

Child Care Funding Strategy

Date:	July 6, 2015
To:	City Council
From:	General Manager, Children's Services
Wards:	All
Reference Number:	

SUMMARY

This report responds to a request from the Community Development and Recreation Committee for the General Manager, Children's Services to report directly to City Council on July 7, 2015 with an alternative scenario for child care funding that includes: a five-year phase-in replacement of reserve contributions; a municipal contribution equivalent to 20% of any new provincial funding received; and contributions to child care capital and reserve funds to support the child care service plan and expansion targets.

RECOMMENDATIONS

The General Manager, Children's Services recommends that City Council receive this report for information.

Financial Impact

In 2014 and 2015, Children's Services received increases in provincial funding of \$29.6 million (excluding the additional \$22.6 million in provincial funding received and dedicated to the Province's new wage enhancement program for frontline child care staff). In 2015, the approved Operating Budget for Children's Services includes draws of \$12.720 million from the Child Care Expansion Reserve Fund and \$2.200 million from the National Child Benefit Supplement Reserve.

In future years, the City will be required to continue to make withdrawals from the Child Care Expansion Reserve Fund to maintain current child care service levels, and from the National Child Benefit Supplement Reserve to maintain service levels for After-School Recreation and Care Programs (ARC). If annual funding increases are not received from the City or the Province, the reserves will be depleted by 2019, resulting in a reduction in service levels.

As a result of historical provincial funding shortfalls, the City contributes a larger portion of the funding for Children's Services than is required by the cost-shared formula. In accordance with the previous provincial funding model, the province contributed \$189.9 million in cost share funding, which resulted in an annual shortfall of \$20.0 million for the program. This shortfall has been funded by a combination of property tax funding, Children's Services revenues and draws from the Child Care Expansion Reserve Fund, with the City's net contribution largely remaining flat lined since 2006.

The new Provincial funding formula, introduced in 2012, recognizes municipalities that contribute over their minimum required cost share by providing those municipalities with additional funding through a Utilization Allocation. The City received \$14.6 million, \$15.7 million and \$16.9 million through this allocation in 2013, 2014 and 2015 respectively. As provincial investments increase, it is critical that the City incrementally increase its share of funding, if it is to retain this utilization grant in the long term. As costs increase due to inflation, the City's share of funding as a percentage of overall funding must increase or the provincial utilization allocation will likely decline.

At the request of the Community Development and Recreation Committee, this report outlines a strategy that incrementally replaces funding from the Child Care Expansion Reserve Fund and the National Child Benefit Supplement Reserve Fund with municipal tax funding, commencing with an initial transfer of \$0.9 million in 2016 and culminating with a total transfer of \$12.3 million in 2020. In the future, inflationary increases from both municipal and provincial sources would be required to ensure system stability, maintain service levels and address inflationary pressures.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

Equity Impact Statement

The strategy aligns with the 2015-2019 Child Care Service Plan and supports access, affordability and quality child care for families across Toronto.

Decision History

At its meeting on June 24th, the Community Development and Recreation Committee requested that the General Manager, Children's Services report directly to City Council on July 7, 2015 with an alternative scenario for child care funding that includes:

- a) a five year phase-in replacement of reserve contributions;
- b) a municipal contribution equivalent to 20% of any new provincial funding received; and
- c) contributions to child care capital and reserve funds to support the child care service plan and expansion targets.

(June 10, 2015) Report from the General Manager, Children's Services, on Child Care Funding Strategy (<http://www.toronto.ca/legdocs/mmis/2015/cd/bgrd/backgroundfile-81448.pdf>)

Issue Background

The scenario outlined in Table 1 reflects a five-year projection to incrementally replace funding from the Child Care Expansion Reserve Fund and National Child Benefit Supplement Reserve Fund with municipal tax contributions. In each year of this scenario, increased municipal contributions meet or exceed 20% of projected new provincial funding in that year.

The scenario outlined in this report differs from the eight-year projection proposed in the June 10, 2015 report to the Community Development and Recreation Committee. The five-year scenario allows the division to arrive earlier at a stable funding structure, where municipal and provincial contributions, combined with parent fees, are sufficient to maintain service levels. The accelerated increase in City contribution from eight years to five years reduces required draw from reserve funds and retains a balance of \$40.8 million in the Child Care Expansion Reserve Fund which could be accessed for emergency purposes.

In the five-year scenario, the City's net contribution is accelerated from \$4 million to \$12.3 million, while the projected draw from the reserve fund is reduced by \$19.8 million, from a total of \$28.5 million to \$8.7 million, to reflect the reduced need. In the eight year scenario, reserve fund draws totalled \$49.4 million, with \$20.9 million of this amount being required in years six through eight. Beyond 2020 to ensure long-term system stability, inflationary increases from both municipal and provincial sources will be required to maintain service levels and to address inflationary pressures.

Table 1:

5-YEAR OPTION					
CHILD CARE EXPANSION RESERVE FUND					
Phased Replacement with Net Expenditure					
Includes Growth per Capital Strategy					
In \$ millions					
	2016	2017	2018	2019	2020
PROJECTION SUBSIDY AND NET INCREASE WITH GROWTH IN # SPACES					
PROJECTED NEED (Includes Inflation - Cumulative)	7.9	14.6	21.2	28.0	34.8
PROJECTED CONTRIBUTIONS					
Prov.Subsidy Increase (1.5% - \$4.5M per year cumulative)	4.5	9.0	13.5	18.0	22.5
City Contribution Increase (Cumulative)	0.9	2.9	5.4	8.8	12.3
Required Reserve Fund Contributions	2.5	2.7	2.3	1.2	0.0
TOTAL CONTRIBUTIONS	7.9	14.6	21.2	28.0	34.8
CHILD CARE EXPANSION RESERVE FUND					
YEAR-ENDING BALANCE	47.0	44.3	42.0	40.8	40.8
# Subsidies (750 infant/toddler increase from 2015)					
Infant / Toddler	6,284	6,357	6,434	6,517	6,608
Preschool / KG / School Age	19,650	19,435	19,220	19,005	18,790
Total	25,934	25,792	25,654	25,522	25,398

* Note: The Child Care Reserve Fund balance in the above table reflects current program estimates.

Municipal Contributions

The financing strategy outlined in Table 1 results in a municipal contribution equivalent to or greater than 20% of new provincial funding projected in each of the five years. Should Council elect to match 20% of new provincial contributions going forward, it could expedite service expansion and assist in reducing the wait list for child care fee subsidies, which currently stands at 17,900. The five-year scenario reflects growth targets set out in the Children's Services Service Plan, approved by Council in 2015. These targets add 1,551 spaces for younger age children over a ten-year period enabling the division to achieve age equity with respect to access to fee subsidies. With this modest expansion, demand for access to affordable, quality child care will continue to outstrip demand, with the system able to serve approximately 20% of the child population. Had the City matched 20% of new provincial funding secured in 2014 and 2015, an additional \$5.9 million would have been available for fee subsidies and minor capital investment.

Contributions to the Child Care Capital and Reserve Funds

On an annual basis, the division contributes \$0.32 million to the Child Care Capital Reserve fund from its operating budget to support the child care service plan expansion targets. In 2014, an additional \$11 million was allocated to the Child Care Capital Reserve Fund bringing the total available in this fund to \$24.4 million. The \$11 million contribution resulted from a one time under expenditure due to broad system changes in both service levels and costs. Based on current cost structures, this \$11.0 million could create up to three new child care centres serving up to 200 children. The Children's Services Capital Strategy, included in the division's recently approved Service Plan, identifies areas across the city that are most in need of capital investment in child care to create much needed spaces for younger children. Future contributions to the capital reserve could expedite addressing these service deficiencies. Such contributions must rely on sources other than the Children's Services operating budget and must be considered in the context of other corporate priorities. Increased contributions from the division's operating budget would require a reduction in other areas of the budget and potentially impact service levels.

Finally, Community Development and Recreation Committee requested that staff consider retaining reserve funds to support child care and service plan expansion targets. As noted in this report, the five-year scenario retains a balance of \$40.8 million in the Child Care Expansion Reserve Fund that could be used in emergency situations. Using this reserve fund to support system growth or service expansion undermines the objective of the funding strategy presented in this report and in the report to Community Development and Recreation Committee, both of which are intended to ensure that service levels are protected as reserve fund decline. At present, the Child Care Expansion Reserve Fund is not replenished as its resources are invested. As a result, new or enhanced services funded from this source are not sustainable as the fund is depleted.

CONCLUSION

The strategy outlined in this report would enable the Children's Service Division to replace reserve fund resources with tax-based resources over a five-year period and would allow a balance to remain in the Child Care Expansion Reserve fund for emergency purposes.

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SIGNATURE

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