

Clause embodied in Report No. 8 of the Policy and Finance Committee, as adopted by the Council of the City of Toronto at its meeting held on July 22, 23 and 24, 2003.

21**Shortfall in Provincial Funding for Children's Services
Funding Options and Financial Implications**

(City Council on July 22, 23 and 24, 2003, adopted this Clause, without amendment.)

The Policy and Finance Committee recommends:

- (1) the adoption of the recommendation of the Budget Advisory Committee embodied in the following communication (July 3, 2003) from the City Clerk;**
- (2) that 500 child care spaces be maintained for the balance of 2003;**
- (3) that the additional funding of \$1.1 million required to maintain the 500 child care spaces to year-end be offset by under-expenditures within the Children's Services' 2003 Operating Budget and any shortfall be provided from under-expenditures within the Community and Neighbourhood Services Department's 2003 Operating Budget;**
- (4) that in the event that insufficient savings are realized during the year by the Community and Neighbourhood Services Department to offset the \$1.1 million, any shortfall be funded from the Child Care Capital Reserve Fund and/or the Social Assistance Stabilization Reserve Fund, if necessary;**
- (5) that the Chief Financial Officer and Treasurer monitor the Community and Neighbourhood Services Department's 2003 Operating Budget and report back as part of the 2003 year-end variance report on the final disposition of this matter; and**
- (6) that any emergency health and safety matters that may arise during the balance of 2003 be addressed by the Chief Administrative Officer, the Commissioner of Community and Neighbourhood Services and the Chief Financial Officer and Treasurer.**

The Policy and Finance Committee submits the following communication (July 3, 2003) from the City Clerk:

Recommendation:

The Budget Advisory Committee at its meeting on July 3, 2003, recommended to the Policy and Finance Committee, and Council, that the Chair, Budget Advisory Committee, be requested to

write a letter to the Premier requesting funding from the Province to prevent the loss of 500 spaces.

The Budget Advisory Committee, reports for the information of the Policy and Finance Committee, and Council, having:

- (1) directed that the report (June 25, 2003) from the Chief Financial Officer and Treasurer be forwarded to the Policy and Finance Committee for information; and
- (2) requested the Chief Financial Officer and Treasurer to submit a revised chart to the Policy and Finance Committee, entitled "Trend in Funding Mix for Children's Services", such chart to be based on Child Subsidy spaces from 1999 to 2003 and include the number of subsidized child care spaces and the associated funding from property taxes, user fees, reserves and other sources.

Background:

The Budget Advisory Committee, at its meeting held on July 3, 2003, had before it a report (June 25, 2003) from the Chief Financial Officer and Treasurer, responding to the Policy and Finance Committee request to provide funding options and short- and long-term implications respecting withdrawing \$7.9 million from the Social Assistance Stabilization Reserve Fund on an emergency basis to prevent the cut of childcare services to 500 due to provincial funding shortfall of approximately \$31.7 million; and recommending that this report be forwarded to the Policy and Finance Committee for information.

Councillor Olivia Chow, Ward 20 Trinity Spadina, appeared before the Budget Advisory Committee in connection with the foregoing matter.

(Report dated July 4, 2003, addressed to the Budget Advisory Committee from the Chief Financial Officer and Treasurer, entitled "Shortfall in Provincial Funding for children's Services – Funding Options and Financial Implications (Revised as directed by the Budget Advisory Committee))

Purpose:

To respond to the Policy and Finance Committee (June 16, 2003) request to report on funding options and on short and long term financial implications of the June 9, 2003, Community Services Committee recommendation that endorsed the Children and Youth Action Committee's request to withdraw \$7.9 million from the Social Assistance Stabilization Reserve Fund (SASRF) on an emergency basis due to a provincial funding shortfall of approximately \$31.7 million. The requested funding would prevent the cut of childcare services to 500 children and provide for payments of actual cost of care and essential health and safety expenditures.

Financial Implications and Impact Statement:

The total 2003 Children's Services Operating Budget of \$299.5 million gross and \$62.5 million net includes \$27.7 million in gross expenditures conditional on 80 percent Provincial subsidy with the \$5.6 million City portion to be funded from Reserves. The Community Services Committee is requesting funding for operating base shortfalls totalling \$5.9 million and a \$2.0 million shortfall in the health and safety capital budget.

Upon review of the funding request of \$7.9 million, it has been determined that \$2.0 million is required for capital health and safety, \$2.7 million for the 2003 phase of the actual cost payments to child care providers; and only \$1.1 million in 2003 (not the annualized \$3.2 million originally requested) to maintain 500 childcare spaces for the remainder of the year. The total 2003 request for funding from the Social Assistance Stabilization Reserve Fund (SASRF) is now revised from \$7.9 million to \$5.8 million.

There is no unallocated funding available in the 2003 Approved Operating Budget to address the \$5.8 million Community Services Committee funding request for Children's Services. If Council recommends funding the 2003 request of \$5.8 million from the SASRF, the 2004 impact will be \$5.9 million to reflect the annualized cost of \$3.2 million to maintain the 500 childcare spaces and \$2.7 million payment for actual cost of service, without including the non-recurring health and safety costs.

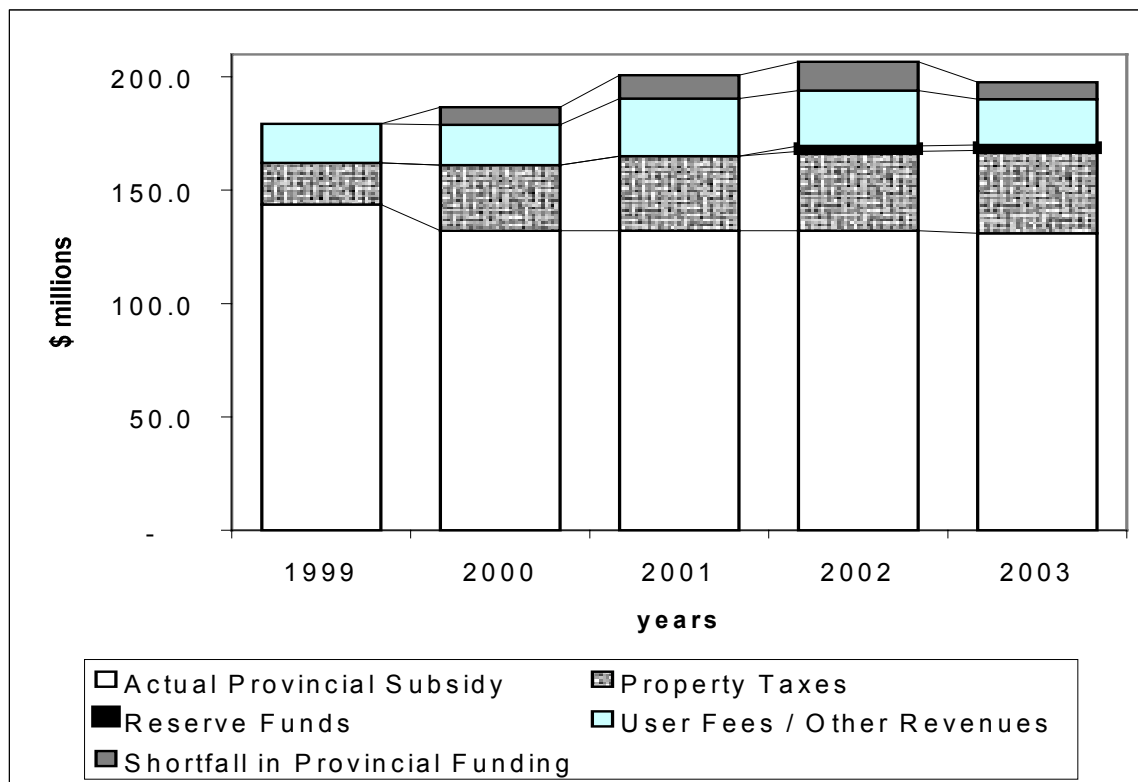
Recommendation:

It is recommended that this report be forwarded to Policy and Finance Committee for its information.

Background:

In response to the City's 2003 funding request, the Province confirmed that funding for childcare was capped, making no allowance for inflationary adjustments or childcare space expansion. As illustrated in the chart below, the established provincial funding formula of 80 percent of the program costs and 50 percent of administrative costs has been eroding since 1999, making it necessary to identify alternative funding or to reduce the number of subsidized child care spaces.

Trend in Funding Mix for Subsidized Child Care Spaces



Breakdown of Funding for Subsidized Child Care Spaces *					
	1999	2000	2001	2002	2003
Funding Summary:					
Gross Expenditures (Approved Budget)	179.3	186.6	200.7	206.6	197.6
Funded from:					
Actual Provincial Subsidy	143.7	132.1	132.1	132.1	131.1
User Fees / Other Revenues	17.2	18.0	25.4	24.5	20.3
Reserve Funds		-	-	2.2	2.4
Property Taxes	18.4	28.9	33.0	35.2	36.5
Total Funding Available	179.3	179.0	190.5	194.0	190.3
Shortfall in Prov. Funding Vs. Appvd. Budget	-	7.6	10.2	12.6	7.3

Breakdown of Funding for Subsidized Child Care Spaces *					
	1999	2000	2001	2002	2003
Actual Subsidy Percentage	80.1%	70.8%	65.8%	63.9%	66.3%
Child Care Spaces Summary:					
Budgeted Spaces	24,216	24,216	24,216	24,496	22,720
Less:					
Cost shared Spaces	24,216	24,096	23,829	22,600	21,525
100 percent City Funded Spaces **				280	695
Space Shortfall	-	120	387	1,616	500
Notes:					
* Includes only costs related to subsidized spaces without any expenditures contingent on receipt of Provincial funding.					
** 280 spaces are funded from the National Child Benefit Supplement Reserve Fund, 40 spaces are funded from the Social Assistance Stabilization Reserve Fund and property taxes fund 375 spaces.					

To address the provincial funding shortfalls over the years, Council has tried to avoid reducing the level of service while at the same time leveraging Provincial revenues wherever possible.

In response to a reduced provincial subsidy announced in 2003, a report from the Commissioner of Community and Neighbourhood Services was presented to the June 9, 2003 Community Services Committee, advising that the provincial subsidy approved for 2003 falls short from the level required to maintain existing services. The report seeks Council approval for a revised spending strategy that requires the reduction of approximately 500 child care spaces in order to stay within the available Provincial funding in 2003.

At its meeting of June 9, 2003, the Community Services Committee recommended to the Policy and Finance Committee and Council, a motion from the Children and Youth Action Committee to authorize the use of \$7.9 million from the Social Assistance Stabilization Reserve Fund. Policy and Finance Committee, on June 19, 2003, requested the Chief Financial Officer and Treasurer to report on funding options and on short and long term financial implications.

Comments:

Community Services Committee 2003 Funding Recommendations:

The Community Services Committee recommended to fund \$7.9 million from the Social Assistance Stabilization Reserve Fund to offset the Provincial funding shortfalls in the following areas:

- (a) \$2.0 million for capital health and safety,
 - (b) \$2.7 for the 2003 phase of the actual costs payments to child care providers; and
 - (c) \$3.2 million to maintain 500 spaces.
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- (a) Council approved a \$2.5 million health and safety capital project, which assumed \$2.0 million in Provincial funding.
 - (b) The Provincial share of the phased return to actual cost payments to Child Care operators totals \$2.7 million for 2003. City Council approved in 2000 a plan calling for a 5-year annual investment of approximately \$3.3 million per year totalling \$16.7 million. The 2003 Approved Budget included approximately \$3.3 million (gross) and \$0.7 (net) for the 2003 portion of the phased return to actual cost payments to Child Care.
 - (c) To balance the 2003 Approved Budget to the available Provincial funding, Children's Services estimates that a reduction of 500 subsidized spaces (equivalent to \$3.2 million provincial subsidy on an annualized basis) is required for 2003. Children's Services has utilized projected under-expenditures of \$2.1 million, to maintain the 500 subsidized spaces to date, but will require approximately \$1.1 million to retain the spaces for the remainder of the year. Thus, only \$1.1 million in additional funding for this purpose would be required in 2003. For 2004, the full \$3.2 million will be required to maintain the 500 spaces.

Funding Options and Financial Implications:

- (1) Operating Funds:
 - (a) There is no unallocated funding available within the City's 2003 Approved Operating Budget to address the \$5.8 million (revised from the \$7.9 million request) 2003 Community Services Committee funding request.
 - (b) Over the last two years, Children's Services has funded health and safety requests through the use of operating surpluses determined at the end of the year. As recommended in the original staff report dated May 21, 2003, this approach could also be taken in 2003 if there are any projected surpluses beyond those used to maintain the 500 child care spaces thus far.

(2) Reserve Funding:

Funding ongoing Provincial shortfalls from the Social Assistance Stabilization Reserve Fund would represent a significant deviation from the established purpose of this reserve. This Reserve Fund was established in 1998 with the purpose of protecting the City against future increases in social assistance costs related to significant downturns in the economy. The SASRF was not created to assist in ongoing efforts to reduce the current and future caseload. The projected 2003 year-end balance of the Social Assistance Stabilization Reserve Fund is \$84.9 million. Currently, an annual amount of \$11.5 million is being withdrawn from this Reserve to fund base pressures. Assuming that social assistance caseload levels remain at the level budgeted for 2003, the reserve is estimated to last approximately 7 years. This may change dramatically, as the impact of SARS or other economic downturns affect the caseload level.

The most significant problem with funding base operating expenditures from reserves is that it creates a funding pressure in the following year and is not sustainable in the long run. In addition, in this case, it shifts responsibility of funding programs from the Province to the City. Finally, it creates additional future pressures and risks for the City through depletion of the reserve. Thus, it is recommended that reserve funds not be used to fund these in-year operating pressures.

Conclusion:

There is no unallocated funding available to address the \$7.9 (revised to \$5.8 million for 2003) Community Services Committee funding request. It is not recommended that these costs be funded from the Social Assistance Stabilization Reserve Fund. Funding these base programs from SASRF is contrary to the original intent and purpose of the fund as approved by Council. It creates funding pressures in the following year and is not sustainable in the long run. In addition, in this case, it shifts responsibility of funding programs from the Province to the City. Finally, it creates additional future pressures and risks for the City through depletion of the reserve.

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The following persons appeared before the Policy and Finance Committee in connection with the foregoing matter:

- Mr. Jim Tatsos, Child Care Advisory Committee, and filed a copy of his written submission in regard thereto; and

- Ms. Jane Mercer, Toronto Coalition for Better Childcare, and filed a copy of her written submission in regard thereto and a written submission on behalf of Mr. Pedro Barata.

Councillor David Miller, Parkdale-High Park, also appeared before the Policy and Finance Committee in connection with the foregoing matter.

(City Council at its meeting on July 22, 23 and 24, 2003, had before it, during consideration of the foregoing Clause, the following report (July 21, 2003) from the Chief Financial Officer and Treasurer:

Purpose:

This report advises Council as to the original purpose of the Social Assistance Stabilization Reserve Fund.

Financial Implications and Impact Statement:

There are no financial implications.

Recommendations:

It is recommended that this report be received for information.

Background:

At its meeting of July 10, 2003, the Policy and Finance Committee had before it a communication (July 3, 2003) from the City Clerk advising that the Budget Advisory Committee, among other recommendations, 'directed that the report (June 25, 2003) entitled 'Shortfall in Provincial Funding for Children's Services - Funding Options and Financial Implications' from the Chief Financial Officer and Treasurer be forwarded to the Policy and Finance Committee for information.'

The Policy and Finance Committee requested that 'the Chief Financial Officer & Treasurer submit a report directly to Council for its meeting scheduled to be held on July 22, 2003, on the original purpose of the establishment of the Social Assistance Stabilization Reserve Fund'.

Comments:

The Social Assistance Stabilization Reserve Fund was established by Council on November 23, 24 and 25, 1999, by Policy and Finance Committee Report No. 10 Clause No. 20, entitled 'Adequacy of the Proposed Social Assistance Stabilization Reserve Fund'.

The purpose of the Reserve Fund as approved by Council is to 'stabilize social assistance costs (caseload costs and associated administrative expenses, including salaries) resulting from changes in caseload' in order to avoid unfunded pressures on the operating budget in the event that caseload volumes increase to levels similar to 1994. From 1988 to 1994 the average case load increased from 36,668 to 121,459. The 2003 average caseload is budgeted at 72,000.

The above-noted report recommended that funding be provided by a combination of direct contributions from the operating budget, interest earnings and/or year-end transfers of underexpenditures in the Social Services Division relating to General Assistance costs. There is no direct contribution provided for in the 2003 operating budget. The 2003 operating budget includes a withdrawal from the Reserve Fund of up to \$11.3 million to support a projected 12,000 caseload increase over the funded 60,000 average base caseload.

The last report (Policy and Finance Committee Report No. 5 Clause No. 2, April 2001) on the adequacy of the Reserve Fund indicated that the potential funding requirement for the Reserve Fund to weather an economic downturn could be in excess of \$200 million. As at December 31, 2002 the balance is approximately \$82 million.

Conclusions:

The purpose of the Social Assistance Stabilization Reserve Fund is to stabilize social assistance costs resulting from changes in caseload.

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