# Memorandum

the gandalf group

To: Ali Ghiassi, Ontario Finance
From: Alex Swann
Date: March 17, 2017
Re: Pre-Budget Focus Group Research Findings

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This is summary note based on 8 focus groups held last week with the general population with a skew towards 'Involved' citizens who tend to follow public affairs. Seven to eight participants attended each group. Groups were held:

- in Mississauga on March 1
- in Kitchener on March 2
- In Ottawa on March 7
- In North York on March 9

The province's Fair Hydro Electricity plan announcement was made on the morning of the 2nd so we could have unaided and aided discussions about that announcement (starting on the 1st, with respondents knowing a little more about the announcement in subsequent groups after the 2nd).

NB These findings cannot be projected to be representative of the general population the way survey research can. However, these do provide an early indicator of how to manage the language around key issues.

**Economic Assessments**

- Few focus group participants were of the view that Ontario's economy was doing well.
    - Few expect the province as a whole will be much better off in a year or two.
    - Some, particularly in Kitchener and Ottawa, mentioned that sectors such as technology or real estate were doing well, while the rest of the province's economy was doing relatively less well.
    - None were hopeful about the potential of the US economy will to lift Ontario's – many were concerned about the destabilizing impact a Trump administration could have on trade.
- The critical indicator of a poor or weak economy is a lack of confidence in the job market. This encompasses 1) the perceived absence of jobs, particularly for young people; and 2) unfair compensation in terms of pay, security, and benefits.
    - There is a generalized sense that what job creation has occurred has created part-time positions or jobs that do not pay well.
    - As we have observed over time, the lack of jobs for young, educated Ontarians is particularly concerning. It symbolizes eroding opportunity in the province.

  - Participants mentioned that employers are less likely nowadays to offer benefits and that this is an area where government could offer more support. Of particular interest was helping with additional healthcare costs, such as dental or prescription drug plans.
  - When presented with jobs and GDP statistics released by the province on Feb. 21, few said those statistics improved their impressions or meant that wages and quality of employment was improving. They do not reflect their lived experiences.
- Related to this was a notable sense that cost of living increases were eroding wages.
  - Top of mind in the GTA and Kitchener, and to a slightly lesser extent in Ottawa, is that notably increase in the cost of real estate having risen dramatically of late. Inflation relating to the cost of food was top of mind
  - Only two participants out of four groups recalled or mentioned the province's "cap and trade" system.

**Financial Assessments**

- Very few participants were aware of the provincial government's improving fiscal situation. This is not a topic many appeared to have given a lot of thought or notice to. Given what they believe about the economy, it is perhaps understandable that so many stated that the Ontario government's finances are likely not improving. Given the lack of attention or awareness to this topic, this was not an easy subject for participants to engage in – even among Involved citizens who tend to follow public affairs.
  - Most all assume the government has accumulated lot of debt. Most assume it is running a deficit yet many were unsure of how or why they knew this.
  - No participants were aware that the province has announced it is on track to balance its books. Many believe that is unlikely; others are unsure.
  - Only one participant noted the government's announcement on the 21st of February that the province's deficit was $1.9 billion. He assumed however that this was a projection for next fiscal year.
  - On its own $1.9 billion sounded to many in the groups like a large shortfall for the government, meaning there was also some concern about cuts or tax increases required to get to balance.
  - Some participants thought a deficit of $1.9 billion was less than they had assumed the government's shortfall would have been for the current yet. Yet most others have no reference point to be able to whether this number was relatively large or small or suggestive that the province is close to balance. Most were simply unsure. It takes substantial, aided discussion (with reference to

previous budget shortfalls of $10 billion and $4 billion in recent years) to give a sense of how likely it is that the province's deficit is close to budget.
    - E.g. In Ottawa, participants were shown a graph of the government's deficit reduction path over the past four years. This was completely new information to participants, and was viewed very positively. One participant remarked, "now that's what they should be bragging about!" It wasn't met with much skepticism. It was simply new information.
- Absent an aided discussion of how close the province is to balance, a commitment to a balanced budget is met with a lot of skepticism. Many assume this is a political axiom, a kind of pre-election promise and the kind of thing politicians feel they should strive for but likely fail to meet.
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    - Some participants mentioned that they have never heard the provincial government discuss either the prospect of balancing the budget in the short term, or that this is even one of their long-term priorities. Some participants mentioned that they frequently hear about new or improved programming or investments that require funding, but they have not observed cuts in other areas that would be required to reduce total spending.
    - There was very little buy-in to the argument that a balanced budget would be made possible because of an improved economy, given how they perceive the poor performance of the economy.
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- Because of this perception, it was difficult for many to articulate what a balanced budget would mean for the province and what it would make possible.
    - A few were concerned about tax increases or spending cuts that would be necessary for a balanced budget, negating what they felt would be optimal for the province.
    - Others were hopeful that fees for government services could be decreased or that the province could spend on value programs, such as health care.

Key Takeaway

A budget speech offers the possibility to provide audiences not simply with a promise but with proof – i.e. with a detailed narrative to explain how and why the government believes it can commit to a balanced budget. Showing clear and significant annual increases in revenues, combined with clear and significant decreases in the size of the annual deficits could help more citizens trust the math as well as understand that economic growth, rather than drastic measures, can do much of the work to get to balance from this juncture.

This is essential before the government can make credible claims to what will be possible with a balanced budget. Absent this detail, any doubt about the province's fiscal situation will create doubt about any related budget announcements about its ability to afford promises to spend or make life more affordable for citizens.
With this sort of detail, citizens can in turn look forward to a different approach in spending or taxes.

**Government Assessments**

- Participants are mostly not familiar with the government's priorities of late, except for electricity prices and to a lesser extent tuition assistance.
    - Electricity dominated the policy frame through which participants assessed the government's activity of late.
    - Few are expecting a budget that will deal with any issue beyond electricity, which some participants assumed would be addressed in the budget. Even in groups on March 2nd there was only modest unaided awareness of the electricity announcement of earlier in the day.
    - Many would like to see cost of living, health care, affordable housing, or education addressed in a budget. These themes were mentioned somewhat more often than other responsibilities when participants were asked to suggest key themes for the budget.
- Few knew much about the government's larger infrastructure plan and its overall scale or ambition, but participants in groups in Mississauga, Ottawa and Kitchener could point to recent investments in transit in their communities that signaled governments were investing and improving infrastructure. Many of those participants were of the view that transit services were improving but still need further improvement in the GTA and in Toronto in particular.

**Targeted Initiatives – Fees, Taxes, Programs and Affordability.**

- Participants were provided with a full list of things the government has announced to help make life more affordable, including in respect of electricity. A few notes about reactions to this:
    - Many had not heard of certain or most of these fee or cost reductions: e.g. Drive Clean. Few were aware the government had acted on auto insurance or child care.
    - Many will not be able to benefit in the short run or directly from certain programs: e.g. if they do not drive or have children.

    - Somewhat more were aware of assistance for tuition through OSAP – this has been noticed and it seemed that this was the one item that participants were most attracted to, including but not limited to students and parents.
    - Ultimately, it seemed credible to participants that the government was trying to help with cost of living, not just because of the number of items listed but because of recent action on electricity.
- Few have a good sense of how high personal or corporate income taxes are in the province, relative to elsewhere.
    - Many assumed high income earners pay more than others when it comes to personal income tax. They were less certain about corporate income taxes.
    - There was a clearer sense that whatever the tax rates are there are substantial loopholes or tax credits and expertise available to help corporations and high income earners avoid paying a full share of taxes. A small number of participants mentioned this in each group.
    - There is ambivalence about raising taxes, particularly when it comes to corporate taxes. It is assumed by a few in each group that costs would be passed on to consumers or lead to job cuts. Alternatively, companies could look to other jurisdictions to bring their costs down.
    - One tax that most assumed was high was the overall tax on cigarettes. This did not prevent some of those same participants who said this that taxes could be raised further, while some others (notably smokers or those who knew about the availability of cigarettes sourced from on reserves) questioned how much more taxes could be raised.

**Electricity**

With news breaking in the media on March 1st about a move by government to reduce bills by 25%, we could discuss this with participants in all groups. Some observations:

- If people hear about or are told about the 25% reduction in electricity bills without being told how the government is achieving it – i.e. the amortization process – the announcement or plan seemed unbelievable. I.e. some in each group assumed it's not feasible to reduce bills by that amount and if it was feasible it raises a more difficult question about why the government was charging so much for electricity all this time?
- When people learn about the amortization, it allows more of them to believe reductions in bills are possible in the short-term because they have proof of the mechanism that makes this possible, even if costs will be higher in the long run.
  And precisely because of the long-term horizon of the amortization some participants were somewhat reassured that this was not a promise that government would go back on later.

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From others, however, we heard that this announcement sounded very much like a pre-election gambit and as such it was greeted with skepticism the government might abandon this promise after the election. Some others criticized the fact that this will cost rate payers more in the long run. Some who said this were unconcerned about the current price they paid for electricity.

- Yet event those who were critical about the long-terms costs of amortization, but none believed or suggested an alternative route to reducing costs in the short run.
- We heard some express the view that they didn't need the help on their bills and some of those individuals were in a position to criticize the long-term cost of this move. But most felt that rate payers needed assistance and some said they needed a reduction of the kind announced.
- Another concern with the amortization (expressed by some in most groups) was that this will be a better or worse plan for rate payers depending on the kinds of interest rates the government will be able to negotiate in future. I.e. some hoped that the long-term costs could be maintained if this was well managed or if interest rates remain low.
- Interestingly, few made the connection between this amortization and the government's debt or deficit.
- We heard some concern on both nights that the felt the government was exaggerating the benefit by saying it amounted to 25%. A few participants over the course of the groups thought the government should be announcing 17% in addition to the 8% already announced.
- For the few who are concerned about why future generations are being forced to pay or why costs are spread out at great expense, it took a great deal of argumentation to inform them of how the generation contracts and infrastructure being financed will last for so long that it is fair to ask future generations to pay for an asset they will use. But this argument is not obvious. Few have any sense of what assets have raised costs however so this is detailed information people would need before they would make this connection. Cancelled gas plants are at least as top of mind as energy generation contracts or refurbishments that the government has approved and contracted for.