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2007 BUDGET BRIEFING NOTE

Province must Address \$127.4M Funding Shortfall and Begin Uploading the Ontario Disability Support Program and the Ontario Drug Benefit if City is to Manage the Growing Burden of Downloaded Programs

Purpose:

To summarize the impact that downloaded programs and provincial funding shortfalls will place on the City's 2007 operating budget, propose short-term strategies to manage this impact in 2007, and identify the longer-term changes that must be made to federal, provincial and municipal relationships to advance the City's multi-year plan for fiscal sustainability.

Key Messages:

- The City of Toronto continues to be severely impacted by responsibilities that were downloaded to municipalities beginning in the late 1990s. The financial burden on the City created by changes to the delivery and funding of social assistance, emergency shelters, child care, ambulance, social housing, provincial offences courts, and policing has increased annually.
- Since 1999, the City has been forced to manage new downloaded program costs for the Ontario Disability Support Program (ODSP), the Ontario Drug Benefit (ODB), Social Housing, and Court Services. In 2007, the gross cost of these downloaded programs will rise to \$504.9M.
- The pressures caused by downloading have been significantly worsened by the Province's failure to honour its own cost-sharing and funding agreements. In 2007, provincial funding shortfalls for the administration of Ontario Works, per diem rates for emergency hostel services, child care, and policing will rise to \$127.4M.
- In the short-term, the Province must pay its bills, honour its obligations for all mandated social, health and safety programs, and address this \$127.4M funding shortfall. It should also begin uploading the full \$175.0M cost of the ODSP and ODB programs.
- For 2008 and beyond, the City must advance its multi-year plan for fiscal sustainability. This plan calls on the provincial and/or federal governments to fund 100% of the cost of income redistributive programs, including social housing, social assistance and emergency shelters.

Background:

The pressures on Toronto that occurred in the latter part of the 1990s as a result of amalgamation were compounded by a major reorganization of roles, responsibilities and cost-sharing arrangements initiated by the provincial government as a part of Local Services Realignment (LSR). Under LSR, Toronto and other municipalities became responsible for the delivery and cost-sharing of a wide range of programs while the Province retained primary control over program policy and service delivery models. This group of changes is commonly referred to as “downloading.”

The mismatch between responsibility and authority created by LSR and related changes has severely constrained the City’s ability to contain the burden created by downloaded programs on the property tax base. Costs in downloaded programs have been driven up over time by policy changes made by the Province, inflation, wage settlements, growing service demand, increasing client service needs, and aging physical infrastructure. In 2007, the gross cost of downloaded programs will rise to \$504.9M. Table 2 summarizes these downloaded program costs from 1998 to the present.

In many cost-shared programs, the pressure on the City’s budget has been worsened by funding shortfalls and the Province’s failure to honour its own cost-sharing agreements. For 2007, these provincial funding shortfalls are expected to rise to \$127.4M. Table 1 summarizes the provincial funding shortfalls from 1998 to the present.

Since 1998, the City has used all of the tools at its disposal, including draws from reserves, service reductions, and service efficiencies, to minimize the impact of downloaded program costs. In addition, the City has worked with other Ontario municipalities and the Province to have cost-sharing agreements honoured, the full impact of downloading recognised, and appropriate funding roles for social, health and safety services defined.

Over time, the Province has mitigated some of the impact of downloading with the introduction of 50% funding for emergency medical services (EMS) and Public Health in 1999 (up from the original LSR proposed level of 0% funding); the introduction of pooling for social services in 1998 and social housing in 2001; the upload of 100% of the operating costs of GO Transit in 2002; phased increases from 2004-7 in provincial contributions for Public Health services to 75%; fully honouring cost-sharing for EMS in 2006; and changing guidelines to make Toronto eligible for Ontario Municipal Partnership Fund (OMPF) funding beginning in 2006. For 2007, the City’s total OMPF grant and pooling entitlements will create revenue offsets to mandated programs of \$252.1M. Table 3 summarizes these revenue offsets from 1998 to the present.

Most of the changes made by the Province in response to municipal advocacy have left municipal-provincial funding responsibilities unchanged. Provincial adjustments have not addressed the inappropriateness of funding income redistribution services from property taxes, and in the case of pooling, have worsened the City’s situation by setting the interests of Toronto against those of other GTA municipalities, and creating new administrative and accountability problems. GTA municipalities have grown increasingly dissatisfied with this arrangement, and in 2006, York, Peel and Halton began withholding their pooling payments.

In August 2006, the Province announced its intention to review provincial and municipal roles and responsibilities with its Provincial-Municipal Fiscal and Service Delivery Review. The 18-month review covers a range of areas, including the delivery of housing, health and social services; municipal financing tools, such as user fees and debt; infrastructure funding, and the OMPF. This review provides the City with another opportunity to advocate for fundamental changes in funding responsibilities that are consistent with its multi-year plan for fiscal sustainability. However, given the review's timeframe and the significant costs that the City must manage as a part of the 2007 budget process, City officials have pressed for a 'down payment' that would see the Province pay its bills, immediately honour all costs sharing agreements, and upload ODSP/ODB.

Ontario Works Cost of Administration

The cost of administration of the Ontario Works program (COA) is subject to a 50/50 cost-sharing agreement with the provincial government. However, the Province has capped the amount it contributes to OW COA, and in 2007, the provincial cost-sharing shortfall is expected to reach \$29.3M. This represents only 32.7% of the actual cost of administration.

In the past, the City has made use of aggressive position gapping and significant staff reductions to manage funding shortfalls and pressures within the OW program and its administration. For 2007, the City cannot make additional service or administrative cuts without violating program guidelines or losing cost-shared dollars from the province.

For 2007, the City must press the Province to pay its bills and contribute its full 50% of the cost of OW administration. For 2008 and beyond, the City must press the Province to upload the full costs of both the OW program and administration.

Emergency Shelters

The provision of emergency shelter services is subject to an 80/20 provincial/municipal cost-sharing agreement. However, the Province has capped the amount it contributes to the per-diem cost of shelter provision at rates that are lower than the actual cost of provision in Toronto. As a result, the provincial funding shortfall in this service area is expected to reach \$29.1M in 2007. This represents only 48.8% of the actual cost of shelter provision.

In the past, the City has managed cost-sharing shortfalls in this service area with gapping and by absorbing pressures within existing budgets. Slight declines in bed occupancy rates have also allowed the City to contain some of these program costs. However, continued declines in bed occupancy rates are not assured, and service quality has already been impacted by gapping and the absorption of inflationary increases.

In the short-term, the City must press the Province to pay its bills and honour its cost-sharing agreement. For 2008 and beyond, the City must press the Province to upload the full costs of emergency shelter services.

Emergency Medical Services

Emergency medical services are funded by a 50/50 cost-sharing agreement for land ambulances, and 100% provincial funding for the Central Ambulance Communications Centre. In prior years, the Province had capped its contribution to salary increases and failed to recognise inflationary increases, creating significant funding shortfalls for the City.

In March 2006, the provincial government announced its intention to honour its cost sharing agreement for emergency medical services by 2008. With additional provincial funding of \$11.7M recently announced, it is expected that cost-sharing agreements for emergency medical services will be fully honoured in 2007, and the City will not face any cost-sharing shortfalls in this area.

Child Care

In 2007, child care services will face a \$13.0M provincial funding shortfall. This shortfall will be caused by the fact that provincial funding for base programs is not indexed to inflation and has been frozen at levels established in 1995. As the City continues to provide inflationary increases and recognize actual costs for child care operators, the pressure on the City's budget will grow significantly.

In 2007, the City will also begin to face additional budget pressures as a result of the Province's introduction of income testing as the method used to determine eligibility for child care subsidy. The introduction of income testing will have the positive effect of making more families eligible for subsidy; however, it is also expected to reduce the fees paid by parents and result in an annualized \$15.0M loss in revenue for the City.

For 2007, the City can draw on unspent 2005/6 Best Start monies from the Child Care Expansion Reserve Fund (CCERF) to address budget pressures and maintain service levels. However, if the provincial funding shortfalls and revenue losses continue, the City will exhaust the CCERF and be forced to cut 2,000 subsidised child care spaces by the end of 2008. For 2007 and beyond, the City must press the Province to adjust its funding for base programs to reflect actual costs and inflationary increases and to adjust for revenues lost as a result of the introduction of income testing.

Ontario Disability Support Program and Ontario Drug Benefits

Although the City plays no role in the delivery of these provincial programs and has no control over program expenditures, current cost-sharing agreements require that the City pay 20% of the gross program costs and 50% of the cost of administration for these two programs. The City's funding obligation for these programs has risen steadily from \$132.1M in 1999 to \$175.0M in 2007 as a result of increases in benefit rates, case load increases, and rising drug costs.

In 2007, the City should press the Province to immediately begin the upload of the full cost of these provincial programs. For 2008 and beyond, the City must ensure the Province funds 100% of the costs for these programs.

Social Housing

In 2007, the gross downloaded program cost of social housing will rise to \$328.9M. Program costs will grow because of the widening gap between tenant incomes and market rents, inflationary impacts, and the rising cost of maintaining an aging housing stock.

In the past, the City has been able to capitalise on mortgage renewals at lower interest rates to free up sufficient resources to manage most of the growing costs in this program area. With all gains from lower mortgage rates now achieved, the City's only option to manage growing costs is to withdraw from the Social Housing Stabilization Reserve. This strategy will help address the pressures faced by the City in 2007, but will leave the City with few options for 2008. For 2008 and beyond, the City must press the provincial and federal governments to upload the full costs of all social housing programs.

Policing

Beginning in 1997, the City was required to assume new policing responsibilities, including the provision of security for criminal courts, policing of provincial highways, and the provision of school crossing guards. Many of the costs associated with these new responsibilities are not within the City's control, and have placed a growing burden on the City's budget. For example, in 2007, the Province will open 10 new courtrooms in Toronto to assure speedy trials and bail hearings, and to manage lengthier, more complex organised crime trials. The City will be required to provide security for these courtrooms at a 6-month cost of \$3.5M in 2007, and an annualized cost of \$7.0M.

The City's situation has been further worsened by the Province's decision to cap the City's Community Policing grant at levels too low to recognize merit and COLA salary increases. In 2007, the funding shortfall caused by growing expenditures in provincially-determined program areas and the cap on the City's Community Policing grant will rise to \$56.0M, a \$7.0M increase over 2006.

In previous years, the City has managed growing provincial funding shortfalls with property tax increases. In the short term, the City should press the Province to pay its bills, remove the cap on the City's Community Policing grant, and address funding shortfalls in other policing areas. For 2008 and beyond, the City must press the Province to upload the full cost of the policing of criminal courts and provincial highways and provide appropriate funding for other policing services.

Court Services

In 2007, the City's Provincial Offences Act (POA) administrative and prosecutorial responsibilities will continue to result in a \$1.0M downloaded cost that is supported by the City's tax base. Unlike other program areas, this downloaded cost is primarily generated by the loss of up to \$5.1M in revenue from charges that cannot proceed to trial in a timely manner. The City is unable to ensure that charges proceed to trial in a timely manner because the provincial government has not appointed enough Justices of the Peace to hear these matters.

To ensure that the City's administrative and prosecutorial responsibilities under the POA generate the revenue anticipated when they were downloaded, the Province not only must ensure that Toronto has an adequate number of Justices of the Peace, it must also identify new, more effective fine enforcement sanctions that will assist municipalities with their fine collection efforts. Unless these improvements are made, this program will soon become a financial burden to the City.

Conclusion:

In 2007, the City will face significant challenges during its budget process that are a direct result of changes made to federal, provincial and municipal responsibilities beginning in the late 1990s. The City will be forced to manage rising downloaded program costs for the Ontario Disability Support Program (ODSP), Ontario Drug Benefits (ODB), Social Housing, and Court Services that will reach \$504.9M gross in 2007. In addition, the City will need to manage provincial funding shortfalls in the administration of Ontario Works, hostel per-diems, child care and policing that will rise to \$127.4M.

To eliminate the structural deficit caused by downloaded programs, the City must continue to negotiate with the federal and provincial governments to advance its multi-year plan for fiscal sustainability. The Provincial-Municipal Fiscal and Service Delivery Review provides an additional avenue the City can use to ensure its long term fiscal health. However, the 18 month timeframe for the review will not assist the City in managing these significant and rising costs in 2007.

For 2007, the City must press the Province to pay its bills, honour its cost-sharing agreements, and address the \$127.4M provincial funding shortfall. In addition, an immediate commitment by the Province to begin uploading the ODSP/ODB program in 2007 should be advanced by the City.

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Table 1										
SUMMARY OF PROVINCIAL FUNDING SHORTFALLS										
FOR THE YEARS 1998 TO 2007										
Provincial Funding Shortfall / Cap	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Actual								Projected	Budget
OW COA	-	-	-	0.6	5.1	12.2	16.9	18.6	23.2	29.3
Shelter Per diem	2.4	6.5	12.0	7.9	14.1	16.9	22.2	24.8	28.6	29.1
Child Care	-	-	-	-	-	-	-	-	-	13.0
EMS		0.7	(0.0)	0.7	5.7	6.4	9.0	9.8	6.4	-
Police **	-	31.2	33.5	35.6	38.3	42.5	43.4	46.0	49.0	56.0
Total Provincial Funding Shortfall / Cap	2.4	38.4	45.5	44.8	63.2	78.0	91.5	99.2	107.2	127.4
** Police includes: policing of criminal courts (\$44.4M), policing of provincial highways (\$1.2M), provision of school crossing guards (\$6.4M), and the Provincial cap on the City's Community Policing grant (\$3.9M).										

Table 2										
SUMMARY OF DOWNLOADED PROGRAM COSTS										
FOR THE YEARS 1998 TO 2007										
Downloaded Programs	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Actual								Projected	Budget
ODSP/ODB	-	132.1	137.9	133.0	135.0	143.6	153.9	160.0	168.8	175.0
Social Housing **	-	242.2	220.4	254.1	267.5	292.9	293.2	308.6	307.8	328.9
Court Services	-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0
Total Downloaded Programs	0.0	374.3	358.3	387.1	403.5	437.5	448.1	469.6	477.6	504.9
** Social Housing Cost net of pooling revenue for 2007 is projected to be \$237.8M										

Table 3										
SUMMARY OF OFFSETS TO MANDATED/DOWNLOADED PROGRAM COSTS										
FOR THE YEARS 1998 TO 2007 *										
Offset	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Actual								Projected	Budget
GTA Pooling - Social Services **	(100.0)	(95.7)	(89.5)	(91.4)	(92.0)	(100.5)	(91.9)	(101.7)	(107.6)	(111.5)
GTA Pooling - Social Housing **				(42.4)	(43.7)	(71.2)	(78.9)	(85.8)	(89.5)	(91.1)
OMPF									(35.0)	(49.5)
Total Offsets	(100.0)	(95.7)	(89.5)	(133.8)	(135.7)	(171.7)	(170.8)	(187.5)	(232.1)	(252.1)
** In 2006, York, Peel and Halton began withholding their pooling payments.										