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June 13, 2013

His Worship Rob Ford
Mayor
City of Toronto
100 Queen Street West
Toronto, Ontario
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Dear Mayor Ford:

I am writing to re-affirm my government's commitment to a strong partnership with the City of Toronto and to update you on the status of two important files – the Toronto Pooling Compensation and the outstanding Toronto Debenture Loan.

Provincial support for Toronto

Provincial support for Toronto has increased significantly in recent years. Indeed, despite Ontario's fiscal challenges, the province has increased on-going operating support to the city by more than 600 per cent since 2003.

The government has confirmed it will continue to honour its commitment to upload social assistance benefit program costs as well as up to \$125 million in court security and prisoner transportation costs off the property tax base. These uploads will be completed by 2018. The government understands the importance of this commitment to our municipal partners.

The City of Toronto is directly benefiting from our government's decision to upload costs off the property tax base. The estimated total benefit of these provincial uploads for the City of Toronto in 2013 is \$364 million as follows:

- over \$47 million from the upload of Ontario Drug Benefits,
- over \$19 million from the upload of Ontario Disability Support Program administration,
- over \$171 million from the upload of ODSP benefits,
- over \$54 million from the upload of Ontario Works (OW) benefits,
- over \$13 million from the upload of court security and prisoner transportation costs, and
- \$58 million in OW administration additional support.

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The estimated total benefit of these provincial uploads is projected to increase to almost \$500 million by 2016.

Toronto is also benefiting from a number of other sources of ongoing provincial support, including:

- over \$162 million in provincial gas tax revenue, for a total of almost \$1.2 billion since 2004;
- over \$78 million of land ambulance 50:50 cost-shared funding; and
- a benefit of over \$60 million resulting from the upload of public health costs.

The province has also committed over \$10.6 billion in infrastructure funding to Toronto since 2003. This includes an \$8.4 billion contribution to the Toronto transit plan.

As a result of increased support from the province, as well as other initiatives, such as *the City of Toronto Act*, the city has the tools it requires to operate as an accountable government. The strong partnership between our governments has helped the city put itself on a financially sustainable footing – as is evidenced by the fact that the city has reported operating surpluses in recent years.

Reviewing provincial-municipal funding arrangements

Eliminating the deficit is a very important step so the province can grow the economy, create jobs and continue delivering the best education and health care in the world. We are taking a balanced approach to eliminating the deficit. Part of effectively managing the rate of growth in spending involves reviewing provincial-municipal funding arrangements.

Ontario Municipal Partnership Fund (OMPF)

In February 2012, the government announced the review of the OMPF and the phase-down of the program to \$500 million by 2016. As part of the phase-down of the program, the OMPF social programs grants are being phased-out as the provincial uploads are implemented. These grants used to comprise the largest funding component under the OMPF. They have already been significantly reduced from more than \$300 million in 2007 to approximately \$30 million in 2012.

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Toronto Pooling Compensation (TPC)

Given the phase-down of the OMPF program and the significant increase in provincial support to Toronto, the government has also undertaken a review of the equivalent TPC funding arrangement to ensure that this special assistance to the city is fair and consistent with the arrangements provided to other municipalities.

As you are aware, TPC was introduced at the time that the decision was made to eliminate Greater Toronto Area (GTA) Pooling.

GTA Pooling was established to assist in mitigating the impact of the social program costs transferred to Toronto in 1998 under the previous government. Toronto also benefitted from an additional \$558 million in property tax revenue as a result of the changes in education property taxes in 1998 (by 2012, this revenue has grown to \$733 million).

GTA Pooling required social assistance costs to be shared across the GTA and was widely criticized as placing an additional burden on the municipal property tax bases of contributing municipalities, including York Region, Peel Region and Halton Region.

In the 2007 Ontario Budget, the government announced a plan to eliminate GTA Pooling over seven years, beginning in 2007. In fact, 2012 was the final year in which contributing GTA municipalities were required to make these payments. In order to assist Toronto in managing the transition to the lower revenues resulting from the elimination of GTA Pooling, the province introduced TPC.

In 2008, the government began the phased upload of social assistance benefit program costs, including Ontario Drug Benefits, Ontario Disability Support Program administration and benefits, and Ontario Works benefits. We are now in the sixth year of the phased implementation of these uploads, and the estimated total benefit of the provincial uploads for the City of Toronto in 2013 is \$364 million. By 2016 the benefit of the uploads will increase to almost \$500 million or more than double the revenue that the city received through GTA pooling prior to 2007.

Through the upload of social assistance benefit program costs, the province has directly addressed the issue that GTA pooling was designed to respond to – the pressure that these costs imposed on the property tax base. As a result, special revenue in the form of TPC mitigation is no longer necessary to achieve this goal.

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Therefore, our review of Toronto Pooling Compensation has determined that the province should phase-out this funding. This decision was made in light of the provincial uploading of social assistance benefit program costs, and in order to ensure that Toronto is on an equal footing with other municipalities.

It is important to note that TPC is the equivalent for Toronto of the OMPF's social programs grants. By phasing out both TPC and the OMPF's social programs grants, the government is taking a consistent approach to similar arrangements for Toronto and for other municipalities.

In order to provide the city with certainty around its budget planning processes, Toronto will continue to receive its full expected TPC payments for 2013. The funding will only begin to be phased-out in 2014 and will be reduced in a staged, multi-year manner (see table below).

Despite these changes, Toronto and other municipalities will continue to benefit from increased ongoing provincial support. The province is providing municipalities with ongoing support of approximately \$3.4 billion in 2013 – an increase of 200 per cent from the level provided in 2003. Support to Toronto will continue to increase significantly. It is projected that by 2016, ongoing support to the City of Toronto will have increased by almost 700 per cent since 2003 to over \$790 million, even with the phase-out of TPC.

Toronto Debenture Loan

While continued provincial uploads and other sources of ongoing provincial support will more than offset the phasing-out of Toronto's Pooling Compensation, our government will provide further transitional support to the City by remitting the outstanding Toronto Debenture Loan over a three-year time frame. This will provide the city with a financial benefit of over \$230 million by 2016.

As you know, in 2004, the City of Toronto entered into a debenture loan agreement with the province under the city's previous Mayor. Each year, the province has sent correspondence to the city regarding the unpaid principal and accrued interest owing under the outstanding Toronto Debenture Loan. As of today's date, there are 16 scheduled debenture payment amounts outstanding. Interest payments are in arrears and additional interest payments continue to accrue under the terms of the loan.

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The remission of the loan would represent a significant financial benefit to the city. In fact, loan remittance would fully mitigate the phasing-out of Toronto Pooling Compensation until 2016 (see table below).

Support to the City of Toronto 2013-2016 (\$M)

	2013	2014	2015	2016
Revised Toronto Pooling Compensation Schedule	149.3	100.0	50.0	0.0
Value of Loan Remission	0.0	42.5	85.6	103.2
Net Benefit of TPC Phase-down & Loan Remission	0.0	0.0	0.0	-25.6
Uploads	364.0	414.0	456.9	499.6
Other Ongoing Support (land ambulance, public health, gas tax)	292.1	292.1	292.1	292.1
Net Benefit of TPC phase-down, Loan remission, Uploads & Other Ongoing Support	656.1	706.1	749.0	766.1

Notes:

- Does not include capital funding – over \$10.6B since 2003, including \$70M annual provincial gas tax funding allocated by Toronto to capital.

The province remains focused on enhancing our strong partnership with the City of Toronto. This is clearly demonstrated by the significant increase in provincial support. There is a strong provincial interest in ensuring the city's continued success. As the province and the city work through these challenging economic times, it will be even more important that we continue to work together in areas of shared interest – to create jobs and help people in their everyday lives.

Sincerely,



Charles Sousa
Minister

- c: The Honourable Linda Jeffrey, Minister of Municipal Affairs and Housing
Joe Pennachetti, City Manager
Steve Orsini, Deputy Minister, Ministry of Finance
William Forward, Deputy Minister, Ministry of Municipal Affairs and Housing

