Memorandum

the gandalf group

To: Ali Ghiassi, Ontario Finance
From: Alex Swann
Date: March 6, 2017
Re: Interim Research Findings

This is an interim, preliminary note based on four focus groups held last week with the general population (including a skew in half of groups towards the 'Involved' citizens who tend to follow public affairs). Seven to eight participants attended each group with each lasting between 80 minutes and 105 minutes. Groups were held in Mississauga and Kitchener on March 1 and 2. The province's electricity plan announcement was made on the morning of the 2nd so there was little to no familiarity with the announcement. We were able to have unaided and aided discussions about that announcement on the 2nd. More groups will be held in Ottawa this week on the 7th and in North York on the 9th, in order to pursue these and other issues.

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.

Key Findings

1. Few believe the provincial, Canadian or even US economies are doing well. Many believe pay and the quality of new jobs are not helping Ontarians to keep up with inflation.
2. There is a fair amount of skepticism around any promise to reduce electricity. However, the "amortization" explanation for how government intends to reduce rates by 25% is arguably key to making this credible, even if it's something that can be critiqued.
3. It's difficult for people to know why future generations would be asked to pay until they're told about the assets and generation that is at issue and that will provide power for many years. This is less obviously intuitive but with a detailed discussion it can be explained or understood to some extent.
4. The tuition rebates government has provided are reasonably well known and to many seemed like a positive direction for government. There is also interest in seeing the government improve health care and long term care as a key piece of a budget.
5. In terms of how the government is working to make life affordable, the tuition rebate and the electricity announcement are best known, and arguably the most valued; while significantly fewer knew about other steps government has taken, e.g. "Drive clean" etc.
6. None in these groups had the sense that government was on track to balance. Few believe this will be easy to do.

7. It is difficult to have a conversation about how Ontario will be better off with a balanced budget in so far as some feel tax increases and or cuts would be necessary to eliminate the deficit. Few believe the economy is growing fast enough to push Ontario from a $1.9 billion shortfall to balance in as little as one year.
8. Therefore, it's critical to establish that the province's improved financial position is a *fait accompli*. The fact that the budget deficit for this year is only $1.9 billion or below what had been projected is not enough to convey that that the government is on track. Citizens have very little context or frame of reference to assess this.
9. A budget speech offers the possibility to provide audiences with a detailed narrative frame to explain how and why the province believes it can commit to a balanced budget. Arguably, that speech and supporting communications should not simply announce a balanced budget but explain in clear terms why people can believe that the budget will be balanced: e.g. showing the kind of annual increases in revenues that the growing economy can provide, combined with an illustration of annual decreases in the deficit, could help more citizens trust the math, so that they can see that economic growth, and management (and not temporary accounting manoeuvres or the one-time sale of assets) is responsible.
10. This is essential before the government can make credible claims to what will be possible with a balanced budget. Absent this, 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.

Economic Assessments

- Few focus group participants were of the view that Ontario's economy was doing well.
    - None believe the economy has worsened of late but few expect the province will be much better off in a year or two.
    - Some, mentioned that certain sectors such as technology or real estate sectors were doing well. But those were deemed exceptional within the larger provincial economy.
    - None were hopeful about the potential of the US economy will to lift Ontario's – many are concerned about the destabilizing impact a Trump administration could have on trade and other things.
    - When presented with jobs and GDP statistics released by the province on Feb. 21st, few said those improved their impressions or were proof that wages and quality of employment were improving. There is a sense that what job creation has occurred has created part-time positions or jobs that do not pay well.

- Related to this was a common sentiment expressed in all group that cost of living increases were eroding earning/buying power, especially with respect to housing, mortgages, food and gas.
    - Top of mind in both cities was the cost of housing having risen dramatically of late. Also noted by a small number were new mortgage rules that some believe will keep them and young people from being able to own their own homes as previous generations have.
    - 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 province's improving fiscal situation or deficit. This is not a topic many have given a lot of thought about. 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.
    - Most all assume the government has a lot of debt and most assume it is running a deficit.
    - No participants were aware that the province has announced it is on track to balance its books next year. Many believe that is unlikely; others were unsure.
    - Only one participant had 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.
    - Some participants thought that the $1.9 billion deficit figure (when introduced to the discussion) was better than they assumed the deficit would be, but most others have no reference point to say that. Most all were not of the view that even with such a shortfall that the government was close to balance. It takes substantial aided discussion, with reference to previous budget shortfalls of $10 billion and $6 billion in recent years, to give a sense of how close the government is to balance.
    - On its own $1.9 billion sounded like a large shortfall for many in these groups and some in each group assumed or were concerned about program cuts or tax increases required to get to balance from such a shortfall position.
- A commitment to a balanced budget is met with a lot of latent skepticism. Many assume that this is a political axiom, or a pre-election promise, and the kind of thing that all governments say is the right thing to do but likely fall short of.
- 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.
- Others were hopeful that fees for government services could be decreased or that the province could spend on value programs, such as health care.

Government Assessments

- Participants were mostly not familiar with the government's priorities, except for electricity prices and to a lesser extent tuition assistance.
  - Few are expecting a budget that will deal with any particular issue beyond electricity, which some participants assumed electricity would be the centerpiece of 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 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 infrastructure plan but some participants in each group (in both Mississauga and also Kitchener) could point to recent, meaningful investments and improvements in transit in their communities.
  - They were of the view that transit services were improving but still need further improvement in the GTA and in Toronto in particular.
  - In Kitchener, most all were familiar with the light rail project in that community and in Mississauga several mentioned Transitway improvements and connections to GO Transit.

Targeted Initiatives – Fees, Taxes, Programs and Affordability.

- Participants were provided with a full list of things the government has announced in order to help make life more affordable, including in respect of electricity. A few notes about reactions to this:
  - Even when presented with this list, many had not heard of certain or most of the fee reductions or affordability initiatives per se: e.g. Drive Clean fee elimination. Few were aware the government had taken action on auto insurance or child care.
  - Many will not be able to benefit in the short run or directly from certain of these in any event: 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 students and parents.
    - Finally, when presented with this list, it seemed credible to participants that the government was trying to help with cost of living. Absent these details or reminders, they may be far less likely to believe this. But in short there could be some openness to the idea that this government is in fact working to do this. It was not incredible.
- 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 would be paying more than others when it comes to personal income tax. They were less certain about corporate income taxes and whether the burden on companies (not including small businesses) is especially high.
    - There was more of a sense that whatever the tax rates are there are substantial loopholes, credits and expertise available to help corporations and high income earners avoid paying a full share. A small number mentioned this in each group.
    - There is ambivalence about raising taxes, particularly when it comes to corporations (not including small businesses). It was assumed by a few in each group that higher rates would be passed on to workers or consumers if corporate rates were to rise. Alternatively, companies could look to other jurisdictions to bring their costs down.
    - One type of tax that most assumed was high was the overall tax on cigarettes. This did not prevent some who said this to say those taxes could be raised further, while some others (notably smokers or those who knew about the availability of cigarettes sourced from reserves) questioned how much more taxes could be raised.

Electricity

- With news breaking in the media on March 1st about the likelihood of an announcement by government to reduce bills by 25%, we were able to discuss this initiative with both 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 plan lacked credibility to some. E.g. it's assumed that it's not feasible to reduce bills by that amount and if it was feasible why was the government charging so much for electricity all this time?

  - When people learn about the amortization, it allows them to believe that reductions in bills are possible in the short-term because they have proof of the mechanism that makes this so, even if costs will be higher in the long run.
  - 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 soon – i.e. there's a long-term plan.
  - Others however said that this still sounded like a pre-election gambit.
  - Some may have been critical about the long-terms costs of amortization, but none believed or suggested an alternative route to reducing costs in the short run.
  - Some said they didn't need the help on their bills and in turn some of those who said this 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 personally needed the reduction of the kind announced.
- The top concern with the "amortization" is that this will be a better or worse plan depending on the interest rates the government will be able to negotiate. Some expressed the concern that the long-term costs could be mitigated somewhat if this was well-managed or if interest rates remain low.
- Interestingly, few if any made the connection between this amortization costs and the government's debt or deficit.
- We heard some concern on both nights that they felt the government was exaggerating the benefit by saying it amounted to 25%. A few participants said the government would be more accurate to say it was 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 some argumentation to explain that the infrastructure being financed will last for so long it might be fair to ask future generations to pay those assets, if they will benefit from them. But this argument is not obvious. Few had any sense of what assets have raised costs so this is detailed information people would need. Cancelled gas plants are at least as top of mind as energy generation contracts or refurbishments the government has contracted.

For any questions about this interim report, please feel free to contact me at swann@gandalfgroup.ca or 416-644-4125.