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2015 ONTARIO BUDGET
SUMMARY AND ANALYSIS
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The Big Build: Ontario's Budget Lays Out Plans for Infrastructure, Asset Sales

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Ontario's 2015 Budget, *Building Ontario Up*, was tabled today by Finance Minister Charles Sousa. Characterized by few significant surprises, the budget focused on major government investments in four priority areas:

- infrastructure and transportation
- job creation
- skills training; and
- the next phase of the implementation of the Ontario Retirement Pension Plan.

The government reiterated its commitment to eliminate the deficit by 2017-18 without "slashing and burning", while holding the line on government spending growth in the midst of growing labour unrest among public servants.

The government is also using this year's budget to put the Federal Government on notice ahead of the upcoming federal election, calling upon Ottawa to come to the table and join Ontario in taking national leadership on a number of priorities.

Today's budget is the first to be entirely developed and tabled by Premier Kathleen Wynne's majority government since its successful election victory last summer. As such, it contains numerous commitments that reflect the government's confidence, and builds upon the vision for Ontario outlined in last year's pre-election budget.

Numerous major investments included in this year's budget were announced over the past several weeks, with the budget providing more details on the government's implementation plans. The recommendations of the Premier's Advisory Council on Government Assets, chaired by Ed Clark, represent the only significant new sources of revenue identified in the budget

The 2015 Budget announces a \$200 million increase to the \$2.5 billion Jobs and Prosperity Fund (JPF), announced in the 2014 Budget and launched in January 2015. The budget also extends eligibility for the Fund to the forestry sector, which was previously excluded.

In March, Minister Sousa announced the revised 2014-15 deficit projection of \$10.9 billion, down from \$12.5 billion forecast in the 2014 Budget. This year's budget forecasts a deficit of \$8.5 billion for 2015-16, slightly lower than the \$8.9 billion forecast in the 2014 Budget, and maintains the government's commitment to meeting its target of returning to fiscal balance by 2017-18.

Among the highlights of the 2015 Budget, including those previously revealed in the media, are:

- A plan to divest 60% of Hydro One, beginning with a 15% initial public offering, with the resulting funds to be used to fund infrastructure investment.
- A plan to reform beer sales, with 450 licenses to be made available to grocery stores over the next 10 years to sell beer. The government is also introducing a new tax on beer sales to be phased in over four years, generating an estimated \$100 million annually.

- Details on the government's plan to invest \$31.5 billion in the *Moving Ontario Forward* plan, an increase of \$2.6 billion over the initial \$29 billion announced in the 2014 Budget, including:
 - Enhancements to the GO Transit network to expand regional rail service in Southern Ontario.
 - Investment in the next phase of projects identified in the Metrolinx Big Move, including the Hurontario-Main Light Rail Transit project in Mississauga and Brampton.
- Ontario's commitment to join the Western Climate Initiative's cap-and-trade carbon emissions program.
- A \$55 million investment in apprenticeship training, to enhance programs that help develop job skills and increase readiness to find work as apprentices.

In contrast to recent years, the governing Ontario Liberal majority government is firmly in the driver's seat. There are no questions about the budget's passage or an impending election, leaving the two opposition parties without their previous leverage to negotiate and shape the final legislation. Nevertheless, the ongoing contest for the leadership of the Ontario PC Party will create opportunities for the remaining candidates to use the government's budget announcement to frame the alternatives and their suitability to lead the Official Opposition. PC Party members have stressed their concerns with the government's fiscal discipline and raised concerns with growing provincial debt obligations. Andrea Horwath and the Ontario NDP will continue to be concerned with possible changes to government program spending, as well as the government's continued commitment to maintaining zero net compensation increases.

Under the new reality of a majority government, strong opposition in the media and during Question Period will be all that either party can offer in response to the government's tabled budget, as the government continues to define its vision for the province.

Fiscal and Economic Overview

Ed Clark Report – Repurposing the Government's Assets

The budget formally outlines the government's commitment to moving forward with the first recommendations released by the Premier's Advisory Council on Government Assets, chaired by Ed Clark.

The key recommendations, as previously announced, are:

- The divestment of 60% of Hydro One, beginning with a 15% initial public offering (IPO). The government will retain 40% of its initial common shares in Hydro One, with no shareholder allowed to have more than a 10% holding.
- Moving forward with the merger of Hydro One Brampton with three other urban LDCs.
- Reform of beer sales in Ontario, with the granting of 450 retail licenses to grocery stores over the next decade and the creation of a new tax on beer sales across the province.

The 2014 Budget included an asset optimization target of \$3.1 billion, which has been increased in this year's budget by \$2.6 billion to a new target of \$5.7 billion. These funds will be dedicated

to funding priority infrastructure projects identified in *Moving Ontario Forward*, the province's 10 year plan to invest in public transit, transportation and other priority infrastructure in Ontario.

Deficits

The budget reports a deficit for 2014-15 of \$10.9 billion, as announced by Minister Sousa in March and down from the \$12.5 billion forecast by the 2014 Budget.

The Budget forecasts a deficit for 2015-16 of \$8.5 billion, which is \$400 million lower than the 2014 Budget forecast of \$8.9 billion. The deficit forecast for 2016-17 is \$4.8 billion, again lower than the 2014 Budget forecast of \$5.3 billion. This represents a shift towards reduced deficit reduction forecasts after last year's estimated increases. The government continues to maintain its commitment to a return to fiscal balance in 2017-18.

The government reiterates its commitment to meet its deficit reduction targets without across-the-board cuts, and outlines the work of its Program Review, Renewal and Transformation approach thus far. Included in this is a restatement of the government's position that increases in public sector compensation must be addressed within the existing fiscal framework, as the government makes it clear that there is no additional funding for wage and benefit increases.

Economic Forecast

The budget indicates that Ontario's economic growth in 2014 was 2.2%, very close to the 2014 Budget prediction of 2.1%. For 2015, the Budget is predicting an even higher economic growth projection of 2.7%. This is followed by 2.4% in 2016, 2.2% in 2017, and 2.1% in 2018. These estimates are slightly below the average of private sector forecasts, but also lower in 2016 and 2017 than the projections made in the 2014 Budget. This is despite the budget's statement that the combination of stronger U.S. growth, lower oil prices, and a more competitive Canadian dollar will spur stronger economic growth for Ontario.

New housing starts are projected to average 66,300 units per year over the coming four years. Despite high housing prices and the possibility of future interest rate increases, the budget still predicts that rising employment and incomes, and continued growth in household formation will keep housing prices and starts stable or growing over the period.

The budget also forecasts employment to increase by 1.1% in 2015, representing an increase of 78,000 net new jobs. Employment increases are predicted average 1.4% from 2016 to 2018, producing Ontario's unemployment rate from 7.3% in 2014 to 6.3% in 2018.

Taxes

The government is introducing only one new tax in the 2015 Budget: the previously announced tax on beer sales recommended by the Premier's Advisory Council on Government Assets. The province will be introducing legislation to increase annual revenues from beer sales by approximately \$100 million. This will be accomplished by phasing in the new tax over four years, beginning with a new 3 cent per litre charge in November 2015 and increasing by an additional 3 cents per litre every year until 2018.

The budget also outlines several changes to existing tax credits which collectively result in \$100 million in new revenue this year and \$20 million annually when fully implemented.. The Apprenticeship Training Tax Credit will see reductions in the tax credit rate, the annual maximum per apprentice and the eligibility period. A number of modifications will similarly reduce eligibility for Ontario's film and digital media production tax credits.

Budget Centrepieces

Transportation and Infrastructure

Prior to the release of this year's budget, Premier Kathleen Wynne indicated that infrastructure investment would represent a key priority of the government's plan. The budget makes the ongoing investment in infrastructure, particularly transportation infrastructure, its centerpiece.

The 2015 Budget provides greater detail on the government's investment of \$130 billion in public infrastructure over the next decade. Central to achieving this plan is an increase in the funding of the *Moving Ontario Forward* transit and transportation infrastructure plan. The 2015 Budget increases the dedicated fund for this plan by \$2.6 billion to a total of \$31.5 billion over 10 years – up from the initial announcement of \$29 billion in the 2014 Budget. Approximately \$16 billion of this funding is earmarked for transit projects in the GTHA, with the remaining \$15 billion to be used for priority infrastructure projects across the rest of Ontario. This additional funding comes from the higher target in the province's asset optimization plan, an increase of \$2.6 billion to a new target of \$5.7 billion.

The government has announced several specific transit investments in this budget, including:

- Investment in GO Transit infrastructure across the GTHA to begin the creation of Regional Express Rail. At full implementation, this will feature two-way all-day service on weekdays, evenings and weekends, as well as GO Trains running approximately every 15 minutes in core areas. The budget also suggests that Regional Express Rail may form the foundation of the SmartTrack plan proposed by Toronto Mayor John Tory, pending additional funding from the City and Federal Government.
- The implementation of the Hurontario-Main LRT project in Mississauga and Brampton.

The government also announced further details on a number of other infrastructure investments, including:

- Funding for a new Connecting Links program, to help improve local roads that connect to the provincial highway network. This new program will begin in 2016-17.
- A new program to expand access to natural gas in communities where service is currently limited or non-existent.

The budget also provides details on its 10 year infrastructure plan, outlining several of its landmark investments, including:

- Over \$11 billion for new school construction, as well as renovation of existing schools and school consolidation projects to reduce surplus base.

- \$900 million for critical repair and maintenance for post-secondary education facilities.
- Over \$11 billion in hospital capital grants to support healthcare infrastructure projects across Ontario.

Developing a Highly Skilled Workforce

The government continues to make tackling youth unemployment and job creation a priority in the 2015 Budget. It is renewing the Ontario Youth Jobs Strategy by investing an additional \$250 million over the next two years, which brings the government's total investment in youth employment programming to more than \$565 million.

The 2015 Budget also outlines the government's plan to create a number of targeted programs to enhance youth jobs skills development, and encourage entrepreneurship and innovation. Among the more unique programs is the \$20 million Experience Ontario program, a new pilot that will support graduating high school students in identifying the right post-secondary education option for their career goals.

The budget also provides modest increases in support for training new skilled tradespeople. This includes an additional \$13 million over two years for pre-apprenticeship programs and \$19 million over three years to increase per diem funding for apprenticeship classroom training.

The province has also earmarked an additional \$23 million over two years for the Apprenticeship Enhancement Fund to help colleges and delivery agents invest in equipment, technology, and space for apprenticeship training.

Job Creation and Business Climate

The 2015 Budget continues the government's focus on creating a strong economic climate for job creation. Rather than implement major new measures, the government is instead refining and expanding upon its existing efforts.

The budget announces a \$200 million increase to the 10-year, \$2.5 billion Jobs and Prosperity Fund (JPF), expanding upon the direct investment program announced in the 2014 Budget and launched in January 2015. This additional investment brings the total funding of the JPF to \$2.7 billion. The Fund's objective is to support and attract increased business investment in Ontario to create jobs and spur innovation. Notably, the budget extends eligibility for the Fund to the forestry sector, which was previously excluded.

The budget also extends the Northern Industrial Electricity (NIER) Program beyond March 2016, at an annual investment of \$120 million to enable large industrial facilities in Northern Ontario to continue to enjoy electricity prices reduced by two cents per kilowatt hour. The 2015 Budget also provides firm detail to the commitment made in the previous budget to expand access to the Industrial Conversation Initiative (ICI), which incentivizes large and medium-sized consumers to shift electricity consumption away from peak periods. Specifically, the qualifying threshold is being reduced 5 megawatts to 3 megawatts, enabling more industrial consumers to participate.

Ontario Retirement Pension Plan (ORPP)

The 2014 Budget outlined the government's flagship commitment to create and implement an Ontario Retirement Pension Plan (ORPP) by January 1, 2017.

Today's budget moves this process forward by stating the government's intention to introduce legislation to establish the administrative corporation for the new pension plan, to be called the Ontario Retirement Pension Plan Administration Corporation. This will be an independent organization responsible for the administration of the ORPP, and will include a professional board of directors appointed by the Lieutenant Governor in Council.

In addition to the ORPP, the budget is moving forward on Pooled Registered Pension Plans (PRPPs) and Target Benefit Pension Plans. It intends to introduce PRPP legislation in the fall of 2014, and will begin consultations on Target Benefit plans (which were recently supported by the federal government).

Issues by Sector

Health Care

The budget notes that health sector spending is projected to grow by an average of 1.9 per cent per year between 2013-14 and 2017-18, an extraordinarily low rate of growth that requires major constraints on hospital funding, physician compensation, and other health expenditures.

The government identifies its continued commitment to no net new increases in compensation for public sector employees in the health sector as an important component of this effort. The budget also highlights ongoing investment in hospital and health care infrastructure as part of the government's 10-year infrastructure plan.

The Government trumpets the financial constraints imposed on doctors, noting that hundreds of millions in savings will result in the coming years on top of \$850 reduction in physician payments in the last two years. And though initially small in scale, the commitment to allow nurse practitioners to refer directly to medical specialists will be seen as a signal of erosion in a physician-centred primary care model.

New initiatives in health care are limited in the 2015 Budget. These include:

- Continuing with its funding increases for the home care sector, investing over \$750 million over the next 3 years.
- \$75 million to in-home health care services and at-home visits for patients with complex care needs and personal support needs.
- \$40 million over four years to increase access to rehabilitation services for seniors recovering from injuries or long hospital stays, which should result in about 10,000 more rehabilitation therapy visits.
- Creating a \$20 million Health Technology Innovation Fund and a Chief Innovation Strategist
- "Considering" allowing patients to access travel vaccines at pharmacies rather than in doctors' offices.

As part of the effort to manage health sector expenses, the budget also outlines the government's intention to increase the effectiveness of the Ontario Drug Benefit (ODB) Program. When fully implemented, the government anticipates savings of \$200 million annually. The planned changes, which will directly impact pharmaceutical companies and, in particular, pharmacy providers, will include:

- Optimizing the quantities of medication dispensed;
- Adjusting some dispensing payments and practices;
- Modernizing coverage and reimbursement of certain products;
- Continuing the pan-Canadian coordination of price reductions and purchasing of new brand and generic drugs.

The document also reiterates last year's commitment to implement funding for one round of in vitro fertilization (IVF) in 2015.

Education

The 2015 Budget contains few new measures for education, other than highlighting existing and planned infrastructure investments. Several of the skills training and youth employment programs announced do have connections to the education system, but currently available details are limited and program size is modest. Total education sector expenses are projected to grow by 2.0 per cent per year over the next four years. The government clearly indicates that, similar to other public sector employees, no additional funding will be available for salary increases for teachers and other educational workers.

Post-Secondary Education

The budget does not make any substantial changes to the post-secondary education sector, and reiterates planned infrastructure investment as part of the 10-year infrastructure plan. Total government expenditure in post-secondary education is forecast to remain flat over the next four years. Student support is improved modestly by indexing OSAP minimums and caps to inflation.

As outlined above, the government has announced several modest investments in apprenticeship training programs that will help some colleges that provide these programs purchase new equipment and training materials.

Gaming

The 2015 Budget contains no new changes impacting the gaming industry. The budget projects that revenue from gaming will be relatively unchanged in 2015-16 as compared to 2014-15.

The budget also outlines the previously announced effort to integrate support for Ontario's horse racing industry within the mandate of the OLG, including legislation to be introduced to facilitate the changes.

Agriculture

The government reiterates its commitment to the province's suite of business risk management programs to help farmers manage risks outside of their control, including fluctuating costs and market pricing. The government commits to ensure that these programs provide the needed funding and support to help farmers mitigate risks.

Auto Insurance

The government continues to take measures to reduce auto insurance premiums by taking a number of measures, including:

- Lower the maximum interest rate charges on monthly auto insurance premium payments to 1.3% from 3%
- Prohibit premium increases for minor at-fault accidents that meet certain criteria
- Requiring that all insurers offers a discount for the use of winter tires

The government will also work with the auto insurance industry to provide consumers with more choice in purchasing auto insurance to suit their needs, including:

- Reduce the standard duration of medical and rehabilitation benefits from 10 years to five years or all claimants except children
- Eliminate the six-month waiting period for non-earner benefits and limit the duration of non-earner benefits to two years after the accident
- Change the standard deductible for comprehensive coverage to \$500 from \$300.

Community and Social Services

The government reiterated its Budget 2014 commitment to invest \$810 million for community and developmental services to reduce waitlists and expand programs.

The government continues to increase social assistance rates in 2015 by 1% for adult Ontario Works clients and people with disabilities receiving ODSP benefits.

Energy

As noted above, the government optimization of Hydro One's assets is the most significant change in the energy sector. The government continues to modernize its energy infrastructure through support for renewable energy projects and refurbishment of 10 nuclear units at Darlington and Bruce.

The government has asked the Ontario Energy Board to examine opportunities to extend access to natural gas services in more communities in Ontario.

The budget formally includes the government's announced Ontario Electricity Support Program to provide a monthly benefit of \$20 to \$50 directly on the bills of Ontario's most vulnerable citizens, to begin on January 1, 2016.

As part of the budget, the government has also confirmed that it is removing the Debt Retirement Charge from residential electricity users' bills as of December 31, 2015.

Forestry

The budget outlines several changes that benefit the forestry industry:

- Forestry companies are now eligible to apply for funding under the Jobs and Prosperity Fund, enabling these companies to access government funding support to invest in innovative technologies and create jobs.
- An investment of \$60 million in the Forest Access Roads Program for 2015-16.
- Forestry industry employers will continue to benefit from the Northern Industrial Electricity Rate (NIER) Program, as the government has committed to extending this program beyond March 2016.

Sharing Economy

The 2015 Budget acknowledges the rise of new sharing economy, driven by software applications. The government recognizes the need for the regulatory and taxation environment to adapt to this new business model. The government commits to work with firms and industries to help these emerging sectors thrive.

The government is proceeding with reforms to the *Condominium Act, 1998*, as announced in the 2014 Budget, which includes the establishment of mandatory qualifications for condominium managers and the creation of two administrative authorities to license condominium managers and improve education and dispute resolution for condominium corporation boards and owners.

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