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2016 ONTARIO BUDGET

SUMMARY AND ANALYSIS

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Going All In:
Ontario Government Doubles Down on Balanced Budget, Legacy Commitments in 2016 Budget

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Ontario's 2016 Budget, *Jobs for Today and Tomorrow*, was tabled today by Finance Minister Charles Sousa. This mid-term budget both re-emphasizes the Liberal government's commitment to its major policy commitments and adds a new one: a transformative change in financial support for Ontario's post-secondary students. This budget also focuses on several additional priorities for next fiscal year:

- Eliminating the province's deficit;
- Creating jobs in an uncertain economy;
- Implementation of a cap and trade carbon system;
- Important new commitments for health care; and
- Continuing investments in provincial infrastructure.

Coming at the halfway point of the current mandate, these priorities represent some of Premier Kathleen Wynne's legacy pieces. The traditional school of thought for a majority government is to tackle the difficult changes in the first half of the mandate, leaving ample time to implement a "good news" narrative in the couple of years leading up to the election. The Wynne government has broken with conventional wisdom, and is using this year's budget to continue its bold policy agenda. The implementation of many of these priorities, such as cap and trade and the Ontario Retirement Pension Plan (ORPP), will extend right up to the 2018 provincial election.

This year's budget is also distinctive for its timing, as it is the earliest budget tabled since the Liberals took power in 2003. The contrast with the three previous budgets is especially strong, with each of these tabled months later in late April/early May. The early release of this year's budget gives the government the additional time it needs for a packed legislative and regulatory agenda over the spring. This will include the legislation and regulations needed to implement the cap and trade system, which is slated to begin in January 2017, and to help focus the discussion on a national climate plan during the First Ministers' meeting in March.

Amidst reports indicating that the Federal Liberals are intending to run even larger deficits than initially forecast in the face of a national economic downturn and to pay for a range of commitments, the Wynne government is taking a different course and doubling down on balancing the budget by 2017-18. With public perception of the government still shaped by past scandals, including the gas plant cancellations and E-Health, and a need to reinforce its centrist bona fides ahead of the next election, a balanced budget is vital to demonstrate the Liberal government's credibility as a steady hand during uncertain economic times.

During the 2015 Fall Economic Statement, Minister Sousa announced that the 2015-16 deficit would be $7.5 billion and $4.5 billion for 2016-17, both less than projected in the 2015 Budget. The fiscal forecast laid out in this year's budget, showing a 2015-16 deficit of $5.7 billion and $4.3 billion for 2016-17, indicates an even better performance and keeps the government on track to meet its balanced budget commitment for 2017-18 and beyond.

The Ontario Government's refusal to impose across-the-board cuts, combined with major infrastructure spending and a slowing economy, has continued to raise questions on how the government can achieve a balanced budget in 2017-18. This year's budget, as expected, forecasts a sharp trend towards the elusive balanced budget target. Surprisingly, and despite the present economic uncertainty, the budget generally avoids any significant program funding cuts. Instead, the province is forecasting that it will be able to eliminate the remaining $4.3 billion deficit primarily through a mix of new revenues and anticipated savings.

Over the past two weeks, the government slowly revealed a number of budget highlights and investments through a series of pre-budget announcements. Among the initiatives unveiled ahead of today's budget were:

- Implementing the sale of wine in Ontario grocery stores;
- Expanding the Community Infrastructure Fund and Connecting Links Program to provide more funding for infrastructure in small, rural and northern municipalities;
- Partnering with Airbnb on a first-in-Canada pilot project to educate hosts and guests on rights and responsibilities, signalling Ontario's forward-looking embrace of the sharing economy; and
- Developing the Long-Term Strategy to End Violence against Indigenous Women, including $100 million over 3 years to work with indigenous partners to deliver support and programming for First Nations, Métis and Inuit communities.

Both Ontario PC leader Patrick Brown and NDP leader Andrea Horwath spent the early days of 2016 hammering the government on the impacts of the partial privatization of Hydro One and funding for the province's healthcare system. We can expect both leaders to continue holding the government to account on similar issues in the coming weeks, as Brown continues his attempts to position the Tories as a centrist alternative, while Horwath seeks to regain the progressive mantle. Above all, the two opposition parties now have confirmation of the policy battleground upon which the next election will be fought, and will be keenly prepared to pounce on any shortfalls in the government's agenda. It will be incumbent on Premier Wynne and her government to carefully navigate the many potential pitfalls of these ambitious policy commitments, but the margin for error is very thin.

Fiscal and Economic Overview

Deficits

The 2016 Budget reports a deficit for 2015-16 of $5.7 billion. This figure is $2.8 billion less than forecast in the 2015 Budget. The 2016-17 deficit forecast of $4.3 billion is $500 million less than forecast in last year's budget.

The government reiterated its commitment to achieve its 2017-18 target to balance the budget, but remains averse to across-the-board cuts. In fact, there appear to be very few cuts required of any Ministry, as most instead will see an increase in their funding for the 2016-17 budget year. The budget largely relies on new revenues and anticipated savings to collectively enable the government to eliminate the deficit on time, including:

- Revenues generated from the start of Ontario's cap and trade emissions program, estimated at $1.9 billion in 2017-18 (which will be restricted to use on expenditures that contribute to greenhouse gas reduction);
- New Federal funding, including transfers from the Building Canada fund and assumptions based on commitments made in the 2015 Federal Liberal platform;
- The conclusion of the Ontario Clean Energy Benefit, at a savings of $860 million compared with 2015-16;
- Increases in revenue generated from corporate and personal incomes taxes;

- Capture of revenue from initiatives to address the underground economy; and
- Very modest reductions in the operating budgets of several ministries, as well as the winding down of several previous government funding commitments.

If the government's plan proves to be successful, the Province's finances will return to balance in 2017-18 – and the Ontario Liberals will have succeeded in keeping their 2014 campaign promise on balancing the budget. The government is also forecasting a continued balanced budget for 2018-19, bolstering the Ontario Liberal's fiscal record immediately ahead of the 2018 provincial election.

Economic Forecast

The budget indicates that Ontario's economic growth in 2015 was 2.5%, slightly below the 2015 Budget projection of 2.7%. For 2016, the budget projects a further erosion of economic growth to 2.2%. It is anticipated that economic growth will be largely flat in the immediate years to follow, with 2.4% in 2017 and 2.2% in 2018, and 2.0% in 2019. The budget projects that Ontario's economic growth will lead all Canadian provinces, but growth will be modest compared to previous years.

New housing starts are projected to average 67,250 units per year over the coming four years. Despite high housing prices and economic uncertainty, the budget still predicts that rising employment and incomes, and continued growth in household formation will keep housing starts steadily growing over the period. Conversely, the budget is forecasting a decline of 2.9% in 2016 and 5.8% in 2017 for home resales before modest increases.

The budget also forecasts unemployment to decrease to 6.6% in 2016, representing a decrease of 0.1% from present and an increase of 78,000 net new jobs. Ontario's unemployment rate is predicted to decline slowly over the following three years, from 6.4% in 2017 to 6.1% in 2019. The budget forecasts the creation of more than 300,000 net new jobs between now and the end of 2019.

Taxes and User Fees

Bucking the predictions of many prognosticators, the budget generally avoids introducing new taxes or user fees to impact Ontario residents and businesses. The most prominent of the new revenue tools identified is already well known: Ontario's incoming cap and trade program.

The budget does reveal a change to provincial tobacco and alcohol taxes and charges, both of which will increase on a number of products. Ontario's tobacco tax will increase immediately from 13.975 cents to 15.475 cents per cigarette and per gram of non-cigar tobacco products. This will equate to about $3 per carton of 200 cigarettes. Tobacco taxes will be thereafter increased with the rate of inflation.

For alcohol products, the ad valorem mark-up for wine products will be phased-in with a series of increases between June 2016 and April 2019, for a total of 7 percentage points. The basic tax on non-Ontario wine purchased at winery retail stores will be increased by 1 percentage point each of the next four years as well. The minimum price for a 750mL bottle of wine, including deposit, will also be increased to $7.95.

The government is also phasing out the Children's Activity Tax Credit and the Healthy Homes Renovation Tax Credit effective January 2017, in part due to limited uptake. Additionally, the Province will eliminate the $30 charge for Drive Clean emissions test beginning in 2017-18.

Budget Centrepieces

Post-Secondary Education

The 2016 Budget revisits a familiar theme with a major transformation in funding support for post-secondary education. The budget announces the creation of the Ontario Student Grant, as well as a number of other modifications to student assistance that will dramatically reduce tuition costs and student debt for most of Ontario's post-secondary students.

This new landmark announcement should be recognized in the context of numerous prior efforts by the Liberal government to make an impact on tuition costs and access to post-secondary education. The government has not received the political credit it deserves for its expansion of student aid nor its 30% of tuition grant.

The Ontario Student Grant (OSG) will be established for 2017-18 by redirecting the funding from the Ontario Tuition Grant, Ontario Student Opportunity Grant, Ontario Access Grants and other OSAP grants into a single grant. Under the OSG:

- All students from families with incomes under $50,000 will have no provincial student debt;
- More than half of Ontario students from families with incomes of $83,000 or less will receive non-repayable grants that be higher than the cost of the average college or university tuition in Ontario;
- No student will receive less support than under the existing Ontario Tuition Grant;
- Access to interest-free and low-cost loans and other financial support will be increased for students from middle- and upper-income families, as well as mature and married students.

As most of this involves the re-allocation and re-purposing of funds already dedicated to student assistance, the budget only forecasts an increase to the overall expense of the Ministry of Training, Colleges and Universities of $94.7 million, which also includes funding for university infrastructure and other new investments.

In particular, the budget announces that the government will be undertaking a request for proposals for a new post-secondary campus in Peel or Halton Region, to accommodate increased demand in both of these municipalities.

Job Creation

The government has once again identified job creation as an important focus in the 2016 Budget, as it has done consistently since the recession of the previous decade. However, achieving its job creation goals may prove to be increasingly challenging in the face of strong economic headwinds and uncertainty generated by a slumping economy and Canadian dollar.

The budget forecasts that unemployment in Ontario will fall to 6.6% this year, a decrease of 0.2% from the 2015 unemployment rate and 0.1% less than predicted in the 2015 Budget. The unemployment rate is expected to decline modestly over the following several years, but the province is forecasting the creation of more than 300,000 jobs over the same period. Aside from existing and modest new infrastructure funding increases, the government is not announcing any new job creation or stimulus programs. Efforts to stimulate the economy and create jobs through government expenditure will be limited by the Province's commitment to balance the budget by next year. In order to keep this commitment, the Wynne government won't be able to exercise the type of deficit spending that the Province undertook during the last recession, or which is expected in the forthcoming Federal budget.

Cap and Trade

As anticipated, the Liberal government used the 2016 Budget to lay out significant details regarding the implementation and impact of its landmark cap and trade program for carbon emissions. Beginning in 2017, the province will set a cap on greenhouse gas emissions, which will decline by an average of 4.17% each year to 2020. This declining cap will help the province meet its ambitious GHG reduction targets, from a 15% reduction in 2020 to a 37% reduction in 2030 and 80% reduction by 2050.

Allowances under the cap will equate to tonnes of greenhouse gas emissions (GHGs), so that 1 allowance will equal 1 tonne of GHG emissions. The decline in the cap will vary between sectors. For example, the transportation and heating fuel sectors will see year-over-year cap decreases, but electricity generators will not, in recognition of the previous closure of Ontario's coal-fired power plants.

To help maintain competitiveness for several sectors with high emissions, the province will also provide allowances free of charge to generators in several sectors, including cement, lime and steel, as a transitional measure. These transitional allowances will then be reviewed in 2020.

The budget also re-iterates the government's commitment to invest all funds generated from cap and trade auction revenues to help further reduce greenhouse gas emissions. The document outlines a lengthy list of these investments, including alternative energy, low and no emission vehicles, building retrofits and innovation in the forestry and agricultural sectors. The government also recognizes the potential impact of the cap and trade system on consumers, particularly as it pertains to energy and heating costs. While the government does suggest a net benefit of $2/month on average household energy bills, they also acknowledge that the program will see a rise of $5/month on average home heating bills and 4.3 cents per litre on the cost of gasoline at the pump.

Cap and trade is likely to remain a politically challenging priority for the government for the foreseeable future. The complexity of the system will almost invariably lead to its share of implementation challenges, and provide more than a few opportunities for the opposition to launch timely attacks intended to concern voters as the clock ticks down to the 2018 provincial election. The government already admitted that cap and trade will have a direct impact on the pocketbooks of Ontarians, revealing the day prior to the budget that the new program is expected to directly contribute to a 4.3 cent per litre increase in gas prices and a jump of $5 on the average monthly household natural gas bill. While it is suggested that these increases may be gradual and could be offset by speculative, unidentified cost savings from innovation, it can be expected that the opposition will lose no opportunity to remind consumers of these additional costs and any additional increases.

Health Care

After several years of modest expenditure increases, investment in health care is once again a centrepiece of this year's budget. While large-scale redevelopment of Ontario's hospitals is still absorbing over $2 billion in infrastructure spending for 35 projects this year well, this budget focuses additional resources on investing in the care provided to Ontarians and its impact on their pocketbooks.

The budget projects health care spending to grow by 1.97 per cent in 2016-17, which is a notable increase in comparison to previous years. This increased funding is spread broadly across the health care sector, but the budget devotes special attention to several changes and priorities:

- Increasing hospital operating funding by 1%, equally $345 million over the previous year;
- Providing an additional $50 million for repair and maintenance of hospital facilities;
- A major $333 million investment over five years to redesign and consolidate autism services in Ontario;
- Dedicating $130 million more for cancer care services and preventative programs, including investing in stem cell transplantation services;
- Increasing funding for home and community care capacity by $250 million, as part of its ongoing commitment to increase funding for community-based care by about 5% each year to 2017-18;
- Contributing an additional $75 million over the next three years for residential hospice and palliative care; and
- Investing $85 million more over three years to assist primary care teams in recruiting and training inter-professional staff.

While none of these investments reflect the major health care infrastructure and system changes enacted by the preceding Liberal government, they nevertheless provide a clear signal that health care is once again a major priority for the current government. The investments in autism services and hospice/palliative care will be particularly well received by their respective advocates and supporters from across the political spectrum.

Along with these major system investments, the budget also reveals several new investments that will be well-received by Ontario residents. The government will now be providing the shingles vaccine free of charge to Ontario seniors between the age of 65 and 70, relieving them of an out-of-pocket cost of $170. The government also re-iterated its continuing investment in IVF treatments for women who want to have children but are having difficulty conceiving.

Although these investments reflect the Liberal government's desire to return to its health care roots in advance for the next election, they will not be enough to satisfy existing constraints on hospital funding and health care provider compensation. The budget re-iterates the government's continued commitment to no new net increases in compensation for public sector employees as an important component of their investment plan. With the Province set to begin negotiations with nurses this year, and a still-simmering feud with Ontario doctors, it remains to be seen whether the government will be able to avoid labour unrest among health care providers as the clock winds down to the next election.

Infrastructure

This year's budget again identifies infrastructure as a key provincial priority. The primary focus remains the execution of Ontario's ten year infrastructure plan, to which the province has added an addition $3 billion over the length of the period. For the entire twelve year period from 2014-15 to 2025-26, the forecast total investment is $160 billion.

The budget does not provide any significant new details on most of this infrastructure investment, but previously announced changes will be of particular interest in Ontario's small, rural and northern communities. The Ontario Community Infrastructure Fund, which provides funding support for projects in these communities, will be expanded to $300 million per year by 2018-19, and the Connecting Links program will double from $15 million at present to $30 million per year by 2018-19.

Issues by Sector

Agriculture

New investments or commitments to benefits agriculture are conspicuously absent in the 2016 Budget. The province does re-iterate its continued support for the Business Risk Management programs for agricultural producers, and does tentatively suggest opportunities for cap and trade revenues to help farmers innovate and offset their greenhouse gas emissions to save costs under the new regime.

Childcare

In a budget characterized by significant new investments in post-secondary education and health care, child care fell somewhat from its prominence in previous years. In part, this may reflect a "wait and see" approach from the Ontario government as it tries to get a sense of how the Federal government plans to tackle its commitments to improve access and costs for child care.

Nevertheless, the 2016 Budget does include a commitment to create approximately 4,000 new child care spaces in local schools to help children make the transition to full-day kindergarten.

Energy

As previously announced, the budget indicates that the province will dedicate $100 million from the Green Investment Fund to help 37,000 Ontario homeowners conduct home energy audits intended to help them reduce their home energy costs. The budget does not provide any details on a broader expansion of home energy audit requirements, which will remain an issue of interest over the coming months.

The budget reiterates the announcements about renewing Ontario's nuclear capacity and decision making on the Large Renewable Procurement I without specifically referencing whether LRP II will proceed as scheduled. New energy alternatives for remote First Nations communities are given high priority.

Environment

As expected, the budget demonstrated a strong focus on environmental issues with the unveiling of further details on the incoming cap and trade program. This is paired with the impending release of the proposed regulations for the new program, to be released almost concurrently with the budget.

One additional investment of particular note is a new, $17 million endowment to support the Toronto Atmospheric Fund. This endowment will enable the Toronto Atmospheric Fund to expand its work across the Greater Toronto and Hamilton Area and support the province's broader greenhouse gas reduction mandate.

Forestry

Despite its importance for Northern Ontario, there is virtually no mention of the forestry or pulp and paper sectors, other than as being potentially eligible for cap and trade innovation funding.

Gaming

The budget does not announce many significant new changes impacting the gaming industry in Ontario. Most importantly, 2016-17 will begin the OLG's funding of the horse racing industry through a provincial transfer program. The budget announces that this transfer program is now to be extended for an additional two years, to March 2021, in order to give the industry increases confidence in the province's ongoing commitment to horse racing and rural economic development.

Labour

The budget highlights the recent recommendations of Tony Dean on the reform of the Ontario College of Trades, and its commitment to bringing forward legislative changes to implement these recommendations, including:

- Updating and bringing consistency to all trades' scopes of practice;
- Establishing an independent and evidence-based process for the classification of trades, with risk of harm as a key criteria;
- Developing an enforcement and compliance committee, as well as an appeal process, to ensure that conflicts are resolved earlier, enforcement is consistent and done with the public interest in mind.

The budget also notes the ongoing work of the Changing Workplaces Review, which is anticipated to deliver its final report and recommendations in summer 2016.

Ontario Drug Benefit Program

The budget announced a transformation of the six public drug programs with a new redesigned, consolidated program to be introduced by 2019. The government will review the existing programs and the varying eligibility rules and co-pays for each. A "vision paper" will be released and public hearings conducted this spring to inform the design of the new program. Additionally, the government will bring in significant increases to seniors co-payments to take effect this summer, but indicated that current cost-sharing will not change in LTC settings. These increases have the potential to cause backlash and will be fueled by the opposition.

The budget also reiterated the government's support for national pharmacare, and it can be expected that there will be further moves on generic use and drug pricing.

Ontario Retirement Pension Plan (ORPP)

The Ontario government's recent decision to delay the kick-off of the Ontario Retirement Pension Plan (ORPP) is reflected in today's budget. As previously announced, employers with more than 500 employees and no comparable pension plan are no longer required to begin making contributions to the ORPP on January 1, 2017, with the start date now delayed for exactly one year.

The change in date is in part a reaction to the new Federal government's willingness to discuss enhancements to the Canada Pension Plan (CPP) with the provinces. The delay gives both levels of government additional breathing room to discuss options for CPP enhancement ahead of the First Minister's meeting scheduled for June. With the government prepared to absorb the political fallout of significant costs from its incoming cap and trade system, a decision by the Feds to take the lead on overdue pension plan reforms would be a welcome relief for the Liberal government.

Support for the Sharing Economy

Supporting the growth of the emerging sharing economy in Ontario, showcased by industry leaders Airbnb and Uber, merited little more than a passing reference in last year's budget. Nevertheless, the government's embrace of this economic innovation was a strong signal amidst the often rancorous debate over ride-sharing in Ontario's two largest cities throughout 2015.

The Wynne government announced the creation of a Sharing Economy Advisory Committee in the recent Fall Economic Statement, which is tasked with examining the sharing economy to determine how Ontario can harness its opportunities while balancing protection for consumers and a competitive environment for traditional business.

The 2016 Budget builds on these previous signals by indicating that the province will shortly embark on a focused consultation on how to bets move forward to embrace the opportunities of the sharing economy, specifically ways to further enable home-sharing. The budget references the recent announcement of a pilot partnership with Airbnb, a first-in-Canada initiative that will see the province and company work together to provide its hosts and guests with accurate information on rights and responsibilities pertaining to taxes and consumer protection. There is also a commitment to work to ensure that the auto insurance industry is responsive to the changing vehicle use patterns emerging from ride-sharing technologies like Uber, as well as a new regulatory regime to govern these types of services.

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