

Long-Term Care COVID-19 Commission Meeting

Morrison Park Advisors
on Friday, March 5, 2021



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MEETING OF THE LONG-TERM CARE COVID-19 COMMISSION

--- Held via Zoom Videoconferencing, with all
participants attending remotely, on the 5th day of
March, 2021, 1:00 p.m. to 2:11 p.m.

1 BEFORE:

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3 The Honourable Frank N. Marrocco, Commission Chair

4 Angela Coke, Commissioner

5 Dr. Jack Kitts, Commissioner

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8 PRESENTERS:

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10 EXPERTS ON PUBLIC FINANCING PANEL:

11 Dave Santangeli, Managing Director, MPA Morrison

12 Park Advisors Inc.

13 Pelino Colaiacovo, Managing Director, MPA Morrison

14 Park Advisors Inc.

15 Daniela Barros, Associate, MPA Morrison Park

16 Advisors Inc.

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20 PARTICIPANTS:

21 Alison Drummond, Assistant Deputy Minister,

22 Long-Term Care Commission Secretariat

23 Ida Bianchi, Senior Legal Counsel,

24 Long-Term Care Commission Secretariat

25 Kate McGrann, Co-Lead Commission Counsel,

1 Long-Term Care Commission Secretariat
2 Derek Lett, Policy Director, Long-Term Care
3 Commission Secretariat
4 Adriana Diaz Choconta, Senior Policy Analyst,
5 Long-Term Care Commission Secretariat
6 Angela Walwyn, Senior Policy Analyst, Long-Term
7 Care Commission Secretariat
8 Amanda Byrd, Commission Lawyer
9 John Callaghan, Co-Lead Commission Counsel, Gowling WLG
10 Lynn Mahoney, Counsel, Gowling WLG
11 Peter Gross, Counsel, Gowling WLG

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ALSO PRESENT:

Judith M. Caputo, Stenographer/Transcriptionist

1 COMMISSION CHAIR FRANK MARROCCO: Let
2 me say formally for the transcript, first of all,
3 thank you for doing this. It will be quite
4 informative from our perspective. There is a
5 transcript; a transcript will be posted on the
6 website shortly after we're finished.

7 We tend to ask questions as we go
8 along. Mr. Callaghan will be responsible for
9 running the thing, but we will ask questions as it
10 occurs to us to do that, if that's okay, rather
11 than trying to go back.

12 With that, I think we're ready to go.

13 JOHN CALLAGHAN: So, today we have the
14 benefit of having Morrison Park Advisors, who have
15 taken a look at some of the financial aspects of
16 the construction and development of long-term care
17 beds and have done some work.

18 There was a draft report that was
19 circulated that you might, hopefully, have had a
20 chance to look at.

21 Dave Santangeli is the principal who is
22 leading this work, and I'll leave it to Dave to
23 introduce his team. And I suspect I'll stay in the
24 background, thanks.

25 DAVE SANTANGELI: Thank you, John.

1 Thank you, Commissioners.

2 Let me start by, first of all, thanking
3 you for the opportunity to be involved with this
4 project. We've been following it actively and I,
5 as an Ontarian, do want to thank you for your
6 efforts and all that you've done. This is a very
7 difficult, important piece of work and we consider
8 it to be a bit of a privilege to be involved, to be
9 honest.

10 What we hope to do is help you along in
11 your journey, however that may occur. We've
12 written a draft report. I think we're pretty
13 comfortable that it's a good representation of our
14 work, although, of course, we're happy to take your
15 guidance on any additional work or redirections
16 that might come out of that.

17 For the purpose of today, again, if
18 this format works for you, what I'd like to do is
19 do a short introduction of the people from MPA that
20 we have on the call and also go through the -- sort
21 of highlight items from the report at more of a
22 conversation level.

23 And, again, please feel free to ask
24 questions at any time. We are much more
25 comfortable with a more conversational format as

1 opposed to reading through PowerPoint slides.

2 We do have the report available to
3 share, if there are any particular questions that
4 come out or anything of a more specific nature, but
5 I would propose to start off doing this a bit
6 conversationally.

7 My name is David Santangeli, one of the
8 original founders of Morrison Park Advisors. We
9 started the business in 2004. In preparing for
10 this, I did think about when I first started
11 working on Bay Street, and I hate to admit that it
12 started in the '70s, 1979, which shows you how old
13 I am.

14 Before founding Morrison Park with my
15 partner, Brent Walker, I was at Scotiabank. The
16 last role I had there, I was the Industry Head for
17 Infrastructure and Power, intimately involved in
18 the intersection between government and the capital
19 markets in terms of assisting governments to access
20 capital markets and private sector procurement.

21 The most relevant assignment that I had
22 at Scotiabank was, I was the lead financial advisor
23 and underwriter for the Toronto Hospital Public
24 Bond, which was the precursor to the Infrastructure
25 Ontario Procurement Program that led to, largely,

1 the reconstruction of the hospital sector in
2 Ontario.

3 After founding Morrison Park in 2004,
4 we were given the opportunity to act as financial
5 advisor to Toronto Community Housing, as they
6 designed and implemented the financing program for
7 the reconstruction of Regent Park, which led to,
8 really, led us on a journey; and me personally on a
9 journey, of working with mission-driven
10 organizations. And like, you know, housing and a
11 variety of other not-for-profits charities, which
12 has become a bit of a specialty for MPA.

13 Pelino Colaiacovo is our colleague to
14 my lower left here. Pelino joined us in 2007, I
15 believe -- 2005. Pelino comes to us with a
16 background of having been the Chief of Staff to an
17 Ontario Cabinet Minister prior to joining MPA.

18 Since 2005 -- and now I understand it's
19 2005 -- he has really specialized in the power and
20 utilities space and has advised a number of
21 governments at all levels in Canada, ranging from,
22 you know -- Pelino did work for the Province of
23 Newfoundland in looking at sort of the forensic
24 analysis of the Muskrat Falls Project. Advised the
25 Nova Scotia Utilities Board on the undersea link

1 from that project. Advised the Province of Alberta
2 on the capital implications of decommissioning the
3 coal fleet. The list goes on and on and on.

4 Pelino's specialty, amongst many
5 things, one of his specialties is assisting
6 provincial municipal and federal governments with
7 interacting with the capital markets and private
8 sector provider of infrastructure assets and
9 services.

10 The third member of our team is Daniela
11 Barros. Daniela joins us from TransCanada Power,
12 where she spent eight years in project development,
13 which in many ways has been relevant to this
14 project. Daniela will be the person to help us
15 with any technical questions on the numbers or on
16 the financial aspects in the report. So that's our
17 team.

18 You'll note, if you've had a chance to
19 look at the report, it is a bit longer than we
20 expected; it's about 60 pages odd. We have done an
21 executive summary which is, by its nature, an
22 editorial exercise. What I thought I would do,
23 rather than read through the executive summary, is
24 to touch on the highlights of the work and sort of
25 the conclusions that we came to.

1 Those conclusions are really segmented
2 into three subsets. First, we try to look at the
3 sector and try to figure out what's been going on
4 from a commercial point of view, and boil it down
5 to the essential elements for the benefit of the
6 Commission. I think we have some relatively
7 conclusive thoughts on that.

8 Secondly, in looking at the gap that
9 exists between existing infrastructure and
10 anticipated infrastructure requirements, what are
11 the challenges and opportunities in regard to
12 actually filling those gaps.

13 And thirdly, we've come to the
14 conclusion that the province does have a number of
15 really important assets at its disposal to be able
16 to fill that gap. So I thought we'd talk about
17 some of those.

18 JOHN CALLAGHAN: One thing I'm not sure
19 you spoke about is your work in the not-for-profit
20 housing sphere. I don't know if you plan to touch
21 on that as you go, but I think that the comparisons
22 might be of interest.

23 DAVE SANTANGELI: Yes. So coming out
24 of the Regent Park Project with Toronto Community
25 Housing, we've done extensive work in what I would

1 characterize as the mission-driven sector. I think
2 the majority of that work has been in social and
3 affordable housing. But there has been a number of
4 other assignments we've had where, whether they be
5 profits or cooperatives or specialized companies,
6 that have really focused on a mission, you know,
7 commercial activity that propagates a mission. I
8 think we've become, I don't know, at the risk of
9 sounding immodest, sort of Canada's leading advisor
10 in the mission-driven sector.

11 The most recent example is we acted for
12 BC Housing, Manitoba Housing, and Housing Services
13 Corporation, which is the Ontario designated
14 service provider in the social and affordable
15 housing space, to create a dedicated capital
16 markets platform which is able to access the public
17 capital markets to raise senior debt funding for
18 mission-driven housing, and it is across the
19 country.

20 We've worked in affordable ownership
21 scenarios. The list sort of goes on and on, and
22 it's become a very important and growing space.
23 We've been just very lucky to have been exposed to
24 it early on, and so I think it's a bit of a
25 specialty for us.

1 I think, John, to your point, I think
2 that there are a lot of similarities between that
3 space and what is going on here, particularly in
4 regard to understanding the actions of
5 mission-driven entities. And I'll come back to
6 that.

7 So the first category of discussion --
8 of analysis is, you know, what's going on? What's
9 happening here? Because the issues are actually
10 many and complex, and a number of the issues are,
11 you know, tentative, emotional, and, frankly, from
12 a commercial point of view, not well understood by
13 the man on the street.

14 So, in taking a look at what's been
15 happening, I count five or six different
16 significant points that came through.

17 The first is there is a very, very
18 large infrastructure gap here. That if the policy
19 objective is to fill that gap, it is important to
20 understand that that gap is very, very big.

21 So how big? So, if you just take a
22 look at the basic -- I mean, it's very difficult to
23 really forecast this with precision, but there are
24 some benchmarks and some goalposts. If you just
25 take a look at, for example, just the number of

1 beds which need to be redeveloped, and the
2 waitlist, and multiply that by the estimate of the
3 current cost to construct. Just that, is about
4 \$19 billion in today's numbers, a very big number.

5 If you are to expand that number to
6 look at the expected trends and demographics of
7 aging population, etcetera, etcetera, you can get
8 to a number which is two or three times that size
9 quite easily.

10 I think there's some debate. I think,
11 you know, Don Drummond did a lot of good work,
12 which we actually thought was a very interesting
13 and compelling piece of work. You can make an
14 argument that there's other ways to service
15 delivery, which would decrease that number; but
16 it's a bit of a moot point, because even
17 \$19 billion is a massive number. So that's a very
18 big problem if the policy objective is to fill that
19 gap.

20 That's kind of the first thing to
21 really keep in mind, that's very important context
22 here.

23 The second piece which is a speech that
24 I give a lot, and that's, in our view, in our
25 experience -- you know, this is not a philosophical

1 point. In our experience, describing participants
2 in these spaces as either not-for-profit or
3 for-profit is actually an unfortunate
4 oversimplification. It depends -- technically, a
5 not-for-profit is just an entity which doesn't pay
6 tax.

7 In fact, the way we would describe and
8 have found -- you know, we've found some alternate
9 terminology which is actually much more effective
10 and much more useful; and that is, the distinction
11 is really mission-driven versus commercial.

12 And when we talk about mission-driven
13 entities, one perfect example was Jamie Schlegel,
14 who did provide evidence and testified with the
15 Commission.

16 So I would characterize the Schlegel
17 family as a mission-driven organization, although
18 they are also for-profit. So, you know, the reason
19 that that distinction, I think is important, is
20 because it describes behaviour, as opposed to
21 corporate structure. Because behaviour can and
22 does vary, based on different corporate structures.
23 You can have for-profit entities that act in a
24 mission-driven basis, the same way you can have a
25 charity.

1 So describing the two different
2 segments as mission-driven versus commercial, I
3 think is a more useful distinction to make in terms
4 of understanding behaviours, as events have
5 unfolded in this phase. That's kind of the first
6 point.

7 COMMISSION CHAIR FRANK MARROCCO: Just
8 a second, Mr. Santangeli.

9 Commissioner Kitts?

10 COMMISSIONER JACK KITTS: Just a quick
11 question.

12 We had a presentation from a young lady
13 named Jackie Brown, who talked about
14 "mission-driven" versus "financialized".

15 Is "commercial" and "financialized"
16 similar in your vocabulary?

17 DAVE SANTANGELI: I don't want to go
18 down a rabbit hole on financial terminology. I
19 don't really think that "financialized" is a
20 meaningful expression, frankly.

21 I think what it's really saying is that
22 the importance of finance has grown. I just don't
23 think that's factual.

24 I think that, realistically,
25 mission-driven -- I mean, the reality is that

1 mission-driven organizations, they have to turn a
2 profit. And they do work hard to turn a profit.
3 It's just what they do with the profit that's the
4 difference. So mission-driven entities all across
5 the country, they raise bonds, they raise capital.

6 So, I understand that terminology. I'm
7 just not sure that it's particularly useful in this
8 context. And I don't mean to be critical. I just
9 think that if you were to ask a mission-driven
10 organization, "Are you mission-driven?" They will
11 quite proudly say, "Well, yes, I am."

12 If you were to ask a commercial
13 operator, "Are you commercially oriented?" They
14 would quite happily say, "Well, yes, I am." So
15 that really better describes how they see
16 themselves and how they see their role.

17 I don't know if that answers the
18 question.

19 COMMISSIONER JACK KITTS: No, that's
20 clear. Thank you.

21 DAVE SANTANGELI: The third point,
22 which is a really important one in our view is:
23 There is no healthcare business here. Okay?

24 There's no healthcare business
25 happening in LTC in Ontario. What there is, is a

1 healthcare activity. Nobody is making profits off
2 of healthcare; that's just not how the system
3 works. This is a flow-through. This is a
4 contracting out exercise by the province to get,
5 you know, various folks to provide care services.
6 They provide money. If you don't spend the money,
7 it gets clawed back. There's reporting that
8 happens twice a year, down to the penny. There's
9 no healthcare profit. No one is profiting from
10 healthcare.

11 The way we see this is, essentially,
12 what the province is saying to LTC owners is: If
13 you provide a service, if you provide an activity
14 and you do it prudently and according to our rules,
15 that will give you the licence to operate a
16 business, which is the hoteling and accommodation
17 piece of this.

18 That's a very important distinction.
19 In fact, it's actually a fundamental point
20 because --

21 COMMISSION CHAIR FRANK MARROCCO: Can I
22 just stop you for a minute?

23 "Hoteling"; how do I make money out of
24 "hoteling" in this context?

25 DAVE SANTANGELI: Well, there's the

1 bucket of funding that comes from the province on a
2 per-bed basis, which is allowed to be spent on
3 utilities, management services, rent, if you're
4 renting a building, appreciation, the CapEx.

5 And, yes, at the bottom, if you do that
6 well, you can make a bit of money out of it, right?
7 So it's the non-care activities.

8 I mean, "hoteling" is actually a fair
9 term. That's what people would say, it's an
10 accommodation business. That's where the
11 opportunity to make a return in LTC is. There
12 really isn't an opportunity to make money out of
13 the "care" piece of this.

14 COMMISSION CHAIR FRANK MARROCCO: All
15 right.

16 DAVE SANTANGELI: I know that's a
17 confusing point, and I know it's a loaded topic.
18 But we weren't sure ourselves until we actually dug
19 into the formula and looked at how it really works
20 and talked to a bunch of participants.

21 There is no healthcare business here,
22 it's a healthcare activity, right? Which is the
23 kind of requirement to be in a position to
24 potentially earn a return on the other piece of the
25 business. So I'll come back to that.

1 So where we next went was, okay, what
2 do the returns look like? If you can understand
3 how the business works, who is making money and how
4 much, and where are they making it from, and what
5 does it actually look like?

6 So we did two things. We did an
7 analysis -- using the royal "we" -- Daniela did an
8 analysis on the public companies and did a deep
9 dive on the segmented financials of the major
10 public companies who operate in Ontario.

11 We also had the benefit of confidential
12 access to financial results and pro formas from
13 some nonpublic services, from LTC operators in
14 Ontario. What you'll see in the report is, we've
15 actually -- we've anonymized those to an extent,
16 but we've actually gone through and shown a sample
17 of P&L for, you know, a typical new and ten-year
18 old LTC facility.

19 And you know, thankfully, the results
20 from the public company analysis and the results
21 from the private analysis actually did sort of,
22 they did jive. So that was -- we're happy with
23 that.

24 The high level conclusions is that --
25 sorry. And the comparison basis was, let's look at

1 LTC versus private pay retirement. Right? Because
2 with LTC, it's government funding, you know,
3 there's no occupancy risk, you would expect that
4 the returns would be lower, or should be lower in
5 the LTC space versus private pay retirement. And
6 sure enough, they are.

7 Margins are 60 to 80 percent lower.
8 Returns on equity are half, third to a half. So
9 the actual financial results that are produced
10 through LTC, in our view, they're actually sort of
11 appropriate for what you'd expect, given it's
12 government business. Right? So that's good. And
13 I think that's a positive result.

14 But it does beg the question of, why
15 does this not seem to be an attractive business.
16 Because if you talk to some of the mission-driven
17 folks, you know, they kind of say, well, this is
18 tough, this is a tough business. Yes, we do it,
19 but it's tough.

20 If you talk to the folks who are, you
21 know, are the research analysts, or the public
22 announcements of the public companies who are in
23 the LTC space, they view it as sort of a difficult
24 business. Why is that? Because the returns are
25 sort of in line with what you'd expect.

1 We've come to the conclusion that the
2 reason that is the case is, because for the given
3 amount of return, the risk that's associated with
4 operating in the LTC space, doesn't line up with
5 the returns.

6 So it's not that the returns are
7 unsatisfactory, it's that there are a bunch of
8 risks that are involved in operating an LTC
9 facility, which the returns don't support.

10 What kind of risks are we talking
11 about? Well, you hear it over and over again,
12 reputational risk. You're a target if something
13 goes wrong. There's massive -- and I'm not saying
14 it's inappropriate -- but there's massive
15 regulations upon regulations as to how the care
16 needs to be provided.

17 And don't forget, it's being done on a
18 service basis; there's no profit in the care piece.
19 So you have the burdens of operating healthcare
20 activity, according to appropriately tight
21 regulations; but if you mess up, well, there's all
22 kind of bad implications to that.

23 The third major thing is that since the
24 system was designed 20, 25 years ago, providing
25 this care has become more complicated. It's become

1 more complicated. It's become more of a management
2 issue. And, you know, over time, costs of
3 operating in, you know, the GTA and the bigger
4 cities in Ontario, it's become more expensive.

5 So, you know, we believe that the
6 problem is actually not the returns, it's that the
7 risks that they are assuming are higher than what
8 you would expect for that level of return.

9 Another great example has to do with
10 the development risks. So, if you're awarded a
11 licence, there's a number of risks that you have to
12 take on to actually get your facility built. In a
13 lot of cases, facilities just don't get built
14 because of those risks.

15 So the conclusion we came to is the
16 returns are probably in the range, but the risks
17 that these people are undertaking to produce those
18 returns are much higher than, I think they would
19 like.

20 Now, you can say to yourself, well, you
21 know, tough, you signed up, all good; it's your
22 problem. And there may be some merit to that. But
23 when it comes time to fill in the infrastructure
24 gap, that's not a good enough answer. Because if
25 it's not an attractive deal, it's just going to be

1 difficult to attract sufficient people into the
2 space.

3 COMMISSION CHAIR FRANK MARROCCO: If I
4 can interrupt for a second.

5 Do you have a sense why they got into
6 the business in the first place then?

7 DAVE SANTANGELI: Well, you know, there
8 is -- this is one of the questions that John had
9 asked us on a number of occasions: If we were to
10 get this risk return profile right, would there be
11 capital for this space?

12 And the answer is: Unequivocally, yes.
13 You know, having a stable, you know, low risk, low
14 return opportunity is extremely popular, and
15 investors want that.

16 So, you know, I can't transport myself
17 back 20 years ago, but I'm assuming that the reason
18 I got into it is because it seemed like something
19 investors would want to support.

20 Even today, you know, if that risk
21 return profile can be tweaked to the point where
22 it's appealing, there is a mountain of money that
23 is looking for lower risk, lower return based
24 activities.

25 I can only assume, and I don't mean to

1 be flippant about it, I can only assume that people
2 looked at it at the time and thought it was a good
3 deal. Probably things have evolved in a way that
4 are --

5 COMMISSION CHAIR FRANK MARROCCO: They
6 sized it up as a low risk, modest return on your
7 money and people found that attractive.

8 But today, the risks are greater, or
9 the risks have increased; is that the idea?

10 DAVE SANTANGELI: I think that's a fair
11 characterization of our observation, yes.

12 COMMISSION CHAIR FRANK MARROCCO: Don't
13 let me take you out of what you want to say, I'll
14 be happy to wait. But how is it that the risk
15 became more than it was, it got worse?

16 DAVE SANTANGELI: Well, I think, you
17 know, it's the expectations of care have become
18 higher. It's a more complicated requirement than
19 it was.

20 Constructing the facilities has become
21 much more burdensome from a pure development point
22 of view.

23 There's been very significant cost
24 escalations in different areas of the province. So
25 you know, I think it's just -- our assessment is

1 that this business has become riskier and, you
2 know, the funding formula has not changed.

3 Again, I can come back to the
4 procurement aspects of that, because in 2020 there
5 was a big change.

6 You know, and again, we're not saying
7 that the province has any obligation to go back and
8 change the old deal. I mean, a deal is a deal.
9 But in terms of filling that gap, again, that
10 doesn't really answer the question as to how you
11 fill that gap if the current deal that's on the
12 table seems to be a difficult one from a risk
13 return point of view.

14 Perhaps I can bring this to light a
15 little bit. It's a bit of a segue into our second
16 category of observations, but a couple of very
17 specific comparisons which I think might bring this
18 to light, that are really how the same risks are
19 dealt with in a different sector in the Province of
20 Ontario.

21 So, you know, and there are a number of
22 examples, but the one that we think is sort of
23 interesting is comparing this space to the
24 regulated utilities space. We have a number of,
25 you know, different types of energies providing

1 services to different segments of the value chain
2 in the two city space, and the Province of Ontario
3 through its directions to the OEB, determine
4 policy. It's a heavy capital business. It is
5 integral to the safety and security of Ontarians.
6 Not in the same way, but as we've seen in Texas
7 recently, if you don't manage the system right,
8 great cost and damage can come to your citizens.

9 So let's look at two particular risks:
10 Construction risk and crisis spending, and how
11 those are handled in electricity.

12 So, in the regulated rate environment
13 that the OEB monitors in Ontario, if a new
14 transmission line, generation facility is
15 constructed, and there are unexpected costs along
16 the way, those unexpected costs firstly are
17 reviewed for prudence by the OEB, and if they are
18 deemed to have been prudently incurred, those are
19 included in their return calculation.

20 So compare that to LTC, where it's,
21 once the licence is granted, it's really up to the
22 provider, the owner, to solve that problem. And if
23 you can't solve the problem, well, the facility
24 just doesn't get built.

25 In electricity, there is a mechanism

1 where those costs can be judged to be either
2 prudent or imprudent, and then the electricity
3 utility, based on some confidence that they will
4 recover those capital costs, proceeds.

5 And, you know, we have a waitlist in
6 LTC; we don't in electricity. Because that method
7 of procurement just provides the province with a
8 much more effective tool to manage the pace of
9 construction. So that's one example.

10 Another example comes in the recent
11 pandemic. There's been a requirement, a need, for
12 a surge of spending to deal with safety issues.

13 Well, in electricity, we have ice
14 storms. In the Caribbean, there are hurricanes.
15 And what happens in those situations, interestingly --
16 it's a fascinating business -- what happens is, if
17 there's an ice storm in Ontario, if there's a
18 utility within a thousand mile radius, they send
19 their linemen to Ontario. They just do it. Like,
20 they mobilize them overnight and they get the
21 trucks rolling to solve the problem.

22 Now, you might ask yourself, well, why
23 are they willing to do that? They're willing to do
24 that because they have an expectation, based on the
25 regulatory environment, that once deemed prudent,

1 those additional expenses will be recovered. They
2 don't sit around and wait for approvals from the
3 regulator to send the trucks; they just send them.
4 But that's on the basis that there's a reasonable
5 expectation that, if deemed prudent, they will
6 collect those costs. And this is, it's widespread,
7 it's accepted, and that's how the electricity
8 utility does it.

9 The one story I remember from our days
10 in dealing with Fortis, which is a
11 Newfoundland-based utility, which has grown to be
12 one of the biggest in the world, that they own a --
13 I think at the time they owned a partial interest
14 in the utility in Central America, and they had an
15 earthquake.

16 So they put all their linemen on planes
17 and they sent them down to Costa Rica. Again, they
18 didn't wait for approval, they just did it, knowing
19 that ultimately they would recover those costs.

20 Compare that to LTC where, under the
21 current mechanism, there is no mechanism to recover
22 those costs. And so, as a result, certain
23 providers chose to spend more money, others didn't.

24 So, at a minimum, what you end up with
25 under the current system is you have no assurance

1 of equal outcomes across the province. And you're
2 reliance on people's voluntary spending of extra
3 money. Again, that is full credit to the
4 mission-driven organizations who did that, but then
5 from a policy point of view, it does not provide
6 the province with the tools to ensure that that
7 spending takes place.

8 So that's a couple of examples. We can
9 actually go on and on, in terms of --

10 COMMISSION CHAIR FRANK MARROCCO: So
11 the idea would be that -- are these healthcare
12 expenses, too, or only related to infrastructure?

13 DAVE SANTANGELI: In the case of the
14 electricity utility space?

15 COMMISSION CHAIR FRANK MARROCCO: No, no.

16 DAVE SANTANGELI: I'm sorry.

17 COMMISSION CHAIR FRANK MARROCCO: As
18 you see it playing itself out in long-term care.
19 If the operator decides that they want to improve
20 the quality of life by having one extra
21 physiotherapist per 200 people, whatever -- I'm
22 just making those numbers up -- was the idea that
23 they would then be able to say that was a
24 reasonable cost under the circumstances, and we
25 should be able to recover it? There would be some

1 kind of determination about whether that was
2 correct or not?

3 I'm just trying to understand. I get,
4 you know, if you put linemen on a plane, you have
5 those costs, and you go to the OEB and you say, "I
6 want to increase everybody's electrical bill by ten
7 cents", whatever, and that's how you...I can
8 understand something like that.

9 I was just trying to understand how it
10 plays back into when you're dealing with long-term
11 care.

12 DAVE SANTANGELI: Well, I think we
13 will -- I'm sort of getting to that, but --

14 COMMISSION CHAIR FRANK MARROCCO: No,
15 no. Well, then I'll wait until you get there.

16 DAVE SANTANGELI: No, no, it's okay.

17 But I think the real answer to your
18 question is that making any kind of a change like
19 this has to be very carefully done, because there
20 are a whole lot of unintended consequences. And
21 any sort of change to the regime, would have to be
22 carefully studied first, and there would have to be
23 a transition, etcetera.

24 But as I get into some of the other,
25 the kind of the announcements on the procurement

1 options, I think some of that might be a little
2 more clear.

3 Well, I'll just talk about that now. I
4 mean, in Ontario, the province has been contracting
5 out services to the private sector forever, and
6 it's very commonplace. It's not easy, but there
7 are a variety of different models which had been
8 used, even within the Province of Ontario, to deal
9 with these risks in various different ways.

10 So, the current process, we described
11 it as a tariff system, okay? And that's for the
12 common language, but it's a tariff system.

13 So, you know, the province says: Okay,
14 well, here is what we're willing to pay. If you're
15 interested in constructing an LTC facility, we'll
16 look at you, we'll make sure that you're qualified
17 and you meet the, you know, the kind of ethical and
18 quality test that we need. If you're interested in
19 this tariff, then we will give you a licence and
20 you can build the facility.

21 Now, there's some real benefits to that
22 system for the province. Firstly, it creates,
23 basically, a whole bunch of certainty, right? You
24 know exactly what you're going to spend. And so
25 from a public accountability and from a budgeting

1 point of view, it's very, very helpful in that
2 regard. But what it doesn't do is, it doesn't give
3 the province the tool to control the pace of
4 development. Unless we've missed it. If, let's
5 say, an LTC provider, you know, is granted a
6 licence, if they don't actually build a facility, I
7 don't think there's any consequences to that.
8 There's no penalties. There's no legal
9 requirement.

10 So the tariff is kind of put out there,
11 and then people are given the opportunity to build
12 against that tariff, but there's no real
13 enforcement capability on the part of the province
14 to really ensure that that happens, because all
15 they're doing is they're providing a tariff. So
16 that's one of the main issues.

17 The second issue is, again, there's
18 no -- the tariff system, because it's a fixed
19 tariff, if you want behaviour to change, it's very
20 difficult to enforce a change in behaviour because
21 you set a tariff out, and that's the deal.

22 Okay. Well, let's look at some of the
23 other options. And it's sort of interesting --

24 COMMISSION CHAIR FRANK MARROCCO:
25 Before you go on, Commissioner Kitts, did you want

1 to ask a question on this before...

2 COMMISSIONER JACK KITTS: Yes. I'm
3 back to the care. I just want to see if I've
4 understood or whether I've oversimplified what
5 you've said.

6 So the risk a decade ago was less,
7 maybe significantly less, than it is today. To me,
8 the biggest change is the acuity of the patient and
9 the risk is that there is, I think, not enough
10 funding in the patient care envelope.

11 So you have the municipal homes using
12 municipal taxes to beef up the care envelope. You
13 have the not-for-profit charities raising money to
14 beef up that envelope. Then you have the
15 mission-driven for-profits reinvesting and beefing
16 up that envelope.

17 Is it as simple that the envelope, if
18 the government is paying everybody the same and
19 supposed to cover the care, is it that all of them
20 are underfunded and that would explain why some
21 have to top up and others -- I think the for-profit
22 or the commercial ones have to pay dividends in
23 addition that the others don't. Is that too
24 simplified?

25 DAVE SANTANGELI: I don't think it is.

1 I think that's probably accurate, yes.

2 And, you know, we're not healthcare
3 cost experts, so I don't think we can be definitive
4 and say, you know, the money is not enough.

5 But if different providers, different
6 categories of providers, are having to voluntarily
7 top up the care dollars, I think the logical
8 conclusion is that the care dollars are
9 insufficient. I think that's the logical
10 conclusion.

11 Just to touch on another piece. I
12 don't want to go down the rabbit hole of private
13 versus nonprofit, but I think when you look at --
14 if you talk about dividends, here is how it
15 actually happens.

16 If you have a mission-driven entity,
17 whether it's a charity or a not-for-profit, or
18 whatever it happens to be. Let's look at the way
19 they build these things. Is that they go and get
20 the same debt as the commercial players, from an
21 insurance company or a bank. You get the same
22 debt. That's no problem.

23 The difference is the equity piece. In
24 a not-for-profit or a charity, they have certain
25 sources of the risk capital, the equity capital.

1 It can be a grant. It could be an accumulated
2 surplus, and some of these entities actually have
3 significant accumulated surpluses. It can be a
4 charitable donation. It can be fund-raising. They
5 get the equity from the sources that they have
6 available to them.

7 They build a facility, and then as they
8 go along, the mortgage that they have, ends up
9 getting paid down. Okay? So, as the mortgage
10 amount gets paid down, the equity value in the
11 facility goes up, just like a house. So if at year
12 18, there's a significant reconstruction required,
13 or a significant CapEx, what a mission-driven
14 entity does is it will then either re-mortgage, so
15 bump their debt back up again, and that's how some
16 of them actually do it to fund that, or they go out
17 and start fund-raising again. That's how they do
18 it.

19 The difference with the commercial
20 operators is that based on providing investor
21 returns, when it comes time to reconstruct or build
22 new, they have infinite access to capital. But
23 that's having been accomplished through developing
24 an investor following.

25 So I think it is fair to say that, yes,

1 there are dividends paid, and that's just the way
2 that system works. But, by virtue of providing,
3 hopefully, an attractive investment opportunity,
4 when it comes time to rebuild or build the
5 capacity, it's the commercial guys who have
6 infinite connections to capital, by virtue of
7 having provided a satisfactory investment
8 opportunity.

9 I mean, at MPA, we live a big part of
10 our lives in the mission-driven world. We're big
11 fans, right? A tremendous positive social benefit.
12 But the practical reality is, they don't have any
13 access to money. They got to go and beg for it.
14 They have to go out and scrape it up. It's just
15 not easy, right?

16 So, yes, I would argue that you can
17 look at, you know, these commercial operators to
18 say, yes, they're paying dividends and that's money
19 leaving the system. But what it does for them is
20 it allows them to raise, basically, infinite
21 amounts of money for good investment opportunities,
22 if they were to decide that they're interested to
23 build more capacity.

24 So it's -- you know, I think that, why
25 we are saying mission-driven versus commercial? Is

1 because that's the important distinction. Not
2 for-profit or not-for-profit.

3 COMMISSIONER JACK KITTS: Well, I think
4 what you're saying is that, you know, there's a
5 common phrase now that profits shouldn't go instead
6 of care.

7 But I think you've shown us how care is
8 separated from the finances, and so it's much more
9 complex. And it's not reducing care to pay
10 dividends, they're not really connected.

11 DAVE SANTANGELI: There's no money
12 leaking into that boat. It's a separate function.
13 Right? It's a separate function. I think we'll
14 get to that. That's actually a bit of an asset and
15 an opportunity for the province.

16 PELINO COLAIACOVO: Just to jump in for
17 a second to supplement what Dave's been saying.

18 I think it's actually useful to flip
19 your statement in reverse, Commissioner, and say
20 that: Commercial entities are not sacrificing
21 dividends to top up care.

22 Because that's what they would have to
23 do in order to top up the care, is that they would
24 have to sacrifice dividends. And because they are
25 a commercial entity, it's not in their interest,

1 it's not in their corporate DNA to do that.

2 So that goes to the issue of whether
3 the care funding envelope is right-sized, and as
4 Dave said earlier, if all of the providers other
5 than commercial providers are topping up the care
6 envelope, it raises that question of whether the
7 care envelope is sufficient.

8 But blaming commercial enterprises for
9 not sacrificing dividends, which were part of the
10 deal in getting in the business in the first place,
11 blaming them for doing that, I think is
12 questionable.

13 COMMISSIONER ANGELA COKE: May I ask a
14 question? And it's a little further back, I should
15 have jumped in earlier.

16 You had mentioned something about,
17 there's no mechanism in long-term care; or no
18 assurance that if they spend extra money, they'll
19 get it back.

20 So is the thought there that, if people
21 are delivering this service and they realize that
22 they legitimately need to spend more, they don't
23 have the flexibility to go ahead and do that, and
24 then make a justification after as to why that cost
25 should be covered? Is that what you were --

1 DAVE SANTANGELI: That's correct.

2 That's correct.

3 COMMISSIONER ANGELA COKE: Thank you.

4 DAVE SANTANGELI: So you're waiting
5 form them to -- the province is essentially relying
6 on them to voluntarily do that.

7 COMMISSIONER ANGELA COKE: Yes.

8 DAVE SANTANGELI: And they even have.
9 But in terms of ensuring equal outcomes, and
10 ensuring that the spending happens, under the
11 current system, the province does not have the
12 tools at its disposal to do that.

13 COMMISSIONER ANGELA COKE: Okay. Thank
14 you.

15 DAVE SANTANGELI: Just in terms of
16 Commissioner Marrocco's question about systems.
17 You know, there's, I think, two main
18 alternatives -- and correct me if I'm wrong here --
19 to the tariff system. You can either go with a
20 regulated rate system, or you can go with an
21 auction model.

22 Pay the tariff, where you put the
23 tariff out there and people decide to build against
24 that tariff or not. Give the regulated rate model,
25 which is how electricity works in Ontario. Or the

1 third main option really is the auction system.

2 And the auction system is how the
3 province got all these hospitals built, okay? So
4 what happens is, the province says: Well, we want
5 to build a hospital in North Bay; and here is what
6 it's going to look like. We're going to put the
7 opportunity to build and potentially operate the
8 physical part of the hospital, out for bid. And
9 then you have all these consortia lined up, four or
10 five different bidding groups lining up to bid a
11 price to build that hospital.

12 And that is how 23, I think, hospitals
13 have been rebuilt in Ontario, with care separate.
14 Care is still provided by the hospital
15 corporations, but the actual physical
16 infrastructure has been built by EllisDon and
17 Fengate and PCL, and people like that. Big
18 capitalized companies have lined up and spent
19 millions of dollars on big costs, eagerly
20 anticipating the right to build those facilities.
21 It's been a frenzy to do this.

22 So there's good news and bad news about
23 that. The good news is, because of the nature of
24 the auction process, the province has got the
25 ability to manage the pace of the development.

1 That's the good news.

2 Bad news is, they're paying the market
3 clearing price. Whatever the price ends up being
4 in the auction, they have to pay that price. So
5 they have control over the pace of development, but
6 not control over the actual cost, the auction in
7 terms of the costs are.

8 So it's kind of, you know, you got to
9 go one way or the other, right?

10 COMMISSION CHAIR FRANK MARROCCO: Can I
11 stop you there? Can you explain that? You're
12 assuming that I know something that I don't know.

13 What happens in the auction scenario,
14 the province loses control? Can you explain it
15 again?

16 DAVE SANTANGELI: In the auction
17 scenario?

18 COMMISSION CHAIR FRANK MARROCCO: Yes.

19 DAVE SANTANGELI: Okay. So, let's --
20 you can pick any hospital you wanted to.

21 COMMISSION CHAIR FRANK MARROCCO: Yes,
22 that's fine.

23 DAVE SANTANGELI: So pick William Osler
24 in Brampton. So there's a hospital corporation
25 which is responsible for care. They have an annual

1 budget negotiation with the Ministry of Health, and
2 they budget for a certain number of cases, and
3 there's a budget of negotiation process that
4 happens.

5 The physical building used to be part
6 of the same negotiation. And then 20, 25 years
7 ago, when the new procurement process was created
8 under the purview of Infrastructure Ontario, that
9 was all changed. So, rather than have the
10 hospitals themselves hire contracting firms and
11 hire construction firms, and hire the architects,
12 essentially, what the hospital is responsible for
13 doing is designing the facility that they wanted,
14 and then getting the ministry to agree that that
15 configuration that was appropriate for, let's say
16 Brampton, in the case of William Osler.

17 In the old days, what would happen is,
18 the hospital would then have a subcommittee of
19 their Board and have a development officer and they
20 would start to build. And the problem that
21 occurred was that you got the organizations that
22 are focused on healthcare, building these big
23 complicated facilities and then there's overruns
24 and delays, and it's just difficult for them to
25 manage that complex a project; never mind 23 in

1 Ontario about the same time. So that was the main
2 concern at the time.

3 So the way that that infrastructure was
4 effectively procured, right -- I mean, it was
5 technically by the hospital, but really by the
6 province through the hospital -- is that design.
7 "Here is the building we want", okay, it was put
8 out on MERX in their RFP saying: We're looking for
9 private sector candidates to build this facility.
10 And either, you know, the building is then
11 transferred to us once it's been completed; or, in
12 certain circumstances -- you know, they were paid
13 over time, based on availability of the rooms,
14 etcetera. It doesn't really matter.

15 Basically, what happened was that that
16 opportunity to build the infrastructure was put out
17 to the private sector. Then, I mean, you talk
18 about billion dollar projects here. So each of the
19 consortium would get a financial advisor, they
20 would get an architect, they would get a planning
21 firm. They put together a consortium, who will
22 look at the design, come up with a price, and then
23 on the bid date, they would all submit bids to the
24 hospital, saying, you know, "here's our price".

25 COMMISSION CHAIR FRANK MARROCCO: So

1 now the private sector contractor has built this
2 facility, built this hospital, and the province
3 pays, like, rent for the building until the
4 contractor or the developer, whatever you call
5 them, has got the appropriate return on their
6 investment?

7 DAVE SANTANGELI: Close. In certain
8 circumstances, it was really a design-build
9 transfer. So they just design it, the detail
10 design, build and then transfer it to the hospital
11 corporation for a fixed price.

12 In other circumstances, and this was
13 expected to be more common than I think it actually
14 played out, because there was a periodic payment
15 made to the private sector developer, based on the
16 number of -- the kind of occupancy rate over a
17 period of time. Then that became a bit complex.
18 But in some cases, that's how it actually works.
19 So there's an annual amount that is paid.

20 Even in the case of the build transfer,
21 part of the deal is that the private sector
22 consortium raises the money from the capital
23 markets. The government doesn't do it. The
24 hospital doesn't do it. So the payments that the
25 hospital make are actually annual payments,

1 effectively for occupancy cost, like rent.

2 That funding, the major link to the
3 government is that that annual occupancy cost was
4 essentially preapproved by the province to be
5 included in the hospital budget. So the private
6 sector operator knew they were going to get the
7 money from the province through the hospital.

8 I guess the real point is that often
9 when we do these analyses -- we were kind of
10 laughing about this -- that often you need to look
11 at other countries, at models where you can do
12 things differently. Sometimes you have to look to
13 other provinces to see how things are handled
14 differently.

15 In this particular case, you just have
16 to look at a different ministry to come up with
17 other models that would have been effective. And
18 that's easy for a private sector person like us to
19 criticize. Government is, you know, big, big, and
20 ministries are big organizations that have their
21 own ways of doing things.

22 I think the conclusion we come to is
23 the province actually had the tools in Ontario to
24 at least analyze and assess other alternatives
25 which can potentially handle these risks and the

1 big funding gap we have more effectively than the
2 tariff model does.

3 COMMISSION CHAIR FRANK MARROCCO: So
4 then to follow this model through, there would be a
5 separate corporation that provides the healthcare
6 services?

7 DAVE SANTANGELI: So that's actually
8 the interesting part, and we've characterized that
9 as a big opportunity. Essentially, the current
10 model has economically segregated the care piece
11 already. So, you know -- and it's easy for us to
12 say, oh, it changed the model. I mean, I'm sure
13 that people at the Ministry of Health and Long-Term
14 Care, you know, when they read this, that the hair
15 on the back of the neck is going to stand on end.

16 But the fact that the economics on the
17 care piece are already economically subrogated,
18 does give the province the flexibility to allocate
19 those monies to different places in different ways.
20 It's already separate. Often, often, when you try
21 to reconstruct these scenarios, everything is
22 intermingled. It's already separate. So, it is,
23 in our view, certainly that's possible.

24 COMMISSION CHAIR FRANK MARROCCO: So if
25 you have this gap, you fill the gap through this

1 process, and what it costs the province is the
2 rent -- whatever the appropriate word is -- but the
3 operating -- however you describe that number, that
4 amount of money you pay every year, blows through
5 the long-term care home to the developer that
6 constructed, and what you're out -- so the province
7 has postponed the hit that would come from building
8 it and paying for it, and turn that into an annual
9 payment, and then have a separate corporation that
10 knows how to provide healthcare, and that's
11 interested in providing healthcare to people who
12 need it; provide the care or run the place, that
13 sort of thing?

14 DAVE SANTANGELI: Certainly we think
15 that's a viable option and should be looked at,
16 yes.

17 You know, we look at these things from
18 the point of view of, okay, the question is always:
19 Okay, what do we do? What do we do? And so you
20 have to look at the assets that you have.

21 And you've come to the final part of
22 our presentation. The province has, we think, some
23 very big opportunities, right? The province has a
24 lot of assets here to solve this problem. So any --

25 COMMISSION CHAIR FRANK MARROCCO: Sorry.

1 Commissioner Kitts?

2 COMMISSIONER JACK KITTS: Just before
3 you go on, Dave. Did I understand correctly that
4 what we're saying here is we should use the same
5 model that is used for the hospitals, for long-term
6 care?

7 DAVE SANTANGELI: What we're saying is
8 that any recommendation should involve a period of
9 serious study, because the last thing you want to
10 do is create unintended consequences, and this is
11 complex. But we do believe that the province has,
12 within the Province of Ontario, it does have other
13 models that it has very successfully used, which we
14 think stand a better chance of, you know, solving
15 this problem in the long-term than the current
16 model.

17 COMMISSION CHAIR FRANK MARROCCO: And
18 one of those models is the hospitals model?

19 DAVE SANTANGELI: One of those models,
20 right.

21 COMMISSION CHAIR FRANK MARROCCO: Thank
22 you.

23 DAVE SANTANGELI: Have I characterized
24 that right? I talk a lot and I look at my partners
25 to make sure I haven't said anything stupid.

1 COMMISSION CHAIR FRANK MARROCCO:

2 Nobody is frantically trying to mute your microphone
3 or making gestures, so I think you must be doing
4 okay.

5 DAVE SANTANGELI: Yes, but I'm the boss
6 so you never know.

7 So, I think we should read our report
8 as actually an optimistic report, because the
9 province does have a lot of assets at its disposal
10 and a lot of real strengths to solve these
11 problems.

12 The first is, and this may sound, you
13 know, unusual for an investment banker on Bay
14 Street to say, but the fact that there are as many
15 mission-driven entities in Ontario, focused on
16 providing these services, is a tremendous asset for
17 the province.

18 We do a lot of work with mission-driven
19 people in various sectors. These are committed,
20 devoted people who, in our view, should be
21 encouraged and supported. Full stop. I mean,
22 these are a real asset to the province, to the
23 citizens.

24 I don't want to get too emotional about
25 it, but these are great people, doing great work,

1 and they should be supported. What do they need?
2 They need equity capital, and they need risk
3 capital, because they're scraping it together.

4 Now, what has happened in the housing
5 space, in the affordable and social housing space,
6 is that the Federal Government has gone from
7 providing program funding to providing targeted
8 capital grants on a facility-by-facility basis, to
9 give them the leg up to actually be able to get the
10 total amount of money that they need to build these
11 facilities.

12 It just seems to us that that has been
13 a highly effective -- again, we're not a public
14 accountability officer, we haven't done that study,
15 but our instinct is that government has gotten good
16 bang for the buck in the housing space by switching
17 from program subsidies to targeting capital grants;
18 because those are really the lifeblood of the
19 mission-driven organizations in housing.

20 So I think, if you were to ask a
21 registered charity, a mission-driven LTC provider,
22 what is their biggest problem with building to
23 capacity? It's grant money. So that's an option.

24 I think, you know, and again, this is
25 an initial report, further work needs to be done to

1 quantify this. I think you'd get more capacity
2 built in the mission-driven space if that was to
3 happen. That's the good news.

4 The bad news is, and you know, again,
5 this is not an empirical study we've done, but if
6 you were to ask me: Is there enough capacity in
7 that sector to create \$19 billion of capital
8 spending?

9 I would say the answer is: Unequivocally,
10 not a chance.

11 COMMISSION CHAIR FRANK MARROCCO: You
12 would agree though, perhaps, that you have to have
13 access to the \$19 billion if you're going to
14 address the gap?

15 DAVE SANTANGELI: Yes.

16 COMMISSION CHAIR FRANK MARROCCO: So if
17 there's not that availability in a particular
18 sector, then that particular sector cannot help
19 you fill the -- well, can help you, but cannot
20 bridge the gap.

21 DAVE SANTANGELI: Correct. I agree
22 100 percent. Because there's just no way.

23 I mean, you know, your typical
24 mission-driven organization is extremely strong on
25 the ground. It's extremely client-focused, full of

1 caring people who -- there's incredible morale in
2 mission-driven organizations. What they don't have
3 is, they don't have, typically, the kind of higher
4 order capability, raising capital, the development
5 activity, managing multiple -- that's where they
6 tend to break down. They just don't have the
7 capacity, typically, to take on more than one
8 project at a time.

9 So you're looking at, you know, some
10 very useful constructive, positive, socially
11 beneficial development; but not enough to fill in
12 the \$19 billion gap, there's just no way.

13 COMMISSION CHAIR FRANK MARROCCO:
14 Excuse me, Mr. Santangeli, just a minute.

15 Commissioner Kitts?

16 COMMISSIONER JACK KITTS: You're going
17 to think I've kind of missed the whole boat here,
18 but I just want to get clear in my mind.

19 So you talked about mission-driven
20 versus commercial. You've talked about
21 mission-driven being like Schlegel. So both are
22 for-profit.

23 When you talk about mission-driven at
24 large, are you talking about municipal and
25 not-for-profit homes as well as the for-profit

1 mission-driven?

2 DAVE SANTANGELI: I think we split the
3 municipal out as a separate category. I think we
4 categorized that as just different government
5 spending at a different level. I think just the
6 reality is that, you know, if the municipality puts
7 a bunch of money into LTC, that they're making a
8 policy decision; they're making a programming
9 decision on their own. They've decided that their
10 municipal tax base is deserving of being spent on
11 LTC. I think we put them off to the side.

12 I think, you know, when I'm talking
13 about targeted capital grants, realistically, you
14 are looking at the component of the mission-driven
15 sector which is, you know, not-for-profit, just
16 because they don't have access to retained
17 earnings. And they typically operate on the basis
18 that, to make more construction happen, they have
19 to actually go raise money from wherever.

20 Actually, when I was thinking about
21 this this morning, that's one of the really
22 interesting questions that you have to get to on
23 implementation. If you're going to provide capital
24 grants, to whom? On what basis? You know, how do
25 they have to qualify? I think that's one

1 unintended consequence I think you run into when
2 people like us say you should look at a certain
3 solution. You really have to dig into it and
4 figure out: What would the eligibility be? What
5 is the hurdle? Who would qualify? So it's not
6 a -- it's a simple idea that actually has to be
7 very carefully implemented.

8 COMMISSIONER JACK KITTS: Then the
9 hospitals today are not-for-profit mission-driven,
10 and they have to rely on fund-raising to pay so...

11 DAVE SANTANGELI: Well, and this is an
12 important point, which I wasn't planning on talking
13 about in this forum. But, you know, one of the
14 issues of LTC, is they're just not high enough in
15 the food chain to attract those sorts of donors.

16 If you talk to -- I've got friends who
17 are involved in raising money for -- pick something --
18 liver cancer. Way harder to raise money for liver
19 cancer than it is for SickKids, right? There's
20 different hierarchies. And LTC is the bottom rung,
21 right? And so it's much more difficult for them to
22 raise that kind of money, that type of money. It
23 can be done, but it's far more difficult.

24 That just slows down the pace of
25 development because you can agree to sign off for a

1 licence and then spend three years fund-raising.
2 And then you spend your three years fund-raising,
3 and development costs have gone up, land costs have
4 gone up. That's the difficulty that the
5 mission-driven entities have. So the idea of
6 targeted capital grants is really just to give them
7 a leg up to get going.

8 Our sense of it is that, I think, that
9 would actually be corrective and helpful. So
10 that's the first --

11 PELINO COLAIACOVO: If I can jump in
12 for one sec. It's important to remember how much
13 we're actually talking about here.

14 When you're building a long-term care
15 home, anywhere from 60 to 80 percent of the cost is
16 going to be covered by debt. But it's that 20 to
17 40 percent gap that has to be filled in some other
18 way.

19 You know, for a mission-driven
20 organization, if you're looking at a sizeable home
21 that's going to cost \$100 million or something, you
22 know, it's \$20 million to \$40 million that you have
23 to fill, right? And that is an enormous gap for
24 what are usually quite small organizations.

25 DAVE SANTANGELI: Yes. The program

1 becomes scraping the money together, and that takes
2 the time that it takes.

3 Which is, there's nothing wrong with
4 that. Again, we're big fans of the mission-driven
5 space. We do a lot of work with them. We love
6 those people. But in terms of giving the province
7 the tools to control the pace of development, it
8 just doesn't do it. So that's the real problem, if
9 the context is \$19 billion in spending.

10 COMMISSION CHAIR FRANK MARROCCO: Yeah,
11 I'm not a big fan of this, because of the state
12 that it's in. Because we're sitting here dealing
13 with a situation where there's a 38,000-person
14 waiting list, and no reasonable prospect of ever
15 solving that problem.

16 And we're dealing with a problem that
17 virtually everybody in the province will confront,
18 either because they have a loved one in a long-term
19 care facility, or they're going to end up there
20 themselves. And they should perhaps think about
21 what they want to go into.

22 But notwithstanding all that, as we sit
23 here today, we have an intractable, insoluble
24 problem. This waiting list can't be addressed
25 under the present circumstances. This government

1 cannot come up with -- what did you say, 20? \$17
2 billion?

3 DAVE SANTANGELI: \$19 billion.

4 COMMISSION CHAIR FRANK MARROCCO: 19
5 billion. What's a billion one way or the other?

6 \$19 billion tomorrow to start building
7 long-term care homes to get to the appropriate
8 inventory.

9 DAVE SANTANGELI: So that's a great
10 segue into my next point. Which is, one of the
11 other assets the province actually does have in
12 actually bridging that gap, is it actually has four
13 big companies who are very keen to build more
14 capacity.

15 If you talk to Sienna, Extendicare,
16 Chartwell, that group, they will build more
17 capacity. The deal has to be tweaked so that it's
18 more attractive, and they'll do it.

19 COMMISSION CHAIR FRANK MARROCCO: Well,
20 it has to be run then. You have to figure out
21 who's going to run it.

22 DAVE SANTANGELI: And I think that we
23 talked about a lot of the problems with the risk
24 allocation. You know, you can either rejig the
25 risk allocation through tweaking the current

1 system; or, you can look at a different model. One
2 of which might be having a different provider of
3 healthcare.

4 But if you solve this risk allocation
5 problem, make it a deal that is more consistent
6 with what their core business is, you know, there
7 is a wall of money out there looking for investment
8 in low risk, low return activities, just like this.

9 So I don't think we would say that
10 there's no way the province can fill this gap.
11 There is a way to do it, and the people who could
12 do it, are in the province right now.

13 COMMISSION CHAIR FRANK MARROCCO: Now,
14 when I said "no way"; no way that the province in
15 its current financial approach can fill this gap.
16 Because until you started talking about this, that
17 was one of the questions that we had.

18 We still take your point that you have
19 to be careful about this, but there was just no
20 reasonable prospect of this problem ever being
21 solved, and that is not a positive outcome.

22 DAVE SANTANGELI: Right. And just to
23 finish the story.

24 So the first asset that the province
25 has is all these mission-driven entities, they're

1 great.

2 It has very capable, well capitalized,
3 motivated companies in the province that, if the
4 deal was right, you know, would build.

5 And then the fact that the care is
6 currently and obviously segregated, it just gives
7 the province, we think, some tools, some options as
8 to how to deal with the care piece on its own,
9 whatever that might be.

10 So, you know, I think we like to finish
11 reports, but don't tell them what you can't do;
12 tell them what you can do. I think that there are
13 some real assets that the province has which they
14 could use to help solve this problem.

15 And that closes my introductory
16 remarks, which have taken the whole time we have
17 allocated, so...

18 COMMISSION CHAIR FRANK MARROCCO: Well,
19 I mean, if Ms. Barros or Mr. Colaiacovo had
20 something else that they want to say, we're quite
21 happy to listen.

22 PELINO COLAIACOVO: There's one point
23 that Dave touched on earlier, and there was some
24 interest and then I don't think we kind of closed
25 the book on it.

1 But that was the point that in July of
2 this past year, the province substantially
3 increased the tariff, in effect. They announced
4 both an increase in the permit subsidy for
5 development and the development grant, which was a
6 new feature that was introduced in July.

7 And so Daniela's financial analysis is
8 in our presentation, but we actually have crunched
9 the numbers on how much of a difference that makes
10 to a developer that's looking at potentially
11 building a long-term care home. And it's
12 significant. There was a significant increase in
13 the funding announced.

14 But to Dave's point earlier, we
15 actually don't know what the result of that is
16 going to be. We know that after that funding
17 announcement in July, there has been a series of
18 entities coming forward saying, yes, we're
19 building. And Daniela has documented in the
20 presentation that it's something on the order of
21 about a third of the required new spaces that the
22 government said they wanted. It was 15,000 new and
23 15,000 redeveloped spaces.

24 Since then, there's been an
25 announcement of about 4,000 or 5,000 new or

1 redeveloped spaces that people are working on. And
2 that's reasonable, given that the tariff just went
3 up. You increase the tariff, some people are going
4 to have projects that make sense at that new
5 tariff.

6 But what we don't know is whether
7 there's actually going to be 15,000 new projects
8 based on that new tariff, and that won't be
9 apparent for quite some time. Are they going to
10 have to increase the tariff again? We don't know.

11 And it goes to Dave's point about, you
12 know, that's what happens in tariff systems. You
13 announce the tariff, and you wait to see what
14 happens, but you don't really have many control
15 levers on the actual case of development, other
16 than raising or lowering the tariff again.

17 DAVE SANTANGELI: It's just kind of
18 like chasing the price around.

19 PELINO COLAIACOVO: Exactly.

20 COMMISSION CHAIR FRANK MARROCCO: So we
21 had a presentation from the financial
22 accountability office. I don't know if you saw it
23 in your preparation for here, but they basically
24 said, as I understood it, these 15,000 beds will
25 not change anything. There's 15,000 more beds, and

1 that's good. But in terms of the growth of the
2 population looking for long-term care facilities,
3 as the baby boomers get older and older, this won't
4 make any difference. This may help you maintain
5 the status quo, which is a 38,000-person waiting
6 list. But it won't get you -- it won't reduce it.

7 DAVE SANTANGELI: I think what you're
8 really saying is that that 19 billion is really the
9 lower end of the range.

10 If you look at the Drummond work, which
11 again, we thought that was a good piece of work,
12 you know, the number is probably more like
13 50 billion, not 19 billion. If you actually look
14 at demographics and the aging population, it's more
15 like 50, really.

16 19 is a more objective number. It's
17 easier to kind of hang your hat on, and it's pretty
18 big, but I don't think 19 is really going to do it.
19 It's probably a much bigger number.

20 COMMISSION CHAIR FRANK MARROCCO: You
21 need a mechanism whereby the funding is available
22 to continue to build, and the province cannot just
23 pay up all the money, that it cannot find that kind
24 of money, and provide all the other services that
25 it's supposed to provide, yes.

1 Ms. Barros, did they get it all right
2 or is there something...?

3 DANIELA BARROS: They did. They've got
4 all the numbers right, so we are good.

5 COMMISSION CHAIR FRANK MARROCCO: Okay.

6 DAVE SANTANGELI: It's okay, Chairman,
7 I will find out afterwards how I did. They will
8 tell me.

9 COMMISSION CHAIR FRANK MARROCCO: I
10 understand.

11 DAVE SANTANGELI: I have no doubt about
12 that, they will tell me.

13 COMMISSION CHAIR FRANK MARROCCO:
14 Mr. Santangeli, I understand your predicament
15 better than perhaps you appreciate.

16 Yes, go ahead. You were going to
17 conclude.

18 DAVE SANTANGELI: I was just going to
19 say that, you know, I did want to reinforce that we
20 really do feel very, the word is "proud" or
21 "privileged" to do this work. It is important
22 work. And I just want to compliment the Commission
23 on the job you've done. We've watched some of it.
24 I've read a lot of the transcripts, and I just want
25 to compliment the group on having taken a very

1 professional, unemotional kind of systematic
2 approach to this. And I just want to thank you for
3 doing that on behalf of Ontarians.

4 COMMISSION CHAIR FRANK MARROCCO: Well,
5 thank you for that. I don't think the other
6 Commissioners have any questions.

7 We want to thank you, because we were
8 missing some insight into this aspect of the
9 matter, but yet we were confronting it quite
10 regularly because the problem seemed insoluble.

11 I can truthfully say that as a result
12 of what you said, at least for me, it's somewhat
13 less insoluble than it was an hour ago. And for
14 that, on behalf of all of us, I thank you very
15 much.

16 DAVE SANTANGELI: If there's follow-up
17 work you'd like us to do, we'd be pleased to help
18 with that.

19 COMMISSION CHAIR FRANK MARROCCO: Thank
20 you.

21 COMMISSIONER JACK KITTS: Thank you.

22 COMMISSIONER ANGELA COKE: Thank you
23 very much.

24

25 -- Concluded at 2:11 p.m.

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REPORTER'S CERTIFICATE

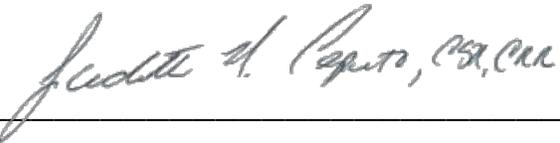
I, JUDITH M. CAPUTO, RPR, CSR, CRR,
Certified Shorthand Reporter, certify;

That the foregoing proceedings were
taken before me at the time and place therein set
forth;

That the statements of the presenters
and all comments made at the time of the meeting
were recorded stenographically by me;

That the foregoing is a Certified
Transcript of my shorthand notes so taken.

Dated this 6th day of March, 2021.



NEESONS, A VERITEXT COMPANY

PER: JUDITH M. CAPUTO, RPR, CSR, CRR.

C L A R I F I C A T I O N S

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Page 7, line 25: "Nova Scotia Utility and Review Board" not "Nova Scotia Utilities Board"

Page 8, line 8: "providers" not "provider"

Page 10, line 9: "advisors" not "advisor"

Page 24, line 25: "entities" not "energies"

Page 39, line 19: "bid costs" not "big costs"

Page 45, line 17: "segregated" not "subrogated"

Page 46, line 4: "flows" not "blows"

Page 58, line 11: "with" not "but"

Page 60, line 15: "pace of development" not "case of development"

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