Adequacy of the Proposed Social Assistance Stabilization Reserve Fund

(City Council on November 23, 24 and 25, 1999, amended this Clause by adding thereto the following:

> *"It is further recommended that the Chief Financial Officer and Treasurer and the Commissioner of Community and Neighbourhood Services be requested to submit a joint report to the Policy and Finance Committee, prior to the 2000 budget submission, on a benchmark of an average monthly social assistance caseload.")*

The Policy and Finance Committee recommends the adoption of the following joint report (October 27, 1999) from the Chief Financial Officer and Treasurer and the Commissioner of Community and Neighbourhood Services:

Purpose:

This report outlines the adequacy of the proposed Social Assistance Stabilization Reserve Fund based on historical and projected social assistance caseload trends, a plan to fund the reserve fund which would increase it to the recommended level, and the GTA pooling implications.

Financial Implications and Impact Statement:

This report is intended to provide information on the status of the Social Services Reserve Fund and the proposed Social Assistance Stabilization Reserve Fund. However, depending on the financial results for 1999 and the adoption of recommendations in this report, there may be an additional contribution to the proposed Social Assistance Stabilization Reserve Fund for fiscal 1999 and subsequent years over and above the $16.2 million already contributed in 1998. The City will also require senior government financial assistance for the Social Assistance program in the event of another major recession.

Recommendations:

It is recommended that:

(1) three separate reserve funds be established to replace the current Social Services Reserve Fund, namely Social Assistance Stabilization Reserve Fund, National Child Benefit Supplement Reserve Fund, and Employment Placement Reserve Fund. Amounts currently within the Social Services Reserve Fund for the three different purposes (December 31, 1998 balances of $16.2 million, $2.6 million and $1.2 million respectively and any transactions to date) should be transferred into the three separate reserve funds. The Social Services Reserve Fund should be closed after all funds have been transferred out;

(2) any uncommitted funds, to the greatest extent possible and subject to the year-end

corporate positions in 1999 and subsequent years, arising from a net under-expenditure of the budget of the Social Services Division related to social assistance caseload be contributed to the Social Assistance Stabilization Reserve Fund;

(3) the following two items be considered in conjunction with the 2001 Operating Budget:

- **(a) an amount of $5 million be contributed directly to the Social Assistance Stabilization Reserve Fund annually starting in 2001, and such funds be provided for in the Social Services Division's budget request; and**

- **(b) for 2001 and subsequent years, a benchmark of an average monthly social assistance caseload of 82,000 be established so that at the end of the year any surplus / deficit of actual expenditures relative to the benchmark be contributed to / withdrawn from the Social Assistance Stabilization Reserve Fund;**

(4) City Council request the Province of Ontario to re-institute a "failsafe" provision similar to that in place until 1995 (when the number of social assistance recipients exceeded 3.5 percent of population for a period of 4 consecutive months, cost sharing with the Province reverted from 80:20 to 90:10 for the excess, with the Province contributing 90 percent of the costs for the excess portion);

(5) City Council, in conjunction with the Province of Ontario, request the Government of Canada to fund 100 percent of the social assistance costs for refugee claimants;

(6) City Council request that the Province of Ontario continue GTA Equalization as a means to deal with the higher proportion of City of Toronto residents in receipt of social assistance;

(7) any excess revenues from the GTA Equalization for 1998, currently estimated at $6.9 million, be transferred to the Social Assistance Stabilization Reserve Fund, subject to provincial confirmation; and

(8) the appropriate City officials be authorized and directed to take the necessary actions to give effect thereto.

Background:

On April 30, 1998, the City's Audit Services, in its Management Letter (December 31, 1997) to the Finance Department, recommended that the Chief Financial Officer and Treasurer and the Commissioner of Community and Neighbourhood Services should, in conjunction with the analysis of reserves and reserve funds, consider the potential funding demands on the City of significant and prolonged increases in the social assistance caseload.

Subsequently, City Council, at its Special Meeting on April 29 and 30, 1998 adopted the Strategic Policies and Priorities Committee (SPPC) recommendation that a reserve be set up to protect the City against caseload increases in future. Initially the reserve was to receive the savings resulting from the social assistance average monthly caseload dropping below 88,000 in 1998. As well, these funds were to be available to provide interim funding for up to 2,000 child care spaces for clients exiting social assistance.

At the Special Meeting on April 26, 27 and 28, 1999, Council adopted the SPPC recommendation that the Chief Financial Officer and Treasurer report to the Budget Committee on the status of the Social Assistance Stabilization Reserve (currently known as the Social Services Reserve Fund). In addition, the report is required to comment on the adequacy of the reserve based on historical needs, the funding plan which would maintain it at the recommended level, and the GTA pooling implications.

Comments:

I. Economic, Social and Demographic Impact on Social Assistance Expenditures:

The economic recession in the early 1990's, in conjunction with major rationalization and restructuring of the region's economy and labour market changes in the private and public sectors, produced high and sustained unemployment rates in Toronto. Given the depth of this abnormal recession, the worst in the post-war period in Toronto, social assistance caseloads experienced unprecedented growth. The annual average monthly caseload increased from 36,668 in 1988 to 121,459 in 1994, more than tripling in this period.

The sudden and unexpected growth in the caseload compelled Metro Council to take the unprecedented step in 1991 of making a one-time withdrawal, to meet increased social assistance costs, of $55 million from the Waste Management Reserve, on the assumption that the increased caseload would be short-lived. As a consequence, future years' expenditures had to be borne by property taxes. In fact, Metro's property tax mill rate was increased by 14.7 percent in 1992, 10 percent of which was due to the social assistance budget pressures.

Since 1995/96, steady employment growth and restrictive changes to the social assistance program have reduced caseloads substantially from the average monthly caseload of 121,459 in 1994 to 71,374 cases in April 1999. This represents a drop of 40 percent since the 1994 peak, but still more than 100 percent above the levels a decade earlier. There has been a steady caseload increase since April 1999 to the current (September) level of 75,722 cases, largely the result of downloaded "single-led" cases from the Province, as discussed in the following section.

There has been a marked increase in the proportion of families (including single-parent families) on social assistance, from 26 percent of total cases in 1991 to 58 percent in July 1999. In addition, there has been a substantial increase in the average length of stay for all clients. In early 1995 only 12 percent (or 14,000) of all cases were in receipt of assistance for more than 3 years. However, by mid 1999 the number has increased to 27 percent or about 20,000 cases. Given these changes, the rapid caseload decline experienced over the past several years is unlikely to be sustained.

Statistical analyses of historical social assistance caseload from 1987 to the present reveal that two economic/labour indicators: unemployment rate and labour participation rate (proportion of the population that is in the labour force), account for almost 94 percent of the variability of social assistance caseload. The balance of the caseload variability is due to other factors that are not easily quantifiable (e.g. influx of refugees and changes in social demographic profile of social assistance recipients such as sole support parents).

II. Federal and Provincial Government Broader Policy Changes:

Changes in Federal and Provincial government policy initiatives since the late 1980's also significantly impacted the caseload trends and consequently the net program expenditures.

(a) Federal changes:

The Federal Government reduced benefits for unemployed residents. Most notably, in the 1990's Federal changes to the Unemployment Insurance Program (now Employment Insurance) reduced financial benefits as well as the period for which the unemployed are eligible for benefits. Since the City provides general assistance to residents who are not eligible for benefits under other income support programs, this reduction in benefits has increased the burden on the City. Currently, therefore, the social assistance program administered by the City is a primary income support program for displaced or unemployed workers who have exhausted other remedies or are not eligible for Employment Insurance. Thus, it is likely that pressures will be compounded at the time of the next recession when there will be fewer assistance options for the unemployed than during the last recession when greater support was available from the Federal Government.

(b) Provincial changes:

(i) In 1983, the Province of Ontario instituted a "fail-safe" measure under the General Welfare Assistance Program, whereby in any period of four consecutive months, if the average monthly social assistance recipients equalled or exceeded 4 percent of the population of the municipality (as determined by the most recent census), the amount of subsidy paid by the Province would be 90 percent instead of 80 percent. In other words, should the number of people on social assistance exceed the threshold, the Province would share the additional financial responsibility, and the municipality's responsibility decreased from 20 percent to 10 percent for the portion in excess of the threshold. In December 1993, the threshold percentage was decreased from 4 percent to 3.5 percent, which was a positive development for municipalities as the social assistance caseload peaked in 1994. However, the Province revoked the Provincial Regulation for this fail-safe measure in October 1995.

(ii) In late 1995 the Provincial Government made substantial changes to the

General Welfare Assistance (G.W.A.) Program that made the eligibility criteria more restrictive, as well as introduced a 21.6 percent reduction in the social assistance benefit rates. This has contributed to the gradual decline in caseload and related costs since that time.

(iii) Another change affecting net expenditures is the cost-sharing relationship between municipalities and the Provincial Government effective January 1, 1998. The City began to share 20 percent of the benefit costs of recipients under both the new *Ontario Works Act (O.W.A.)*, which replaced G.W.A., and the *Ontario Disability Support Program Act (O.D.S.P.A.)*, with administration costs shared on a 50:50 basis. Prior to January 1, 1998, the caseload for single parent (single-led) and temporary cases was administered and funded 100 percent by the Province. Effective January 1, 1998, the responsibility for administering these has been transferred to the City, with the new cost-sharing arrangement of 80:20 on benefit costs and 50:50 on administrative costs.

The combined Social Assistance downloading costs are $124.9 million net for 1998 (actual) and $152.4 million net for 1999 (budget). They include:

(i) assuming cost sharing for O.D.S.P.,

(ii) assuming cost sharing for mandatory benefits, e.g. drugs, dental and vision care,

(iii) the transfer from the Province to the City of the estimated 14,000 single-led cases, which took place from May to October 1999; and

(iv) GTA Equalization (Pooling) and its Implications:

The Provincial Government downloaded the responsibilities for funding components of social assistance, hostels and social housing effective January 1, 1998. The immediate and potential fiscal implications of the downloaded programs were recognized as having a detrimental impact on the City. Accordingly, the Province introduced a pooling mechanism to share the combined cost of these social programs across the GTA on the basis of relative shares of property taxation or "weighted assessment". Under the formula, the City of Toronto pays approximately 51 percent of total pooled GTA social assistance costs. This is a positive provincial policy for the City of Toronto, as we would pay disproportionately if pooling had not been in place. It is recommended that City Council request that the Province continue the mechanism of GTA Equalization as a method to deal with the higher proportion of City of Toronto residents in receipt of social assistance.

For 1998, the Province transferred $107.2 million to the City on behalf of the other GTA municipalities for pooling of the Ontario Works programs. An amount of $100.3 million was recorded in 1998 as revenues and the remaining

$6.9 million was recorded as a liability, pending finalization of the amount payable to the City by the Province for 1998. Subject to the Province's confirmation, it is recommended that this $6.9 million be transferred to the Social Assistance Stabilization Reserve Fund. The budgeted pooling revenue from the Province for 1999 is $95.6 million.

III. Current Status of Social Services Reserve Fund:

In 1998, an amount of $20.0 million was contributed to the Social Services Reserve Fund as noted in Table 1:

Table 1	($millions)
Ontario Works Program and Administration	$ 16.2
National Child Benefit Supplement savings	$ 2.6
Employment Placement savings	$ 1.2

The National Child Benefit Supplement savings of $2.6 million were achieved through the reduction in social assistance payments by the City to recipients who received 'Child Tax Credits' from the Federal Government. The Province has directed that these savings should be used exclusively for the benefit of children in receipt of social assistance. Employment placement payments to agencies of $1.2 million are also required from the reserve. These payments are generated from savings as a result of clients leaving the system due to gaining employment. This leaves the City with $16.2 million to cover the adverse impact of actual average monthly caseloads exceeding the budgeted caseloads in the future.

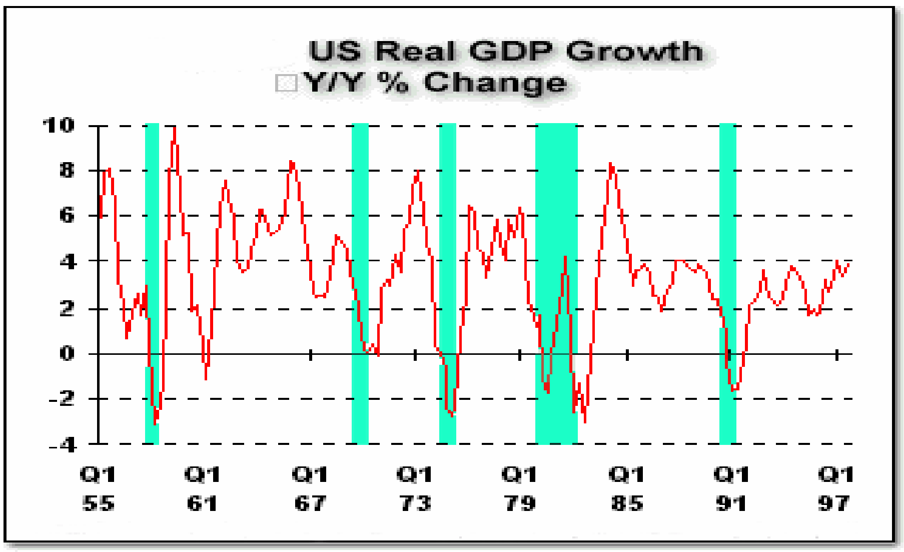
To more clearly display the nature of the funds, three separate reserve funds should be established to replace the existing Social Services Reserve Fund: Social Assistance Stabilization Reserve Fund (for caseload changes), National Child Benefits Reserve Fund (for the benefit of children in receipt of social assistance and 2000 child care spaces for clients exiting social assistance), and Employment Placement Reserve Fund (for payments to employment placement agencies). Amounts currently within the Social Services Reserve Fund for the three different purposes described above should be transferred into the three separate reserve funds. The Social Services Reserve Fund should be closed after all funds have been transferred out.

At the current social assistance payment rates, the amount of $16.2 million is adequate to cover the City's cost (net of Provincial subsidies but excluding infrastructure costs) for one year for a caseload increase of 10,000 or 13 percent of the 1999 projected average monthly caseload at the average net cost of about $1,620.00 per annum per case.

IV. Adequacy of the Proposed Social Assistance Stabilization Reserve Fund:

The objective of the portion of the Reserve Fund dedicated to Ontario Works is to even out the pressures on the operating budget over the years so that the City's operating budget is not burdened with social assistance costs in years of economic downturn when the social assistance caseload is forecasted to increase.

Although the timing and the depth of a recession cannot be predicted with accuracy, the fact remains that a recession is bound to occur in the future. In the United States, there have been 6 periods of economic expansion since the mid-1950's, with each period of growth, except the last, punctuated by a recession. Excluding the current period, the expansions have lasted an average of 25 quarters or just over 6 years, with 13 quarters being the shortest (1954 to 1957) and 46 quarters the longest (1958 – 1969). Therefore, the current US expansion since 1991, at 38 quarters and counting, has now exceeded the average of the post-1955 period as seen in the following chart.



Source: Bank of Montreal Special Report: Economic Expansions – They All Die the Same Way, Apr 1998

In Canada the timing of the economic cycles over the last 40 years resembles the American cycles. The City of Toronto, the most vital economic region in Canada, saw similar upturns and downturns with the exception of the last recession in the early 90's. As discussed above, Toronto's unemployment rate, as well as the social assistance caseload, has not yet returned to the pre-recession level.

Financial institutions in Canada do not foresee an economic downturn in the immediate future, although they forecast that the Canadian economic growth will slow down. For example, the Conference Board of Canada forecasts that the real Gross Domestic Product (GDP) will grow at the rate of 4.3 percent, 3.5 percent, 3.0 percent, 3.5 percent and 3.2 percent for the 5-year period from 1999 to 2003.

No one can predict the timing and the length of the next recession, with either precision or confidence. Nevertheless, for the purpose of commenting on the adequacy of the reserve fund and recommending a funding strategy, a caseload projection model based on economic and financial assumptions has been created using statistical methods and two potential but differing scenarios have been considered. These scenarios are intended for discussion purposes only and should not be construed as representative of an economic forecast for the City.

As discussed above, the social assistance caseload was found to relate with statistical significance to the unemployment rate and the labour participation rate. A formula was determined from regression analyses of monthly data for the last 11 years. Using this model, and making assumptions about the population growth and changes in the labour market, the average monthly caseloads are projected for the next 8 years. The assumptions include modest employment growth during the immediate future of continued economic growth, modest population growth (0.989 percent per year for the City), and similar unemployment rates based on the experience from the last recession.

Based on the foregoing assumptions about the labour force, and economic forecasts by major financial institutions including Conference Board of Canada, two potential scenarios are:

Scenario 1 – the better case scenario:

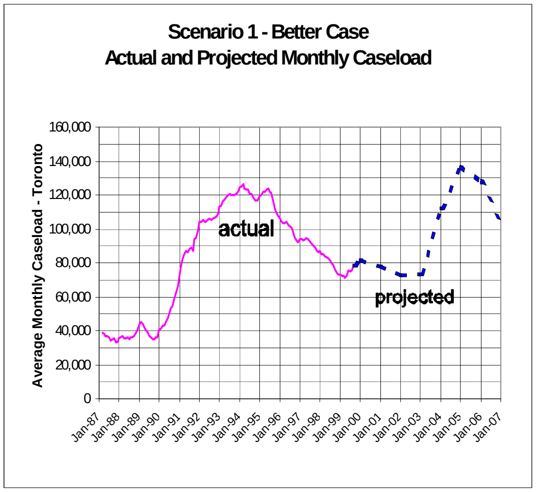
This assumes that Toronto will see 4 more years (2000 to 2003) of modest economic growth and then creep into a recession during 2004 to 2007, being worst around 2005. The unemployment rate will decrease steadily from the current 7.3 percent to 6.2 percent by 2003 and increase to 13 percent by 2005.

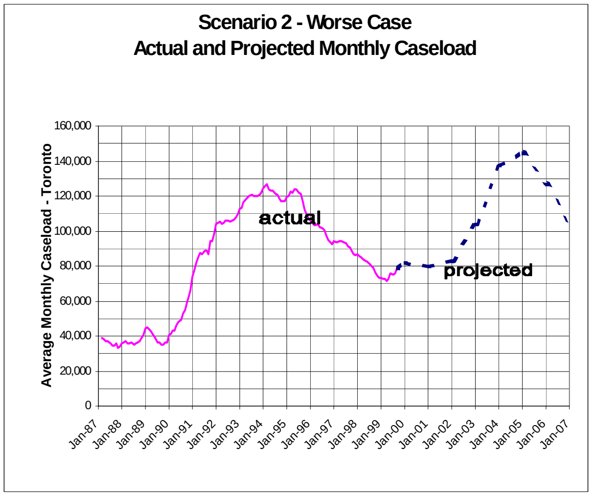
This scenario projects an average monthly caseload of 132,150 at its peak by 2005, 8.8 percent higher than the highest average monthly caseload of 121,460 experienced in 1994.

Scenario 2 – the worse case scenario:

This assumes that Toronto will see just over 2 more years (2000 to 2001) of very modest economic growth and then creep into a long recession from 2002 to 2007, hitting the depths of the recession around 2004 and 2005. The unemployment rate will decrease slightly from the current 7.3 percent to 6.8 percent by 2001 and increase to 13 percent by 2004, remaining high for 2 years.

This scenario projects an average monthly caseload of 141,350 at its peak by 2004, 16.4 percent higher than the highest average monthly caseload of 121,460 experienced in 1994.





The financial risk associated with an unforeseen increase in caseload can be viewed as the cost variance between the actual and the budget in any given year when the additional caseload has not been budgeted for in the program's operations, and no funds have been set aside in a reserve to deal with such a situation. In addition, the other part of the risk is the sustained caseload increase from the first year of recession, which becomes a budget pressure for the subsequent years. In order to estimate the financial risk for both situations for the next 8 years, the following assumptions are made:

(1) the operating budget during the period of growth continues to be set at the level which the program area considers a good estimate of the actual caseload before the onset of a recession, i.e. continues to be adjusted down;

(2) in addition to the social assistance program costs, staffing costs related to caseload are included at the current cost structure;

(3) under the present cost-sharing arrangement (i.e. 80:20 for program cost and 50:50 for staffing and administrative costs), for an increase of each 1,000 cases, the City's net program and staffing costs will increase by approximately $2.17 million before GTA pooling, and $1.62 million after pooling (and the same dollar amount applies for a decrease);

(4) there will be no changes in the cost-sharing arrangement with the Provincial Government, and no other changes in the Federal and Provincial policy initiatives; and

(5) fixed staff costs and infrastructure costs have not been taken into consideration. In reality, these costs need to be factored in once a caseload threshold is exceeded, e.g. additional costs are required to lease and maintain an area office for every 8,000 to 10,000 cases.

The total accumulated variances (between the projected costs and the pre-recession budget) over the periods of recession are estimated (net of pooling) to be $314 million in Scenario 1 and $337 million in Scenario 2, averaging $326 million on a net basis. In Scenario 1, the 4 years of pre-recession growth results in a pre-recession budget caseload of 73,600 in 2003. In Scenario 2, the shorter period of growth leads to a pre-recession caseload of 81,650, much higher than that in Scenario 1. However, the recession (the "hump") in Scenario 2 is taller and spans over a longer period, and the accumulated variance is higher than in Scenario 1. Therefore, it is fair to say that the real financial risk resulting from unforeseen caseload increases due to an onset of recession over a period of 4 to 6 years is estimated to be $326 million, averaging $67 million a year.

This overall financial risk would require a cumulative 12.1 percent increase in property tax rate during the period of a recession, or an average of 2.5 percent a year, if the City takes no action to address it and there is no longer a cap on

property tax increase for multi-residential, commercial and industrial classes. The table below summarizes the overall financial risks and potential property tax implications.

Table 2	Recession years	2002	2003	2004	2005	2006	2007	Total	Annual Average
Scenario 1	Total overall risk ($millions)	N/a	N/a	82	95	88	49	314	78
	Percentage Tax Increase	N/a	N/a	3.0%	3.5%	3.3%	1.8%	11.6%	2.9%
Scenario 2	Total overall risk ($millions)	19	64	97	87	53	17	337	56
	Percentage Tax Increase	0.7%	2.4%	3.6%	3.2%	2.0%	0.6%	12.5%	2.1%
Average of the 2 Scenarios	Total overall risk ($millions)							326	67
	Percentage Tax Increase							12.1%	2.5%

To mitigate the financial risk, the following measures can be taken:

(A) Re-institute the "fail-safe" measure:

If the fail-safe measure implemented by the Province in the past was restored, it can provide some relief to the City. The Province would cost share at 90:10 instead of 80:20 for the portion of social assistance recipients in excess of a percentage of population. For discussion and modelling purposes, assuming this fail-safe measure using a threshold of 8 percent (twice the value used in the '80s) is restored during the onset of recession, this would provide a benefit to the City estimated to be $107 million in Scenario 1 and $136 million in Scenario 2 over the period, averaging $25 million annually. This would reduce the average annual risk from $67 million to $42 million. In other words, the pressure on the property tax base would be reduced from a 2.5 percent annual increase to 1.6 percent. Because municipalities cannot deficit finance, either the property taxes would have to increase and/or the city would have to reduce costs elsewhere and/or dip into reserves or a combination thereof.

Therefore, it is recommended that Council request the Province to re-institute this fail-safe measure, with the intention of mitigating the pressures on the property tax system arising from an unpredicted and uncontrolled increase in caseload.

(B) Off-loading the Responsibility for Refugee Claimants:

In the past, the senior levels of government were responsible for 100 percent of the refugee costs during the first year. If the refugee claimant was in the system for more than a year, then cost-sharing would revert to the 80:20 rate. Under the current cost-sharing arrangement effective 1998, the City is responsible for 20 percent of the social assistance costs for all refugee claimants at the outset. The total program cost for social assistance related

to refugee claimants is estimated at $18 million a year (net) at the current average monthly caseload of approximately 8,000. Although the refugee claimant caseload has been steadily declining, the City should not be responsible for any refugee social assistance costs since this results from Federal Government policy. It is, therefore, recommended that Council, in conjunction with the Provincial Government, request the Federal Government take on 100 percent of the funding responsibility for refugee claimants. The benefit to the City, if it materialized, would be a reduction of the pressure to increase property taxes by $18 million or 0.6 percent a year. In addition to social assistance, the City also shares housing and public health costs for refugee claimants, which further increases the City's financial burden.

(C) Direct Contribution to the Social Assistance Stabilization Reserve Fund:

Based on the above discussion, depending on the timing of the up-coming economic downturn, the City could contribute directly to the Social Assistance Stabilization Reserve Fund in the next few years during the "good" days.

It is assumed that:

(i) the Province would re-institute the fail-safe measure;

(ii) the Federal Government would fund the refugee claimants at 100 percent; and

(iii) that the City would reserve 100 percent of the remaining risks before the recession starting in year 2001 so that there would be no tax impacts during the recession.

In Scenario 1 (better case), there would be 3 years to set aside the required funds of $137 million ($314 million total risk less $107 million provincial funds for fail-safe measure, less $18 million x 4 = $70 million Federal support for refugee claimants). This is equivalent to a direct contribution requirement of $46 million a year. In Scenario 2 (worse case), there will only be 1 year to set aside $96 million ($337 million total risk less $136 million provincial funds for fail-safe measure, less $18 x 6 = $105 million Federal support for refugee claimants). Please refer to Table 3 for a summary.

(D) Setting a Benchmark Caseload and Direct Contribution to Reserve Fund:

In April 1998 the Strategic Policies and Priorities Committee recommended that a reserve be set up to receive the savings resulting from the social assistance caseload dropping below 88,000 municipal caseload. The purpose of the reserve is to protect the City against caseload increases in future and that these funds also be available to provide interim funding for the child care costs of up to 2,000 clients leaving social assistance. Consequently the 1998 budget was set at an average monthly caseload of 88,000 cases. The 1999 budget was set at 88,500 cases, being the sum of 74,500

municipal cases and the downloaded 14,000 provincial cases.

It would be a prudent financial management practice to set an appropriate "benchmark" level, so that any positive variance in a given year would be transferred into a reserve fund and any negative variance would be offset by funds transferred from the reserve fund. In order to develop a what-if analysis, two benchmark levels are selected as discussed below.

In Scenario 1, if the Social Services Division sets the average monthly caseload budget at 82,000 cases (which is the 2000 budget target currently proposed), it would be able to set aside a total of $42 million before 2004. This is equivalent to an average of $14 million a year for the three years starting 2001.

Assuming that both the Provincial and Federal Governments agreed to the two recommendations indicated above and that the underexpenditures resulting from the benchmark of 82,000 can materialize, the net financial risk would only be $15 million over 4 years during the recession period 2004 to 2007. If the City would make a direct contribution to the Social Assistance Stabilization Reserve Fund of $5 million a year for 3 years starting in 2001, and keep the monthly average caseload benchmark at 82,000 cases, it would sufficiently protect itself from the risk. If the benchmark was set at 88,000 cases, the accumulated funds set aside in the reserve fund in the "good" times should sufficiently cover the risk and a direct contribution would not be required.

In Scenario 2, if the Social Services Division sets its average monthly caseload budget at the benchmark of 82,000 cases (which is the proposed 2000 budget), and using the same argument as above, it would be able to transfer only $2 million during the pre-recession period until 2003. In addition, a total direct contribution of $65 million in 2001 would be required. If the benchmark were set at 88,000 cases and senior government financial assistance could be obtained, a direct contribution would not be required.

Given that Scenario 1 is considered the more affordable and likely scenario, it is recommended that a direct contribution of $5 million annually be considered to be made to the Social Assistance Stabilization Reserve Fund. At the same time, the benchmark should be set at 82,000 cases starting 2001, resulting in an estimated transfer of $14 million annually from 2001 to 2003.

Nevertheless, it is recommended that the amounts for direct contribution and the determination of the benchmark level be included as part of the 2001 Operating Budget process for the Social Services Division based on the above analysis, and reviewed annually thereafter during the Operating Budget process.

Likewise, it is recommended that if any budget surplus related to social assistance caseload materializes in 1999 (estimated to be $9.5 million net as of August 1999) and subsequent years, it would be considered for transfer into the Social Assistance

Stabilization Reserve Fund.

Table 3 summarizes the overall financial risks related to social assistance under the two scenarios and the recommended mitigating measures.

Table 3		Scenario 1				Scenario 2				Average of the 2 Scenarios			
		Total		Average Annual		Total		Average Annual		Total		Average Annual	
		$ million	% Property Tax Impact	$ million	% Property Tax Impact	$ million	% Property Tax Impact	$ million	% Property Tax Impact	$ million	% Property Tax Impact	$ million	% Property Tax Impact
	Total Overall Financial Risk	314	11.6%	78	2.9%	337	12.5%	56	2.1%	326	12.1%	67	2.5%
A	Benefit if Province re-institutes fail-safe measure (assumed to kick in at 8% threshold)	107	3.9%	27	0.8%	136	5.1%	23	0.8%	121	4.5%	25	0.9%
B	Benefit if Federal Government funds 100% of Refugee costs	70	3.2%	18	0.6%	105	3.2%	18	0.6%	88	3.2%	18	0.6%
C	Required Direct Contribution to Reserve Fund assuming A & B in place and City reserves 100% of risk.	137	5.1%	46	1.7%	96	3.6%	96	3.6%	117	4.3%	71	2.6%
D	Required Direct Contribution to Reserve Fund assuming A & B in place, and City sets a caseload benchmark at the average monthly caseload of 82,000.	15	0.6%	5	0.2%	65	2.4%	65	2.4%	40	1.5%	35	1.3%

(V) GTA municipalities:

The surge in social assistance caseload in the early 90’s was not unique to Toronto. Other GTA regions also experienced a similar tripling of the caseload. This, together with the changes in provincial and federal legislation regarding social assistance, has prompted the regions to set up reserve funds to prepare for the next economic downturn.

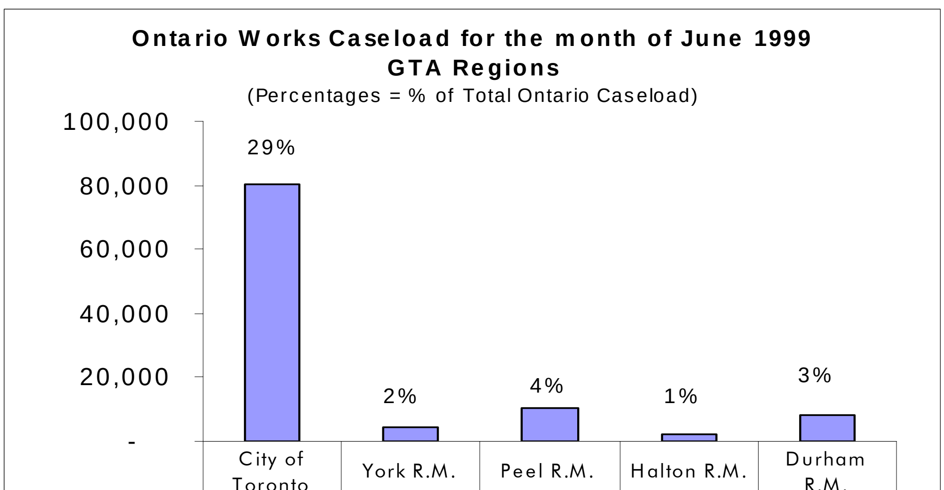
The Region of Peel was the first GTA region to set up a reserve fund for social assistance. Established in 1995, the fund was intended to accumulate $22 million over a five-year period through budget surpluses. As at the end of 1998, the fund balance was already in excess of $22 million. This reserve could fund an increase in caseload equivalent to 40 percent of the average monthly 1999 caseload. The contribution to the reserve fund for 1999 and 2000 is expected to be minimal. The region is currently reviewing the adequacy of this reserve fund.

The Region of Halton set up a reserve fund in 1998 with a similar purpose. It had a balance of about $800,000.00 at the end of 1998 resulting from transferring of a 1998 program budget surplus, and is expected to increase to just over $2 million by the end of 1999, representing 5 percent of the 1999 net expenditures. In addition to this reserve fund, there are two other 'general-purpose' reserve funds that may be used for social assistance support in the event the accumulated funds in the former are insufficient to meet the needs.

The Region of York also set up a reserve fund in 1998, transferring in over $7 million. The projected balance at the end of 1999 is expected to exceed $10 million. The Region is currently working on a target amount for the reserve fund balance, taking into account the impact of GTA pooling on the program's net costs.

The Region of Durham does not have a reserve fund specifically for social assistance. However, the General Levy Stabilization Reserve, intended to provide funding for a number of programs, will be employed in the event of an economic downturn.

The following chart depicts the June 1999 Ontario Works caseload for the GTA regions. It can be seen that Toronto's caseload is more than 10 times the average of the rest of GTA. GTA equalization or pooling has the effect of narrowing the net expenditure gap between Toronto and the rest of the GTA, and Toronto is currently financially responsible for 51 percent of the total GTA social assistance costs. Yet it is obvious that Toronto's reserve fund needs to accumulate a much higher balance than the GTA regions in the event of another economic downturn.



	City of Toronto	York R.M.	Peel R.M.	Halton R.M.	Durham R.M.
Total Caseload	80,555	4,354	10,514	2,047	8,336

Source: Ontario Ministry of Community and Social Services

Conclusions:

This report estimates the possible impact on the City from an economic downturn and recommends continued future funding for the Social Assistance Stabilization Reserve Fund.

In the event of a recession, it is estimated that the social assistance caseload in Toronto will climb to levels that are higher than those experienced in the last recession. This is based on unemployment rates experienced in the last recession, and assumptions around population growth and demographic changes in the case mix, such as an increasing proportion of single-led cases. If the financial risks are not mitigated, the financial impacts would be so significant that the City would be compelled to raise property taxes. Obviously, this would not be the preferred action.

The City should endeavour to seek financial assistance from the two senior levels of government. It should urge the Province to re-institute the fail-safe measure, whereby the cost-sharing arrangement changes to 90:10 from 80:20 if the social assistance recipients exceed a threshold percentage of the population. The City should also urge the Federal Government to take on full funding responsibility for the refugee claimants.

The unexpected fiscal pressures created by caseloads in recessions have induced some of the neighbouring regional municipalities, such as the Regions of Peel, York and Halton, to build reserves. While Toronto has a relatively higher caseload than the rest of the GTA, and pooling provides some relief to the fiscal pressures, the estimated financial risks on the Social Assistance program with respect to a recession is in the neighbourhood of $326 million. Without any mitigating measures, the equivalent property tax implication is 12 percent increase over the projected period of recession, or an average of 2.5 percent increase per year.

At the current fund balance of $16.2 million, the proposed Social Assistance Stabilization Reserve Fund is not adequate to prepare for an economic downturn. Additional contributions to the reserve fund should be made. It is recommended that the City adopt a combination of measures: making direct contributions to the Social Assistance Stabilization Reserve Fund and setting a benchmark level (an average monthly caseload) for the Social Assistance Program. The purpose of the reserve fund is to protect the City against caseload increases in the future. In any given year any savings resulting from the caseload dropping below the benchmark level would be transferred into the reserve fund. On the other hand, any budget over-expenditures would be offset by withdrawals from the reserve fund. It is recommended that the benchmark level and the amount of direct contribution be considered in conjunction with the 2001 Operating Budget, with due regard to the analyses embodied in this report.

Contact:

Ruby Chui, Senior Financial Analyst, Financial Planning
Tel. No.: 397-4117 Fax No.: 397-4555 Email: rchui@mta1.metrodesk.metrotor.on.ca

Don Altman, Manager, Financial Planning
Tel. No.: 397-4220 Fax No.: 397-4555 Email: daltman@mta1.metrodesk.metrotor.on.ca
Len Brittain, Director, Treasury & Financial Services
Tel. No.: 392-5380 Fax No.: 397-4555 E-mail: 1brittai @ city.toronto.on.ca
Brian Kerr, Director, Financial Administration Unit, Social Development and Administration Division, Community and Neighbourhood Services
Tel. No.: 392-8720 Fax No.: 392-3466 Email: bkerr@mtal.metrodesk.metrotor.on.ca