

**Finance Minister Charles Sousa Delivers Ontario's 2016 Fall Economic Statement**  
*Ontario Government remains on track to eliminate deficit; lays the groundwork for a pivot back to health, education and pocketbook issues with an eye to the 2018 election*

**November 14, 2016**

Today's release of Ontario's Fall Economic Statement attempts to tack into the political headwinds facing Premier Kathleen Wynne and her Liberal government. With the next provincial election less than two years away, a steady stream of polls are indicating both the Premier's unpopularity with frustrated voters, as well as a sharp decline in support for the Liberals, who now find themselves behind Patrick Brown's Tories and running neck-in-neck with Andrea Horwath's NDP.

In response, Finance Minister Charles Sousa delivered a Fall Economic Statement that attempts to shore up the government's support through a focus on consumer and voter-friendly pocketbook issues, as well as a subtle reprioritization toward bedrock Liberal issues: health care and education.

The Fall Economic Statement comes ahead of a difficult test for the government, with two by-elections set to take place this Thursday, November 17<sup>th</sup>. While Tim Hudak's former seat in Niagara West-Glanbrook is universally expected to remain with the Progressive Conservatives, observers are closely watching the by-election in Ottawa-Vanier, a traditional Liberal stronghold where the governing party is hoping to stand its ground against high-profile PC candidate André Marin, a former Ontario Ombudsman.

**Tackling Housing Affordability**

Intense media scrutiny and consumer unrest over rising housing prices continues to reverberate across the national political spectrum in Canada. This is particularly true in the Greater Toronto and Hamilton Area, where rapid increases in home prices have spread far beyond the epicentre of the 416, with the impacts being widely felt as far away as Hamilton, Bowmanville and Barrie.

In the face of pressure to implement measures akin to the taxes on foreign buyers or empty homes in place or proposed for Vancouver, the Finance Minister has opted for a different approach focused on increasing access for first-time home buyers. That this area would be a point of focus for the Fall Economic Statement was noted in the Minister's speech to the Canadian Club last week.

The government is proposing to double the maximum Land Transfer Tax (LTT) rebate for first-time home buyers to \$4,000 as of January 1, 2017, covering the first \$368,000 of the cost of a home. The Minister of Finance indicated that this would mean more than half of all Ontario first-time home buyers would pay no LTT.

The cost of the relief for first-time buyers is intended to be funded by an increase in the LTT rate on purchases of luxury homes (from 2.0 to 2.5%) as well as an increase in the base rate for other classes of property, such as commercial, agricultural and industrial (from 1.5 to 2.0 %).

In a lower-key echo of the recent BC measures, Ontario is also proposing to restrict eligibility for the LTT refund for first-time home buyers to Canadian citizens and permanent residents as of January 1, 2017 (first-time home buyers who become Canadian citizens or permanent residents within 18 months of purchasing a home could apply for the refund).

In what may ultimately lead to more significant reforms, the government also announced a freeze in the property tax rate for multi-residential apartments, “while reviewing how the high property tax burden on these buildings affects rental market affordability.” This is in response to the upward pressure on rents and the long-standing discrepancy in the market where the property tax burden on apartment buildings in most municipalities is more than double that for comparable condominiums.

### **A Renewed Focus - Health Care and Education**

As public discontent with the government continues to rise, a perception has grown that the Liberals under Kathleen Wynne have spread themselves too thin on issues that do not resonate with voters, and have moved too far away from the issues nearest to the heart of their traditional supporters. Today’s Fall Economic Statement appears to represent the first step in a “back to basics” pivot towards issues that have proven to be Liberal bedrock in the past: health care and education.

Sousa announced an additional \$140 million of new funding for public hospitals, above the \$345 million announced in the 2016 Budget for hospital operating costs, and reiterated other investments, namely \$162 million in funding for the University of Ottawa Heart Institute.

The Fall Economic Statement celebrated signature education pieces, such as full-day kindergarten and the new Ontario Student Grant, while making an announcement of \$65.5 million in new funding to create 3,400 child care spaces as part of the government’s five-year plan to create 100,000 new licensed child care spaces.

It will be worthwhile to pay close attention to whether the renewed emphasis on health and education begins to take on a higher profile in the months ahead. Signals in the Fall Economic Statement are often used to sound out more pronounced direction on new investments and policies to come in the spring Budget.

### **Ontario’s Economic Outlook**

The Fall Economic Statement highlighted Ontario’s economic progress to date, noting that Ontario’s economy has grown 5.3% in the last two years, unemployment is at an eight-year low, and more than 641,000 net new jobs have been created since the 2008 global recession.

The Ontario Government reiterated its commitment to return to a balanced budget by 2017-18. Although less of a topline focus than in years past, the achievement of the 2017-18 target originally set under the leadership of former Premier Dalton McGuinty is an important test of the government's fiscal credibility. Failure to achieve this target will provide an irresistible opportunity for the opposition to raise significant doubts about the government's economic management.

The challenge is complicated by new accounting interpretations by Ontario's Auditor General. Earlier this fall, Auditor General Bonnie Lysyk told the Ontario Government that it should stop counting two provincial plans (OPSEU Pension Plan and the Ontario Teachers' Pension Plan) as assets since the government cannot gain access to the funds. This led to an increase to the 2015-16 deficit by \$1.5 billion.

Despite the new challenges, the Fall Economic Statement projects a \$4.3 billion deficit for 2016-17, consistent with the 2016 Budget projection. Achieving a return to balance next year and beyond will determine the extent of the government's ability to continue to deliver "good news" investments in the lead up to the 2018 election.

### **Other New Announcements and Reiterating Key Commitments**

There were a limited number of other new announcements:

- \$32.4 million in new funding to help small and medium-sized businesses to grow into larger, export-oriented firms; and
- Establishment of a Financial Services Regulatory Authority to modernize regulation of financial services and pensions, first announced a week earlier.
- As part of the government's approach to the sharing economy, a potential framework for home-sharing in Ontario that will seek to balance municipal and provincial responsibilities and objectives.

Minister Sousa reiterated a number of the government's key initiatives, including the:

- \$160 billion investment over 12 years in infrastructure;
- 8% rebate on the provincial portion of the HST on hydro bills; and
- Premier's work to strengthen retirement security, lauding the Ontario Retirement Pension Plan as the catalyst that led to a new national consensus to enhance the CPP.

### **Looking Ahead**

All eyes are now turned to the 2017 Budget. The Fall Economic Statement suggested that that the government will bolster its focus on winning Liberal issues – housing affordability, consumer protection, health care and education.

You can read the speech and the complete update at:

<http://www.fin.gov.on.ca/en/budget/fallstatement/2016/>