2017 ONTARIO BUDGET
SUMMARY AND ANALYSIS
APRIL 27, 2017

Balanced and Bold: Balanced Budget and Strong Economic Growth Allow Wynne Government to Pivot to Activist Pre-Election Agenda

April 27, 2017

This afternoon, Finance Minister Charles Sousa tabled his fifth Ontario Government Budget, *A Stronger, Healthier Ontario*. This budget, the first to achieve balance in Ontario since the global financial crisis in 2008, fulfills the Government's 2014 election commitment to balance the budget by 2017-18 after several years of constrained spending. The Ontario Government is leveraging the return to fiscal balance and a growing economy to make bold investments that many would have thought unrealistic only a few months ago.

The Ontario Government's announcement of OHIP+, a new comprehensive pharmacare program for all Ontario children and youth aged 24 and under, caught everyone completely by surprise. This unprecedented expansion of drug benefits, the first program of its kind in Canada, was kept a closely-guarded secret by the government until the Minister delivered his Budget address. This new program will almost certainly become one of this government's signature policies. Liberals hope that it will become a defining legacy for Premier Wynne's often-embattled administration, and an effective defence against calls from the NDP for universal pharmacare and the pushback from the Ontario PCs regarding the persistently large provincial debt.

Today's balanced budget provides the Ontario Government with the fiscal flexibility to make several other major investments not announced in the pre-budget rollout, most notably far-reaching investments in health care and hospitals. This injection of substantial new funding, budgeted at $7 billion over three years, is intended to deliver impactful results in all aspects of the health care system, including new hospital construction, hospital operating budgets, expanded drug benefits and reduced wait times.

The 2017 budget comes at a pivotal moment for the governing Ontario Liberals. Over the past year, they've faced wide criticism that the government is increasingly out-of-touch with the pressures faced by average Ontarians, as well as economic headwinds from the reactionary upsurge south of the border manifested by the election of President Donald Trump. In response to these combined pressures, as well as sagging poll numbers, Premier Wynne and her government are undertaking a dramatic pivot towards a more activist, populist and pocketbook-focused approach.

Placing today's announcements in the context of a broader plan for this attempted turnaround, the budget also highlights a number of previously announced signature initiatives and investments. Among the initiatives unveiled ahead of today's budget were:

- **Child Care**: Investing $200 million in 2017-18 to create 24,000 new licensed child care spaces for children up to age 4, as part of the government 2016 Budget commitment to create 100,000 licensed child care spaces over five years. Subsidies for approximately 60% of new child care spaces will help address affordability for parents.
- **Housing Affordability**: Implementing a number of initiatives to improve housing affordability and to protect renters, including closing the post-1991 exemption to the Province's rent control

policies and the introduction of a 15% Non-Resident Speculation Tax on residential housing purchases.

- **Hydro Bills**: Reducing hydro bills by 25% by refinancing electric generation contracts, addressing a major pocketbook issue, at a cost of $25 billion in interest payments over the next three decades.
- **Support for New Graduates Entering the Work Force:** Launching Ontario's Career Kick-Start Strategy, creating 40,000 new work-related opportunities for students and recent graduates, at a cost of $190 million over three years.
- **Basic Income Pilot**: Examining transformative ways to provide greater income security for low income Ontarians by piloting a Basic Income program, starting with approximately 4,000 low-income individuals in Hamilton, Lindsay and Thunder Bay, who will receive annual payments of up to $17,000.

The Ontario Liberals are banking that the political spectrum has shifted, and are re-aligning strongly towards traditionally left-of-centre policies that they believe reflect the new centre. The Premier's speech in Hamilton ahead of the Budget highlighted the new focus of her government, and identified today's Budget as one part of a broader plan to create greater advantages and protection for Ontarians in the face of rapidly changing economic forces.

The opposition, both PC and NDP, will undoubtedly characterize these pronouncements as a reflection of desperation ahead of next year's provincial election, and a belated and politically-opportunistic response to problems "they have created" like soaring hydro rates and a huge increase in the province's accumulated debt.

The 2017 Budget signals a clear direction from the government on its priorities over the next year and the message it will take to the people of Ontario in the next election. Whether Ontarians will buy into this new activist agenda – with its long list of big ticket items across the key sectors impacting families, health care, education, child care, and opportunities for young adults entering the work force – enough to reverse the historically low support for the Premier remains to be seen.

Fiscal and Economic Overview

Return to Balance

On schedule, the 2017 Budget achieves the Ontario 2014 commitment to balance the budget by 2017-18. The budget eliminates the remainder of the government's $1.5 billion deficit from 2016-17, and identifies a small projected surplus of $600 million as reserve. As noted above, this unanticipated increase in revenue and the return to balanced budgets was vital in enabling the government to undertake several major new initiatives announced in this budget or over the preceding months.

This year's improved fiscal outlook is due to a number of factors:

- Increased provincial tax revenue resulting from better-than-expected economic growth.
- Diligently constrained expenditure growth over the past several budgets, enabling the government to avoid significant austerity measures while executing a careful return to a balanced budget.
- Revenue generated from the cap-and-trade program, projected to be $1.8 billion in 2017-18.

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- $538 million in net revenue from the sale of Hydro One shares in 2016.

The government forecasts that it will continue to maintain balanced budgets through to the 2018 election and beyond, with balanced budgets forecast in 2018-19 and 2019-20.

While a balanced budget is a strong accomplishment and represents a critical measure of the government's commitment to economic management, important questions remain. Ontario's total net debt now stands at an estimated $312 billion in 2017-18, an increase of 15% since 2013-14 and 56% since the Ontario Liberals first took office in 2003, when the net debt stood at approximately $138.5 billion.

This profound and persistent increase in the size of the provincial debt will continue to be a major focus of opposition attacks, particularly from PC Leader Patrick Brown. The government, in an early effort to push back against this criticism, provides some lukewarm statistics intended to demonstrate progress on the debt, including very minor declines in Ontario's net-debt-to-GDP ratio projected over the next 3 years. Despite these assurances, the provincial debt will remain an issue of contention in the months ahead, as the Budget forecasts that the net-debt-to-GDP ratio (currently projected at 37.8%) will not return to pre-2008 recession levels until 2030-31.

Economic Forecast

Ontario's economic growth in 2016 was pegged at 2.7%, above the 2016 Budget projection of 2.2%. For this year, the 2017 Budget projects economic growth of 2.3%, a modest decline from the 2016 Budget projection of 2.4%.

It is anticipated that economic growth will be sluggish in the years ahead, estimated to be 2.1% in 2018, 2.0% in 2019, and 1.7% in 2020. The budget projects that Ontario's economic growth will outpace Canada as a whole (1.9%) over the same period, but the difference in growth will be modest compared to previous years.

New housing starts are projected to average approximately 71,000 units per year over the coming four years. This represents only a modest decrease from the 75,000 housing starts in 2016, as a result of the impact of the Province's newly-announced *Fair Housing Plan*. However, the budget anticipates an immediate and sustained drop in both housing resales and housing resale prices due to the new housing affordability measures. Resales are forecast to decline from 9.7% in 2016 to 4.3% in 2017 and further to 3.4% by 2020, with resale price increases similarly dropping to 7.4%, approximately half the 2016 average of 15.3%, and falling further to 5.0% by 2020.

The province's unemployment numbers continue to be stronger than the national average, projected at 6.4% in Ontario compared to 6.7% nationally. This matches the 2016 Budget projection of a 6.4% unemployment rate for this year. Reflecting the anticipated slowdown in economic growth forecast in the budget, Ontario's unemployment rate is projected to continue a modest decline, reaching 6.2% in 2020.

Taxes

With pocketbook considerations clearly front of mind, the 2017 Budget contains no new provincial taxes or user fees other than those recently announced as part of the Ontario Government's housing affordability measures.

However, the government is responding to municipal revenue pressures by providing them with increased authority under the *Municipal Act/City of Toronto Act*. Among the new revenue tools now available to municipalities and/or the City of Toronto are:

- A new transient accommodation (hotel tax). For municipalities that have a Destination Marketing Fee program in place, revenue from the new hotel tax will have to be shared with the appropriate not-for-profit tourism organization in an amount that matches the total revenue generated by the existing programs. For municipalities that do not have such programs, at least 50% of hotel tax revenue must support not-for-profit tourism organizations.
- A tax applicable to vacant residential properties, announced as part of the Ontario Government's housing affordability measures.

These new powers will be relatively broad in that it will be up to the municipality to determine if they want to levy the new taxes, and if so, what the rates will be and how and to whom the taxes will apply.

As part of the government's previously-announced *Fair Housing Plan*, the 2017 Budget also reflects the introduction of a 15% Non-Resident Speculation Tax, similar to the tax introduced in British Columbia, in an attempt to temper foreign buyer activity in Ontario's housing market. The tax, with some exemptions, is applicable to the purchase of residential property with up to six dwelling units in the Greater Golden Horseshoe by individuals who are not citizens or permanent residents of Canada, or by foreign corporations. The government is anticipating that this measure will be revenue neutral.

Notwithstanding the 16 housing measures announced by the Government aimed at improving housing affordability for Ontarians and calming down the searing hot housing market, the revenue forecast for land transfer tax for the 2017/18 fiscal year has increased by 15%. This is almost 10% lower than the almost 25% growth from 2015/16 to 2016/17.

Health Care

Following the trend set by last year's budget, which included significant new increases to health care funding in Ontario, the 2017 Budget is again abiding by traditional Liberal principles and boldly putting big ticket health care investments at the forefront of its government priorities.

The budget projects health care spending to grow by 3.3% in 2017-18, a significant jump from the 1.97% increase in 2016-17 for the sector that represents the largest share of the Ontario Government's expenditures.

In concrete terms, the budget announces an additional $7 billion in health care investment over the next three years, in addition to what was forecast in the 2016 Budget. This funding is earmarked to cover a range of major new capital and program investments, and can be broken down into three major categories:

- Increased funding for hospitals;
- OHIP+ Pharmacare for Children and Youth
- Improvements to Patient Experience, Wait Times and Care, including the expansion of primary care teams

OHIP+: A Bold Pharmacare Program for Children and Youth

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Certain to generate the most attention of the new health care investments, Ontario's announcement of a new comprehensive pharmacare program covering all children and youth aged 24 and under represents a dramatic return to transformative government activism for the Liberal government. Although not explicitly highlighted by the government, it is being wildly reported by media that the new youth drug coverage plan will cost $465-million per year.

Beginning January 1, 2018, the program will cover all drug costs for children and youth under the aged 24 and under, regardless of parental income, and without co-payments or deductibles. This new program, the first of its kind in Canada, is destined to become a defining legacy of the Wynne government. The combination of immediate pocketbook relief and its association with core Liberal principles supporting health care and families will make it a challenging target for the opposition.

The program differs significantly from the program recently proposed by the NDP under Andrea Horwath, which covered a much more limited set of medications (150) across the entirety of the population. While the NDP plan was, perhaps optimistically, costed at $475 million, the 2017 Budget outlines no specific projection as to the cost of the new OHIP+ program. However, the projected 8.4% increase in drug program costs in 2017-18 hints at an annual cost for the first year somewhere in the range of $350 million.

Increased Funding for Hospitals

A substantial portion of the significant new investment announced in the 2017 Budget is directed to major hospital capital and operating investments following several years in which hospital funding remained flat. Although the government and hospitals agreed at the time that new health investments should be community-focused, the Ontario Hospital Association made clear in its pre-budget submission that hospitals would be unable to maintain expected patient care without significant new funding for hospital investments. The hospitals will be pleased with what the government has delivered, announcing:

- An additional $9 billion over 10 years to support the construction of new major hospital projects in Ontario, targeted for Niagara, Windsor, Hamilton, the western GTA and the James Bay coast.
- An immediate injection of much-needed operating funding for hospitals across Ontario, budgeted at $518 million in 2017-18.

Improvements to Patient Experience, Wait Times and Care

In addition to the two major streams of investment above, the 2017 Budget outlines a host of new health investments intended to address growing areas of need across all ages and parts of the province. Many of these investments will be well-received by Ontario residents, including:

- $1.3 billion in additional funding to reduce wait times across surgical, specialist, mental health and community care. These investments will contribute to 28,000 additional MRIs, 2,100 more cataract surgeries, and over 2,800 more hip and knee surgeries in the year ahead.
- Enhancing the effectiveness of and access to primary care over the next three years, including an approximately $145 million more to support the recruitment and retention of health care practitioners and support staff for inter-professional primary care teams, such as Family Health Teams and Nurse-Practitioner-Led Clinics, and $102 million to improve access to primary & specialized care to fund the creation of more primary care teams.

- Expanding the scope of practice for registered nurses, enabling them to provide more frontline care, and a commitment to expand and enhance the scopes of practice for other health care professions.
- $73 million over three years for Canada's first publicly-funded structured psychotherapy program.
- An additional $32 million to fund access to stem cell transplants for 150 more Ontarians.
- Modernizing screening tests for colorectal and cervical cancer to take advantage of the most modern technology.
- Creating a new screening program for people at high risk of developing lung cancer, slated to be piloted at three sites across Ontario.
- $8 million to create 40 new Elderly Persons Centres to provide social and recreational programs to promote wellness for seniors.

Several of these measures are likely to draw extra attention from both supporters and opponents, including:

- Adding the new abortion pill Mifegymiso to the list of publicly-funded medications.
- As part of the effort to address opioid addiction, provincial funding for four supervised injection sites in Toronto and Ottawa.

The new investments reflect the major health care infrastructure and system changes enacted in previous Liberal budgets, and are a strong signal that government is placing health care at the forefront of their agenda as the province heads towards the 2018 election.

The budget reiterates the government's continued commitment to maintaining stable compensation for public sector employees as an important component of their investment plan. With no end in sight to negotiations with Ontario doctors and nurses, the spectre of labour unrest among health care providers remains ever-present ahead of the next election.

Pressure on Drug and Pharmacy Prices

Amidst the swath of new health spending, the government continues to exert downward pressure on drug and pharmacy prices. The Budget lauds the success of the pan-Canadian Pharmaceutical Alliance in negotiating lower drug prices that it says have saved governments over $700 million, and notes more brand, generic and biosimilar drugs will be reviewed.

The document also pledges to introduce amendments to the *Ontario Drug Benefit Act* to adjust pharmacy payments to enforce the savings targets set in 2015.

Issues by Sector

Agriculture

With Ontario's agricultural sectors facing an uncertain future in light of increasing pressure from the White House on the re-negotiation of NAFTA, the Ontario Government has taken initial steps to demonstrate solidarity with Ontario's farmers. Premier Wynne and Agriculture Minister Leal, in a joint statement issued

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on April 22nd, expressed their strong support for Ontario's supply management system for dairy products and its benefits for Ontario dairy farmers and consumers.

The 2017 Budget continues the Province's commitment to protect Ontario farmers from uncertainty by maintaining stable funding for the Business Risk Management programs, at $100 million for 2017-18.

Alcohol

The 2017 Budget includes a minor change impacting microbrewers. Specifically the budget legislation will amend the *Alcohol and Gaming Regulation and Public Protection Act* to remove the language in the definition of microbrewer that prohibits them from producing beer for a beer manufacturer. Concurrently, the beer manufacturer's tax rate will apply to any product produced by a microbrewer for a beer manufacturer.

Auto Insurance

The budget also includes a passing reference to the continuing challenges in reducing auto insurance premiums. The Ontario Liberal famously committed to a 15% reduction by August 2015, but has been unsuccessful in meeting that target, with average premiums only having fallen by 8% since the original commitment.

The government tasked former WSIB president and CEO David Marshall to investigate Ontario's auto insurance sector. Marshall's report was recently delivered to the Minister, and included tough talk for the government alongside strong recommendations. With Ontario's auto insurance premiums the highest in Canada, despite comparatively safe roads, there remains a strong risk to the Liberal government for this to become another consuming pocketbook issue, especially among the strategically-important voters in the GTA who bear a disproportionate burden of these premiums.

The budget discusses only relatively minor measures intended to address premium costs, such as savings from electronic documentation, but this remains an issue to watch.

Infrastructure

Taken in its entirety, the 2017 Budget includes an increase of $30 billion in infrastructure funding over the 12-year plan announced in the previous budget. Much of this increase is reflected in increased investment in new hospital projects, school renewal initiatives and the expansion of child care spaces.

The budget outlines the anticipated expenditure of the remaining $156 billion in the Ontario Government's infrastructure plan, including:

- $56 billion in public transit
- $26 billion in highways
- More than $20 billion in hospital capital
- Nearly $16 billion for capital grants to school boards

The government also commits to releasing a long-term infrastructure plan by the end of 2017.

Interestingly, the budget also begins to hint at strategic infrastructure investment beyond traditional bricks and mortar. These investments through the Business Growth Initiative, originally announced in the

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2016 Budget, target a number of areas of focus for innovation and economic competitiveness. They appear aimed at getting a head start on the infrastructure investments that will be needed for the economy of the future, and include:

- $130 million over five years in two projects aimed at developing and commercializing next generation 5G wireless network technology.
- $80 million to create the Autonomous Vehicle (AV) Innovation Network, including a Demonstration Centre in Stratford, in an effort to position Ontario as a leading jurisdiction for the auto industry of the future.
- $50 million to establish the Vector Institute for artificial intelligence, in collaboration with the federal government, 30 private sector companies and other institutions of higher education.
- More than $22 million in 2017-18 to support the installation of electric vehicle charging infrastructure across Ontario.
- $20 million over five years to create the Waterloo Quantum Valley Ideas Lab to position Ontario as a centre of excellence in quantum science.

Support for the Sharing Economy

While the sharing economy continues to be referenced specifically in the budget papers, there are no new policy announcements and no mention of the sharing economy in the Minister's speech. The government does commit to releasing an integrated Sharing Economy Strategy, outlining the province's principled approach to new innovation while ensuring strong standards for consumer protection and worker well-being in 2017.

As part of its strategy development, the province will be partnering with Ryerson University to co-host three policy research and design event to explore how social enterprise can collaborate and partner with government and communities to grow the sharing economy while creating positive and social and environmental impact.

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