
2010 BUDGET BRIEFING NOTE

Progress on Downloaded Program Costs and Provincial Funding Shortfalls

Purpose:

To summarize the progress that has been made in reducing the impact that downloaded programs and provincial funding shortfalls have on the City's operating budget.

Key Messages:

- Significant progress was made over the past two years to address the impact that downloaded programs have on the City's operating budget. Most notably, with the release of the final report of the Provincial Municipal Fiscal and Service Delivery Review (the Review), the Province announced its commitment to fundamentally change provincial-municipal funding relationships with respect to cost-shared and mandated social programs.
- The Review's results are consistent with the City's Long Term Fiscal Plan, and have laid the ground work for ongoing savings by clarifying roles and responsibilities and establishing principles to guide investments in social programs. The Review commits the Province to uploading the full cost of the Ontario Disability Support Program (ODSP) benefits and program administration, the Ontario Drug Benefit program (ODB), Ontario Works (OW) benefits (including the upload of shelter per diems), and court security costs from municipalities by 2018.
- The upload of the municipal portions of income security program costs began in 2008 with the upload of ODB, and continues in 2010 with the first phase of upload of the City's mandated contribution to ODSP and OW benefits. The Province has also recently committed to honouring its cost sharing agreement for the administration of OW, a commitment that will reduce the projected pressure on the City budget by \$53.7M in 2010.
- The City is continuing to work with the Province to clarify roles and responsibilities and improve service delivery in the area of housing and homelessness, and on the development of the complete upload plan for court security costs.

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. At its peak in 2007, the gross annual cost of downloaded programs had risen to \$508.8M. Table 1 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. By 2010, the cumulative impact of the related provincial funding shortfalls will exceed one billion dollars. Table 2 summarizes these provincial funding shortfalls from 1998 to the present.

Since 1998, the City has used all of the tools at its disposal, including contributions 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 mitigated some of the impact of downloading with a variety of measures. These include 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 2007 and 2008; and changing guidelines to make Toronto eligible for Ontario Municipal Partnership Fund (OMPF) funding beginning in 2006. However, this group of changes left municipal-provincial funding responsibilities largely unchanged, and did not address the inappropriateness of funding income support programs from property taxes.

In 2006, the Province launched the Provincial Municipal Fiscal and Service Delivery Review, the first comprehensive review of provincial-municipal roles and responsibilities since LSR. The Review was broad in scope, covering fiscal relationships, infrastructure and the delivery of human services, and reflected the spirit of the commitment to consultation set out in the *Municipal Act* and the *City of Toronto Act*.

The Review acknowledged the key service delivery and system management role played by municipalities and recognized the inappropriateness of funding provincial programs from the property tax base. As a result, the Province has begun uploading funding responsibilities from municipalities in several program areas, and has committed to working with AMO and the City

on the development of outcomes-based policy and funding frameworks in others. The full impact of the Review and the work to follow in other program areas are described below.

Income Support Programs: Ontario Disability Support Program, Ontario Drug Benefits, and Ontario Works Benefits

The Province's decision to upload all costs associated with ODB, ODSP, and Ontario Works benefits (including shelter per diems) is one of the most important outcomes of the Review. In the past, the City has been required to pay 20% of the benefit costs for ODB, ODSP and OW, and 50% of the cost of administration for ODSP and OW.

In 2007, the Province agreed to fully fund the Ontario Disability Support Program and the Ontario Drug Benefit programs as an early outcome of the Review. The upload of ODB costs was completed in 2008, and the upload of ODSP will be complete by 2011. The upload of OW benefit costs begins in 2010 and will be complete by 2018. Table 3 summarizes the projected savings that the upload of these program areas will have on the City's budget.

The Province has also recently committed to fully funding their 50% share of the OW cost of administration. The Province's earlier decision to cap its contribution to these administration costs had led to rising shortfalls in this area, and this recent commitment will reduce the pressure on the City's budget that had been projected for 2010 by \$53.7M.

Policing and Court Services

Starting in 2012, the Province will upload the costs of court security over seven years by providing funding to municipalities to a province-wide maximum of \$125 million annually at maturity. This funding will be apportioned to all applicable municipalities, and the proportion that the City will receive has not yet been determined. Table 4 summarizes the province-wide phased upload schedule from 2012 to 2018.

This funding will relieve the growing pressure faced by the City as part of the Toronto Police Services budget, where the cost of the provision of court security is expected to reach \$45.3 million in 2010. The funding will also relieve the \$1.2 million cost associated with the administration of court security that has impacted the budget of the Court Services division since responsibility for the administration of the Provincial Offences Act was transferred to the City in 2002.

In preparation for the upload, the City, the Toronto Police Service and the Toronto Police Board will participate in a consultation with the Ministry of the Attorney General and the Ministry of Community Safety and Correctional Services. The consultation will focus on the collection of data, the development of court security standards, and the determination of associated costs and related governance issues.

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 (CACC). Prior to 2006, the Province had capped its contribution to salaries and inflationary increases for both land ambulance and CACC, creating significant funding shortfalls for the City.

In March of that year, the provincial government announced its intention to honour its cost sharing agreement for emergency medical services. Although it elected to continue to cap its contribution to CACC, the City did not experience any funding shortfalls in 2007 or 2008.

In 2009, the CACC costs incurred by the City will exceed the provincially-established cap for this area. As a result of salary and other inflationary increases, the City will experience a \$2.4 million funding shortfall in its 2009 operating budget. Staff are continuing to negotiate with the Ministry of Health and Long Term Care to address this shortfall and are optimistic that it can be eliminated in 2010.

Housing and Homelessness: Social Housing and Emergency Shelter

As a part of the upload of OW benefits cost, shelter per diems, which are a part of the Ontario Works Act, will also be uploaded. Table 3 summarizes the projected savings that the upload of these shelter costs will have on the City's budget beginning in 2010.

In addition to the upload, the Province will be working with AMO and the City to consolidate the existing range of housing and homelessness programs across provincial ministries into a housing service managed at the municipal level. This review builds on the Review's commitment to developing outcomes-based policy and funding frameworks, and an analysis of funding arrangements for this broader housing service will be included in the work.

Until both the upload of OW benefits and the review of housing and homeless services are completed, the City will continue to experience fiscal pressures related to both emergency shelter and social housing services. For emergency shelter services, the current provincial per diem covers only a portion of the services delivered in shelters and is capped at rates that are lower than the actual cost of providing service in Toronto. In 2010, the provincial funding shortfall in this service area is expected to reach \$31.4M.

In the area of social housing area, the downloaded cost of this service will reach \$334.0 million in 2010, primarily because of the widening gap between tenant incomes and market rents, inflationary impacts, and the rising cost of maintaining an aging housing stock. As the review of this service area proceeds, the City will work to obtain a greater commitment from the federal government in the housing area, a need also identified by the Province and AMO as a part of the Review. In particular, the City will ask the federal government to reverse its scheduled withdrawal of approximately \$168.8 million in social housing funding and seek continued commitments for affordable housing.

Child Care

In 2010, child care services will face a \$19.0M funding shortfall. This shortfall is primarily a result of the fact that provincial funding for base programs is not indexed to inflation and has been frozen at levels established in 1995. Without base funding increases, the City has been forced to draw on reserve funds to maintain the current service level of 24,000 subsidies and recognize actual costs for child care operators.

For 2010, the City can draw on unspent 2005/6 Best Start monies from the Child Care Expansion Reserve Fund to partially address budget pressures and maintain current levels of service.

However, in 2010 the Province will reduce the City's Best Start Funding by \$15.3M and by 2011 the reserve fund will be depleted. With all possible measures available to address funding shortfalls exhausted, a service level reduction of approximately 2,000 child care subsidies in 2011 and a further reduction of 3,000 subsidies by 2012 may be required.

Offsetting Social Program Costs: Pooling and the Ontario Municipal Partnership Fund

In addition to property taxes, the City has used two sources of revenue to fund its social program responsibilities. First, the City has relied on pooling revenues, collected by the Province from other GTA municipalities, to offset some of its social housing and social assistance obligations. Second, the City has used its Ontario Municipal Partnership Fund (OMPF) grant to offset these obligations since it first became eligible for the fund in 2006. Table 5 summarizes these offsets from 1998 to the present.

In parallel with the uploading of ODB, ODSP and OW benefits, the Province has made changes to OMPF allocations process. As the upload of these social program costs proceeds, the Province will concurrently claw back a portion of the municipal OMPF grant, a grant originally designed to offset social program costs. A full OMPF claw back schedule has been established by the Province, and in almost every year the City will realize net savings from the upload of income support programs in spite of the OMPF claw back. Table 3 summarizes the full OMPF claw back schedule from 2008 – 2018.

**Table 1
SUMMARY OF DOWNLOADED PROGRAM COSTS
FOR THE YEARS 1998 TO 2010 (in \$M)**

Downloaded Programs	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Projected	2010 Budget
	Actual												
ODSP/ODB ¹	-	132.1	137.9	133.0	135.0	143.6	153.9	160.0	169.6	178.8	148.7	143.9	77.5
Social Housing ^{2,3}	-	242.2	220.4	254.1	287.4	292.9	293.2	311.2	308.1	328.8	316.5	321.2	334.0
Court Services ⁴	-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.2	1.2	1.2	1.2
Total Downloaded Programs	-	374.3	358.3	387.1	423.4	437.5	448.1	472.2	478.7	508.8	466.4	466.3	412.7

Notes:

- 1 : The Province assumed the full cost for ODB starting in 2008. ODSP Administration was uploaded in 2009, and ODSP benefits will be uploaded in 2010 and 2011.
- 2 : Social Housing costs are shown before pooling and OMPF revenues.
- 3 : From 2005 on, Social Housing costs also include the Strong Communities Rent Supplement, Social Housing Admin, Housing Allowance, Realty Tax, Social Housing Admin System, Housing Allowance Pilot and Affordable Housing Program expenses.
- 4: Court Security.

**Table 2
SUMMARY OF PROVINCIAL FUNDING SHORTFALL
FOR THE YEARS 1998 TO 2010 (in \$M)**

Provincial Funding Shortfall / Cap	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Projected	2010 Budget	Cumulative Impact Total
	Actual													
OW COA	-	-	-	0.6	5.1	12.2	16.9	18.6	19.2	23.1	28.3	27.9	-	151.9
Shelter per diem	2.4	6.5	12.0	7.9	14.1	16.9	22.2	24.7	25.3	27.7	30.2	27.7	31.4	249.0
Child Care ¹	-	-	-	-	-	-	-	-	-	-	-	0.7	19.0	19.7
Emergency Medical Services	-	0.7	-	0.7	5.7	6.4	9.0	9.8	6.4	-	-	2.4	-	41.1
Police ²	-	31.2	33.5	35.6	38.3	42.5	43.4	46.0	53.1	53.5	58.8	60.4	63.2	559.5
Total Provincial Funding Shortfall / Cap	2.4	38.4	45.5	44.8	63.2	78.0	91.5	99.1	104.0	104.3	117.3	119.1	113.6	1,021.2

Notes :

- 1 : Funding shortfalls in child care prior to 2009 have been managed with the Child Care Expansion Reserve Fund and Best Start funds.
- 2 : Police includes: policing of criminal courts (\$45.3M - 2010), policing of provincial highways (\$1.8M), provision of school crossing guards (\$7.1M), and the Provincial cap on the City's community policing grants (\$9.0M).

Table 3
SUMMARY OF PROJECTED SAVINGS FROM INCOME BENEFIT UPLOADED PROGRAM COSTS
FOR THE YEARS 2008 – 2018 (in \$M)

Program Area	City Cost Shares / Projected Savings from Upload										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Ontario Drug Benefits (2007 City Cost Share: 20%)	- (39.1)	-	-	-	-	-	-	-	-	-	-
Ontario Disability Support Program Administration Costs (2007 City Cost Share: 50%)	50.0% -	- (20.0)	-	-	-	-	-	-	-	-	-
Ontario Disability Support Program Benefits (2007 City Cost Share: 20%)	20.0% -	20.0% -	10.0% (77.5)	- (77.5)	-	-	-	-	-	-	-
Ontario Works Benefits (2007 City Cost Share: 20%)	20.0% -	20.0% -	19.4% (5.8)	18.8% (5.8)	17.2% (15.5)	14.2% (29.0)	11.4% (27.1)	8.6% (27.1)	5.8% (27.1)	2.8% (29.0)	- (27.1)
Ontario Works Hostels Per Diem (2007 City Cost Share: 20%)	20.0% -	20.0% -	19.4% (0.4)	18.8% (0.7)	17.2% (1.7)	14.2% (3.4)	11.4% (5.0)	8.6% (6.7)	5.8% (8.4)	2.8% (10.1)	- (11.8)
OMPF Claw Back	-	19.7	20.8	20.8	20.8	20.8	6.8	6.9	6.8	6.9	6.8
Total Projected Savings from Income Benefit Program Uploads	(39.1)	(0.3)	(62.9)	(63.2)	3.6	(11.6)	(25.3)	(26.9)	(28.7)	(32.2)	(32.1)

Table 4
SUMMARY OF PROVINCE WIDE COURT SECURITY COST UPLOADS
FOR THE YEARS 2012 – 2018 (in \$M)

	2012	2013	2014	2015	2016	2017	2018
Phased Upload Percentage	14.0%	29.0%	43.0%	57.0%	71.0%	86.0%	100.0%
Province-Wide Upload Funding ¹	17.5	36.25	53.75	71.25	88.75	107.5	125.0

Note 1: Upload funding will be apportioned to all applicable municipalities. The City's upload funding allocation for each year has not yet been determined.

Table 5
SUMMARY OF OFFSETS TO MANDATED/DOWNLOADED PROGRAM COSTS
FOR THE YEARS 1998 TO 2009 (in \$M)

Offset	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Projected	2010 Budget
	Actual												
GTA Pooling ^{1,2,4}	(100.0)	(95.7)	(89.5)	(133.8)	(155.6)	(171.7)	(181.8)	(189.6)	(196.9)	(176.0)	(143.8)	(115.0)	(86.3)
OMPF ^{2,3}									(35.0)	(80.8)	(111.0)	(117.5)	(125.5)
Total Offsets	(100.0)	(95.7)	(89.5)	(133.8)	(155.6)	(171.7)	(181.8)	(189.6)	(231.9)	(256.8)	(254.8)	(232.5)	(211.8)

Notes:

- 1 : GTA Pooling revenues include reconciliation adjustments recorded for prior years. Pooling revenues are certified subsequent to the year end closing.
- 2 : In its 2007 budget the Province announced its intention to phase out pooling by GTA municipalities by 2012. The Province is providing sufficient funding under the OMPF to offset the decline in GTA pooling to recipient municipalities, including Toronto.
- 3 : The 2009 OMPF amount includes both an increase to offset the phase out of pooling and a claw back as a result of the upload of ODSP administration costs.
- 4 : GTA pooling figures include both pooling revenues for social housing and social services.

Prepared by: Lydia Fitchko, Executive Director (Acting), Social Development, Finance & Administration, 416-392-5207, lfitchko@toronto.ca

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