

Analyst Briefing Notes

Budget Committee - February 16, 2010

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Contacts: Alan Cohen
 Manager, Financial Planning
 Tel (416) 392-3740

John Forsyth
 Senior Financial Planning Analyst
 Tel: (416) 392-5198

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Executive Summary

- Children's Services, as the City's "child care service system manager" under Provincial legislation, is responsible for planning and managing a broad range of child care services. These services include programs that are cost-shared with the Province such as licensed child care (centre-based and home child care), special needs resourcing to support children with special needs, and support for families and caregivers through the family resource centre programs. Toronto's child care system consists of centre-based and home child care, family resource programs, special needs resourcing, before-and after-school programs and summer day programs.
- The key service objectives for Children's Services include the following:
 - Develop the 2010-2015 Child Care Service Plan: The Program will use public consultation to engage the stakeholders in developing its new Service Plan. The planning process will continue to support the principles of the 2005-2009 Service Plan, and develop the City's position on the evolving Provincial funding and policy reforms as they affect the child care system.
 - Provide improved access to child care fee subsidies in high priority neighbourhoods: The Program will continue to improve geographic equity by 10% per year by reallocating subsidies as they become available to underserved areas, and continue the capital development of the two Aboriginal child care centres and the two child care centres with the Toronto District School Board in support of priority neighbourhoods.
 - Increase integration of child care services with other early learning programs: The Program will continue to participate on Neighbourhood Action Teams and develop Regent Park Child Care Centre (with future planning for Lawrence Heights) as child, youth and family hubs.
 - Implement changes to the CSIS system that increase public access to child care information: The Program will respond to recommendations of the Auditor General by developing a module that will provide web-based access to the CSIS by clients for payment of subsidies to service providers.
- Key Accomplishments for 2009 include the following:
 - Initiated planning for the preparation of 2010-2015 Service Plan in preparation for presentation in spring 2010;
 - Increased online services through implementation of the CSIS on the WEB attendance module; and
 - Improved level of compliance with first-come first-served and equity of access policies through the implementation of a centralized application process for fee subsidy.

- For 2009, Program is projected to be at budget. The gross expenditures of \$366.540 million is \$3.465 million below budget, due to the delay in the construction of the four child care centres provided as operating grants funded from the Child Care Expansion Reserve Fund. The deferral of these projects is due to a delay in negotiations with the local school boards and the actual service providers. The reduced spending of \$3.465 million is offset by a reduction in reserve fund revenue.

| (In \$000s) | 2009 | | 2010 Recommended Operating Budget | | | Change - 2010 Recommended Operating Budget v. 2009 Appvd. Budget | | FY Incremental Outlook | |
|---------------------------------|--------------------|-----------------------|-----------------------------------|-------------------------|---|--|-------|------------------------|---------|
| | 2009 Appvd. Budget | 2009 Projected Actual | 2010 Rec. Base | 2010 Rec. New/Enhanced | 2010 Rec. Budget | | | 2011 | 2012 |
| | \$ | \$ | \$ | \$ | \$ | \$ | % | \$ | \$ |
| GROSS EXP. | 370,004.8 | 366,539.8 | 373,833.3 | 0.0 | 373,833.3 | 3,828.5 | 1.0 | 3,372.7 | 4,773.9 |
| REVENUE | 302,229.5 | 298,764.5 | 303,057.3 | 0.0 | 303,057.3 | 827.8 | 0.3 | (34,548.3) | |
| NET EXP. | 67,775.3 | 67,775.3 | 70,776.0 | 0.0 | 70,776.0 | 3,000.7 | 4.4 | 37,921.0 | 4,773.9 |
| Approved Positions | 957.5 | 957.5 | 949.5 | 0.0 | 949.5 | (8.0) | (0.8) | (2.0) | |
| TARGET COMPARISON | | | 2010 Target | 2010 Rec. Budget | 2010 Rec. Budget vs. 2010 Target | 2011 Target | | | |
| NET BUDGET | | | 70,776.0 | 70,776.0 | (0.0) | 70,776.0 | | | |
| PROGRAM REDUCTION (\$) * | | | (25,056.3) | (25,056.3) | 0.0 | (25,056.3) | | | |
| PROGRAM REDUCTION (%) * | | | (37.0) | (37.0) | NA | (37.0) | | | |

* The Program Reduction Target includes pressures arising from reversal of 2009 contribution from the Child Care Expansion Reserve Fund.

Table 1: 2010 Recommended Budget

- The 2010 Recommended Operating Budget of \$373.833 million gross and \$70.776 million net is \$3.001 million or 4.4% higher than the 2009 Approved Operating Budget of \$67.775 million net and achieves Program reductions of \$25.056 million of the 2009 Approved Budget, which is at the reduction target of 5% for Children Services in 2010.
- The 2010 Recommended Operating Budget for Children Services does not include funding for any new or enhanced service priority actions. Approval of the 2010 Recommended Budget will result in the Program's total staff complement decreasing from 957.5 positions to 949.5 positions arising from the elimination 8 approved positions as a result of 2010 recommended service changes.
- The 2010 Recommended Operating Budget for Children's Services results in incremental future year net costs to the Program of \$37.921 million net in 2011, and \$4.774 million in 2012.
 - In 2011, the projected increase of \$37.921 million is comprised of the following pressures: reversal of contributions from the Children's Services Expansion Reserve Fund recommended in 2010 of \$21.668 million (that funded the Provincial Shortfall in 2010), lower Provincial Subsidies (mainly for Best Start) of \$8.210 million; discontinuation of the National Child Care Benefit Supplement of \$2.2 million; inflationary increases of \$6.916 million, mainly for purchase services of Child Care Centres; COLA, progression pay and step increases of \$1.215 million, and offsetting annualized service change savings of \$2.288 million.

- In 2012, the Outlook projects incremental increases of \$4.774 million, comprised of inflationary increases for purchase services of Child Care Centres of \$4.535 million, and progression pay and step increases of \$0.239 million.
- Without additional funding, service reductions of 2,000 subsidized spaces in 2011 and 3,000 subsidized spaces in 2012 will be required.
- The 2010 Recommended Operating Budget provides funding for the following key cost drivers: reversal of contributions from the Children's Services Expansion Reserve Fund approved in 2009 of \$11.144 million; lower Provincial Subsidies (mainly for Best Start) of \$9.957 million; non salary inflationary increases mainly for purchase services of Child Care Centres of \$4.343 million; and COLA, progression pay and step increases of \$1.902 million; increase of \$0.564 million due to increased enrollment of younger children; and \$0.158 million inflationary increase in building maintenance.
- The cost drivers noted above will be partially offset by a contribution from the Child Care Expansion Reserve Fund of \$21.668 million; an increase in user fee volumes of \$2.314 million, and savings recommended from service changes.
- The Program's 2010 Recommended Operating Budget includes the following Service Changes:
 - Service efficiency of \$0.525 million gross \$0 net due to the elimination of 8 approved positions;
 - Two Revenue Changes totalling of \$21.668 million from a contribution from the reserve to fund lower Best Start funding and the Provincial cost sharing shortfall; and
 - Minor Service Level Change with savings of \$1.075 million from the recommended reduction in rent supplements to the City school boards, resulting in a \$2 per day increase in user fees for full fee paying parents.
- The following key program issues have been identified during the 2010 Operating Budget process:
 - Children's Services Budget will be impacted by the reduction of Best Start funding of \$9.957 million in 2010, with the annualized impact of \$15.4 million in 2011. The 2010 Recommended Operating Budget recommends an increase of \$21.668 million from the Child Care Expansion Reserve Fund (of which \$18.9 million will fund the growing operating shortfall). In 2011, the shortfall is projected to be \$37.9 million, of which only \$17.3 million is available to be funded from the reserve. Therefore, without additional funding, 2,000 subsidized spaces will be reduced by 2011, and a further 3,000 subsidized spaces by 2012.
 - In addition, the Province is beginning the new Early Learning Program for four and five year olds in September 2010; there has been no announcement from the Province on the municipal responsibilities or the funding implications of this new program.
- The Children's Services' 2010 Recommended Operating Budget provides for the funding for the following:
 - 52,816 licensed child care spaces under Service Management for the City of Toronto;

- 24,000 child care fee subsidy spaces through 653 child care centres (including 57 directly operated municipal child care centres) and 10 home care agencies (including one directly operated);
- 644 wage subsidy entitlement programs and 29 programs to support children with special needs;
- 46 Family Resource Centre programs to support families and caregivers;
- 37 summer programs for 6,356 children; 28 before and after school programs for 321 children; and
- Capital funding for four child care centres.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. City Council approve the 2010 Recommended Operating Budget for Children's Services of \$373.833 million gross and \$70.776 million net, comprised of the following :

| <u>Service:</u> | <u>Gross</u> <u>(\$000's)</u> | <u>Net</u> <u>(\$000's)</u> |
|------------------------|----------------------------------|--------------------------------|
| Program Administration | 25,127.3 | 8,945.0 |
| Municipal Child Care | 71,740.8 | 16,762.8 |
| Purchased Child Care | 276,965.2 | 45,068.2 |
| | <hr/> | <hr/> |
| Total Program Budget | 373,833.3 | 70,776.0 |
| | <hr/> | <hr/> |

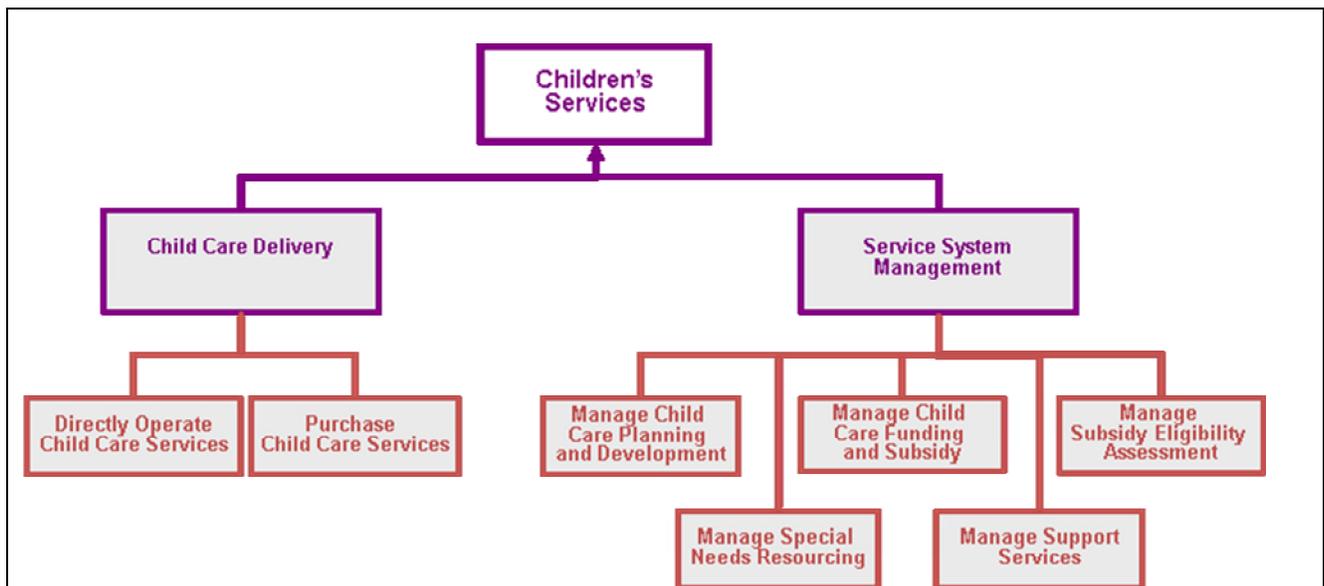
2. The information contained in confidential attachment 1 remain confidential until the outcome of Council's decision has been communicated to the Unions and affected staff.

Mission Statement

- Children’s Services is the service system manager of childcare within Toronto. In partnership with the community, the Program promotes equitable access to high quality care for children and support for families and caregivers. An integrated approach to planning and management ensures that services to children promote early learning and development, respond to families’ needs and choices and respects the diversity of Toronto’s communities.
- The Children’s Services 2010 Recommended Operating Budget provides for the funding of 24,000 child care fee subsidy spaces through 653 child care centres (including 57 directly operated municipal child care centres) and 10 home child care agencies (including one directly operated).

Program Map

Children’s Services delivers two key services as outlined below:



2010 Recommended Services: Overview

- The Service System Management includes planning and management of Toronto’s child care system in accordance with the Council approved Child Care Service Plan and Provincial guidelines. Services provided include:
 - Service Management of 52,816 licensed child care spaces for the City of Toronto;
 - Management of the eligibility assessments, including 37,000 child care service plans utilizing Provincial Income Testing;

- Management of child care development in 12 new child care programs;
 - Management of fee subsidy system to maintain 24,000 child care subsidies;
 - Management of special needs resources in 969 centres; and
 - Management of 46 Family Resource Programs.
- Child Care Delivery includes providing quality child care in high needs communities through directly operated child care centres and purchased service centres providing the following services:
 - Delivery of school-aged child care 16.2% of municipal licensed spaces;
 - Delivery of pre-school child care in 51.8% of municipal licensed spaces;
 - Delivery of toddler child care in 16.9% of municipal licensed spaces; and
 - Delivery of infant child care in 15.1% of municipal spaces.
 - The key service objectives for Children's Services include the following:
 - Develop the 2010-2015 Child Care Service Plan: The Program will use public consultation to engage the stakeholders in developing its new Service Plan. The planning process will continue to support the principles of the 2005-2009 Service Plan, and develop the City's position on the evolving Provincial funding and policy reforms as they affect the child care system.
 - Provide improved access to child care fee subsidies in high priority neighbourhoods: The Program will continue to improve geographic equity by 10% per year by reallocating subsidies as they become available to underserved areas, and continue the capital development of the two Aboriginal child care centres and the two child care centres with the Toronto District School Board in support of priority neighbourhoods.
 - Increase integration of child care services with other early learning programs: The Program will continue to participate on Neighbourhood Action Teams and develop Regent Park Child Care Centre (with future planning for Lawrence Heights) as child, youth and family hubs.
 - Implement changes to the CSIS system that increase public access to child care information: The Program will respond to recommendations of the Auditor General by developing a module that will provide web-based access to the CSIS by clients for payment of subsidies to service providers.

2009 Accomplishments

In 2009, the Program achieved the following key accomplishments:

- Expanded the After-School Recreation and Care (ARC) program to provide safe affordable after school recreation care for children age 6 to12 in partnership with Parks, Forestry and Recreation;
- Established Partnership Agreements for several capital initiatives aligned with City priorities, including Crescent Town and Highfield;
- In consultation with the Toronto Environment Office, developed an implementation plan for increasing the supply of locally-produced food in MCCS;
- Continued to reduce lost-time days in MCCS through reduced incidence of outbreaks, with staff days lost dropping 25% from 2,027 days in 2008 to 1,536 in 2009;
- Increased the online services through implementation of the CSIS on the WEB attendance module; and
- Improved level of compliance with first-come first-served and equity of access policies through the implementation of a centralized application process for fee subsidy.

Table 2: 2009 Budget Variance Review

| | 2008 Actuals | 2009 Approved Budget | 2009 Projected Actuals * | 2009 Apprvd. Budget vs Projected Actuals Variance | |
|---------------------------|--------------|----------------------|--------------------------|---|-----------|
| (In \$000s) | \$ | \$ | \$ | \$ | % Unspent |
| GROSS EXP. | 352,890.1 | 370,004.8 | 366,539.8 | 3,465.0 | 0.9 |
| REVENUES | 287,314.1 | 302,229.5 | 298,764.5 | 3,465.0 | 1.1 |
| NET EXP. | 65,576.0 | 67,775.3 | 67,775.3 | 0.0 | 0.0 |
| Approved Positions | 956.5 | 957.5 | 957.5 | 0.0 | 0.0 |

Source: * Projected Actuals based on the revised September 30, 2009 Variance Report

2009 Budget Variance Analysis

Children’s Services is projecting a year-end favourable expenditure variance of \$3.465 million gross, with an offsetting reduction in revenues, resulting in a \$0 net variance.

The gross expenditure budget of \$366.540 million is \$3.465 million below budget, due to the delay in the construction of the four child care centres provided as operating grants from the Child Care Expansion Reserve Fund, due to delays in negotiations with the local school boards and the actual

service providers. The reduced spending of \$3.465 million is offset by a corresponding deferral in the reduction in reserve fund revenue.

Impact of 2009 Operating Variance on the 2010 Recommended Budget

The unspent from the construction delays at the Aboriginal Child Care Centre (\$2.7 million), the Regent Park Child Care Centre (\$1.260 million), and the delays in the construction of Highfield and Crescent Town schools (\$2.0 million) have been carried forward and included in the 2010 Recommended Operating Budget.

Table 3: 2010 Recommended Base Budget (\$000s)

| (In \$000s) | 2009 Appvd. Budget | 2010 Recommended Base | Change 2010 Recommended Base v. 2009 Appvd. Budget | | FY Incremental Outlook | |
|----------------------------------|-----------------------|-----------------------------|---|-------|------------------------|---------|
| | | | \$ | % | 2011 | 2012 |
| | \$ | \$ | \$ | % | \$ | \$ |
| GROSS EXP. | 370,004.8 | 373,833.3 | 3,828.5 | 1.0 | 3,372.7 | 4,773.9 |
| REVENUE | 302,229.5 | 303,057.3 | 827.8 | 0.3 | (34,548.3) | |
| NET EXP. | 67,775.3 | 70,776.0 | 3,000.7 | 4.4 | 37,921.0 | 4,773.9 |
| Approved Positions | 957.5 | 949.5 | (8.0) | (0.8) | (2.0) | |
| NET BUDGET TARGET | 2010 Target | 2010 Rec. Budget | 2010 Rec. Budget vs. 2010 Target | | 2011 Target | |
| NET BUDGET | 70,776.0 | 70,776.0 | (0.0) | | 70,776.0 | |
| PROGRAM REDUCTIONS (\$) * | (25,056.3) | (25,056.3) | 0.0 | | (3,388.8) | |
| PROGRAM REDUCTIONS (%) * | -37.0% | -37.0% | 0.0 | | (4.5) | |

* The Program Reduction Target includes pressures arising from reversal of 2009 contribution from the Child Care Expansion Reserve Fund.

Table 3a: 2010 Program Reduction Requirements (\$000s)

| (In \$000s) | 2010 Required Reductions | 2011 Required Reductions |
|--|-----------------------------|-----------------------------|
| 2009 Approved Budget (September 30) | 67,775.3 | |
| Pressures Reported with 2010 / 2011 Outlook | 6,389.5 | |
| Pressures Not Reported with 2010 / 2011 Outlook | 21,667.5 | |
| 5% Reduction Target | (3,388.8) | (3,388.8) |
| Additional Pressures not in 2010 Reported Outlook | (21,667.5) | TBD |
| Program Reduction Target | (25,056.3) | (3,388.8) |
| Net Budget Target | 70,776.0 | 67,387.3 |

2010 Recommended Base Budget

The 2010 Recommended Base Budget of \$70.776 million net represents a \$3.001 million or 4.4% increase over the Children's Services' 2009 Approved Budget of \$67.775 million. The 2010 Base Budget includes funding of \$28.057 million for base budget increases, which have been offset by \$25.056 million in budget reductions from recommended service changes. The Program has achieved its 5% target with savings from base changes, service efficiencies, revenues changes and minor service level changes.

- The 2010 Recommended Operating Base Budget accommodates the reversal of the draws to reserves approved in 2009, increased labour and non labour costs arising from inflationary pressures, and the funding the shortfall from the Province.

Approval of the 2010 Recommended Base Budget will result in the Program's total approved complement decreasing from 957.5 positions to 949.5 approved positions as a result of the reduction of 8 approved positions.

2010 Base Budget Key Cost Drivers

The 2010 Recommended Base Budget provides funding for the following key cost drivers:

- Reversal of 2009 contribution from the Child Care Expansion Reserve Fund of \$11.144 million;
- Provincial subsidy reduction of \$9.957 million, due to the reduction in Best Start funding effective April 1, 2010;
- Inflationary increase, primarily from purchased services child care centres of \$4.343 million for the 641 child care centres based on 1.5% increase from 2009;
- Salaries and Benefits increases by \$1.902 million, primarily due to COLA, Progression Pay, Step, and Fringe Benefits;
- Increase in number of younger children enrolled in Purchase Services Child Care Centres resulting in higher costs of \$0.564 million; and
- Inflationary increases for building maintenance in municipally operated child care centres of \$0.158 million.

These cost drivers noted above will be offset by the following savings included in the 2010 Recommend Budget:

- Increased user fees of \$2.314 million to reflect actual experience.

2010 Service Changes

The 2010 Recommended Operating Budget for Children's Services includes service changes savings of \$22.743 million net, with incremental impacts in 2011 of \$24.254 million, resulting from service review actions. The service changes are comprised of a contribution from the Child Care Expansion Reserve Fund of \$21.668 million, minor service level change savings of \$1.075 million, and saving from efficiencies of \$0.526 million gross \$0 net in 2010.

The recommended service changes are summarized below:

Service Efficiencies

- Efficiency savings of \$0.526 million \$0 net due to the reduction of eight approved positions. Please refer to the confidential attachment.

Minor Service Changes

- Minor service changes results in savings of \$1.075 million through the termination of a rent subsidy agreement with Toronto school boards that will increase fees by \$2 per day for full fee paying parents; and

Revenue Changes

- A contribution from the Child Care Expansion Reserve Fund of \$21.668 million will fund the Provincial subsidy shortfall and reduction in Best Start Funding to protect current service levels.

2011 and 2012 Outlook: Net Incremental Impact

Approval of the 2010 Recommended Base Budget for Children Services will result in 2011 and 2012 incremental increase of \$37.922 million and \$4.774 million respectively to maintain the 2010 level of services and staff complement. Future year costs are primarily attributed to the following:

- In 2011, the projected increase of \$37.921 million is comprised of the following pressures: reversal of contributions from the Children's Services Expansion Reserve Fund recommended in 2010 of \$21.668 million (that funded the Provincial Shortfall in 2010), lower Provincial Subsidies (mainly for Best Start) of \$8.210 million; discontinuation of the National Child Care Benefit Supplement of \$2.2 million; the inflationary increases of \$6.916 million, mainly for purchase services of Child Care Centres; COLA, progression pay and step increases of \$1.215 million, and offsetting annualized service change savings of \$2.288 million.
- The 2012 Outlook projects incremental increases of \$4.774 million, comprised of inflationary increases for purchase services of Child Care Centres of \$4.535 million, and progression pay and step increases of \$0.239 million.
- Reduction of Best Start funding, coupled with the annualized pressure created by the actual Provincial shortfall will result in significant service level change beginning in 2011, as 2010 will be the last year in which Council mandated service levels can be maintained. This will be accomplished through the contribution of \$21.668 million from the CCERF, leaving \$17.336 million for use in 2011. The overall gap is estimated to grow to \$37.921 million in 2011, or a \$20.585 million shortfall of revenue from all sources and a corresponding service level reduction of approximately 2,000 child care subsidies by 2011.

Table 4: 2010 Recommended Service Change Summary
(In \$000s)

| Description | 2010 Recommended Service Changes | | | | Net Incremental Impact | |
|--|----------------------------------|------------------|-------------------|---------------------------|------------------------|--------------|
| | Position Change | Gross Exp. | Net Exp. | % Change over 2009 Budget | 2011 | |
| | # | \$ | \$ | # | \$ | # Pos |
| Base Change Summary | 0.0 | | (2,313.8) | -3.4% | (1,044.6) | 0.0 |
| Service Efficiencies: Administrative Efficiencies | (8.0) | (525.8) | | 0.0% | | (2.0) |
| Revenue Changes: Contribution from CCRF Offsetting Reduction in Best Start Funding | | | (9,957.0) | -14.7% | 15,334.0 | |
| Contribution from CCERF to fund Provincial Shortfall | | | (11,710.5) | -17.3% | 11,070.0 | |
| Minor Service Level Changes: Reduce Rent Supplements to School Boards | | (1,075.0) | (1,075.0) | -1.6% | (2,149.9) | |
| Major Service Level Changes: | | | | | | |
| Sub-Total Service Changes | (8.0) | (1,600.8) | (22,742.5) | -33.6% | 24,254.1 | (2.0) |
| Total Changes | (8.0) | (1,600.8) | (25,056.3) | -37.0% | 23,209.5 | (2.0) |

The budgetary impact of implementing the following service changes are included in the 2010 Recommended Base Budget, with savings estimated at \$25.056 million with an incremental impact of \$24.254 million in 2011. Approval of the recommended service changes will result in a reduction of 8 approved positions in 2010, with a further reduction of 2 positions in 2012, resulting in a complement of 949.5 in 2010, and 947.5 in 2011.

Service Changes

The following three recommended service changes included in the Children Services 2010 Recommended Base Budget, resulting in 2010 savings of \$22.743 million, are discussed below:

Service Efficiency

Administrative Efficiencies (Savings of \$0.526 million gross, \$0 net)

Efficiencies will be achieved by the reduction of 8 approved positions, resulting in savings of \$0.526 million gross, \$0 net in 2010, with additional savings of \$0.138 million gross, \$0 net in 2011 with the reduction of 2 approved positions. Please refer to the confidential attachment.

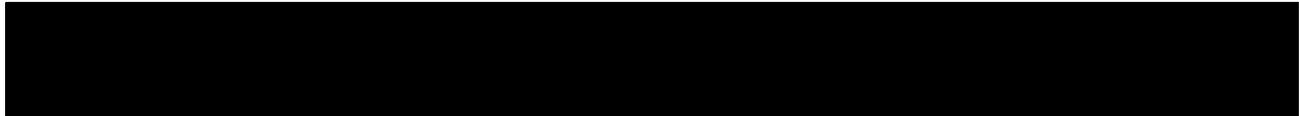
Revenue Changes***Contribution from the Child Care Expansion Reserve Fund (\$21.668 million)***

A contribution from Child Care Expansion Reserve Fund of \$21.668 million is required to offset the Provincial shortfall of \$18.988 million (that includes the loss of subsidy for Best Start Program of \$9.957 million); and the capital grant of \$2.680 million for the construction of two child care centres. The contribution is required to maintain the 24,000 subsidized child care spaces. (Please see Issue Section, pg 19)

Minor Service Level Adjustment***Reduce Rent Supplements to School Boards (Savings of \$1.075 million)***

Since 1998, Children's Services has maintained an agreement with the four Toronto school boards to provide a subsidy of \$5.8 million gross and net (approximately \$6.50 per sq foot) to school boards to offset the occupancy cost of the child care centres and family resource centres on school property. The subsidy is used by the school boards to reduce the occupancy costs to approximately 380 child care centres and 10 family resource programs located on the board's property.

Effective August 31, 2010, this agreement will be terminated, with a total two-year saving of \$3.225 million, with \$1.075 million in 2010, and \$2.150 million in 2011. Once fully implemented, full-fee families will pay approx \$2.0 per day in additional cost (5-8% increase to fees per month). The remaining \$2.575 million in rent supplements paid by City of Toronto to the four school boards will be redirected to the effected child care centres to offset the increase in cost of child care to families receiving subsidy. There will be no impact on family resource programs.



2010 Budget Issues for Discussion

Reduction of Best Start Funding / Provincial Cost-Share Shortfall

The Best Start Program originated in 2005 as a result of the introduction of the Federal government’s National Child Care Plan. This plan was cancelled in 2006 with the election of the new government. Upon terminating the plan, the Federal government made a one-time payment of \$254 million to the Province, which the Province has paid out to municipal service managers between 2006 through 2009, with the final payment scheduled for March 31, 2010. The impact on Children’s Services is a reduction in the Provincial funding of \$15.4 million spread over two years: \$9.957 million in 2010, and \$5.443 million in 2011. The reduction is a permanent cut in the Provincial Best Start subsidy, due to the lack of a National Child Care program.

Furthermore, the 2010 Recommended Operating Budget includes a cumulative Provincial funding shortfall of \$18.988 million, due to a gap between the actual cost of maintaining approved service levels and the funding provided through the legislated provincial/ municipal cost sharing agreement.

There is a cost sharing agreement through which the Province provides funds on a 50/50, 80/20 and 100% basis, resulting in total available subsidy. In 2010, child care services will face a funding shortfall primarily a result of the fact that Provincial funding for the base program is not indexed to inflation and has been frozen at levels established in 1995. In 2010, the funding shortfall after factoring the current cost sharing ratio assumptions is \$18.988 million and will be funded from the CCERF to maintain service levels. The following table provides the details of the shortfall allocation:

| 2010 Funding Shortfall | | | |
|------------------------------------|------------------------------------|----------------------------------|---------------------------------------|
| | Provincial Subsidy Required | Provincial Subsidy Funded | Provincial Funding Shortfall * |
| Administration | 9,758.8 | 8,682.9 | 1,075.9 |
| Programs: | | | |
| Special Needs | 7,325.0 | 5,964.0 | 1,361.0 |
| Family Resource Programs | 1,953.3 | 1,751.0 | 202.3 |
| Wage Subsidies, inc Pay Equity | 34,766.1 | 37,183.8 | (2,417.7) |
| Subsidized Child Care - High Level | 165,118.4 | 146,352.4 | 18,766.0 |
| Ontario Works | 9,646.0 | 9,646.0 | 0.0 |
| Total Programs | 218,808.8 | 200,897.2 | 17,911.6 |
| Total Shortfall Requirement | 228,567.6 | 209,580.1 | 18,987.5 |

* Funded from Child Care Expansion Reserve Fund (CCERF)

The reduction in Best Start funding, combined with the ongoing under funding of the Province's 80% share, will result in the depletion of the of the Child Care Expansion Reserve Fund in 2011, leaving the Program with a deficit of \$20.586 million in 2011.

Without additional funding, Children's Services faces the prospect of reducing service by withdrawing approximately 2,000 subsidized child care spaces by 2011, with an additional service reduction of 3,000 subsidies by 2012.

At its meeting on January 27, 2010, City Council requested that:

1. the Province ensure that the Provincial funding formula provides sufficient funding to maintain existing service levels of 24,000 child care subsidies, and recognize cost of living and other legitimate increases in operating costs;
2. the Federal Government recognize the national importance of sustainable child care and reinstate a national child care program in spring 2010; and
3. City staff develop contingency plans for the gradual child care service level reduction of 2,000 subsidies by 2011 and 3,000 by 2012, with such plans to be based on client attrition and respect the principles of the Service Plan, such as age and geographic equity.

Depletion of Child Care Expansion Reserve Fund

The 2010 Recommended Operating Budget includes a withdrawal from the Child Care Expansion Reserve Fund of \$21.668 million to cover the ongoing Provincial shortfall of \$18.988 million (that includes the reduction of Best Start Funding of \$9.957 million), as well as the capital grant to fund the construction of the Regent Park and Aboriginal Child Care Centres. The remaining balance of \$17.336 million is available in the CCERF to fund 2011 pressures of \$37.921 million. Unfortunately, the 2011 pressures are greater than available funding from the reserve by \$20.585 million resulting, in a shortfall. The pressures in 2011 are summarized in the following table:

| Child Care Expansion Reserve Fund XR1101 | Proposed Withdrawals (-) / Contributions (+) | | |
|--|--|-------------------|-------------------|
| | 2010 | 2011 | 2012 |
| | \$000s | \$000s | \$000s |
| Balance December 31, 2009 | 38,879.2 | | |
| Interest on Fund Balance @ .5% | 124.6 | | |
| 2010 Requirement to maintain services, including shortfall | (18,987.5) | (21,850.0) | |
| Capital Grant: Regent Park and Aboriginal Centre | (2,680.0) | | |
| 2011 Inflationary increases to maintain services | | (5,661.0) | |
| Loss of Provincial Subsidy (including Best Start) | | (8,210.0) | |
| * Loss of National Child Benefit | | (2,200.0) | |
| Incremental funding requirement | (21,667.5) | (37,921.0) | 0.0 |
| Reserve Fund Balance (Deficit) at Year-End | 17,336.3 | (20,584.7) | (20,584.7) |

* Child care funding from the National Child Care Benefit Supplement to be discontinued in 2011

As noted above, City Council has requested that the Province ensure that the 2010 funding formula provides sufficient funding to maintain existing service levels of 24,000 child care subsidies, and

recognize cost of living and other legitimate increases in operating costs. Concurrently, City staff have been directed to develop contingency plans for the gradual child care service level reduction of 2,000 subsidies by 2011 and 3,000 by 2012, if the Province does not provide required funding to maintain existing service levels.

Introduction of Full Day Learning

In October 2009, the Provincial government announced September, 2010 as the implementation date for the new Early Learning Program (ELP). This program, which draws on the recommendations contained in the Charles Pascal report, "With Our Best Future in Mind: Implementing Early Learning in Ontario", will rely on municipal governments and school boards to begin the staged delivery of full day kindergarten for four- and five year- olds in September, 2010.

While the Province has indicated that it will be collaborating with municipal governments and school boards to develop and implement the new programming, if the recommendations in Charles Pascal's report are followed, "municipal authorities (with the necessary resources) should be mandated the responsibility to plan, develop, support and monitor" the system planning, management and governance of the program delivery for families and children from 0 to 12 years of age. Although the Province has made a number of announcements that outline a general implementation process, currently, not enough is known about the implementation plans (including transitional funding) to assess the changes and impacts to Children's Services programming and subsidy management.

In response, at its meeting on January 26, 2010, City Council requested that:

- a) the General Manager report back mid-year on the implication of ELP and strategies for addressing fiscal challenges, including strategies to ensure sufficient funding in base budget to cover the actual cost of the City's 20% share of child care subsidies;
- b) staff develop (in consultation with community partners) criteria for supporting child care programs impacted by ELP, with the criteria for support based on Service Planning principles, program quality and cost effectiveness; and
- c) the General Manager report back to the appropriate committees on the financial impacts of the ELP on the City, once the impacts are known.

User Fee Revenue

Effective January 1, 2007, as part of its Best Start Strategy, the Province changed the process for determining eligibility for child care subsidy from a needs test to income testing, as a way to ensure that more families would be eligible for child care fee subsidy. By simplifying the method of determining eligibility for fee subsidy from a needs test to an income test, it was anticipated that the system would be less intrusive, simpler, and more transparent.

While Children's Services reduced the user fee budget to align with the change in Provincial regulations in 2007, and further reduced the budget in 2008, user fee revenues did not fall as had been anticipated. To better align the budget to actual experience, the 2010 Recommended Operating Budget for Children's Services includes an increase in user fees from \$11.288 million in 2009 to \$13.601 million in 2010, an increase of \$2.313 million. As well, in 2011, user fees are estimated to

increase by an additional \$1.045 million to \$14.646 million. Children’s Services will redirect the fee increase to maintain approximately 310 subsidized child care spaces.

The change in revenues as noted above is summarized in the following table:

| Year | User Fee Analysis | | Over/ (Under) |
|------|-------------------|----------|------------------|
| | Actual | Budget | |
| 2006 | 21,646.2 | 17,831.0 | 3,815.2 |
| 2007 | 17,272.8 | 15,066.4 | 2,206.4 |
| 2008 | 16,687.7 | 8,843.6 | 7,844.1 |
| 2009 | 15,968.0 * | 11,287.6 | 4,680.4 |
| 2010 | | 13,601.4 | n/a |
| 2011 | | 14,646.0 | n/a |

* \$11.976 as at September 30, 2009, annualized to full year

Appendix A

2010 Recommended Base Budget Changes vs. 2009 Approved Budget

| (In \$000s) | Summary of 2010 Base Budget Adjustments | | | | Net Incremental Outlook | |
|--|---|--------------------|------------------|-------------------|-------------------------|----------------|
| | Approved Positions | Gross Expenditures | Revenues | Net | 2011 | 2012 |
| | | \$ | \$ | \$ | \$ | \$ |
| 2009 Council Approved Operating Budget | 958.5 | 370,004.8 | 302,229.5 | 67,775.3 | 0.0 | 0.0 |
| Technical Adjustments | | | | | | |
| In-Year Budget Adjustments | (1.0) | | | | | |
| 2009 Approved Operating Budget | 957.5 | 370,004.8 | 302,229.5 | 67,775.3 | 0.0 | 0.0 |
| Prior Year Impacts: | | | | | | |
| Annualizations from Prior Year | | | | | | |
| Reversals from Prior Year | | | (11,143.8) | 11,143.8 | | |
| Operating Impacts of Capital | | | | | | |
| Zero Base Items | | (94.6) | | (94.6) | | |
| Economic Increases: | | | | | | |
| Salary | | 1,901.7 | | 1,901.7 | 1,214.8 | 238.8 |
| Non Salary | | 4,342.9 | | 4,342.9 | 4,446.2 | 4,535.1 |
| Adjusted Base Budget | 957.5 | 376,154.8 | 291,085.7 | 85,069.1 | 5,661.0 | 4,773.9 |
| Base Expenditure Changes | | (720.7) | (1,526.9) | 806.2 | | |
| Base Revenue Changes | | | (7,643.2) | 7,643.2 | (1,044.6) | |
| 2010 Base Budget Prior to Service Changes | 957.5 | 375,434.1 | 281,915.6 | 93,518.5 | 4,616.4 | 4,773.9 |
| Recommended Service Changes: | | | | | | |
| Service Efficiencies | (8.0) | (525.8) | (525.8) | | (2,149.9) | |
| Revenue Changes | | | 21,667.5 | (21,667.5) | 35,454.5 | |
| Minor Service Level Changes | | (1,075.0) | | (1,075.0) | | |
| Major Service Level Changes | | | | | | |
| Total Recommended Base Changes | (8.0) | (1,600.8) | 21,141.7 | (22,742.5) | 33,304.6 | 0.0 |
| 2010 Recommended Base Budget | 949.5 | 373,833.3 | 303,057.3 | 70,776.0 | 37,921.0 | 4,773.9 |

Appendix B
Summary of Service Changes

Appendix D

Program Summary by Expenditure Category

| CLUSTER: A PROGRAM: CHILDREN'S SERVICES | | | | | | | |
|--|----------------------------|------------------------------|-------------------------------|--|---------------|------------------|------------------|
| | 2009 Approved Budget | 2009 Projected Actuals | 2010 Recommended Budget | Change from 2009 Approved Budget | | 2011 Outlook | 2012 Outlook |
| | \$ | \$ | \$ | \$ | % | \$ | \$ |
| Salaries and Benefits | 70,876.2 | 70,876.2 | 72,322.7 | 1,446.5 | 2.0% | 73,399.1 | 73,637.9 |
| Materials and Supplies | 4,082.4 | 4,082.4 | 4,245.7 | 163.3 | 4.0% | 4,245.7 | 4,245.7 |
| Equipment | 845.2 | 845.2 | 695.9 | (149.3) | (17.7%) | 695.9 | 695.9 |
| Services & Rents | 287,773.5 | 284,308.6 | 290,194.2 | 2,420.7 | 0.8% | 292,490.5 | 297,025.6 |
| Contributions to Capital | | | | | n/a | | |
| Contributions to Reserve/Res Funds | 1,136.2 | 1,136.2 | 1,136.2 | | 0.0% | 1,136.2 | 1,136.2 |
| Other Expenditures | 1,262.1 | 1,262.1 | 1,034.1 | (228.0) | (18.1%) | 1,034.1 | 1,034.1 |
| Interdivisional Charges | 4,029.1 | 4,029.1 | 4,204.5 | 175.4 | 4.4% | 4,204.5 | 4,204.5 |
| TOTAL GROSS EXPENDITURES | 370,004.7 | 366,539.8 | 373,833.3 | 3,828.6 | 1.0% | 377,206.0 | 381,979.9 |
| Interdivisional Recoveries | 10,216.9 | 10,216.9 | 10,200.0 | (16.9) | (0.2%) | 10,200.0 | 10,200.0 |
| Provincial Subsidies | 264,206.5 | 264,206.5 | 255,048.2 | (9,158.3) | (3.5%) | 243,303.9 | 243,303.9 |
| Federal Subsidies | | | | | n/a | | |
| Other Subsidies | | | | | n/a | | |
| User Fees & Donations | 11,287.6 | 11,287.6 | 13,601.4 | 2,313.8 | 20.5% | 14,647.1 | 14,647.1 |
| Transfers from Capital Fund | | | | | n/a | | |
| Contribution from Reserve Funds | | | | | n/a | | |
| Contribution from Reserve | 16,518.5 | 13,053.5 | 23,849.7 | 7,331.2 | 44.4% | | |
| Sundry Revenues | | | 358.0 | 358.0 | n/a | 358.0 | 358.0 |
| TOTAL REVENUE | 302,229.5 | 298,764.5 | 303,057.3 | 827.8 | 0.3% | 268,509.0 | 268,509.0 |
| TOTAL NET EXPENDITURES | 67,775.2 | 67,775.3 | 70,776.0 | 3,000.8 | 4.4% | 108,697.0 | 113,470.9 |
| APPROVED POSITIONS | 957.5 | 957.5 | 949.5 | (8.0) | (0.8%) | 947.5 | 947.5 |

Appendix E

Inflows / Outflows to / from Reserves & Reserve Funds

| Reserve / Reserve Fund Name | Reserve / Reserve Fund Number | Projected Balance as at December 31, 2009 \$ | Proposed Withdrawals (-) / Contributions (+) | | |
|---|---|--|--|----------------|----------------|
| | | | 2010 \$ | 2011 \$ | 2012 \$ |
| Child Care Capital Reserve Fund | XR1103 | 10,542.8 | | | |
| | * Capital program requirements | | (2,831.0) | (90.0) | |
| | ** Capital grants | | (784.7) | | |
| | Minor capital expenses to meet Health and Safety Standards | | (80.0) | (80.0) | (80.0) |
| | Projected Interest | | 44.0 | 35.0 | 34.0 |
| | Balance by Year-end | 10,542.8 | 6,891.1 | 6,756.1 | 6,710.1 |
| Child Care Expansion Reserve Fund | XR1101 | 38,879.2 | | | |
| | Projected Interest | | 124.6 | | |
| | Capital Grants *** | | (2,680.0) | | |
| | Funding Requirement | | (18,987.9) | 17,335.9 | |
| | Balance by Year-end | 38,879.2 | 17,335.9 | 0.0 | 0.0 |
| Total Reserve / Reserve Fund Balances Year-end | | 49,422.0 | 24,227.0 | 6,756.1 | 6,710.1 |

* Grant for completion of Chester Le, St. Andrew, Enderby, Thorncliffe
 ** Capital grants for Toronto District School Board projects
 *** Grant for completion of Regent Park and Galloway Aboriginal Centre child care projects
 Interest at .5%