
2006 BRIEFING NOTE – \$94.9 Million Impact of provincial cost-sharing shortfall and increasing provincial program cost on the City’s 2006 budget.

Budget Advisory Committee, November 21, 2005

Purpose:

To summarize the provincial cost-sharing shortfalls and increasing provincial program costs that are putting pressure on the City’s 2006 budget.

Key Messages:

- The impact of the provincial funding cap on cost-shared programs and increasing provincial program costs that the City must share is placing an increasingly unsustainable financial burden on the City. For 2006, the City is faced with an estimated \$94.9 million pressure.
- The City and the province must arrive at an equitable agreement on cost-sharing for social programs based on funding from an appropriate tax base for income redistributive programs and a commitment from the province to honour the cost-sharing for the actual costs of service management, delivery and administration. Council has approved this position in December 2004.
- Without this commitment, the municipality is running out of options. It is neither appropriate nor feasible to fund these increasing expenditures from the property tax base, however the demand for these services, their mandatory nature, and the degree of provincial oversight and scrutiny in the delivery of the program has resulted in increasing program and administration costs since Provincial capping began in the early 2000’s and the introduction of the new funding arrangements requiring the City to cost-share the provincial ODSP and ODB programs.

Background:

- The pressures on Toronto that occurred in the latter part of the 1990’s as a result of amalgamation and provincial downloading of services were compounded for municipal social programs by a major reorganization of roles, responsibilities and cost-sharing initiated by the provincial government as a part of Local Services Realignment (LSR);
- Under LSR, Toronto and other municipalities became, in provincial terms, Consolidated Municipal Services Managers (CMSM). CMSMs are responsible for delivering social

programs under a provincial policy and legislative framework that increased local expenditure obligations and decreased local flexibility in areas such as development of locally-determined program strategies and conditions under which clients may access assistance and services;

- Expenditures increased due to provincial capping of cost-sharing formulas that do not recognize the actual cost of service delivery. The result is that, in program areas where funding is approved at the provincial level, the provincial contribution is steadily declining with respect to the proportion of total costs that should be covered under legislated cost sharing agreements (e.g., OW Provincial Directive 51 requires administrative cost to be shared 50/50 basis rather than the 33% provincial contribution projected for 2006).
- As well, the cost of the provincially delivered Ontario Drug Benefit and Ontario Disability Support Program continue to increase. The City is required to cost-share those programs, which is resulting in year-over-year budget shortfalls as the program costs escalate.
- For 2006, the estimated pressure on the City's budget as a result of cost-sharing shortfalls and increasing costs to provincial programs is \$94.9 million:

Ontario Works Cost of Administration (COA) Shortfalls:

The gross estimated COA in 2005 is \$154.0 million (\$77.0 million each City/Province), but the Provincial contribution is capped at \$52.8 million resulting in a Provincial shortfall of \$24.2 million in 2005. For 2006, it is anticipated that this shortfall in provincial cost-sharing will be \$23.2 million.

The KPMG review commissioned by the province, and completed this past spring concluded that the City's delivery of OW is balanced and reasonable and in compliance with provincial regulations, directives and policies. Further that any increases in cost of administration between 2001 and 2004 were reasonable. In fact, Toronto administration cost per case is significantly less (about 15%) than the average of other GTA municipalities. The province should meet its 50% cost-sharing obligations.

ODSP/ODB Pressure:

ODSP and ODB are downloaded costs for programs delivered by the Province. The municipality has no control over these expenditures and no ability to withhold its share of funding.

The 2005 gross and net City budget for these programs was \$152.8 million, which includes a budgeted one-time \$15.1 million draw from the Social Assistance Stabilization Reserve Fund. This means that there is \$137.7 million in the TSS base budget for ODSP/ODB. The projected actual 2005 is \$159.0 million, resulting in a \$6.2 million budget shortfall for 2005.

For 2006, based on program trends, it is projected that the total cost of the City's funding obligation for these programs will be \$168.0 million. Given that the base budget is \$137.7

million when you back out the one time \$15.1 million draw from the Reserve fund, this means that going into 2006, there is a \$30.3 million pressure on the TSS budget.

Shelter per diems (\$29.1M)

The Ontario Works Act provides the Hostel Services Unit of the Shelter, Housing and Support Division with the authority to provide “emergency hostel services which means the provision of board, lodging and personal needs to homeless persons on a short term, infrequent basis.”

The Ontario Works Act provides the legislative framework for the provision of emergency shelter services and sets out the subsidy arrangement that specifies an 80% provincial and 20% municipal cost-sharing. The 2005 actual cost-sharing is 51.1% provincial and 48.9% municipal. The Ontario Works Act does not impose a set cap for the cost-sharing for these services. The cap of the cost-sharing for shelter services is outlined in policy directives from the Province of Ontario, Ministry of Community and Family Services. The policy directives identify a set cap for each night of hostel service provided but does not impose a cap on the overall nights of service a municipality is able to claim. The per night cap is set at a lower rate than Toronto’s real costs. The resulting shortfall is estimated at \$29.1 million for 2006.

Emergency Medical Services (\$12.3 million)

Effective 2002-2003, the province adopted a grant process to determine EMS Land funding. The basic subsidy rates are 50% for the Land Ambulance operation and 100% for Central Ambulance Communications Centre (CACC).

The province has set a funding cap on Land Ambulance salary and wage increases of 2% maximum increase despite settlements exceeding that amount each year since 2001. Provincial funding has not kept pace with salary increases and does not cover the 57 additional paramedics hired in 2002.

The provincial funding for year-over-year non salary increases mainly caused by COLA and economic factor adjustments, have steadily decreased from 7.0% of the total increase in 2002, to 4.5% in 2003, 2.0% in 2004 and 0% in 2005, which created a budget pressure in each year.

Conclusion:

Shortfalls in provincial payments for cost-shared social programs and increasing costs to the City of funding provincially delivered ODSP and ODB programs are a significant and growing budget and long-term fiscal pressure on the local property tax base. The total pressure on the City’s budget in 2006 is predicted to be \$94.9 million.

Provincial cost-sharing shortfalls create fiscal and financial pressures for the City, decrease the City resources available for other programs and hamper the City's ability to provide social programs for residents.

<i>Summary of Shortfalls</i>										
For The Years 1998 to 2005										
Budget Shortfall to Actual [(Favourable) / Unfavourable] - in millions										
	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budget	2005 Proj. Actual*	2006 Budget
Social Services :										
ODSP/ODB		(3.7)	3.7	(1.3)	(0.3)	8.1	16.3	15.1	21.3	30.3
OW Cost of Administration		0.0	0.0	0.6	5.1	12.2	15.1	24.6	24.2	23.2
Shelter per diems	2.4	6.5	12.0	7.9	14.4	16.9	22.2	22.8	24.7	29.1
Emergency Medical Services		0.7	(0.017)	0.7	5.7	6.4	10.2	9.8	11.2	12.3
Total:	2.4	3.5	15.7	7.9	24.9	43.6	63.8	72.3	81.4	94.9
	*pending confirmation at year-end									

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