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Raymond Chabot Grant Thornton Consulting Inc. 

## ***REPORT***

Ontario Homes for Special Needs  
Association  
*Rate Renewal*

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Raymond Chabot Grant Thornton  
Consulting Inc.  
2505 St-Laurent Blvd.  
Ottawa, ON K1H 1E4

**Phone:** (613) 236-2211  
**Fax:** (613) 236-6104

**e-mail:** docherty.charles@rcgt.com

PBN # 122156102PG0002

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# Table of Contents

<b><i>Executive Summary</i></b>	<b><i>1</i></b>
<b><i>Introduction</i></b>	<b><i>3</i></b>
Ontario Homes for Special Needs Association	3
Background	3
Objective	6
Scope	6
<b><i>Methodology, Approach and Analysis</i></b>	<b><i>7</i></b>
<b><i>Conclusion</i></b>	<b><i>10</i></b>
Recommendations	10

# Executive Summary

The Ontario Homes for Special Needs Association (OHSNA) is a not-for-profit association that represents the concerns of owner/operators of residential care facilities that provide services under the Homes for Special Care and Domiciliary Hostel Programs. The domiciliary hostel operators provide services in accordance with the service agreement with Municipalities, which until now has outlined basic service standards as well as legislative requirements.

Unlike homes for Special Care Facilities, which are funded by the Ministry of Health, Domiciliary Hostels are funded by the Ministry of Community and Social Services (COMSOC) and by the participating municipality (80/20 split). Accommodation rates are set by contractual agreement between COMSOC, the municipality and the operator. Until 2000, the rate was \$34.50 per day. It was increased in 2004 to the rate of \$41.20 per day per resident. In June 2006, this rate increased to \$45.00.

## Background

Domiciliary hostels were initially created as a municipal response to meet the housing need of impoverished frail/elderly adults. In more recent years, the program has evolved to become permanent housing for vulnerable adults with a wide range of special service needs, such as persons with mental illness, physical and/or developmental disabilities and/or frail elderly who, in the absence of such support, are likely to experience significant health and related difficulties and lose their housing. Under the domiciliary hostel program, there are approximately 310 facilities with over 6,000 residents

## Objective

On behalf of the OHSNA, Raymond Chabot Grant Thornton Consulting Inc., was contracted to conduct a limited study involving the review and analysis of information concerning the operation of the domiciliary hostels, background reports and studies and seven Income and Expense statements (for varying fiscal periods) for operators in various regions of Ontario. Raymond Chabot Grant Thornton Consulting Inc. was also provided with the new Domiciliary Hostel Standards, issued by the Ministry of Social Services in September 2006, that will be part of the agreements in the ensuing years.

The objective of this limited study was to generate an overview of the funding and current funding levels of domiciliary hostels to determine if the current resident per diem rate of \$45.00 is adequate to provide reasonable accommodation, personal support and services to residents and to assess the impact of the new standards on the rate structure.

It is the intention of this study to prompt a province-wide analysis of domiciliary hostel funding to ensure that adequate and sustainable funding is made available for reasonable care and quality of life for residents. The information presented in this study will be brought forth at a meeting with Provincial Minister.

## Scope

Due to the short timeframe for the development of the report, the President of the OHSNA provided us with information that was readily available. However, we were able to perform some analysis which provides insights on the current and proposed resident per diem rate.

## **Approach, Methodology and Analysis**

Raymond Chabot Grant Thornton Consulting Inc. reviewed the financial information provided by seven Hostel operators and grouped the seven operators based on the resident days, which were calculated by dividing the resident per diem rate into the revenues as indicated in the income and expense statements. This information allowed the consulting team to group the operations into four categories to determine the impact of synergies of size. After comparing the cost results for each category we determined that, based on this limited information, most operators' expenses were within the same relative range regardless of the operator's operation size.

Expense items were then calculated as a percentage of revenue (resident rate per day) for each of the seven operators. It should be noted that the time period of the financial information varies from operator to operator.

From this information the Olympic average percentage rate was calculated (i.e. deleted the highest and lowest percentage and developed the average of the percentage by expense category) for each expense item in order to determine an approximate allocation of the resident per diem rate amongst the various expense categories.

The Olympic average cost percentage was then applied to the resident per diem rate to demonstrate the allocation of the resident per diem rate to the cost components. The allocation of the resident per diem rate to the applicable cost component was undertaken for the current resident per diem rate of \$45.00. A significant portion of the resident per diem rate relates to labour, food and maintenance.

A theoretical rate was also calculated which reflects various adjustments to the current resident per diem rate of \$45.00 to account for management fees, inflation, a pending increase to minimum wages and improved standards.

## **Conclusion**

Based on the limited information, it would seem that operators will provide services and facilities equal to the amount provided in the current resident per diem rate. However, it should be noted that from the analysis we conducted the current rate for the Domiciliary Hostels is much lower than the lowest proposed rate for Emergency housing (by \$9.50) and is only 35% of the rate for Nursing care. This is not reasonable given the extra care and services provided by Domiciliary Hostels as compared to Emergency housing operations. This extra care and associated services relate more closely to Nursing care and therefore warrants an increase of the current resident per diem rate of \$45.00. Further to this, we have developed a theoretical rate of \$61.76 which might account for management fees, inflation, a pending increase to minimum wages and improved standards.

## **Recommendations**

As the Domiciliary Hostel program is a permanent program which provides care for residents other issues need to be addressed such as long-term program financing from one level of government with province wide standards so that all Ontario residents are treated equally.

Proper financing and maintenance of facilities, standard levels of remuneration for the operators with a maximum ceiling, and the level of interest on facility financing should be allowed. In addition, a program should be implemented to ensure that operators spend the funding in alignment with the standards and the allocation percentages of the resident per diem rate. Raymond Chabot Grant Thornton Consulting Inc. recommends that a detailed study of the Domiciliary Hostel program be conducted including benchmarking of cost percentages prior to the implementation of new standards and then a comparison of those percentages post implementation.

# Introduction

## Ontario Homes for Special Needs Association

The Ontario Homes for Special Needs Association (OHSNA) is a not-for-profit association that represents the concerns of owner/operators of residential care facilities that provide services under the Homes for Special Care and Domiciliary Hostel Programs. Their clients require the services that they provide owing to the severity of their mental illness, cognitive impairments, acquired/organic brain injuries or the frail elderly. These individuals have not had the opportunity to build an income or asset base that allows them to pay for the services that they require. Under the domiciliary hostel program, there are approximately 310 facilities with over 6,000 residents.

The domiciliary hostel operators provide services in accordance with the service agreement with Municipalities, which until now has outlined basic service standards as well as legislative requirements. The Housing branch partners with the Employment and Financial Assistance branch to provide intake, assessment and ongoing monitoring of personal and financial eligibility for subsidized residency. Individuals applying for subsidies are self-referred or referred by families, doctors, hospitals, and other community agencies.

Unlike Homes for Special Care Facilities, which are funded by the Ministry of Health, Domiciliary Hostels are funded by the Ministry of Community and Social Services (COMSOC) and by the participating municipality (80/20 split). The funding is discretionary. If either COMSOC or the municipality opt out the program ceases to exist.

Accommodation rates are set by contractual agreement between COMSOC, the municipality and the operator. The contract is cancellable on 30 days notice. Until 2000, the rate was \$34.50 per day. It was increased in 2004 to the rate of \$41.20 per day per resident. In June 2006, this rate increased to \$45.00.

## Background

In the late 1950s, municipalities began to provide financial support for impoverished adults living in unregulated lodging or boarding homes. In the early 1970s, the province began to develop more formalized policies to help support adults who would be otherwise homeless with shelter and basic needs in lieu of direct financial assistance.

Domiciliary hostels were initially created as a municipal response to meet the housing need of impoverished frail/elderly adults. In more recent years, the program has evolved to become permanent housing for vulnerable adults with a wide range of special service needs, such as persons with mental illness, physical and/or developmental disabilities and/or frail elderly.

Domiciliary hostels provide permanent housing, personal support and some assistance with activities of daily living to vulnerable adults in the community who, in the absence of such support, are likely to experience significant health and related difficulties and lose their housing. Residents of domiciliary hostels are typically living with psychiatric or developmental impairments and/or are frail and elderly. For many frail elderly persons it is a matter of no longer being able to live on their own and not yet qualifying for placement in long-term care facilities.

Domiciliary hostels are one form of housing in a range of housing that assists vulnerable adults to live in a community. Eligibility for the domiciliary hostel program can generally be considered from two

perspectives: the individual's functional abilities including their need for support with activities of daily living; and, their need for affordable housing.

The following principles underlie the domiciliary hostel program:

- Government, community and individuals have a shared interest in the appropriate housing of vulnerable adults living in their community
- As service system managers for homelessness, CMSMs/DSSABs have the authority to purchase the domiciliary hostel services that best meet their local needs; and
- Funding for the domiciliary hostel program is used for the purposes intended.

It is the objective of the domiciliary hostel program to provide:

- A residential living environment that is safe and supportive for all tenants;
- A client-focused environment where tenants are supported in a manner that meets individual needs; and
- Permanent housing insofar as it continues to meet the tenant's needs.

Unlike emergency shelters/hostels that are intended to provide only temporary accommodation, housing funded under the domiciliary hostel program is intended to provide permanent housing.

In the past, much of the housing provided by the domiciliary hostel program was viewed as residential and/or custodial in nature. Stakeholder groups representing vulnerable adults have been widely critical of this traditional model for its tendency to provide the same services to all tenants in the same manner, regardless of level of ability and/or independence (e.g. a tenant wanting to learn basic skills like meal preparation may be prevented from doing so as cooking for oneself may not be an option due to home operation restrictions).

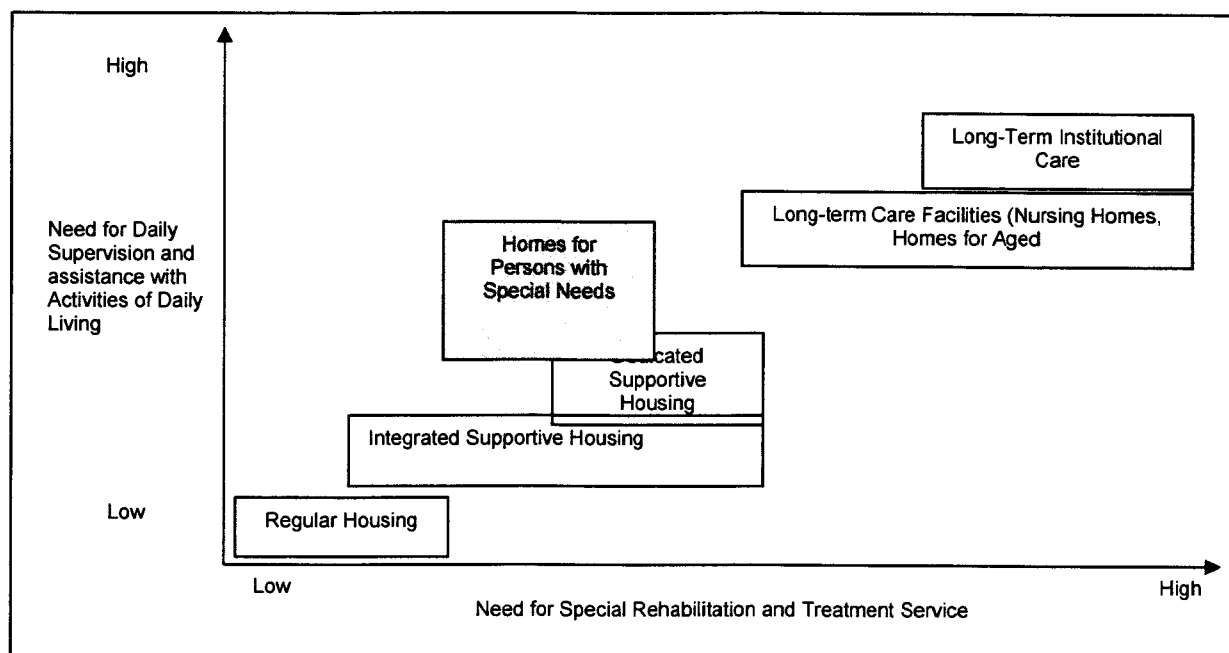
With the divestiture or closing of some psychiatric facilities and the aging of the population, more people with increasingly severe mental illnesses are going to residential care facilities that serve people with "special needs" which included domiciliary hostels. Therefore, greater resources to deal with their needs and issues are needed. Numerous studies and the experiences of the OHSNA have provided evidence that they are no longer providers of simple housing. Residents are people with mental health challenges.

Best practice evidence in the provision of housing and support promotes fostering a level of independence for all individuals, including vulnerable adults, in order to facilitate housing retention. In addition, research has demonstrated that the qualities and features of housing settings that produce positive outcomes for vulnerable adults include: social support, good housing quality, favourable locations in the community, privacy, a small number of tenants and tenant control and choice.<sup>1</sup>

Housing stability for vulnerable adults is more likely to occur when individuals are supported with appropriate levels of assistance in activities of daily living; with a mix of structured and un-structured activities that help to foster independence; and, with making linkages to additional rehabilitation, treatment and support services in the community. The ideology that domiciliary hostels provide a residential/custodial care environment to maintain a maximum level of functioning is outdated. In many cases, care considerably overshadows the housing component. It should be emphasized that it is the needs of "seriously mentally ill" that are being addressed and the care involved in meeting those needs is not a simple task. The Domiciliary Hostel program is an integral part of the health care system, providing essential services.

<sup>1</sup> Parkinso m, Nelson G, Horgan S (1999). From housing to homes: A review of the literature on housing approaches for psychiatric consumer survivors. *Canadian Journal of Community Mental Health*. 18, 1, 45-64

The following chart represents what is currently offered by domiciliary hostels with enhanced deliverables to address the above-noted needs, fair funding and government regulations and standards:



Source: Homes for Persons with Special Needs – Consultation Backgrounder, Ministry of Health & Long-term Care and the Ministry of Community and Social Services September 2000

In comparison to other forms of housing, the funding for Domiciliary Hostels sits in the middle range between Nursing Homes and Emergency Shelters as outlined in the following table:

Type of Facility	Funding Per Day per Person
Nursing Homes	\$130.00
OHSNA Homes Domiciliary Hostels - CURRENT	\$45.00
Emergency Shelters – PROPOSED - fewer than 20 beds <sup>2</sup>	\$85.95
Emergency Shelters PROPOSED - between 20 and 49 beds <sup>2</sup>	\$68.80
Emergency Shelters PROPOSED - with 50 or more beds <sup>2</sup>	\$54.50

<sup>2</sup> Emergency Hostel Task Force Report – Final Report December 2005

## Objective

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The objective of this limited study was to generate an overview of the funding and current funding levels of domiciliary hostels to determine if the current resident per diem rate of \$45.00 is adequate to provide reasonable accommodation, personal support and services to residents and to assess the impact of the new standards on the rate structure.

It is the intention of this study to prompt a province-wide analysis of domiciliary hostel funding to ensure that adequate and sustainable funding is made available for reasonable care and quality of life for residents. The information presented in this study will be brought forth at meetings with the Provincial Officials including the Minister.

## Scope

Due to the short timeframe for the development of the report, the President of the OHSNA provided us with information that was readily available. In this regard, the financial information provided was from a limited number of operators as presented. The available documentation is not statistically representative nor have we assessed the financial information provided. However, we were able to perform some analysis which provides insights on the current and proposed resident per diem rate.



## Methodology, Approach and Analysis

Raymond Chabot Grant Thornton Consulting Inc. reviewed the financial information provided by seven Hostel operators. Originally, we anticipated grouping the financial information into the Regions in which services are provided as the Municipalities' decision impacts the operators in that Region. We then attempted to group the operators by resident size into the following categories (i.e. fewer than 20 beds, between 20 beds and 49 and more than 50 beds) in order to align with the Emergency Hostel Task Force Report. However, neither of these scenarios was possible due to the limited financial information we received for each Hostel operator.

We therefore grouped the seven operators based on the resident days, provided by operator, as outlined in the following table:

	Millwood Manor	Pilgrim's Provident Inc.	Doon Valley Manor	Victoria Manor Ltd.	Edgewood Care Centre	Residence A&C Champagne	Sunrise Lodge
<b>Year</b>	Oct. 31-05	Dec-06	Dec. 31-05	Jan.31-06	Apr. 30-06	Mar-05	Sep-04
<b>Patient Days</b>							
Revenues	970,901.00	205,639.48	238,094.80	757,941.00	2,062,989.67	421,716.00	131,788.00
Rate/Patient	41.00	43.10	41.20	41.20	41.20	40.30	40.00
Patient Days	23,680.51	4,771.22	5,779.00	18,396.63	50,072.56	10,464.42	3,294.70

We calculated the resident days by dividing the resident per diem rate into the revenues as indicated in the income and expense statements. This information allowed the consulting team to group the operations into four categories. By grouping the operators into comparable resident days the team could determine the impact of synergies of size. By calculating the resident days we did not have to address vacancies.

After comparing the cost results for each category we determined that, based on this limited information, most operators' expenses were within the same relative range regardless of the operator's operation size.

The following table identifies the expense items as a percentage of revenue (resident rate per day) for each of the seven operators for which we were provided statements. It should be noted that the time period of the financial information varies from operator to operator. From this information we then calculated the Olympic average percentage rate (i.e. deleted the highest and lowest percentage and developed the average of the percentage by expense category) for each expense item in order to determine an approximate allocation of the resident per diem rate amongst the various expense categories.

Expense Item	Victoria Manor Ltd.	Millwood Manor	Residence A&C Champagne	Doon Valley Manor	Pilgrim's Provident Inc.	Sunrise Lodge	Edgewood Care Centre	Normalized Rate (1)
<b>Financial Statement Date</b>	31-Jan-06	31-Oct-05	Mar-06	31-Dec-05	Dec-06	Sep-04	30-Apr-06	
	% Revenue	% Revenue	% Revenue	% Revenue	% Revenue	% Revenue	% Revenue	% Revenue
Labour	53%	44%	26%	30%	45%	31%	34%	37%
Food	10%	10%	12%	22%	11%	12%	11%	11%
Utilities	7%	7%	5%	5%	6%	14%	4%	6%
Maintenance	3%	5%	13%	4%	7%	9%	8%	6%
Amortization	5%	7%	7%	6%		5%	5%	6%
Insurance	1%	1%	1%	1%	2%	5%	1%	1%
Property Taxes	4%	3%	2%	2%	3%	3%	3%	3%
Interest	11%	9%	9%	4%	12%		8%	9%
Other	8%	7%	18%	4%	27%	23%	13%	14%
Management Fees	4%	5%					13%	7%
<b>Total</b>								100%

The Olympic average cost percentage was then applied to the resident per diem rate to demonstrate the allocation of the resident per diem rate to the cost components. The allocation of the resident per diem rate to the applicable cost component was undertaken for the current resident per diem rate of \$45.00 as depicted in the following table. As can be seen, a significant portion of the resident per diem rate relates to labour, food and maintenance. Further analysis shows the following:

#### *Labour*

The allocation of the current resident per diem rate of \$45.00 allows for approximately \$16.65 in labour costs per resident per day. If a location is opened 24 hours a day this would mean the hourly rate per day per resident is approximately \$.69/hour.

#### *Food*

The allocation of the current resident per diem rate of \$45.00 to food expenses is approximately \$4.95 per resident per day.

#### *Maintenance*

Approximately \$2.70 per resident per day is allocated to repairs and maintenance for the current resident per diem rate of \$45.00. Many of these buildings require constant upkeep to provide residents with a clean and safe environment.

Through our review of the documentation provided it was noted that agreements can be cancelled upon 30 days which could have implication on a decision by operators to undertake major maintenance and facility improvements as they might not be able to recoup these longer-term costs.

Category	Normalized Percentage (1)	Resident Per Diem Rate of \$45.00
Labour	37%	16.65
Food	11%	4.95
Utilities	6%	2.70
Maintenance	6%	2.70
Amortization	6%	2.70
Insurance	1%	0.45
Property Taxes	3%	1.35
Interest	9%	4.05
Other	14%	6.30
Management Fees	7%	3.15
<b>Total</b>	<b>100%</b>	<b>45.00</b>

#### **Notes:**

(1) The normalized percentage is calculated by taking the Olympic Average of the percentages of all seven operators. The highest and lowest percentages are removed and then the average is calculated.

\* Calculations are made from the operator's financial information. No validation of information was performed.

The following table provides an analysis which calculates a proposed theoretical rate which reflects various adjustments to the current resident per diem rate of \$45.00. These adjustments include:

- an allowance for management fees;
- the increase in costs that will result from the requirement to implement the new standards by April 1, 2007;
- the proposed increase in minimum wage in Ontario from \$8.00/hour to \$10.00/hour; and
- recognizes an increase due to annual inflation.

<b>Theoretical Resident Per Diem Rate</b>	
Current Rate	45.00
Management Fee (1)	4.50
Increase in rate to reflect increased standards (40 new standards) (2)	6.75
Increase in minimum wage (3)	4.16
Inflation (4)	1.35
	<b>61.76</b>

**Notes:**

(1) In charitable organizations, management fees generally represent 20% of the cost. We are suggesting that the current management fee rate be increased by at least 10% to be more reflective of industry standards

(2) We are assuming that there would be an increase of approximately 15% of the resident per diem rate in order to reflect the necessary costs that will be incurred to implement the 40 new standards. This is an estimate to determine the actual impact of the new standards.

(3) Discussions have been occurring regarding raising the new minimum wage from \$8/hour to \$10/hour. This is a 25% increase and this increase should be reflected in the resident per diem rate. The amount is calculated at follows:

Current % for labour	37%	
Current portion of the \$45	16.65	(2)
Proposed increase of 25% ( $16.65 \times 1.25$ )	20.81	(1)
Proposed increase in resident per diem rate	<u>4.16</u>	(1)-(2)

(4) Recognizes an increase due to inflation using a 3% factor. See Annex A for inflation rates of goods required by operators.

## Conclusion

Based on the limited information, it would seem that operators will provide services and facilities equal to the amount provided in the current resident per diem rate. Although in the past, some have incurred costs in excess of the rate and as a result have deficits this is not a sustainable concept. Without formal standards; food, labour and facilities are provided at a level that the rate would provide for. Some of the operators included in our review did not take management fees. The operators benefit in these cases through potential capital gains and the subsidization of mortgage interest expense which is covered by the resident per diem rate.

From the analysis the current rate for the Domiciliary Hostels is much lower than the lowest proposed rate for Emergency housing (by 9.50) and is only 35% of the rate for Nursing care. This is not reasonable given the extra care and services provided by Domiciliary Hostels as compared to Emergency housing operations. This extra care and associated services relate more closely to Nursing care and therefore warrant an increase of the current resident per diem rate of \$45.00. Furthermore, when you analyze the allocation of the rate to cost per resident per day, it would appear that labour and food allocations for example, are minimum amounts. We have developed a theoretical rate of \$61.76 which might account for management fees, inflation, a pending increase to minimum wages and improved standards.

As the agreements can be cancelled upon 30 days notice, operators are therefore reluctant to undertake major maintenance or facility improvements given that they might not be able to recoup these costs. Therefore, a longer-term agreement is necessary to ensure operators are able to undertake appropriate maintenance and improvement of these facilities and recoup these costs in the rate overtime. The cancellation of a longer-term agreement should only occur where the operator does not comply with the standards required.

## Recommendations

As the Domiciliary Hostel program is a permanent program which provides care for residents other issues need to be addressed such as long-term program financing from one level of government with province wide standards so that all Ontario residents are treated equally.

Proper financing and maintenance of facilities, standard levels of remuneration for the operators with a maximum ceiling, and the level of interest on facility financing should be allowed. In addition, a program should be implemented to ensure that operators spend the funding in alignment with the standards and the allocation percentages of the resident per diem rate. Raymond Chabot Grant Thornton Consulting Inc. recommends that a detailed study of the Domiciliary Hostel program be conducted including benchmarking of cost percentages prior to the implementation of new standards and then a comparison of those percentages post implementation.

**Guidelines for Budget Preparations****Estimated Cost Changes – October 2005 to September 2006**

Item	% Increase
Grocery	3
Fresh Vegetables & Fruit	5
Dairy Products	4
Ice Cream Novelties	4
Bakery Products	3
Meats – Overall Average	5
Poultry	4
Eggs	5
Fish	4.5
Juices	3
Coffee	5
Tea	3
Soft Drinks – Cans and Syrup	3
Bagged Snacks – Potato Chips, Cheese Sticks, Pretzels	3
Packaging and Disposables	10
Nutritional Supplements	3
Cleaning Supplies	3
Linen & Laundry	3
Uniforms	3
Gasoline	2
Vehicle Leasing	3
Maintenance & Repairs	3
Service Contract – Maintenance Contract on Equipment etc.	2
Travel	2
Heating & Electricity	5
Telephone – Local Service	2
Telephone – Long Distance, Fax	0
Stationary Supplies	0
Office Equipment	2
Postage	2
Office Equipment – Repairs	3
External Courier	3