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## **2007 BUDGET BRIEFING NOTE**

### **Introduction of Income Testing**

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#### **Purpose:**

Effective January 2007, the Province introduced income testing as the method of determining eligibility for child care subsidy. Income testing will make more families eligible for child care subsidies, but will result in an estimated annualized loss of \$15 million in revenue to the City because of lower fees from parents. This briefing note outlines the impact of income testing to the City. A report on this issue will be forthcoming to the February 19<sup>th</sup>, 2007 Community Development and Recreation Committee.

#### **Background:**

The provincial government as part of the Best Start Strategy announced its intention to change the process for determining eligibility for child care subsidy from a needs test to an income test. Income testing is considered less intrusive and assesses parent contribution on income. The system is simpler, more transparent than the needs test which sets a fee by considering at available income after comparing approved expenditures against income. Most other Provinces use the income test to determine eligibility.

Child care subsidies are cost shared on an 80/20 basis with the Province and the City, net of parent fees. Although parents pay their fees directly to the child care operator the total amount of funding that parents contribute impacts the number of child care fee subsidies that can be provided. The number of subsidy spaces is determined by considering all of the provincial, City and parent fees available. Historically, the Province has capped its contribution, so if parent fees are reduced, the provincial contribution does not increase.

#### **Key Points:**

- City of Toronto supports the move to an income test as a fairer means of determining parental contribution for child care fees. Council positions support this direction.
- The City is pleased that more residents will be eligible for child care subsidy as a result of the change to income testing.
- The City has been using its own version of an income test for over a decade to determine the actual fee charged to families who had been determined eligible for child care subsidy under the provincial needs test. The City introduced the income test as a result of reduced provincial funding and as a measure to increase funds for child care.

- Under the new regulations families with net adjusted incomes (pre-tax) under \$20,000 will pay no child care fees.
- Families with net incomes between \$20,000 and \$40,000 will pay 10% of their income over \$20,000 and families with incomes over \$40,000 will pay an additional 20% of their income over \$40,000. Income testing began in January 2007. New clients will be assessed under the new method of determining eligibility. Current clients will be assessed throughout the year as come due for their annual reassessment. An additional feature of income testing is the removal of an asset ceiling. Previously, families with assets over \$5,000-\$6,000 depending on family size were not eligible.
- The provincial income levels will render many of the City's current fee payers eligible for nil fees. Based on the current caseload, it is estimated that the City will lose on annual basis \$15 million in user revenue. This lost revenue translates into 1,500 fewer subsidy spaces.
- The service loss can only be avoided if the provincial government increases its funding to offset the reduction in parent fees. If the Province were to decide to do so, it is likely that it would expect that normal cost sharing requirements would apply. Assuming a loss of \$15 million in parent fees and normal cost sharing, the Province would pay \$12 million and the City would be required to pay \$3 million.
- Another possible source of income for the Province may be the increased tax revenue that is expected as a result of the Universal Child Care Benefit. The Caledon Institute of Social Policy has estimated that the Province will realize \$103.6 million in additional tax revenue resulting from the Universal Child Care Benefit introduced by the federal government.
- City officials have been discussing the anticipated impact of income testing with provincial officials. The Ministry has indicated that the first year of implementation will be a year of transition in which the ministry will monitor the impact and collaborate with municipalities to resolve any pressures resulting from the introduction of income testing.

### **Questions and Answers:**

*Q. Didn't the City know about the possible impact of income testing and planned for it?*

A. The City's original estimate for lost user revenue, based on income levels described by the Liberal Party in their election platform, was \$11 million. The estimate was later revised to \$5 million and reflected in the Best Start Service and Transition Plan, as information from the Province suggested that the impact might be reduced depending upon the income levels established and the rates of contribution. It is important to note that under the Best Start Plan the City's funding was expected to be \$125 million, more than sufficient to absorb the impact of Income Testing. Because Best Start funding has been significantly reduced and due to the income levels established for the income test, the impact of the lost user revenue is unable to be absorbed without service cuts.

*Q. Are all municipalities likely to lose funding with the implementation of Income Testing?*

A. No, some municipalities will actually see increased revenues, depending on how they administered the needs test.

*Q. How can families find out what their child care fee would be under an income test?*

A. They should go to the Children's Services web site at [www.toronto.ca/children](http://www.toronto.ca/children)

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