York Region

Finance Department

MEMORANDUM

TO: Regional Chair and Members of Council

FROM: Bill Hughes, Commissioner of Finance and Regional Treasurer

DATE: September 4, 2014

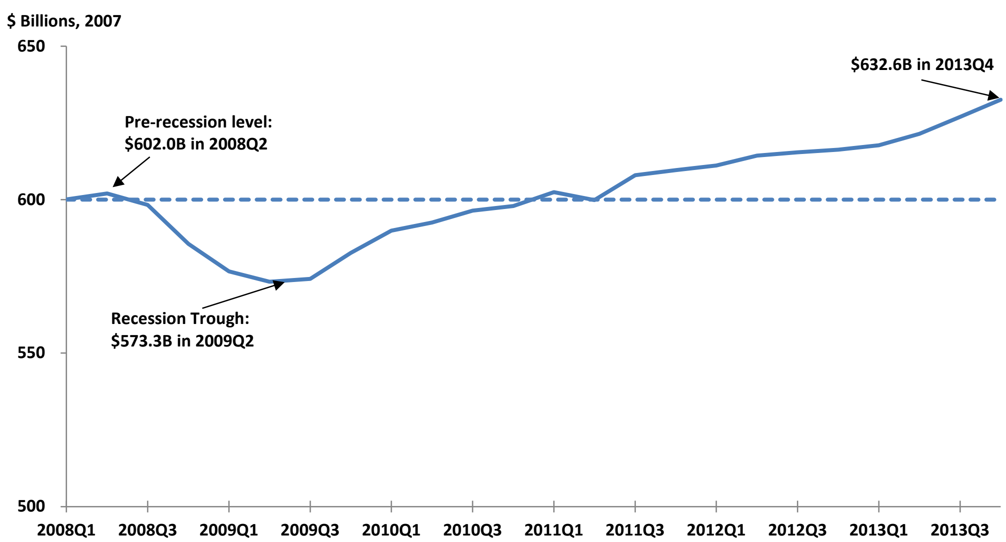
RE: **The 2014 Provincial Budget**

The purpose of this memorandum is to provide Council with information about key measures in the 2014-15 provincial budget. The themes of the budget are jobs and growth, investment in transit and infrastructure, retirement planning for Ontarians, and balanced budgets.

Ontario's recovery continues to be slow and steady

Ontario's real gross domestic product (GDP) is now 5.1 per cent above its pre-recession level. The recovery is primarily due to household spending, residential construction, and government and business investment.

Chart 1
Ontario's Real GDP Since 2008-09 Recession



Source: 2014-15 Provincial Budget, Chart 2.4

The provincial government (the Province) is forecasting continued steady growth in the economy over the 2014 to 2017 period, as shown in Table 1. Household spending, business investment, and net trade are expected to be significant growth drivers over this period.

Table 1
Revised Real GDP Growth Forecast

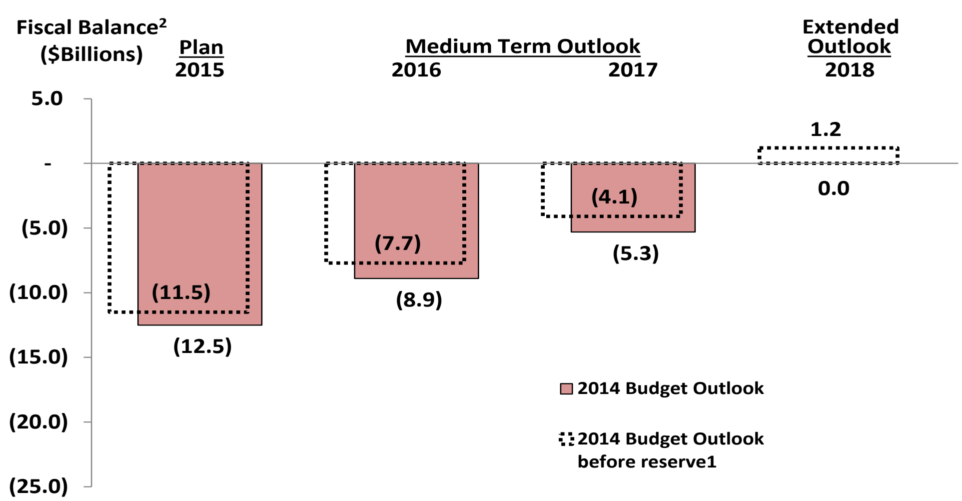
Year	2013-14 Budget	2014-15 Budget	Change
2014	2.3%	2.1%	-0.2%
2015	2.4%	2.5%	+0.1%
2016	2.4%	2.5%	+0.1%
2017	n/a	2.6%	n/a

Source: 2014-15 Provincial Budget

Despite new spending initiatives, the Provincial Government still plans to eliminate the deficit by 2017-18

The budget introduces new program spending and expansionary measures, which partly account for the increase in the anticipated deficit for 2014-15 from $10.1 billion to $12.5 billion[1]. This is consistent with the Province's commitment to stimulating economic growth ahead of achieving short-term deficit reduction targets. Nevertheless, the provincial government plans to return to a balanced budget by 2017-18, as illustrated in Chart 2.

Chart 2
Ontario's Plan to Eliminate the Deficit[1]



Source: 2014-15 Provincial Budget, Chart 2.25
1. The 2014-15 budget incorporates a reserve to protect the fiscal outlook against adverse changes. The reserve is set at $1.0 billion in 2014-15 and $1.2 billion for each of 2015-16, 2016-17, and 2017-18.
2. 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 expenses exceeding revenues and is called a deficit, which results in higher debt.

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[1] Approximately two-thirds of the increase is due to a lower revenue forecast (net of budget measures) resulting from a lower taxation revenue outlook related to slower economic growth in 2013 and 2014, a lower tax base, one-time impacts, and lower federal transfers.

To eliminate the deficit, spending over the 2015 to 2017 forecast period is projected to remain relatively flat, with average annual growth in program spending constrained to approximately 1.1 per cent, as summarized in Table 2. Based on the Province's inflation forecast and anticipated population growth, this represents a decrease in real per capita spending over the forecast period of approximately 5.5 per cent or 1.8 per cent per year.

Table 2
Summary of Medium-Term Program Expense Outlook
($Billions)

Programs	Interim 2013-14	Plan 2014-15	Outlook		Average Annual Growth 2013-14 to 2016-17	Average Annual Real Growth Rate*
			2015-16	2016-17		
Health Sector	48.8	50.1	51.0	52.1	2.2%	**0.2%**
Education Sector	23.8	24.8	25.3	25.6	2.3%	**0.5%**
Postsecondary and Training Sector	7.6	7.8	7.8	7.8	1.0%	**-1.1%**
Children's and Social Services Sector	14.1	15.0	15.5	15.6	3.5%	**1.4%**
Justice Sector	4.2	4.3	4.4	4.3	0.8%	**-1.2%**
Other Programs	17.9	17.4	16.1	14.9	-6.0%	**-7.8%**
Total Programs	**116.4**	**119.4**	**120.1**	**120.2**	**1.1%**	**-0.9%**

Source: 2013-14 Provincial Budget, Table 2.19
*Source: York Region Finance Department. Average annual real growth rate is based on converting 2016-17 current dollars to constant dollars using inflation rates of 1.9% in 2015 and 2% in 2016 and 2017. On a real basis, 2017 expenses of $120.2 billion equal $113.3 billion which is $3.1 billion or 2.6% less than 2014 expenses. This translates to an average annual real growth rate of -0.9%.

Modest spending growth in health, education, social services and infrastructure will require significant restraint in postsecondary, justice and other programs. However, the fiscal plan requires real per capita cuts in all program areas for three years, something that will be difficult to achieve. Specific actions identified so far focus primarily on Provincial public servants, with low wage increases and continued reductions in retirement benefits and pension costs over the forecast period. More generally, the fiscal plan includes an annual program review with a savings target of $250 million in 2014-15 and $500 million in 2015-16 and 2016-17.

At the same time, the Province maintains its commitment to control program spending without significant reductions in service levels. This could be a signal for future downloading of services to municipal partners and/or a change in program delivery methods (e.g., outsourcing or privatization of services).

The budget introduces a ten-year plan to invest $130 billion in public infrastructure

In light of Bill 141, the *Infrastructure for Jobs and Prosperity Act, 2014*[1], which requires the tabling of a ten-year infrastructure plan, the budget introduces a ten-year plan to invest $130 billion in public infrastructure, including:

[1] Bill 141 received Second Reading and was referred to Standing Committee on May 1, 2014.

1. Transportation infrastructure
2. Hospital expansion, redevelopment, and refurbishment
3. Postsecondary expansion, repair and maintenance

1. Transportation Infrastructure

The 2014-15 budget largely maintains recent levels of support for transportation infrastructure by extending measures that are already in place. The projects of interest to the Region are:

- Toronto-York Spadina Subway Extension
- Proceeding with the planned extension of Highway 427 to Major Mackenzie Drive in York Region, which was confirmed via the Province's announcement on May 16, 2013 that noted estimated construction costs of $500 million
- York Region vivaNext Bus Rapidways funded through Metrolinx
- New High Occupancy Vehicle Lanes (HOV)/ High Occupancy Toll (HOT) Lanes on sections of Highways 401, 404, 410 and 427 in the Greater Toronto and Hamilton Area (GTHA).

A permanent $100 million dedicated fund for municipal roads, bridges and other infrastructure will be launched this spring. This fund is directed at municipalities with challenging fiscal circumstances. York Region is not likely to be eligible for assistance from this fund.

In response to recommendations made by Metrolinx in its Investment Strategy and by the Transit Investment Strategy Advisory Panel, the provincial budget establishes dedicated funding for public transit and transportation infrastructure. Two funds have been established to address needs both within and outside the GTHA, as summarized in Table 3.

Table 3
Dedicated Funding for Public Transit and Transportation Infrastructure
2014-15 to 2023-24
($Billions)

Description	2014-15	2015-16	2016-17	10 Years
Available for Investment in the GTHA	1.7	1.7	1.6	15.0
Available for Investment Outside the GTHA	1.6	1.6	1.4	13.9
Total	**3.3**	**3.3**	**3.0**	**28.9**

Source: 2013-14 Provincial Budget, Table 1.1
Note: Totals include available net new borrowing for public transit, transportation infrastructure and other priority projects

Proceeds for the funds will be raised from the following sources:

- 7.5 cents from the existing provincial gas tax, over and above existing gas tax funding provided to municipalities and without increasing the rate from its current level
- Targeted revenue measures including restrictions on the small business tax deduction and fuel tax exemption for road-building machines and phasing in a four-cent-per-litre increase on the aviation fuel tax rate over four years
- Repurposing revenues from HST charged on gasoline and road diesel across the province
- Leveraging provincial borrowing (when needed)

- Net revenue gains from certain asset sales through the proposed Trillium Trust. The Trust, announced in the *2013 Ontario Economic Outlook and Fiscal Review* (Economic Outlook), will be established to finance key public infrastructure priorities
- Working with the federal government to secure funding through the *Building Canada Plan*[1] for key transportation-related projects throughout the province
- Dedicating net revenue gains from high-occupancy toll lanes when they become available.

The funds are to be allocated based on population, with proceeds going to build priority projects included in Metrolinx' regional transportation plan, *The Big Move*, and for other economic development and mobility improvement related projects.

Projects of interest to the Region that were specifically mentioned as being a priority within the GTHA are:

- New investments in GO Transit over the next 10 years to expand service and lay the foundation for two-way all-day service
- Relief Line
- Yonge North Subway Expansion to York Region.

The budget is silent on the other revenue-raising recommendations made by the *Metrolinx Investment Strategy* and by the Transit Investment Strategy Advisory Panel. It is not known whether these have been deferred or abandoned.

2. Hospital expansion, redevelopment, and refurbishment

The Province maintains its commitment to fund major hospital infrastructure with plans to invest $11.4 billion in capital grants over the next 10 years. The budget specifically mentions the Mackenzie Vaughan Hospital as a project in planning. Construction on this project is set to begin in 2015 and it is anticipated that the hospital will be in operation by 2019.

The budget also introduces following additional capital funding initiatives:

- Almost $700 million over the next 10 years for deferred maintenance in hospitals. The impact on the three existing hospitals within the Region is not known as details of the funding are not available at this time.

- $300 million over 10 years to help shift care from hospitals to community settings and ensure adequate infrastructure capacity in the health care sector. This includes the creation of a Community Infrastructure Renewal Fund that would help organizations such as Public Health Units.

3. Postsecondary expansion, repair and maintenance

In March 2014, the Province launched a call for expansion proposals to postsecondary institutions. In response, York University, in collaboration with Seneca College, advised York Region Council of its interest in establishing a university campus in York Region. On June 23, 2014, York University announced that Markham Centre had been selected as the preferred location for the construction of a new university campus. The City of Markham and York Region are working with York University to develop its application to the Province.

[1] On March 28, 2014, the federal government launched programs under the New Building Canada Fund. Program implementation details are still being worked out between the Province and the federal government. It is not known when these details will be available.

Proposed health care, education, and social assistance measures continue to be significant components of the budget

The 2014-15 budget contains a number of health care, education, and social assistance measures that are relevant to the Region. Regional staff reviewed and assessed the various initiatives and their impact on York Region as follows:

- An additional 1 per cent increase in social assistance rates in 2014 for adult Ontario Works (OW) recipients and people with disabilities receiving Ontario Disability Support Program (ODSP) benefits. The budget also provides a further top-up for single adults without children receiving OW. As a result of both measures, OW singles without children will receive a total increase of $30 per month. Rate increases take effect in September 2014, but municipalities will not be required to cost-share the increase until January 2015. The cost-sharing requirements will be presented to Council for consideration as part of the 2015 budget process. The scheduled upload of OW benefit costs by 2018 is reaffirmed.

- Replace seven separate employment benefits with a consolidated benefit structure within each of ODSP and OW. The Work-Related Benefit (WRB) in ODSP will be consolidated into the new employment benefit. More details are required to assess the Regional impact.

- An increase to the maximum Ontario Child Benefit (OCB) to $1,310 per child and index both the benefit level and income threshold at which the OCB starts to decrease to the Ontario Consumer Price Index (CPI). The increase will provide additional support to York Region families. The extent of this support will differ for families receiving social assistance and those that aren't. This may encourage some OW clients to transition off social assistance, putting downward pressure on program costs for the Region until OW is fully uploaded to the Province.

- Maintain the June 1, 2014 minimum wage increase to $11.00 per hour and introduce legislation to tie minimum wage to CPI beginning in October 2015.

- Enhance the annual funding for the Community Homelessness Prevention Initiative (CHPI) by $42 million to a total of $294 million, starting in 2014-15. Allocation details are still being finalized. Regional staff advise that they are not anticipating any more funding under the CHPI because York Region was one of the few municipalities to receive increased funding when the CHPI was first established in January 2013. The additional funding will likely be directed towards municipalities that received decreased funding.

- A five-year extension of the federal-provincial Investment in Affordable Housing (IAH) program, with the Province contributing $80.1 million annually. The Region has received confirmation from the Minister of Municipal Affairs and Housing outlining a Year-1 (2014-15) allocation of $5,014,600 for York Region. The communication also noted that the Region's allocation for the final five years of the program (2015-2020) will be based on new census data and will be provided once this data becomes available.

- Double the size of the Seniors Community Grant introduced in the Economic Outlook from $500,000 to $1 million per year. The grants may range from $500 to $10,000. They fund social, recreational, and cultural activities. Municipalities are eligible for the grants, but more detail is required to assess the implications for York Region.

- Expand health benefits, and expand and consolidate dental benefits for children in low-income families. More detail regarding both initiatives is required to assess Regional impacts but, in general, these initiatives could lead to a reduced administrative role for the Region in these areas.

- Invest $50 million over five years to support local solutions to poverty. While the funding would support innovations through partnerships at the local level, it is not clear if funding would be provided to municipally-led initiatives or would remain with provincial initiatives.

- Reaffirm the implementation of full-day kindergarten. In order to support the transition, the budget includes an additional $33.6 million over three years to help preserve child care spaces, keep parent fees stable, and support licensing, investigation and enforcement capacity. An additional $269 million is also committed over three years to support wage increases in 2015 and 2016 aimed at helping child care operators retain Early Childhood Educators (ECEs) by closing the wage gap with ECEs working in full day kindergarten. More information is required to determine the impact of the Province's additional commitments on York Region.

Regional staff will continue to monitor and assess these initiatives and will provide more information on Regional impacts where necessary.

The Province is moving forward with a mandatory Ontario Retirement Pension Plan

The Ontario Retirement Pension Plan (ORPP) is intended to assist individuals most at risk of not saving enough for retirement. Individuals already participating in a comparable workplace pension plan would not be required to enrol in the ORPP[1]. The objective of the plan is to provide a predictable stream of income in retirement by pooling longevity and investment risk, and indexing benefits to inflation, similar to the CPP retirement benefit. The aim is to provide a replacement rate of 15 per cent of an individual's earnings, up to a maximum annual earnings threshold of $90,000.

Benefits would be earned as contributions are made to ensure that the system is fair, and younger generations are not burdened with additional costs. The plan requires equal contributions from employers and employees, not exceeding 1.9 per cent each (3.8 per cent combined) on earnings up to $90,000. The ORPP maximum earnings threshold would increase each year, consistent with increases to the CPP maximum earnings threshold.

To reduce the burden on lower income workers, earnings below a certain threshold would be exempt from contributions, similar to the CPP. Currently, the CPP has an annual basic exemption of $3,500 and the government will consult on whether the ORPP lower income threshold would mirror that of the CPP.

ORPP would be introduced in 2017 to coincide with the expected reductions in Employment Insurance premiums. Enrolment of employers and employees in the ORPP would occur in stages, beginning with the largest employers. Contribution rates would be phased in over two years.

[1] The ORPP would not affect individuals within the OMERS system.

The program does not have a direct impact on the Region because it is entirely funded by employers and employees. It does have the potential to help reduce future pressures on government to provide services that support retired workers (e.g., low income seniors). On the other hand, the plan adds to short-term hiring costs, which could reduce employment growth, and reduces disposable income for individuals, which could affect household spending.

The 2014-15 budget includes other initiatives and measures that are relevant to York Region

The budget includes initiatives that could have an indirect impact on the Region by way of their effect on the disposable income of York Region residents and the Region's taxing capacity:

- To help offset increased spending initiatives, the budget introduces measures to increase taxation rates for high-income earners (i.e., individuals with taxable income over $150,000), which would raise $0.7 billion by 2016-17.

- Removal of the Debt Retirement Charge (DRC) cost from residential electricity users' bills after December 31, 2015. While this is expected to save the typical residential user about $70 per year, the savings will be partially offset by the cancellation of the Ontario Clean Energy Benefit by 2015.

- Deferral/cancellation of the education property tax review signalled in the Economic Outlook. The aim of the review was to explore options for residential and business education tax rate policies to reduce provincial transfers and increase funding from education property taxes. The 2014-15 budget is silent on the status of the review, but explicitly notes that education property taxes will not be increased to support infrastructure initiatives contained in the budget and that a 1.5 per cent increase in education property tax revenues anticipated over the 2014 to 2017 period is attributable to growth in the property assessment base as a result of new construction. Staff will continue to monitor developments and report to Council as necessary.

- Completion of the Special Purpose Business Property Assessment Review. The final report was released in December 2013. It contained recommendations related to improving the assessment of specific special purpose business properties, along with recommendations for strengthening the property assessment system as a whole. All of the recommendations contained in the report were accepted and are being implemented by the Ministry of Finance, working with the Municipal Property Assessment Corporation and municipalities. At this stage, Regional staff are not able to quantify the potential impact of the implementation of the recommendations on York Region. However, it is expected the impact is unlikely to be material, as the taxable assessed value of the special purpose business properties in York Region is only 0.2 per cent of the Region's total taxable assessment (measured by taxing capacity), based on assessment values for the 2014 tax year[1].

Bill Hughes, Commissioner of Finance and Regional Treasurer

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[1] Special purpose business properties identified in the final report released by Ministry of Finance include farms, industrial land, billboards, mills, grain elevators, wind turbine towers, and landfills.