Fedeli **Focus on Finance**

2017 Budget: Pay more; get less

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Ontario

Vic Fedeli MPP DÉPUTÉ
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2017 Budget: Pay more; get less

The 2017 Budget is more proof that Ontario families will continue to pay more and get less.

While the government has announced that they have 'balanced' the budget, this is far from reality. Readers of this *Focus* series have known for months, if not years, that there would be no balance. The once-confidential Gas Plant Scandal documents were very clear, in the Ministry's own words – "the government is not on a path to balance." And that was before the deficits took a further move south under our current Premier. Then all of a sudden, the Province's fortunes shifted, to the tune of billions of dollars. But before you look for any kind of spending controls to make that shift, look again at the 'special' revenue.

The government started adding 'Asset Optimization' funds each year – billions of dollars worth. In 2014 it was $1.1 billion, which included the sale of their GM stock – straight into revenue. In 2015, another $1 billion – all from one-time asset sales; straight into revenue. 2016 was a banner year, where they booked an additional $2.2 billion over the 2015 forecast. The budget states this was "…due to higher revenue from asset optimization in 2015-16" which consisted primarily of revenue from the sale of Hydro One shares. They also received $800 million more in land and sales taxes "due to Ontario's strong housing market."

In this budget, they have "overachieved" as the Finance Minister so frequently tells us. Only, a significant amount of the revenue bump is from one-time sources. It starts with a $1.5 billion increase in infrastructure revenue from the Feds. This is traditionally a $100 million fund, but the Feds. are investing in infrastructure, so this is a temporary bump. Land Transfer Tax is also up a further $400 million this year (it was up $600 million last year). One-time asset sales are up $1 billion. New this year we see $1.8 billion in cap-and-trade tax added straight to revenue. And finally, $500 million is booked from the Teachers' Pension Plan, even though the Auditor General said she would not allow it.

Add up the real one-time funds, and there is a $5 billion hole in the budget. We have a structural deficit. We spend more money every year, than we take in. The Financial Accountability Officer's chart (lower left) bares this out.

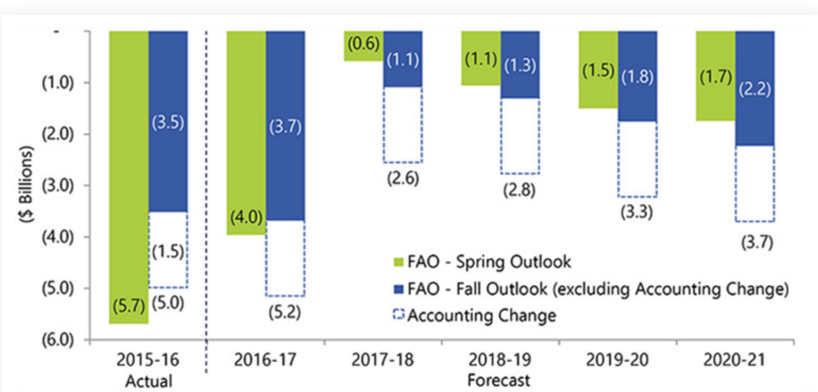
You will hear the government say that the funds from the sale of Hydro One and from cap-and-trade will go into the Trillium Trust and be used for infrastructure. On the surface, they're correct. But they slipped ONE sentence into each of those Bills to give themselves an out. Bill 144, which facilitates the sale of Hydro One, has a great line in Schedule 22, Section 7, Paragraph 2, which states …"to reimburse the Crown for the expenditures incurred to fund costs relating to infrastructure." I printed this quote in the June 2015 issue of *Focus* …

"A reasonable person might wonder why we need to sell most of a significant public asset, just to keep doing what we have been doing for years. The real answer, I suspect, is that putting some billions of new money into the province's transit trust will enable the government to quietly shift existing money to help it reduce the deficit or pay for other spending".

- Ottawa Citizen, April 22, 2015

And that is indeed what Schedule 22 allowed the government to do – put the sale money into infrastructure, and take the money already budgeted for that infrastructure and apply it against the deficit.

It worked so well for the sale of Hydro One, the government did it again with the revenue from cap-and-trade. Bill 172, which facilitates the cap-and-trade deal, does this in Schedule 68, Section 2, Item 3, which states … "to reimburse the Crown for expenditures incurred for transportation, public transit vehicles, and infrastructure." Again, they put the revenue into infrastructure, and take the money already budgeted for that infrastructure and apply it against the deficit. There you have it – an easy way to tell the people one thing, when the real intent is completely different.



The Finance Minister also announced that not only are they balancing this year, but next year, and the year after that one too! I mention this because the budget book only forecasts to 2017-18. There are NO numbers beyond that. Even last year's budget went out to 2018-19, which means this year's book is missing 2 years of forecasts normally included.

The reasons become more evident as you read deeper into the book. Ontario's economic growth is forecast to fall from 2.7% to 2.3% this year and down to 1.7% in 2020. Our employment growth will fall to .9% in 2020. Job creation will tumble from 94,000 jobs next year to 66,000 in 2020. And housing construction starts are scheduled to slide from 75,000 in 2016 down to 68,500 in 2018. All these affect revenues – so it's best just to ignore putting any future revenue numbers in the book! The book itself is about 70 pages shorter than previous versions and is chock full of colour photos. It appears to be more of an election-positioning budget rather than a financial document.

By the Numbers

Total program spending is up $6 billion, to a record $141 billion.

Interest on the debt rose, from $11.2 billion to $11.6 billion.

Debt has increased from $302 billion in 2016-17 to $312 billion in 2017-18. It is projected to increase to $323 billion by 2018-19 and $336 billion by 2019-20. Incidentally, debt was $139 billion when this government took over in 2003.

Why does Balancing Matter?

The Auditor General devoted considerable space in her 2014 and 2015 Annual Reports to Ontario's growing debt burden. This debt has significant implications in your day-to-day life. Specifically, Auditor Bonnie Lysyk wrote "The negative impacts of a large debt burden include debt-servicing costs that divert funding from other programs." This is why we're seeing 1,500 nurses fired in Ontario. My own local hospital in North Bay has seen 388 frontline healthcare workers fired in the last five years – and that includes 100 nurses. This is exactly what the Auditor was referring to – and exactly why you should care whether the government runs a balanced budget or not.

In her 2015 Report, the AG instructs the government to provide "long-term targets for addressing the current and projected debt" and to "develop a long-term debt-reduction plan outlining how it will achieve its own target of reducing net debt to GDP from its current 39.5% to the (Premier Harris era) ratio of 27%." As mentioned above, Ontario's debt has ballooned to $312 billion – up from the $285 billion it stood when the Auditor gave her last warning.

Major Budget Announcements

A **children's pharmacare** program will begin January 2018 and provide drug coverage for all people aged 24 or under. Despite this being their signature budget item, there is only one page devoted to this in the budget, and there are NO financial details included. In fact, it is not mentioned anywhere whatsoever in Bill 127, the actual budget Bill. It will have to be brought up by separate legislation. Ministry officials released that it will cost $465 million/year and will be funded through the Ontario Drug Benefit. When the Minister was asked why no details of this signature plan were in the budget, he simply answered "You can't put everything in the book."

There will be a $7 billion increase in **healthcare funding** over the next three years. This includes $1.3 billion for wait times and $518 million in hospital operating funding, about a 2% increase. As well, there will be $9 billion over 10 years for major hospital projects as part of the existing infrastructure spend.

Out of the **Community and Social Services** budget will be $480 million over four years to raise asset limits, increase income exemptions for cash gifts, and provide a 2% increase to Ontario Works and Ontario Disability Support Program recipients. There's $677 million over four years for adults with developmental disabilities including additional residential placement programs and increasing access to the current Passport Program.

The **Guaranteed Basic Income** pilot program will run for three years in Thunder Bay, Hamilton, and Lindsay, at a cost of $50 million each year.

There were 24,000 **daycare spaces**, as part of the plan for 100,000 spaces previously-announced in the Throne Speech, at a cost of $3.75 billion.

School repairs and renewal will add $1.2 billion over the next two years. There is $21 million over three years in services for youth-in-care, including transportation services so they can stay at the same school. There are 40,000 new work-related placements for students at a cost of $190 million over three years. And recent graduates will not have to start repaying the provincial portion of their OSAP loans until they start making $35,000.

The **infrastructure** budget has been increased to $190 billion over 13 years from $160 billion over 12 years. So there's a further $30 million for the year 2030! In addition, there is $80 million committed over five years for an Autonomous Vehicle pilot.

In addition to the usual *sin* taxes, the government will allow municipalities to levy a Hotel Tax. All of the service fees will rise, bringing in a further $100 million. Last year's budget allowed for automatic increases, so they no longer need to be listed annually – and they now applied that same treatment to the sin taxes, so you won't be hearing about them next year.

What's Not in the Budget

What you won't see accounted for is the so-called 25% reduction of hydro bills. Recall from last month's *Focus*, the plan has four major components: refinance the Global Adjustment (GA), adding an additional accumulated debt of about $28 billion; enhance consumer rebates, at a cost of $905 million, plus the $1 billion required from the tax base to pay for the 8% HST rebate; lower the Industrial Conservation Initiative threshold, with the cost to the ratepayers yet to be calculated; and find efficiencies in the market, to save at least $200 million per year, starting in 2021. As disclosed last month, the government has co-opted OPG into their scheme, so these liabilities don't show up on the province's books. This is inappropriate and risky for OPG.

Conclusion

It was sad to watch the charade unfold, where the government tried to claim they have balanced the budget, when clearly they haven't. They have provided a set of numbers that only add up through the use of one-time revenue. Because of that, it's clear that we are running a structural deficit. In addition, Ontario remains the largest sub-national debtor on the planet, and there is no plan to tackle our growing debt.

Key Questions

Will the government admit there's a $5 billion hole in the budget?

Will the government immediately put in place a plan to tackle the debt?

Will the government present the short-term revenue and expense projections, missing from the 2017 budget?

Similar stories of waste, mismanagement, and scandal are disclosed in my newest book, **Focus on Finance 3**.

Please go to **www.fedeli.com** to download your own copy of the book.

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Vic Fedeli MPP DÉPUTÉ
NIPISSING

Constituency Office:
165 Main Street East
North Bay, Ontario P1B 1A9

Tel: **705-474-8340**
Fax: **705-474-9747**
vic.fedelico@pc.ola.org

www.fedeli.com

Queen's Park Office:
Room 347, Main Legislative Building,
Queen's Park
Toronto, Ontario M7A 1A8

Tel: **416-325-3434**
Fax: **416-325-3437**
vic.fedeli@pc.ola.org