Finance Department
Office of the Budget

Memorandum

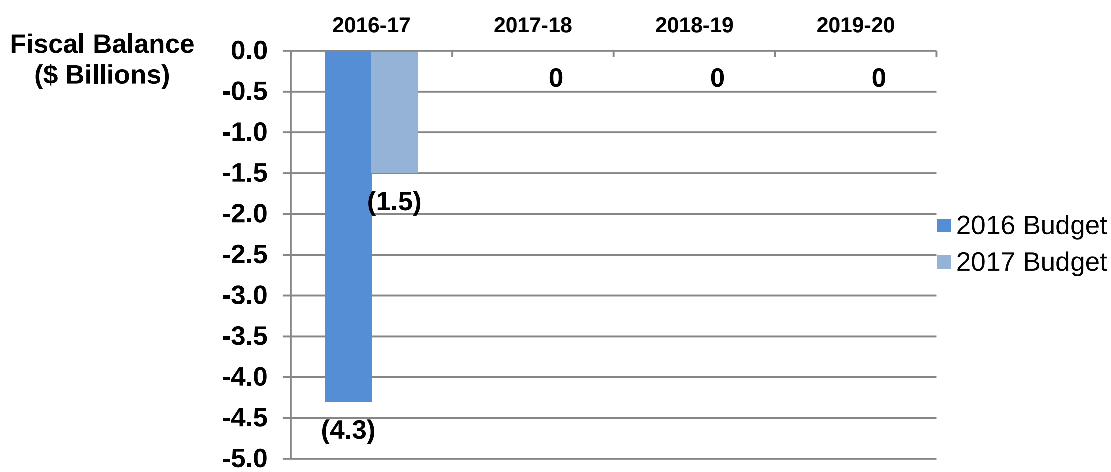
TO: Members of Regional Council
FROM: Bill Hughes, Commissioner of Finance and Regional Treasurer
DATE: June 29, 2017
RE: **2017 Provincial Budget**

The purpose of this memorandum is to provide Council with an overview of the main elements in the 2017 Provincial Budget that are important to York Region. The 2017 Budget themes include restoring fiscal balance, health care, improving education and infrastructure investments.

Ontario maintains its commitment to balancing the budget by 2017-18

The Province is projecting a deficit of $1.5 billion in 2016-2017, down from the previous projection of $4.3 billion. The improvement is mainly attributable to the strengthening of the Ontario economy, which generated an additional $2.6 billion in revenues, including $1.3 billion and $0.7 billion in higher corporate and personal income tax revenues respectively. The Province is projecting a balanced budget in 2017-18 and the two fiscal years thereafter.

Chart 1
Projection of Ontario's Deficit Reduction



Source: Ontario Budget 2017: Ontario's Return to Balance, Chart 1.1

The budget continues the pattern of real per capita program spending decreases

Ontario already has the lowest per capita program spending of any province in Canada. Table 1 shows that inflation-adjusted per capita program spending is expected to decrease slightly, with an average decrease of 0.1% annually. Increased spending in health and other programs is expected to somewhat offset decreases in all other categories. Prolonged decreases in program spending are likely to reduce the quality of public services, and may also lead to downloading of costs to municipalities.

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

Programs	Actual 2015-16	Interim 2016-17	Plan 2017-18	Outlook		Average Annual Growth 2015-16 to 2019-20	Average Annual Real Growth Rate	Real Per Capita Growth Rate
				2018-19	2019-20			
Health	51.0	52.2	53.8	56.3	58.1	3.30%	1.4%	**0.2%**
Education	25.0	25.7	26.5	27.4	28.0	2.80%	1.0%	**-0.2%**
Postsecondary and Training	7.7	7.8	8.4	8.3	8.4	2.50%	0.4%	**-0.8%**
Children's and Social Services	15.6	16.2	16.9	17.2	17.4	2.70%	0.9%	**-0.3%**
Justice	4.5	4.6	4.7	4.7	4.8	1.20%	-0.2%	**-1.4%**
Other Programs	17.1	17.0	19.2	18.4	19.2	2.90%	1.2%	**0.0%**
Total Programs	**120.9**	**123.5**	**129.5**	**132.3**	**135.9**	**2.90%**	**1.08%**	**-0.1%**

Source: Ontario Budget 2017: Section B: Details on Ontario's Finances and Economic Outlook, Table 6.12
*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 1.49% from March 2015 to March 2016 (Statistics Canada) and an inflation estimate of 2.0% for 2017-18 to 2019-20.
**Source: York Region Finance Department. Based on the Ministry of Finance's spring 2016 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.

The path to a balanced budget in 2017-18 relies on significant revenue growth. The average annual increase in revenue is expected to be 3.9% between 2015-16 and 2019-20. These revenue increases are based on a forecast of 2% average annual real GDP growth for the 2017-20 period, which is slightly more conservative than private-sector forecasts. The Province expects to raise nearly $1.8 billion through the Cap and Trade program in 2017-18.

Province reaffirms commitment to the construction of Mackenzie Vaughan Hospital and increases health care spending

The 2017 Budget reiterated support for the Mackenzie Vaughan Hospital project. The Province announced $1.3 billion in funding in October, 2016. The new hospital will provide service to over half a million residents and will have 342 beds. Construction is currently under way and is scheduled for completion in 2020.

The Province will also provide an additional $518 million in operating funding for hospitals in 2017-18, which represents a 3% increase over last year's funding. The increase in funding is to lower wait times and expand access to surgeries and clinical services. This funding announcement comes after years of frozen health care spending, which resulted in health care expenditures not keeping pace with population growth.

The 2017 Budget reaffirms plans for Highway 400 rehabilitation and related road interchange and overpass bridge projects

The 2017 Budget reaffirms the Province's commitment to funding the rehabilitation of Highway 400 from 16th Sideroad to Lloydtown-Aurora Road. Construction is expected to begin in 2017, with completion by 2020. This project includes the reconstruction of the Lloydtown-Aurora Road interchange and the replacement of the 16th Sideroad overpass bridge. Planning and design work is currently underway. The bridge and interchange improvements are part of the widening of Highway 400 from King Road to Highway 9 to support the addition of HOV lanes.

The Province reiterated its commitment to Highway 404 widening and Highway 427 extension projects

The budget also reaffirmed commitments to projects announced in the previous budget. Plans are in place to widen Highway 404 between Highway 407 ETR and Stouffville Road, with construction slated to begin in 2018. The extension of Highway 427 from Highway 7 to Major Mackenzie Drive is expected to be complete by 2021.

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

No funding for the Yonge North Subway Extension or the Toronto Relief Line was announced in the 2017 Budget, but the Province restated that planning and design work for both projects will continue.

The 2017 Budget introduces a Seniors Public Transit Tax Credit

Following the repeal of the Public Transit Tax Credit by the federal government, the Province is introducing the Ontario Seniors' Public Transit Tax Credit for those aged 65 or older effective July 1st, 2017. Further program details and eligibility criteria will be released in the upcoming months. Transportation Services will continue to monitor this initiative and assess the impact as more information becomes available.

New measures to mitigate speculative investments in the housing market were introduced as part of the new Ontario Fair Housing Plan

To combat speculative investments, the Non-Resident Speculation Tax measure proposes a 15 percent tax on the sale price of homes within the Greater Golden Horseshoe purchased by individuals who are not permanent residents or Canadian citizens. The tax also applies to purchases by foreign corporations. The necessary legislation is in place and the tax would be effective as of April 21, 2017. The tax would not apply to the purchase of the multi-residential rental apartment buildings, agricultural or commercial land.

To further combat speculative investments, *Bill 127, Stronger, Healthier Ontario Act (Budget Measures), 2017* is proposing to give the City of Toronto the authority to levy a tax on homes that are vacant for a prescribed period. The required legislation has received Royal Assent, and as such, it has granted authority to the City of Toronto to levy the tax.

Municipalities experiencing rapid growth in home prices can elect to participate and be granted authority to levy a residential vacant unit tax by the Province. This The Province may prescribe the range of tax rates, how the levies are distributed for municipalities with split jurisdiction, and provide guidance on a dispute resolution mechanism.

The Ontario Fair Housing Plan includes measures to improve affordability and increase supply in the housing market

To encourage the construction of affordable purpose-built rental buildings, the Province will rebate a portion of development charges for new eligible multi-residential projects. The $125 million funding is spread over five years and will target projects that would not be undertaken without the incentive. Finance will assess the potential impact on development charges once details on eligibility criteria and administration are released.

The Region has long adopted a policy of taxing multi-residential apartments at the same rate as other residential units (i.e., tax ratio of 1). The Province has proposed to make it mandatory to set tax rates for multi-residential units equal to other residential units for all municipalities. This measure is intended to help increase the supply of multi-residential units and will only apply to new units.

Rent control measures for rental units built prior to 1991 will also be extended to all private rental units across the province. As a result, landlords will only be able to increase rents at the rate prescribed by the Province in its annual rent increase guidelines, which averages around 2 per cent per year.

The Province is creating a “Residential Land Development Facilitation Team” to address the issue of outstanding regulatory approvals or other barriers that are impeding housing development. This task force will bring municipalities and developers together to expedite and improve the development approval process.

The budget suggests that there is enough serviced land to meet the requirements of the growth plan and does not propose changes to the Greenbelt area.

The Province is implementing various measures to reform municipal property tax policies

The Province is taking steps to reform the Railway Right-of-Way taxation policy to address concerns related to short-line railways. A short-line railway is a railway that is within the legislative jurisdiction of the Province of Ontario, but does not include urban rail transit systems or industrial railways. The minimum property tax rate on railway rights-of-way will be $80 per acre pending the enactment of legislation. The new measure will mean a nominal increase in 2017 since the Region's rate is above the $80 per acre threshold.

The Province will also permit single and lower-tier municipalities to levy a tax on hotel accommodation. Upper-tier municipalities will not be permitted to levy a hotel tax.

New tax changes affecting small-scale agribusinesses are being introduced to stimulate economic growth in rural communities. Currently, small-scale agribusinesses and value-added operations on farms are taxed at industrial or commercial rates. New provisions will grant municipalities the flexibility to tax a portion of the assessment attributable to these activities at a reduced rate.

Finance will continue to monitor these developments and assess the impact as more information becomes available.

The Province reiterated its commitment to doubling the revenue municipalities receive from the provincial gas tax

The 2017 Budget proposes to increase the funding municipalities receive from the provincial gas tax. This funding announcement was made earlier this year, prior to the release of the 2017 budget. The municipal share will increase from 2 to 4 cents per litre by 2021-22. The funding formula allocates seventy percent of the funding based on ridership and thirty percent based on population.

The Region received $15.4 million in funding in 2016–17. Finance estimates that the Region's share will increase to $29.5 million by 2021-22. This funding could be used to increase transit spending or to reduce tax levy spending on transit.

Additional funding was announced for various housing related initiatives

The Province has increased its commitment to the updated Long-Term Affordable Housing Strategy announced in the 2016 Budget. The budget proposes $200 million over three years, up from the $175 million previously announced, to support the construction of 1,500 new supportive housing units, to improve access to housing assistance, and provide on-site counseling, medication and skills training. The Province will also increase funding for the Community Homelessness Prevention Initiative from $45 million to $90 million over three years. The Survivors of Domestic Violence Portable Housing Benefit initiative will also be allotted an additional $30 million over the next three years with the intent of helping those affected to retain and gain access to housing.

The Region is well positioned to take advantage of funding available through the Long-Term Affordable Housing Strategy. Community and Health Services will monitor program requirements and seek Council direction when necessary.

To increase the supply of affordable housing, the Province plans to sell $70-$100 million in provincially-owned land and use the proceeds to construct up to 2,000 affordable housing units. The program will be launched with a pilot project in the Greater Toronto and Hamilton Area.

The 2017 budget proposes new funding for mental health and home based care initiatives

Building on the $100 million commitment made in the 2016 Budget, the Province will invest an additional $20 million in 2017 for respite care for individuals suffering from dementia. Respite care offers temporary or substitute care to help caregivers schedule a break.

The 2017 Budget also proposes a $677 million investment over four years to support individuals with developmental disabilities and those with urgent and complex needs. This initiative includes expanding specialized clinical responses and residential support, and improving access to local community services.

The Province is also renewing its commitment to the Supportive Housing initiative under the Long-Term Housing Strategy. Funding of $45 million over three years will help provide 1,150 supportive housing units for individuals suffering from serious mental illness or addiction who are homeless or at the risk of being homeless.

An additional investment of $85 million over three years for the Home and Community Care initiative was announced in the 2017 Budget. Funding under this program enhances home nursing, personal support, physiotherapy and respite care services.

As part of a new initiative to reform the Child, Youth and Family Services Act, the Province will invest an additional $134 million over four years to support child welfare. This funding includes improving child and youth services and strengthening oversight of children aid societies and licensed residential services. The proposed reforms also include raising the age of protection from 16 to 18.

To improve access to services for those affected by anxiety and depression, the 2017 budget proposes $73 million over three years for structured psychotherapy. The Structured Psychotherapy initiative will be the first publicly funded program of its kind in Canada and will help those in need learn strategies to improve their mental health.

The Province is improving social assistance and the Ontario Disability Support Program

The 2017 budget includes an increase in benefits of 2% for adults on Ontario Works and people receiving assistance from the Ontario Disability Support Program.

Municipalities will not have to cost-share the Ontario Works rate increases in 2017 and will no longer share the costs in the future. As of January 2018, the cost of Ontario Works benefits will be 100 percent provincially funded; the current cost share for municipalities is 2.8 per cent. The Comfort Allowance benefit which is provided to low-income seniors residing in long-term care homes will also increase by 2%.

The Province will also increase income exemptions for cash gifts and asset limits for individuals receiving support from Ontario Works and the Ontario Disability Support Program. Raising asset limits is meant to help benefit recipients better manage unexpected financial emergencies without having to liquidate personal assets. Limits are increasing from $2,500 to $10,000 for singles and from $5,000 to $15,000 for couples. For those receiving benefits under the Ontario Disability Support Program, the limit is increasing from $5,000 to $40,000 for singles and $7,500 to $50,000 for couples. For cash gifts, the exemption limit for both Ontario Works and the Ontario Disability Support Program is increasing from $6,000 to $10,000 per year.

The budget reaffirms the commitment to help those in need deal with rising electricity costs

The 2017 Budget reiterates the Province’s commitment to the enhanced Ontario Electricity Support Program, which was announced earlier this year. This program is an application-based and income-tested rebate. The enhancement includes increasing the Ontario Electricity Support Program rebate by 50% and expanding eligibility to more households through new eligibility categories.

Currently, Community and Health Services offers financial assistance for those in need to help them pay utility bills. The Housing Stability and the Homelessness Prevention programs offered by the Region provide residents with financial assistance for rent, mortgage payments, utilities and other housing costs. In 2016, 10,362 households in the Region received housing assistance, of which 1,627 residents were served through the Housing Stability Program and 233 residents were served through the Homelessness Prevention Program.

The rebate offered through the Ontario Electricity Support Program may help low income clients afford their utility costs and therefore mitigate risk of falling into arrears. Enhanced funding for the Ontario Electricity Support Program could potentially reduce the pressure on the Housing Stability Program. Community and Health Services will continue to monitor this program and assess the impact as more information becomes available.

The budget proposes more spaces and subsidies for child care

New commitments in the 2017 Budget will provide access to child care for 24,000 more children in 2017-18. In addition to creating more spaces, the Province will provide a subsidy of approximately 60 per cent for new spaces to address affordability and reduce fee subsidy waitlists. The new investments in child care will help parents in the Region participate in the workforce and workforce skill development programs.

The Province launches the Career Kick-Start Strategy to tackle youth unemployment

The Province is investing $190 million over three years in initiatives aiming to create 40,000 new opportunities for K–12 and postsecondary students, as well as recent graduates. These investments are expected to help fill the gap and open doors to real-world experiences for youth, while giving employers the opportunity to help train and equip an emerging workforce. This program will help youth build resumes, develop job relevant skills and provide them with real-world experiences.

The Career Kick-Start program may complement existing Regional programs geared towards youth such as NPower Canada, The Shop (Youth Unlimited/Toronto Youth for Christ) and Youth Reach II (Jewish Vocational Services), which are funded through the Region's Community Investment Strategy. Ontario Works youth are currently referred to these programs and may benefit from the Career Kick-Start program.

The budget is proposing new funding to integrate new immigrants in the workforce under the Ontario Bridge Training Program

The Ontario Bridge Training Program will receive $21 million over three years to help highly skilled immigrants attain training in up to 100 occupations such as pharmacy, engineering, nursing, physiotherapy, financial services, information and communications technology, and the skilled trades.

The program will help skilled newcomers get their license or certificate in their profession or trade, so that they can find employment appropriate to their skills and experience. The Province funds employers, colleges and universities, occupational regulatory bodies and community organizations to deliver bridge training programs, with support from the federal government.

Increased investments for the Ontario Bridge Training Program will complement existing Regional initiatives funded through the Community Investment Strategy that assist internationally trained professionals, such as the Job Find Club Program. In addition, Community and Health Services refers eligible Ontario Works clients to the Job Find Club Program.

Cap and trade proceeds will help fund initiatives to address climate change

The 2017 budget proposes investments in climate-change-related initiatives using proceeds from the Ontario Cap and Trade Program. As part of the $420 million Modernizing Transit, Active Transportation initiative, the Province will invest an additional $50 million in commuter cycling infrastructure in 2017-18. The Region has been actively improving cycling infrastructure and including such projects in road construction programs while working with local municipalities through the Pedestrian and Cycling Municipal Partnerships Program. Municipalities have been invited to apply for funding and will be required to identify projects on an annual basis. Finance and

Transportation Services will be working together to submit a participation declaration and seek funding for existing projects. Projects that can potentially be funded by this program include the multi-use path on Highway 7 over Highway 400.

In addition to funding current Regional cycling programs, the Region can also explore opportunities for funding under the broader Modernizing Transit, Active Transportation initiative to fund current Regional efforts to test and implement electrification of transit fleet.

The Province will also allocate $90 million for the Promoting Electric Vehicles initiative in 2017-18, which includes a $22 million investment in electric vehicle charging stations. This initiative could help the Region accelerate the transition towards electrifying fleet service vehicles and transit fleet.

In 2017-18, a $5 million Preserving Agricultural Lands and Forests initiative will fund tree planting initiatives across the province. This initiative aligns with the Council-approved Forest Management Plan, which sets woodland and canopy cover targets. Additional resources would help the Region achieve ecological resilience and minimize the impact of climate change.

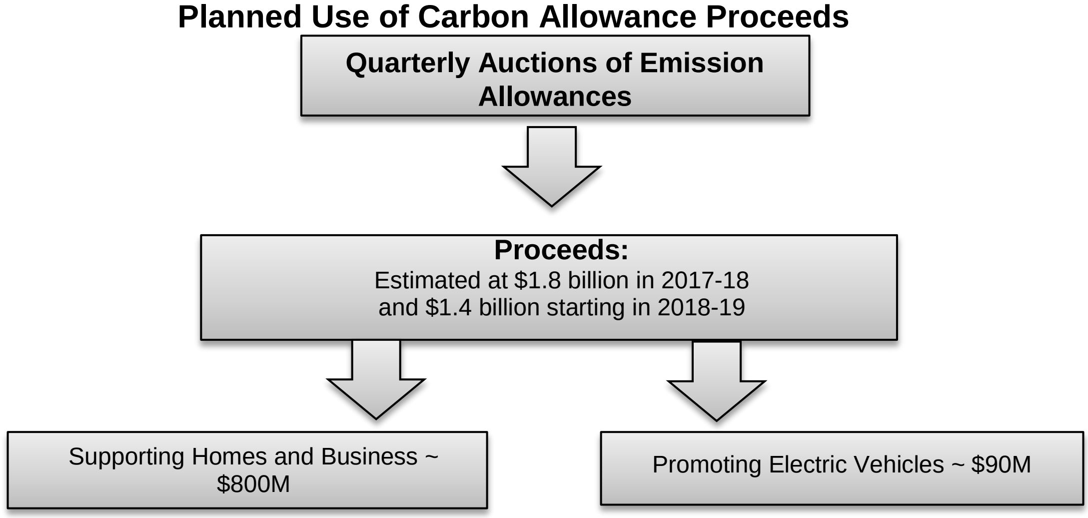
Under the Supporting Homes and Businesses initiative, $85 million has been allocated for energy retrofits in social housing buildings that reduce greenhouse gas emissions.

Under the Engaging Governments and Strengthening Partnerships initiative, the Municipal Greenhouse Gas Challenge Fund and other climate change initiatives will be allotted $55 million in 2017-18. Municipal governments can apply for funding from this fund to help finance greenhouse gases reduction projects. Regional Council has endorsed the Energy Conservation and Demand Management Plan, which includes a mandate to reduce greenhouse gases from the Region's operations. Funding from the Greenhouse Gas Challenge Fund could be used by the Region to implement initiatives in the Energy Conservation and Demand Management Plan.

The Province will ensure that all proceeds of carbon emission allowances will be used to fund activities that reduce greenhouse gases and mitigate climate change, as stipulated in the Climate Change Mitigation and the Low Carbon Economy Act, 2016.

Chart 2 shows the flow of funds from proceeds of auctions of emission allowances.

Chart 2
Planned Use of Carbon Allowance Proceeds



Source: Ontario Budget 2017: Creating Opportunities and Security, Chart 3.7

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