

Finance
Joseph P. Pennachetti, Chief Financial Officer & Treasurer

Corporate Finance
City Hall, 5th Floor, East Tower
100 Queen Street West
Toronto, Ontario M5H 2N2

BRIEFING NOTE

Date: February 26, 2004

GTA Equalization (Pooling)

Issue/Background:

As part of the “Who Does What/Local Services Realignment (LSR)” process, municipalities throughout Ontario became responsible for funding social housing costs and an increased share of social services costs as of January 1, 1998. The City holds the position that the program costs for income re-distributive programs such as social assistance (Ontario Works) and social housing are not appropriately funded from the property tax base.

Toronto carries a disproportionate share of each of these portfolios in the GTA (80% of social assistance clients and 74% of social housing stock). In recognition of this disparity, and its negative fiscal impact on the City, and to assist with the goal of making LSR more revenue neutral to all municipalities, the Province made the decision to share or equalize (aka- ‘pool’) these costs among GTA municipalities.

Each region’s/city share of the GTA wide costs is measured by its proportionate share of weighted (by tax ratios) average assessment versus the total weighted average assessment of the GTA. The Province regulates this calculation.

Toronto is a net beneficiary of GTA equalization, receiving equalization payments from the other GTA participants. Viewed in another way, this cost sharing arrangement results in Toronto funding slightly over 50% of the total GTA municipal expenditures for these programs.

Key Points:

Pooling redistributes the municipal shares of spending for social assistance and social housing across the GTA. The Province currently administers the pooling calculation for GTA municipalities. The mechanism used to allocate costs among GTA municipalities is “Weighted Average Assessment”. The basic formula, as established by the Province, is displayed below.

The Pooling Formula

$$\begin{array}{r} \text{A) Share of Weighted Average Assessment (by City/Region)} \\ \times \\ \text{B) Total GTA Municipal pooled program expenditures} \\ = \\ \text{C) Share of GTA pooled program expenditures} \end{array}$$

A) Weighted Average Assessment – a proxy for fiscal capacity

The Province has chosen weighted taxable assessment as a proxy for determining each municipality's fiscal capacity to pay its share of the cost of social assistance and social housing across the GTA. The weighting calculation means that shares are based on tax revenue rather than assessment. City staff has recently petitioned the Province to amend this calculation to reflect current tax rates, versus a policy of updating tax ratio data only in a year of reassessment.

The City's share of Weighted Average Assessment (included in the table below) declined steadily for the period 1998 – 2001, due to assessment growth in the 905 Regions outpacing that of the City of Toronto. However, this trend came to an end in 2002 when Toronto's share of GTA Weighted Average Assessment increased, the result of a CVA reassessment (assessment values were updated to reflect 1999 property values). This reassessment reflected the rapid growth in property values experienced in the City since the previous reassessment, which was completed for the introduction of CVA in 1998 and based on 1996 property values.

1998	1999	2000 (*)	2001	2002	2003	2004
52.2424%	51.5710%	51.5710%	50.8858%	54.0105% (**)	52.9904%	52.9611%

(*) One-year lag introduced for administrative reasons.

(**) Result of 2001 CVA reassessment (data is lagged one year for pooling).

B) Municipal share of pooled program costs

A summary of 'pooled program' costs since 1998 is included as an attachment to this note. The pooled municipal cost of social assistance and social housing for the GTA has declined for the period 1998 through 2001, primarily as a result of declining Ontario Works caseloads and lower mortgage rates. However, it appears this trend may be ending, as costs are projected to rise based on year end estimates for 2002 and forecasts for 2003.

Social Assistance

As a Consolidated Municipal Service Manager (CMSM), the City of Toronto is responsible for managing, funding (through cost sharing) and delivering the mandatory Ontario Works (OW) program, as well as cost-sharing the provincial Ontario Disability Support Program (ODSP).

Only social assistance costs approved by the Province are eligible for pooling. The increasing prescriptive nature of Provincial regulations/directives closely dictates what benefits and services are provided under Ontario Works across the province. In addition, the distinction between mandatory versus discretionary programs is no longer meaningful under Ontario Works. Programs provided at a municipality's discretion are not eligible for OW funding (they must be funded 100 percent by municipalities), and are not included in the pooling formula. Further, all Consolidated Municipal Service Managers (CMSM) face the same provincial process for approving the OW program.

Toronto has historically tended to have slightly higher (1.5% - 2%) unemployment rates than the surrounding regions and a lower labour force participation rate (65% in 2001 for Toronto vs. 72% for the 905). As a result, a higher percentage of Toronto residents have historically relied on OW compared to usage levels in the 905's.

Since 1995, the City's caseload has declined at the same rate as the provincial average (by about 60 percent). According to Provincial statistics, actual caseloads have declined in Toronto by over 87,000 cases between June 1995 and May 2001. Over the past three years, Toronto's caseload as a proportion of the GTA's total caseload has remained steady, at approximately 79 percent of the total.

Social Housing

The GTA's social housing stock is concentrated in the City, and the existing stock is much older than surrounding regions. The disproportionate share of low-income residents (25.2% Toronto/15.5% rest of GTA), including low-income children (34% in Toronto vs. 19.6% rest of GTA) and low-income seniors (16.9% City vs 14.2% of GTA), results in higher subsidy costs for social housing in the City of Toronto.

Municipal social housing expenditures are mandatory under the Social Housing Reform Act. The Act sets out a funding formula which determines the amount of funding to each project based on market rents, number of rent-geared-to-income units, and other factors. Each City or Region (as a Service Manager) has certain administrative discretion, which may affect subsidy costs. Principle areas of discretion are capital repair expenditures for older public housing and mortgage renewal strategies (eg. Long terms versus short terms).

Despite operating under the same funding formula, the City and "905" Regions may experience different subsidy trends due to differences in the average mortgage debt per project, prevailing forms of electricity and gas contracts, property tax trends, proportion of rent geared to income units, market rents, the number of older units with higher capital repairs, and other factors.

The “homelessness” rent supplement initiative is 100 percent funded by the Province. Although currently administered directly by the Province, the City will assume this responsibility by the second quarter of 2004 and these costs will not be pooled. Staff will report back in future on the budget impact of this change in responsibility.

The Province has completed the final stages of devolving its administrative responsibilities for social housing to municipalities (for Toronto this process is almost complete). For the GTA there is an added wrinkle, as the Province also administered the pooling process. Therefore, there is a need for an administrative agreement to be formed by the GTA partners that will address such issues as annual budget estimates and reconciliation, distribution of equalization payments, as well as policy issues such as the treatment of growth related costs. In the interim, growth related costs are not to be included in pooled costs for equalization purposes, although there is no verification or enforcement process.

Conclusion:

GTA equalization is a creation of the Province, designed to a) recognize the disproportionate share of social program costs in the GTA, which are borne by the City; and b) in part to alleviate the negative impacts of the LSR process on Toronto by compensating for the disproportionate share of the social assistance and social housing portfolios the City manages.

GTA wide costs for social assistance and social housing are allocated based on average weighted assessment, a proxy for fiscal capacity to pay. The Province has administered GTA pooling since its inception.

For Social assistance, prescriptive regulation and Ministry directives govern program costs. All Consolidated Municipal Service Managers face the same provincial process for approving Ontario Works related program expenditures.

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