

THE 2006 ONTARIO BUDGET

“LORD OF THE ROADS ... AND HIGHWAYS ... AND BRIDGES ... AND MASS TRANSIT



March 24, 2006

Coinciding with the opening of the stage musical, *'Lord of the Rings'*, Ontario Finance Minister Dwight Duncan's first budget tabled in the Ontario Legislature Thursday March 23, 2005 positions him as Ontario's *Lord of the Roads... and Highways... and Mass Transit*.

With the media leaks prior to the Budget, there weren't too many surprises in the 2006 Budget. As signalled days before, the Ontario Liberals' Third Budget focused on one-time transportation infrastructure investments to municipalities of upwards of \$1.2 billion.

Other spending supported meeting previous commitments to education, health care and fiscal management.

In choosing to make needed infrastructure investments to municipalities to fund various GTA transit initiatives including a TTC subway extension to York Region, and improvements to (Northern) municipal roads and bridges, the Government made a very deliberate decision to invest in the 'infrastructure deficit' as they put it, rather than the fiscal deficit. To be clear, the Ontario Government could have announced a balanced budget for 2005/06, but chose not to.

Clearly, the Government decided to invest in the GTA and in particular, City of Toronto priorities. The cash injection virtually solves the city's budget shortfall this year. This move will buttress Liberal GTA support, widely expected to be challenged in the next election by a city-friendly John Tory.

BUDGET HIGHLIGHTS

Transportation Infrastructure and Related

- ❑ One-time \$1.2 billion investment in the province's public transit systems, municipal roads and bridges to be known as *Move Ontario* as follows:
 - \$838 million in transit in the Greater Toronto Area (GTA), including:
 - \$670 million to extend the subway to the Vaughan Corporate Centre at Highway 7, and
 - \$167 million to Mississauga, Brampton and York Region for transit projects.
 - \$400 million to municipalities, primarily outside the GTA, with emphasis on rural and northern communities to assist with road and bridge maintenance and construction projects.
- ❑ In addition to the *Move Ontario* investment, the Province is providing a one-time \$200 million transit investment to the City of Toronto that the City will be able to use to support subway operations.

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- ❑ The creation of the Greater Toronto Transportation Authority (GTTA) to improve the planning and coordination of public transit in the GTA and to develop the GTA Fare Card System for seamless transit travel throughout the GTA.
- ❑ Authority for municipalities to now use the gas tax transfer to fund transit system operations (and not just capital expansion purposes).

Other Municipal Highlights

- ❑ Partial uploading of costs from municipalities to province:
 - Investing an additional \$300 million over next three years to move closer to 50-50 sharing of municipal land ambulance services;
 - Increasing the share of Provincial public health funding to 65% in 2006 and 75 % by 2007.
- ❑ Commitment to proceed with the *Stronger City of Toronto for a Stronger Ontario Act* (Bill 53) to provide new powers and sources of revenue to the City of Toronto.
- ❑ Cancellation of a \$170 million amalgamation loan owed by the City of Toronto.

Health Care

- ❑ Spending on health will grow by \$1.9 billion to \$35.4 billion in 2006-07, but most of this increase reflects 'natural' growth fuelled by hospitals, OHIP drug costs and previous commitment to improve access, reduce wait times etc.
- ❑ New spending is relatively small and focussed on the newly created Ministry of Health Promotion and Prevention, including:
 - \$30 million (at maturity) to help treat young people with Type 1 diabetes;
 - \$42 million (at maturity) for increased access for the Ontario Breast Screening Program;
 - \$7 million annually to enhance the Newborn Screening Program;
 - Increasing the government's stockpile of antivirals and emergency supplies and equipment to protect health care workers and patients.

Taxes

- ❑ No new taxes or tax increases.
- ❑ Recognizing the importance of attracting new investment into the province the Government will accelerate the scheduled capital tax rate cut two years earlier than currently scheduled so that the current rate will be cut by 5% by 2007 and be eliminated by 2010.
- ❑ Regarding income trusts, no mention in the Budget of the province complementing the anticipated increase in the dividend tax credit at the Federal level. This will be necessary to offset the perceived preference currently given to income trusts dividend paying public companies.
- ❑ Extension of the 18% Ontario Production Services Tax Credit until March 31, 2007.

Other

- ❑ No new significant announcements on education.
- ❑ No significant investments for agriculture and farmers.
- ❑ A Proposal to capitalize on the growth in the video game manufacturing sector by enhancing the existing Ontario Interactive Digital Media Tax Credit for video game manufacturers
- ❑ \$100 million to two high tech research institutes in Waterloo.
- ❑ \$49-million to help support Ontario's Royal Ontario Museum, the AGO, the National Ballet School and others.
- ❑ Improving border crossings by investing \$300-million in the Windsor Gateway, \$323 million in Niagara, Sarnia areas to enhance access to border crossings.
- ❑ \$10-million centre of excellence for mining.
- ❑ \$4 million to establish a bio-energy research centre in Atikokan linked to the Atikokan Generating Station (and no doubt as a small concession to the Atikokan community which will suffer the loss of jobs at its coal-fired plant).

ANALYSIS

The Fiscal Picture

The Government had projected a deficit of \$2.7 billion (including a \$1 billion reserve fund for emergencies) for 2005-06. Due to better than projected economic performance, the Government could have chosen to eliminate the deficit for 2005/06. Instead, with the one-time investments announced in the Budget for transportation and municipalities, the projected deficit will be \$1.4-billion.

For 2006-07, the government is projecting a slightly higher than originally projected deficit of \$2.4 billion (including the \$1-billion reserve) due to a relatively sluggish economy in the shorter term, but is projecting that the deficit will be eliminated by the scheduled 2008-09, or by 2007-08 if the reserve not needed.

On the issue of **the fiscal imbalance**, the Budget levelled measured criticism at the Federal Conservative Government for cancelling the Canada-Ontario Early Learning and Child Care Agreement, while expressing 'optimism' that progress will be made on the broader issue of the fiscal imbalance issue.

The Choices Made

Finance Minister Dwight Duncan made no bones about the choices the Government made. In his Budget Speech Minister Duncan stated:

"In 2005, the Ontario economy outperformed average private-sector and government projections, resulting in additional revenue. We have made a strategic and prudent choice to invest over 60 per cent of this additional money to begin paying down Ontario's infrastructure deficit."

With the \$1.9 billion increase in the health care budget, largely just to 'keep pace', the age old issue of health care spending sustainability remains unaddressed in Ontario.

The Government is taking advantage of a relatively strong fiscal picture in 2006, a situation that is unlikely to continue in future years.

And so, instead of balancing the Budget for 2005/06, the Government is making one-time 'investments' in municipal transportation infrastructure.

The Winners and Losers

There is not doubt that the clear **winners** in this Budget were municipalities in general, with the GTA municipalities benefiting to a greater extent and the City of Toronto coming out as the big winner.

Other sectors that will also benefit include the arts, the research/academic communities and to a small extent, social assistance recipients.

Health, education and post-secondary sectors will see the Government's previous commitments being implemented through planned increases in various areas.

On the energy front, the Government appears to be moving away from an unrealistic commitment to close the coal fired plants. In this Budget they are putting increased emphasis on the importance of reliability of supply, hinting that the plants might not be closed if it puts Ontario at risk --- something most experts predict.

While there don't appear to be clear **losers**, the farming sector will be very disappointed that its week-long protest at Queen's Park resulted in mere lip-service being paid in the Budget to the challenges facing this sector.

Setting the Legislative/Regulatory Agenda

There are two ways that governments can define their future policy, legislative and fiscal agendas. One way is through throne speeches and the other is budgets. In addition to the fiscal priorities described above, the related legislative, regulatory and policy initiatives outlined in this Budget are as follows:

- ❑ Introduce legislation to establish the **Greater Toronto Transportation Authority (GTTA)** to improve planning and coordination of public transit and develop the GTA Fare Card System.
- ❑ Introduce legislation to enable **Tax Increment Financing (TIF)** to assist with brownfield redevelopment and public infrastructure development.
- ❑ Introduce legislation to reform the **Ontario Municipal Board (OMB)** to make it more efficient and accessible.
- ❑ Introduce legislation addressing governance of the **Ontario Municipal Employees Retirement System** and extending the municipal election cycle from 3 to 4 years.
- ❑ Introduce a **regulated tuition framework** starting in 2006 where institutions will be held to an average of five percent increase in tuition per year.
- ❑ Introduce legislation to transfer full responsibility for the **Ontario Commercialization Investments Fund** program to the Ministry of Research and Innovation.
- ❑ Propose legislation to **harmonize securities regulations across jurisdictions** and streamline Ontario's securities and corporate laws.
- ❑ Introduce new legislation to fulfil the government's commitment to strengthen standards in **long-term care homes** and improve patient care.
- ❑ Intended passage of legislation already introduced into the Legislature:
 - *Traditional Chinese Medicine Act* (Bill 50)
 - *Stronger City of Toronto for a Stronger Ontario Act* (Bill 53)
- ❑ Consultations on a new *Public Service Act*.

CONCLUSION

The Budget Papers that form the guts of the Ontario Budget cover over 200 pages of details, analysis, charts and tables covering what the Government has done, is doing and will do. At the end of the day, however the Liberal Government's story-line can be summed-up as follows:

When we came to office in 2003, we discovered fiscal, health care, education and infrastructure deficits. With each successive budget, we are making the tough but prudent decisions to tackle each of these deficits. This 2006 Budget is about tackling the (transportation) infrastructure deficit.

Heading towards a 2007 election, the Government message will be that it has restored Ontario to good health. Time will tell.

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Campbell Strategies provides a broad range of government relations services covering all levels of government. Our unique experience enables us to effectively bridge the gap between the public and private sectors and assist our clients to communicate effectively in the political environment.

Barry Campbell served as a Member of the Parliament in the Liberal Government from 1993 to 1997. He served as Parliamentary Secretary to the former Minister of Finance, the Rt. Hon. Paul Martin.

Paul Brown was Co-Chair of the 2006 Conservative Federal Election Campaign for Ontario. From 1984 to 1988, he served in the Conservative Government of Canada as Policy Advisor to the Industry Minister, Executive Assistant to the President of the Treasury Board, and Chief of Staff to the Minister of Labour.

Mitchell Toker was a senior executive in the Ontario Public Service, where he held various positions in the Cabinet Office, the Ministry of Health and Long-Term Care and other ministries.

Dick O'Hagan, a seasoned consultant with long experience in the public and private sectors, was an advisor in the Prime Minister's Office serving Prime Ministers Trudeau and Pearson.

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Patrick Gossage is one of Canada's most highly respected communications practitioners. He served as Prime Minister Trudeau's press secretary from 1976 to 1982 and Minister of Information at the Canadian Embassy in Washington.

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