

PROVINCIAL BUDGET 2014: MUNICIPAL IMPLICATIONS

1. BUDGET AND RELATED DOCUMENTS

- The Budget and Budget papers, entitled ***Building Opportunity, Securing our Future***, is on the Ministry of Finance website.

2. MUNICIPAL HIGHLIGHTS

INFRASTRUCTURE

- \$13.9 B for roads, bridges and transit outside the GTHA (p. 44); funding decisions will be evidence-based and made in partnership with the municipal sector; priority projects for this funding include Ring of Fire and Ontario Northland Transportation Commission infrastructure (p. 49)
- \$15 B for managing congestion in the GTHA (p. 44); the pool of projects is not limited to projects included in *The Big Move* and it will be determined through business case analysis (p. 47-48)
- \$2.5 B in 2014-2015 for highway rehabilitation and expansion projects, including Highway 407 to Highway 35/115, HOV lanes on parts of the 401 and 427, widening 401, widening and extending Highway 69, realigning Highway 66, expanding Highway 11/17 widening alignment of Highway 7 and new HOV lanes on the 410 (p. 42-43)
- A permanent \$100 M/year fund for roads and bridges will be launched this spring; funding will be application- and formula-based for eligible municipalities and become fully formula-based over time (p. 52)

HOUSING, HOMELESSNESS AND SOCIAL ASSISTANCE

- Community Homelessness Prevention Initiative will be enhanced by \$42 M per year starting in 2014-2015, bringing total funding to \$294 M per year (p. 120)
- The federal-provincial Investment in Affordable Housing program will be extended for another 5 years (p. 120)
- \$50 M over 5 years to create a new poverty reduction fund to support local solutions to poverty (p. 121)
- Social assistance rates for 2014 will increase by 1% for adult recipients of Ontario Works (effective October 2014) and people receiving Ontario Disability Support Program funding (effective September 2014); single adults without children will receive a top-up on their Ontario Works payment; total increase of \$30/month (p. 122)
- The comfort allowance for low income residents of long term care homes will increase by 1% (p. 123)

- The benefit structure within each of ODSP and Ontario Works will be consolidated; the Work-related benefit will be consolidated into the new employee benefit (p. 123)

ASSESSMENT REVIEW

- The 2013 Budget announced what became the special purpose business property assessment review. A report was prepared with 26 recommendations for strengthening the assessment system.
- The budget indicates that the Ministers of Finance and Municipal Affairs and Housing accepted all of the recommendations and that the Province is now working to implement the recommendations. The report is available on the Ministry of Finance website.

OMPF

- In 2012 the Province announced that the OMPF would be reduced to \$500 million by 2016. This reduction reflected a phased upload of some social service costs to the Province.
- The reduction to \$500 million is still scheduled for 2016. However, more of the reduction will occur sooner. The 2015 allocation will be \$515 million instead of \$525 as originally planned. OMPF, by year, is shown below:

\$M	2013	2014	2015	2016
OMPF	575	550	515	500

MISCELLANEOUS

- All charitable and non-profit long term care homes exempt from property tax (p. 29)
- A development corporation will be created to accelerate infrastructure development in the Northwest associated with the Ring of Fire; provincial commitment to this infrastructure is \$1 B (p. 61)
- The provincial government “plans to propose changes to update securities laws and related legislation” (p. 85)
- The government is proposing to remove the Debt Retirement Charge from residential electricity bills (p. 135)
- The Condominium Act will be amended to provide mandatory qualifications for condo managers and a dispute resolution mechanism (p. 141)
- The government proposes legislation to regulate the towing industry (p. 139)
- The power dam special payment program will be phasing down to \$14.3 M by 2017 (p. 169)
- The Northern Allowance will be replaced by a Remote Communities Allowance (p. 129)

3. OTHER INITIATIVES

PENSION REFORM (CHAPTER IV)

- The budget continues its 3 pronged pension strategy that focuses on Ontarians:
 - With a workplace pension
 - With self-directed retirement savings, and
 - With defined benefit plans
- The government proposes to create the Ontario Retirement Pension Plan for Ontarians that rely on CPP, OAS and their own savings. It would build on the CPP and could later be integrated into it.
- This plan would not affect those within the OMERS system.

INCOME TAX CHANGES

- The budget proposes changes to the Personal Income Tax to increase taxation on incomes above \$150,000 (p. 319-322)
- Proposed changes to better target small business tax deductions (p. 319)
- An increase in aviation fuel tax to support public transit and other transportation infrastructure (p. 319)

FEDERAL-PROVINCIAL TRANSFERS

- As it has in previous budgets, this budget encourages the federal government to increase funding to Ontario, particularly for infrastructure, claiming that Ontario is systematically underfunded. For example, Ontario contributes to \$4.5 B more to the Equalization program than it collects.
- This underfunding constrains transfers from Ontario to its funding partners such as colleges, universities, hospitals and municipalities.

MISCELLANEOUS

- \$11.4 B in capital grants to hospitals over 10 years (p. 53)
- Over \$11 B over 10 years for capital grants for school boards, including consolidation support (p. 56)
- \$2.5 B Jobs and Prosperity Fund geared to advanced manufacturing, agri-food and agri-products, information and communications technology (p. 71)
- \$150 M over three years in technology and learning tools for the education sector (p. 9)
- Increase hourly wages for select child care workers and personal support workers (p. 13, 27)
- Phasing in a \$0.04/litre to the tax rate on aviation fuel over 4 years
- “The Province proposes to protect such future [long-term disability payment] recipients by amending the *Insurance Act* to require that long-term disability benefits are insured” (p. 86)

- Fall review of the *Credit Unions and Caisses Populaires Act, 1994*; consideration of prohibiting credit unions from promoting online what cannot be sold in-store – home and auto insurance (p. 87)
- Province moving to online claims staking process for exploration and mining (p. 88)
- Index the maximum Ontario Child Benefit and the income threshold at which OCB starts to be reduced to CPI as of 2015 (p. 115)
- However, there are measures in the budget that do affect defined benefit plans:
 - New rules to define levels at which a funding holiday can be taken and the duration
 - Rules around accelerated funding for benefit improvements to ensure long-term sustainability
 - Other unidentified funding rule changes will also be considered to improve the funded status of defined benefit plans

4. STATE OF THE ECONOMY (CHAPTER II)

INFLATION

- The budget forecasts CPI inflation to be less than or equal to 2.0% to the end of the forecast period in 2017

%	2011	2012	2013	2014	2015	2016	2017
CPI inflation	3.1	1.4	1.0	1.5	1.9	2.0	2.0

- Inflation is expected to remain moderate. Inflation has been low because of moderate increases for food prices and intense competition in the retail sector. In coming years, stronger economic growth and a lower Canadian dollar, which will increase prices for imported goods, will result in somewhat higher levels of price inflation

INTEREST RATES

- Past and projected short and long-term interest rates are shown below

%	2011	2012	2013	2014	2015	2016	2017
3 Mo. Treasury Bill rate	0.9	0.9	1.0	1.0	1.3	2.4	3.3
10 Yr. Canada Bond rate	2.8	1.9	2.3	2.8	3.5	3.9	4.3

- Interest rates are expected to rise gradually. Long-term rates began to increase in May of 2013. Short-term rates are not expected to rise in 2014 compared to 2013, but will begin to increase in 2015, reaching 3.3% by 2017

GDP

- The budget projects 2014 real GDP growth to be 2.1% and 2.5% for 2015
- The average private sector forecasts for 2014 and 2015 for real GDP growth is 2.2% and 2.6% respectively

%	2011	2012	2013	2014	2015	2016	2017
Real GDP	2.2	1.3	1.3	2.1	2.5	2.5	2.6
Nominal GDP	4.0	3.0	2.7	3.5	4.4	4.4	4.5

- Between 2003 and 2013 there has been an increase in real GDP of almost 15%

EMPLOYMENT

- Employment growth from 2011 to 2017 is shown below

%	2011	2012	2013	2014	2015	2016	2017
Employment Growth	1.8	0.8	1.4	1.1	1.5	1.6	1.4

- Employment growth will average approximately 1.5% over the forecast period. By 2017, there are expected to be 1 million net new jobs compared to 2003.
- Ontario's unemployment rate will fall from 7.5% in 2013 to 6.2% in 2017.
- In 2013, employment grew by 95,700 jobs. Approximately 65% of these jobs were full time employment and 68.2% were in the private sector.

HOUSEHOLD INCOME AND DEBT

- Household income is expected to grow by 3.3% in 2014 and grow by an average rate of 4.6% in the 2015-2017 period.
- Real household spending is expected to increase by 2.1% in 2014 and grow by an average rate of 2.5% in the 2015-2017 period, in line with growth in incomes.
- Between 2003 and 2013, growth in real disposable income per household was 28.9%. Household spending accounts for approximately 60% of GDP
- Canada's debt to income ratio was 164% at the end of 2013. The rate of increase of this indicator has moderated, but remains elevated.
- Debt service costs as a percent of household income has fallen from 9.2% in 2007 (Q4) to 7.1% in 2013(Q4). The budget notes that "although interest rates are expected to rise modestly, debt service costs are expected to remain affordable as incomes continue to rise (p. 212)

CANADIAN DOLLAR

- The dollar has recently traded around the 90 cent level, which is the lowest level in 4 years. This decline is the result of several factors:
 - Stronger growth in the United States,
 - Reduced "safe haven" affect that boosted the dollar after the financial crisis
- The lower dollar is expected to assist export even though it remains high relative to the 2000-2009 period.
- There are divergent views on where the dollar is headed. Some private sector forecasters expect further depreciation while others expect a strong dollar. The budget forecasts the dollar to rise from 90 cents US in 2014 to 93 cents US by 2017.

5. STATE OF PROVINCIAL FINANCES

DEBT

- Long-term borrowing for 2014/15 is forecast to be \$35 B
- The total funding requirement is \$1.6 B higher than forecast in the 2013 Budget because of a higher deficit resulting from slower than expected economic growth and reduced federal transfers
- Net debt to GDP ratio is expected to be 38.9% at the end of 2013/14. This ratio is expected to peak in 2015/16 at 40.8%. The government remains committed to reducing Ontario's net debt to GDP ratio to the pre recession level of 27%

DEFICIT

- The table below indicates that the government will continue to be in a deficit position for the planning period.
- Revenues are forecast to grow by 11.8% between 2013/14 and 2016/17. Program expense growth is forecast to be tightly constrained at 3.3% over the same period.
- Interest on debt will increase from \$10.6 B to \$13.3 B, or 25.5%

Medium -Term Fiscal Plan and Outlook (\$B)

Table 2.23 (p.261)

	2013/14	2014/15	2015/16	2016/17	% change 2013/17
Revenue	115.7	118.9	124.5	129.4	11.8%
Expense					
Programs	116.4	119.4	120.1	120.2	3.3%
Interest on Debt	10.6	11.0	12.0	13.3	25.5%
Total Expense	127.0	130.4	132.1	133.5	5.1%
Surplus/(Deficit)	-11.3	-11.5	-7.7	-4.1	-63.7%
Reserve	0.0	1.0	1.2	1.2	
Revised					
Surplus/(Deficit)	-11.3	-12.5	-8.9	-5.3	-53.1%
Net Debt	269.2	289.3	305.3	317.2	17.8%
Accumulated Deficit	177.3	189.8	198.6	204.0	15.1%

Prepared by:

Dan Cowin
Executive Director
dan@mfoa.on.ca
416.362.9001 x 223

Emily Harris
Manager, Policy and Intergovernmental Relations
emily@mfoa.on.ca
416.362.9001 x 227