorporate an integrated energy system as part of the project and reduced their request for the town's local share contribution to \$130 million.
- The town's Commissioner of Corporate Services has served as a member on the HHS Capital Planning Advisory Committee (CPAC), responsible for

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overseeing construction of the new hospital, thereby providing town access to confidential financial information throughout the project.

- Construction of the new hospital remains on schedule and on budget and HHS is progressing toward a December 2015 opening.
- Staff has negotiated key principles for the transfer of the existing hospital site at 327 Reynolds Street to the town, subject to Council approval (Appendix C). If endorsed by Council, the key principles will be incorporated in a transfer agreement to be concluded and executed between the parties.
- The intended vacant possession date of the hospital property is March 31, 2016. If there is an earlier transfer date than vacant possession on March 31, 2016, the Oakville Trafalgar Memorial Hospital will continue to temporarily operate on the site under a licence agreement until the new hospital is ready for occupancy and the existing site has been decommissioned.
- Negotiations on the final local share master legal agreement are ongoing. Staff will report back to Council in 2015 with the proposed agreement that will be finalized to reflect the final program of ministry and other financial audits defining the town's contribution to the local share.
- Staff will begin preliminary work with Halton Region to prepare for the issuance of debt required to fulfill the town's local share commitment. A by-law for Council's consideration is anticipated in January 2015.
- The town will be able to fund its commitment to the local share without increasing property taxes. The town has the ability to apply its \$40 million special dividend from Oakville Hydro from the sale of Blink Communication toward its local share commitment. The balance of the local share of up to an additional \$90 million will be debentured, with the carrying costs funded by annual special dividends from Oakville Hydro.

## **BACKGROUND:**

On April 19<sup>th</sup> and 20<sup>th</sup> 2010, Council passed the following motion:

1. That Halton Healthcare Services (HHS) be advised that the Town of Oakville commits to providing up to \$200 million towards the local share plan for the new Oakville Hospital to be structured as \$130 million at Substantial Completion, as defined by Infrastructure Ontario's Alternate Financing and Procurement process, \$40 million as required over the 30-year concession period to fund life cycle costs and, at the discretion of the Council of the day, a further \$30 million at Substantial Completion the need for which will be determined at the time of financial close.

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Subject to:

- a) That HHS achieves commercial close for this project by March 1, 2012, and a subsequent and timely financial close;
  - b) That HHS receives approval from the Ministry of Health for its local share program and planned new services;
  - c) That any savings or reduction in the local share plan derived through the RFP process and/or changes in the capital cost share between HHS and the Ministry of Health and Long-Term Care (MOHLTC) be deducted from the town's portion of the local share first;
  - d) That HHS and the Town of Oakville enter into an agreement regarding the disposition of the existing fourteen-acre hospital property, which includes an option for the transfer of the property to the Town of Oakville for the nominal sum of \$1.00.
  - e) That the Integrated Energy System planned by Oakville Hydro Corporation is a key element to the town's commitment to the local share program.
  - f) The following physical assets are available or acquired on opening day:
    - a. 2 MRI's and 3 CT scanners; or
    - b. 3 MRI's and 2 CT scanners; and
    - c. 457 beds
2. That HHS provide the Town of Oakville with full disclosure of financial information on a confidential basis, to enable verification of the final local share contribution at the conclusion of the bidding process for the new Oakville hospital.
  3. That town staff take all necessary steps with HHS to prepare an agreement for the 2011 - 2014 Council, which will address the precise amount and timing of the local share contribution as well as obligations from each party to the other.
  4. That staff be directed to continue to prepare plans and options for the final financing of the town's local share commitment that minimize property tax increases.
  5. That Council request the Oakville Hydro Corporation provide a report to Council, prior to the end of this term, on how they may be able to assist the Town to fulfill the contribution without tax levy implications through the use of Blink Communication sale proceeds and/or other revenue generating opportunities.
  6. The Mayor be authorized to write on behalf of Council, to lobby the Ontario Minister of Health and Long Term Care to ask that the construction cost of "Shelled in Space" be paid for on the same 90/10 construction cost split applicable to the rest of the hospital project.

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Subsequently on May 20, 2011 HHS passed a motion (appendix A) which eliminated the option for Oakville Hydro to build an integrated energy system for the new Oakville Hospital. At the same time, HHS reduced their request for the town's contribution to the local share from \$200 million to \$130 million. This information was read into the record during a verbal report to Council from CAO, Ray Green and Mayor Burton on May 30, 2011.

Council had directed Mayor Rob Burton and CAO Ray Green to provide progress updates on the hospital project as required. This will be the final update report for this term of Council, and provides an update on all of the conditions outlined in the approved recommendation.

Construction of the new hospital began in 2011. HHS has provided photos (appendix B) of progress made to date as work continues on budget and on schedule.

#### **COMMENT/OPTIONS:**

Council's approval of the local share commitment was subject to several conditions being met by HHS, as well as directions to staff to undertake specific additional activities. The current status of each of these conditions and directions is outlined below.

##### 1a) Commercial Close:

HHS met the target of a March 1, 2012 commercial close by achieving commercial close on July 26, 2011. Financial close followed on July 29, 2011.

##### 1b) Ministry of Health and Long Term Care Local Share Approval:

The Ministry of Health and Long Term Care (MOHLTC) local share approval was a complex negotiation between HHS and the ministry. The local share component is a schedule of the overall Development Accountability Agreement between the ministry and HHS. This schedule was successfully concluded on October 28, 2011, and lays out the local share contribution and income streams for each year during the 30 year life cycle of the project. Commissioner Lalonde observed these negotiations through his role on the hospital's Capital Planning Advisory Committee.

Under their agreement, the town's contribution to the local share is scheduled for substantial completion of the new Oakville Hospital. HHS will also make a lump sum contribution at substantial completion. HHS will also make local share payments throughout the project from 2011 to 2045 for life cycle maintenance and equipment.

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Under Ontario government policy for hospital capital cost sharing, a local share commitment is based upon the following key cost sharing components:

- The ministry will provide 90% funding for eligible construction/capital costs;
- The ministry will provide 100% funding for eligible planning, design, financing and transaction costs;
- The ministry will provide a minor non-depreciable capital equipment allowance;
- Hospitals are responsible for all other costs associated with new furnishings and equipment and continue to be responsible for replacement equipment.

1c) Savings or Reductions in the Local Share:

Commissioner Lalonde continues to monitor both expenses and revenues for local share costs as outlined in the Development Accountability Agreement. Staff will continue to monitor local share matters throughout the construction of the new hospital and will ensure that the town be credited for any potential reduction to the town's contribution to the local share.

1d) Land Transfer of OTMH Site:

The HHS board has approved the key principles for the transfer of the existing hospital site to the town, and has authorized the HHS CEO and Board Chair to execute a transfer agreement subject to approval by Council. (Appendix C).

These key principles include:

- The transfer price is for nominal value and the property is accepted by the Town on an "as is where is" basis.
- The agreement between the town and HHS is to provide sufficient time to decommission the Oakville Trafalgar Memorial Hospital (i.e. remove furniture and equipment, decommission gas and oxygen lines, remove underground diesel storage tank and aboveground oxygen tanks). March 31, 2016 is the intended vacant possession date
- The lands being transferred exclude the Wyndham Manor property. A parking agreement will obligate the town to provide additional parking for Wyndham Manor on the hospital property as long as it remains operating. If the town decides to demolish the multi-level parking garage located on the hospital property, the town must provide alternate parking for Wyndham Manor on the hospital property at normal parking rates.

1e) Integrated Energy System:

HHS and Oakville Hydro worked closely with the province to investigate the use of an integrated energy system at the site, but ultimately the decision was made to proceed with a traditional central operating system. As noted earlier, HHS passed a

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motion on May 20, 2011 (appendix A) which closed the option for Oakville Hydro to build an integrated energy system, and at the same time reduced the request for the town's contribution to the local share from up to \$200 million to \$130 million.

1f) Physical Assets Available or Acquired:

Three MRI's, two CT scanners and 457 beds have been acquired for opening day.

2. Full Disclosure:

Since 2011, Commissioner Gord Lalonde has served as a full member of the HHS Capital Planning Advisory Committee. He was also a member of the Local Share Financing ADHOC Committee that arranged the HHS issuance of up to \$138 million in debt to finance portions of the local share. He also observed the ministry negotiations regarding the local share schedule of the Development Accountability Agreement. Staff believes that HHS has been providing full disclosure.

3. Local Share Agreement:

Town staff and HHS are continuing to work on a master legal agreement that will document the precise amount and timing of the local share contribution agreement, as well as the obligations from each party to the other. The agreement will be finalized to reflect all ministry or other financial audits, and will be brought to Council for approval in 2015. The agreement will address the following terms:

- The town's local share commitment of \$130 million pursuant to the Council resolution to be transferred from the town to HHS upon substantial completion, expected in July 2015;
- Any savings or reduction in the local share plan derived through the RFP process will be deducted from the town's portion of the local share first;
- Any changes in the capital cost share between HHS and the Ministry of Health and Long-Term Care will be deducted from the town's portion of the local share first.
- The town will be provided with a copy of all HHS compliance reports to the MOHLTC and any and all audits during the life of the project.

4 and 5 Final Financing:

The town will be able to finance the local share commitment without creating any additional property tax increase. This can be achieved with the support of revenue generated by the town's wholly-owned subsidiary, Oakville Hydro Corporation (OHC). The town has available the \$40 million special dividend it received from OHC from the sale of Blink Communication that may be put toward its local share commitment. The balance of the town's contribution to the local share will be debentured, with the carrying costs funded by annual special dividends from OHC.

The town has already set aside \$7 million in a dividend reserve.

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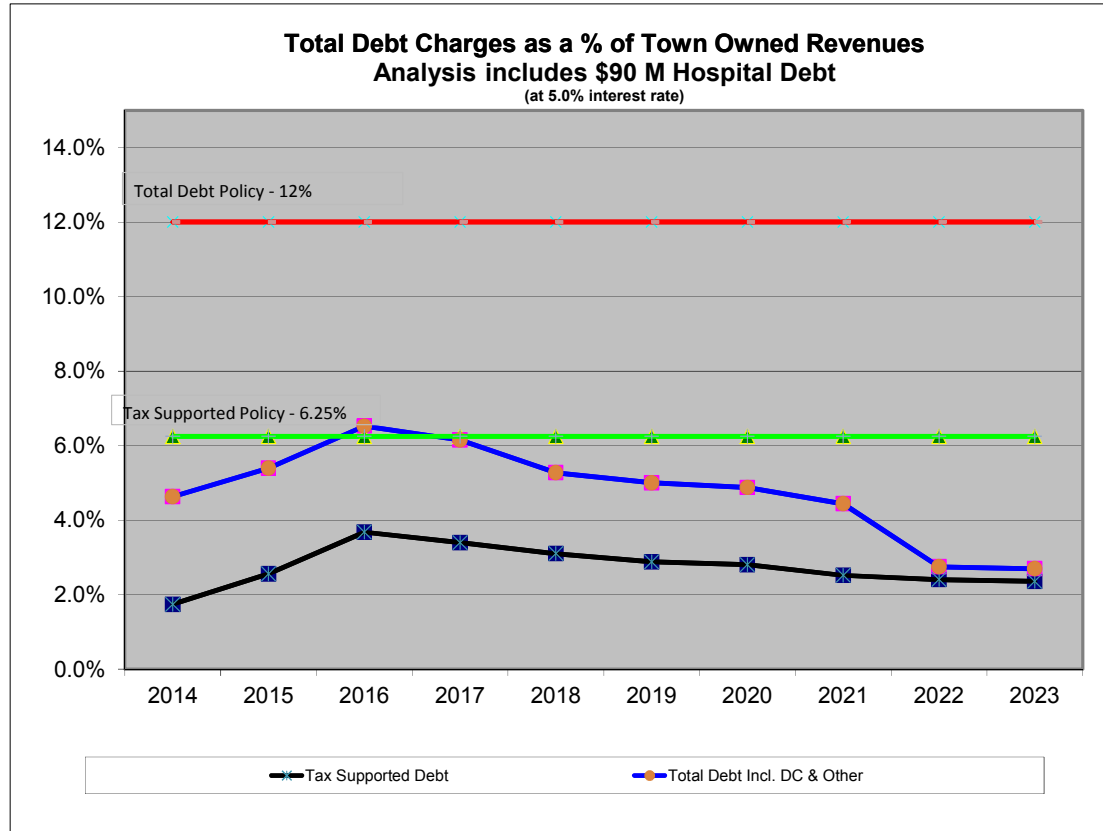
As Council is aware Oakville Hydro Corporation has been investing in green energy projects and acquiring utility related services. As a result of their successful and growing portfolio of companies OHC has projected the following special dividends over the next five years:

2015	\$2.6 M
2016	\$3.7 M
2017	\$4.1 M
2018	\$5.6 M
2019	\$5.9 M

During the first five years of the debenture the dividend reserve and the special dividend from OHC will carry the debenture charges. For the remaining 25 years of the dividend OHC projects its annual special dividend to range from \$6.5 to \$8.5 million, which will be sufficient to carry the debenture charges annually.

It is important to note that based on forecasted growth and interest rates for 2015, the town will be able to borrow up to \$90 million and stay within Council's existing policy limits of 6.25 per cent for tax- supported debt, and 12 per cent for total debt. However, based on current reserve projections, the hospital contribution will bring the town's debt to reserve ratio very close to the 1:1 ratio recommended by municipal debt rating agencies to protect the Regional credit rating. This will restrict the amount of funding available for other projects for a short period of time.

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Issuance of the estimated \$90 million of debt is done through Halton Region and will be based on the optimum timing and the preferred number of tranches for the debt. The actual issuance of the debenture will require Council approval. This by-law will be brought forward in 2015 once the details of the debenture(s) are known.

MOHLTC requires the substantial completion element of the local share to be placed in escrow three months before actual substantial completion. HHS plans to acquire bridge financing as the town share will not be provided until substantial completion.

#### 6) Shelled in Space:

Construction costs for the shelled in space have been reduced from \$30 million to \$4.5 million.



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**CONSIDERATIONS:****(A) PUBLIC**

Council approved the town's commitment to contribution to the HHS local share following extensive public consultation, including written and telephone surveys, public meetings and extensive discussion at Council.

**(B) FINANCIAL**

Final costs for the town's local share commitment will be determined following completion of a final program of ministry and financial audits. Staff is required to begin work with Halton Region to prepare for issuance of debentures in 2015. Currently it is estimated that the town will require a debenture of 90 million dollars to meet its local share commitment. Carrying costs for this debenture would be fully funded from Oakville Hydro revenues.

**(C) IMPACT ON OTHER DEPARTMENTS & USERS**

n/a

**(D) CORPORATE AND/OR DEPARTMENT STRATEGIC GOALS**

This report addresses the corporate strategic goal to:

- be accountable in everything we do
- be fiscally sustainable

**(E) COMMUNITY SUSTAINABILITY**

The new Oakville hospital will enhance residents' access to high-quality local health care which is a key consideration contributing to community sustainability and quality of life. The town is managing its contribution to the hospital's local share commitment without increasing property taxes, which will contribute to the fiscal sustainability of the community.

**APPENDICES:**

Appendix A - HHS Board motion of May 20, 2011

Appendix B - Photos

Appendix C - Key Principles for the Transfer of Oakville Trafalgar Memorial Hospital Property from Halton Healthcare Services Corporation to the Town of Oakville

Submitted by:

Mayor Rob Burton

Ray Green, P. Eng., CAO