City of Mississauga
Corporate Report

MISSISSAUGA

Date: October 9, 2024	Originator's files:
To: Chair and Members of General Committee	
From: Geoff Wright, P.Eng, MBA, City Manager and Chief Administrative Officer	Meeting date: October 23, 2024

Subject
Peter Gilgan Mississauga Hospital Municipal Contribution

Recommendation
1. That Council provides direction on the municipal contribution request from Trillium Health Partners (THP) for the construction of the new Peter Gilgan Mississauga Hospital, based on the Options A, B, C and D outlined in the report entitled "Peter Gilgan Mississauga Hospital Municipal Contribution" from the City Manager and Chief Administrative Officer, dated October 9, 2024.
2. That if Council provides direction to proceed with the municipal contribution:
   i. That Council provides direction on the approved contribution amount, payable to THP on or before January 1, 2033;
   ii. That Council approves the establishment of a Hospital Levy Reserve Fund to fund the approved contribution amount;
   iii. That Council approves the funding strategy of implementing an up to 1% annual hospital levy starting in 2028, for up to five years, to be transferred to the Hospital Levy Reserve Fund, and the issuance of a 20-year debenture to cover any remaining shortfalls between the approved contribution amount and the balance of the Hospital Levy Reserve Fund as of January 1, 2033;
   iv. That the City Manager and Chief Administrative Officer or designate be authorized to execute the municipal contribution agreement between the City of Mississauga and THP; and
   v. That all necessary by-laws be enacted.

Executive Summary
- The new Peter Gilgan Mississauga Hospital will be the largest community-based academic hospital in Canada, with over 950 beds, spanning 2.7 million square feet

across 22 floors. It will be a regional hospital that will serve the residents of Mississauga and adjacent catchment areas.

- The Ministry of Health will pay 75% to 85% of the total costs of the new build. The remaining 15% to 25% will be funded through the hospital's local share plan, which is comprised of three main sources of funding – hospital revenues, philanthropic proceeds and municipal contributions.
- THP has requested $450 million from the City of Mississauga to partially fund the estimated $1.5 billion local share. They are seeking Council's approval of the municipal contribution by December 2024.
- There is currently no provincial legislation or policy that requires municipalities to fund hospital infrastructure, although many municipalities in Ontario have contributed towards their local hospital projects.
- If approved, the City of Mississauga's local share contribution will be due to THP by January 1, 2033. This is their estimated substantial completion date for the hospital construction project.
- To fund the $450 million municipal contribution, the City of Mississauga would be required to implement a combination of a new hospital levy of up to 1% for up to 5 years, and the issuance of a 20-year debenture to cover any shortfalls as of the January 1, 2033 payment date.

Background

The Government of Ontario committed to rebuilding the Mississauga hospital at the existing Hurontario Street and The Queensway site through their provincial budget approval in March 2021. The construction of the Peter Gilgan Mississauga Hospital will allow THP to address the increasing demands for hospital services from the growing population and seniors in the regional community. Based on 2019/2020 statistics, of all Mississauga residents who had a hospital visit, 82% attended a THP facility - Credit Valley Hospital, the Queensway Health Centre and/or the Mississauga Hospital. THP provided a total of 1.7 million visits to patients from Mississauga and other catchment areas last year.

The Peter Gilgan Mississauga hospital will be a regional centre for specialized care, delivering programs such as cancer care, advanced cardiac surgery, geriatric mental health services, and others. It will also feature the Shah Family Hospital for Women and Children. Together with the Credit Valley Hospital and the Gilgan Family Queensway Health Centre, the Mississauga hospital will be a significant infrastructure renewal project of the Trillium HealthWorks network that THP states will "have a generational impact on the community".

THP is required to present a local share plan to the Ministry of Health by November 2024, following THP's Board approval. They must also confirm the municipal local share commitment by January 2025. Once the local share requirement is met, they will seek the Ministry of

Health's approval to proceed with the construction project in February 2025, prior to their March financial close. The construction for the Peter Gilgan Mississauga Hospital is targeted to start in the Spring of 2025.

THP has stated that they must secure the municipal contribution and meet their local share requirement to proceed with the hospital construction. At the October 9, 2024 Council meeting, THP presented City of Mississauga Council with their municipal contribution request of $450 million, based on the estimated $1.5 billion local share. Based on a scan of recent hospital local share requests in Ontario, on average, this share is roughly 42% higher than the amounts requested in other communities.

THP Foundation has committed to funding $330 million of the $1.5 billion local share, and other community donors have also contributed $260 million. THP has also committed to allocate $498 million of their non-Ministry of Health revenues (e.g. preferred accommodation, parking, retail, equipment funding and commercialization) towards this project.

Local Share

In Ontario, local municipalities often contribute to the capital costs of building hospitals. Almost 70% of all new hospitals require a local share. This practice has evolved over time and is influenced by the need to address local healthcare demands and gaps in provincial funding. Municipalities may provide funding through property taxes, fundraising efforts, or other local revenue sources.

There is no legislation that requires this local funding; rather, it has become a convention through Ministry of Health and Long-Term Care policy that communities have to pay a local share. In general, the local community must pay 10% of capital construction costs and 100% of the costs of equipment, furniture, fixtures, and other materials. On average, this means the province pays only 70% of the cost of the hospital project, and the local community, including the municipality, pays the remaining approximately 30%.

It is important to note that the City of Toronto is not expected to contribute a local share to their hospitals. This practice only applies to hospitals outside of Toronto. The issue of the local share has been raised by the Association of Municipalities of Ontario (AMO) to the province as recently as 2022, but no changes have been made to the requirement.

Jurisdiction

Under the Canadian Constitution, healthcare is a responsibility of the provincial government. The federal government provides annual health transfers to the province, as well as affords tax powers to the provinces to raise funds to pay for healthcare services and infrastructure. According to a recent report from the Canadian Press and the Humber College Story Lab and reported publicly, the federal health transfer to the provinces has increased by 212% since 2005. At the same time, health spending by the provinces only grew by 158% in the same period.

The federal and provincial governments collect a host of different taxes and have significant taxation powers not available to municipalities. Local governments can raise property taxes and issue debt (capped at 25%) only to pay for capital projects. As has been noted by the Federation of Canadian Municipalities in their advocacy for a new Municipal Growth Framework, when the economy does well the federal and provincial accounts grow through income and payroll taxes, as well as consumption taxes, but the revenue streams for cities do not as the property tax does not scale. At the same time, as inflation grows, the cost for cities to maintain existing and build new infrastructure climbs. Cities like Mississauga do not collect new revenues but must deal with rising costs.

Comments

Staff have prepared several funding options for Council consideration, to support a decision around the municipal contribution.

Funding Options:

- Option A: $150 million (1/3 of the requested contribution amount)
- Option B: $300 million (2/3 of the requested contribution amount)
- Option C: $450 million (100% of the requested contribution amount)
- Option D: To decline the contribution request

If Council chooses to decline the contribution request, or to contribute a reduced amount below $450 million (e.g. Option A and B), THP would be required to identify other sources of funding to meet their local share requirement. THP has stated that this could result in a delay of the hospital construction project.

Assumptions:

1) The funding scenarios outlined in Chart 1 and Chart 2 below assume an optimal combination of a special purpose levy and debt issuance. This helps smooth out the tax impact over a longer period, to avoid significant tax increases in any particular year, and to ensure financial sustainability and compliance with the City’s financial policies and annual debt repayment limit.

   Chart 1 assumes an annual tax levy increase of up to 0.5% per year from 2028, up to 6 years, and funding the remaining balance as of January 1, 2033 through debt issuance. The levy increases from the first 5 or 6 years, depending on the scenario, will remain in the levy base to pay for the debt and interest expenses until they are fully repaid. In other words, the compounded levy increases from the 2028 to 2033 will remain in the residents’ property taxes, and will not be removed from their taxes until 2050 based on Option C.

2) Chart 2 assumes an annual tax levy increase of up to 1.0% per year from 2028, up to 5 years, and funding the remaining balance as of January 1, 2033 through debt issuance.

The levy increases from the first 5 years will remain in the levy base to pay for the debt and interest expenses until the they are fully repaid. In other words, the compounded levy increases from 2028 to 2032 will remain in the residents' property taxes, and will not be removed from their taxes until 2040 based on Option C.

3) Chart 3 below represents the scenario of funding the municipal contribution with a special purpose levy only, without debt issuance.
4) Use of the City's existing internal reserves and reserve funds were not considered in the 3 options as they are earmarked and committed for the City's capital program. Staff recommends keeping the municipal contribution for the hospital separate from the City's capital program.
5) All the funding scenarios outlined in Charts 1, 2 and 3 assume the start of the levy increase in 2028. This coincides with the end of the 1% Public Safety Fire Program Levy in 2027, which will further minimize the financial impact to our taxpayers.

Chart 1: Combination of an annual tax levy increase of up to 0.5% per year and debt issuance:

Staff do not recommend this scenario due to the higher cost of borrowing compared to an up to 1.0% tax levy increase. Also, this scenario would require a 6-year levy increase for the $450 million contribution option, instead of a 5-year levy increase. The levy will also remain in the base for a longer period due to the larger amount of borrowing required to fund the remainder of the contribution.

	Option A: $150M Contribution	**Option B: $300M Contribution**	**Option C: $450M Contribution**
# of Years of levy increase	5	5	6
# of years of levy continuance in the base	4	12	17
Levy Collected	$69,000,000	$74,000,000	$71,000,000
Debenture issuance as of Jan 1, 2033	$81,000,000	$226,000,000	$379,000,000
Total interest cost of borrowing	$35,578,598	$99,268,680	$166,472,698
Total Contribution Cost	**$185,578,598**	**$399,268,680**	**$616,472,698**
Annual levy increase	0.30%	0.50%	0.48%
Annual tax bill increase *	$11	$13	$12

*Based on average residential home with assessed value of $730,000

Chart 2: Combination of an annual tax levy increase of up to 1.0% per year and debt issuance:

Staff recommends this scenario over the scenario in Chart 1, as this minimizes the cost of borrowing and the overall cost to the City.

	Option A: $150M Contribution	**Option B: $300M Contribution**	**Option C: $450M Contribution**
# of Years of levy increase	5	5	5
# of years of levy continuance in the base	2	8	8
Levy Collected	$93,000,000	$94,000,000	$139,000,000
Debenture issuance as of Jan 1, 2033	$57,000,000	$206,000,000	$311,000,000
Total interest cost of borrowing	$25,036,791	$90,483,841	$136,604,245
Total Contribution Cost	**$175,036,791**	**$390,483,841**	**$586,604,245**
Annual levy increase	0.63%	0.64%	0.95%
Annual tax bill increase *	$16	$16	$24

Chart 3: Contribution fully funded by a special purpose levy and not funded by debt:

Staff do not recommend this scenario for a municipal contribution greater than $150 million due to a much higher annual levy increase impact of 2% to 3% (compared to 0.5% or 1%).

This scenario assumes no debenture issuance in 2033; hence the cost of borrowing is $0.

	Option A: $150M Contribution	**Option B: $300M Contribution**	**Option C: $450M Contribution**
# of Years of levy increase	5	5	5
# of years of levy continuance in the base	0	0	0
Annual levy increase	1.00%	1.96%	3.00%
Annual tax bill increase *	$25	$50	$76

*Based on average residential home with assessed value of $730,000

Note the figures in Chart 1, 2 and 3 are estimated amounts only, and are subject to change depending on the levy calculation for each year, and the future interest rates that impact both interest revenues on the Hospital Levy Reserve Fund and the cost of borrowing.

Cost of Borrowing Impacts

The estimated interest costs of borrowing in the scenarios outlined in Chart 1 and Chart 2 are based on a 3.75% average borrowing rate for a 20-year debenture. Note that the higher the amount of levies collected prior to January 1, 2033, the lower the interest cost, as it reduces the amount of debt required.

The Annual Repayment Limit is assessed at significantly below the City's internal limit of 15% of own source revenues for all scenarios, hence there are no debt policy compliance issues relating to the utilization of debt to fund a portion of the municipal contribution.

Financial Impact

Should the municipal contribution be approved by Council, and subject to the contribution amount and funding strategy scenario selected, the City would have to implement a special purpose levy starting in 2028, and to fund any remainder of the contribution requirements through the issuance of a 20-year debenture starting January 1, 2033.

Conclusion

It is recommended that Council provides direction on the municipal contribution request from Trillium Health Partners (THP) for the construction of the new Peter Gilgan Mississauga Hospital, based on the funding options and scenarios outlined in this report.

GWright

Geoff Wright, P.Eng, MBA, City Manager and Chief Administrative Officer

Prepared by: Marisa Chiu, CPA, CA, Director of Finance and Treasurer