MFOA

MUNICIPAL FINANCE
OFFICERS' ASSOCIATION
OF ONTARIO

2012 Provincial Budget Update

March 27, 2012

TO OUR MEMBERS

On Tuesday, March 27, the Honourable Dwight Duncan presented the first budget of the Liberal government since the election of October 2011. This budget comes close on the heels of the Drummond Report, which made a number of significant recommendations with regard to cost reductions for the Province. In addition, this represents the first budget of the minority government.

1. Municipal Highlights

The budget does not contain a great deal that is specific to municipalities. A chapter on the municipal sector is largely a summary of past support to the sector for infrastructure, social service uploads and OMPF. However, there are a number of initiatives that will have impacts on the sector.

a. Pensions (pp 269-270)

- OMERS is a jointly sponsored pension plan (JSPP). The budget contains important proposals for such plans that have funding deficits. Traditionally, such deficits are addressed through increased contribution rates or reduced benefits. In recent years, increased contribution rates have been the primary method for addressing shortfalls. Currently, contribution rates are in the range of 11% to 13% for JSPPs and, in some cases, additional increases are already planned for future years.
- The government proposes to initiate consultations to make these plans sustainable and affordable such that they do not add to employer and taxpayer expense.
- The government will consult with stakeholders before introducing legislation that will incorporate the following framework.
  - In case of a deficit, plans would be required to reduce future benefits or ancillary benefits before further increasing contributions;
  - In exceptional circumstances, a limit would be set on the amount of value of benefit reductions before additional contribution increases could be considered
  - Any benefit reductions would involve future benefits only, not those that have already accrued. Current retirees would not be affected;
  - Where employee contributions are currently less than employer contributions, increased employee contributions would also be available as a toll to reduce pension benefits;
  - Where plan sponsors cannot agree on benefit reductions through negotiation, a new third party dispute resolution process would be invoked; and

    - The framework would be reviewed after the provincial budget is balanced.
- It may be several years before this affects OMERS since these provisions will take effect at the next actuarial filing, which is several years off.
- None of these proposals will affect contribution rates for municipal employers in the immediate term. Announced contribution rate increases are expected to come into effect.

b. OMPF (p. 51)

- The budget repeats the Premier's announcement at the end of February at the ROMA/OGRA conference that there will be a review of the OMPF. OMPF will be phased down to $500 million by 2016. There is a commitment to consult with the municipal sector on how to reform this program at the $500 million level.

c. Provincial Social Service Upload (p. 51)

- The budget repeats a commitment, made on several occasions already, to keep to the schedule of social service uploads coming out of the Provincial-Municipal Fiscal Service Delivery Review.

d. Provincial Offences Act (p. 52)

- The Province is committed to improving the recovery of unpaid POA fines and supporting municipalities in this regard by granting improved collection methods.
- The Province is proposing a mechanism whereby the issuance or renewal of a vehicle license plate would be refused for unpaid fines related to the vehicle. In addition, the Province is proposing a mechanism whereby unpaid POA fines would be offset against tax refunds issue by the Canada Revenue Agency (CRA).
- The government will consult with municipalities and stakeholders, including the CRA, on these initiatives.

e. Business Education Tax (BET) Reductions (p. 103)

- Since 2007, high BET rates have been reduced by the Province. Under the original BET reduction plan, reductions were to continue to 2014. The province will be freezing further reductions beginning in 2013. The government will resume the BET reductions when the province returns to a balanced budget position in 2017-18.

f. Regional Fund

- The following funds will be maintained:
    - The proposed Southwestern Ontario Development Fund
    - The Eastern Ontario Development Fund (EODF); and
    - The programs administered by the Northern Ontario Heritage Fund Corporation (NOHFC).

2. **Provincial Financial Position**

- The Province still plans to balance the budget in 2017-18. The balanced budget reflects very significant program expenditure restraint until 2017-18. The government will hold spending in program expenses to 0.9% that is consistent with the Drummond Report recommendations.

- The budget appears to accept the analysis in the Drummond Report that the provincial deficit will be $30.2 billion in 2017-18 if no corrective actions on spending and/or revenues are taken.

- A variety of measures are proposed in the budget to achieve balance in 2017-18. Savings are planned through removing overlap and duplication, more efficient and effective delivery models and focusing on core business. See Appendix A for more details.
- Expense measures include:
  - Expense management measures
  - Compensation restraint
  - Cost avoidance
- On the revenue side, the budget envisions:
  - A freeze on the corporate income tax rate at 11.5%
  - A freeze of business education tax reductions
  - Increases for a number of fees to move to full cost recovery
  - Optimizing LCBO potential revenue enhancements

Table 2.24: Ontario's Recovery Plan ($ billions)
(p. 84)

	Interim	Budget Plan	Medium Term		Extended Outlook		
	11-12	12-13	13-14	14-15	15-16	16-17	17-18
Revenue	109.3	112.2	116.1	121.0	126.2	131.2	135.9
Expense							
Programs	114.5	115.8	117.0	117.9	118.5	118.7	118.9
Interest on Debt	10.1	10.6	11.2	12.3	14.1	15.1	15.4
Total Expense	124.6	126.4	128.2	130.3	132.6	133.8	134.4
Reserve		1.0	1.2	1.5	1.5	1.5	1.5
Surplus/Deficit	**(15.3)**	**(15.2)**	**(13.3)**	**(10.7)**	**(7.8)**	**(4.2)**	**-**

3. **Economic Outlook**

Table 2.6 (p. 122) has a number of key economic indicators projected to 2015. The projections are from the Ministry of Finance.

Table 2.6: Ontario Economic Outlook (%)

	2009	2010	2011	2012	2013	2014	2015
Real GDP Growth	(3.2)	3.0	1.8	1.7	2.2	2.4	2.5
Nominal GDP Growth	(0.9)	5.3	4.2	3.4	4.1	4.2	4.3
Employment Growth	(2.5)	1.7	1.8	0.9	1.3	1.5	1.6
CPI Inflation	0.4	2.5	3.1	1.7	2.0	2.0	2.0

a. Employment

- Since the recession low in June 2009, almost 300,000 net jobs have been created in Ontario with most of these in industries paying above average wages.

- The unemployment rate has fallen from a recession high of 9.4% in June 2009 to 7.6% in February 2012.

b. GDP

- Ontario real GDP has fully recovered from the recession of 2008-09. Since 2003, real GDP has grown by 10.9%. In 2011, consumers and business investment contributed strongly to real GDP growth of 1.8%. Government was a net drag on GDP. Exports continued to lag below pre-recession levels. Ontario's estimates of future real GDP are generally conservative relative to province sector forecasts (see Table 2.10 for private sector forecasts of Ontario real GDP).

c. Interest Rates and Canadian Dollar

Table 2.7: Outlook for External Factors

	2009	2010	2011	2012	2013	2014	2015
Cnd. Dollar (cents)	87.6	97.1	101.1	98	101	102.5	102
3 mo. T Bill Rate (%)	0.3	0.6	0.9	0.9	1.4	2.4	3.4
10 Yr. Govt Bond Rate (%)	3.3	3.2	2.8	2.2	2.8	3.8	4.5

d. New Economic Reality

- The Drummond Report indicated that Ontario's economy has seen significant changes in recent years. The budget too talks about the "new economic reality" in Ontario. The budget identifies key economic challenges:
  - Emerging markets that are capturing a share of Ontario's export markets. For example, China's share of the U.S. merchandise increased from 8% to 18% from 2000 to 2011. During this time Ontario's share declined from 11% to 7%.
  - Higher oil prices. This is both a blessing and a curse. High oil prices drive costs for businesses and manufacturers. On the other hand, Canada is an oil exporter.
  - High Canadian dollar, which reduces the competitiveness of our exports
- In the longer-term, an aging population will result

4. **Other Initiatives**
    a. **Public Sector Compensation**

The balanced budget is predicated on restraining public-sector compensation for the full five year so the plan. Various steps included in this plan are:

- two year wage freeze for education and school board with no incremental increases – details provided below;
- freeze MPP's pay for another two years, bringing the pay freeze for five years;
- extending pay freeze for executives are Ontario's hospitals, colleges, universities, school boards and agencies for another two years;
- total physician compensation to remain at current levels in the next agreement with Ontario Medical Association;
- Ontario Public Service Employee Union (OPSEU) and Association of Management Administrative and Professional Crown Employees of Ontario (AMAPCEO) will be negotiated within the Budget's fiscal plan. The fiscal plan provides no funding for incremental compensation increases for new collective agreements.

Compensation Framework:

- Greater transparency and accountability for arbitration via a more efficient process. This will include: written submissions by both parties, a written rational of the decision by the arbitrator and will include a dialogue with the employer related to the fiscal impact of the settlement for those who have automatic access to this process about additional tools they may need to live within their funding envelopes.
- There are 4,000 collective agreements in the broader public sector. To increase effectiveness, there is a move towards greater centralization of bargaining over time.
- reduction of Ontario Public Services by a further 1,000 Full Time Equivalents (FTE's) while ensuring front-line services are not compromised.

Specifically related to education and school boards, the following parameters are outlined:

- a freeze on banked sick days with payout upon retirement;
- introduction of sick-leave plan with six full days per year augmented with 24 weeks at two-thirds; and
- no increasing contributions to Ontario Teacher's Pension Plan.

5. Appendix A: Report on Expense Management Measures

a. Removing Overlap and Duplication

- Ministry of Children and Youth services - Youth Centers downsizing and closing 3
- Ministry of Economic Development and Innovation will be consolidating business support programs into one Jobs and Prosperity Fund (p. 5, Report on Expense Management Measures)
- Merge Ministry of economic development and trade with Ministry of Research and Innovation – saving $12 million over three years (p. 5)
- Ministry of Education - Amalgamation of neighbouring district boards – saving $27.2 million over 3 years (p. 6)
- MMAH rationalizing and consolidating functions, eliminating work in certain areas and discontinuing non-core functions - saving $11.3 million over three years (p. 7)
- 4 grants consolidated into one Cultural Strategic Investment Fund – Museum and Technology Fund, International Cultural Initiatives, Creative Communities Prosperity Fund and Cultural Strategic Investment Fund – saving $11 million over three years (p. 7)
- Entertainment and Creative Cluster Partnership Fund sunsetting one year early (p. 7)
- Combine Electric Vehicle Incentive Program and Electric Vehicle Charging Infrastructure – saving $43.1 million over 3 years (p. 8)

b. More Efficient and Effective Delivery Models

- Community Start-up and Maintenance Benefit and Home Repairs Benefit will be removed from social assistance - housing supports delivered through Long Term Affordable Housing Strategy – contribute to lower 'welfare wall' - $162.5 million (p. 11)
- Health and non-health related discretionary benefits capped at $10 per case – save $55.3 million over 3 years (p. 11)
- continuing with closure of Toronto West Detention Centre – saving $232.6 million over 3 years (p. 12)
- Reduce incentives in education funding formula that facilitate the continued operation of underutilized school sites – saving $116.2 million over 3years (p.1 4)
- Cap on secondary credits will reduce the number of students who return for a fifth year of high school – saving $35.9 million over 3 years (p. 14)
- Student transportation – implementation of a competitive procurement process – saving $34.3 million over 3 years (p. 15)
- Drive Clean is becoming a Delegated Administrative Authority (DAA); will be fully funded by its own revenue – saving $11 million over three years (p. 15)
- Moving towards full self-insurance and elimination of General and Roads Liability Protection Program – saving $6.4 million over 3 years (p. 16)
- Ontario Labour Relations Board moving to part time members – saving $0.6 million over 3 years (p. 17)
- MMAH ending its enforcement role for property maintenance standards – saving $0.1 million over 3 years (p. 17)
- MNR will move away from detailed review and approval of site-specific activities and deliver services on larger geographic scales; stocked fishing and park-based recreational activities will be reduced – saving $53.6 million over 3 years (p. 18)

- MNR reorienting stewardship assistance away from direct staff support to incentives and grants focused on achieving government priorities and biodiversity conservation – saving $11.6 million over 3 years (p. 19)
- MNR – moving away from ongoing individual species related activities to a focus on ecosystems – saving $11.2 million over 3 years (p. 19)
- Tourism, Culture and Sport – focusing on online marketing (p. 20)
- Ministry of Transportation reviewing Ontario's intercity bus regulatory regime to achieve greater efficiencies and other transit initiatives – saving $111.8 million over 3 years (p. 20)
- Ministry of Transportation reducing support for road used safety efforts – saving $4.1 million over 3 years (p. 21)
- Ministry of Transportation pursuing alternative delivery methods – saving $2.1 million over 3 years (p. 21)

c. Focusing on Core Businesses

- Ministry of Aboriginal Affairs – New Relationship Fund and Partnership Fund reduced, reducing community capital grants; administrative efficiencies (p. 23)
- Ministry of Agriculture, Food and Rural Affairs – capping Business Risk Management Programs – saving $39.7 million over 3 years (p. 24)
- OMAFRA looking at transfer payment accountability (p. 25)
- Ministry of the Attorney General – alternative strategies for constructing courthouses, building shared spaces (p. 26)
- Ministry of Children and Youth services – agency amalgamations, back-office consolidations, shared service delivery, new funding model, etc. – saving $48.4 million over 3 years (p. 27)
- Staged increase to Ontario Child Benefit (p. 27)
- Ministry of Citizenship and Immigration seeking efficiencies in language training services and newcomer settlement services
- Ministry of Community Safety and Correction Services – reduce overtime costs in corrective services and OPP – saving $10.5 million over 3 years (p. 28)
- Ministry of Economic Development and Innovation – capping funding under operating and capital components of the Ontario Research Fund; not extending Next Generation of Jobs Fund, scaling back transfers to Commercialization and Innovation Network Support (pp 29-30)
- Ministry of Education – reduce or eliminate discretionary grants to school boards; reductions for funding special projects and to grants provided to third parties – saving $107 million over 3 years (p. 31); 2.5% reduction in the transfer payment to the Education Quality and Accountability Office; Program Enhancement Grant discontinued; reduce number of positions for curriculum and teaching specialists; reduce capital grants for schools by $75 million
- Ministry of Energy – Ontario Clean Energy Benefit Cap of 3,000 kWh per month – capping benefit to largest users –saving $470 million over 3 years (pp 33-34)
- Ministry of Environment - trying to reduce costs of Selected Household Hazardous Waste Initiative - $8.7 million
- Ministry of Environment - No funding under Water Opportunities and Water Conservation Act because no regulations in place (p. 34)
- Ministry of Finance - Upload of PMFSDR; phase down of OMPF to $500 million by 2016 – combined savings of $160 million over 3 years (p. 35)
- ServiceOntario shifting to less expensive online services – (p. 35)

- Ministry of Health an long term care - High income seniors will pay a new income tested deductible, increase gradually with income beginning August 2014; 5% of seniors Ontario Drug Benefit recipients will be paying more – saving $30 million over 3 years (p. 37)
- Cancellation of four previously announced major hospital projects and re-scoping of two others (p. 39); longer term planning shifting delivery of services to community setting; agencies receiving funding will have to reduce administrative costs (p. 40); reducing per-resident funding to medical schools and funding for indirect teaching costs reduced
- MMAH – Discontinuing Dr. Albert Rose Bursary for postsecondary students living in social housing - saving $3.5 million over 3 years (p. 42)
- MMAH – scheduled reductions in Canada-Ontario Social Housing Agreement reflect the decrease in provincial expense as a result of decreases in projected federal funding – saving $15 million over 3 years (p. 42)
- MNR reducing capital funding for Ontario Parks, prioritizing rehabilitation and repairs to the Ontario Parks system (p. 43)
- Ministry of Northern Development and Mines – parts of the Ontario Northland Transportation Commission will be divested and an alternative business model will be developed for key transportation services in northern Ontario - no longer subsidizing ONTC – saving $265.9 million over 3 years (pp 43-44)
- Investing in northern highways rehabilitation will be reduced by $208 million over the next 6 years (p. 44)
- Tourism, Culture and sport - reducing attraction agency operating grants (p. 45)
- Convention Development Fund is sunsetting one year early (p. 46)
- Flatline Renewal Funding for Tourism Agencies – investments in renewal will be reduced by $21 million over the next six years (p. 46)
- Ministry of Colleges, Training and Universities – discontinuing some bursaries and scholarships, phased elimination of the Small Northern and Rural Grant for some colleges (p. 47)
- Elimination of subsidies for non-PhD international students provided to institutions to pay for municipal taxation in lieu of property taxes (p. 48)
- Reduce unallocated postsecondary capacity funding $164 million over the next six years (p. 48)
- Ministry of Transportation – bringing Provincial Highways Management in house – was previously contracted out – too expensive as offered by private sector (p. 49)
- Delaying previously approved highway expansion and high-occupancy vehicle lane projects will save $229 million over six years – $14.2 million over 3 years (p. 49)
- Investments in highway rehabilitation and in Go Transit will be reduced by $1.4 billion over the next 6 years, $16.6 million over 3 years (p. 50)

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