

## **Provincial Downloading - Local Services Realignment**

*(City Council on December 14, 15 and 16, 1999, adopted this Clause, without amendment.)*

**The Policy and Finance Committee recommends the adoption of the following report (December 1, 1999) from the Chief Financial Officer and Treasurer:**

### Purpose:

To provide a status report on the provincial download portion of program costs versus the 1999 budget, including a preliminary assessment of the November 18, 1999 Provincial announcement.

### Financial Implications and Impact Statement:

Not applicable. Impacts of local services realignment are incorporated in the 1999 operating budget and new impacts announced on November 18, 1999 will be considered in the 2000 operating budget.

### Recommendation:

It is recommended that Council request the Province, that when negative changes are being proposed to the Provincial-Municipal financial relationship, that such negative changes be announced at least six months prior to the end of the municipal fiscal year end, and not take effect until the next municipal fiscal year in order to allow for adequate financial planning by the City.

### Background:

In January 1997, the Provincial government initiated its first “downloading” of services to the municipal sector. Since then there have been ten adjustments to the announced impact, (including this current announcement), some favourable to the City, some not. Currently, the City of Toronto has a \$71.7M operating budget impact with \$13.3M - \$14.3M in new costs for the 2000 operating budget. The TTC capital budget impact is estimated to be \$180 million annually on average for a total \$251.7M impact. A chronology of Provincial announcements and their impact on the City of Toronto is provided in Table ‘1’ of this report.

For the municipal 1998 fiscal year, the Province of Ontario shifted financial responsibility between the provincial and municipal tax bases for a number of program areas and introduced the pooling of social welfare and housing costs among GTA municipalities in a process they called local services realignment (LSR). Although the exchange of responsibilities was intended to be revenue neutral, both the operating budget and the capital budget for the City of Toronto were adversely affected. The net impact on operating budget programs in 1998 from Provincial downloading was \$120.1 million exclusive of TTC capital subsidy elimination, and details are presented in Table ‘2’.

The 1999 budget was impacted by a variety of LSR adjustments, as detailed in Report No. 8, Clause No. 1 of Council's meeting on April 26, 1999 entitled 1999 Operating Budget. The March 23, 1999 Provincial announcement included an estimate of the benefit from the re-instatement of public health and ambulance funding in the amount of \$76.3 million. Offsetting this revenue were increased costs to Children's Services (\$5.4 million), and the Ontario Property Assessment Corporation (\$1.1 million). The resulting net benefit to the operating budget was \$62.2 million, leaving a net impact on the City from downloading of \$58.4 million for operating purposes.

The Province has not included in downloading estimates the cost of transit capital funding for the City of Toronto. The total value of the loss of the TTC capital funding is estimated to average \$180 million annually, which brings the net impact of downloading to the City prior to the most recent announcement to \$238.4 million. Council has endorsed a financing plan that will fund the TTC shortfall over time through gradually increased capital from current (CFC) contributions, with the balance being debt financed in the interim. The City has approved \$40 million in CFC contribution increases for TTC capital since the 1998 LSR. The difference between the subsidy loss and the built up CFC amount requires debt financing each year, resulting debt charges in 1999 of approximately \$6.3 million, attributable to the TTC Capital Subsidy loss. Consequently, the budgeted impact to date of LSR is \$58.4 million plus the impact of the TTC capital subsidy loss on financing costs included in the operating budget so far, of \$46.3 million, totalling \$104.7 million (see attached Table 3).

On November 18, 1999 the Province of Ontario announced a number of cost saving measures in its goal to balance the budget. Issues that may have an impact on the City of Toronto 2000 operating budget are presented in Table '5'. A preliminary assessment of impacts to City programs is an annualized increase of between \$13.3M and \$14.3M. Further clarification is required from the Province, and additional analysis will be performed as part of the 2000 operating budget process.

## Comments:

### (1) Year-end Estimates:

The year-end estimates compared to budget for LSR programs are provided in Table '2'. The table reflects the downloading impact to these programs only, and therefore does not show the full cost of each program. Savings of \$30.2 million versus 1999 budget estimates are projected in the downloaded portion of costs attributable to Social Assistance (\$20.8 million), Social Housing (\$7.8 million) and GT (formerly GO) Transit (\$2.8 million), offset by a \$1.1 million increase to Ontario Property Assessment costs. Projected savings are primarily the result of lower than anticipated social services caseloads, the refinancing of social housing mortgages at lower interest rates, and higher than anticipated ridership for GT Transit.

Costs associated with these three programs are shared throughout the GTA. Social Assistance, including hostels, and Social Housing costs are pooled based on 'weighted average assessment', with the City paying 51.57% of total GTA wide costs. The components of the social assistance costs downloaded are presented on the attached Table '2' as well as the offsetting "GTA Pooling Revenue". GT Transit costs are shared by participating municipalities based on assessment, ridership and service levels, so that the City currently pays 49.9 percent of the cost.

### (2) Social Housing:

At its meeting of October 7, 1999 the Community Services Committee adopted recommendations included in a report titled "Mandate and Budget Allocation for Mayor's Homeless Initiative Reserve Fund". Recommendations include, subsequent to Council approval, the creation of a Mayor's Homeless Initiative Reserve Fund, and an initial transfer of up to \$5 million, contingent on the realization of such savings within the Shelter, Housing and Support Division's 1999 Operating Budget. The current estimate of 1999 yearend actual 'pooled social housing' costs for the City of Toronto is \$241.5 million, which is based on actual invoices received to date in 1999, versus a City Budget estimate of \$249.3 million, for a total under expenditure of \$7.8 million. The Province's budget estimate after pooling was \$241.9 million for 1999.

Mortgage costs make up a significant portion of total social housing costs. In the year 2000, social housing mortgages, with an estimated principal value of \$1.2 billion (\$.63 billion Toronto, \$.57 billion 905's), will be renewed. City of Toronto 2000 budget savings as compared to the 1999 savings after pooling on renewal of these mortgages at various rates is presented in the attached Table '4'. The most likely renewal rate given current market conditions and forecasts, is 6.5%. Savings for the 2000 Budget Year are projected to be \$15.5 million (i.e. reductions from 1999 and 2000 budgets).

### (3) Public Health and Ambulance Funding:

As a result of the March 1999 Provincial announcement reinstating \$76.3 million in subsidy for public health and ambulance funding, the City is now receiving cash transfers from the Ministry of Health. However the City is currently in discussion with the Ministry on the implementation of the announcement. For this report, the Provincial estimate is being used although it is still unclear as how this estimate relates to the additional \$8.5 million of 100% provincial funding for the Central Ambulance Communications Centre (CACC). To achieve the full Provincial funding allocation, corporate charges were restored to the Public Health program (\$13.2 million) and Ambulance program (\$5.9 million) for items such as facility costs, information technology and other administrative services.

In addition to lump sum payments received in July and August, schedules received from the Ministry of Health reflect monthly subsidy payments of \$4.2 million for Public Health and \$3.4 million for Ambulance for the balance of the year. Based on these schedules, transfers during 1999 will total approximately \$79.0 million, however these transfers are not exclusively related the March announcement and require further clarification from the Ministry.

Additionally, the Association of Municipalities of Ontario (AMO) has initiated a process to propose funding criteria and administrative procedures for the 50% provincial subsidy of ambulance and public health service expenditures.

(4) Alternative Funding Formulae:

Council's position is that responsibility for social program spending lies with senior levels of government who have access to various methods of taxation to redistribute the cost of these programs based on income and over time. Nevertheless, within the existing funding framework, a committee of inter-regional social housing staff is working on an alternative approach to the sharing of social housing costs GTA wide that will offer the incentive for each City/Region to benefit from its cost reduction efforts, while continuing to maintain the principle of pooling.

Similarly, Council's position on GT Transit is that the Province accept its funding responsibilities for GT Transit, and treat the operation, maintenance and capital expansion of inter-regional transit in the same way as the 400 series highways. Failing that, a more equitable GTA/Hamilton Wentworth apportionment formula should be established. The cost apportionment for GT Transit costs among GTA-H/W municipalities is now the responsibility of the GTSB, and City staff are supporting the City GTSB caucus in preparation for potential future debate of this issue.

Where pooling continues to be based on assessment, City Finance staff have taken the position in discussions with GTA staff that 'raw' assessment rather than assessment weighted by tax rates be used as the basis for cost apportionment. Raw assessment data is now comparable across the Province, and does not incorporate the biases of historical tax inequities across property classes.

(5) Provincial Dowloading of TTC Capital Costs:

Over the last five years, TTC's base capital program expenditures averaged \$240 million a year, while capital expansion added another \$140 million a year. As a result of provincial downloading of transit costs, the front-end loading nature of TTC's capital requirement in the next five years and the Sheppard Subway construction, the City is facing significant fiscal pressure relating to TTC's capital program, estimated to be more than \$1.7 billion for 1999 to 2003. A similar if not more problematic pattern is included in the 2000 to 2004 draft capital submission. The financing requirements of the capital program over the next 5 to 10 years will have a significant impact on future operating budgets. The annual incremental increase in operating budget for the next 5 years due to capital financing for TTC purposes was estimated for the 1999 Budget to be \$30 million a year, totalling almost \$150 million over and above the 1998 level.

(6) Provincial announcement November 18, 1999:

On November 18, 1999 the Province of Ontario announced a number of cost saving measures in its goal to balance the budget. A preliminary assessment of impacts to City programs is an annualized increase of between \$13.3M and \$14.3M. Further clarification is required from the Province, and additional analysis will be performed as part of the 2000 operating budget process.

A regulation change that will no longer allow the City to include parent contributions toward the 20% share of child-care fee subsidies is projected to cost the City \$11.8M annualized.

The transfer of funding responsibility for non-profit housing administration is projected to cost the City between \$2M and \$3M annually. Provincial officials have indicated this includes costs for program administration only, and may not reflect the full amount to be downloaded. Projected savings (\$0.5M) in other areas of Social Housing offset these additional costs.

Additional savings claimed by the Province, related to a decrease in social assistance caseloads and mortgage savings in the social housing program, have been already incorporated in forecasts by City departments. A list of items that may impact the City of Toronto as a result of the Provincial announcement is included as Table '5'.

Conclusions:

For 1999, the updated impact of the local services realignment (LSR) downloading on the City was \$58.4 million. The projected actual downloading impact is currently estimated to be \$30.2 million less at \$28.2 million. These estimates are subject to change based on the resolution of issues related to the re-instatement of funding related to ambulance and public health services. These figures exclude the impact of TTC capital subsidy loss of \$180 million annually on average. Increases in CFC contributions in the operating budget of \$40 million has

been built to offset the annual \$180 million subsidy loss, however the differential caused new debt to be issued resulting in the debt service cost impacts of approximately \$6.3 million to 1999.

Savings in downloaded costs have been achieved in part due to a strong economy. At some point, this expansion will lose momentum, and may again result in increased demand for social programs and negative transit ridership impact. Regardless, continued growth in the City of Toronto requires substantial investment in infrastructure, particularly roads and rapid transit. The required resources are beyond the current fiscal abilities of the City of Toronto, and have resulted in Council's adoption of policies seeking broader cost sharing of these programs.

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