

Alternative Financing and Procurement

Background

The average age of Ontario's hospitals is over 40 years, contrasted to the average age of US hospitals (9 years). Many Ontario hospitals are reaching the end of their useful lives as they have outdated clinical layouts, they are energy inefficient, and accelerating maintenance expenditures are eroding dollars that could be spent on the delivery of patient care. The Ontario government has announced, via the Ministry of Infrastructure Renewal (MPIR), a \$ 5.3 billion healthcare infrastructure infusion inclusive to 2010. The high-level plan is outlined in MPIR's *ReNew Ontario*, a \$ 30 billion public infrastructure investment strategy for the next 5 years.

The Ontario government will be utilizing alternative financing and procurement (AFP) for most large hospital projects as one of its investment strategies to enable this enormous infrastructure investment. This allows the government to pay for the assets while they are being used, like a home mortgage, rather than paying for them at the time of construction. The long-term financing for the projects will come from pension plans, provincial infrastructure renewal bonds, and private-sector investors.

The AFP strategy is intended to allow the government to take advantage of private-sector expertise and efficiencies to modernize and purchase new public infrastructure while allocating risk to the appropriate party. The MPIR will assign AFP projects to the Ontario Infrastructure Projects Corporation (Infrastructure Ontario or IO) who is charged with delivering these projects. Infrastructure Ontario is staffed with managers experienced in large, complex projects with expertise in commercial law, investment banking, and financial negotiation.

In addition, on June 9, 2006, the Provincial Government announced that they will be covering 90% of eligible construction costs on all major hospital projects and 100% of eligible construction costs on longer term mental health programs. Historically, Ontario hospitals had to cover 20 – 50% of eligible construction costs depending on geography and project type. Hospitals are now expected to cover 10% of the eligible construction costs, but also now 100 % of the costs of new and replacement equipment.

OHA Position

The OHA has long advocated for the use of alternative financing to gain faster access to capital for hospital construction and renovation for many years and is supportive of the AFP strategy. The AFP strategy will allow the expedited construction of many urgently needed hospital projects and keeps them publicly-owned.

The OHA also welcomes decisions on local share advancements that have been advocacy priorities for some time. The announced changes:

- Increase the share of funding that the Government will be responsible for with regards to hospital capital projects;
- Provide a uniform funding standard for all Ontario hospitals, regardless of type or region and;
- Helps with the large challenge of fundraising for hospitals and their communities.

Despite this, hospitals continue to face challenges when funding capital projects. As hospitals assume 100% of funding equipment, the growing costs of emerging diagnostic equipment and information technology should not be underestimated.

Although a number of hospitals have had capital projects announced funded through AFP's or traditional methods, other hospitals with major capital modernization needs continue to wait to see if they are part of the *ReNew Ontario* public infrastructure investment strategy.