



**ONTARIO
BUDGET**
2018

Budget Analysis

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Ontario 2018 Budget: Go Big or Go Home

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Today, Finance Minister Charles Sousa rose in the Legislature to deliver the Ontario government's budget, for the fiscal year April 1, 2018 to March 31, 2019. This is the last provincial budget to be delivered before voters head to the polls for the June 7th provincial election. It is titled "A Plan for Care and Opportunity" and it is 307 pages long.

Background to the Budget

In years past, the content of federal and provincial budgets were closely guarded secrets unveiled when the budget was tabled, with only a hint given by the Finance Minister's shoe photo-op (at least federally). In recent years, we've seen a trend toward more pre-announcements, through strategic leaks, of the budget's highlights, leaving less suspense when the budgets are actually presented.

Ontario's 2018 Budget might have followed this recent trend. But, in this unprecedented political season, which began on January 24th when Patrick Brown's political world came crashing down, it seems only appropriate that Ontario's Budget pre-announcements – both in their size and their extent – were also unprecedented.

In many ways, the announcements in the 2018 Ontario Budget are not that surprising – it's an election-year budget, which are usually full of proposals to tempt voters. Just yesterday, the Province of Quebec – also facing an election this year in October – unveiled its budget, which increased spending by over 5% after several years of austerity.

Three weeks ago, Finance Minister Sousa announced the budget would have a deficit of up to 1% of GDP (or, as media reported it based on an Ontario economy of approx. \$794-billion, up to \$8-billion). The announcement was an about-turn from the declaration in November's Fall Economic Statement that there would be surpluses in 2018-2019 and 2019-2020. However, Minister Sousa indicated the deficit was a deliberate choice to invest in services and would include a clear path to return the Province to a balanced budget. Following Minister Sousa's announcement, there was a flurry of almost daily announcements:

- Thursday, March 15: Premier Wynne announces the prorogation of the Legislature, with a Speech from the Throne on the following Monday (meaning that prorogation doesn't eliminate any sitting days).
- Monday, March 19: The Government unveiled a Throne Speech, outlining their priorities leading up to the election, which emphasized care and opportunity. The Speech also gave some hints the March 28th budget would be investing in health care, pharmacare, mental health care, child care and other social programs.
- Tuesday, March 20: An expansion of OHIP+ to cover those over 65 was announced – a commitment of approximately \$575-million annually by 2020-21. While seniors already had a public drug plan in place, this change is to eliminate the \$100 annual deductible and the copay per prescription. A discrepancy had been created when the OHIP+ program for people under 25 years of age came into effect on January 1st; that program includes no deductible or copays and caused Liberal MPPs to hear about it in their constituency offices from disgruntled seniors.

- Wednesday, March 21: The Government announced an additional \$2.1-billion over 4 years for mental health care. This commitment dwarfed the historic amount promised in the now-defunct PC “People’s Guarantee,” which promised \$1.9 billion over ten years. It is worth noting that new PC leader Doug Ford has said he won’t be bound by that document and will unveil a new platform in the weeks ahead.
- Thursday, March 22: A commitment of an additional \$822-million in operating funding for Ontario hospitals in 2018-2019, to fund more medical procedures and reduce wait times.
- Friday, March 23: A commitment of up to \$2.4-billion for the design and construction of the new SickKids Patient Care Centre, as well as up to \$1.8-billion for the redevelopment of the Ottawa Hospital’s Civic Campus. These projects are part of a \$19-billion, 10-year infrastructure investment to improve and expand hospitals.

Even the Premier of Ontario rests on the weekends, so there was a short break from announcements. But the big budget announcements started back up this week:

- Monday, March 26: A \$300-million boost (over 3 years) for special education funding was unveiled.
- Tuesday, March 27: The Province announced \$2.2-billion over 3 years to provide free preschool child care to kids aged 2.5 to kindergarten, starting in 2020. Recall as well that in 2016, the Liberal government announced the creation of 100,000 child care spaces.

Obviously, the one-announcement-per-day roll out strategy was to draw as much attention as possible to the signature items of the budget in order to ensure that each one garnered maximum attention. So, deficits or not, the Liberals will dare the two opposition parties to vote against this budget. The phrase “care not cuts” is one that you will hear hurled often in the direction of the PCs. As for the NDP, leader Andrea Horwath had already told media that she and her caucus would vote against the budget—long before the contents were revealed. For Liberals,

when one party says the Liberals have gone too far, and the other says they haven't gone far enough, this is a place of some comfort (see also: minimum wage).

In the period leading up to the budget, there was much speculation as to whether the Liberal government would try to pass the budget into legislation or to make the budget itself the ballot question. Given the contents and the rollout strategy, we expect it will be voted on, forcing the opposition parties to vote against the child care, mental health, hospital and special-needs education measures, and maximizing the impact of those votes during the writ period.

With all of these pre-announcements, one had to wonder what Finance Minister Charles Sousa still had to reveal in today's budget. It turns out it was quite a bit. Here are the highlights:

One health initiative not previously announced: The government will introduce a new Ontario Drug and Dental Program for individuals and their families who do not have coverage from an extended health plan, starting in summer 2019. This program would reimburse participants for up to 80 per cent of eligible prescription drug and dental expenses, up to an annual maximum of \$400 for singles and \$600 for couples, plus \$50 for each child in the family. Final design will be informed by consultation. This represents a total investment of more than \$800 million over the first two years of the program.

Beyond the significant programs announced in the health care sector, Budget 2018 also contains a number of economic development initiatives, the centrepiece being the "Good Jobs and Growth Plan," a \$935-million investment over 3 years. This plan is built on 4 pillars:

- **Building Ontario's Talent Advantage** (largely focused on modernizing Ontario's apprenticeship system; more responsive and flexible skills training; and investments in industry partnerships and innovation at post-secondary institutions)
- **Improving Business Competitiveness** (the largest component of this plan and mostly focused on the expansion and increase of the Jobs and Prosperity Fund – more below)

- **Accelerating and Diversifying Trade** (expanding trade opportunities; leading international trade missions; and advancing Ontario's trade interests)
- **Investing in Infrastructure** (new and upgraded transit, hospitals, schools and broadband infrastructure; broadband connections for northern, rural and remote communities; and helping communities and businesses participate fully in the digital economy – more below)

Expansion of the Jobs and Prosperity Fund: This fund is renewed, with an increase of \$900-million over the next 10 years, for a total of \$3.2-billion in support since 2014-2015. In particular, the streams within the Fund have been expanded, with several now focused on innovative start-ups and scale-ups.

Under its current structure, the Jobs and Prosperity Fund included these 3 streams:

- **New Economy Fund** – getting an additional \$500 million over 10 years
- **Forestry Growth Fund** - \$30 million over 3 years (continuation)
- **Food and Beverage Growth Fund** - \$120 million over 3 years (continuation)

As part of the expansion of this Fund, two new streams have been introduced that are focused on innovative start-ups and scale-ups:

- **Venture Technologies Fund** - \$85 million over 10 years
- **Transformative Technology Partnerships Fund** - \$50 million over 10 years (AI, 5G wireless, autonomous vehicles, etc.)

Finally, regional development funds have been rolled into the Jobs and Prosperity Fund, with a new regional development fund created for the Greater Toronto and Hamilton Area:

- **Eastern Ontario Development Fund and Southwestern Ontario Development Fund** – an additional \$100 million over 10 years in each fund

- **Greater Toronto and Hamilton Area Fund** - \$100 million over 10 years
- **Communities in Transition Fund** – additional \$5 million (timeframe unspecified)

At the same time, Budget 2018 seeks to strengthen economic development in northern communities through an increase in funding to the Northern Ontario Heritage Fund Corporation (NOHFC). The investment is \$85-million over the next 3 years, increasing NOHFC funding to \$150-million in 2020-2021, while also introducing new NOHFC programs to support socioeconomic infrastructure projects and large-scale transformational investment opportunities that facilitate job creation and retention, productivity and innovation in the North. This investment complements additional, existing programs to strengthen economic development in the North, such as the Northern Industrial Electricity Rate program, which rebates participants \$20 per megawatt-hour on eligible consumption (up to \$120-million annually) and, on average, can reduce electricity prices by about 25%.

Infrastructure

Budget 2018 identifies a 14-year, \$230-billion infrastructure plan spanning from 2014-2015 to 2027-2028. The next 10 years of this plan invests about \$182-billion in projects, including:

- \$79-billion in public transit
- \$25-billion in highways
- \$19-billion in capital grants to hospitals
- \$16-billion in capital grants to build new schools and improve existing ones

Due to continually changing timeframes for calculating infrastructure plans, how much of this infrastructure investment is new is unclear. What is clear is that its scale continues to be historic. Budget 2018 did provide greater details about the projects that are part of the project pipeline.

Public Transit

Infrastructure projects highlighted in Budget 2018 include a number of projects that are part of GO Regional Express Rail (such as 12 new stations on the GO rail network, including 6 SmartTrack

stations); GTHA rapid transit projects (such as the Eglinton Crosstown LRT, Mississauga Transitway and Hurontario LRT); and municipal transit (such as London's Bus Rapid Transit system; the Ottawa LRT; and the Waterloo ION Rapid Transit project).

Roads and Highways

Infrastructure projects highlighted in Budget 2018 include Phase 3 of the new Highway 7; widening Highways 69 and 11/17; the Thunder Bay Expressway; Kingston's Third Crossing; rehabilitating the Bay of Quinte Skyway; and several projects on Highway 401.

Digital Infrastructure

Investing an additional \$500-million over 3 years to expand broadband connectivity in rural and northern communities. Additionally, an investment of \$64-million to enhance existing cyber practices and attract highly-skilled and in-demand cybersecurity talent.

Schools

\$16 billion in capital grants over 10 years for new and improved schools. Also, more than \$3-billion in capital grants to postsecondary institutions over the next 10 years, including new investment of over \$500-million starting in 2020-2021.

Personal Income Taxes

Changes to the personal income taxes that would see the elimination of "surtaxes" and revised income tax brackets for incomes below \$220,000 per year, resulting in increased revenues of \$275 million. This represents an increase of \$200 for 1.8 million tax filers, no change for 8.6 million filers and 680,000 individuals would see a reduction. Ultimately, people earning over \$95,000 per year will see their income taxes increase by about \$200 per year.

2018 Budget by the Numbers

- Government Revenues: \$152.2 billion
- Government Expenditures: \$158.5 billion
- Deficit: \$6.7 billion (versus a \$600 million surplus in 2017/2018)
- Projected Return to Balanced Budget: 2024/25
- Accumulated Net Debt: \$325 billion
- Interest Payments on Debt: \$12.5 billion
- Provincial GDP Growth: Average 1.9% growth rate expected from 2018 to 2021
- Net Debt to GDP Ratio (in 2017/2018): 37.6%
- Unemployment Rate: 5.5%

Opposition Reaction

PC leader Doug Ford had already let his impression of the budget be known during the spate of announcements: put frankly, that the Wynne government has gone on a spending spree that is neither affordable nor sustainable; that the fiscal house is not in order; and that all of this is a desperate attempt to cling to power. In a written statement, Ford said:

“Today, Kathleen Wynne continued the re-election spending spree with your money. The Liberals think your vote is for sale, and this budget proves it.

Kathleen Wynne is writing a lot of cheques. She is making big promises with your tax dollars. I've looked at the finances, and her cheques are going to bounce. You and your families will be stuck with the bill for Wynne's election promises.

It has already started. Today's budget includes massive tax increases that will hit 1.8 million hard-working Ontarians and their families, as well as tens of thousands of businesses. Shockingly, this budget includes \$2 billion in new tax increases over the next three years.

That's what Kathleen Wynne is saying in an election year, just imagine what she will do if she is re-

elected. The only good news in this budget for the people of Ontario is that this will be Kathleen Wynne's last budget. The party with the taxpayer's money is over; and for Ontario families, help is on the way."

For her part, Andrea Horwath, who competes with the Wynne Liberals for "progressive" voters, was also critical of the budget, said that too many gaps still existed and that too many people were being excluded from participating in the new programs. You may recall last year when the NDP and Liberals engaged in dueling pharmacare programs. The NDP would be hard pressed to say that any of the recent announcements are unworthy of additional government investments. It is really a question of how much, how soon, and for how many. In her published statement, Horwath said:

"It's clear that Kathleen Wynne believes it's more important for her to look good than for people to feel good. This is why people are disappointed. This is why people are cynical about politics. And this is why Ontarians are looking forward to electing a new premier in June.

It's time to replace that cynicism with hope – with a premier that will deliver better health care, and a more affordable life for everyone.

The Liberals have had 15 years to get good things done for people. Instead, Wynne chose to cut and privatize. She chose to sell off Hydro One and make hydro bills too expensive. She chose to let childcare become the most expensive in the nation. She chose to cut hospital budgets. And she chose to do nothing to deliver relief to the middle class – and even chose to ignore child poverty as Toronto became the child poverty capital of Canada.

Now, she's choosing not to offer universal pharmacare. She's choosing not to offer complete dental coverage. She's choosing not to offer a plan for a more affordable life for everyone.

The good news is that this is Wynne's final budget – because it doesn't have to be this way. We can do so much better."

Our Take on the Budget and Election Implications

Although she has been Premier for 5 years, Kathleen Wynne has had to bear the brunt of the “15 years of Liberal government” change mantra. Public opinion polls all suggest that the Progressive Conservative party currently holds a commanding double-digit lead; therefore, the change message appears to be working. If the Liberals do lose on June 7th, no one can accuse Kathleen Wynne of not throwing everything she had at the re-election effort.

On that note, one can begin to see the Liberal re-election strategy here. When you take everything that was announced in the last week and a half including today, add minimum wage increases, cheaper or free post-secondary tuition (with the lowest income earners deriving the greatest benefit), pharmacare for young people, 100,000 new child care spaces, and so forth, it becomes apparent that the Liberals are appealing to those voters – who more often than not are women – who are taking care of their children and often their parents as well. This is not to suggest that women voters don’t care about deficits and debt; rather, the Liberals’ gambit is that they will be swayed by meaningful progress on social programs.

Young people, who often work at minimum wage jobs and worry about graduating with large student debt, will undoubtedly be counted upon for their support as well. Men and women of low and moderate income, who have benefitted from all of this the most, have reason to vote Liberal too. Women are over 50% of the population but the Liberals know they will not be supported by all of them.

The big question is: are there enough of the other voters to form a winning voting coalition? Team Wynne may start talking about the good stuff that has happened in 15 years of Liberal government (it wasn’t only about cancelled gas plants), emphasizing full-day kindergarten, for example, which would fit well with their current narrative. The McGuinty Liberal government, in partnership with the Harper federal Conservatives, stepped up to help preserve GM and Chrysler; this would be an interesting counter-argument to Doug Ford’s strong opposition to what he calls

“corporate welfare”. Kathleen Wynne was an MPP and a cabinet minister for all of those years and can speak to them knowledgeably. To do otherwise is to vacate the space and let the opposition parties win that turf.

For their part, the PCs will bank on voters’ desire for change, while also casting the Liberals as incompetent managers who, through a combination of waste and disregard for the taxes paid by hard-working men and women, deserve to be removed from office. The PCs hold a healthy lead with men in the opinion polling. Is that lead likely to grow anytime soon? Will Conservative-minded women be swayed by the events of the last week and a half?

The NDP, who should have benefitted greatly from voter fatigue with the governing Liberals and the disarray within the PC party since January, will seek to present themselves as the progressive alternative to the Wynne Liberals. Interestingly enough, the NDP now find their competition in a large number of ridings to be the Tories (for example, southwestern Ontario, Niagara, the North). Horwath cannot focus solely on the Liberals if her party hopes to win many of those ridings.

Will this budget be enough to turn the tide for the Liberals? On its own, it will likely move the polling needle a little, but not be enough to put them back on top.

The Liberals will need to run an excellent campaign, and have Kathleen Wynne live up to her reputation as an excellent campaigner and debater, to remain in office. Additionally, they will have to hope that the other parties don’t run a smooth campaign. The Liberals will frame a vote for the PCs as a threat to valued social programs, and a vote for the NDP as wasted, in an effort to keep the right-of-centre PC party out of government. We also expect a number of third party advertisers, some for and some against the Liberal government, to ramp up their activities during April. In the past, the Liberals have benefitted most from these efforts.

As always, please feel free to contact your Sussex consultant for more information. As well, please watch our weekly election show where we bring you weekly, up to the minute updates on all things Ontario government, politics and elections.

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