
2008 BUDGET BRIEFING NOTE

The Impact of Downloaded Program Costs and Funding Shortfalls on the City's 2008 Operating Budget

Purpose:

To summarize the impact that downloaded programs and provincial funding shortfalls will place on the City's 2008 operating budget, propose short-term strategies to manage this impact in 2008, and identify the longer-term changes that must be made to federal, provincial and municipal relationships to advance the City's multi-year plan for fiscal sustainability.

Key Messages:

- The City of Toronto continues to be severely impacted by responsibilities that were downloaded to municipalities beginning in the 1990s. The total financial burden on the City created by changes to the delivery and funding of social assistance, emergency shelters, child care, ambulance, social housing, provincial offences courts, and policing has increased annually.
- Since 1999, the City has been forced to manage new downloaded program costs for the Ontario Disability Support Program (ODSP), the Ontario Drug Benefit (ODB), Social Housing, and Court Services. Although the Province will upload ODB in 2008, the City will still face a gross cost of \$487.5M for these three remaining programs. Table 2 summarizes these downloaded program costs from 1998 to the present.
- While the Province recently announced its intention to begin uploading the costs of the Ontario Disability Support Program and the Ontario Drug Benefit Program in 2008, the pressures caused by downloading remain significant. These pressures have been worsened by the Province's failure to honour its own cost-sharing and funding agreements. In 2008, provincial funding shortfalls for the administration of Ontario Works, per diem rates for emergency hostel services, child care, and policing will rise to \$127.3M. Table 1 summarizes the provincial funding shortfalls from 1998 to the present.
- In the short-term, the Province must pay its bills, honour its obligations for all mandated social, health and safety programs, and address this \$127.3M funding shortfall. For 2008 and beyond, the City must advance its multi-year plan for fiscal sustainability. This plan calls on the provincial and/or federal governments to fund 100% of the cost of income redistributive programs, including social housing, social assistance and emergency shelters.

Background:

The pressures on Toronto that occurred in the latter part of the 1990s as a result of amalgamation were compounded by a major reorganization of roles, responsibilities and cost-sharing arrangements initiated by the provincial government as a part of Local Services Realignment (LSR). Under LSR, Toronto and other municipalities became responsible for the delivery and cost-sharing of a wide range of programs while the Province retained primary control over program policy and service delivery models. This group of changes is commonly referred to as “downloading.”

The mismatch between responsibility and authority created by LSR and related changes has severely constrained the City’s ability to contain the burden created by downloaded programs on the property tax base. Costs in downloaded programs have been driven up over time by policy changes made by the Province, inflation, wage settlements, growing service demand, increasing client service needs, and aging physical infrastructure. In 2008, the gross cost of downloaded programs will rise to \$487.5M. Table 2 summarizes these downloaded program costs from 1998 to the present.

In many cost-shared programs, the pressure on the City’s budget has been worsened by funding shortfalls and the Province’s failure to honour its own cost-sharing agreements. For 2008, these provincial funding shortfalls are expected to rise to \$127.3M. Table 1 summarizes the provincial funding shortfalls from 1998 to the present.

Since 1998, the City has used all of the tools at its disposal, including draws from reserves, service reductions, and service efficiencies, to minimize the impact of downloaded program costs. In addition, the City has worked with other Ontario municipalities and the Province to have cost-sharing agreements honoured, the full impact of downloading recognised, and appropriate funding roles for social, health and safety services defined.

Over time, the Province has mitigated some of the impact of downloading with the introduction of 50% funding for emergency medical services (EMS) and Public Health in 1999 (up from the original LSR proposed level of 0% funding); the introduction of pooling for social services in 1998 and social housing in 2001; the upload of 100% of the operating costs of GO Transit in 2002; phased increases from 2004-7 in provincial contributions for Public Health services to 75%; fully honouring cost-sharing for EMS in 2006; changing guidelines to make Toronto eligible for Ontario Municipal Partnership Fund (OMPF) funding beginning in 2006; and the upload of ODSP/ODB beginning in 2008. For 2008, the City’s total OMPF grant and pooling entitlements will create revenue offsets to mandated programs of \$250.9M. Table 3 summarizes these revenue offsets from 1998 to the present.

Most of the changes made by the Province in response to municipal advocacy have left municipal-provincial funding responsibilities largely unchanged, and have not addressed the inappropriateness of funding income redistribution services from property taxes. However, in August 2006, the Province announced its intention to review provincial and municipal roles and responsibilities with its Provincial-Municipal Fiscal and Service Delivery Review. The 18-month review covers a range of areas, including the delivery of housing, homeless services,

health and social services, and municipal financing tools (such as user fees and debt, infrastructure funding, and the OMPF), and is expected to report out in spring 2008.

City staff are participating in this review, which provides an opportunity to advocate for fundamental changes in funding responsibilities that are consistent with the City's multi-year plan for fiscal sustainability. Given the review's timeframe and the significant costs that the City must manage as a part of the 2008 budget process, City officials have pressed for a 'down payment' that would see the Province pay its bills and immediately honour all costs sharing agreements.

Ontario Works Cost of Administration

The cost of administration of the Ontario Works program (COA) is subject to a 50/50 cost-sharing agreement with the provincial government. However, the Province has capped the amount it contributes to OW COA, and in 2008, the provincial cost-sharing shortfall is expected to reach \$35.0M. This represents only 30.7% of the actual cost of administration.

In the past, the City has made use of aggressive position gapping and significant staff reductions to manage funding shortfalls and pressures within the OW program and its administration. For 2008, the City cannot make additional service or administrative cuts without violating program guidelines or losing cost-shared dollars from the province. As a result, the City must press the Province to pay its bills and contribute its full 50% of the cost of OW administration.

Emergency Shelters

The provision of emergency shelter services is subject to an 80/20 provincial/municipal cost-sharing agreement. However, the Province has capped the amount it contributes to the shelter per-diem at rates that are lower than the actual cost of providing service in Toronto. As a result, the provincial funding shortfall in this service area is expected to reach \$30.7M in 2008. In 2008, provincial contributions will cover only 48.5% of the actual cost of shelter provision instead of the 80% specified in cost-sharing agreements.

In the past, the City has managed cost-sharing shortfalls in this service area with gapping and by absorbing pressures within existing budgets. Slight declines in bed occupancy rates have also allowed the City to maintain these programs. However, continued declines in bed occupancy rates are not assured, and continued funding shortfalls will jeopardize the financial sustainability of these programs. As a result, the City must continue to press the Province to pay its bills and honour its cost-sharing agreement.

Emergency Medical Services

Emergency medical services are funded by a 50/50 cost-sharing agreement for land ambulances, and 100% provincial funding for the Central Ambulance Communications Centre. In prior years, the Province had capped its contribution to salary increases and failed to recognise inflationary increases, creating significant funding shortfalls for the City.

In March 2006, the provincial government announced its intention to honour its cost sharing agreement for emergency medical services by 2008. With additional provincial funding of \$11.7M, cost-sharing agreements for emergency medical services were fully honoured in 2007 and based on promised 2008 funding increases from the Ministry of Health, the cost sharing agreement will continue to be honoured in 2008.

Child Care

In 2008, child care services will face an \$8.7M provincial funding shortfall. This shortfall will be caused by the fact that provincial funding for base programs is not indexed to inflation and has been frozen at levels established in 1995. As the City continues to provide inflationary increases and recognize actual costs for child care operators, the pressure on the City's budget will grow significantly.

The City also faces additional budget pressures as a result of the Province's introduction in 2007 of income testing as the method used to determine eligibility for child care subsidy. The introduction of income testing has the positive effect of making more families eligible for subsidy, and may reduce the fees paid by parents. However, the cost to the City of this change is projected to reach \$7.5M in 2007, and expected to result in an annualized loss of \$15.0M.

For 2008, the City can draw on unspent 2005/6 Best Start monies from the Child Care Expansion Reserve Fund (CCERF) to address budget pressures and maintain service at the current level of 24,000 subsidised spaces. However, if the provincial funding shortfalls and revenue losses continue, the City will exhaust the CCERF and be forced to cut 2,600 subsidised child care spaces by the end of 2010. These cuts will be required even though waiting lists will be expanding as more families become eligible for subsidies as a result of income testing. For 2010 and beyond, the City must press the Province to adjust its funding for base programs to reflect actual costs and inflationary increases and to adjust for revenues lost as a result of the introduction of income testing.

Ontario Disability Support Program and Ontario Drug Benefits

Although the City plays no role in the delivery of these provincial programs and has no control over program expenditures, current cost-sharing agreements require that the City pay 20% of the gross program costs and 50% of the cost of administration for these two programs. The City's funding obligation for these programs has risen steadily from \$132.1M in 1999 to \$178.8M in 2007 as a result of increases in benefit rates, case load increases, and rising drug costs.

In 2007 the Province announced that it would upload the entire cost of the ODSP/ODB programs over a four year period commencing in 2008. In 2008, the province will upload ODB, which will reduce the City's budget pressure by \$39.1 million. ODSP Administration costs will be uploaded in 2009, saving the city \$20.0 million, while 50% of the ODSP Benefits will be uploaded in 2010 and the remainder in 2011.

The schedule of the announced upload will mean that the City will continue to pay a portion of these provincial programs through 2011. As a result, the City should press the Province to accelerate the upload of the full costs of these programs.

Social Housing

In 2008, the gross downloaded cost of social housing will rise to \$336.5M. Program costs will grow because of the widening gap between tenant incomes and market rents, inflationary impacts, and the rising cost of maintaining an aging housing stock.

In the past, the City has been able to capitalise on mortgage renewals at lower interest rates to free up sufficient resources to manage most of the growing costs in this program area. With all gains from lower mortgage rates now achieved, the City's only option to manage growing costs is to withdraw from the Social Housing Stabilization Reserve. The budgeted \$30.5M draw from reserves in 2008 will help address the pressures faced by the City in the coming year, but will completely eliminate all social housing reserves and jeopardize the City's ability to continue operations in 2009. For 2008 and beyond, the City must press the provincial and federal governments to upload the full costs of all social housing programs.

Policing

Beginning in 1990, the City was required to assume new policing responsibilities, including the provision of security for criminal courts, policing of provincial highways, and the provision of school crossing guards. Many of the costs associated with these new responsibilities are not within the City's control, and have placed a growing burden on the City's budget. For example, in 2007, the Province opened 24 new courtrooms and motion rooms in Toronto to assure speedy trials and bail hearings, and to manage lengthier, more complex organised crime trials. The City is required to provide security for these court and motion rooms at cost of \$5.7M in 2008.

The City's situation has been further worsened by the fact that there is a growing gap between the 50% of officer salaries and benefits that community policing grants are intended to cover, and the actual salary and benefit costs incurred by the City in provincially-determined program areas. Although the City was aware of the funding caps when it entered into agreements for the Community Policing and Safer Communities grants, it would be reasonable for the City to request that the Province review the cap levels given the COLA and merit increases that the City must fund. In 2008, the caps on community policing grants will result in a \$3.6M shortfall.

For 2008, the total funding shortfall from programs downloaded to Toronto Police Services and the cap on community policing grants will rise to \$52.9M. In previous years, the City has managed the growing provincial funding shortfalls with property tax increases. In the short term, the City should press the Province to pay its bills, remove the cap on the City's community policing grants, and address funding shortfalls in other policing areas. For 2008 and beyond, the City must press the Province to upload the full cost of the policing of criminal courts and provincial highways and provide appropriate funding for other policing services.

Court Services

In 2008, the City's Court Services Division will continue to incur a \$1.0M downloaded cost for court security provided by Toronto Police. This downloaded cost is offset by fine revenue collected by the City. However, the City continues to experience losses of approximately \$5.0M in fine revenue annually from charges that cannot proceed to trial in a timely manner and unpaid fines.

To ensure that the City's administrative and prosecutorial responsibilities under the POA generate the revenue anticipated when they were downloaded, the Province must ensure that a succession plan is in place for Justices of the Peace, and identify and implement new, more effective fine enforcement sanctions that will assist municipalities with their fine collection efforts. Across Ontario the unpaid fine balance grows by over \$1.0M weekly, with approximately 40% of this total relating to fines owed to the City. Without such improvements, annual program cost increases caused by inflation may change the program's revenue outlook.

Long Term Outlook:

To some extent, the City has been able to protect tax payers from the full impact of downloading and funding shortfalls through the use of reserves. However, this short-term strategy is rapidly losing its viability, particularly in two of the City's larger social programs: Social Assistance and Social Housing. Table 4 summarizes the City's use of reserves in these programs from 2005 – 2009.

To support its obligations under Social Assistance programs and protect the tax base from additional pressure, the City has made withdrawals from the Social Assistance Stabilization Fund and from OW Reserve Funds. The 2008 Recommended Operating Budget continues this funding strategy, and a total withdrawal of \$5.3M is budgeted. This withdrawal will mean the City will use a total of \$72.5M over the four year period ending in 2008 to support the Social Assistance program, and will leave reserve funds fully depleted. There will be no source other than the tax base or savings from future uploads to fund Social Assistance budget pressures in the future.

The upload of ODB/ODSP will diminish the impact of additional Social Assistance pressures on the tax base from 2009 – 2011 based on current case load projections. However, the City's situation will be dire in the event of an economic downturn, significant increases to the case load, or increased benefit rates given its minimal reserve levels. In these cases, the full impact of rising costs will be borne by the municipal tax base.

The City will also have few options to manage the impact of the Social Housing program in future years. By the end of 2008, the City will have withdrawn \$59.5M from social housing reserve funds over a four year period to support its obligations while mitigating the impact on the tax base. This will exhaust all social housing reserves, leaving the City without a buffer in the face of rising social housing program costs and a rapidly aging social housing stock.

In the face of these critical pressures, the City must press the Province to act immediately to upload the full cost of social programs that should not be borne by the municipal tax base.

Conclusion:

In 2008, the City will face significant challenges during its budget process that are a direct result of changes made to federal, provincial and municipal responsibilities beginning in the 1990s. The City will be forced to manage rising downloaded program costs for the Ontario Disability Support Program (ODSP), Social Housing, and Court Services that will reach \$487.5M in 2008. In addition, the City will need to manage provincial funding shortfalls in the administration of Ontario Works, hostel per-diems, child care and policing that will rise to \$127.3M.

With the looming depletion of the reserves that have been used to mitigate tax-base pressures in key social programs, the City must continue to negotiate with the federal and provincial governments to advance its multi-year plan for fiscal sustainability and eliminate its structural deficit. The Provincial-Municipal Fiscal and Service Delivery Review provides an additional avenue the City can use to ensure its long term fiscal health. However, the 18 month timeframe for the review will not assist the City in managing these significant and rising costs in 2008. For 2008, the City must press the Province to pay its bills, honour its cost-sharing agreements, address the \$127.3M provincial funding shortfall, and shorten the timeframe for the upload of ODSP.

Prepared by & Further Information : Nancy Matthews, Executive Director,
Social Development, Finance and Administration,
(416) 392-5207, nmatthew@toronto.ca

Date: January 30, 2008

Table 1
SUMMARY OF PROVINCIAL FUNDING SHORTFALLS
FOR THE YEARS 1998 TO 2008 (in \$M)

Provincial Funding Shortfall / Cap	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 Projected	2008 Budget	Cumulative Impact Total
	Actual											
OW COA	-	-	-	0.6	5.1	12.2	16.9	18.6	19.2	25.2	35.0	132.8
Shelter Per diem	2.4	6.5	12.0	7.9	14.1	16.9	22.2	24.7	25.3	25.4	30.7	188.1
Child Care	-	-	-	-	-	-	-	-	-	-	8.7	8.7
EMS	-	0.7	-	0.7	5.7	6.4	9.0	9.8	6.4	-	-	38.7
Police ¹	-	31.2	33.5	35.6	38.3	42.5	43.4	46.0	53.1	49.8 ²	52.9 ²	426.3
Total Provincial Funding Shortfall / Cap	2.4	38.4	45.5	44.8	63.2	78.0	91.5	99.1	104.0	100.4	127.3	794.6

Note :

1 : Police includes: policing of criminal courts (\$41.4M - 2008), policing of provincial highways (\$1.3M), provision of school crossing guards (\$6.6M), and the Provincial cap on the City's community policing grants (\$3.6M).

2 : In 2006/7, the scope of downloaded court security costs was clarified. This clarification has reduced the total downloaded court security costs by a projected \$4.2M in 2007 and will reduce these same costs by a budgeted \$4.4M in 2008.

Table 2
SUMMARY OF DOWNLOADED PROGRAM COSTS
FOR THE YEARS 1998 TO 2008 (in \$M)

Downloaded Programs	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Actual									Projected	Budget
ODSP/ODB ¹	-	132.1	137.9	133.0	135.0	143.6	153.9	160.0	169.6	178.8	150.0
Social Housing ^{2,3}	-	242.2	220.4	254.1	287.4	292.9	293.2	311.2	308.1	328.8	336.5
Court Services	-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Total Downloaded Programs	0.0	374.3	358.3	387.1	423.4	437.5	448.1	472.2	478.7	508.6	487.5

Note :

1 : The Province has assumed the full cost for ODB starting in 2008. ODB costs are projected to be \$39.0M for 2007.

2 : Social Housing costs are shown before pooling and OMPF revenues.

3 : From 2005 on, Social Housing costs also includes Strong Communities Rent Supplement, Social Housing Admin, Housing Allowance, Realty Tax, Social Housing Admin System, and Housing Allowance Pilot expenses.

Table 3
SUMMARY OF OFFSETS TO MANDATED/DOWNLOADED PROGRAM COSTS
FOR THE YEARS 1998 TO 2008 (in \$M)

Offset	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Actual									Projected	Budget
GTA Pooling – Social Services ^{1,2,3}	(100.0)	(95.7)	(89.5)	(91.4)	(92.0)	(100.5)	(91.9)	(101.7)	(107.6)	(115.3)	(110.3)
GTA Pooling – Social Housing ^{1,2,3}	-	-	-	(42.4)	(63.6)	(71.2)	(89.9)	(87.9)	(89.3)	(92.2)	(91.1)
OMPF Base ³ – Social Services										(26.7)	(26.7)
OMPF Base ³ – Social Housing										(22.8)	(22.8)
OMPF Base – Corporate Non-Program									(35.0)		
Total Offsets	(100.0)	(95.7)	(89.5)	(133.8)	(155.6)	(171.7)	(181.8)	(189.6)	(231.9)	(257.0)	(250.9)

Note :

- 1 : GTA Pooling revenues include reconciliation adjustments recorded for prior years. Pooling revenues are certified subsequent to the year end closing.
- 2 : In its 2007 budget the Province announced its intention to phase out GTA pooling by 2013. The Province is providing sufficient funding under the OMPF to offset the decline in GTA pooling to recipient municipalities, including Toronto.
- 3 : OMPF included in GTA Pooling and OMPF Base for 2007 reflects the total amount confirmed / cash flowed by the Province at \$80.8M.

Table 4
SUMMARY OF USE OF RESERVES AND PROPERTY TAXES
SOCIAL ASSISTANCE AND SOCIAL HOUSING
FOR THE YEARS 2005 – 2009 (in \$)

	Actual 2005	Actual 2006	Actual 2007 Projected	Budgeted 2008	Outlook 2009
Social Assistance	940,241.7	971,645.9	994,366.2	1,075,599.5	1,056,318.3
Sub-Total Social Housing	503,326.7	516,785.2	525,642.2	537,367.2	545,292.6
Total Expenditures - Social Assistance and Social Housing	1,443,568.4	1,488,431.1	1,520,008.4	1,612,966.7	1,601,610.9
Revenue - Social Assistance	660,539.6	686,918.1	721,551.1	790,327.5	790,327.5
Revenue - Social Housing	280,027.8	298,008.0	311,944.7	314,949.7	313,742.5
Total Revenue - Social Assistance and Social Housing	940,567.4	984,926.1	1,033,495.8	1,105,277.2	1,104,070.0
City Reserves - Social Assistance	37,532.3	6,850.8	22,845.8	5,297.7	-
City Reserves - Social Housing	6,466.0	4,045.0	18,568.9	30,471.7	-
Sub-Total - City Reserves	43,998.3	10,895.8	41,414.7	35,769.4	0.0
Property Taxes - Social Assistance	242,169.9	277,877.0	249,969.3	279,974.3	265,990.8
Property Taxes - Social Housing	216,832.9	214,732.2	195,128.6	191,945.8	231,550.1
Total - Property Taxes	459,002.8	492,609.2	445,097.9	471,920.1	497,540.9