Office of the Commissioner
Finance Department

Memorandum

To: Members of Regional Council

From: Bill Hughes
Commissioner of Finance and Regional Treasurer

Date: March 29, 2018

Re: **2018 Federal Budget**

On February 27, 2018, the Government of Canada released its budget for the 2018-19 fiscal year entitled *Equality + Growth: A Strong Middle Class* (Budget 2018). The main themes in Budget 2018 were growth, progress, reconciliation, advancement and equality. The budget also included an outlook for the Canadian economy and the 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.

Provinces are expected to transfer a "substantial portion" of the tax revenue from cannabis to municipalities

Budget 2018 provides an overview of how cannabis will be regulated and taxed when it becomes legalized in 2018, as well as the government's strategy to protect and educate Canadians with respect to this change.

The federal, provincial and territorial governments have agreed to keep taxation of cannabis low to remain competitive with the illicit market. Cannabis will be taxed at $1 per gram or 10 per cent of the sale price, whichever is higher. The Government of Canada will keep 25 per cent of total revenue and pass along the remaining 75 per cent to provincial and territorial governments.

The federal government projects $35 million in revenue in 2018-19, increasing to $100 million in 2019-20, the first full fiscal year of legalization, and reaching $220 million by the fourth full year (2022-23). This would equate to total provincial and territorial revenue from cannabis of $105 million, $300 million and $660 million, respectively. Budget 2018 says that it is the Government of Canada's expectation that a "substantial portion” of the revenues received by provinces and territories will be transferred to municipalities and local governments. If the federal government generates over $100 million in revenue in either or both of the first two years, the additional amount will also be directed to the provinces and territories.

The government has also included $62.5 million over five years, starting in 2018-19, for public education initiatives regarding cannabis. This funding will support the involvement of community-based organizations in educating residents on the risks associated with cannabis use. It is unclear at this time whether municipalities or public health units will also receive financial support or other resources from the federal government.

On March 9, 2018, the Province of Ontario announced that it will provide $40 million to municipalities over two years from its share of cannabis tax revenue. Funds will be allocated on a per capita 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 based on this announcement. In addition to this funding, Ontario announced support for educational and enforcement resources to help with the implementation costs of cannabis legislation. 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 Parental Sharing Benefit is intended to encourage a more balanced sharing of child care and household responsibilities between parents

As part of its policy priority to promote gender equality, the federal government has introduced the Employment Insurance (EI) Parental Sharing Benefit, which would be available beginning mid-2019. This benefit would provide an additional five weeks of standard EI parental benefits for families where the second parent takes at least five weeks of parental leave. This increases the total number of weeks of EI parental benefits that either parent can receive from 35 to 40 over a 12-month period, with benefit payments equal to 55 per cent of the parent’s average insurable weekly earnings, up to a maximum amount.

If parents choose the extended EI parental benefits option, which was announced in Budget 2017, they can receive a total of up to eight additional weeks of EI parental benefits (from 61 to 69 over an 18-month period) with the latest announcement. Under this option, parents receive 33 per cent of their average insurable weekly earnings, up to a maximum amount. The two EI parental benefit options – standard and extended – effectively have the same overall benefit, but over different periods of time and at different benefit rates.

If the Parental Sharing Benefit has the intended effect, the number of second parents taking parental leave will increase. In Quebec, where a similar program is already in place, 80 per cent of new fathers claimed parental benefits in 2016 compared to 12 percent in the rest of Canada.[1]

The Region tops up an employee's EI parental benefits (from 55 per cent to 75 per cent of their regular weekly earnings) for a period of up to 10 weeks. The top-up period is longer for York Regional Police employees. The overall financial implications for the Region would depend on the rate of uptake, the pay of employees that access the benefit and the degree to which positions are temporarily backfilled while the employee is on parental leave.

Any costs to the Region resulting from the introduction of the Parental Sharing Benefit will be addressed as part of the Region's annual budget process.

Program enhancements and new initiatives to alleviate financial pressures on low-income Canadians were announced

Consistent with the government's focus in recent years on strengthening and growing the middle class, Budget 2018 included a number of new initiatives to improve income supports for people in tight financial situations.

Starting in 2019, the Canada Workers Benefit will replace the Working Income Tax Benefit as a refundable tax credit for low-income workers. In addition to increasing the maximum benefit, the Canada Workers Benefit will have a higher income threshold at which the benefit is phased out completely compared to the current Working Income Tax Benefit program. The government will also make changes to allow the Canada Revenue Agency to automatically provide the benefit to workers at the time of filing their tax return rather than having to claim the benefit. An estimated additional 300,000 workers nationwide will receive benefits through the new program in 2019.

In the 2017 Fall Economic Statement, the government announced that the Canada Child Benefit would be indexed to the cost of living starting in July 2018. The Canada Child Benefit is a monthly tax-free benefit for families with children under the age of 18 that was introduced as a corner piece of the federal government's policy of expanding the middle class in Canada in 2016. The benefits paid through this program are determined based on income levels, which was a departure from the previous program (Universal Child Care Benefit). This announcement should help families better afford child-related expenses such as child care.

An Advisory Council on the Implementation of National Pharmacare has been created to recommend options to the federal government on how to eliminate any financial barriers Canadians face in obtaining medication. The Advisory Council will be chaired by Dr. Eric Hoskins, former Minister of Health of Ontario, and will work closely with leaders from across the country, while looking at best practices both domestically and

[1] Equality + Growth: A Strong Middle Class, p.46

internationally. While limited details are available, it is likely this plan would benefit any resident who currently does not have coverage under a private plan or the Ontario Drug Benefit (ODB) program for social assistance recipients. It would also be an additional benefit for residents relying on government financial assistance, such as Ontario Works and Ontario Disability Support Program, who secure employment and have high drug costs as their drugs would continue to be covered beyond the 12 months already provided once they exit assistance.

Budget 2018 includes additional funds for low-cost loans related to rental housing to tackle low vacancy rates, especially in large urban centres. The Rental Construction Financing Initiative, announced in April 2017, initially included $2.5 billion for loans to support new rental units. The federal government has increased this amount to $3.75 billion through Budget 2018. Loans will be provided for terms up to 10 years and will be contingent on borrowers meeting affordability, energy efficiency and accessibility requirements. As of October 2017, York Region's vacancy rate was 1.3 per cent, slightly higher than Toronto's at 1.0 per cent.[2] While this is a positive step as it could incentivize developers to build more rental housing and increase the stock in York Region, its impact on housing affordability and rental supply is uncertain at this time.

Draft legislation would ensure each province and territory has a carbon pricing system in place by the of 2018

In January 2018, the federal government announced that it had introduced draft legislation to have carbon pricing systems in all provinces and territories by the end of 2018. The legislation outlines a proposed system that would be applied in any province or territory that requests it or does not have a system in place.

While all provinces have committed to adopt some form of carbon pricing, systems are currently in place in four provinces (Ontario, Quebec, Alberta and British Columbia) that represent approximately 80 per cent of the Canadian population. The Government of Ontario has already implemented a form of carbon pricing through its cap and trade system starting at the beginning of 2017. The proposed federal backstop is very similar to the Ontario program and, as a result, it is unlikely that it would result in a change in the approach in this province.

Additional funds have been earmarked to promote rural broadband

The Government of Canada communicated the majority of its infrastructure investments for the coming years through Budgets 2016 and 2017. Although no big new infrastructure announcements were made in Budget 2018, the government did reveal that it will be providing $100 million in funding over five years for projects focusing on

[2] Rental Market Report: Greater Toronto Area, Canadian Mortgage and Housing Corporation, 2017

rural broadband, especially with respect to low Earth orbit satellites. The investment will be made through the Strategic Innovation Fund, which allocates government funding to Canada's industrial and technology sectors.

Low Earth orbit satellites have been positioned in Budget 2018 as having the potential to provide improved internet access at more affordable prices compared to other options for rural and remote areas in Canada. 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 and the ideal backbone 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 government's fiscal position is expected to improve while the outlook for the Canadian economy shows moderate growth

The Government of Canada projects declines in budget deficits for the next five years. For 2018-19, the government projects an $18.1 billion deficit, gradually falling over five years to $12.3 billion in 2022-23. Rather than concentrating on eliminating the deficit, however, the government is focused on reducing its debt as a share of gross domestic project (GDP). As shown in Table 1 below, this metric is expected to gradually fall from 30.1 per cent in 2018-19 to 28.4 per cent in 2022-23. Canada currently has the lowest debt-to-GDP ratio of all G7 countries.

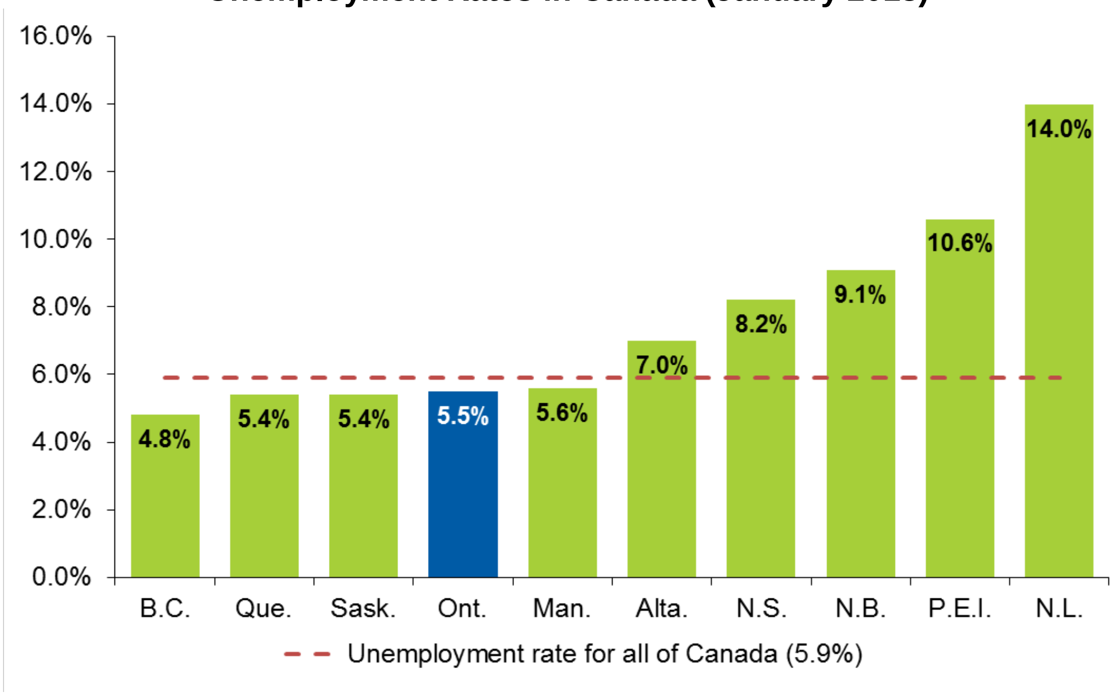
Table 1
Economic and Fiscal Projections ($ Billions)

	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue	323	336	348	362	374
Expenses*	342	353	365	376	386
Budgetary Balance (Deficit)	**(18.1)**	**(17.5)**	**(16.9)**	**(13.8)**	**(12.3)**
Nominal GDP	2,228	2,306	2,394	2,481	2,575
Federal Debt	670	687	704	718	730
Federal Debt-to-GDP Ratio	**30.1%**	**29.8%**	**29.4%**	**28.9%**	**28.4%**

*Includes a $3 billion risk adjustment each year.
Source: Equality + Growth: A Strong Middle Class, Tables A2.1 and A2.6, Annex 2 – Details of Economic and Fiscal Projections, p.309 and p.319

The unemployment rate in Canada, at 5.9 per cent, is close to its lowest level in over four decades. As shown in Chart 1 below, Ontario's unemployment rate in January 2018 (5.5 per cent) was the fourth lowest of the provinces. Only British Columbia (4.8 per cent), Quebec (5.4 per cent) and Saskatchewan (5.4 per cent) had lower unemployment rates.

Chart 1
Unemployment Rates in Canada (January 2018)



Source: Statistics Canada

While growth in the Canadian economy is expected to moderate in the coming years compared to 2017, the outlook remains healthy, as shown in Table 2 below.

Table 2
Average Private Sector Forecasts (Per cent)

	2017	2018	2019	2020	2021	2022	2017-22
Real GDP growth	3.0	2.2	1.6	1.7	1.6	1.8	2.0
GDP inflation	2.2	1.8	1.9	2.0	2.0	1.9	2.0
Nominal GDP growth	5.2	4.0	3.5	3.8	3.6	3.8	4.0

Source: Equality + Growth: A Strong Middle Class, Table A1.1, Annex 1 – Economic and Fiscal Outlook, p.300

In 2017, the economy grew at a real rate of 3.0 per cent and a nominal rate of 5.2 per cent, with inflation of 2.2 per cent. The real rate of GDP growth is expected to be 2.2 per cent in 2018 and then slow to rates ranging between 1.6 and 1.8 per cent for the following four years. These projections are based on a December 2017 survey of private sector economists.

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