Finance Department
Office of the Budget

# MEMORANDUM

TO: Regional Chair and Members of Council

FROM: Bill Hughes, Commissioner of Finance and Regional Treasurer

DATE: December 3, 2013

RE: **The 2013 Ontario Economic Outlook and Fiscal Review**

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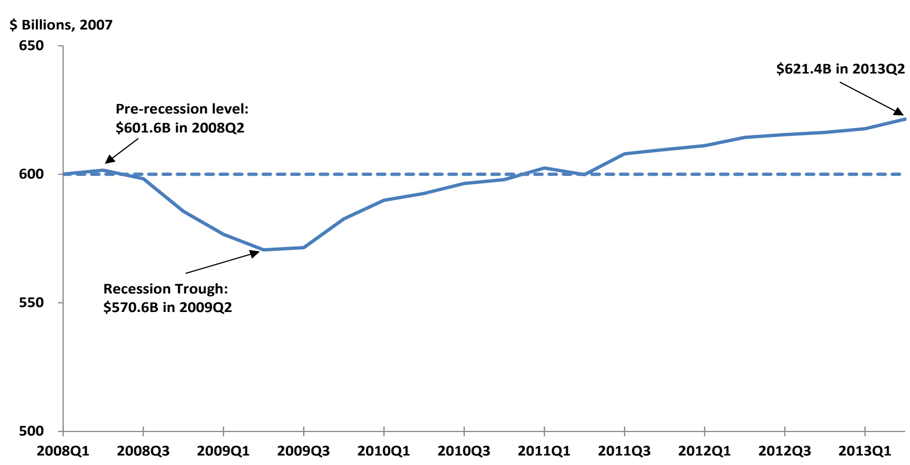
On November 7, 2013, the Province of Ontario released the *2013 Ontario Economic Outlook and Fiscal Review* (Economic Outlook). As part of the Province's annual fiscal cycle, the Economic Outlook provides a status report on the measures contained in the 2013-14 provincial budget. It updates the economic assumptions included in the budget and revises the revenue and expenditure projections for the current and outlook fiscal years.

The purpose of this memorandum is to provide Council with information about the aspects of the Economic Outlook that are most relevant to the Region. The Outlook reiterates the main themes of deficit reduction and economic stimulus.

## Despite current economic conditions, the province continues to forecast a balanced budget by 2017-18

Ontario's real gross domestic product (GDP) is now well above pre-recession levels due to government and business investment, as well as strong growth in residential construction.

**Figure 1**
**Ontario's Real GDP Since 2008-09 Recession**




Source: 2013 Provincial Economic Outlook and Fiscal Review, Chart 2.1

The key external factors influencing growth in Ontario's real GDP are the US economy, oil prices, the Canadian dollar and interest rates. The US is still Ontario's largest trading partner and is expected to be a strong market for Ontario exports, as its recovery continues. Oil prices are expected to remain relatively high over the forecast period, adversely affecting growth. Growth is also being hindered by a high Canadian dollar that is expected to remain near parity in the medium term. However, private-sector forecasts for the Canadian dollar range from 93 cents to 103 cents by 2016. Both short- and long-term interest rates are expected to rise gradually over the medium term, which may put further downward pressure on growth.

GDP growth in the first half of the year is tracking lower than provincial estimates due to sluggish growth in the United States and continuing financial volatility in European and developing economies. As a result, the province has adjusted its expectations for real GDP growth as follows:

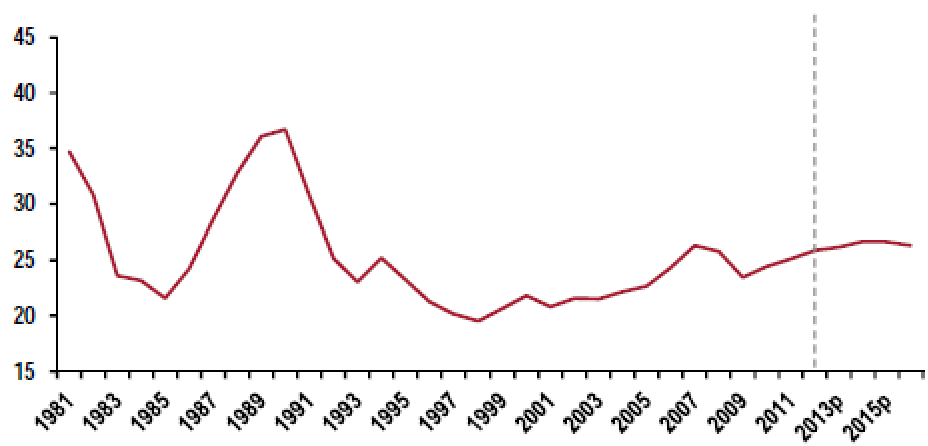
**Table 1**
**Revised GDP Growth Forecast**

| Year | 2013-14 Budget | 2013 Economic Outlook | Change |
|---|---|---|---|
| 2013 | 1.5% | 1.3% | -0.2% |
| 2014 | 2.3% | 2.1% | -0.2% |
| 2015 | 2.4% | 2.5% | +0.1% |
| 2016 | 2.4% | 2.5% | +0.1% |

Source: 2013 Provincial Economic Outlook and Fiscal Review

Household spending, business investment and trade are anticipated to be significant growth drivers over the forecast period. Of note, demand for new homes is anticipated to remain strong as housing in Ontario is expected to remain affordable despite anticipated increases in interest rates.

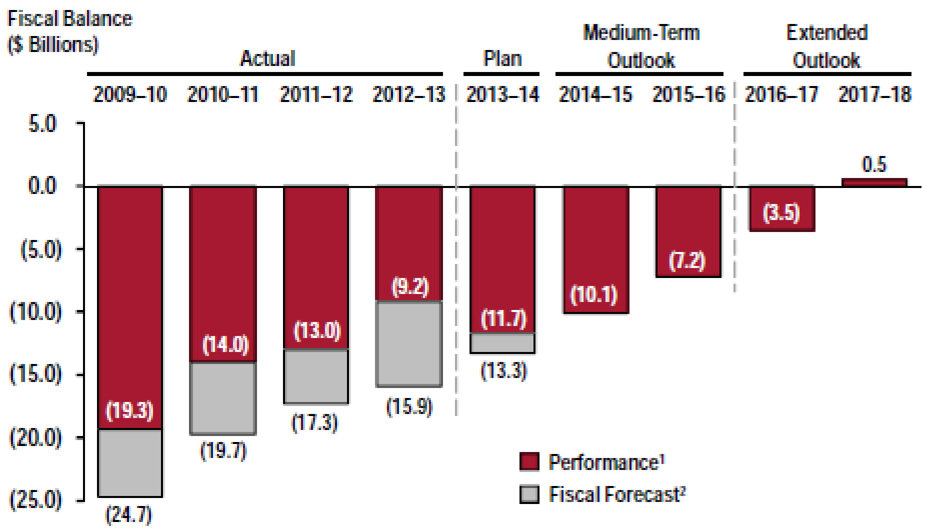
**Figure 2**
**Mortgage Carrying Cost as a Share of Disposable Income per Household (%)**




P = Ontario Ministry of Finance planning projection
Note: Carrying cost is based on the average five-year mortgage rate, a 25-year amortization and a 25 per cent down payment.
Source: 2013 Provincial Economic Outlook and Fiscal Review, Chart 2.11

The province's fiscal plan currently remains on track, with no changes to the longer term plan to eliminate the deficit by 2017-18, as illustrated in Figure 3.

**Figure 3**
**Ontario's Plan to Eliminate the Deficit**




[1]Represents the 2013 Budget forecast for 2013-14 to 2017-18. For 2009-10 to 2012-13, actual results are presented.
[2]Forecast for 2010-11 to 2013-14 based on the *2010 Budget*. Projection for 2009-10 from *the 2009 Ontario Economic Outlook and Fiscal Review*.
Source: 2013 Provincial Economic Outlook and Fiscal Review, Chart 1.6

## The province commits to stimulating economic growth ahead of achieving short-term deficit reduction targets

Acknowledging softer year-to-date economic growth than anticipated and continuing concern over the global economy, the province is introducing a three-part plan to stimulate economic growth:

- Investing in People
- Building Modern Infrastructure
- Supporting a Dynamic and Innovative Business Climate

The plan directly or indirectly reiterates all of the measures included in the 2013-14 budget that are of interest to the Region, as identified and summarized in the memorandum to Council dated June 13, 2013.

Part 1, "Investing in People", reconfirms and reports on health care, education, and social assistance measures already announced in the 2013-14 budget:

- Increases in home and community care investment. The Economic Outlook introduces a new $500,000 grant program dedicated to helping seniors participate in more community activities. The grants may range from $500 to $10,000. However, eligibility requirements and implications for York Region (if any) are not clear at this time.

- Implementation of full-day kindergarten. The Economic Outlook reiterates this commitment based on the results of a Ministry of Education study highlighting the initiative's benefits.
- Social assistance reforms to help people get back into the workforce, including an earnings exemption for Ontario Works and Ontario Disability Support Program recipients that allows them to keep the first $200 of employment earnings each month before their social assistance benefits are reduced.
- Working with the federal government to develop an extension of the Investment in Affordable Housing program to help increase the stock of new affordable housing units.

The measures identified are still in the early stages of implementation, making it difficult to assess their impact on the Region at this time.

Part 2, "Building Modern Infrastructure", reiterates the province's commitment to more than $35 billion in infrastructure investments over the next three years. 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
- Mackenzie Vaughan Hospital
- New investments in GO Transit over the next 10 years to expand service and lay the foundation for two-way all-day service
- New High Occupancy Vehicle Lanes (HOV)/ High Occupancy Toll (HOT) Lanes on sections of Highways 401, 404, 410 and 427 in the GTHA.

In addition, Part 2 mentions that a policy framework will be released this fall to govern future expansion in the postsecondary sector. The two alternatives being considered are the creation of three new campuses or a major expansion of existing campuses. The province will initiate a call for proposals to postsecondary institutions directly, and plans to announce potential locations in early 2014. The implications for the Region's Postsecondary Investment Strategy are currently being reviewed by staff.

The Economic Outlook introduces new initiatives to support the province's infrastructure objectives. The consolidated Trillium Trust is a trust to finance key public infrastructure priorities. Funds for the trust will initially come from revenues from asset sales. Green Bonds (previously announced) would be used to raise capital for environmentally friendly projects such as transit. In addition, the government is proposing regulatory amendments that would eliminate caps on pension plan investments in infrastructure to help facilitate increased investment and provide a new source of funding.

The province has also introduced legislation that, if passed, would require the government to table a ten-year infrastructure plan. This may provide the Region with more clarity for its own long-term infrastructure planning for projects with a provincial funding component.

Part 3, "Supporting a Dynamic and Innovative Business Climate", proposes measures aimed at promoting economic activity by increasing research and development investment and employee training. Regional impacts of these initiatives are difficult to quantify at this time and will require further analysis.

## The Economic Outlook signals a review of residential and business education tax policies that could affect the Region

The province is undertaking a review of tax rate policies as they pertain to education property tax rates. The government is concerned about the decline in the share of education funding supported by these taxes. Since 1998, education property tax rates have been adjusted to offset reassessment impacts and this has eroded the education tax revenue base. As a result, the government has had to increase transfers to school boards by $3.8 billion to offset the decline in property tax support for education.

The aim of the review will be to explore options for the residential and business education tax rate policies to reduce provincial transfers and increase the funding from education taxes.

The outcome of this review may have an impact on the Region's taxing capacity, the extent to which is not known at this time. Staff will monitor developments and report to Council as necessary.

To better understand how this trend has affected the Region, Table 2 highlights taxable assessment and the education tax revenue that has been generated by the Region over a ten-year period (2004 to 2013):

**Table 2**
**Education Property Tax Revenue from York Region**
**($Millions)**

| Broad Class | Assessment | | | Education Property Tax Revenue | | |
|---|---|---|---|---|---|---|
| | 2004 | 2013 | % Change | 2004 | 2013 | % Change |
| Residential | 84,225 | 159,378 | 89% | 249 | 338 | 36% |
| Commercial | 13,056 | 26,125 | 100% | 215 | 280 | 30% |
| Industrial | 4,063 | 6,890 | 70% | 70 | 81 | 15% |
| Other | 1,011 | 1,538 | 52% | 4 | 5 | 26% |
| **Total** | **102,355** | **193,931** | **89%** | **538** | **704** | **31%** |
| **Education Residential Tax Rate** | | | | 0.002960 | 0.00212 | -28% |
| **Education Commercial Tax Rate** | | | | 0.016832 | 0.01094 | -35% |
| **Education Industrial Tax Rate** | | | | 0.018719 | 0.01260 | -33% |
| **Average Tax Rate Change** | | | | | | -32% |

Source: York Region Finance Department, Treasury Office

Based on 2004 tax rates, an 89% increase in total taxable assessment over the 10-year period would have generated education taxes of approximately $1.03 billion in 2013. This represents an increase of approximately 91%. However, the government's policy to offset assessment impacts has reduced education tax rates by an average of 32% over the 10-year period, resulting in an increase in education property tax revenue of only 31%. On average, every 1% reduction in the tax rate resulted in approximately 2% less education tax revenue collected over the 2004-2013 period.

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