



Office of the Commissioner  
Finance Department

## Memorandum

To: Members of Committee of the Whole

From: Laura Mirabella  
Commissioner of Finance and Regional Treasurer

Date: May 9, 2019

Re: **Summary of 2019 Provincial and Federal Budgets**

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This memorandum provides a summary the 2019 Provincial and Federal budgets, with a particular focus on announcements that could impact Regional programs or funding. Staff will report back to Council with additional details as they become available.

The Ontario Government released its 2019 Budget entitled *Protecting What Matters Most* on April 11, 2019. The projected budget deficit is \$11.7 billion in 2018-19 and \$10.3 billion in 2019-20. The province expects to balance the budget by 2023-24. Some of the major announcements with potential implications for the Region include:

- 1) A commitment to the Yonge North Subway Extension
- 2) Restructuring public health and changes to municipal-provincial cost sharing
- 3) Restructuring land ambulance dispatch centres
- 4) The new Ontario Childcare Access and Relief from Expenses (CARE) program
- 5) A commitment to provide dental care coverage for low-income seniors

The Government of Canada released its 2019 Budget entitled *Investing in the Middle Class* on March 19, 2019. The projected deficit is \$14.9 billion in 2018-19 and \$19.8 billion in 2019-20. The budget continues with deficit spending over the medium term. Some of the major initiatives with potential implications for the Region include:

- 1) A one-time doubling of the federal gas tax in 2018-19
- 2) New funding and expanded initiatives to support municipal asset management

- 3) New investments in high speed and broadband internet access
- 4) Initiatives targeting housing supply for low and middle income earners

## **Provincial Budget Initiatives**

### **A commitment to the Yonge North Subway Extension (page 70)**

The budget includes a provincial commitment to the Yonge North Subway Extension project with an estimated completion date of 2029-30. The budget estimates project costs of about \$5.6 billion and states that it could be constructed at the same time as the proposed Ontario Line. The planned extension is from Finch Station to Richmond Hill Centre.

The provincial funding represents about 39% of total project costs. The Province anticipates that the federal government would contribute 40% of the construction costs and that the City of Toronto and York Region would make significant contributions.

### **Proposed restructuring of public health and land ambulance dispatch could impact Regional funding and program delivery**

The budget announces the government's intention to restructure public health and land ambulance dispatch centres. Municipalities, including the Region, were not consulted on the proposed changes. The Province has assured the Association of Municipalities of Ontario (AMO) that it will engage with municipalities and stakeholders going forward.

Funding for public health has been traditionally shared between the Province and municipalities. The budget commits to establishing 10 new regional public health entities and 10 new regional boards of health with centralized governance by 2020-21, while also reducing the number of laboratories and improving digitization. (Page 119)

The previous government's expert panel recommended a regional model comprised of 14 health units. Through a report to Council on October 19, 2017, Regional Council and the York Region Board of Health took the position that they did not support the Expert Panel's recommendations on separating Public Health from the Region.

In 2018, the Region received \$51 million in funding from the Province for public health, to support \$73.2 million in program spending.

The budget says that the government will streamline land ambulance dispatch services by better integrating Ontario's 59 emergency health services operators and 22 provincial dispatch communications centres. (Page 124)

There are new models being explored for care and service delivery with the intention of improving service and reducing duplication. This is a step that municipal governments have been requesting. The Province fully funds the paramedic dispatch system.

**Dental care for low-income seniors would be delivered by the Region's Public Health unit (page 125)**

The new dental program for low-income seniors would be delivered at public health centres, such as ones run by the Region, as well community health centres. This initiative would be a new responsibility for the Region's public health unit.

**The Region is working with MPAC to implement much needed process improvements and service enhancement (page 90)**

The budget says that the government is developing an action plan to improve the accuracy, transparency and stability of property assessments. As part of the action plan, the government will seek input from stakeholders, including municipalities.

As directed by Council in December 2017, staff are working with the Municipal Property Assessment Corporation (MPAC) to address these same issues. Progress is being made. The Region pays over \$20 million annually to MPAC.

**Federal Budget Initiatives**

**A one-time doubling of the federal gas tax (page 80)**

A one-time transfer under the Federal Gas Tax program will result in new funding for the Region of about \$32.9 million.

**New funding for asset management under existing programs (pages 84-87)**

Funding will be available for energy efficiency projects in residential, commercial and multi-unit buildings under the Green Municipal Fund, which is delivered by the Federation of Canadian Municipalities (FCM). Program details are not yet released. Staff anticipate that the initiatives would be available to all Canadian municipalities, including regional municipalities.

Municipalities, universities, small-medium sized businesses, hospitals, schools, colleges, non-profits, and Indigenous communities can expect some residual funding from the federal carbon pollution pricing system. Regional staff understand that

remaining proceeds would arise from circumstances where individuals do not receive their rebate, and expect the total amount available to be relatively small.

**New funding for broadband and improved internet access is not expected to benefit York Region (page 97)**

Based on available information, staff are not expecting additional funding from the enhanced \$1.7 billion program. This funding may be directed to previous applications from other applicants to increase their funding allocation.

## APPENDIX: Summary of the Provincial and Federal Budgets

### Summary of the 2019 Provincial Budget

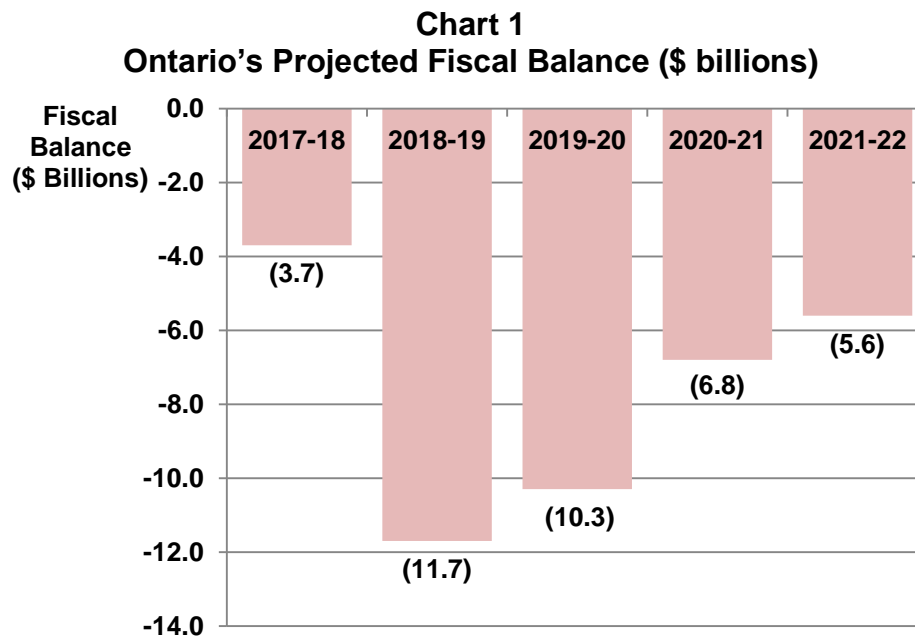
#### **The Province maintains its commitment to balance the budget but forecasts deficits over the medium term**

The government is forecasting a deficit of \$11.7 billion in 2018-19. Net debt-to-GDP will increase from 40.2% in 2018-19 to 40.7% in 2019-20, and is projected to be 38.6% in 2023-24.

As outlined in Chart 1, deficits are expected to decline from \$10.3 billion in 2019-20 to \$5.6 billion by 2021-22. As required by law, the budget includes a plan to return the budget to balance, which is projected to occur in 2023-24. The budget claims that fiscal balance will be restored by achieving savings and cost avoidance of about eight cents for every dollar spent, on average, over this period.

On the path to balance, total revenue is projected to grow at an average annual rate of 3.0% while program expense is expected to grow at an average annual rate of 1.0%.

The government has maintained its position on the accounting treatment of co-sponsored pension plans (Ontario Public Sector Employees Union and Ontario Teachers' Pension Plan), which adds up to \$5 billion in expenses compared to the budgets presented by the previous government.



Source: Ontario Budget 2019: Chapter 3, Table 3.1, p. 262.

## Annual GDP growth is expected to slow

Ontario's economy showed relatively strong growth over the past three years. From 2016 to 2018, Ontario's real GDP grew at 2.4% per year on average. The budget projects real GDP growth to slow to an average of 1.6% per year from 2019 to 2022. These projections are lower than those in the 2018 Budget and primarily reflect a less optimistic global economic outlook.

For 2023 and 2024, real GDP is forecast to increase by 1.9% and 1.8%, respectively. Private sector forecasts inform these provincial real GDP growth projections; however, the Province has chosen to adopt a more conservative forecast.

## Overall real program spending growth is projected to increase slightly, but will not keep pace with population growth

As outlined in Table 1, the budget proposes average real program spending increases that are below the rate of population growth. The majority of the growth over the medium term occurs in 2020-21 and 2021-22, with nominal growth in program spending of 1.2% and 1.25%, respectively, which translates to -0.8% and -0.5% on a real basis.

**Table 1**  
**Summary of Medium-Term Program Expense Outlook (\$ Billions)**

Programs	Actual 2017- 18	Interim 2018- 19	Outlook			Average Annual Growth 2017-18 to 2021-22	Average Annual Real Growth Rate*	Average Real Per Capita Growth Rate**
			2019-20	2020-21	2021-22			
Health Sector	59.3	62.2	63.5	64.6	65.3	2.44%	0.6%	-0.87%
Education Sector	27.3	29.1	29.8	29.8	30.1	2.47%	0.6%	-0.84%
Postsecondary and Training Sector	11.2	12.1	11.4	11.5	11.7	1.10%	-0.7%	-2.16%
Children's and Social Services Sector	16.4	17.0	16.7	16.5	16	-0.62%	-2.4%	-3.82%
Justice Sector	4.8	5.0	4.9	4.8	4.7	-0.52%	-2.3%	-3.73%
Other Programs***	23.2	24.6	23.8	24.7	26	2.89%	1.0%	-0.43%
<b>Total Programs</b>	<b>142.2</b>	<b>150</b>	<b>150.1</b>	<b>151.9</b>	<b>153.8</b>	<b>2.90%</b>	<b>0.15%</b>	<b>-1.31%</b>

Source: Ontario Budget 2019: Chapter III, Table 3.5, p. 268

\*Source: York Region Finance Department. The average annual real growth rate is based on converting past and future program spending to 2018-19 dollars using the Ontario CPI Forecast in 2019 Budget

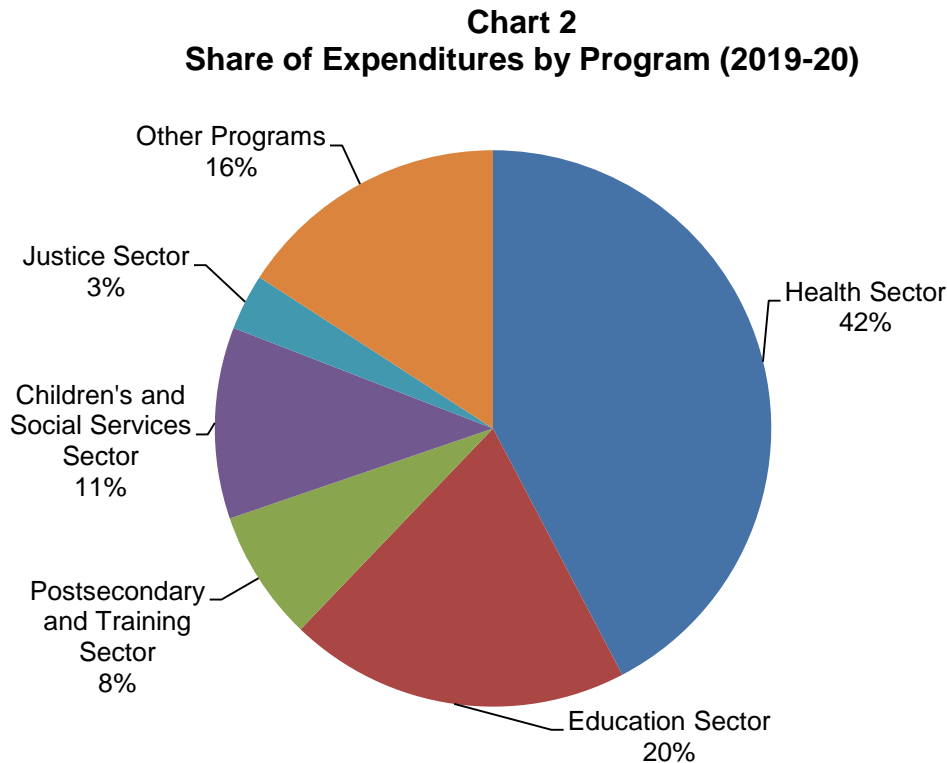
\*\*Based on Ministry of Finance Reference Scenario spring 2018 population projections

\*\*\*Includes transportation, tourism, economic development, employment, agriculture, employee and pensioner benefits, housing and natural resources. Does not include interest on debt.

On a real per capita basis, overall program spending would decline by 1.31% per year on average between 2017-18 and 2021-22. Children's and Social Services and the

Justice Sector have the largest average real per capita program spending declines at 3.82% and 3.73% per year respectively.

Chart 2 shows each program area's share of total expenditures for 2019-20.



Source: Ontario Budget 2019: Chapter III, Table 3.5, p. 268

### **Budget affirms commitment to subway projects, including Yonge North Subway Extension (pages 65-72)**

The budget announces a total of \$11.2 billion for four subway projects (the Ontario Line, the Yonge North Subway Extension, the Scarborough Subway Extension and the Eglinton Crosstown West Extension). This represents 39% of total project costs of \$28.5 billion. The budget asserts that provincial delivery of these projects will speed up project completion.

The Province anticipates that the federal government will contribute 40% of the estimated construction costs. It is expected that the federal contribution will be \$4.2 billion with funding sourced from the Investing in Canada Infrastructure Program (ICIP) under the Public Transit Stream. This is in addition to the \$660 million already committed for the Scarborough Subway Extension. The Province also plans to use the entire \$2.25 billion allocated from the Federal Green Infrastructure Fund to fund subway

projects, which would bring the total potential federal contribution to over \$7 billion. This may restrict municipal access to this funding pool for environmental (water and wastewater), greenhouse gas mitigation, and climate change adaptation projects. Further details are to be negotiated to increase the federal contribution to 40% of the program or \$11.4 billion.

The Province expects the federal government, the City of Toronto and York Region to make significant contributions to these projects.

The budget commits the Province to the Yonge North Subway Extension project with the project to be completed by 2029-30. The project is estimated to cost about \$5.6 billion and could be constructed at the same time as the Ontario Line. The planned extension is from Finch Station to Richmond Hill Centre.

The government is also moving forward with partnering with the private sector when it comes to developing land for transit projects. The budget suggests that the Transit-Oriented Development Strategy will leverage third-party investment to deliver transit services faster and at a lower cost to taxpayers. For example, allowing developers to build above transit stations in exchange for building new transit infrastructure.

### **The Province will work with municipalities to review the Provincial Gas Tax Program and funding (page 75)**

The Province renewed its commitment to provide municipalities with existing gas tax funding. Changes proposed by the previous government, which would have provided additional funding, will not be implemented. Municipalities will be consulted over the next few months on possible improvements to the program. For 2018, the Region was allocated \$16.7 million.

### **An action plan to improve accuracy, transparency and stability of property assessments for municipal property tax payers (page 90)**

The government has introduced legislation to increase the representation of property tax payers with the purpose of increasing fairness and accountability within the Municipal Property Assessment Corporation (MPAC).

Through this review, the government is looking to enhance the accuracy and stability of property assessments, support a competitive business environment, provide relief to residents and strengthen the governance and accountability of MPAC.

### **A plan to reform public health units and land ambulance dispatch is moving forward (pages 119 and 124)**

Funding for public health units has been traditionally shared between the Province and municipalities. The announcement to reform public health units was made in advance of



the 2019 Budget. The Province asserts that modernizing public health units will allow for more consistent services and alignment with the broader provincial health care system, more efficient service delivery and improved staff recruitment and retention.

The budget commits to establishing 10 new regional public health entities and 10 new regional boards of health with centralized governance by 2020-21, reducing the number of laboratories and improving efficiencies through digitization and streamlining processes. As a point of comparison, the previous government's expert panel planned a regional model comprised of 14 health units.

The budget says that Ontario's 59 emergency health services operators and 22 provincial dispatch communications centres will also experience restructuring through integrating and streamlining services.

### **The budget reaffirms a commitment to affordable housing (page 147)**

The budget reaffirms the government's commitment under the National Housing Strategy bilateral agreement with the federal government to provide approximately \$4 billion for the Ontario housing sector over nine years.

The Province has launched its Community Housing Renewal Strategy. This strategy includes the Canada-Ontario Community Housing Initiative which maintains federal social housing agreement funding and the Ontario Priorities Housing Initiative which is equally cost shared by the provincial and federal governments and provides \$123.3 million in 2019-20, \$65 million in 2020-21 and \$99.9 million in 2021-22. The Ontario Priorities Housing Initiative funding includes \$34.7 million in provincial funding for existing programs across 2018-19 and 2019-20.

### **Province looking to reduce the reporting burden on municipalities (page 150)**

The municipal sector has voiced concerns over the reporting burden that the Province imposes on municipalities. It is estimated that municipalities provide over 400 reports annually to the Province. The government has launched a review to reduce this burden and to ensure that only necessary information is reported. Provincial ministries and municipalities are working together on this initiative.

### **The Province is launching the Provincial Climate Change Impact Assessment to assess the impact of climate change (page 155)**

The budget announces the government's intention to better understand the impact of climate change and identify vulnerable regions and economic sectors that are likely to be impacted. To ensure that public and private assets and infrastructure are better managed in the long run, the Province will work with municipalities among others to achieve this objective.

### **Environmental Assessment Act to be reviewed (page 213)**

The budget announces the government's intention to modernize the Ontario Environmental Assessment Act to make it easier to complete large infrastructure projects in a timely manner. Under the current Act, the Region has incurred costs and delays related to the delivery of infrastructure projects that are needed to unlock servicing capacity. Region staff have consistently advocated for a streamlined process for large municipal infrastructure projects and are pleased to see the province committing to action.

### **Child-care refundable tax rebate introduced with the aim of making child care more affordable (page 100)**

The budget introduces the new Ontario Childcare Access and Relief from Expenses (CARE) program, aimed at low and moderate income families. The program replaces child-care related investments committed by the previous government. The program is intended to help parents access and afford a variety of child care services.

The program will cost approximately \$390 million and support nearly 300,000 families. Eligible families would receive up to 75% of their eligible child care expenses, depending on the age of the child and family income. On average, the tax credit will provide approximately \$1,250 per family.

The new CARE program is in addition to existing provincial and federal tax credits for child care expenses and would more than double the support that low and moderate income families receive through child care tax deductions.

The budget also commits up to \$1 billion over the next five years to create up to 30,000 child care spaces in schools, including approximately 10,000 spaces in new schools.

### **Budget introduces dental care funding for low-income seniors after eliminating free dental care in the fall of 2018 (page 125)**

The budget introduces a \$90 million program to assist low-income seniors with their dental expenses. The program is intended to minimize the burden of preventable hospital visits that are due to dental issues. Low-income seniors (income less than \$19,300, or \$32,300 for couples), without existing coverage, would be eligible for the program starting late summer of 2019.

### **Proposed reforms to municipal wastewater management and reporting (page 157)**

The government intends to increase real-time monitoring of sewage overflows from municipal wastewater systems. The government will work with municipalities to ensure

that proper monitoring is taking place as well as updating municipal wastewater and storm-water to make them easier to understand. This may result in increased monitoring and higher capital costs for the Region in the future.

### **Additional long-term care beds in Markham (page 118)**

As part of a \$17 billion investment in hospitals across the Province, the budget announces 256 additional long-term care beds in Markham.

### **Freight rail by-pass cancelled (page 15)**

The government announced the cancellation of the freight rail by-pass that was previously identified in the 2018 Metrolinx Regional Transportation Plan. Commonly referred to as the Freight Rail Missing Link, Council passed several resolutions to strongly oppose any projects that could increase freight rail traffic through the Region.

## **Summary of the 2019 Federal Budget**

### **Canada's fiscal position shows improvement primarily driven by higher revenues**

The projected deficit for 2018-19 is lower than the estimate provided in the 2018 Fall Economic Statement. This is primarily due to \$5.7 billion in additional revenue, particularly higher-than-expected personal income and corporate tax revenues.

For 2019-20, the government projects a \$19.8 billion deficit, declining to \$9.8 billion by 2023-24. The impact of higher revenues in 2018-19 carries forward to the forecast horizon, offsetting a decline in the economic growth forecast.

The government has placed a priority on lowering the debt-to-GDP (Gross Domestic Product) ratio, as opposed to eliminating the deficit. As shown in Table 2 below, the debt-to-GDP ratio is expected to fall from 30.7 per cent in 2019-20 to 28.6 per cent in 2023-24.

The debt-to-GDP ratio is a measure of a country's ability to service its debt. Canada currently has the lowest debt-to-GDP ratio of all G7 countries.

**Table 2**  
**Economic and Fiscal Projections (\$ Billions)**

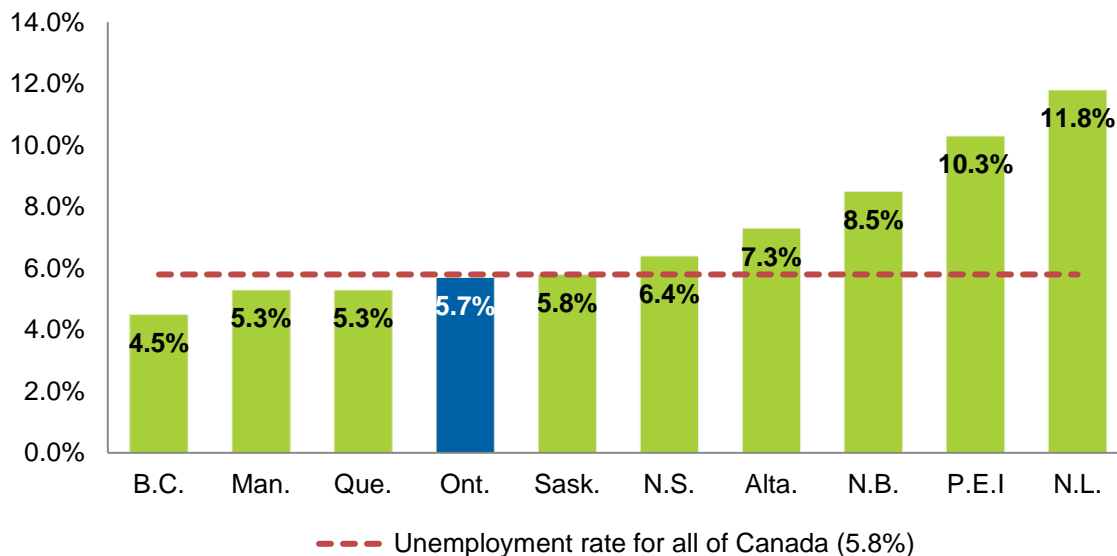
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Revenue	332.2	338.8	351.4	366.7	380.7	395.5
Expenses	347.1	355.6	368.2	378.4	389.8	402.2
<b>Budgetary Balance (Deficit)*</b>	<b>(14.9)</b>	<b>(19.8)</b>	<b>(19.7)</b>	<b>(14.8)</b>	<b>(12.1)</b>	<b>(9.8)</b>
Nominal GDP	2,223	2,298	2,379	2,482	2,576	2,667
Federal Debt	685.6	705.4	725.1	739.8	751.9	761.7
<b>Debt-to-GDP Ratio</b>	<b>30.8</b>	<b>30.7</b>	<b>30.5</b>	<b>30.0</b>	<b>29.3</b>	<b>28.6</b>

Source: Investing in the Middle Class: A Strong Middle Class, Tables A2.1 and A2.4

\*Includes a \$3 billion risk contingency in 2019-20 and beyond

Canada's unemployment rate, at 5.8%, is near its lowest level in over four decades. As shown in Chart 3, Ontario's unemployment rate in February 2019 (5.7%) was the fourth lowest of the provinces. Only British Columbia (4.5%), Quebec (5.3%) and Manitoba (5.3%) had lower unemployment rates.

**Chart 3**  
**Unemployment Rates in Canada (February 2019)**



Source: Statistics Canada

While growth in the Canadian economy is expected to moderate in the coming years, the outlook remains healthy, as shown in Table 3 below.

**Table 3**  
**Average Private Sector GDP Forecast (Per cent)**

	2018	2019	2020	2021	2022	2023	2018-2023
Real GDP growth	1.9	1.8	1.6	1.7	1.9	1.9	1.8
GDP inflation <sup>1</sup>	1.9	1.8	1.9	2.0	2.0	2.0	1.9
Nominal GDP growth	3.8	3.4	3.5	3.7	3.9	4.0	3.7
Consumer Price Index (CPI) Inflation <sup>2</sup>	2.3	1.9	2.0	1.9	2.0	2.0	2.0

Source: Investing in the Middle Class: A Strong Middle Class, Table A1.1, p.270

In 2018, the economy grew at a real rate of 1.9% and a nominal rate of 3.8%. GDP inflation is estimated at 1.9% in 2018, and is expected to be 1.6% in 2019 and about 2% thereafter. Consumer Price Index (CPI) inflation is estimated at 2.3% in 2018 and about 2% thereafter. The real rate of GDP growth is expected to be 1.8% cent in 2019 and then slow to 1.6% in 2020. These projections are based on a February 2019 survey of private sector economists.

### **The budget introduces measures to support housing supply and affordability (pages 23-31)**

The budget includes several new initiatives aimed at increasing the housing supply and improving affordability for low and middle income earners.

To help those facing challenges entering the housing market, the budget introduces the First-Time Home Buyer Incentive. The Incentive, which will be delivered by Canada Mortgage and Housing Corporation (CMHC), enables home buyers to reduce the amount of money required from an insured mortgage without increasing the amount they must save for a down payment.

The budget proposes to establish a fund to assist providers of shared equity mortgages (which are currently offered by non-profit and other providers in some regions), helping eligible Canadians achieve affordable homeownership. The fund would be administered by CMHC.

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<sup>1,2</sup> GDP inflation is the broadest measure of economy-wide inflation. CPI inflation is a measure that examines the weighted average of prices of a fixed basket of goods and services purchased by consumers (e.g., shelter, transportation, food, fuel, clothing, etc.).

The combined initiatives could result in higher ownership demand and potentially higher construction activity in larger metropolitan areas such as the GTA, and may in turn result in higher assessment growth and development charge revenue for growing municipalities such as York Region.

To provide more affordable rental options for middle class Canadians, the budget proposes an additional \$10 billion over nine years in financing through the Rental Construction Financing Initiative, extending the program until 2027–28. The program focuses on areas with low rental supply.

The program began in 2017 and is delivered by CMHC. It provides low-cost loans to encourage the construction of rental housing where the need is clearly demonstrated. The budget identifies “Canada’s largest cities” as having a demonstrated need, but does not provide specifics. However, given the low rental vacancy rate in the Region, staff anticipate that the Region would qualify.

To help municipalities grow housing supply, the budget proposes \$300 million to launch a new Housing Supply Challenge. The program would invite municipalities and other stakeholders to propose new ways to create housing. The merit-based program aims to provide resources to find solutions to enhance housing supply. Further details will follow by summer 2019.

To prevent and reduce homelessness, the government will launch the \$2.2 billion Reaching Home program on April 1, 2019, with the goal to reduce chronic homelessness by 50%.

- The budget did not include details on the funding distribution or eligibility for the Housing Supply Challenge or the Reaching Home program.

### **Additional funding for infrastructure and asset management (pages 80-87)**

Budget 2019 proposes a one-time transfer of \$2.2 billion through the federal Gas Tax Fund to address short-term priorities in municipalities and First Nation communities. This will double the commitment to municipalities in 2018–19.

The budget includes \$1.01 billion to increase energy efficiency in residential, commercial and multi-unit buildings, delivered by the Federation of Canadian Municipalities (FCM) through the Green Municipal Fund. The funds will flow to FCM in 2018-19, and will be allocated to three initiatives:

1. Collaboration on Community Action (\$350 million) – to provide municipalities and non-profit community organizations with financing and grants to retrofit and improve energy efficiency;

2. Community EcoEfficiency Acceleration (\$300 million) – to provide financing for municipal initiatives to support home energy efficiency retrofits; and,
3. Sustainable Affordable Housing Innovation (\$300 million) – to provide financing and support to affordable housing developments to improve energy efficiency in new and existing housing.

The government will not keep any direct proceeds from the federal carbon pollution pricing system (the carbon tax). Most of the proceeds will be distributed to households in the form of a rebate. The budget announces the government’s intention to introduce legislation to allow any remaining proceeds to be directed to municipalities, universities, small-medium sized businesses, hospitals, schools, colleges, non-profits, and Indigenous communities.

The budget reaffirms the 12-year, \$180 billion Investing in Canada Plan that was announced in 2016 to provide infrastructure in communities across Canada. The second phase of the plan includes \$81.2 billion in long-term funding for public transit, green infrastructure, social infrastructure, and infrastructure that supports trade and transportation, as well as rural and northern communities. However, the pace of spending has been slower than originally anticipated.

The federal government is working with provinces and territories to accelerate projects under their bilateral agreements, including taking steps to streamline the process to prioritize projects for funding and improve financial reporting. The Rural and Northern Communities Stream and the Public Transit Stream for municipalities outside of the Greater Toronto and Hamilton Area were launched recently. (In June 2018, Council approved an approach to using the Public Transit Stream funding, in anticipation of the program’s launch for York Region in 2018 Q4.)

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