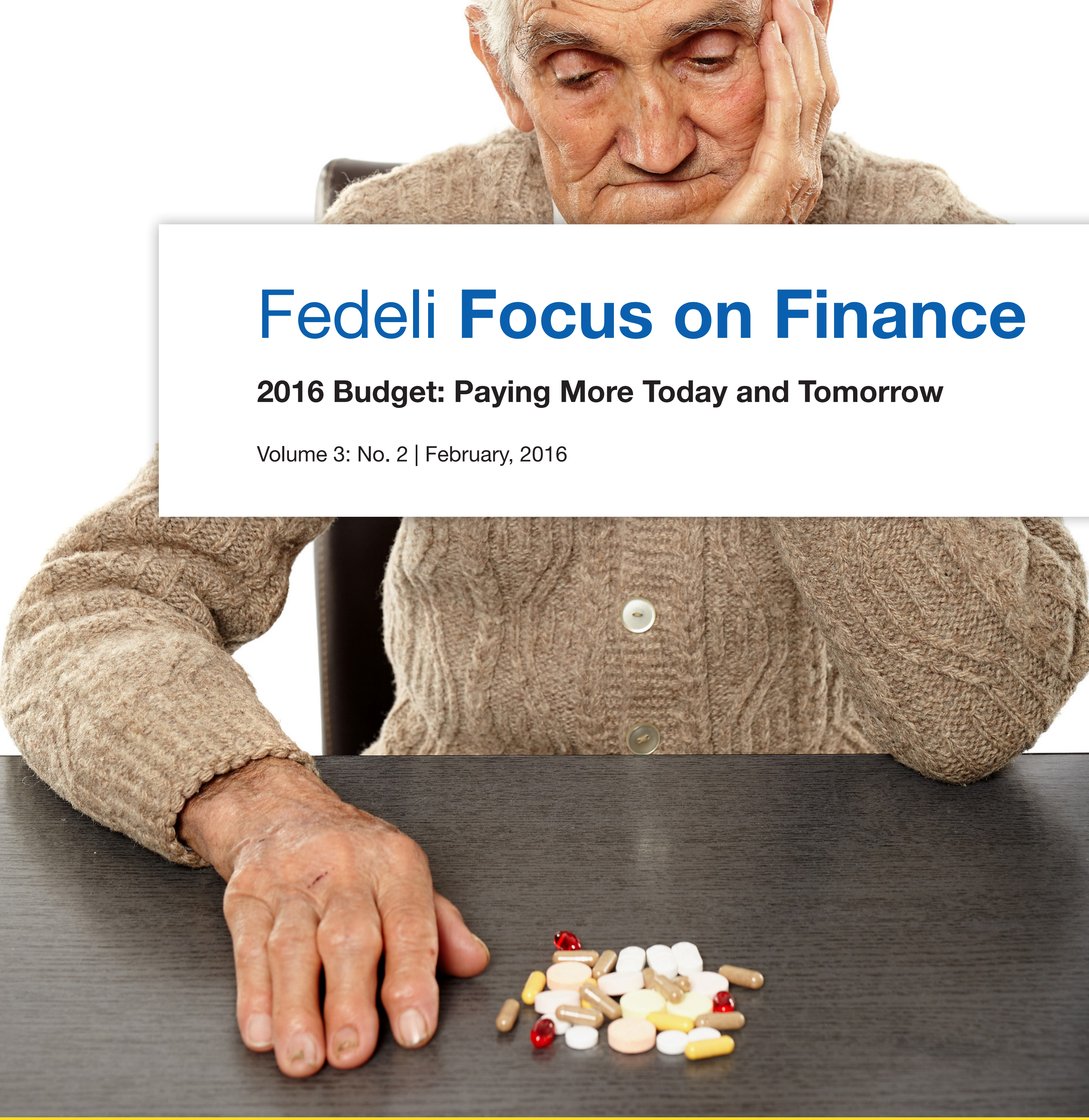

# Fedeli **Focus on Finance**

## 2016 Budget: Paying More Today and Tomorrow

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# 2016 Budget: Paying More Today and Tomorrow

After spending 7 hours reading the budget in the lock-up, I can summarize it this way … life in Ontario is now even more unaffordable. Taxes are going up on alcohol and tobacco, gasoline and home heating. But tax credits that helped children, students, seniors, and families are being eliminated. In fact, the vast majority of seniors will now have to pay almost double for their prescription drugs. We also continue to have very serious concerns about the credibility of the government's numbers, which I'll explore more fully in this edition.

The budget confirms the government IS using one-time money from the sale of Hydro One, as well as contingency funds, to make the deficit appear smaller. But make no mistake, in a couple of years (just after the next election), once the one-time sales are exhausted and the spending continues, there will be a massive hole in the budget. To this point, the Financial Accountability Officer referred to the budget as "vague and uncertain" and reported "maintaining balanced budgets beyond 2017/18 will likely prove challenging." BMO Capital Markets described it this way: "Asset sales of $5.7 billion… are one-time in nature, and don't address any underlying structural deficit." Further, Bryne Purchase, Ontario's former Chief Economist and Deputy Minister at many ministries stated "the added revenue from cap-and-trade and the Hydro One sale help to make the provincial numbers look better." Finally, you will also see a definite theme throughout this issue – the government gives with one hand, but won't mention what they're taking with the other.

## How you'll pay more

Here are some of the key ways life is getting more expensive in Ontario, thanks to the 2016 Budget:

**Sin taxes:** The budget has again increased taxes on alcohol and tobacco. Wine prices will increase by 4% and there will be a minimum price applied to alcoholic ciders. While the government talks about increased availability of wine, their plan won't be fully implemented for nine years; but the bottom line is you'll be paying more today.

**Cap-and-Trade:** Climate change is a serious challenge that requires a credible plan to reduce greenhouse gas emission, while protecting taxpayers and our economy. I'm very concerned the government will take advantage of the goodwill the public has shown on wanting to combat climate change. This budget seems to make their program just another revenue tool.

Sadly, the latter seems to be what's happening. There is a clause in the Cap-and-Trade Bill that allows the use of that revenue "to reimburse the Crown for expenditures incurred by the Crown, directly or indirectly, for any purpose described in paragraph 2". That particular paragraph describes the initiatives it may include. Take transit programs, as an example of what will happen. **Build a transit project … use cap-and-trade money to reimburse the government for funds that were already budgeted for that project.** This is EXACTLY how the government set up the transfer of funds from the Hydro One sale, and was able to artificially lower the deficit.

This tax is expected to bring in $1.9 billion in 2017-18; $600 million more than they said just four months ago. The 4.3 cent a litre increase in gasoline will eventually mean a $400 increase in annual costs according to private forecasts, and natural gas increases will eventually rise by $475 per year for each household heated by natural gas. The government claims residential energy rates will decrease with a $24 a year savings through cap-and-trade money, or $2 a month. But when you consider the $100 increase on January 1st of this year alone, this is an insult.

**Seniors drug costs:** Effective August 1, 2016, the Ontario Drug Benefit Program will adjust income eligibility thresholds for the Low-Income Seniors' Benefit. You will pay more if you're alone and earn over $19,300 or a couple earning over $32,300. Seniors above the low-income threshold will see an increased annual deductible under the ODB from $100 to $170, and the co-payment will increase by $1 per prescription. The Premier boasted that 170,000 seniors will pay less, but what she doesn't tell you is that 92% of the 2.1 million seniors (2013, Ministry of Finance website) in Ontario will pay double.

**Tax Credits removed:** Families will continue to feel the pinch as the government cut both the Children's Activity Tax Credit and the Healthy Homes Renovation Tax Credit, costing families $64 million over the next three years. I recall these being rolled out with great fanfare. Now it seems they were no more than photo ops.

**Service fees:** While elimination of the $30 Drive Clean fee grabbed headlines, there are also increases to virtually every other government service fee. Starting next year, fees for driver and vehicle licensing, camping in provincial parks, fishing and hunting licences, liquor licences, event permits, and court applications will rise, and then be adjusted every year for inflation.

**Municipal impacts:** Schedules 5 and 16 of Bill 173, the Budget Bill, would allow municipalities to set their own taxation rates for certain classes of vacant or excess commercial and industrial land. The Ministry of Finance confirms these changes would affect properties valued at $100 million province-wide. We'll be watching this closely to see if it's simply a back door 'revenue tool' for municipalities. Also, up to 5,000 road building vehicles will be reclassified, requiring licence plates and payment of the related fees. Many of these are owned by municipalities. The government says this will bring in up to $8 million in new money. Sadly, we all know there is only one taxpayer.

**Hydro One sale:** As we have discussed in several previous editions, with the sale of Hydro One proceeding, energy consumers will see higher bills well into the future. There was virtually no mention of hydro in the budget, and certainly no strategy to develop an affordable hydro plan.

## Fun with numbers

We have a structural deficit in Ontario being masked by various one-time supplements. Although we have been detailing this fact in these newsletters for years, it's not just us suggesting the numbers are questionable. The government's revenue projections for 2017-18 are nearly $4 billion higher than the Financial Accountability Officer's best-case scenario he laid out last fall.

| $ Billions | 2015-16 | | 2016-17 | | 2017-18 | |
|---|---|---|---|---|---|---|
| | Scenario A | Scenario B | Scenario A | Scenario B | Scenario A | Scenario B |
| **Total Revenue** | | | | | | |
| **2015 Budget Forecast** | 124.4 | | 129.4 | | 134.4 | |
| **FAO Scenario** | 123.7 | 123.4 | 128.7 | 127.4 | 133.8 | 131.6 |

**Ontario's Fiscal Plan and Outlook**
($ Billions)

| | Actual | Interim | Plan | Outlook | |
|---|---|---|---|---|---|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| **Revenue** | 118.5 | 126.5 | 130.6 | 137.7 | 141.9 |

To lower this year's deficit the government has:

- Removed $850 million from the contingency fund;
- Applied a $2.6 billion one-time departure tax from the sale of Hydro One; and
- Included revenue of $1.1 billion from Hydro One sales.

The government claims they are on track to balance the budget by 2017-2018 but it is due to:

- Anticipated $1.8 billion transfer from the Federal Government;
- $1.9 billion in new personal income tax revenue;
- $500 million in sales tax increases;
- $700 million in corporate income tax revenue; and
- Additional cap-and-trade revenue of $500 million.

But the government admits it will not achieve significant economic growth in the next two years. That means in order to meet those targets, it will have to raise taxation rates. Consider yourself warned! Magically increasing revenue, when the government's own growth forecasts don't support it, is not credible. Using one-time revenue is nothing more than a Hail Mary pass.

And 'one' final note: the budget also now allows anyone in Ontario to legally use one word for their full name. Don't ask me why that's in the budget, but I'm certain that Prince, Cher, Madonna, and Pele will be excited!

## Debt

Debt is projected to increase this year to $308.3 billion (up from $296.1 billion in 2015-16); an increase of $12.2 billion. Ontario continues to be the largest sub-national debtor in the world. And debt will continue to grow, as the government projects an increase of more than $40 billion by 2018/19. The net debt to GDP ratio is projected to remain at 39.6%, an historic high. Interest on the debt represents the 3rd largest expense in the 2016 Budget, accounting for $11.75 billion.

The day after the budget, bond rating agency DBRS stated, "the Province has yet to restore sufficient flexibility to withstand another economic downturn without negatively affecting the credit profile."

## Fewer jobs today and tomorrow

Alarmingly, the government's 2016 projections for job creation have dropped drastically. Last year they predicted 93,000 jobs would be created in 2016; they are now projecting 78,000 – or 15,000 less. Similarly for employment rates, last year the government predicted a 1.3% increase in employment, but are now projecting only a 1.1% change. In my opinion, this is an admission by the Ministry of Finance that all of the added costs in this budget will reduce disposable income, depress consumer spending, and cost Ontarians jobs.

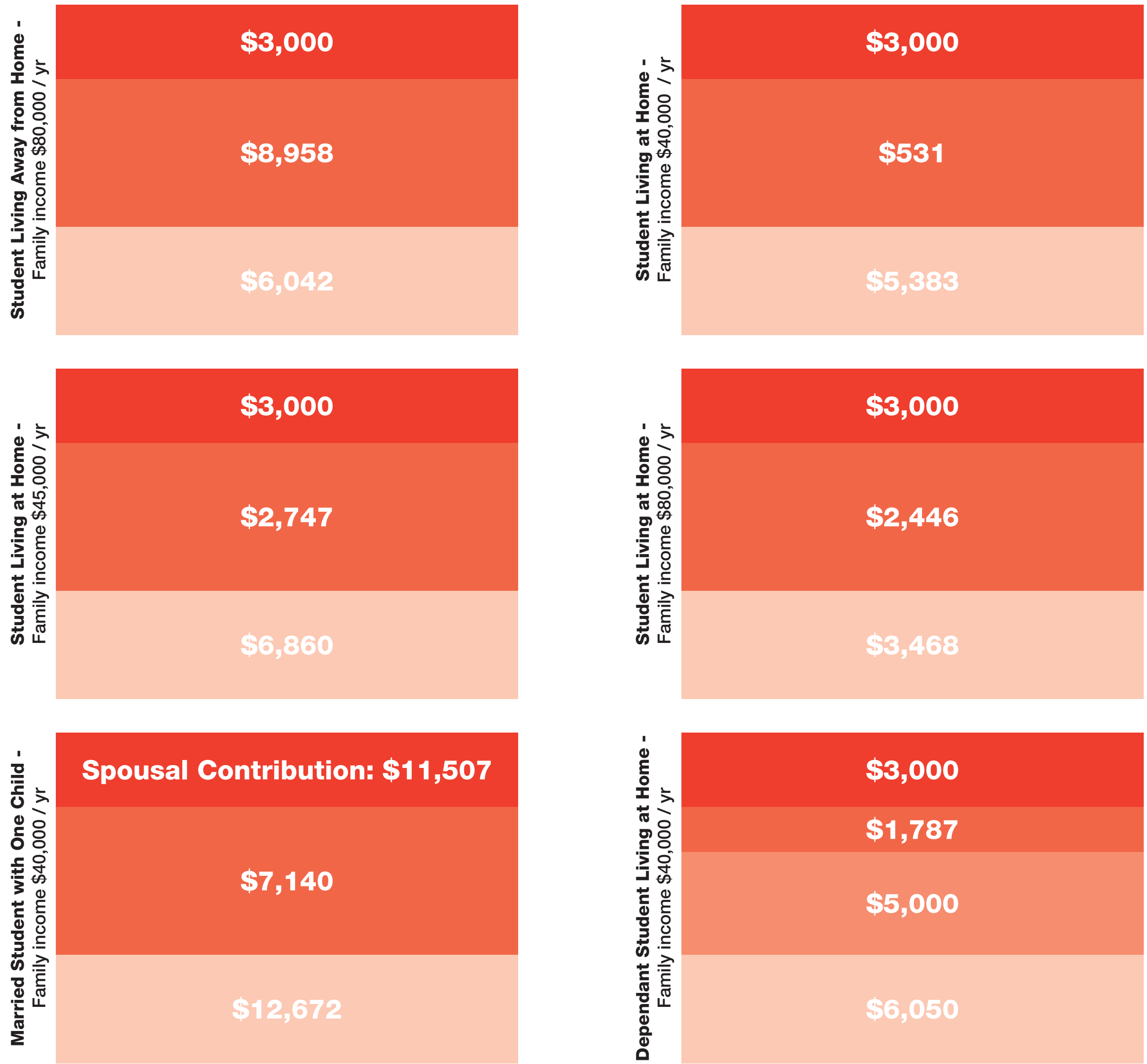
To make matters worse, the government is reducing tax credits to job creators. The Ontario Innovation Tax Credit (OITC) rate is dropping from 10% to 8%, while the Ontario Research and Development Tax Credit goes from 4.5% to 3.5% effective June 1, 2016.

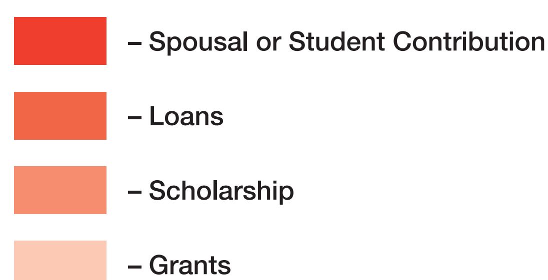
## Health care ins and outs

This 2016 budget literally gives with one hand and takes with another. Nowhere is this more evident than in health care. The budget does provide hospitals a long-awaited increase to base funding of 1%, or $345 million. But at the same time, it removes $107 million of traditional OLG gaming revenue for the operation of hospitals, and parking revenues by $28 million, meaning the increase is really only $210 million. Spread amongst 150 hospitals, it will do little to impact the cuts to services and nursing jobs we've seen across the province.

## Free tuition? Look again

The headline-grabber on budget day was the unveiling of the Ontario Student Grant (OSG), starting in the 2017–18 school year. It was described by many, especially in the media, as providing "free tuition" for students from families with less than $50,000 household income. This will be done by redirecting 100% of the funding from the 30%-Off Ontario Tuition grant, Ontario Student Opportunity Grant, Ontario Access Grants, and other grants offered by the Ontario Student Assistance Program (OSAP). But look at the scenarios laid out in the Ministry's backgrounder:




All of these are contingent on a spousal or student contribution. Now, the rules state students can forego that contribution if they meet certain criteria such as living at home. That's anything but free.

The Ministry of Finance also confirmed to us that 70% of Ontario families won't qualify for the full benefit. And fully half of Ontario families (those with a household income above $83,300) will lose the benefit of the tuition tax credit altogether, and are ineligible for the new program.

The government says this isn't a tax grab, but the Conference Board of Canada estimated that the cancellation of the tax credits will net the government $145 million in new revenue. Yet the Ministry of Training, Colleges and Universities is going up $94.7 million next year. How do they account for this budget discrepancy.

## Other red flags

As a Northerner, it's disappointing that the only paragraph on the Ring of Fire mining find was watered down language from that of the 2014 and 2015 budgets – a re-announcement of a re-announcement of an announcement. No progress is being made on one of the biggest potential job-creators in the province. In fact, there was no mention of Northern Ontario anywhere in the Minister's budget speech. I found that insulting.

Farmers are also facing challenges from this budget. The OMAFRA budget is dropping from $943 million to $916 million, with funding being eliminated for the Local Food Fund that allowed farmers to donate to local food banks. Farmers will be also be hit hard by the cap-and-trade fuel taxes, while OMAFRA won't see any Green Investment Fund initiatives. In addition, farm operations that are incorporated will pay the new pension tax, both on the corporate side and as the employee.

There was also confirmation in the budget that it was indeed written in advance, ignoring the all-Party, Pre-budget Consultations held throughout the province. In the days leading up to the budget, the government made significant funding announcements regarding Post-Traumatic Stress Disorder for first responders, and dramatic fare changes to the UPX train service. However, neither was found in the budget document.

## Conclusion

The Official Opposition had three budget asks: to make energy affordable, proper management of health care, and a credible plan to balance the budget. Overall, this budget has failed to meet those key asks, and makes life harder for Ontario families.

## Key questions

Why does the government refuse to explain the discrepancy between its fiscal forecast and the Financial Accountability Officer's fall report?

Why did the transit plan in the 2014 Budget not require any funds from the Hydro One sale, but the transit plan in the 2015 Budget, where the total expenditure was unchanged, require those funds?

Will the government admit their cap-and-trade revenues will actually be used to artificially lower the budget deficit?


Ontario

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