The TROUBLE with the Amicus Deal:

Six reasons Samaritan Place will cost the province more

An economic critique of the Saskatchewan government's new funding model for long-term care

By Dr. John Loxley
Commissioned by the Canadian Union of Public Employees

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Introduction

In the spring of 2010, the Saskatchewan government announced plans to "pilot" a new model to build long-term care facilities in the province.

The deal involved a "special funding arrangement" with Amicus Health Care Inc., a subsidiary of the Catholic Health Ministry of Saskatchewan, to construct and operate a 100-unit long-term care facility in Saskatoon called Samaritan Place.

Although the facility is still under construction, the Saskatoon Health Region's agreement with Amicus continues to attract criticism — most recently from the Provincial Auditor and now from economist John Loxley.

As Dr. Loxley shows in this report, the Amicus deal with the Ministry of Health and the health region is unusual in many respects.

Until recently, the provincial government provided 65 per cent of the capital funding for constructing long-term care facilities, and local communities or organizations raised 35 per cent. (In 2011, the ratio changed to 80 per cent / 20 per cent.)

The Amicus deal involves an entirely different funding arrangement. Under the agreement, Amicus pays 100 per cent of the capital costs and the health region pays a higher per diem rate on top of an operating grant to cover the full cost of the company's borrowing.

The website for Samaritan Place states it is *"pioneering a new financing model which saves taxpayers up front money … and removes the burden from community groups and operators to fundraise."*

However, the Provincial Auditor in her 2011 Annual Report raised numerous concerns about the health region's deal with Amicus, including the lack of transparency and the absence of any cost benefit analysis.

In December, the Canadian Union of Public Employees commissioned economist Dr. John Loxley to determine the cost of this new funding arrangement. Dr. Loxley, a professor of economics at the University of Manitoba and an expert on these types of public private partnerships (P3s), conducted a financial analysis of the Amicus agreement. He concluded the Amicus long-term care facility will cost taxpayers $11 million to $20 million more than if the facility had been financed the traditional way through public sector borrowing. This is his report.

Financial Analysis of the Service Agreement Between Amicus Health Care Inc. and Saskatoon Regional Health Authority

Dr. John Loxley

The Amicus Agreement is unusual in at least six ways.

1. **Construction was not tendered:** Construction of the $27 million Samaritan Place facility was not put out to tender, which is most unusual.
2. **Higher borrowing costs:** Funding is being provided by the private sector which has higher borrowing costs than the province of Saskatchewan,
3. **Government is financing full cost of borrowing:** The province is covering 100 per cent of the capital costs compared with 65 per cent, which was the norm when the project was announced, and 80 per cent, which is current practice.
4. **Government is paying a higher rate per bed:** The province has guaranteed a maximum per diem rate per bed of $185, in advance of the project being implemented, a departure from normal practice.
5. **Government is guaranteeing per diem payments:** The Service Agreement with Amicus is unique in guaranteeing per diem payments regardless of bed occupancy and in allowing Amicus to retain any surpluses rather than handing these back to the Province.
6. **Government assumes the financial risk:** In the event that Amicus cannot service the mortgage, the province will take over responsibility, reducing the financial risk to Amicus to zero.

Each one of these six factors probably entails the province paying more for this facility than it would normally do.

Construction not tendered

We do not know how much the absence of tendering will cost. As the Provincial Auditor pointed out in the 2011 Annual Report, "Neither the Ministry of Health nor Saskatoon were able to tell us what process they used to seek interest from healthcare providers or what criteria they used to select Amicus for the project".[1]

Normally, existing facilities would have been given an opportunity to provide the new beds and in any event, tendering for capital construction would have been a given. As the Auditor concludes:

> '(l)ack of clear and transparent processes increases the risk that decision makers may not become aware of other alternatives and potentially more cost-effective options for such projects. Clear and transparent processes to seek interest from private sector healthcare providers and well communicated selection criteria would help avoid real or perceived conflicts of interest, bias, and controversy in any such future projects'.[2]

[1] *Provincial Auditor, Saskatchewan 2011 Report – Volume 2*, p. 288.
[2] *Ibid*.

Higher borrowing costs in private sector

There is no information available to the public on the actual cost of private sector borrowing for this project, but we can estimate the additional financing costs. The average five year mortgage rate offered by the big banks in April 2010 was 4.56 per cent and the lowest was 4.35 per cent. One can assume that Amicus is borrowing between these rates.

At the same time, the borrowing rate for the Saskatchewan government was 3.71 per cent over five years. Clearly, government borrowing costs were much lower than those of the private sector.

Since that time, the gap between the two has broadened significantly. By January 2012, the average five year mortgage rates had fallen to 4.19 per cent, with the lowest being 3.69 per cent, while the provincial borrowing rate had fallen much further to 1.59 per cent.[3] (See Table 1 below.)

The gap in interest rates makes a substantial difference in borrowing costs over an assumed 25-year mortgage. The cost comparisons are shown in Appendix A.

Appendix A shows the cost Amicus would need to pay annually to service a $27 million loan over 25-years at rates of 4.56 per cent and 4.35 per cent, the likely range of private sector cost of borrowing in April 2010.

It also shows the amount the province would need to pay annually, if it financed 65 per cent or 80 per cent of the $27 million project over 25-years at 3.71 per cent, the likely cost of borrowing in April 2010. (This assumes that the five year rates could be rolled over throughout the whole period.)

> Saskatchewan taxpayers are paying between $11 million to $18.3 million more to build the Amicus long-term care facility under the government's new funding arrangement, based on April 2010 interest rates.

The analysis shows the government's new funding arrangement with Amicus is much more costly than traditional public sector financing.

The total cost of debt servicing based on the Amicus funding model is estimated at $44.3 million to $45.3 million (in current dollars).

Table 1: Comparison of Public and Private Sector Borrowing Costs, April 2010 and January 2012

	April 2010 Average 5 year rate	April 2010 Lowest 5 year rate	January 2012 Average 5 year rate	January 2012 Lowest 5 year rate
Private Sector	4.56%	4.35%	4.19%	3.69%
Public Sector (Gov't of Saskatchewan)	3.71%	3.71%	1.59%	1.59%
Difference (spread)	0.85%	0.64%	2.6%	2.1%

[3] Communication with Saskatchewan Ministry of Finance.

Table 2: Comparison of Public and Private Sector Average Costs to Service a $27 Million Mortgage, April 2010 rates

	100% private borrowing (Amicus)	80% gov't share public borrowing	65% gov't share public borrowing
April 2010 – Average 5 year rate	4.56%	3.71%	3.71%
Total Debt Servicing Cost (25 years)	$45.3 million	$33.2 million	$27 million
Difference		$12.1 million	$18.3 million

In contrast, the total cost of debt servicing this project using traditional government financing is between $27 million to $33.2 million.

In other words, Saskatchewan taxpayers are paying between $11 million to $18.3 million more to build the Amicus long-term care facility under the government's new funding arrangement, based on April 2010 interest rates. (See Table 2 above.)

Servicing the mortgage on the Amicus long-term care facility also will cost taxpayers more per bed. The province will pay $40.49 per day for each of the 120 beds at the Amicus facility. In contrast, the province would have paid $24.62 per bed if it had covered 65 per cent of the capital costs using traditional borrowing, or $30.30 per bed if it had covered 80 per cent of the capital costs.

With the fall in interest rates and the widening of spreads, the additional net cost to government of the private financing of Amicus will rise even further.

In the spreadsheet in Appendix B, we assume the same rates as those discussed above for the first five years on the Amicus mortgage and then assume the prevailing rates in January 2012 for the balance of the mortgage.

The result is that private borrowing costs in current terms fall to between $41.97 million and $43.95 million, while public borrowing costs fall to between $22.4 million and $27.59 million.

On these assumptions, the cost of using private financing to build and operate the Amicus Samaritan Place long-term care facility is between $14.4 million and $21.5 million more over the 25-year mortgage. And the cost per bed for Saskatchewan taxpayers is $38 to $39 (after five years) instead of $19 per bed if the province had covered 65 per cent of the capital costs or $24 per bed if it had covered 80 per cent of the costs. These estimates of additional costs are indicative only, as we do not know what the interest rates will be over the 25-year period. (See Table 3 on next page.)

However, it is the spread between private and public borrowing rates that counts. The fact the Amicus Samaritan Place is being built through private sector borrowing means the province will pay much more for this facility than if it had been built through normal public sector financing.

If spreads remain as they have been (between 0.64 per cent and 2.6 per cent) the Amicus facility will cost somewhere between $10 million to $20 million more over the 25-year mortgage.

Table 3: Comparison of Public and Private Sector Cost to Service a $27 Million Mortgage, January 2012 rates

	100% private borrowing (Amicus)	80% gov't share public borrowing	65% gov't share public borrowing
April 2010 – 5 year average rate	4.56%	3.71%	3.71%
January 2012 – 5 year average rate (20 years)	4.19%	1.59%	1.59%
Total Debt Servicing Cost (25 years)	$43.95 million	$27.59 million	$22.4 million
Difference		$16.36 million	$21.5 million

The Government is financing the entire cost of private borrowing

There is some uncertainty as to how, precisely, the Amicus facility will be financed. Section 4.4 of the Agreement acknowledges this, viz:

> "Recognizing this to be a pilot project and not an affiliate as defined in *The Regional Health Services Act*, the Ministry, Region and Amicus agree to develop, prior to the occupancy of the Facility, a funding formula which incorporates a per diem payment formula to address mutually agreed Services and operating costs, as well as an annual review process to adjust the level of funding."[4]

At the same time, this section puts limits on what Amicus receives:

> "The Region and Amicus agree that the per diem rate to be established will cover the full cost of debt servicing (which includes principle and interest payments) for the Facility along with reasonable operating costs with combined funding not to exceed the $185 per diem rate based on 2009/10 dollars … The Parties agree that the total operating budget for Amicus will be reasonably comparable to long-term care (LTC) facilities in the health region with similar number of residents and acuity of care."[5]

The fact Samaritan Place is being built through private sector borrowing means the province will pay much more for this facility.

Government paying higher rates and providing per diem guarantee

The government has promised to pay Amicus $185 per bed/day — much more than other long-term care facilities in the city — to cover the additional costs of private sector borrowing.

[4] *Continuing Care and Service Agreement between Amicus Health Care Inc., and Saskatoon Regional Health Authority, April 19, 2010*, p. 6-7.
[5] *Ibid*, p. 6.

The explicit statement of a per diem per bed commitment appears to be a departure from standard practice as no fixed amount per bed is usually provided for, according to the Ministry. The average per diem per bed has been calculated based on a sample of six care homes in the Saskatoon Health Region (see Table 4 below), to be $140 per bed, assuming 100% occupancy (higher if occupancy is less than 100 per cent).

The guaranteed maximum rate of $185 would appear to be sufficient to cover all operating and capital costs if the capital costs to be assumed 100% by the province are as estimated, i.e. $45.43 per bed.[6] The $185 per diem would be insufficient, however, if actual per diems elsewhere exceed $140 (as some appear to, e.g. Lutheran Sunset Home), or if occupancy is less than 100 per cent in either Amicus or other facilities,[7] or if borrowing costs by the private sector exceed the average interest rate of 4.56 per cent.

The difference would have to be covered in one of two ways: either out of residents' fees or through a higher per diem payment to Amicus than the $185 'maximum'.

The amount Amicus can charge residents is set by the province. Residents pay fees in special care homes according to income, with the minimum cost being $997 per month per bed and the maximum $1,899 per bed. Presumably this is how facilities cover their 35 per cent (now 20 per cent) operating costs and, other than Amicus, their 35 per cent, (now 20 per cent) capital costs. The average fee paid per bed in Oliver Lodge appears to be $1,275 per month and in Jubilee $1,255.

Table 4: Saskatoon Health Region 2010-11 Operating Grants to Special Care Homes

Special Care Home	# beds	2011 grant*	Grant/bed/day
Lutheran Sunset Home	127	$7,447	$160.65
Oliver Lodge	139	$6,234	$122.87
Jubilee Res – Stensrud Lodge	100	$5,035	$137.95
Jubilee Res – Porteous Lodge	95	$4,923	$141.98
Sunnyside Adventice Care C.	96	$4,745	$135.42
St. Ann's Sr Citizen's Village	80	$4,171	$142.84
Average Grant/bed/day			$140.28

*grant in thousands of dollars

Sources: *Saskatoon Regional Health Authority Annual Report 2010-2011*, and consolidated financial statements ending March 31, 2011; *Institutional Supportive Care Beds in Facilities Designated* as Special Care Homes by RHA, Ministry of Health, March 31, 2011.

NOTE: Special care home affiliates with close to 100 beds selected for comparison to Amicus.

[6] Our Estimates are close to the ones published by the Provincial Auditor in the 2011 Report, at least those assuming 120 beds in spreadsheet (b) and those for 100 beds in spreadsheet (a). 'The proposed total daily per bed rate for Amicus is $184.88 consisting of $137.14 for operating and $47.74 for capital. The proposed daily operating rate of $137.14 per bed for Amicus falls within the range of operating rates in the region. The proposed daily capital rate is higher than other affiliates because of Amicus borrowing 100% of the capital required for construction'. P. 298. The Auditor concludes, however, that 'We were unable to obtain the basis for calculating this rate for Amicus'.

[7] The agreement guarantees Amicus for 100 beds, regardless of occupancy.

If we conservatively take the average fee at $1,250 per month per bed, then with 120 beds Amicus might raise $1,800,000 per year from residents to cover operating costs. If it receives the average operating grant of $140 per bed per day, then it might receive $6,132,000 from the province. Total operating revenues would then be $7,932,000 with residents paying 22.7 per cent, roughly in line with the provincial formula.

The $185 per diem per bed, however, is based on a number of assumptions that may not hold true. If private mortgage interest rate assumptions are too low, if occupancy in the Amicus facility is less than 120, if the average operating grant in other special care homes exceeds $140 or if the average fee per month per resident is less than $1,250, then the $185 per diem per bed in this agreement will not cover Amicus' operating and borrowing costs. A higher per diem rate will need to be negotiated. The agreement with Amicus seems to be ambiguous enough to allow that.

Conclusion

In commenting on the new funding arrangement with Amicus, the Provincial Auditor stated: "The Ministry of Health and Saskatoon did not use their normal processes for entering into this Agreement. We did not see any evidence why the Ministry of Health and Saskatoon did not do so."[8]

The Saskatoon Health Region promised its deal with Amicus would bring a "unique approach" to long-term care and test the effectiveness of the government's new funding model.

As this analysis shows, there are many reasons the government should not pursue this new funding model for long-term care. The bottom line is it is too expensive. And the government is shouldering all the risk.

[8] Provincial auditor 2011 Report – Volume 2, page 288

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Appendix "A"

AMICUS: Private versus Public Funding: 100% v 80% and 65%

	PRIVATE 100%	Ave Mortgage Rate		**PRIVATE 100%**	Lowest Mortgage Rate		**PUBLIC**	**80%**			**65%**	
	Monthly Mortgage			Monthly Mortgage			Saskatchewan Long			Saskatchewan Long		
	Payments	Annual	Amount Per Bed	Payments	Annual	Amount Per Bed	Borrowing Costs x 80%		Amount Per Bed	Borrowing Costs x 65%		Amount Per Bed
Year	4.56%	Payments	Per Day 100 beds	4.35%	Payments	Per Day 100 beds	3.71%		Per Day 100 beds	3.71%		Per Day 100 beds
1	-$150,995.77	1,811,949	$49.64	-$147,785.26	1,773,423	$48.59	-110,583	1,326,992	$36.36	-89,848	1,078,181	$29.54
2	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
3	-$150,995.77	1,811,949	120 beds	-$147,785.26	1,773,423	120 beds	-110,583	1,326,992	120 beds	-89,848	1,078,181	120 beds
4	-$150,995.77	1,811,949	$41.37	-$147,785.26	1,773,423	$40.49	-110,583	1,326,992	$30.30	-89,848	1,078,181	$24.62
5	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
6	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
7	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
8	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
9	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
10	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
11	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
12	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
13	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
14	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
15	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
16	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
17	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
18	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
19	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
20	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
21	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
22	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
23	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
24	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
25	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
		45,298,730			44,335,579			33,174,788			26,954,516	

Resident fees of 1250 per month 120 residents: Oliver Lodge Rate (low)	1,800,000	22.7%
Province portion of operating costs $140 per day Average from 6 care homes	6,132,000	
	7,932,000	

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Appendix "B"

AMICUS: Private versus Public Funding: 100% v 80% and 65%

Year	PRIVATE 100% Monthly Mortgage Payments 4.56%	Ave Mortgage Rate Annual Payments	Amount Per Bed Per Day 100 beds	PRIVATE 100% Monthly Mortgage Payments 4.35%	Lowest Mortgage Rate Annual Payments	Amount Per Bed Per Day 100 beds	PUBLIC Saskatchewan Long Borrowing Costs x 80% 3.71%	80%	Amount Per Be Per Day 100 be	Saskatchewan Long Borrowing Costs x 65% 3.71%	65%	Amount Per Bed Per Day 100 beds
1	-$150,995.77	1,811,949	$49.64	-$147,785.26	1,773,423	$48.59	-110,583	1,326,992	$36.36	-89,848	1,078,181	$29.54
2	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
3	-$150,995.77	1,811,949	120 beds	-$147,785.26	1,773,423	120 beds	-110,583	1,326,992	120 beds	-89,848	1,078,181	120 beds
4	-$150,995.77	1,811,949	$41.37	-$147,785.26	1,773,423	$40.49	-110,583	1,326,992	$30.30	-89,848	1,078,181	$24.62
5	-$150,995.77	1,811,949		-$147,785.26	1,773,423		-110,583	1,326,992		-89,848	1,078,181	
6	-$145,363.70	1,744,364	$47.79	-$137,935.23	1,655,223	$45.35	-87,303	1,047,631	$28.70	-70,933	851,201	$23.32
7	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
8	-$145,363.70	1,744,364	120 beds	-$137,935.23	1,655,223	120 beds	-87,303	1,047,631	120 beds	-70,933	851,201	120 beds
9	-$145,363.70	1,744,364	$39.83	-$137,935.23	1,655,223	$37.79	-87,303	1,047,631	$23.92	-70,933	851,201	$19.43
10	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
11	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
12	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
13	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
14	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
15	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
16	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
17	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
18	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
19	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
20	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
21	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
22	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
23	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
24	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
25	-$145,363.70	1,744,364		-$137,935.23	1,655,223		-87,303	1,047,631		-70,933	851,201	
		43,947,035			41,971,571			27,587,586			22,414,913	

Resident fees of 1250 per month 120 residents: Oliver Lodge Rate (low)	1,800,000	22.7%
Province portion of operating costs $140 per day Average from 6 care homes	6,132,000	
	7,932,000	

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