



A Fine Balance

This note summarizes the highlights and political implications of today's Ontario budget

With a robust economy boosting tax revenues, savings on debt-interest and increased federal transfers, the Government has used its increased fiscal flexibility to craft a retail-oriented election year program.

Notwithstanding the shop-window focus on child poverty, Budget 2007 maintains a balanced position, incorporating both fiscal discipline and targeted new spending. The government will stand for re-election with one foot firmly planted on having eliminated the fiscal deficit and the other on having made significant progress on the other "deficits" in health care, education and infrastructure.

Previous budgets have dealt extensively with institutional needs: hospitals, schools, infrastructure, etc. This being an election year, the budget offers more of a focus on the individual rather than the institutional, with measures aimed directly at support for families and children.

The budget is the first phase in a two-part offering to the Ontario public, with further announcements in key areas to follow through the Spring and Summer and the strong possibility of a further package of measures just prior to the Election.

Core Themes

- Support for families and children
- Balanced budgets
- Property tax reform
- Green economy initiatives
- Further investments in health care, education and infrastructure

Economic Outlook

Real GDP growth is expected to be 1.6% in 2007 and 2.8% in 2008.

Spending for 2006-07 is \$1.7 billion more than forecast but is more than offset by \$3.4 billion in unanticipated revenue and \$0.6 billion in debt-interest savings.

The Government has identified spending increases averaging 2.7% between 2006-07 and 2009-10, well below growth in Nominal GDP over the same period.

Following on a surplus of \$0.3 billion in 2005-06, an annual surplus of \$0.3 billion is forecast for each of 2006-07 and 2007-08, should the reserve not be tapped

For 2008-09 and 2009-10, surpluses of \$1.3 billion and \$1.6 billion are forecast. The government expects to find itself in a surplus position even were the full amounts of the reserve to be spent.

New Spending and Initiatives

On Children and Families

As anticipated, the McGuinty Government has identified expanding opportunities for low-income families and those receiving social assistance as a major theme in the 2007 Provincial Budget.

A new Ontario Child Benefit earmarks an additional \$2.1B in benefits over the next 5 years. A major aspect of the new OCB is the removal of the OCB from the welfare equation, allowing low-income families to receive the Benefit regardless of employment. In addition, the government will increase its investment in both early childhood learning and Best Start by \$25 and \$50 million, respectively, on an annual basis.

While the claw back of the National Child Benefit Supplement remains, the Province will raise social assistance rates by 2% and allow further increases to the NCBS to flow to income support recipients. Injured workers will also see an increase in WSIB rates.

No new funding has been identified for children with special needs, including children's treatment centres that have not already been outlined in previous Ontario Budgets.

Also as anticipated, the Government will increase the hourly minimum wage rate to \$10.25 with separate .75\$ increases over the next three years.

New affordable housing initiatives aims to increase new or rehabilitated housing stock for low-income families and off-reserve aboriginal.

Programs for Ontario's seniors will allow greater access to locked-in pension funds, increased Property and Sales Tax Credits and harmonization of federal tax policy with regard to income splitting.

Legal Aid Ontario will receive an increase of \$51 million over the next three years to address enhanced service in family law, increased hourly legal aid tariff rates and ensure that LAO properly addresses frontline family law services.

Lastly, this budget identifies a total of \$48 million for social infrastructure including hospices, community citizenship and recreation centres and those facilities servicing vulnerable populations.

On Primary and Secondary Education

The government will provide an additional \$781 million (17% increase) for the 2007-08 school year

On Post-Secondary Education

An additional \$390 million will be provided to post secondary institutions for infrastructure and equipment



On Health

An additional \$143million in 2007-08 will be invested through the Emergency Department Action Plan

The government will invest \$64 million in e-Health initiatives – will continue to work towards a secure electronic health record; and, expanding the systems that provide drug and lab information as well as diagnostic images

As part of the health promotion strategy, the government will invest \$41 million in community infrastructure and multi-use facilities to promote physical activity, sports and wellness

The government will invest more than \$200 million in additional operating funding over four years for developmental services agencies, and \$7 million in capital funding to developmental service community agencies

Children's Treatment Centres will receive an additional \$4 million starting in 2007-08

On Environment

In the "Expanding Opportunities for a Greener Ontario", the McGuinty Government works to address a number of issues that have moved to the forefront of the political policy agenda. It is the Government's intention to announce its plan for a greener economy in the Spring of 2007.

Ontario's investments in environmental initiatives are buoyed by \$586 million it anticipates receiving from the Federal Government as its share of the trust for clean air and climate change.

As a whole, the environment section of the 2007 Budget largely attempts to "build on the governments sustained efforts to improve the environment and the economy". An additional \$125 million has been allocated for new programs which the Government can take immediate action. These include:

- \$24 million for home energy audit rebates for homeowners
- \$2 million for increased tree planting in Ontario
- \$1.5 million for light-bulb replacement in over 500,000 homes
- Environmental Innovation Agenda includes the following investments:
 - \$6 million to the Ontario BioAuto Council
 - \$15 million to the Ontario Centres of Excellence
 - \$21 million to Queen's University for centre for bioproducts and biomaterials
 - \$6 million for Lakehead University for sustainability of Ontario boreal forest
 - \$3 million to the UOIT for hydrogen technology development

While public transit and water/wastewater infrastructure are better outlined in the Infrastructure section of this Budget, the government identifies new financial resources for communities with a high concentration of brownfield sites (\$11M for Hamilton, Cornwall, Brantford, St.Catharines and University of Ottawa).

A new Drinking Water Stewardship Program (\$7 million) will be started to provide early incentive to protect drinking water sources across the province.



Friends to the Greenbelt Foundation will be allocated \$25 million to continue its efforts and amendments to the Niagara Escarpment Planning and Development Act will be proposed to allow for better enforcement of the restrictions outlined in the statute.

On Infrastructure

The Budget outlines investments in transportation, electricity, health, education, communications and water and wastewater systems. Total infrastructure investments amount to \$5.9 billion in the 07-08 fiscal year.

Many of the government's infrastructure priorities were previously outlined in the ReNew Ontario plan from May of 2005. ReNew Ontario included over \$30 billion over 5 years for transportation, water and wastewater, health care, educational, justice, cultural and social housing facilities. As well, the Government points to \$42.6 million in infrastructure investments made through the Economic Stimulus Package during the Fall of 2006.

In addition to these plans, the government has outlined a number of new investments within this Budget:

Transportation

- New HOV lanes on Hwy 400 and 427
- Widening on Hwy 10 (Caledon), QEW (Kingston), 417 (Ottawa)
- Alignment of Hwy 26 (Collingwood)

Transit

- \$85 million for Phase II of VIVA and \$2 million for Durham transit plans.
- 1/3 funding commitment to Waterloo Region Light Rail

Vulnerable Communities

- \$48 million for social infrastructure including hospices, community citizenship and recreation centres and those facilities servicing vulnerable populations.

Communications

- NOHFC support for telecommunications infrastructure programs
- \$10 million for broadband access to rural communities

Municipal Water and Wastewater

- Financial plan regulation to help municipalities achieve financially sustainable water and wastewater systems
- Guideline development to showcase best practices to move towards financial sustainability.

Rural

- Additional \$70 million in Rural Infrastructure Investment Initiative

Niagara Falls Convention Centre

- Total of \$35 million to assist in the construction of a Convention Centre in Niagara Falls.

Personal Tax Relief

Property tax reassessment increases will be phased-in over four years, whereas reassessment decreases will take effect immediately.

Property and sales tax credits will be enhanced for modest-income seniors.

Income splitting will be allowed on certain types of pension income, paralleling federal changes.



Corporate Tax Relief

Elimination of the Capital Tax will be accelerated by eighteen months, taking effect on July 1, 2010.

Business Education Tax (“BET”) will be reduced from current average rate of 1.85 per cent to 1.6 per cent over seven years, a saving of about \$540 million annually when mature.

A 4.5% non-refundable scientific research and experimental development (SR&ED) tax credit will be introduced, replacing the current deduction.

Revenue and Tightening Measures

None.

Relative Emphasis

Only recently, health care was the single rapidly growing area of Ontario government spending. By constraining the rate of growth in health care costs, by dint of some economic good fortune and additional federal transfers, the Government has been able to reinvest in three more areas: Education, Higher Learning and Infrastructure.

With this budget, the government has also placed child-centred aspects of social spending on a growth track

Other areas such as justice and agriculture are growing at or below the rate of growth in Nominal GDP.

Though there are a few highly-focused tax relief measures, we are looking at only \$213 million in total tax reductions next year, in the context of more than \$65 billion in tax revenues.

Political Hue

There have been expectations in some quarters that this budget would take a distinctly leftward tack, predicated on a perceived Liberal vulnerability to the NDP.

The Liberals have certainly endured some serious by-election losses against the NDP in core urban ridings (Hamilton East, Parkdale-High Park and York South-Weston). By contrast, the Liberals have fared relatively well in contests against Conservative opponents (Scarborough-Rouge River, Markham) and have yet to lose a seat won in 2003 to a Conservative challenger.

The political challenge in crafting this budget was to shore up the Liberals’ left flank while ceding none of the central ground the Party captured in 2003. It has done so not by rushing headlong into social spending but rather by making targeted, representative moves, including:

- Support for children of low- and modest-income families (the Ontario Child Benefit),
- Anti-poverty initiatives (the \$10.25 minimum wage phase-in and enhancements to Ontario Works benefits and affordable housing),
- Support for disabled children (Children’s treatment Centres and child mental health)



The core of the budget stays the middle course that the government has occupied since 2003. The budget will be balanced in this and future fiscal years in preference to large-scale spending initiatives. Almost all of the new money is going into the Liberals' established priority areas of Education, Higher Learning, Infrastructure and Health and this year's added priority of children.

A Second Shoe to Drop?

Insofar as increases in federal transfers were announced only on Monday and are not included in revenue forecasts for today's budget, they are available to be deployed for the second phase of pre-election spending. The government is being coy about just how much new money there is but it would seem to be in the order of \$2.5 billion over five years.

Though all governments run on their records, it is usually thought necessary to offer a forward looking program with new measures. By the time that the election approaches, the measures announced today will to some degree be "priced-in" by the electorate.

We can anticipate a second wave of initiatives between now and the election, the extent of which will depend on the quantum of unallocated federal money, Ontario's economic and fiscal performance over the next six months, and any reallocation initiatives undertaken by the government.

This could take the form of individual announcements by the Premier and Ministers but there is also the strong possibility of a packaged set of initiatives brought in as government measures rather than 'mere' campaign promises.

The Budget Homepage: <http://www.ontariobudget.ca/>

Budget Speech: <http://www.ontariobudget.ca/english/statement.html>

Budget Press Release: <http://www.ontariobudget.ca/english/nr1.html>

Budget Papers: http://www.ontariobudget.ca/english/papers_all.html

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