



Office of the Commissioner
Finance Department

Memorandum

To: Members of Regional Council

From: Bill Hughes
Commissioner of Finance and Regional Treasurer

Date: May 17, 2018

Re: **2018 Provincial Budget**

On March 28, 2018, the Government of Ontario released its budget for the 2018-19 fiscal year entitled *A Plan for Care and Opportunity* (Budget 2018). The main themes in Budget 2018 were strengthening Ontario's hospitals and better care for children and seniors. The Budget also included an outlook for Ontario's economy and the provincial government's finances.

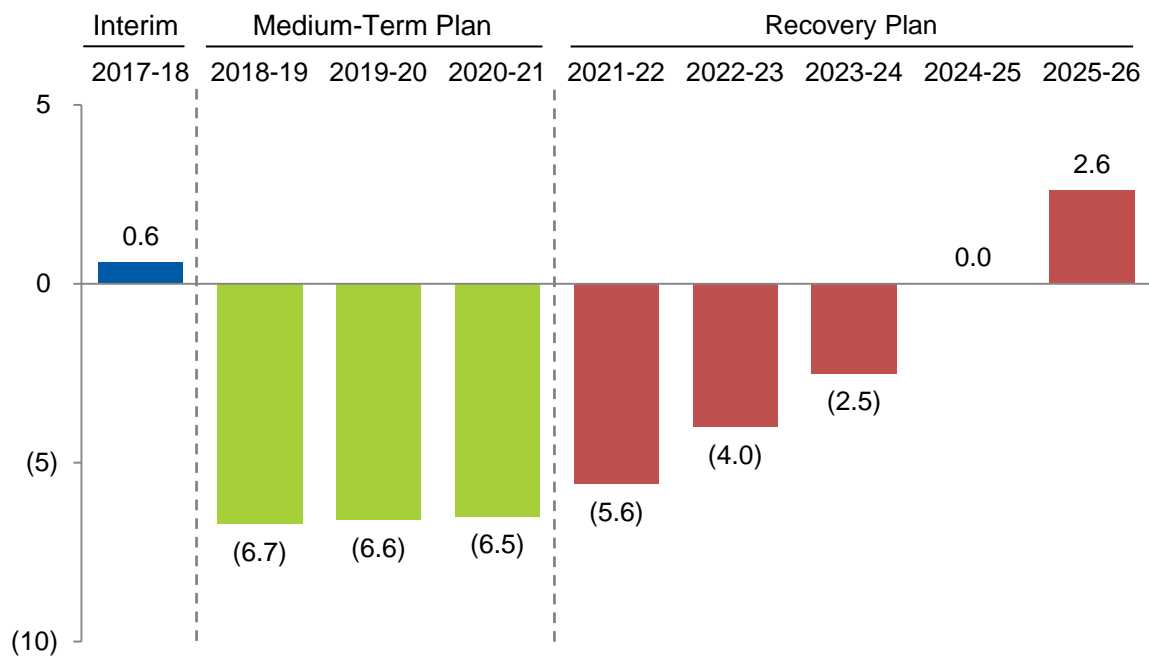
This memorandum provides Council with a summary of the initiatives announced in Budget 2018 that may affect York Region's service delivery and/or finances.

The Government of Ontario is projecting a deficit of \$6.7 billion in 2018-19 and a balanced budget by 2024-25, while Ontario's economic performance is expected to slow

The Government of Ontario is forecasting its first surplus, \$0.6 billion, in 2017-18 and beat its fiscal target for the ninth year in a row. The projected surplus will go towards reducing the amount of government debt that would have been required in the fiscal year. Net debt-to-GDP has declined since 2014-15 and is projected to fall to 37.1 per cent in 2017-18.

As outlined in Chart 1, Budget 2018 projects budget deficits of \$6.7 billion, in 2018-19, \$6.6 billion in 2019-20 and \$6.5 billion in 2020-21. The medium-term outlook projects a return to a balanced budget by 2024-25 and a surplus of \$2.6 billion in 2025-26.

**Chart 1
Ontario's Projected Fiscal Balance (\$ billions)**



Source: Ontario Budget 2018: Chapter III, Chart 3.5, pp. 171.
 Note: Fiscal balance represents operating expenditures less revenues

Ontario's economy exhibited strong growth over the past four years. Budget 2018 outlines the economic performance of the province. From 2014 to 2017, real provincial GDP grew at 2.7% per year on average. The budget projects a slowing in real GDP to an average of 1.9% per year from 2018 to 2021. This is due primarily to a less supportive global economic environment, slightly higher interest rates, oil prices and the Canadian dollar. Projected real GDP growth of 1.9% is in line with the national average, but below forecasts by private sector economists.

Real per capita program spending is projected to increase over the medium term outlook

In 2017-18, Ontario is projected to have the lowest per capita program spending across all provinces. As outlined in Table 1, Budget 2018 proposes real per capita increases in program spending. The majority of the growth over the medium term occurs in 2018-19 and leads to positive annual average real per capita growth in program spending.

Table 1
Summary of Medium-Term Program Expense Outlook (\$ Billions)

Programs	Actual 2016- 17	Interim 2017- 18	Plan 2018- 19	Outlook		Average Annual Growth 2016-17 to 2020- 21	Average Annual Real Growth Rate*	Real Per Capita Growth Rate**
				2019- 20	2020- 21			
Health	55.9	58.3	61.3	64.2	66.6	4.5%	2.4%	0.9%
Education	26.6	27.5	29.1	30.1	31.5	4.3%	2.2%	0.8%
Postsecondary and Training	10.1	11.1	11.8	12	12	4.4%	2.3%	0.9%
Children's and Social Services	16.1	16.8	17.9	18.7	19.8	5.3%	3.2%	1.7%
Justice	4.6	4.9	5	5	5	2.1%	0.1%	-1.4%
Other Programs***	16.7	18.9	20.8	20.4	20.8	5.6%	3.5%	2.0%
Total Programs	130.0	137.5	145.9	150.4	155.8	4.6%	2.5%	1.1%

Source: Ontario Budget 2018: Chapter III, Table 3.17, pp. 209

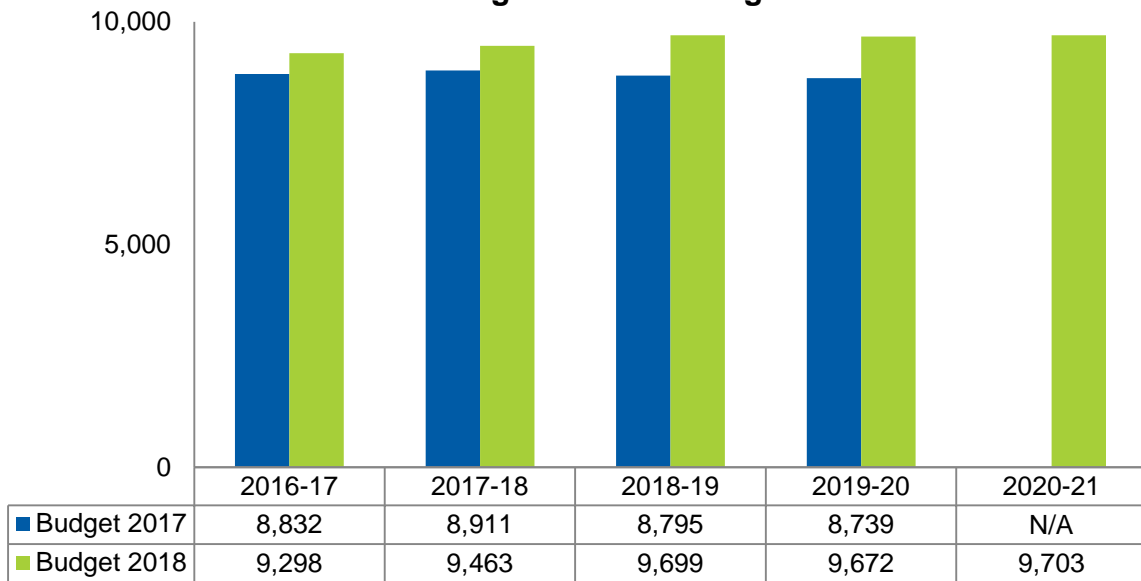
*Source: York Region Finance Department. The average annual real growth rate is based on converting past and future program spending to 2016-17 dollars using the Ontario headline inflation rate of 2.1% from February 2017 to February 2018 (Statistics Canada) and an inflation estimate of 2.0% for 2018-19 to 2020-21.

**Source: York Region Finance Department. Based on the Ministry of Finance's spring 2017 historic estimates and projected population data (Reference Scenario).

***Includes transportation, tourism, economic development, employment, agriculture, employee and pensioner benefits, housing and natural resources. Does not include interest on debt.

From 2018 to 2021, the majority of program spending occurs in the 2018-19 fiscal year. Total program spending in 2018-19 increases by 6.1% year-over-year, compared to annual increases of 3.1% and 3.6% in 2019-20 and 2020-21, respectively. Real per capita spending declines in 2019-20 and increases in 2020-21 back to 2018-19 levels. This is significant, however, as in previous budgets real per capita spending was projected to decline in the medium term. As shown in Chart 2, by 2019-20, Budget 2018 has nearly \$1,000 more in real per capita spending than the province's 2017 budget.

**Chart 2
Comparison of Real Per Capita Program Spending (\$) 2017 Budget vs. 2018 Budget**



Source: Ontario Budget 2018: Chapter III, Table 3.17, pp. 209 and Ontario Budget 2017: Section B, Table 6.12

A number of measures were announced to support municipalities with the implementation of the cannabis legislation

On March 9, 2018, the Province announced \$40 million to municipalities over two years from its share of cannabis excise tax revenue to assist with municipal costs related to the implementation of cannabis legislation. Funds will be allocated on a per household basis, with no municipality receiving less than \$10,000. Staff estimate the Region and its local municipalities combined can expect to receive approximately \$3.3 million over two years.

In addition to this funding, the Province announced support for educational and enforcement resources. For York Region, this will likely come in the form of training for police officers to help detect impaired drivers, as well as support for public health units to help address local needs.

The Province is working towards simplifying social assistance programs and reducing administrative barriers

Guided by the Income Security Reform Working Group Report, Income Security: A Roadmap for Change, the budget commits to increasing Ontario Works and Ontario Disability Support Program rates by three per cent per year for the next three years, starting in fall 2018. Also starting in fall 2018, the amount that can be earned per month without affecting assistance benefits will double to \$400 a month, and asset limits for

singles and couples on Ontario Works will increase to \$15,000. There also is a commitment to continue with the Basic Income Pilot and evaluation.

The budget indicates \$2.3 billion in increased spending over the next three years as part of these changes to social assistance programs.

OHIP+ will be expanded to include seniors 65 and over

Through an expansion of the OHIP+ program, the Province plans to make more than 4,400 prescription drugs available free of charge to seniors 65 and over, regardless of income. Starting August 1, 2019, seniors 65 or older will no longer have to pay a deductible or co-payment under the Ontario Drug Benefit program, saving the average senior approximately \$240 annually. This represents an investment of about \$575 million per year by 2020-21.

On January 1, 2018, the Province introduced OHIP+ Children and Youth Pharmacare, which made eligible prescription drugs free for children and youth 24 and under, regardless of income. This is an annual investment of \$465 million. Seniors 65 and over and children and youth under 24 will need to present their Ontario Health Card and a valid prescription for an eligible medication at an Ontario pharmacy to receive free drug coverage through OHIP+.

Budget 2018 reaffirms the new federal-provincial investments in transit

On March 14, 2018, the governments of Canada and Ontario announced the signing of a bilateral agreement under the Investing in Canada plan to provide \$8.3 billion in federal funding over the next decade towards priority transit infrastructure projects across the province. Under this agreement, the Province will also provide \$7.3 billion in funding to cost-match the Government of Canada.

As part of the agreement, funding will be allocated to municipalities based on transit ridership, with the Province providing 33 per cent of project costs. York Region will receive \$203.6 million from the Government of Canada and \$168 million from the Province.

The Province will invest an additional \$2.8 billion in water and wastewater projects

In fall 2016, the Province announced a bilateral agreement with the federal government to provide \$1.1 billion as part of the Clean Water and Wastewater Fund (CWWF). The Budget announced the commitment to invest an additional \$2.8 billion in related water and wastewater projects as part of the CWWF. The newly announced funding will be focused on rehabilitation projects, new construction projects, optimization initiatives, and planning and design work for drinking water, wastewater, and stormwater systems. The

CWWF is designed to drive projects that would not have gone ahead without the funding or can be accelerated based on funding.

In 2017, 29 York Region projects obtained partial funding under the CWWF, receiving \$23.2 million in funding from the federal government and \$11.6 million in funding from the Province. Staff will continue to attempt to maximize the Region's funding under the CWWF as opportunities emerge based on the ten year capital plan.

Proceeds from cap and trade will help fund green initiatives

The Province launched a cap and trade program in 2017. By April 2018, this has resulted in \$2.4 billion in proceeds for initiatives that are likely to reduce greenhouse gas emissions. Regional staff are monitoring this program as a potential source of funding for initiatives in the corporate Energy Conservation and Demand Management plan.

The budget also outlines plans for the \$2 billion anticipated to be received in 2018-19 under the cap and trade program. This includes funding for improving energy efficiency, promotion of electric vehicles, modernization of transit and active transportation, research and development, and restoration of forests. The Province has committed \$200 million to partnering with municipalities and First Nations on emission reduction activities, with a focus on buildings, energy supply, transportation, water, and waste projects. Regional staff are investigating opportunities to access this funding.

Free child care will be provided for preschool-aged children

As announced on March 27th, 2018, in advance of Budget 2018, starting in 2020 the Province will provide free licensed childcare for preschool-aged children from 2.5 years until they are eligible for kindergarten, an investment of \$2.2 billion. This is expected to save over \$17,000 for an average Ontario family with a preschool-aged child.

As part of this announcement, the Province is also investing \$26 million in 2018-19 to establish base funding for home child care agencies to create more licensed home child care spaces, and \$534 million over the next six years to build 10,000 preschool child care spaces in schools and 4,000 community-based spaces.

The Province announced \$2.1 billion over four years to improve access and deliver more integrated, high quality mental health care and addiction services

Through this investment, the Province aims to expand its services to help meet the mental health needs of children, youth and adults across the province. The funding will provide more accessible, integrated care with a goal of improved patient experience and outcomes. This investment includes up to 100 acute-care beds across the province, expanding community-based services, supporting school-based services for children

and youth, and continued implementation of the Strategy to Prevent Opioid Addiction and Overdose. Also included is \$425 million to provide 2,475 additional supportive housing units for people with complex health needs over the next four years.

The Province is investing an additional \$63.4 million in York Region hospitals

The Province announced an investment of an additional \$63.4 million in York Region hospitals. This is part of the province's commitment to invest an additional \$822 million in Ontario hospitals in 2018-19, an increase of 4.6 per cent. The increase in funding is intended to increase access to care, reduce wait times, and address capacity issues.

The Budget includes commitments to enhance economic development activities across the province

Budget 2018 committed to the renewal, enhancement and extension of the Jobs and Prosperity Fund, with an increase of \$900 million over the next 10 years. The Jobs and Prosperity Fund will support investments to help Ontario businesses grow, with the aim of creating and retaining over 70,000 jobs in Ontario and leveraging more than \$9 billion in private-sector investments.

One of the new economic development programs is the Greater Toronto and Hamilton Area Fund. It will focus on supporting small and medium-sized businesses in the Greater Toronto and Hamilton Area. The Province will invest \$100 million over 10 years. Staff are awaiting further information from the Province on how businesses will be able to access these funds.

A number of changes have been announced for taxing railway rights-of-way

At the request of municipalities, the Province undertook a review of the property taxation of railway rights-of-way in 2016. The Budget introduced a number of technical changes to the taxation of railway rights-of-way. For York Region, the impact is minimal. It is estimated that the Region may collect up to an additional \$6,500 in tax revenues.

The Advanced Disclosure process for the 2021 property assessment update will be revised to use earlier valuation dates

In 2016 the Province introduced an Advanced Disclosure process to support transparency with respect to the assessment of complex and specialized business properties. This level of disclosure requires earlier exchange of information between property owners and the Municipal Property Assessment Corporation.

The Budget proposed an earlier valuation date be used as the basis for property assessments. For the next assessment update, in the 2021 taxation year, the Province is proposing assessments for specialized business properties be based on January 1, 2019 valuations. It is assumed that an earlier valuation date would provide more transparent and accurate property assessments.

The Budget discussed the Fair Housing Plan

Budget 2018 provided an update on the Fair Housing Plan, which went into effect April 20, 2017. The measures include a Non-Resident Speculation Tax, consumer protection in the real estate sector, updates to the Growth Plan for the Greater Golden Horseshoe and a commitment to work with municipalities to provide additional tools to increase housing supply.

In the Budget, the Province highlights that the latest housing data show the market is rebalancing. Following the strong gains in resale activity at the beginning of 2017, sales and prices softened through the summer and then stabilized in the Fall. Market activity in early 2018 declined as the market is adjusting to the impact of the revised mortgage guidelines. Home prices are forecast to increase at a modest pace beyond 2018 as rising interest rates, historically high valuations and mortgage debt temper healthy demographic-related demand.

The Province is investing \$3 million to establish a Cooperative Housing Development Fund to encourage the creation of new cooperative housing. The fund will facilitate proposal development for projects that could leverage federal funding.

The Budget confirmed Ontario's participation in the National Housing Plan

The Budget formally confirmed that the Province will be taking part in the National Housing Plan by committing \$200 million to cost-match the Federal-Provincial/Territorial Housing Partnership (previously the Investment in Affordable Housing program) and the Canada Housing Benefit initiatives. Staff are awaiting further information from the Federal and Provincial governments on how these funds will be allocated.

The Province is investing in Energy Efficient Retrofits for Social Housing

The Province committed \$547 million over five years for repairs and retrofits to help support the energy efficiency and long term sustainability of social housing buildings. This funding includes the pre-budget announcement of \$25 million for the GreenON Social Housing Program to help Ontario social housing buildings with less than 100 units invest in energy efficient retrofits.

The Budget announced an investment of \$500 million to expand broadband connectivity in rural and northern communities

The Budget includes an investment of \$500 million over three years to expand broadband connectivity in rural and northern communities. This will include an investment of up to \$71 million towards improving cellular coverage in eastern Ontario, and up to \$20 million to Telesat Canada to support a low Earth orbit satellite constellation project, to help provide broadband services in rural and remote Ontario. These investments are designed to help increase average speeds in underserved and unserved communities.

Low Earth orbit satellites have been positioned in this budget and the Government of Canada's 2018 Budget as having the potential to provide improved internet access at more affordable prices than other options for rural and remote areas. Although it is unlikely that this technology will become a principal broadband option in York Region, it may serve a complementary role.

Fibre is still the fastest and most reliable solution for resilient broadband infrastructure in York Region. At the same time, the announced funding could help technology companies develop and deploy new solutions where it is difficult to provide fibre. York Region will follow the progress on this technology to ensure that it can be used appropriately in a multifaceted broadband strategy.

The Province committed to additional savings for transit riders

The Province committed to working with transit agencies in the Greater Toronto Area to introduce discounts, funded by cap and trade revenues, to transit users who transfer between municipal transit networks and the TTC. The Budget estimated savings for regular commuters of about \$720 per year.

The Budget also reduced GO Transit pay-by-distance fares for PRESTO Card users including a fixed \$3 fare for all GO Transit trips under 10 kilometers and fare reductions for trips to Union Station from defined stations, including Markham Station.

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