STAFF REPORT
ACTION REQUIRED

The Impact of the Loss of the Provincial Toronto Pooling Compensation

Date:	July 9, 2013
To:	City Council
From:	City Manager and Deputy City Manager, Cluster A
Wards:	All
Reference Number:	

SUMMARY

The purpose of this report is to outline the implications of the elimination of $149.4 million in provincial Toronto Pooling Compensation (TPC) support to the City of Toronto, which will be considered during the 2014 operating budget and future-year processes. The recent announcement by the Province (see Appendix B) indicates that, beginning next year, this funding will be phased out over three years from 2014 to 2016.

These changes will eliminate funding sources in the City's Employment and Social Services division of $35 million and the Shelter, Support and Housing Administration division of $114 million over three years as detailed in the Financial Impact section of this report.

The original 2008 Provincial schedule contemplated reducing the social assistance portion of the TPC while leaving the social housing funding intact until at least 2018 (See Appendix A). This changed with the revised schedule which now calls for the entire TPC to be completely eliminated by 2016.

Concurrently, the Province has announced the cancellation of the City's amalgamation debt to the Province, as described in the companion report entitled, *Provincial Amalgamation Loans*. The announcement will enable the City to reverse approximately $42 million in accumulated budget provisions for interest on the loan, and partially delay the impact of these funding changes, as described in this report.

GTA Equalization Funding (Pooling)

As of January 1, 1998, as part of the *Local Services Realignment* (LSR) initiative of the Province, municipalities throughout Ontario became responsible for social housing costs and an increased share of social assistance costs (plus a number of other very significant changes to the provincial-municipal fiscal arrangements). Under GTA Pooling, regional municipalities within the GTA were required to make transfer payments to the benefit of the City of Toronto to help equalize or balance the cost of social housing and social assistance across the GTA, and partially mitigate the unequal impacts of LSR.

Provincial-Municipal Fiscal and Service Delivery Review (PMFSDR)

In late 2006, Ontario, AMO and Toronto began the Provincial-Municipal Fiscal and Service Delivery Review (PMFSDR). The final report released October 18, 2008, announced landmark changes to the provincial municipal fiscal arrangements, including provincial agreement to:

- fully fund the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit (ODB) program;
- upload municipal costs of Ontario Works (OW) benefits (income and employment assistance) over nine years;
- share costs of administration of OW up to the approved allocation; and
- provide municipal assistance to offset the costs of court security over seven years up to a maximum of $125 million annually.

The funding responsibility for social housing was specifically excluded from the discussions.

In 2007, during the PMFSDR process, the Province began the phasing out of GTA Pooling. The Province reduced the cost to the contributing GTA regional municipalities over a 7 year period by over $200 million annually, providing them with a financial benefit from the 1998 re-alignment initiative. The funding received by the City through Pooling was in turn assumed by the Province, which provided the City with grants under the Ontario Municipal Partnership Fund (OMPF) program.

The uploading of social assistance costs under PMFSDR meant that the need for OMPF grants off-setting municipal social services costs would be significantly reduced. The Province used the opportunity to modify the OMPF program. Under the changes, Toronto no longer qualified for any OMPF funds to off-set the elimination of GTA Pooling despite the fact that the funding of social housing remains a municipal responsibility.

Toronto Pooling Compensation (TPC)

In recognition of the impact of the loss of GTA Pooling on Toronto, as part of PMFSDR the Province announced a special pooling compensation grant to the City known as TPC beginning in 2008 with an accompanying schedule by year to 2018 (see Appendix A). By 2018, the changes to the grant amount would be adjusted to $115 million annually. The schedule reflects the phase-out of municipal pooling payments and the completion of the scheduled upload to the social assistance cost sharing arrangements.

The recent announcement by the Province indicates that rather than continuing to provide this support for social housing, it will be phased out completely, reducing the PMFSDR upload benefit to the City by one-third.

Under the provincial *Housing Services Act*, *2011* (HSA) the City of Toronto is legislated to provide social housing operators, including Toronto Community Housing (TCH) with funding to administer social housing. In 2013, the City will transfer an estimated $466.4 million to all of its social housing providers. Under this legislation, the City is required to fund and maintain the existing number of rent-geared-to-income (RGI) social housing units in perpetuity. As the City has no flexibility to change these service levels, funding for social housing will have to be found either from increased property taxes or service reductions.

Overall, Toronto provides 76% of the social housing in the GTA including 90% of the GTA's public housing or nearly 40% of the total social housing available in the province. This represents a significant concentration of social housing as Toronto has only 20% of the total provincial population.

In June 2013, the City of Toronto and TCH launched the "Close the Housing Gap" public education campaign to re-engage the federal and provincial governments in investing in Toronto's aging social housing stock. At a time when Ontario and Canadian municipalities are advocating for increased funding from governments for housing, the Province, through its recent announcement, is reducing its support to Toronto for social housing.

The Provincial decision exacerbates the pressure on the overall system of services which already faces a social housing waiting list of over 87,000 households, increased strain on emergency shelter capacity, a growing social housing repair backlog, prescriptive provincial policy and divestment by both the federal and provincial governments.

In addition, the accelerated reduction of the TPC funding creates pressures in the Toronto Employment and Social Services operating budget, which will have to be offset through a combination of service reductions, savings in administration and drawing on reserves. Together these funding reductions will impact the City's most vulnerable residents.

RECOMMENDATIONS

The City Manager and DCM Cluster A recommend that:

1. City Council request the Province to reconsider the elimination of the Toronto Pooling Compensation (TPC) by 2016 or at a minimum maintain the Social Housing component of the TPC funding; and

2. City Council request the Province to harmonize, province wide, the shelter payments received by households living in rent-geared-to-income (RGI) and non-RGI housing who receive social assistance (i.e. Ontario Works or Ontario Disability Support Program) consistent with the recommendation set out in The Special Housing Working Group's Report, *Putting People First, Transforming Toronto Community Housing*, approved by Council on October 30, 31 and November 1, 2012.

Financial Impact

The recent announcement by the Province, terminating Toronto Pooling Compensation over three years by 2016, will result in a 2014 budget impact of $42.5 million, or an impact equivalent to a property tax increase of 1.8%, compared to the previously scheduled payments. This impact will increase in subsequent years for a cumulative impact of 5.4% by 2016.

Table 1: Provincial Funding (Toronto Pooling Compensation) Reduction

$Million	2013	2014	2015	2016	2017	2018
Scheduled TPC Payments	149.3	142.5	135.6	128.8	121.9	115.1
Revised Plan	149.3	100.0	50.0	0.0	0.0	0.0
Cumulative Impact	0.0	(42.5)	(85.6)	(128.8)	(121.9)	(115.1)
Cumulative property tax impact		-1.8%	-3.6%	-5.4%		
Incremental Impact		(42.5)	(43.1)	(43.2)		
Incremental Property tax impact (@$23.7M=1%)		-1.8%	-1.8%	-1.8%		

The funding changes will be dealt with as part of the City's budget deliberations in each year, in conjunction with the impact of the concurrently announced forgiveness of the City's amalgamation-related debt to the Province.

A companion report outlines the implications associated with the Province's recent decision to forgive the outstanding amalgamation loans to the City. While an estimated amount of approximately $42 million of interest expense savings (revenues) will be realized by the elimination of the Provincial loan, these revenues are one-time and will at best delay the impact of the TPC revenue reduction of $149.4 million by 2016. One potential approach to applying the loan forgiveness revenue to spread the impact over four years rather than three years is illustrated in Table 11.

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

DECISION HISTORY

In a letter to the Mayor dated June 13, 2013, the Ontario Minister of Finance announced that the Toronto Pooling Compensation funding would be eliminated by 2016 (see Appendix B). Beginning next year, this funding will be phased out over three years from 2014 to 2016.

The following 2013 Budget Briefing Note summarizes the progress that has been made in reducing the impact that downloaded programs and provincial funding shortfalls have on the City's operating budget. It also provides a summary of the status of the reserves that have been used to address these budget pressures:
http://www.toronto.ca/budget2013/pdf/op13_bn_sdfa.pdf

In March 2012, Council established a Special Housing Working Group to investigate and make recommendations on the proposed sale of 619 TCH single family homes, the backlog of repairs and a strategy to re-engage the federal and provincial governments in providing affordable housing. In October 2012, their findings and recommendations were before Council.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX23.4

In April 2013, the report, *Update on Emergency Shelter Services*, was before Council. The report addressed the current capacity of the shelters and use of the emergency shelter system; including how clients access the shelter system, how clients use the Streets to Homes Access and Referral Centre, and how information about services is provided to homeless people during emergencies and extreme weather situations.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.CD19.1

ISSUE BACKGROUND

Local Services Realignment (LSR)

The Province has recently announced that the Toronto Pooling Compensation funding will be eliminated by 2016. The reasonableness of this decision can only be assessed if there is a clear understanding of how and why the payments were first established.

In January 1, 1998, as part of the LSR initiative of the provincial government, municipalities became responsible for social housing and a share of social assistance costs (specifically payments made under the OW, ODSP and ODB programs). At the same time, conditional funding for transit operations (50%) and transit capital (75%)

were eliminated. To compensate, municipalities were expected to increase property taxes to offset reductions in education taxes, and to find efficiencies on a progressive scale, with larger percentage savings expected for larger municipalities. In regard to the latter, Toronto was in a category of its own.

The Province indicated that these changes under the LSR initiative were revenue neutral, but the provincial auditor later found that neutrality was not preserved for all Ontario municipalities. Toronto was disproportionately impacted, because of the punitive expectation of efficiency savings for large cities (i.e. Toronto), and because of the relative higher cost of social and transit services. Toronto is home to almost 40% of the province's social housing units, and provides 82% of the province's local transit trips, on 22% of the municipal property tax base and 20% of the population base.

Greater Toronto Area (GTA) Equalization (Pooling)

In 1998, the GTA Pooling program was initiated in recognition of the fact that within the GTA the City of Toronto was disproportionately impacted by LSR social program costs . For example, in terms of housing, 76% of GTA social housing units are in Toronto, which Toronto must fund with only 42% of the GTA property tax base.

GTA Pooling required GTA regional municipalities to make transfer payments to the benefit of Toronto to effectively share the costs of social housing and social assistance programs in accordance with the relative size of the property tax base of each municipality.

Table 2: GTA Pooling – 1998 $Million

Programs	Revenue (-), Expense (+)					
	Toronto	**Peel**	**Durham**	**York**	**Halton**	**GTA Total**
Ontario Works	-105.0	37.9	-2.3	46.1	23.4	0.0
Social Housing	-85.5	25.5	1.7	39.7	18.5	0.0
Total	**-190.5**	**63.4**	**-0.6**	**85.8**	**41.9**	**0.0**

In 2007, the Province began the phasing out of GTA Pooling. The decision reduced the cost to the contributing GTA regional municipalities over a 7 year period by almost $200 million annually, providing them with a financial benefit from the 1998 re-alignment initiative.   The funding received by the City through pooling, was in turn assumed by the Province, which in 2007 provided the City with compensating funding under the Ontario Municipal Partnership Fund (OMPF) program.

Provincial Municipal Fiscal and Service Delivery Review (PMFSDR)

In late 2006, Ontario, AMO and Toronto began the PMFSDR. The final report was released October 18, 2008, and announced landmark changes to the provincial municipal fiscal arrangements, including agreement by the Province to:

- fully fund (upload) the Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit (ODB) program;
- upload municipal costs of Ontario Works (OW) benefits (income and employment assistance) over nine years;
- share costs of administration of OW up to an approved allocation; and
- provide municipal assistance to offset the costs of court security over seven years up to a maximum of $125 million province-wide annually.

Despite efforts by both the City of Toronto and AMO, the uploading of municipal responsibility to fund social housing was specifically excluded from these discussions by the Province.

Table 3 below summarizes the program funding changes established through the PMFSDR process. The figures in the table reflect the actual and projected City program costs at the time of transfer to the Province. The Province typically reports higher figures because it continuously updates the program costs and the calculated municipal benefit from avoiding these costs after they cease to be municipal responsibilities.

Table 3: PMFSDR – City of Toronto Budget Impacts (Net Revenue)

Program Upload Savings	Actual					Projected						Total
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
ODB	(39.1)					-	-	-	-	-	-	(39.1)
ODSB - admin cost		(20.0)										(20.0)
ODSB - program cost			(77.5)	(77.5)								(155.0)
OW - benefits			(5.8)	(5.4)	(15.1)	(28.3)	(25.7)	(25.7)	(25.7)	(27.5)	(25.7)	(184.9)
OW - hostels per diem			(0.4)	(0.7)	(1.7)	(3.4)	(5.0)	(6.7)	(8.4)	(10.1)	(11.8)	**(48.2)**
GTA Pooling/ TPC Funding claw back		19.7	20.8	20.8	20.8	20.8	6.8	6.9	6.8	6.9	6.8	137.1
Incremental Savings -subtotal	**(39.1)**	**(0.3)**	**(62.9)**	**(62.8)**	**4.0**	**(10.9)**	**(23.9)**	**(25.5)**	**(27.3)**	**(30.7)**	**(30.7)**	**(310.1)**
Court Security Cost					(6.6)	(6.6)	(6.6)	(6.6)	(6.6)	(6.6)	(6.6)	**(46.3)**
Total Incremental Savings	**(39.1)**	**(0.3)**	**(62.9)**	**(62.8)**	**(2.6)**	**(17.5)**	**(30.5)**	**(32.1)**	**(33.9)**	**(37.3)**	**(37.3)**	**(356.3)**

Notes: ODB--Ontario Drug Benefit, ODSP--Ontario Disability Support Program, OW--Ontario Works, TPC Toronto Pooling Compensation Details for GTA Pooling/OMPF Funding claw back detailed in Table 4

As part of PMFSDR, the Province implemented new limits on OMPF funding support, partially (and in some cases substantially) offsetting the uploading benefit to municipalities. Currently only northern, rural and a few southern Ontario communities qualify for this funding source. These changes meant that provincial subsidies offsetting downloaded social services costs would be reduced substantially for most municipalities.

Under the changes, Toronto no longer qualified for any OMPF funds to off-set the elimination of GTA Pooling despite the fact that the funding of social housing remains a municipal responsibility.

Toronto Pooling Compensation (TPC)

In recognition of Toronto's circumstances with regard to the phasing out of GTA Equalization, the Province committed to provide dedicated funding to the City under a program known as TPC. On November 5, 2008, the Province provided a payment schedule by year to 2018 in a letter to the City Manager (see Appendix A). By 2018, changes to the funding amount would be fully adjusted to $115 million annually, to reflect the completion of the scheduled upload of social assistance (PMFDR) costs while retaining the base GTA pooling compensation for social housing.

As shown in Table 4 below, the TPC funding was structured so that the combined impact of the GTA Pooling phase-out and the TPC funding achieved a net funding reduction of just under $21 million annually for the first 5 years after PMFSDR, and $7 million per year for the last 5 years. By 2018, the funding would decline to $115 million, the amount required for GTA Pooling for social housing costs.

Table 4: Provincial Support Summary (As per November 5, 2008 Letter)

	Actual							Projected						Total
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	
GTA Pooling	197.1	172.5	143.8	115.0	86.3	57.5	28.8	-	-	-	-	-	-	
OMPF	34.9	82.2	0	0	0	0	0							
TPC	0	0	109.6	117.5	125.5	133.4	141.4	149.3	142.5	135.6	128.8	121.9	115.1	
Total Support	232.0	254.7	253.4	232.5	211.8	190.9	170.2	149.3	142.5	135.6	128.8	121.9	115.1	
Incremental Support Reduction				**(20.9)**	**(20.7)**	**(20.9)**	**(20.7)**	**(20.9)**	**(6.8)**	**(6.9)**	**(6.8)**	**(6.9)**	**(6.8)**	**(139.7)**

The recent announcement by the Province indicates that rather than continuing to provide this $115 million in annual support to offset the disproportionate social housing costs borne by the City, it will be phased-out completely over three years, from 2014 to 2016. The Province's rationale for this reduction is that other southern Ontario municipalities will no longer receive OMPF funding as of 2016. The impact will be equivalent to a property tax increase of 1.8%, in 2014 and a cumulative impact of 5.4% by 2016.

COMMENTS

I. Social Housing Funding Impacts

The City is home to 20 percent of Ontario's population but is responsible for the funding and administration of almost 40% of social housing units in Ontario. The disproportionate nature of Toronto's share of social housing is more pronounced in the GTA context. Toronto has less than half of the population of the GTA but has funding and administrative responsibility for approximately 75% of all social housing units in the GTA. Almost 40 percent of the social housing stock in the GTA is made up of public housing, which tends to be older, in need of capital repair and more challenging to manage. Toronto is responsible for 91 percent of all the public housing in the GTA.

Table 5: Public Housing and Other Social Housing Units in Toronto, GTA and Ontario, 2012

Name/Description	Toronto	GTA	Ontario	Toronto as a % of	
				GTA	Ontario
Population (2011)	2,615,060	6,054,191	12,851,191	43.2%	20.3%
Public Housing	43,869	48,434	99,331	90.6%	44.2%
Other Social Housing	51,797	77,842	157,429	66.5%	32.9%
TOTAL Housing	**95,666**	**126,276**	**256,760**	**75.8%**	**37.3%**

As noted previously, $114 million of the provincial funding provided through TPC is directed to support the cost of social housing. These funds are reflected in the budget for SSHA and the division uses all of the funds to help sustain social housing operations (e.g. payments to social housing providers including TCH).

The unexpected withdrawal of TPC funding by the Province over the next three years will leave a significant gap in the City's budget for social housing. This loss of provincial support is not the only social housing funding pressure the City faces.

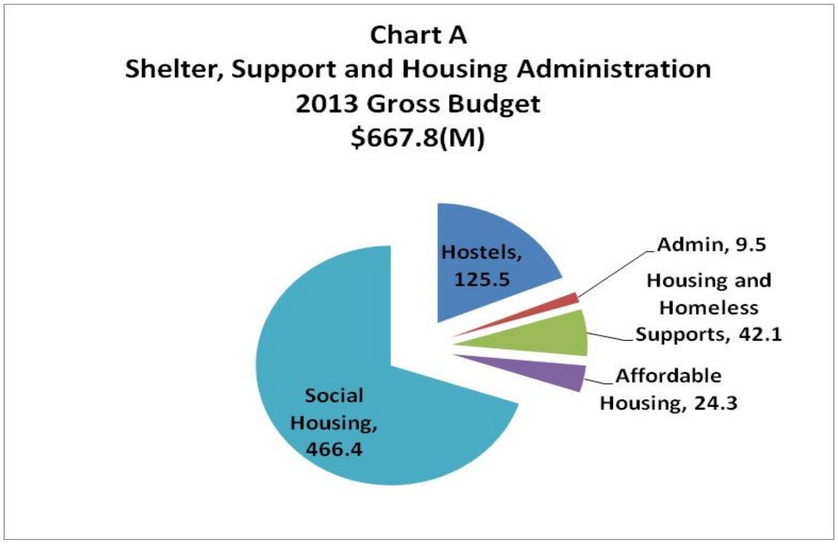
As described later in this report, the net cost of social housing to the City will steadily increase as a result of the withdrawal of $155 million in annual federal social housing funding by 2032.

In addition, under the HSA, the Province prescribes benchmarks for the operating costs and revenues of social housing providers under the City's administration. The City must, by law, subsidise providers for the difference between these benchmarked revenues and costs. Every year, the Province indexes the benchmarks to inflation which places an additional cost pressure on the City. In 2014, this pressure is estimated to be $2.4 million.

The funding pressure for SSHA in 2014 before the TPC reduction is estimated at $36 million. The Province's withdrawal of TPC funding compounds this pressure.

__What Does the City Spend on Services Delivered by Shelter, Support and Housing Administration and Where Does the Money Come From?__

The 2013 gross expenditure on all shelter, support and housing services is $667.8 million. As illustrated in Chart A below, seventy percent of spending on shelter, support and housing services ($466.4 million) goes to social housing providers as required under the *HSA*. The remaining thirty percent ($201.4 million) goes to all other emergency shelter, homelessness prevention and support services (e.g. emergency hostels, rent assistance, street outreach, drop in centres, employment help, affordable housing development, etc.) and head office administration.

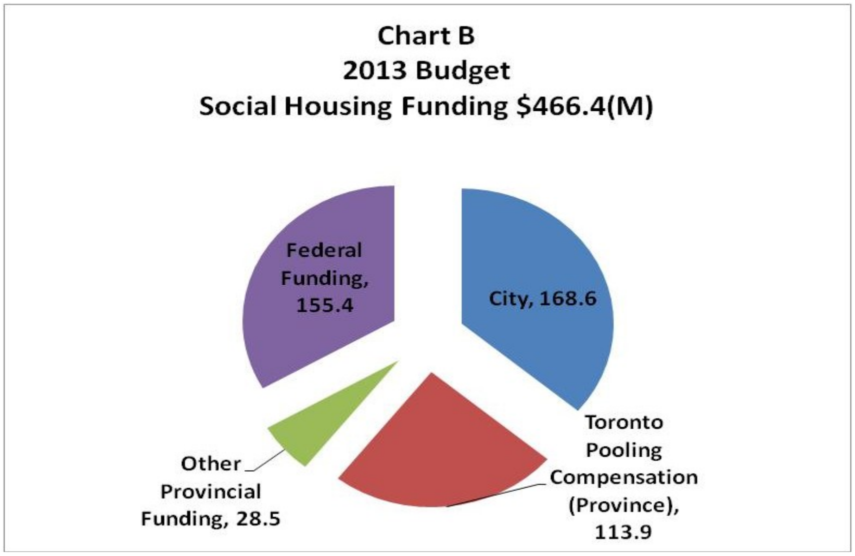


SSHA's budget is funded by federal and provincial contributions ($424.6 million) and by the City ($243.2 million).

Table 6: 2013 Shelter, Support and Housing Administration Budget $(M)

SSHA Programs/Services	City	Provincial	Federal	Total
Social Housing	168.6	142.4	155.4	**466.4**
Hostel Services	56.6	68.9	0.0	**125.5**
Housing and Homeless Supports	10.3	14.3	17.5	**42.1**
Others	7.7	26.1	0.0	**33.8**
TOTAL	**243.2**	**251.7**	**172.9**	**667.8**

Chart B that follows shows the funding sources for the City's $466.4 million spending on its social housing obligations, including the $114 million in TPC funding.



The funding for all other shelter, support and housing services ($201.4 million) comes from federal and provincial contributions ($123.3 million), Capital Revolving Fund ($3.5 million) and City tax base ($74.6) million.

<u>Current Pressures on Housing and Homelessness Services</u>

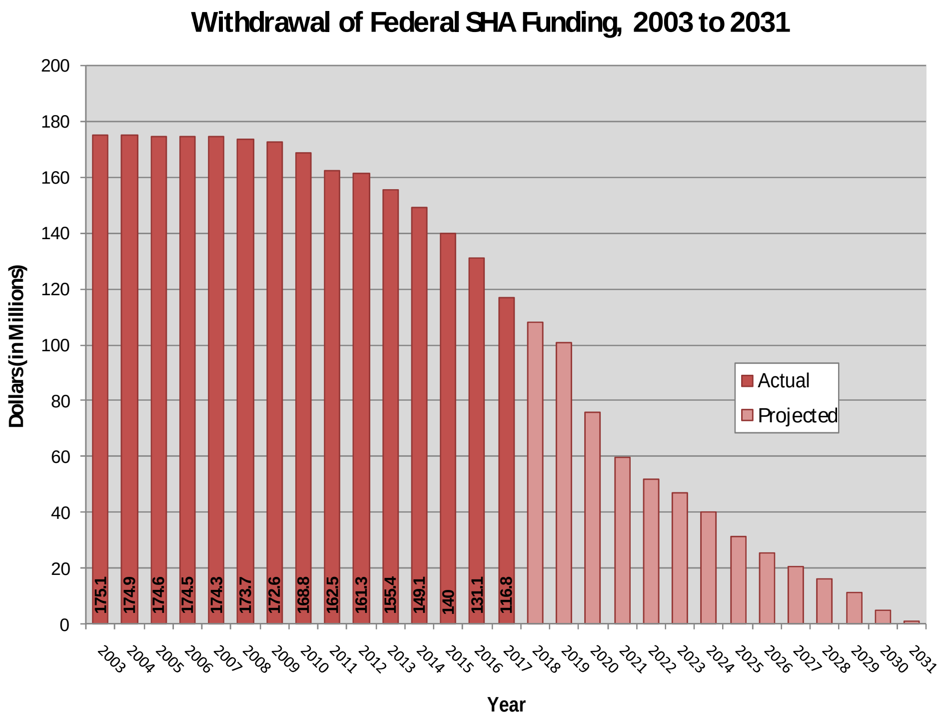
SSHA is affected by a number of external factors which place upward pressure on the net cost of social housing and demand for services. All of the following pressures have previously been brought to Council's attention.

(a) Withdrawal of Federal Funding Loss and Expiring Operating Agreements

Currently, federal funding for social housing in Toronto amounts to $155.4 million annually. The federal funding covers mortgage and debenture repayments and operating costs including capital repair for the social housing projects. These social housing operating agreements have begun to expire. As they expire, the federal funding associated with the agreements is withdrawn.

There will be some cost relief as the mortgage and debenture debts of former federal housing projects are paid in full, however, the loss of operating subsidies will create pressure because expiring operating agreements do not result in a reduction to the City-wide social housing service level standard mandated under the provincial *HSA* programs As the agreements and funding from the federal government ends, the City continues to be solely responsible for replacing the withdrawn federal dollars used to subsidize ongoing social housing operating costs including capital repair.

Public housing is most affected by this withdrawal and Toronto has a disproportionate share of public housing in the Province. The following chart demonstrates that by 2032, all federal funding for social housing in Toronto will have been withdrawn, representing an annual gross loss of $175.1 million from 2003 funding levels.



After taking into account the reduction in debt repayment costs and the ongoing capital repair and operating costs, the City will experience an estimated net loss of $71 million as a result of the withdrawal of federal funding. The continued loss of federal funding used for capital repairs and operating costs in social housing has a significant impact on the City's operating budget for the foreseeable future.

In 2014, as detailed in the chart below, the City will lose a total of 6.3 million in federal funding. Included within that amount is $1.6 million in mortgages that will be paid off and which the City no longer has to fund. The balance of $4.7 million represents a net loss of funding to the City's as its obligations to fund the operating costs/capital repair for social housing continues. Over the next five years alone, the City will experience a net loss of $33.4 million in annual federal funding for social housing after the reduction in mortgage payments is considered.

Table 7: Incremental Loss of Social Housing Federal Funding (2013-2017)

Year	Gross $(M)	Net $(M)
2013	5.9	4.7
2014	6.3	4.7
2015	9.1	8.7
2016	9.0	6.4
2017	14.3	8.9
Total	**44.6**	**33.4**

The loss of TPC funding will exacerbate this problem and place further pressure on social housing programs in Toronto.

(b) The Impact of Social Assistance Rent Scales on the City's Social Housing Costs

Current Provincial regulation sets shelter rent scales for rent-geared-to-income (RGI) households in receipt of social assistance at an arbitrarily low rate. For example, a single person in receipt of Ontario Works who rents in the private market can receive a shelter benefit of up to $376 month. If that same individual is renting in social housing and receives Ontario Works, provincial regulation limits the shelter benefit to just $85 a month. The difference of $291 is then borne by the City through the property tax base. The tables and example below illustrate the differential in OW and ODSP shelter payments for households with dependents residing in non-RGI versus RGI housing.

Table 8: OW and ODSP Shelter Payments – RGI vs. Non-RGI Households

Ontario Works (OW) Rent Scale			
Column 1	Column 2	Column 3	Column 4
Number of Household Members	Shelter Amount Payable If Housed With A Social Housing Provider (RGI Max.)	Shelter Amount Payable If Housed With A Private Market Landlord (Non-RGI Max.)	Difference of Shelter Amount Between RGI and non-RGI household
1	$85.00	$376.00	$291.00
2	$175.00	$590.00	$415.00
3	$212.00	$641.00	$429.00
4	$254.00	$695.00	$441.00
5	$296.00	$750.00	$454.00
6	$339.00	$777.00	$438.00

Ontario Disability Support Program (ODSP) Rent Scale			
Column 1	Column 2	Column 3	Column 4
Number of Household Members	Shelter Amount Payable If Housed With A Social Housing Provider (RGI Max.)	Shelter Amount Payable If Housed With A Private Market Landlord (Non-RGI Max.)	Difference of Shelter Amount Between RGI and non-RGI household
1	$109.00	$479.00	$370.00
2	$199.00	$753.00	$554.00
3	$236.00	$816.00	$580.00
4	$278.00	$886.00	$608.00
5	$321.00	$956.00	$635.00
6	$363.00	$990.00	$627.00

Example

Consider a four-person household consisting of two adults and two dependent children in receipt of OW. If that household is residing in non-RGI housing they will receive up to $695 per month from the Province towards their rent. The Province contributes $8,340 annually towards their housing. However, if that same family resides in RGI-subsidized social housing, they will receive (and pay) only $254 per month. The Province contributes only $3,048 annually towards their housing. The difference, approximately $5,292, is a cost to the City of Toronto's social housing budget and represents a savings to the Province.

Given that about 22,000 households residing in TCH and non-TCH social housing are in receipt of social assistance, City staff estimate that the additional cost to the property tax base is approximately $81 million annually.

Therefore, the differential between the shelter amounts paid to non-RGI versus RGI social assistance recipients actually represents a download in costs from the Province to the City. This impacts municipalities across the province and has been previously raised with the Province by both the City and AMO. This report recommends that the Province harmonize, province wide, the shelter payments received by households living in RGI and non-RGI housing who receive social assistance.

(c) Social Housing Waiting List

The social housing system in Toronto is under increasing pressure, with high demand for RGI subsidized units. In 2012, demand reached its highest level, with over 87,000 households registered on the waiting list at the end of the year. This was an increase of 7 percent from the year before, and over 30 percent since the list was established a decade ago. As a result, the majority of applicants will be left waiting up to 6 years before being housed, with some waiting much longer.

Any reduction in the number of RGI units within the City would exacerbate the problem resulting in even longer waits for households in need of subsidized housing.

(d) Emergency Shelter Use

In April 2013, Council debated the capacity and use of the emergency shelter system. Council expressed concern that shelter use was at 96% of capacity and directed staff to take a number of measures to increase capacity.

(e) Social Housing State of Good Repair

The significant and growing capital repair challenges in the City's social housing portfolio are well known. The backlog of necessary repairs in TCH alone exceeded $750 million in 2012 and, without additional funding, the backlog is estimated to grow by some $100 million annually.

In response, Council has requested on numerous occasions assistance from both the provincial and federal governments in the form of long-term and sustainable funding to support the repair and operation of social housing in Toronto. The costs of social housing have not been uploaded and at the present time, there is no on-going, sustainable program for repairs. As a result, the funding challenges in the City continue to deepen.

To summarize, the overall system of services to the most vulnerable Toronto residents is pressured in a number of ways including a social housing waiting list of over 87,000 households, limited shelter capacity, a growing social housing repair backlog, prescriptive provincial policy and divestment by both the Federal and Provincial governments. The elimination of TPC housing and homelessness funding will substantially increase this pressure and will result in an increase in property taxes and/or a reduction to existing service levels.

Impact of the Elimination of TPC on Housing and Homelessness Services in Toronto

As noted, $114 million of the provincial TPC funding is included in the City's budget for SSHA. Seventy percent of the division's gross budget goes to the administration of social housing programs. Legislation setting out the requirements and funding obligations for social housing is very prescriptive. In that context, if the division had to absorb the loss of $114 million in provincial funding, the options are limited and the impact on service delivery to some of the most vulnerable people in the City would be dramatic.

The City's share of funding for all emergency shelter, homelessness prevention and housing support services other than social housing is $74.6 million. Elimination of all of this funding would be the equivalent of closing all of the City's nine directly operated shelters. This would represent the elimination of 1,600 of the City's total 3,836 shelter beds including approximately 530 City staff positions. Other housing programs that support tenants, homeless people living on the street and community agencies would be eliminated. Community-based not for profit organizations, which rely on the City's support for funding, would have to turn to donations from the public. The division would have to look to its budget for social housing to absorb the remaining loss of $39.3 million in provincial funding.

Transfers to non-profit social housing providers are driven by legislatively prescribed benchmarks and cost factors outside of the City's control. The City has some discretion in determining its subsidy to TCH. It is required by law to provide TCH with "sufficient" funding to cover its mortgage repayments, RGI subsidies and a share of remaining operating costs. If the City reduced its subsidy to TCH by $39.4 million, TCH would be forced to reduce its capital from operating budget by that amount. This would place increasing pressure on an accumulating capital backlog. As has already been discussed at Council, TCH has warned that failure to keep housing units in a state of good repair will lead to them being taken out of service.

II. Social Assistance Funding Impacts

In addition to the impact on social housing services, the accelerated reduction of the TPC funding will significantly impact the ability of Toronto Employment and Social Services (TESS) to provide employment and social assistance to vulnerable residents.

As per previously agreed to arrangements, the portion of TPC funding for the Ontario Works program was expected to be phased-out completely by 2018. The recent provincial announcement states that it will now be fully phased-out by 2016. The following table shows projected funding for the period 2013 to 2018 based on both the original 2008 provincial schedule and the recent provincial announcement.

Table 9: TPC Impact on Toronto Employment and Social Services

	2013 ($M)	2014 ($M)	2015 ($M)	2016 ($M)	2017 ($M)	2018 ($M)	Total
Original Payment Schedule							
Prior Year Pooling Compensation Grant	56.2	35.4	28.6	21.7	14.9	8.0	164.8
Pooling Compensation Grant Reduction	(20.8)	(6.8)	(6.9)	(6.8)	(6.9)	(6.8)	(55)
Current Year Pooling Compensation Grant	**35.4**	**28.6**	**21.7**	**14.9**	**8.0**	**1.2**	**109.8**
Revised Provincial Scheduled – Amortized over 3 Years							
Prior Year Pooling Compensation Grant	56.2	35.4	23.6	11.8			127
Pooling Compensation Grant Reduction	(20.8)	(11.8)	(11.8)	(11.8)			(56.2)
Current Year Pooling Compensation Grant	**35.4**	**23.6**	**11.8**	**0**	**0**	**0**	**70.8**
Change in Funding							
Original Payment vs. Revised Prov. Schedule		**(5.0)**	**(9.9)**	**(14.9)**	**(8.0)**	**(1.2)**	**(39.0)**

The original provincial TPC claw-back schedule for TESS in 2014 forecasted $28.6 million in TPC funding, $6.8 million less than 2013. This has been the assumption underlying the development of TESS' 2014 budget submission. Based on the revised provincial schedule, TESS will only receive $23.6 million in 2014, representing a decrease of $11.8 million from the 2013 allocation. This accelerated claw-back will continue in both 2015 and 2016. In 2016, the funding loss will be $14.9 million greater than previously expected. The accumulative loss of the accelerated funding reduction over 2014 to 2018 is $39 million.

This new pressure will have to be offset through service reductions, savings in administration, drawing on reserves, a property tax increase and/or a combination of these three options.

Social Assistance Reductions

As most OW benefits are mandatory and demand driven, any cuts to program benefits will have to come from the reduction or elimination of City support currently provided to low-income residents and OW recipients through the Hardship Fund, Housing Stabilization Fund and medical benefits. The following table illustrates the budget impact:

Table 10: Budget Reductions Resulting from Program Elimination

OW Programs	Gross/Net Expenditures ($M)
Hardship Fund	1.0
Housing Stabilization Fund	1.5
Medical Benefits	1.5
TOTAL	**4.0**

To fully realize the savings outlined in the above table would require the elimination of the Hardship Fund, and the reduction of the Housing Stabilization Fund and OW medical benefits by the City's contribution. These cuts would impact up to 7,000 low income residents and social assistance recipients, many of whom are amongst the City most vulnerable residents, including seniors, people with serious illnesses and people at risk of becoming homeless. Specifically, these programs provide critical medical items such as diabetic, incontinence and ostomy supplies, ventilators, respiratory equipment, wheelchairs, and hearing aids along with assistance for residents to obtain and maintain housing.

Taken together, although there would be significant impacts on city residents, these reductions would only achieve $4 million in savings, requiring additional reductions in other areas.

OW Cost of Administration

As OW administrative costs are currently funded 50/50 with the Province, in order to in order to achieve a net savings of $5 million, TESS would have to reduce its gross administration costs by $10 million. Savings of this magnitude would require the elimination of 100 full time staff positions or approximately 5% of the division's complement in each of the next 3 years for a total of 300 positions. This is the equivalent of closing one employment centre a year for the next three years.

Closing these centres would significantly impact the division's ability to support unemployed OW recipients in seeking and obtaining employment, increase the time required to assess eligibility for financial benefits, decrease the division's capacity to monitor ongoing eligibility and ultimately increase the length of time residents remain on social assistance. In addition, failure to meet the provincial outcome targets could result in the recovery of provincial funding.

Currently, up to 15% of the total approved funding for employment services may be recovered by the Province based on the non-achievement of provincially set outcome targets at the end of the two-year funding cycle. These outcomes include a range of measures that describe the success of employment services in increasing client's earnings, moving clients into employment and retaining jobs. Failure to meet these outcome targets could result in the Province recovering up to $8 million in employment assistance funding.

Social Assistance Stabilization (SAS) Reserve Fund

Draws on the SAS reserve fund could be used to offset unanticipated budget pressures in 2014 relating to the accelerated reduction of the Pooling Compensation Grant. The 2013 Operating Budget established an opening balance for the SAS Reserve fund of $11.9 million but the operating budget also included the assumption that $10.3 million will be drawn this year. This would result in a balance of $1.6 million. However, assuming the $10.5 million contribution to SAS reserve fund recommended in the 2012 year-end variance report is approved by Council, the 2013 year-end balance in SAS would be $12.1 million. This balance could in turn be used to off-set unanticipated budget pressures in 2014.

However, there are certain risks associated with this strategy. Drawing on the SAS reserve fund would result in future year budget pressures and leave the City with little or no protection if the OW caseload increases beyond projections or if other expenditures (e.g. medical or Housing Stabilization Fund benefits) exceed their capped budgets. Most importantly, this approach assumes no change in the provincial upload schedule for OW benefits. If the Province stretches out or eliminates the upload, the City could be left with significant future year budget pressures.

CONCLUSION

As identified earlier, the incremental impact from the loss of TPC funding is approximately $43 million annually from 2014 to 2016. The interest expense savings from the elimination of the Provincial loan are $42 million, equivalent to the impact of the funding reduction in one year. One approach that could be considered by the Budget Committee is to spread the loan interest offset over the three years, reducing $7 million of the net budget impact in each of 2014 to 2016, and delaying a portion of the impact to 2017 as indicated in Table 11 that follows.

Table 11: Potential Use of Interest Savings to Phase-in Cash Flow Impacts ($ millions)

	2013	2014	2015	2016	2017	2018
Previously Scheduled TPC	149.3	142.5	135.6	128.8	121.9	115.1
Revised TPC	149.3	100.0	50.0	0	0	0
Cumulative Change		(42.5)	(85.6)	(128.8)	(121.9)	(115.1)
Potential Use of Loan Forgiveness ($42.0)		7.0	14.0	21.0	0	0
Net Change		(35.5)	(71.6)	(107.8)	(121.9)	(115.1)

To summarize, the overall system of services to the most vulnerable Toronto residents is under pressure in a number of ways including increased social assistance case loads, social housing waiting list of over 87,000 households, limited shelter capacity, a growing social housing repair backlog, prescriptive provincial policy and divestment by both the Federal and Provincial governments. The elimination of TPC housing, homelessness and social assistance funding will substantially increase this pressure and will result in an increase in property taxes and/or a reduction to existing service levels to some of the most vulnerable people in Toronto.

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ATTACHMENTS

Appendix A – November 5, 2008; Letter to the Mayor from the Minister of Finance, Minister of Finance indicating a payment schedule by year to 2018

Appendix B – June 13, 2013; Letter to the City Manager from the Assistant Deputy Minister, Ministry of Finance indicating loss of TPC funding