Finance Department
Office of the Budget

Memorandum

TO:	Regional Chair and Members of Council
FROM:	Bill Hughes, Commissioner of Finance and Regional Treasurer
DATE:	May 14, 2015
RE:	2015 Federal and Provincial Budgets

The purpose of this memorandum is to provide Council with an overview of the economic outlooks, budget projections and new initiatives in the 2015 federal and provincial budgets that are pertinent to York Region.

2015 Federal Budget

The 2015 federal budget is the first since before the recession of 2009 to project a surplus

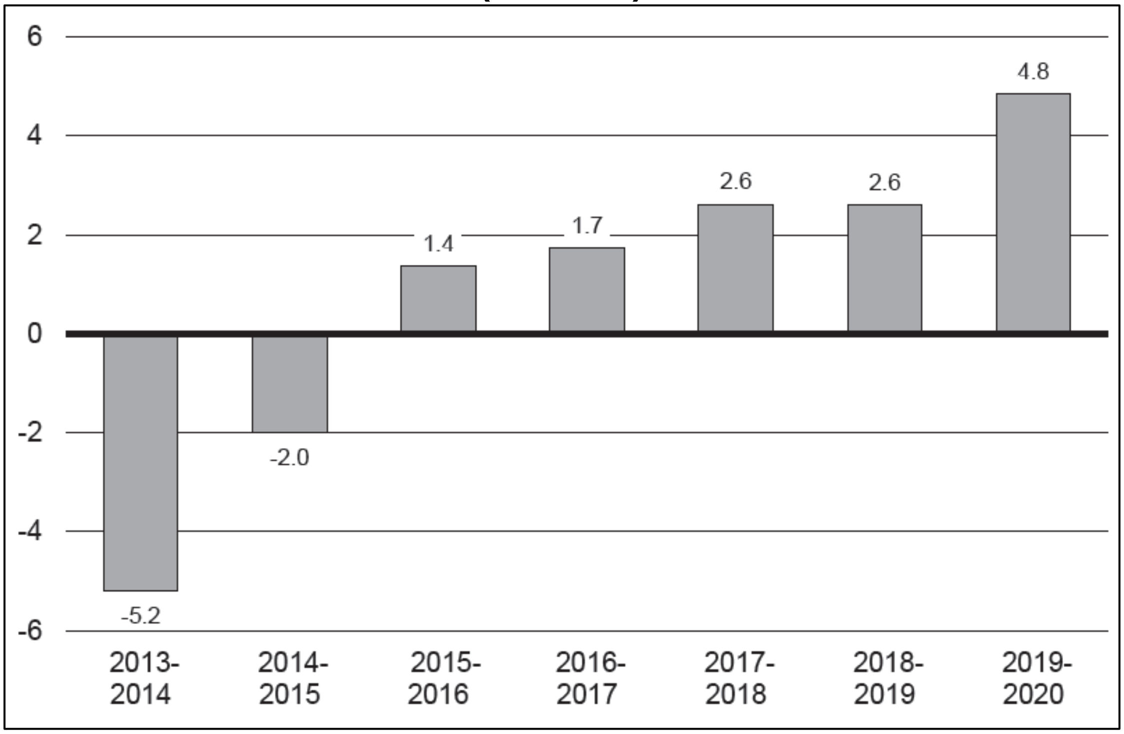
The Government of Canada's 2015 budget is centered on the same priorities as recent budgets, namely: jobs, economic growth, infrastructure, family supports and balancing the budget. A new priority in the 2015 budget is the protection of Canadians, both at the domestic and international level.

At the peak of the global economic and financial crisis, the Government of Canada's budget deficit was $55 billion (2009-10). Economic Action Plan 2015 is the first budget since then to project a surplus, which is expected to be $1.4 billion in the 2015-16 fiscal year. By 2019-20, the government anticipates that the surplus will grow to $4.8 billion.

The government's projections for annual revenues have fallen by $6.5 billion on average from 2015-16 to 2019-20, due to the collapse in oil prices. This is equivalent to a 2% decrease in average revenues over the period, down from $320 billion to $314 billion. Weaker-than-expected year-to-date results, lower GDP forecasts and lower-than-forecasted interest rates were the primary causes.

To offset the impact of lower anticipated revenue, the government has decreased its annual contingency amount. In the 2014 budget, the government had budgeted $3 billion each year for contingencies. In this year's budget, the government has revised the contingency amounts to $1 billion each year from 2015-16 to 2017-18, $2 billion in 2018-19, and $3 billion in 2019-20.

Chart 1
Canada's Fiscal Balance*
($ Billions)



Source: Economic Action Plan 2015, Chart 1.1
**Fiscal Balance* is the amount a government spends minus the amount it collects over a given period of time. For example, a negative number reflects expenditures exceeding revenues and is called a deficit which, typically results in higher debt.

Canada announced new public transit and community infrastructure funding

In addition to reconfirming previous commitments to provide $53.5 billion over ten years through the New Building Canada Plan, the government announced two new separate programs that may provide infrastructure funding for York Region.

The creation of a new Public Transit Fund will provide $750 million in 2017-18 and 2018-19, and $1 billion each year thereafter for public transit in Canada's largest cities. The money for the fund will be allocated through PPP Canada, which is a federal crown corporation that promotes public-private partnerships (P3s). Funding will be contingent on the involvement of private sector partners and will be allocated to transit projects based on merit. It is currently unclear how much private sector involvement will be required.

When proponents apply to the New Building Canada Fund for projects that cost over $100 million, PPP Canada administers a "P3 Screen". This screen is intended to determine whether a traditional procurement model or a P3 model would provide the best value for money. Federal funding becomes contingent on the project being delivered through a P3 model if PPP Canada determines that it would be successful. It is possible that a similar approach could be applied for the Public Transit Fund.

The government stated that it will explore new funding approaches under the new fund. The example that was provided in the budget suggested that funds could potentially be delivered through a stream of payments over 20 to 30 years that government partners could borrow against.

The government also announced the creation of the Canada 150 Community Infrastructure Program, a new program to help communities renovate, expand and improve existing facilities as part of the Canada 150 celebrations. Projects funded under the program will be cost-shared by municipalities, community organizations and not-for-profit entities. Specific details about the program will be announced in the coming months.

A new $150 million fund will help co-operative and non-profit social housing providers to refinance loans at lower rates

The Government of Canada announced a new program starting in 2016-17 that will provide $150 million over four years to help co-operative and non-profit social housing providers refinance high interest loans held with the Canadian Mortgage and Housing Corporation (CMHC).

Funds will be used to eliminate the prepayment penalty on long-term, non-renewable loans. This will allow social housing providers that hold loans with interest rates above current market rates to refinance at lower rates and to secure additional financing needed for capital repairs.

The Ontario Ministry of Municipal Affairs and Housing has indicated to Regional staff that the new fund will likely only apply to housing projects developed under former federal housing programs where CMHC directly provided long-term social housing mortgages with terms of up to 50 years. As only five York Region social housing projects were funded under these former federal programs, all of which are owned and operated by third-party partners[1], the refinancing option will have limited financial impact. If these mortgages are refinanced, funding from the Region to these providers could be reduced, since some funding is tied to mortgage costs. However, there is a risk that service providers could sell their housing assets after the CHMC mortgage is repaid, which could lead to a temporary reduction in the Regional housing stock. To mitigate this, similar programs in the past included provisions that housing providers would continue to be subject to existing operating agreements and therefore remain in the program after the mortgage is repaid.

The fund is unlikely to result in any savings on Housing York Inc.[2] (HYI) mortgages, since the rates on mortgages financed directly by CMHC are already below current market rates and the projects were not part of the federal programs that will probably be

[1] York Region is the service manager for social housing in the Region. It administers funding to over 40 community-based non-profit and co-operative housing providers with more than 4000 units in total.
[2] Housing York Inc., York Region’s non-profit housing corporation, owns and operates close to 2500 units, with no third-party relationships.

targeted. HYI currently holds three mortgages financed by CMHC: Oxford Village will be renewed for June 1, 2015; Glenwood Mews was refinanced on February 1, 2015 at 1.12% for a five-year term; and, Rose Town is financed at a rate of 1.88% and is scheduled for renewal in 2022. The Ontario Financing Authority estimates that current rates are between 1.82% and 2.07% on five-year mortgages and between 2.41% and 2.66% on ten-year mortgages.

Staff will continue to monitor this program as more details become available.

Canada's 2015 budget includes other initiatives that will impact York Region's local economy

While the following new measures will benefit York Region's residents and businesses, the direct impact on the Region is likely marginal:

- A permanent Home Accessibility Tax Credit for seniors and persons with disabilities is being introduced to help them make their homes safer and more functional for their specific needs. The 15% non-refundable tax credit would apply on up to $10,000 of eligible home renovation expenditures per year, providing up to $1,500 in tax relief. Examples of eligible expenditures include wheelchair ramps, walk-in bathtubs, wheel-in showers and grab bars. The credit will apply for eligible expenditures made on or after January 1, 2016.

- Compassionate Care Benefits under the Employment Insurance program have been extended from six weeks to six months to support people who are caring for gravely ill family members.

- Although announced in fall 2014, the government has introduced new financial assistance measures for families with children. The changes include income-splitting for families with children under 18, increasing the Universal Child Care Benefit, increasing the Child Care Expense Deduction and doubling the Children's Fitness Tax Credit. This last measure, which increases the limit for eligible fitness programs from $500 to $1,000 per child, is a refundable tax credit that could benefit low- and moderate-income families in the Region.

- The mandate for the Mental Health Commission of Canada is being renewed for another ten years, starting in 2017-18. The commission is an arm's length not-for-profit corporation established in 2007 that supports improvements in the mental health system in Canada. Accomplishments to date include creating a national mental health strategy, developing an anti-stigma initiative, establishing a knowledge exchange centre for governments, stakeholders and the public, and demonstrating the link between housing stability and mental health.

- Labour Market Development Agreements will be renegotiated with provinces to reorient training support towards labour market demand. Staff will monitor the development of the agreement with Ontario to assess the potential impacts on broader employment services and training in York Region.

- The annual Tax Free Savings Account (TFSA) contribution limit has been increased from $5,500 to $10,000, effective immediately. TFSAs allow Canadian residents to earn tax-free investment income such as interest, dividends and capital gains.

- The minimum withdrawal requirements for Registered Retirement Income Funds (RRIFs) have been relaxed to better reflect long-term historical real rates of return and expected inflation. Previously, the minimum withdrawal rate was 7.38% at age 71, increasing each year until age 94 when it was capped at 20%. The new minimum withdrawal rates are 5.28% at age 71, capped at 20% at age 95.

- The small business tax rate, currently at 11%, will be lower by 0.5% each year for four years starting in 2016. By 2019, the rate will be 9%.

- The government will provide up to $100 million over five years, starting in 2015-16, for an Automotive Supplier Innovation Program. The program will support product development and technology demonstration by Canadian automotive parts suppliers. Of the $100 million, $50 million is new funding and the other $50 million will come from the existing Automotive Innovation Fund.

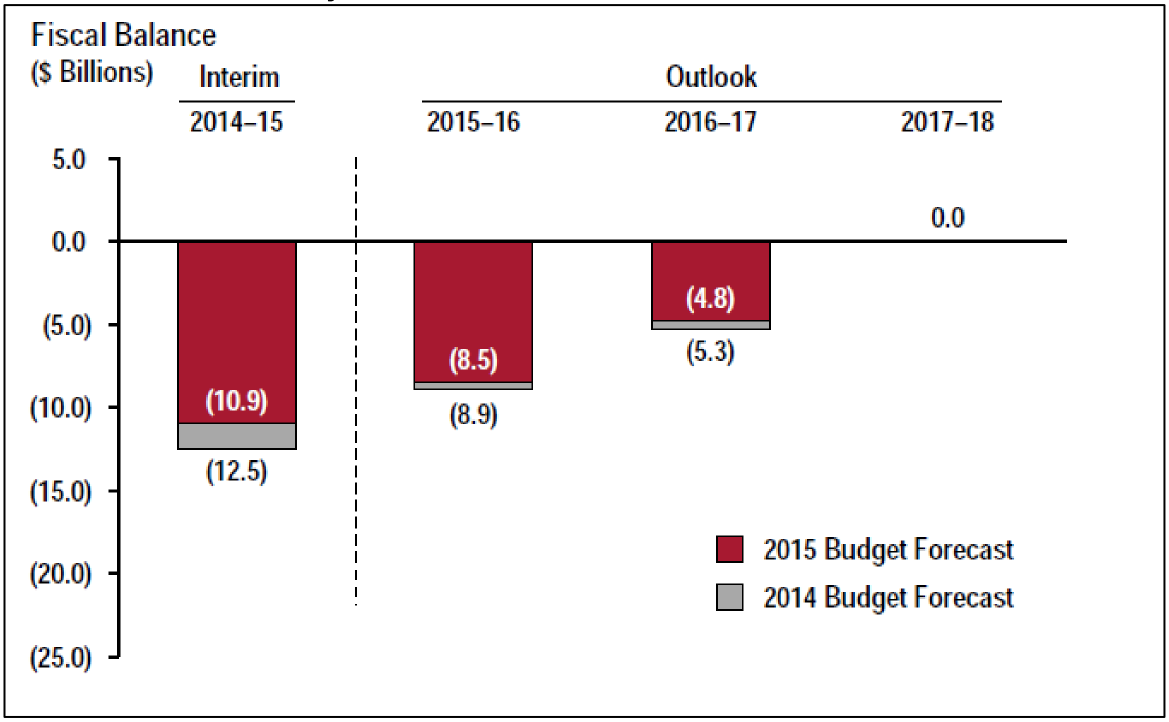
2015 Provincial Budget

Ontario remains committed to balancing the budget by 2017-18

Although Ontario's 2015 budget released details on a number of new initiatives, for the most part it is a reconfirmation of programs and priorities introduced in the 2014 budget. The government's priorities remain: investing in people, building modern infrastructure, fostering an innovative business environment, creating a fair society and managing the province's finances efficiently.

In 2014-15, the province reduced the deficit to $10.9 billion, an improvement of $1.6 billion over the forecast in the 2014 budget. The province is now projecting deficits of $8.5 billion in 2015-16 and $4.8 billion in 2016-17, both of which are improvements over the estimates from the prior year. As in the 2014 budget, the province anticipates that the deficit will be eliminated by 2017-18.

Chart 2
Projection of Ontario's Deficit Reduction



Source: Ontario Budget 2015: Building Ontario Up, Chart 2.4

Achieving a balanced budget by 2017-18 will require significant program spending restraint. Over the past four years, Ontario has held annual growth in program spending to below 1.5% on average. In 2013-14, Ontario had the lowest program spending costs per capita of any province in Canada and is expected to be the leanest again in 2014-15[3].

Overall growth in program spending, as reported in the budget, is projected to increase by an average annual rate of 0.9% from 2013 and 2018. When inflation is taken into account, however, real program spending will actually decrease over the period by an average of 1.0% per year.

[3] Ontario Budget 2015: Building Ontario Up, p.197

Table 3
Summary of Medium-Term Program Expense Outlook
($ Billions)

Programs	Actual 2013-14	Interim 2014-15	Plan 2015-16	Outlook 2016-17	Outlook 2017-18	Average Annual Growth Rate	Average Annual Real Growth Rate*	Average Annual Real Per Capita Growth Rate**
Health Sector	48.9	50.2	50.8	51.7	52.7	1.90%	**0.0%**	**-1.0%**
Education Sector	23.6	24.6	25.2	25.6	25.6	2.00%	**0.2%**	**-0.8%**
Postsecondary and Training Sector	7.6	7.7	7.8	7.8	7.6	0.10%	**-1.9%**	**-2.8%**
Children's and Social Services Sector	14	14.7	15.4	15.7	15.7	2.90%	**1.0%**	**0.0%**
Justice Sector	4.2	4.3	4.4	4.4	4.4	1.50%	**-0.7%**	**-1.7%**
Other Programs	17.5	17.2	16.8	15.4	14	-5.50%	**-7.1%**	**-8.1%**
Total Programs	**115.8**	**118.8**	**120.5**	**120.6**	**120**	**0.90%**	**-1.0%**	**-2.0%**

Source: Ontario Budget 2015: Building Ontario Up, Table 2.19
*Source: York Region Finance Department. The average annual real growth rate is based on converting program spending to constant dollars using the Ontario headline inflation rate of 1.6% from April 2014 to March 2015 (Statistics Canada) and an inflation estimate of 2.0% for 2015-16 to 2017-18.
**Source: York Region Finance Department. Based on the Ministry of Finance’s fall 2014 historic estimates and projected population data (Reference Scenario).
Note: numbers may not add due to rounding

Factoring in population growth, the budget contains very significant decreases in inflation-adjusted per capita program spending from 2013 to 2018. With average annual population increases of 1.0% over the period, inflation-adjusted total program spending per capita is expected to decrease on average by 2.0% each year. Prolonged decreases in program spending will reduce the quality of public services over time. Staff will continue to monitor changes to program areas to assess if this trend could affect public services delivered by the Region.

The $130 billion ten-year public infrastructure plan has grown slightly

Ontario’s commitment to invest $130 billion over ten years in public transit, highways, schools, health facilities and postsecondary institutions has been reinforced in the 2015 budget. Approximately $100 billion is for the province’s ten-year infrastructure strategy – *Building Together* – which is intended to expand transportation and other critical infrastructure projects in the province. Of this amount, $50 billion is targeted specifically for transportation infrastructure.

The province announced that the Moving Ontario Forward plan will be increased from just under $29 billion to $31.5 billion over ten years. Moving Ontario Forward was announced in April 2014 and targets transit and transportation infrastructure. The $2.6

billion in additional funds will come from the Trillium Trust, which was established to hold the net proceeds from the sale of provincial assets, such as General Motors shares, Hydro One shares and the LCBO head office lands.

The total dedicated funds for Moving Ontario Forward will be allocated to the Greater Toronto and Hamilton Area (GTHA) and the rest of the province based on their relative shares of the population. This works out to approximately $16 billion for the GTHA and $15 billion outside the GTHA.

A new Connecting Links program will be launched using some of the new Moving Ontario Forward funds. This is a rebranding of a previous program that provided funds to municipalities to connect their communities to provincial highways and border crossings. The amount announced for this program is $15 million annually over ten years. It is unlikely that York Region will be eligible for funding under this program as there are no corridors in the Region that currently meet the eligibility requirements, and it appears that the new program may only apply outside the GTHA.

Significant investments will be required to fund the province's Regional Express Rail plans

Of the $16 billion in Moving Ontario Forward funds that is targeted for the GTHA, an estimated $13.5 billion will be required to implement improvements to the GO Transit network for the Regional Express Rail (RER) plans that were announced in the week leading up to the budget. The RER will provide faster, more frequent service along core GO rail lines and is intended to reduce congestion across the GTHA. Included in the RER plan is two-way electrified service, up to every 15 minutes, along core corridors. The Stouffville corridor between Union Station and Unionville and the Barrie corridor between Union Station and Aurora have been identified as two such core corridors.

The province's RER plans are ambitious and will require funding from a variety of sources, including the federal government's New Building Canada Fund. While, the province applied for funding under the New Building Canada Fund last year and will do so again this year, staff understands the potential for a municipal intake for this program is limited.

The budget highlights the need for new partners to help fund flood mitigation projects on the Richmond Hill corridor before other RER projects can go forward on that line. The province is encouraging municipalities to explore financing tools to help move such projects along.

Planning and design work for the York North Subway Extension and Toronto Relief Line will continue

Although no funding for the Yonge North Subway Extension or Toronto Relief Line was announced in the budget, the government stated that ongoing planning and design work for these projects will continue. These projects are part of the Next Wave of Metrolinx's Big Move.

The budget also mentions that starting in 2015, the Province will look to work with regions, communities and the private sector to develop new programs and a framework to prioritize and evaluate infrastructure needs. These needs will be assessed based on their economic, social and environmental returns.

New announcements in Ontario's 2015 budget are unlikely to significantly impact the Region as an organization

Although Ontario's 2015 budget reiterated many commitments that had previously been made, it included details on the following new and existing programs:

- New rate increases of one percent have been proposed for Ontario Works (OW) families and individuals receiving assistance from the Ontario Disability Support Program (ODSP). In addition to this rate increase, a 'top up' for OW single adults with no children will be implemented, which – when combined with the one percent rate increase – will amount to a total increase of $25 a month. The new rates will be effective as of October 1, 2015 for ODSP and November 1, 2015 for OW, but municipalities will not have to cost-share the OW rate increases until January 2016 (municipalities do not cost-share ODSP). In 2016, York Region's cost-share component of OW rates will be 5.8%. The estimated impact on the Region in 2016 from the rate increases is minimal. The full upload of OW benefit costs is scheduled for 2018.

  Over the coming year, the province will consult with clients, stakeholders and other partners, including municipalities, on how to redesign the rate structure for OW and ODSP. The review of rate structures stems from recommendations made by the 2012 Commission for the Review of Social Assistance in Ontario.

- Program Review, Renewal and Transformation (PRRT), a government initiative to identify programs and services that are not linked to key government priorities, will continue to review program areas to find new efficiencies. Staff will monitor changes through this process to determine if there are any potential impacts on the Region.

- An additional $200 million will be added to the 10-year, $2.5 billion Jobs and Prosperity Fund that was announced in January 2015. The fund is used to attract new investments to the province in the hopes of enhancing innovation, increasing productivity and growing exports. In addition, the forestry industry has been added as an eligible industry.

- An investment of $120 million in capital funding over three years will create thousands of additional child care spaces in schools. Staff will be reviewing the proposal as details become available to assess the implications for York Region as a child care service system manager.

- An investment of $651,000, in partnership with Siemens Canada, is being made to support the creation of a Mechatronics Simulation and Demonstration Centre at Seneca College. Mechatronics is a multidisciplinary field of engineering that combines mechanical and electrical engineering with computer science. This investment is intended to support Ontario's manufacturing skills and modernize industries such as automotive manufacturing, plastics and building technologies. Although the precise location of the centre has not been determined yet, training in the mechatronics field generally occurs at the Newnham campus (Highway 404 and Finch Avenue). Due to its proximity to York Region, the Centre could enhance the local economy by providing support to existing businesses and attracting new businesses that have interests in this field.

- The Ontario Youth Jobs Strategy is being renewed, providing an additional $250 million over two years. This will service up to 150,000 clients in Ontario and will focus on skills development, labour market connections, entrepreneurship and innovation.

- An additional $23 million in the Apprenticeship Enhancement Fund and $13 million for pre-apprenticeship programs over two years has been announced. The Apprenticeship Enhancement Fund will invest in equipment, technology and spaces to help colleges and apprenticeship programs meet new demands in the workforce.

- A $20 million program called Experience Ontario will be launched to help high school students better identify future goals and choose appropriate postsecondary education.

- The budget referenced a recommendation from the Premier's Advisory Council on Government Assets that Hydro One Brampton Networks Inc. (a subsidiary of Hydro One) be used as a catalyst for Local Distribution Company (LDC) consolidation in the Greater Toronto and Hamilton Area. The Council's report, which was released a week before the budget, specifically named three LDCs that the Province should immediately proceed to consolidate with Hydro One Brampton Networks Inc. The three LDCs were Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc. It is anticipated that this will strengthen competition in the electricity distribution sector by creating fewer, but larger LDCs that have the capacity to drive further consolidation.

Regional staff will continue to monitor future developments in these areas and, as more information becomes available, will report the potential impacts to Council as appropriate.

Bill Hughes, Commissioner of Finance and Regional Treasurer

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