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Appendix A

2026

Build capacity to meet demand
Improve affordability for families
Support a thriving workforce

TORONTO'S LICENSED CHILD CARE GROWTH STRATEGY

For children under 4

2017-2026

TORONTO

April 2017

1\ TORONTO'S LICENSED CHILD CARE SYSTEM IS GROWING

In anticipation of increased federal and provincial investments, Toronto's licensed child care system is expected to grow. This report outlines the ideal vision for that growth in order to meet the needs of families with children 0-4, to make child care more affordable, and to ensure programs of high quality. Achieving this vision depends on significant public investments, and requires a commitment of long-term funding from all three orders of government.

Paving the road for a child care system that meets the needs of all Toronto families

Toronto Children's Services has heard time and again from parents and caregivers that the child care system is not meeting their needs. From a lack of physical spaces located near home, school or work, to the highest average parent fees in the country, to a fee subsidy wait list of over 15,000 children, the system is leaving many families behind, and others under significant strain.

Recent research by Toronto Children's Services has shown that licensed child care is unaffordable to over 75% of families. On the other hand, if costs were reduced, up to 50% of families would choose licensed care.

This report paves the road for a child care system that works for all Toronto families, and illustrates what is required to get there. It outlines a vision for the next ten years, a vision that is rooted in research about who in Toronto would demand child care if it were affordable, and how best to grow the system to meet that demand. It is an ambitious vision, but it is what Toronto's families require.

The provincial and federal governments have committed to funding child care and to growing the system

On September 12, 2016, the provincial government committed to creating 100,000 new child care spaces over five years for children up to four years old across the province. Based on historical shares of provincial investments, this could result in approximately 30,000 new spaces for children 0-4 in Toronto.

Similarly, the federal government announced $500 million for 2017-18 to support the development of a new National Early Learning and Child Care Framework for children 0-12, to be developed with provinces, territories and Indigenous communities ($100 million is earmarked for Indigenous early learning on reserve). On March 22, 2017, the federal budget announcement proposed an additional $7 billion over ten years starting in 2018-19, and indicates that the investment could support up to 40,000 new subsidized child care spaces in the next three years.

At the time of this report, the City of Toronto's allocations from provincial and federal investments were not known. This report estimates the capital and operating funds in addition to the current budget that are required to achieve the vision. It is assumed that combined, provincial and federal contributions will fund 80% of these costs.

This report is focused on licensed child care for children under 4 (infant, toddler and preschool programs)

There are a few reasons why this report focuses on children under the age of 4 (infant, toddler and preschool). The demand for licensed child care is different for older children (4 to 12 year olds), who require before and after school programs, compared to children under 4 who require more costly full-day care.

Furthermore, recent provincial legislation has created different planning processes for school aged programs. School boards have a duty to provide before and after school programs for children 4 to 12 years old in schools where there is a demand. Children's Services is working with school boards to plan for these programs, and will report to City Council separately on this work, including the resources needed.

Lastly, it aligns with recent provincial announcements that have focused on building new spaces for 0-4 year olds. As service system manager, Toronto Children's Services is responsible for leading this planning and development.

The demand for licensed child care in Toronto is constrained by costs that are unaffordable for most families

In 2016, Toronto Children's Services commissioned the *Licensed Child Care Demand and Affordability Study* ("Demand Study") from a research team led by Dr. Gordon Cleveland and Dr. Michael Krashinsky at the University of Toronto. The study built and tested economic models for measuring the demand for and affordability of child care in Toronto.

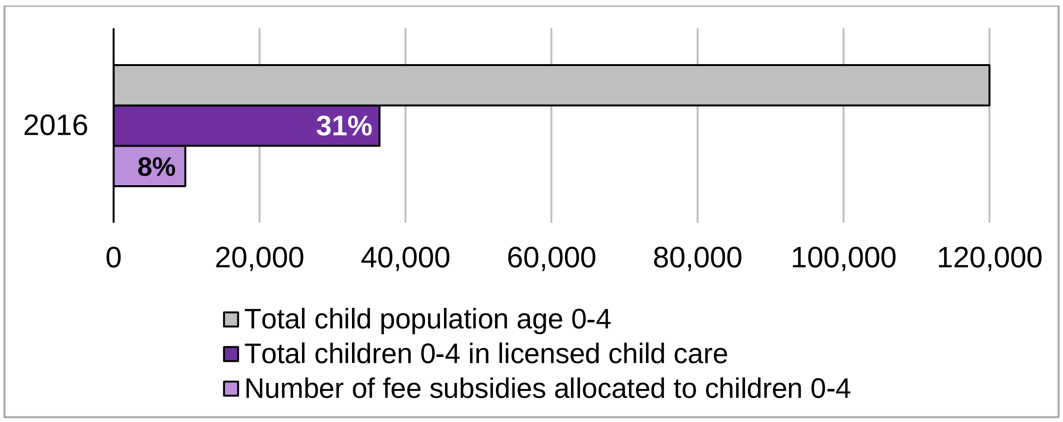
A key finding of the Demand Study was that more Toronto families want to access licensed child care, but affordability is a significant barrier. The City supports affordability in two ways. Fee subsidies support families who are eligible for financial support to cover the costs of care. Operating grants go to service providers to support the overall child care system through dedicated funding that can be used to lower fees for all parents.

In 2012, the Ministry of Education developed a new funding framework that, among other things, provided increased funding flexibility to municipalities. This allowed Toronto Children's Services to introduce the General Operating Grant, a streamlined funding approach that is more equitable for operators and reduces child care costs for all families. Higher funding is provided to those serving children under age 4, which acknowledges that these programs are more costly to operate, primarily because the child-to-staff ratios are lower.

The current system by the numbers

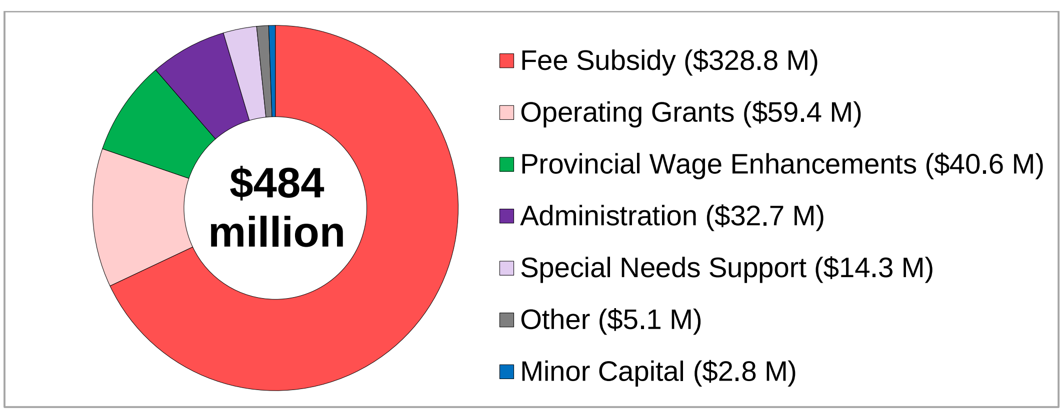
In February 2017, there were just under 37,000 licensed infant, toddler and preschool spaces in child care centres in Toronto, enough for 31% of children under the age of 4. At that time, 9,964 fee subsidies were allocated to that age group, which was enough fee subsidies for 27% of the 0-4 year olds in licensed child care centres, or 8% of the total 0-4 population, as shown in Figure 1.

Figure 1: The total child population under 4 in 2016 compared to the number of licensed, centre-based child care spaces and fee subsidies available to that age group.



Children's Services' 2017 Operating Budget for all age groups (0-12 years old) is $484 million, as shown in Figure 2. This budget comes from three sources: the Province of Ontario ($357 million), the City of Toronto ($96 million), and parent fees from families in receipt of fee subsidy ($31 million).

Figure 2: Toronto Children's Services' 2017 Operating Budget (all age groups).



2\ THE VISION

This section outlines the City of Toronto's ten year vision for the licensed child care system for children under 4, as shown in Figure 3, and describes how it was created. It is an ambitious vision, and current levels of public funding are insufficient to achieve it. With adequate funding and careful planning, it is possible to bring this vision into reality.

Figure 3: Toronto's ten year vision for the licensed child care system for children under 4.

Build capacity to meet demand

Enough licensed, centre-based child care spaces for 50% of children under the age of 4, and the capacity required to operate those spaces.

Support a thriving workforce

Good jobs that attract and retain child care professionals.

Improve affordability for families

Public investments that keep parent fees affordable for families across all income groups, and fee subsidies for families in financial need.

Build capacity in the system to meet demand and provide high quality, licensed child care for 50% of 0-4 year olds by 2026

The Demand Study found that if licensed child care was more affordable, demand could be as high as 50% of the child population. For this reason, the City of Toronto's vision for the licensed child care system is to serve 50% of children aged 0-4 by 2026.

Ensuring that 50% of Toronto's children have access to licensed child care will require a significant increase in the number of physical spaces through capital development. It will also require that service providers have the capacity to operate these programs, and that there is capacity in the system to support children who have special needs.

Improve affordability for families by reducing parent fees and increasing the number of fee subsidies

The Demand Study found that affordability is a key barrier to accessing child care. Under current conditions, without addressing affordability, there is unmet demand for licensed child care for just under 2,500 infant, toddler and preschool spaces. Beyond that, growth in the licensed child care system must be accompanied by measures that improve affordability or spaces will remain vacant.

Modeling the impact of affordability measures on demand

To inform this strategy, the economic models developed through the Demand Study were used to simulate the effect that two affordability measures would have on demand for licensed child care: reducing parent fees, and increasing fee subsidies. The following three simulations were tested:

1. Fee subsidies: All new funds directed toward increasing the number of fee subsidies available to eligible families.
2. Operating grants: All new funds directed toward operating grants that reduced parent fees by 40%.
3. Combination: New funds directed toward a combination of increased fee subsidies and operating grants that reduced parent fees by 25%.

For each simulation, it was assumed that between $200 and $250 million in additional funding was available to invest in the affordability measures. This amount was based on a very rough estimate of Toronto's potential share of recent provincial and federal commitments. It is important to note that if more funding is available, there can be a greater impact on affordability (and therefore demand), and if less funding is available, the impact on demand likely won't be as significant.

Figure 4 compares these simulations against current funding levels by their impact on three household income groups: less than $50,000 per year before tax, between $50,000 and $100,000, and over $100,000. It shows the percent of families in each income group who are likely to choose licensed child care.

Figure 4: The likelihood that families in different income groups will choose licensed child care in three simulations compared to the current funding levels.

	Expected household annual income (before tax)		
	Less than $50,000	$50,000 - $100,000	More than $100,000
Current funding levels	38%	29%	33%
Simulation 1: Fee subsidies	46%	30%	33%
Simulation 2: Operating grants	43%	37%	44%
Simulation 3: Combination	43%	33%	40%

In all three simulations, the probability of families choosing licensed child care increased compared to the current funding context, regardless of whether investments were put into fee subsidies, operating grants, or both. However, in each simulation the impact was different for the different family income groups.

In simulations 1 and 3, where the number of fee subsidies was increased, families with lower household incomes were most likely to choose licensed child care. In simulation 2, where all new funding was used to lower parent fees, families with the highest household incomes were most likely to choose licensed child care.

In all three simulations, middle income families were least likely to choose licensed child care, however their likelihood did increase in each simulation when compared to the current funding context. Reductions in parent fees tended to have a bigger impact than fee subsidies in helping middle-income families access child care.

Choosing the approach for improving affordability

While no simulation produced a perfectly equal distribution of access across different income groups, the models illustrate that both fee subsidies and operating grants help improve access to licensed child care in different ways. A combination of these affordability measures is required to ensure equitable access for lower income families because if all funding was used to reduce parent fees, there would still be many families who would not be able to afford child care.

The modeling also does not provide a straightforward answer to the exact combination of fee subsidy and operating grants that is required to serve 50% of children. This depends, of course, on the levels of public investment. The models did highlight, however, that as investments are made to reduce parent fees, less fee subsidies are required.

In order to support equitable access for lower and middle income families, the approach chosen in this strategy, as outlined in the next section ("Achieving the Vision"), provides ranges for both reducing parent fees and increasing fee subsidies. These ranges give the flexibility that will be required to evaluate and respond to changing needs as the child care system grows.

Support a thriving workforce through high quality jobs that attract and retain the best child care professionals

Ensuring this growing system is providing the highest quality programs for children and families begins with a thriving workforce. Attracting and retaining the best child care professionals requires high quality and reliable jobs across the child care system where compensation levels reflect the value of the work.

Continued public investment in operating grants can be used to increase the salaries of child care professionals, and therefore support efforts to recruit and retain qualified professionals in licensed child care programs.

3\ ACHIEVING THE VISION

This section outlines what it would take to achieve the City of Toronto's ten year vision for the licensed child care system. For each component of the vision (build capacity, improve affordability, and support a thriving workforce), consideration is given to the major planning and policy issues, as well as the barriers to growth that must be addressed.

BUILD CAPACITY

The capacity of the child care system refers to the number of physical spaces that are available for each age group (infant, toddler, preschool), and the capacity of the system to operate them.

Licensed spaces: Licensed child care programs must meet standards and requirements set out by the Province.

Capital development: Increasing the number of licensed child care spaces requires capital development through building new child care centres, expanding existing centres, or retrofitting other spaces for child care programs.

Operational capacity: Growth requires the capability of service providers to effectively operate the new and expanded spaces.

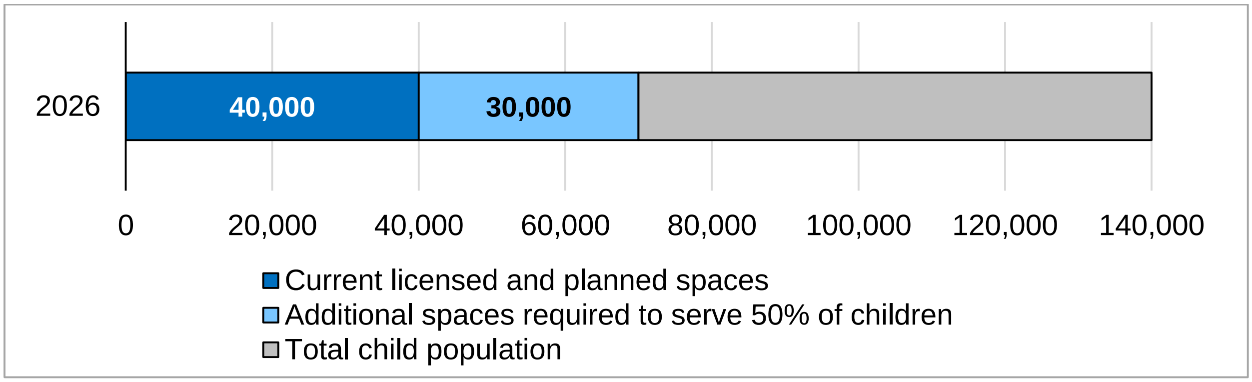
By 2026, Toronto will have to create 30,000 additional licensed spaces in order to provide child care to 50% of children under 4

As of February 2017, Toronto's child care system had just under 37,000 infant, toddler and preschool spaces. This is enough to serve 31% of the estimated 120,000 children under age 4 living in Toronto.

Additionally, there are approximately 2,900 spaces currently planned for development within the next few years, based on the most recently updated Children's Services Capital Plan. Capital development funding has already been allocated for these spaces. This results in close to 40,000 existing and planned spaces in Toronto.

Based on the Ontario Ministry of Finance population projections, approximately 140,000 children aged 0-4 are expected to live in Toronto by 2026. Having enough spaces for 50% of those children will require 70,000 spaces, which means an additional 30,000 must be created, as shown in Figure 5.

Figure 5: The number of infant, toddler and preschool spaces that will be required by 2026 in order to reach 70,000 spaces and serve 50% of children under age 4.



Capital development takes time to plan and implement, and development opportunities may be limited

It will be very challenging to build 30,000 spaces in ten years. Capital development takes on average 3 to 4 years from agreement to completion, regardless of who leads the process. Furthermore, land costs are extremely high in Toronto, and because of licensing requirements, appropriate spaces for child care development are limited. Rented spaces also present challenges due to high costs, and insecure tenure.

In order to reach the ambitious growth set out in this vision, Toronto will have to actively pursue opportunities for expanding existing non-profit child care centres, retrofitting existing spaces, and building new centres. It may also require exploring expansion in licensed home child care and municipal child care. Given the magnitude of change, the City of Toronto will likely need to contract with a third party to assist with the planning, managing and construction of this expansion.

The City of Toronto will partner with child care providers to build capacity in the system

Significant growth in the number of licensed child care spaces will also require service providers to operate those programs. The opportunities available for existing service providers to expand their services may be limited. Many service providers are struggling with the volume and rate of change that has occurred since the implementation of full day kindergarten, which saw significant expansion in many programs. Furthermore, many smaller service providers may not have the capacity to expand their programs or take on significant renovations.

As more families have access to licensed child care, children with special needs will also require access. The system must be able to address the extra supports needed to ensure all children have access to the system.

IMPROVE AFFORDABILITY

Cost is one of the most important factors impacting a caregiver's decision to use licensed child care. Public policy must consider the best ways to improve affordability for all families.

Operating grants: Child care service providers receive public funding to cover partial costs of operating their programs. This funding helps keep fees lower for all families enrolled in the centre.

Parent fees: Parent fees are the contributions that families pay toward the costs of care. Families who do not receive fee subsidy pay the full parent fees. Child care operators set their own parent fees.

Fee subsidies: A fee subsidy helps eligible families with the full or partial cost of child care, based on a provincially-mandated income test. To be eligible, caregivers must be employed, in school, or in a training program.

Providing access to 50% of children requires both reducing fees for all families, and providing subsidies for families in need

Under the current system, fee subsidies are the primary way to support families that cannot afford the costs of care. In order to provide access for 50% of children, a substantial increase in fee subsidies would be required to address the affordability barriers that families face.

The Demand Study found that if fees were reduced through operating grants, demand would increase because child care would become a more affordable option for many families. In this case, the number of fee subsidies would not have to increase as much in order to ensure access for 50% of children.

The City of Toronto envisions a system where parent fees are between 25% and 40% lower than current levels

The models developed through the Demand Study were used to test several scenarios where parent fees were reduced by varying amounts. In the modeling, as parent fees decreased, demand increased. However, fees would have to be reduced by at least 25% before it had a significant impact on demand – that is before a substantial number of new families would choose licensed care.

Based on the modeling, if fees were reduced between 25% and 40%, approximately 40% to 45% of the population would demand licensed child care. In order to reach Toronto's vision of serving 50% of children, the remaining demand would be achieved through an increase in fee subsidies.

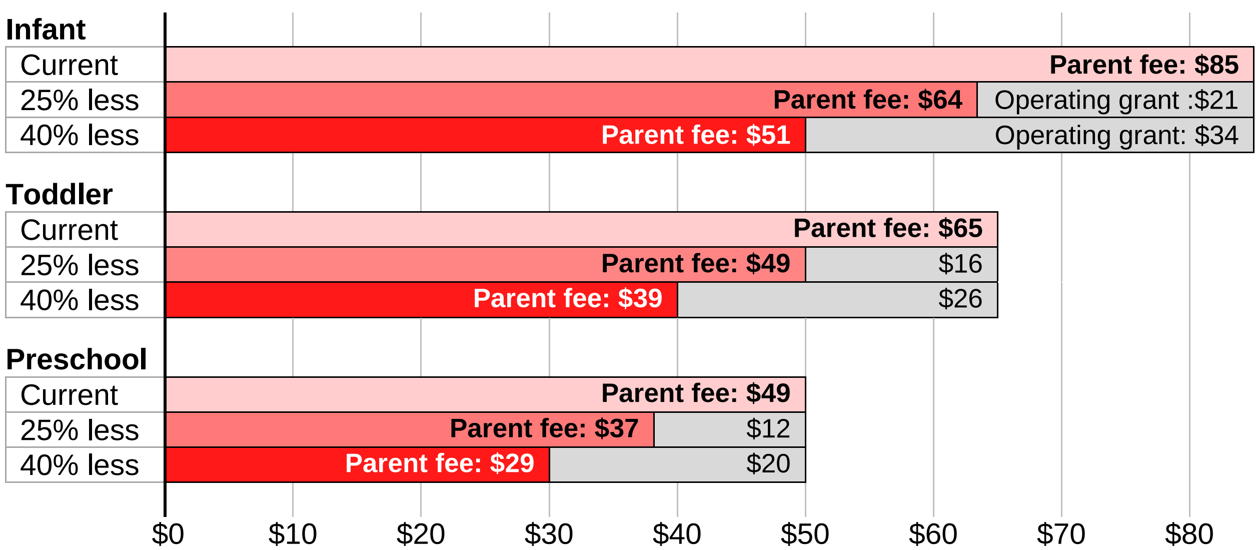
According to the Canadian Centre for Policy Alternatives' 2016 report, *A Growing Concern: 2016 Child Care Fees in Canada's Big Cities,* Toronto has the highest infant, toddler and preschool parent fees of any major city in Canada. Figure 6 shows the range of daily parent fees in Toronto in 2016.

Figure 6: Low, middle and high range of daily parent fees in Toronto by age group, 2016.

	Infant	Toddler	Preschool
Low range	$67.91	$52.00	$39.77
Middle range	$85.00	$65.34	$49.00
High range	$106.90	$95.16	$70.40

Figure 7 shows what the 2016 average daily parent fees (pink bars) would be for infant, toddler and preschool spaces if they were reduced by 25% and 40% respectively through operating grants (grey bars).

Figure 7: Current average infant, toddler and preschool fees in Toronto, reduced by 25% and 40%.



Before parent fees can be significantly reduced, policies will be required at the outset to control fee increases

Funding the Future (2011), a research report commissioned by Toronto Children's Services, outlined the importance of having policies in place to control fee increases. Experiences from Quebec, Manitoba and Prince Edward Island highlight this as a condition of success for ensuring that public investments in operating costs truly help to improve affordability.

Before significant increases in operating grants can be made, measures will be required for the City of Toronto to control fee increases and ensure that affordability is not achieved by reducing salaries. Toronto has had some of the highest child care fees in Canada for several years, often outpacing the rate of inflation. The City of Toronto will need to understand what factors are driving up these increases in order to develop and implement effective policies.

A number of market impacts are expected as a result of controlling fee increases. Currently, operating grants are only given to those service providers with a fee subsidy service agreement with the City of Toronto, which allows them to place children with a fee subsidy in their programs. Service providers without a service agreement will likely find it difficult to compete with the lower fees of those centres that receive operating grants. The City of Toronto will continue to use its service agreement process to ensure service providers meet all operating, quality and financial requirements.

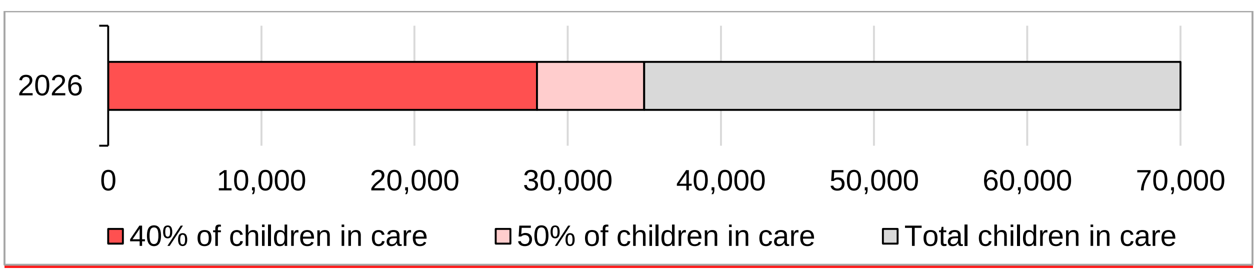
Furthermore, demand for Toronto programs from residents in surrounding municipalities would likely increase if fees were lower. Current examples across Canada that control fees are found at the provincial level, where standard fees can be set across municipal boundaries. The City must work closely with the Province and other municipalities in the Greater Toronto Area to align policies.

The City of Toronto envisions a system where the ratio of fee subsidies to spaces is between 40% and 50%

While a reduction of parent fees by 25% to 40% would significantly increase demand, many families would still require a fee subsidy in order to access licensed child care. To achieve the City of Toronto's vision of serving 50% of 0-4 year olds, the number of fee subsidies would have to increase as spaces increase. Figure 8 shows the number of fee subsidies that would be required in 2026 to maintain a 40% ratio, and a 50% ratio, if there were 70,000 spaces.

In February 2017, the fee subsidy waitlist was over 15,000, highlighting a substantial need for fee subsidies. According to the Demand Study, up to 70% of Toronto's families would be eligible for some amount of fee subsidy based on current average fees, and yet only 12% of families currently have access to them. If parent fees were reduced by 25% to 40%, fewer families would need to access a fee subsidy, freeing more for those who continue to be eligible.

Figure 8: The number of fee subsidies that would be required by 2026 to maintain a subsidy-to-spaces ratio of 40%, and 50%.



Investments in affordability and capital development must be balanced and incremental in order to maintain stability

When affordability measures are implemented, whether in fee subsidy or operating grants, demand will increase and the supply of spaces must be available to absorb that demand. The City of Toronto must ensure that affordability measures are implemented incrementally in order to keep pace with planned growth in spaces. This will require flexibility to adjust funding levels as the supply grows.

A THRIVING WORKFORCE

Supporting the workforce of child care professionals is achieved through strategies that build the workforce, and improve recruitment and retention through appropriate salaries and quality jobs.

Operating grants: Child care operators receive public funding to cover partial costs of operating their programs. All or part of these savings can be reinvested in child care professionals by increasing salaries.

Workforce development: Legislation requires a certain ratio of qualified Registered Early Childhood Educators (RECEs) to children for each program based on age.

Improved affordability must be achieved through adequate public investments that support quality

This requires a strong, appropriately compensated workforce of child care professionals. Salaries make up the majority of costs for child care operators. Improving affordability for families cannot be achieved by reducing child care costs, as this places downward pressure on salaries, and forces operators to make decisions that could compromise the quality of their programs. Public investments must be significant enough to both raise salaries for those child care professionals below public standards, as well as decrease fees for families. Gains in affordability cannot come at the expense of the quality of programs.

Supporting a high quality system requires investing in child care professionals

Quality child care programs depend on RECEs, the positive interactions they have with children, and their knowledge of early years pedagogy and development. If the system is to grow substantially, it is important that strategies are in place to ensure there are enough qualified professionals to run expanded programs.

Furthermore, this workforce is in need of significant support. Many operators are finding it difficult to recruit and retain qualified staff because wages are low, which leads professionals to leave the field. Even if organizations are successful in finding enough RECEs for more programs serving 0-4 year olds, staffing for older age groups will be impacted because those jobs often require split shifts (before and after school) and are therefore less desirable. Ongoing investment will be required to ensure a stable and qualified workforce, which is a key success factor for any expansion initiative.

While not all RECE salaries are low, many fall below the provincial standard set by the Provincial Wage Enhancement (PWE) program. The intent of the PWE program is to close the wage gap between RECEs working in school boards compared to licensed child care settings. As part of this program the Ministry of Education established an hourly wage threshold of $26.27 per hour, as outlined in the 2016 PWE Guidelines. Figure 9 compares different hourly wages for RECEs across Toronto, based on centres that have a fee subsidy service agreement with the City of Toronto.

Figure 9: 2016 hourly wages for Registered Early Childhood Educators in Toronto.

Lowest 25% of service providers	**$11 - $20**
Middle 50% of service providers	**$20 - $25**
Highest 25% of service providers	**$25 - $45**
Toronto average	**$22.48**
2016 Provincial Wage Enhancement threshold	**$26.27**

4\ FUNDING THE VISION

The following cost estimates provide guidelines for the level of public funding that would be required to achieve Toronto's vision of providing enough spaces for 50% of children under 4 by 2026, equivalent to 70,000 spaces in total. All cost estimates are in 2017 dollars, and do not include inflation.

Furthermore, these costs capture what would be required by 2026, assuming that the vision is achieved. That is to say that annual costs would be expected to grow incrementally over the next ten years until eventually reaching the estimated costs included below. Detailed information about each calculation can be found in the Appendix.

ONE-TIME CAPITAL DEVELOPMENT COSTS

In order to serve 50% of children under 4, Toronto will require approximately 30,000 additional infant, toddler and preschool spaces by 2026. Figure 10 describes the estimated lower-end and higher-end capital costs that would be required to create those additional spaces.

The higher end estimate assumes that all new spaces are created through new development, based on an average cost of $62,900 per space for a typical 62-space centre, as outlined in the Children's Services Capital Strategy. This does not include the cost of purchasing land. The lower-end estimate assumes that half of additional spaces are created through retrofitting existing buildings at a cost of $30,645 per space, and the other half through new development.

Figure 10: Estimated one-time capital costs that would be required to create 30,000 new spaces by 2026 (does not include the cost of purchasing land).

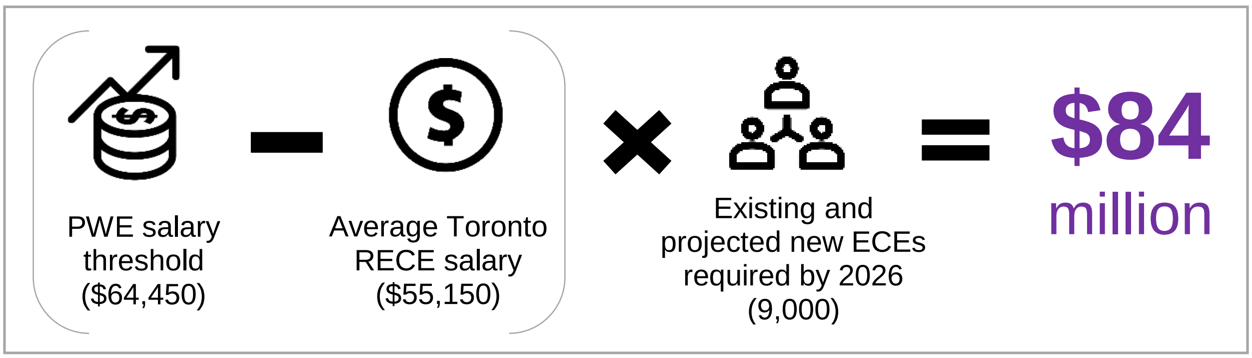
Lower-end estimate (50% of space retrofitted)	Higher-end estimate (100% new development)
$1.4 billion	**$1.9** billion

ANNUAL OPERATING COSTS

Increasing the salaries of child care professionals

By 2026, the total annual cost to increase salaries for RECEs across the system in order to reach the Provincial Wage Enhancement (PWE) threshold is estimated at $84 million, as shown in Figure 11. This was calculated by multiplying the difference in average RECE salaries and the PWE threshold by the projected number of RECEs that will be required for a system of 70,000 spaces. This funding would be provided through increased operating grants to service providers. Increases in other staff salaries, such as managers and assistant child care workers have not been included in the calculation.

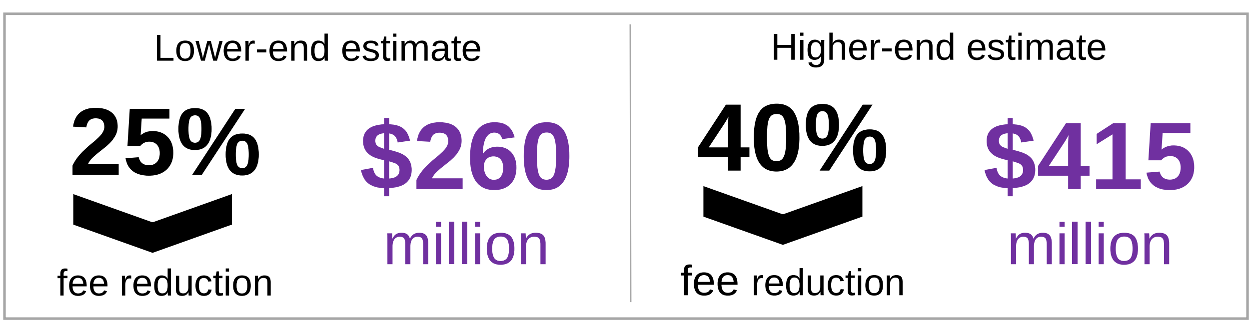
Figure 11: Estimated annual cost to bring average RECE wages up to the provincial threshold by 2026.



Decreasing parent fees

Figure 12 shows the estimated costs of reducing parent fees by 25% and 40% respectively. Using 2016 average daily parent fees, an annual cost per space was calculated for each age group multiplied by the number of spaces, for a total cost. The lower-end estimate is 25% of that total cost, and the higher-end estimate is 40% of that total cost.

Figure 12: Estimated total annual costs to reduce parent fees by 25% and 40% respectively, based on 70,000 infant, toddler and preschool spaces by 2026.



Increasing the number of fee subsidies

Figure 13 shows the estimated additional annual costs to provide enough fee subsidies for 40% and 50% of spaces respectively. The calculations use an average cost of $9,357 per subsidy, which takes into consideration lower costs that result from reduced parent fees. Assuming 70,000 spaces for children 0-4 in 2026, enough subsidies for 40% of spaces is equal to 28,000, for a total of approximately $260 million. Enough fee subsidies for 50% of spaces is equal to 35,000, for a total cost of approximately $330 million.

Toronto Children's Services' 2017 budget included approximately $195 million in fee subsidies for children under 4. This amount has been subtracted from the totals in Figure 13, as that amount will continue to be invested in fee subsidies.

*Figure 13: Estimated **additional** annual costs to maintain a subsidy-to-space ratio of 40 percent and 50 percent respectively, based on a total of 70,000 spaces at an average cost of $9,357 per subsidy.*

Lower-end estimate		Higher-end estimate	
40% subsidy to spaces ratio	**$65** million	**50%** subsidy to spaces ratio	**$135** million

Total additional operating costs

If Toronto's vision is achieved in 2026, the total additional operating costs at that time would be approximately $610 million, as shown in Figure 14. For parent fees and fee subsidies, the higher-end and lower-end estimates were averaged.

*Figure 14: The total **additional** annual operating costs required to achieve Toronto's vision of serving 50% of 0-4 year olds by 2026.*

Salaries	Parent fees	Subsidies
$84 million	**$340** million	**$100** million
Special Needs	Administration	Total
$25 million	**$61** million	**$610** million

Toronto Children's Services' administration costs currently account for less than 7% of the division's operating budget. Due to significant capital expansion and the additional operational needs to support the magnitude of growth, such as increased caseworkers and district consultants, this report assumes an increase in administration costs will be required. For the ten year implementation period, a 10% administration ratio is assumed, consistent with the provincial allowance.

Every licensed child care program in the City of Toronto has access to a Special Needs Resource person, which provide the consistent support needed so that every child can take part in the child care program of his or her family's choice. The Province of Ontario legislates that 4.1% of provincial funding is dedicated to special needs programming. This percentage was applied to the total in Figure 14, as the City has historically contributed additional special needs funding.

COST SHARING

It will take a commitment of significant investments from all three orders of government to achieve the vision outlined in this report. This strategy assumes a cost sharing ratio of 80% from the federal and provincial governments, and 20% from the City of Toronto, with the City's contribution beginning in 2018.

For the past ten years, the City of Toronto has contributed approximately 20% of the operating budget, while the Province of Ontario has contributed the remaining 80%. Figure 15 shows the breakdown of additional operating funding by each order of government required by 2026.

Figure 15: Cost sharing between the three orders of government to fulfill Toronto's vision for the total ***additional*** *operating costs.*

	Annual operating costs required by 2026
Ontario and Canada combined (80%)	**$488** million
Toronto (20%)	**$122** million
Total	**$610** million

Figure 16 shows the breakdown of funding by each order of government for the total capital costs required to build 30,000 spaces. A contribution of 20% by the City of Toronto would amount to between $280 million and $380 million.

It is anticipated that approximately $22 million will be available in the Child Care Capital Reserve Fund over the next ten years for new capital projects. Capital money is also anticipated to be available from development charges beginning in 2023, which based on past contribution trends, is expected to increase each year, reaching a total of $9.5 million by 2026. These amounts can be applied towards the City's share of projected capital costs.

Figure 16: Cost sharing between the three orders of government to fulfill Toronto's vision for the total additional capital costs.

	Lower-end capital costs (50% retrofitted)	Higher-end capital costs (100% new developments)
Ontario and Canada combined (80%)	**$1.12** billion	**$1.52** billion
Toronto (20%)	**$280** million	**$380** million
Total	**$1.4** billion	**$1.9** billion

10-YEAR FORECAST

Figure 17 outlines the estimated annual costs for capital developments between 2017 and 2026, broken down by a cost sharing ratio of 20% for the City and 80% for the provincial/federal governments. The City's contributions would begin in 2018, once provincial and federal allocations are known and the 2018 budget process has been completed.

It is assumed that in the first three years (2017-2019) only currently planned developments would be created, for which capital funding is already allocated. New capital developments take at least three years to plan and build, so planning that begins in 2017 would not result in new spaces until at least 2020. For each of the first three years, it is assumed that $5 million will be required for planning.

Although difficult to accomplish, it is also assumed that starting in 2022, 5,000 new spaces will be created each year either through retrofits or new builds. Lastly, the lower-end cost estimates were used for this forecast (50% retrofitted).

Figure 17: Ten year forecast of the lower-end capital costs required.

		New Developments/ Retrofits	Total spaces	Total capital costs	Toronto (20%)	Ontario/ Canada (80%)
Phase 1	2017	0	37,500	$5 M	$0 M*	$5 M
	2018	0	38,500	$5 M	$2 M	$3 M
	2019	0	40,000	$5 M	$1 M	$4 M
Phase 2	2020	2,000	42,000	$78 M	$15.6 M	$62.4 M
	2021	3,000	45,000	$140 M	$28.0 M	$112.0 M
	2022	5,000	50,000	$233 M	$46.7 M	$186.7 M
Phase 3	2023	5,000	55,000	$233 M	$46.7 M	$186.7 M
	2024	5,000	60,000	$233 M	$46.7 M	$186.7 M
	2025	5,000	65,000	$233 M	$46.7 M	$186.7 M
	2026	5,000	70,000	$233 M	$46.7 M	$186.7 M
Total		30,000	70,000	**$1.4 B**	**$280 M**	**$1.12 B**

* While provincial and federal allocations are expected in 2017, funding associated with this Growth Strategy is not currently allocated in Children's Services 2017 Approved Capital Budget and Plan. For this reason, the calculated 20 per cent municipal contribution from 2017 ($1 million) has been added to the 20 per cent share for 2018 ($1 million), for a total of $2 million in 2018, should the provincial and federal governments commit their share of funding for the implementation of this vision

Figure 18 outlines the additional annual operating costs between 2017 and 2026 required to support growth, which is broken down by the cost sharing ratio of 20% for the City and 80% for the provincial/federal governments. As with capital contributions, the City's operating contributions would begin in 2018.

It is important to note that many assumptions were made in developing this forecast. For example, by 2026, it is projected that $610 million of additional operating dollars will be required to operate a system of 70,000 spaces for children under 4. As more operating funding is put into the system, the cost per space will increase each year. At the same time, more spaces will be added to the system, resulting in exponential growth in operating costs over the ten year period – that is much larger amounts being invested in later years of the strategy.

*Figure 18: Ten year forecast of the **additional** annual operating costs required.*

		Additional Annual Operating Costs	Toronto (20%)	Ontario/ Canada (80%)
Phase 1	2017	$10.7 M	$0*	$10.7 M
	2018	$24.4 M	$4.9 M	$19.5 M
	2019	$59.6 M	$11.9 M	$47.7 M
Phase 2	2020	$120.0 M	$24.0 M	$96.0 M
	2021	$180.0 M	$36.0 M	$144.0 M
	2022	$244.3 M	$48.9 M	$195.4 M
Phase 3	2023	$334.1 M	$66.8 M	$267.3 M
	2024	$424.0 M	$84.8 M	$339.2 M
	2025	$513.9 M	$102.8 M	$411.1 M
	2026	$610.0 M	$122.0 M	$488.0 M

* While provincial allocations are expected in 2017, funding associated with this Growth Strategy is not currently allocated in Children's Services' 2017 Approved Operating Budget. For this reason, City of Toronto contributions are estimated to begin in 2018, should the provincial and federal governments commit their share of funding for the implementation of this vision

A phased approach to moving towards Toronto's vision of serving 50% of children 0-4 by 2026

This section highlights the known activities in the short, medium and long term required to achieve the vision of this growth strategy. Many components play an important role in achieving growth, but the relative importance of each changes over time, as outlined in Figure 19.

Phase 1: 2017 - 2019

In the short term, capital development will focus on completing construction already planned, and on finding new opportunities for growth. Affordability challenges will be met mostly by increasing the number of fee subsidies in order to reduce current vacancies and to keep pace with the modest number of new centres that will be opening. Small increases in operating grants will be used to keep current funding levels at pace with inflation. At the same time, updated Census data and the development of the next Children's Services Service Plan will refine the ability to direct growth to areas of greatest need.

PHASE 2: 2020 -2022

In the medium term, new centres will open as earlier planning initiatives become completed projects. Research and policy development in partnership with the Province will identify mechanisms to control increases in public fees, which allows for the first significant increase in operating grants that support salaries and lower parent fees. Through the implementation of the 2020-2024 Service Plan, a substantial number of new fee subsidies will be allocated to keep up with the growth, and to maintain the subsidy-to-spaces ratio.

PHASE 3: 2023 - 2026

In the long term, the required number of new child care spaces will be available. Funding priorities will shift in order to prioritize operating grants which will increase with the number of spaces, parent fees will be 25% to 40% lower than 2016 levels, and between 28,000 and 35,000 children will have a fee subsidy. As a result, demand across the city will increase and approach 50%, with a corresponding number of physical spaces.

Figure 19: The priorities of growing Toronto's 0-4 child care system during each planning phase.

	Phase 1:			**Phase 2:**			**Phase 3:**			
YEAR	‘17	‘18	‘19	‘20	‘21	‘22	‘23	‘24	‘25	‘26
Licensed Spaces										
Take advantage of all current opportunities for new builds/expansions										
Resources and expertise to secure and manage capital expansion										
New builds/expansions are realized										
Operating grants										
Increase current operating grants by cost of living										
Reduce parent fees by between 25% and 40% below 2016 levels										
Fee subsidy										
New fee subsidies to fill vacancies and keep up with planned development										
Add additional fee subsidies to keep pace with growth										
Planning										
Update Census data										
Develop new capital strategy as part of new Service Plan – priority wards etc.										
Research options for controlling fee increases										
Implement updated capital strategy as part of Service Plan										

APPENDIX: Calculations

Population

At the time of writing this report, populations by age group from the Statistics Canada 2016 Census were not available. The 2016 and 2026 populations of children under 4 used in this report come from the Ontario Ministry of Finance's *Ontario Population Projections 2015-2041*. The age group used in that report included 4 year olds. In order to calculate the population of children *under* age 4, it was assumed that each one year age group were of equal size.

	Population under age 5 (Ministry)	One-year age group (equal)	Population under age 4	Rounded
2016	149,523	29,905	119,620	120,000
2026	174,895	34,979	139,916	140,000

Based on the Statistics Canada 2011 Census, the population under age 4 in 2011 was 112,945.

Licensed spaces

The number of licensed child care spaces in Toronto changes regularly as new spaces are created, and others are closed. Therefore, the number can be different at any given time. The numbers used in this report were as of February, 2017. These numbers include all licensed spaces in child care centres, including non-profit, commercial and municipally operated centres. It includes centres that both have a service agreement with the City of Toronto for fee subsidy, and centres that do not. Licensed home child care spaces are not included.

	Licensed spaces in February 2017	Rounded
Infant	3,457	3,500
Toddler	9,971	10,000
Preschool	23,362	23,500
Total	36,790	37,000

Fee subsidies

The number of fee subsidies used in this report for children under age 4 is **9,964**, rounded up to 10,000. This is based on the number of fee subsidies budgeted in 2017 for this age group. It is also important to note that families allocated a fee subsidy can use it in a licensed home child care space, which have not been included in the total number of spaces used in this report.

The fee subsidy waitlist number of 15,686 was from March 21, 2017. This number changes daily, and can fluctuate significantly from one month to the next. For example, in December 2016, the waitlist was 18,577 children.

Estimated Costs

A) Capital development costs

In this report, capital costs were calculated for a lower-end estimate and a higher-end estimate. It is assumed that some proportion of the spaces to be created over the next ten years will be through new developments, and some proportion will be created through retrofitting existing buildings to be able to accommodate licensed child care programs.

The average cost per space for new builds is estimated at $62,900. This is based on the average cost of $3.9 million to build a new 62-space centre (one infant room, two toddler rooms, two preschool rooms, and all common areas), which has been shown to be an operationally efficient model. This does not include the cost of land acquisition.

The average cost per space for retrofits is $30,645. This figure is based on current and past projects, and on the standard 62-space centre. This number is only an estimate, as the cost of retrofitting a space can in some cases become as expensive as a new build, depending on the various conditions that may arise.

Lower-end estimates: This calculation assumed that 50% of the 30,000 new spaces will be created through retrofits at a cost of $30,645 per spaces, and 50% will be created through new developments at a cost of $62,900 per space.

1. 15,000 spaces x $62,900 = $943,500,000
2. 15,000 spaces x $30,645 = $459,675,000
3. $943,500,000 + $459,675,000 = $1,403,175,000 (rounded down to $1.4 billion)

Higher-end estimate: This calculation assumed that 100% of the 30,000 new spaces will be created through new developments at a cost of $62,900 per space.

1. 30,000 x $62,900 = $1,887,000,000 (rounded up to $1.9 billion)

B) RECE salaries

Number of RECEs required:
First, the estimated total number of RECEs that will be required in a system of 70,000 spaces for 0-12 year olds was calculated. This was done by dividing the 70,000 spaces required in 2026 by a typical 62-space centre, to get the total number of centres. Of course, many centres are smaller than 62 spaces, and many are larger, so this was a significant assumption. Then it was assumed that the minimum RECEs needed to ensure RECE operational coverage in a 62-spaces centre was 8 RECEs (2 RECEs for a room of 10 infants, 3 RECEs for two rooms of 10 toddlers and 3 RECEs for two rooms of 16 preschool). In reality that is still a minimal number, but is more than the minimum requirements under the Child Care and Early Years Act.

1. 70,000 / 62 = 1,129 centres
2. 1,129 centres x 8 RECEs = 9,032 RECEs (rounded down to 9,000 RECEs)

Estimated salaries:
In 2016, the average RECE hourly wage in programs with a fee subsidy service agreement with the City of Toronto was $22.48. This number includes RECEs for all age groups, and excludes the hourly wage of RECEs working in municipally operated child care centres (Toronto Early Learning and Child Care Services, or TELCCS).

In order to calculate the annual salary, it was assumed that an RECE will work 8 hours per day for 261 business days per year. The annual salary also included benefits, which were calculated at the Provincial Wage Enhancement (PWE) rate of 17.5%.

1. $22.48 x 8 x 261 = $46,938 + 17.5% = $55,152
2. Rounded down to $55,150

The average salary was then compared to the 2016 PWE threshold as outlined in the 2016 PWE Guidelines, which was $26.27 per hour. Again, it was assumed that an RECE will work 8 hours per day for 261 business days, with 17.5% benefits.

3. $26.27 x 8 x 261 = $54,852 + 17.5% $9,599 = $64,451
4. Rounded down to $64,450

The difference between the average salary and the PWE threshold salary was $9,300.

5. $55,150 - $64,450 = $9,300 per RECE

Estimated cost to increase RECE salaries:
The average salary difference of $9,300 was then multiplied by the projected number of RECEs that will be required by 2026 for a total estimated cost of increasing salaries to meet the 2016 PWE threshold.

1. $9,300 x 9,000 RECEs = $83,700,000
2. Rounded up to $84 million

Notes:
The costs of other staff salaries such as supervisors and assistant child care staff have not been factored into these calculations. Increasing RECE wages to $26.27 could result in some RECEs being paid higher than the Supervisor of the centre, and therefore Supervisor salaries would likely also have to be addressed in many centres. In addition, all RECEs in the system, not just those working in infant, toddler and preschool rooms, should be paid at the PWE threshold. Without operating grants to support the salaries of RECEs working in school aged programs, the fees for these programs would need to be higher in order to increase staff salaries.

C) Costs to reduce parent fees

Annual costs by age group:
For these calculations the mid-range average daily parent fees were used.

1. Infant: $85 (average daily fee) x 261 business days = $22,185
2. Toddler: $65 (average daily fee) x 261 business days = $16,965
3. Preschool: $49 (average daily fee) x 261 business days = $12,789

Age distribution:
For these calculations, it was assumed that the 70,000 spaces in 2026 would have roughly the same distribution among infant, toddler and preschool age groups as 2016.

1. Infant: 9.3% of 70,000 = 6,510
2. Toddler: 27% of 70,000 = 18,900
3. Preschool: 63.7% of 70,000 = 44,590

Total costs:
The total annual costs were calculated for all 70,000 spaces for a total annual cost, which was then multiplied by 25% and 40% for the costs that would be required to reduce parent fees by that much through operating grants.

1. Infant: $22,185 x 6,510 = $144,424,350
2. Toddler: $16,965 x 18,900 = $320,638,500
3. Preschool: $12,789 x 44,590 = $570,261,510
4. Total = $1,035,324,360
5. 25% of $1,035,324,360 = $258,831,090 (rounded up to $260 million)
6. 40% of $1,035,324,360 = $414,129,744 (rounded up to $415 million)

D) Costs to increase fee subsidies

In 2017, the average cost of a fee subsidy for children under 4 was $13,861. However, as more money is invested into operating grants that reduce parent fees, the cost per subsidy is expected to decrease. The calculations below use an average cost of $9,356 per subsidy, which takes into consideration the decrease in costs resulting from reduced parent fees.

1. Current average fee subsidy cost for children under 4: $13,861
2. 25% reduction: $10,396
3. 40% reduction: $8,317
4. Average between the 25% and 40% reduction: $9,357

E) Total additional operating costs

The total annual operating costs that will be required for a system of 70,000 infant, toddler and preschool spaces, which is in addition to the current budget, was calculated by adding up the costs for salary increases, the reduction in parent fees, the increase in fee subsidies, a 4.1% cost for special needs programs, and a 10% cost for administration.

For the fee subsidy and parent fee costs, since lower-end and higher-end estimates were provided, an average was used between these ranges.

1. Parent fees: ($260 million + $415 million)/2 = $337.5 million (rounded to $340 million)
2. Fee subsidies: ($65 million + $135 million)/2 = $100 million