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TORONTO

STAFF REPORT
ACTION REQUIRED

# Child Care Funding Strategy

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| **Date:** | June 10, 2015 |
| **To:** | Community Development and Recreation Committee |
| **From:** | General Manager, Children's Services |
| **Wards:** | All |
| **Reference Number:** | |

## SUMMARY

This report seeks approval of an incremental funding strategy to maintain service levels within the Children's Services Division, following expiration of the Child Care Expansion Reserve Fund and the National Child Benefit Supplement Reserve Fund.

## RECOMMENDATIONS

The General Manager, Children's Services, recommends that City Council:

1) approve a child care funding strategy that incrementally eliminates reliance on reserve funds to maintain service levels, replacing the reserve funding with increased municipal property tax contributions over an eight year implementation period commencing in 2016 with a $0.5 million increase in the net, culminating in 2023 in a total increase in City funding of $16.6 million that will result in an increase in City's funding from $76.716 million to $93.316 million; and

2) refer the Child Care Funding Strategy to Budget Committee in consultation with the Deputy City Manager & Chief Financial Officer for consideration along with other City priorities as part of the 2016 Operating Budget process.

### Financial Impact

In 2014 and 2015, Childrens' 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 of 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.

This report recommends a strategy that incrementally replaces funding from the Child Care Expansion Reserve Fund and the National Child Benefit Supplement Reserve Fund with funding from the municipal tax funding commencing with an initial transfer of $0.5 million in 2016 and culminating with a total transfer of $16.6 million in 2023. Beyond 2023, inflationary increases from both municipal and provincial sources would be required to maintain service levels and to address inflationary pressures.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agree 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

City Council on July 25, 26 and 27, 2006, adopted the report "Approval of the Toronto Child Care Service Plan Update" which updated Council on Best Start Funding and principles guiding development of the next Child Care Service Plan. This report recommended maintaining 2,000 additional fee subsidies by accessing the Child Care Expansion Reserve Fund and providing annual increases to child care per diem rates that reflected the actual costs of service.
http://www.toronto.ca/legdocs/2006/agendas/council/cc060725/pof6rpt/cl030.pdf

City Council at its meeting of March 10 and 11, 2015, requested the General Manager, Children's Services, report to Council in 2015 on a long-term strategy to address the division's projected shortfall and to ensure the continued viability of the child care system beyond the life of the Child Care Expansion Reserve Fund. The strategy will also support continuity of new After-school Recreation and Care programs beyond the life of the National Child Benefit Supplement Reserve.
http://www.toronto.ca/legdocs/mmis/2015/ex/bgrd/backgroundfile-77290.pdf

City Council at its meeting of May 5, 2015 unanimously approved the Toronto Children's Services 2015-2019 Service Plan. The plan's principles of age and geographic equity support the distribution of fee subsidies across the city by age and geographic location. This report endorses a capital strategy to support growth in licensed child care spaces, focused in areas where there are insufficient spaces for younger children.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.CD3.3

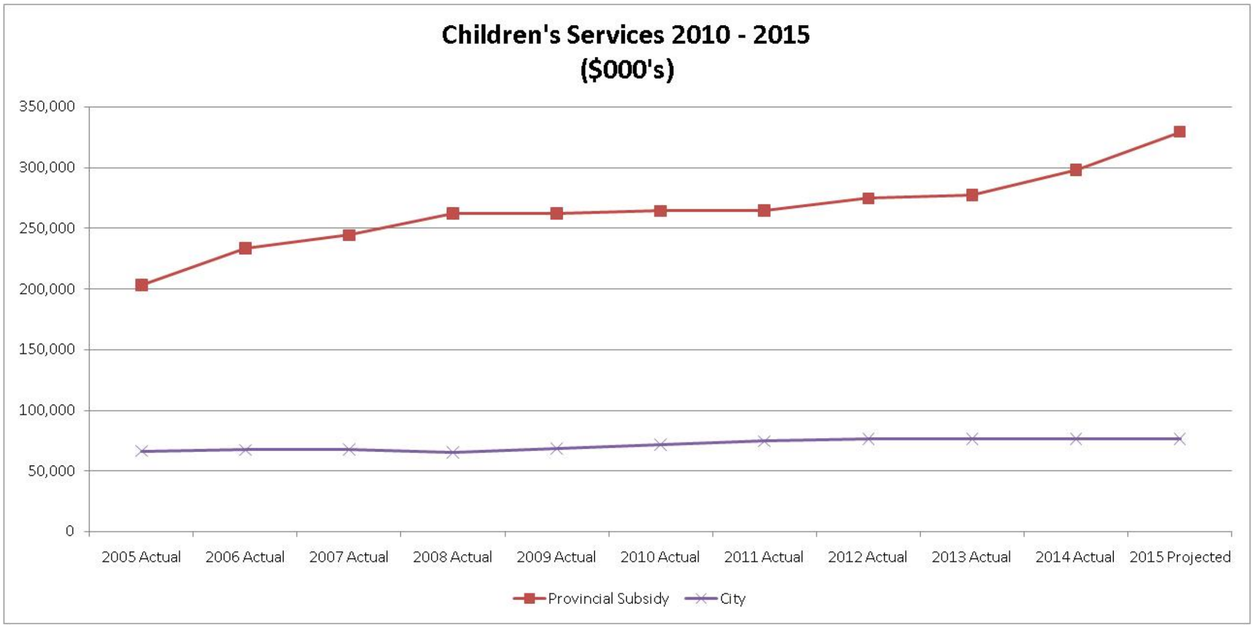
## ISSUE BACKGROUND

There are currently 61,640 licensed child care spaces in Toronto, which serve less than 20 per cent of the child population from birth to age 12. As a result, many children requiring child care receive it in unlicensed and unregulated settings. Current funding levels provide for the equivalent of 25,116 fee subsidies, assuming that the availability of physical, licensed child care space enables the division to allocate subsidy in a manner that is consistent with its age equity targets. Subsidies support approximately 29 per cent of Toronto's low-income children (based on Statistics Canada's after-tax Low Income Measure). The waiting list for child care fee subsidy is more than 17, 900 children.

### Cost Sharing

Funding for Children's Services is comprised of provincial contributions at 100 per cent, 80 per cent or 50 per cent dollars for programs and administration. Additional programs are 100 per cent City funded. With the introduction of the Province's new funding framework for Children's Services in December 2012, cost sharing requirements for 80/20 program expenses and 50/50 administration expenses, were frozen by the Ministry of Education at 2005 levels. The provincial contribution of $189.9 million at that time, was not achieving the full cost share requirement, accounting for approximately 74% of program and 40% of administration costs. This resulted in an annual shortfall of $20 million. These cost share amounts are locked in and cannot be revisited.

While this historic shortfall technically remains in the cost shared portion of the Children's Services budget, since 2009, when responsibility for early learning and child care moved to the Ministry of Education, annual increases in provincial funding have been received as illustrated in the chart below. These increases have been 100% provincial resources, requiring no cost sharing. As a result of provincial increases, service levels have also increased from 24,000 to 25,116 fee subsidies.




**Provincial & Municipal Contributions**

The new Provincial funding framework for child care recognizes municipalities that contribute over their minimum required cost share. As a result of the City's investment exceeding the minimum required contribution, Toronto receives an annual Utilization Allocation from the Province. The Province determines this allocation by considering actual expenses funded by the City, in comparison to the total annual approved provincial subsidy allocation. The City's contributions over the minimum required in 2012, 2013 and 2014 were $22.9, $25.0 and $21.6 million respectively. Consequently, in 2013, 2014 and 2015, the City received $14.6 million, $15.7 million and $16.9 million respectively, through this allocation. To continue to leverage the provincial investment, the City must make additional investments in children's services as costs increase due to inflation and as the system expands.

Since 2013, Children's Services has used increases in provincial funding to satisfy Council's directives to pay actual costs in child care per diems, increase service to children with extra support needs, and to increase the number of child care subsidies available. At present, the equivalent of 23,116 subsidies is supported by provincial resources. The remaining 2,000 subsidies are funded by the City, through Children's Services revenues and the Child Care Expansion Reserve Fund. The 2,000 fees subsidies, which Council added to Children's Services service levels in 2006, use one-time Best Start resources provided to the City as a result of the cancellation of the Federal Government's Early Learning and Child Care Agreement with Ontario. These resources were placed in the Child Care Expansion Reserve Fund.

Since 2006, municipal contributions have been largely flat lined. If the City's share of total funding, as a percentage of overall funding, continues to decline, the provincial Utilization allocation will likely decline.

**Managing Access to Service**

Access to child care is managed based on principles of age and geographic equity. Due to the limited number of fee subsidies available, Council approved the equitable distribution of available subsidies by assigning each City ward a share of the 25,116 full time fee subsidies based on the proportion of children in the ward who are living in low-income families. The spaces are then allocated by age, with targets being assigned to each age group.

Age equity targets are established to ensure equitable access to all children, particularly the youngest and most vulnerable. Substantial investment in creating new licensed child care spaces is a key factor in achieving age equity for younger children, especially the infant and toddler age groups. While some progress has been made in creating increased physical licensed spaces for these age groups, additional growth is required to achieve age equity and will note be fully realized for several years. As a result, current age equity targets are not being met, with more child care spaces and subsidies being allocated to kindergarten and school aged children.

**Impacts of Full Day Kindergarten**

Full-Day Kindergarten (FDK) was fully implemented in September 2014 and is now in every elementary school in Ontario. FDK was introduced in 2010 and phased in over a five year period. The greatest expansion of FDK programs was realized in 2013 and 2014, with the introduction of more than 280 new Before-and-After School programs serving 8,200 children. FDK has had a significant impact on child care operators, families and the child care system in Toronto.

FDK implementation has resulted in a reduction in the cost of child care and the costs of child care fee subsidies for over 30% of the child care system. Prior to FDK, kindergarten aged children received full time care in licensed child care centres, with an average daily fee of $46. Children in FDK programs now require care only before and after school, with an average daily fee of $31.

As FDK was implemented, the Province and the City have provided funding to support child care operators as they retrofit child care space previously used for four and five year olds to space suitable for younger children. The cost of care for younger age children is significantly higher, with an average daily fee of $79 for an infant space and $61 for a toddler space. Despite a modest increase in child care spaces for infants and toddler over the last five years, there are not enough spaces to meet demand across the city, to address the City's age equity targets, or to offset the lower FDK per diems with higher infant and toddler per diems.

These broad system changes in both service levels and costs, resulted in an $11 million under expenditure in the division's 2014 operating budget which has been allocated to the Child Care Capital Reserve Fund to support creation the of spaces for infants and toddlers and to achieve age equity targets. As outlined in the recently approved *Children's Services Service Plan, 2015 – 2019*, meeting age equity targets requires an additional 1551 licensed child care spaces serving infants and toddlers. A growth in new infant and toddler spaces over the next five years is anticipated to address this need. The under-expenditure as experienced in 2015 is unlikely to recur as these more costly but badly needed spaces are introduced into the system.

**Child Care Capital Expansion Reserve Fund**

The current service and age mix has resulted in lower than expected per diem costs across the system. As a result, it is anticipated that the Child Care Expansion Reserve Fund and the National Child Benefit Supplement Reserve would expire in 2019 if City contributions to child care are not increased. The scenario proposed in this report would extend the life of these reserve funds to 2023, an eight year period during which the City would incrementally replace reserve funding with a municipal tax-based contribution. It is proposed that the increase in City funding would commence in 2016 with a $0.5 million increase in the net, and would culminate in 2023 with a total increase in City funding of $16.6 million. Beyond 2023, inflationary increases in funding from both the Province and the City will be required to maintain service levels. Budget pressures are mainly due to annual inflation for the purchased child care sector, with inflation creating an annual pressure of approximately $7 million.

The projected shortfall to be funded from the Child Care Expansion Reserve Fund increases cumulatively from $7.9 million in 2016 to $28 million in 2019 as noted in the table below. The shortfall is calculated based on the estimated impact of inflation on the gross expenditures for the child care system and assumed no annual increases in funding from either the City of the Province.

Table 1:

| | **2016** | **2017** | **2018** | **2019** |
|---|---|---|---|---|
| RESERVE FUND PROJECTION - NO PROVINCIAL / CITY INCREASES | | | | |
| REQUIRED RESERVE CONTRIBUTIONS (Projected Need - Cumulative) | 7.9 | 14.6 | 21.2 | 28.0 |
| | | | | |
| CHILD CARE EXPANSION RESERVE FUND BALANCE | 41.6 | 27.0 | 5.8 | (22.2) |
| | | | | |

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

## COMMENTS

**Recommended Strategy**

To address the above issues, Children's Services recommends implementing a multi-year strategy that will use the Child Care Expansion Reserve Fund as a source of transitional funding, while incrementally increasing the City's contribution to program costs. Beginning in 2016, this report recommends that the City incrementally replace reserve fund investment with property tax based investment in the child care system as outlined in Table 2. The City's cumulative contribution would increase annually over 8 years commencing in 2016 with a transfer of $0.5 million and culminating in a total transfer of $16.6 million in 2023. This strategy assumes that provincial contributions will continue to increase by 1.5 per cent or $4.5 million annually. Provincial contributions have increased by an average of 3.8 per cent per year, over the past 4 years; however, a portion of the increase was related to FDK implementation and transition of the child care system, which may not be maintained once the transition is complete.

The strategy includes operating funds for ten ARC programs, funded through a contribution from the National Child Benefit Supplement Reserve in 2015. Increased City contributions over the seven years will ensure the continued viability of these programs beyond the life of the National Child Benefit Supplement Reserve.

The strategy considers the impacts of FDK and reflects growth requirements for younger age children. The capital strategy in the Council-approved *Children's Services Service Plan – 2015 to 2019,* will result in an increase in capacity for younger age children of 1,551 spaces over five years.
Council approved service levels currently fund up to 25,116 fee subsidies. In 2014 the actual service mix by age group differed from the projected budget mix as a result of a shortage of spaces in the system for infants and toddlers and a lower than projected per diem for children in FDK before and after school programs. To address this and to fully utilize available subsidy resources, the strategy assumes the gradual redistribution of existing fee subsidies in 2016 and beyond to achieve age equity targets. Specifically, in the short term subsidies for older children will exceed age equity targets. This will be corrected as new spaces for infants and toddlers become available. The division will continue to monitor and adjust the allocation of fee subsidies to balance growth within Council-approved service levels. Any required adjustments will be managed through attrition. The Table 2 summarizes the funding strategy and capital growth projected for infants and toddlers.

Table 2:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **CHILD CARE EXPANSION RESERVE FUND** | | | | | | | | |
| **Phased Replacement with Net Expenditure** | | | | | | | | |
| **Includes Growth per Capital Strategy** | | | | | | | | |
| **In $ millions** | | | | | | | | |
| | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** |
| **PROJECTION SUBSIDY AND NET INCREASE WITH GROWTH IN # SPACES** | | | | | | | | |
| **PROJECTED NEED (Includes Inflation - Cumulative)** | **7.9** | **14.6** | **21.2** | **28.0** | **34.8** | **41.9** | **49.2** | **56.9** |
| **PROJECTED CONTRIBUTIONS** | | | | | | | | |
| Prov.Subsidy Increase (1.5% - $4.5M per year cumulative) | 4.5 | 9.0 | 13.5 | 18.0 | 22.5 | 27.0 | 31.5 | 36.0 |
| City Contribution Increase (Cumulative) | 0.5 | 1.0 | 2.0 | 3.0 | 4.0 | 6.0 | 10.0 | 16.6 |
| Required Reserve Fund Contributions | 2.9 | 4.6 | 5.7 | 7.0 | 8.3 | 8.9 | 7.7 | 4.3 |
| **TOTAL CONTRIBUTIONS** | **7.9** | **14.6** | **21.2** | **28.0** | **34.8** | **41.9** | **49.2** | **56.9** |
| **CHILD CARE EXPANSION RESERVE FUND BALANCE** | **46.6** | **42.0** | **36.3** | **29.3** | **21.0** | **12.0** | **4.3** | **-** |
| **# SPACES (750 infant /toddler increase from 2015)** | | | | | | | | |
| Infant / Toddler | 6,284 | 6,357 | 6,434 | 6,517 | 6,608 | 6,711 | 6,832 | 6,974 |
| Preschool / KG / School Age | 19,650 | 19,435 | 19,220 | 19,005 | 18,790 | 18,575 | 18,360 | 18,142 |
| **Total** | **25,934** | **25,792** | **25,654** | **25,522** | **25,398** | **25,286** | **25,192** | **25,116** |

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

## CONCLUSION

The recommended funding strategy aligns with the 2015-2019 Children's Services Service Plan and will benefit Toronto by providing the child care system with stable, predictable funding beyond the life of reserve funds.
Expansion of the child care system is needed to improve access for all families and system growth must be supported with predictable, stable base funding.

## CONTACT

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## SIGNATURE

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