

May 9, 2019

TO: Mayor and Members of Council

## FYI – 2019 ONTARIO BUDGET UPDATE

### Overview

- The 2019 Ontario Budget released on April 11, 2019 outlined a number of funding and program changes that will affect the City of Toronto but provided limited details.
- This Note provides an overview of funding changes identified to date, estimated impacts to the City, as well as anticipated and indirect funding changes that may have future implications for the City and are being monitored by staff.
- The estimated pressure on the City of Toronto Council-approved 2019 Budget (based on the best available information to date) is **\$177.65 million**, broken down as follows:
  - \$24 million from the cancellation of planned Provincial Gas Tax Funding
  - \$65 million for Toronto Public Health
  - \$84.8 million for Children's Services
  - \$3.85 million for Toronto Paramedic Services
- This Note will be updated on a regular basis as new information becomes available.

### Direct Funding Impacts

#### 1. Provincial Gas Tax

- The 2019 Budget announced that the Province is not moving forward with the previous government's proposed changes to the municipal share of gas tax funding for public transit (i.e. phasing in an increase from 2 cents to 4 cents per litre).
- The cancellation of the additional 2 cents per litre in gas tax funding will result in a loss of approximately \$24 million in 2019, and a loss of \$1.1 billion in funding to the City over 10 years. Through the City's 2019 Budget process, \$585 million of this projected funding had already been applied to the TTC conventional state of good repair capital program.
- The Provincial Budget also noted the government's intention to review the existing gas tax program parameters in consultation with municipalities. The Province has not announced further details on this matter; staff will continue to monitor for any further impacts to the City.

## 2. Public Health

- As part of the 2019 Budget, the Province announced it was making changes to the provincial/municipal cost-sharing formula for public health and consolidating the existing 35 regional public health units into 10 new regional boards of health.
- The Province stated that despite the provincial-municipal cost-sharing funding formula, health units are expected to maintain current service levels and accountabilities under the Ontario Public Health Standards. The Province may consider one-time funding for transition, and waivers on expectations under the Standards on a board-by-board basis.

### *Changes to the Provincial/Municipal Public Health Cost-Sharing Formula*

- The Budget committed to adjusting provincial–municipal cost-sharing of public health funding starting in 2019-20 as part of a vision to "improve public health program and back-office efficiency and sustainability while providing consistent, high-quality services, (and) be responsive to local circumstances and needs."
- A teleconference hosted by the Province on April 18, 2019 with Boards of Health Chairs and Medical Officers of Health across the province confirmed the next steps on the Budget announcement, including adjustments to the provincial-municipal cost-sharing arrangement.
- The new provincial-municipal funding formula for cost-shared programs is as follows:

Provincial Fiscal Year	In Toronto	In the Rest of Ontario	
<b>Current</b>	75% Provincial and 25% Municipal Cost-Shared	Mix of ratios	
<b>2019-2020</b> (Retroactive as of April 1, 2019)	60% Provincial 40% Municipal	70% Provincial 30% Municipal	
<b>2020-2021</b> (effective April 1, 2020)	60% Provincial 40% Municipal	70% Provincial 30% Municipal	
<b>2021-2022</b> (effective April 1, 2021)	50% Provincial 50% Municipal	For the 6 "Health Entities" serving 1 million people or more  60% Provincial 40% Municipal	For the 3 "Health Entities" serving a population less than 1 million  70% Provincial 30% Municipal

- The Province has not provided a clear rationale as to why the new provincial-municipal funding formula is different for Toronto in comparison to municipalities in the rest of the province.
- The new provincial-municipal funding formula will also apply to programs that were previously fully funded (100%) by the Ministry of Health and Long-Term Care. These include, for example:
  - Healthy Smiles Ontario (approx. \$6.8M/year)
  - Infectious Diseases Control Initiative (approx. \$5.0M/year)
  - Smoke Free Ontario Strategy programs (approx. \$2.6M/year)

- The financial impacts of the changes to the provincial-municipal cost-sharing formula to the Toronto Public Health budget (using City fiscal years) is outlined below. These financial impacts assume that the City contribution to Toronto Public Health remains at \$43 million in 2019:
  - 2019 - \$65 million
  - 2020 - \$86 million
  - 2021 - \$102.2 million
  - 2022 and annually thereafter - \$107.6 million

#### *Establishment of Public Health Units*

- The Province, as part of its commitment to "modernizing public health" also stated in the Budget that they will be establishing 10 regional public health units (down from the current 35), and 10 new regional boards of health with one governance model by 2020-21.
- The Province announced its intention to achieve a projected annual savings of \$200 million by 2021-2022 through regionalization and governance changes to public health units and savings related to the new provincial-municipal cost-sharing formula.
- The cumulative financial impacts noted above only take into consideration the new provincial-municipal cost-sharing model. Any additional financial impact related to the regionalization and governance changes to public health units cannot be determined at this time.

### **3. Child Care**

- On April 18, 2019, the Ministry of Education sent a memo to system service managers (including the City of Toronto) advising them of a reduction in their 2019 child care and early years allocations.
  - The memo did not include detailed breakdowns of allocations, new/updated service management and funding guidelines, indications on the transfer payment agreement terms, or other details required to fully assess financial impacts.
- Staff estimate the cumulative impact of the changes to be **\$84.8 million** in 2019 (\$28.6 million due to a reduction in allocation, and \$56.2 million due to cost-sharing changes – see Table 1 below). This represents a direct pressure on the 2019 Children's Services Operating Budget.

**Table 1: Preliminary estimated loss of Provincial subsidies and projected financial impacts of policy changes for 2019 on City of Toronto**

Preliminary Estimates Only* (\$ millions)			
	Change in Allocation	Projected Impact of Policy Change	Estimated Impact
General Allocation	2018: \$307.1 <u>2019: \$291.7</u> -\$15.4	Maximum allowable administration expense funding reduced from 10% to 5% of Total Allocation -\$13.8	-\$29.2
Expansion Plan	2018: \$63.9 <u>2019: \$60.2</u> -\$3.7	Change to operating portion of Expansion Plan funding from 100% provincially-funded to 80% provincial / 20% municipal cost share -\$41.1	-\$44.8
Fee Stabilization Support	2018: \$8.3 <u>2019: \$0</u> -\$8.3	One-time provincial program, 100% provincially funded - program ended March 31, 2019	-\$8.3
Wage Enhancement	2018: \$43.0 <u>2019: \$42.6</u> -\$0.4	--	-\$0.4
a) for Operators			
b) for Administration	2018: \$2.1 <u>2019: \$1.3</u> -\$0.8	Change from 100% provincially-funded to 50% provincial / 50% municipal cost share -\$1.3	-\$2.1
<b>Total:</b>	<b>-\$28.6</b>	<b>-\$56.2</b>	<b>-\$84.8</b>

\* NOTE: Staff estimates are based on preliminary provincial funding estimates and do not include federal funding received through the Province.

- Child care fee subsidies are funded out of the Province's General Allocation and Expansion Plan funding. Assuming an average fee subsidy cost of \$12,000, the funding changes represent a loss of up to 6,166 child care fee subsidies.
- The memo outlined that in 2019 the Ministry of Education will be considering updates to the Child Care Funding Formula and a new child care plan. Details are not yet available.

#### 4. Land Ambulance

- On April 26, 2019, the Ministry of Health and Long-Term Care (MOHLTC) advised the City of its land ambulance grant funding for 2019-20. MOHLTC advised that Toronto will receive the same funding grant as in 2018-19, however the funding will not include a Cost of Living Allowance increase.
- Toronto Paramedic Services estimate that having no Cost of Living Allowance increase in this year's Land Ambulance Grant would result in a cost pressure to the City of **\$3.85 million** (equivalent to a 3.5% cut).

- The MOHLTC has now confirmed the City's funding allocation in writing, which also includes the continuation of 100% funding of the Toronto Paramedic Communications Centre.
- In addition, the MOHLTC advised that they will be having discussions regarding Emergency Health Services modernization at the AMO-MOU table and that they want to consult with and have the City of Toronto participate in discussions going forward as well. There has been no update on the consultation process.

## **Anticipated Funding Impacts**

### **5. Social Assistance**

The 2019 Ontario Budget announced a number of changes to Ontario's social assistance system, including:

#### *Social Assistance Expenditures*

- The Budget reiterated previous provincial government commitments to reform the social assistance system (which includes Ontario Works and Ontario Disability Support Program) by simplifying the rate structure, reducing administration, cutting rules, and providing opportunities to achieve better employment outcomes for social assistance recipients.
  - The Province expects these changes to result in estimated annual savings of over \$1 billion at maturity.
- Expenditures in the social assistance sector are forecast to decrease an average of 2.1% per year over the next three fiscal years (from \$17 billion in 2019-20 to \$16.7 billion in 2020-21, to \$16 billion in 2021-22). No increases to Ontario Works (OW) or Ontario Disability Support Program (ODSP) rates are forecast. Rates were raised by 1.5% in the fall of 2018.
- Presently, the City of Toronto represents approximately 10% of Ontario's social assistance expenditures. Accordingly, while the exact timing, quantum and details are not yet known, anticipated social assistance program design changes and reform efforts will likely result in reduced funding to Toronto for Ontario Works program delivery and discretionary employment services and supports.

#### *Definition and Rule Changes*

- Anticipated changes to the definition of "disability" for ODSP will likely result in changes to the composition of the Ontario Works caseload served by Toronto Employment & Social Services (TESS), with a greater proportion of OW clients reporting multiple barriers to employment and requiring more intensive support.
- Forthcoming provincial changes to the "claw back" of benefits attributed to earnings above certain thresholds, planned to come into effect on November 1, 2019, will mean that individuals receiving OW will "earn off" of the program at lower total earnings levels than before. Many of these new, likely very-low wage earners will remain socially and financially vulnerable, but will no longer be attached to a social assistance program which provides supplemental health, transportation, service planning and social supports – accordingly, increased demand for these supports may be felt by other City divisions / agencies.

## *Transition Child Benefit*

- Effective November 1, 2019, Ontario proposes to eliminate the Transition Child Benefit (TCB) which provides up to \$230 per month / per eligible child (17 years of age or younger) to a parent on social assistance (OW / ODSP) who is not receiving the Ontario Child Benefit (OCB) -- or is receiving only a portion of the maximum OCB entitlement – to assist with the costs of basic necessities (for food, clothing, etc.) for children.
- In 2018, TESS issued \$22.03 million in TCB benefits to Toronto residents on OW – or approximately \$1.84 million / month. An average of 4,351 low income Toronto residents in receipt of OW received TCB each month in 2018.
  - Note: the above figures only include those Toronto residents on OW who receive TCB payments from the City; not those city residents on ODSP who would receive their TCB payment from the Ministry of Children, Community and Social Services.
- The elimination of TCB will primarily impact two groups: (i) parents who are not eligible for the federal Canada Child Benefit (and who are in turn ineligible for the OCB) due to their status in Canada – especially refugee claimants who have been in Canada for less than 18 months – and (ii) families not eligible for any OCB due to their previous year's income, as reported on their tax return (e.g. residents who may have recently lost a job and subsequently qualified for social assistance). Toronto's family shelter system may experience increased demand from families who lose TCB and become unable to secure or maintain their housing.

## **6. Employment Services Transformation**

- On February 12, 2019, the provincial government announced a plan to transform employment services for all job seekers including the integration of social assistance employment services (Ontario Works and Ontario Disability Support Program employment services) into Employment Ontario, and introducing a new, competitive process to select local Employment Service System Managers (ESSM).
- The selection of service system managers will be determined through a new, competitive process and will be open to any entity or organization, including those operating as not-for-profit or for-profit organizations. A new outcomes-based, local service delivery model is intended to ensure more effective and responsive employment services that achieve results for job seekers and employers.
  - Changes will happen gradually, starting with prototypes in three identified communities in fall 2019.
- Toronto (TESS) currently receives approximately \$58M annually from Ontario to fund employment related programs and benefits for OW clients. While details are not yet available, there is potential for some or all of this funding to be shifted to the new designated employment service manager for Toronto over time.

## **7. Ontario Health Teams**

- In spring 2019, the province introduced changes to the health care system through Bill 74, The People's Health Care Act, 2019. Bill 74 established a provincial agency, Ontario Health, which is responsible for the governance of the health system, as well as a new model for delivery, funding, and governance of health care services called Ontario Health Teams.

- It is anticipated that all healthcare providers and organizations in Ontario will eventually need to apply to become a member of an Ontario Health Team. The Teams are expected to deliver a full continuum of integrated, client-centred care to a geographic area.
  - The Ministry has indicated that the OHTs will go through a process to become fully developed and, at maturity, will operate within a single accountability framework and integrated funding envelope.
- City staff are gathering information and considering how the City might strategically interact with the new model.
  - The City has an interest in supporting a system of integrated care because many residents using City-delivered health and social services need to successfully access care in order to support positive health outcomes.
  - Going forward, staff will continue to monitor Ontario's health system transformation.

## **8. Changes to Development Charges Act**

- On May 2, 2019, the Minister of Municipal Affairs and Housing introduced Bill 108, More Homes, More Choice Act, 2019, an omnibus bill intended to implement the Province's Ontario Housing Supply Action Plan. The Bill includes the following changes to the Development Charges Act that would have implications for the City's finances:

### *Replacing Section 37, Development Charges for soft costs, and Parkland Dedication*

- Bill 108 proposes replacing Section 37 of the Planning Act with a new community benefits authority that would make upfront development costs more predictable. Development charges for soft services and in some cases parkland dedication would also be included in this new community benefits authority. The proposed changes are a comprehensive re-think of the current financial tools available to the City.
- Further assessment of the financial impacts to the City will be required as details become available. The proposed new authority replaces key planning and benefits tools that have brought a great deal of community infrastructure to Toronto.

### *Timing of Development Charges*

- The Bill proposes to freeze development charge rates at an earlier point in time and would continue to be paid at the usual time (generally building permit issuance).
  - Developers already use early rate triggering options and phase-in of rate changes to avoid pending Development Charges rate increases (City's scheduled phase-ins are Nov 1/19 and Nov 1/20), reducing how much the City is able to recover. This problem is expected to worsen under the proposed changes.
  - The deferred collection is effectively a loan from municipalities to developers. Municipal borrowing capacity is not unlimited. The cost or benefit will depend on the interest rates set by regulation.

## **Indirect Funding Impacts**

While the 2019 Ontario Budget changes noted in the following section do not have direct financial implications for the City, Toronto residents and businesses have relied on and benefited from this funding.

### **9. Grants to Toronto Organizations / Institutions**

#### *Tourism Toronto*

- Tourism Toronto has been advised by the provincial government that the organization's Regional Tourism Organization (RTO) funding is being eliminated. This funding amounted to roughly \$9.5 million in 2018 and the same amount was budgeted for 2019.
- The Province has advised that Tourism Toronto will receive transitional funding of \$3.9 million in 2019, before the amount goes to zero next year. Because the Ontario government's fiscal year is not aligned with Tourism Toronto's, the actual budget reductions by year are:
  - 2019 \$4.2 million
  - 2020 \$8.5 million
  - 2021 \$9.5 million

#### *OCAD University Capital Expansion*

- The 2019 Ontario Budget cancelled future provincial funding for the OCAD University capital expansion project (Creative City Campus), which included adding 50,000 square feet of new space and renovating 95,000 square feet of existing space.
- In 2016, the previous Liberal government committed \$27 million towards the total project costs of \$60 million. To date, the University has received \$7 million toward the project. The University, which has a student population of 4,700, has raised \$33 million from private donors, the federal government and institutional funds. The university has indicated it intends to seek other funding sources and complete the project.

#### *Legal Aid Ontario*

- The 2019 Ontario Budget indicates the Province is "streamlining the delivery of legal aid to promote long-term sustainability." The first cut represents almost 30 per cent of the organization's budget (currently \$456 million). By 2021-22, the legal aid budget will be cut by \$164 million.
- Legal Aid Ontario has stopped all funding for new legal services for immigration and refugee clients, except for the preparation of asylum claim forms.

#### *Institute for Competitiveness and Prosperity*

- While housed in the Rotman School of Management, the Institute has been separately funded by the province (\$750,000 in 2018-19). The 2019 Ontario Budget left the Institute unfunded, and the Institute confirmed it will be closed.

### *Mowat Centre*

- The Mowat Centre relied on a \$1 million/year provincial grant for about 60 percent of their total budget. On April 29, 2019, the Centre confirmed that it will close down because of the cancellation of its funding agreement with the province.

### *Gambling Research Exchange Ontario*

- The 2019 Ontario Budget eliminated the Gambling Research Exchange Ontario's entire \$2.5 million annual budget. The organization provides resources to prevent problem gambling to front-line service providers, including the Ontario Lottery and Gaming Corporation and Ontario's Alcohol and Gaming Commission.

### *Review of Granting Programs*

- The Province announced that it will modernize and review granting programs, such as the Ontario Trillium Foundation and the Ontario Arts Council to make sure that funding is targeted and administered efficiently.