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Subject: Queen's Park Update: Special Edition

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Special Edition: March 28, 2018

Welcome to the Budget Day edition of Navigator's Queen's Park Update. We have put together a summary of what was included in today's budget release and Managing Principal Mike Van Soelen offers his perspective on what today's budget means for the Liberals leading up to the provincial election.

Ontario Provincial Budget

Today, Ontario's Minister of Finance Charles Sousa tabled his seventh budget with the looming June 7 election date quickly approaching. This budget aims to showcase the Wynne Liberals' progressive values while presenting Ontario's voting public with a clear choice between investments in care and an alternative that would slash voter-friendly initiatives.

Ontario's economy is growing, but people's lived experience shows parties of all stripes have significant work ahead to address affordability and stability in our current period of rapid economic change.

This budget's signature measures include a historic investment in licensed childcare for children aged two and half to kindergarten, a hefty focus on mental health and addiction services, and free prescription drugs for people 65 and over – all of which puts the government in the red.

The budget's $20.3 billion in new spending over three years will put the government on a path to six straight deficits, starting with $6.7 billion in the upcoming fiscal year, and adding $31.9 billion to the province's debt. To help offset in some small measure, the government is simplifying tax brackets and eliminating Ontario's personal income surtax. Ontarians earning more than $95,000 in taxable income will see a modest increase, paying approximately $168 more per year. The changes are expected to increase revenues by $275 million over the next year.

Here's what you need to know:

Healthcare

It's clear healthcare investments are the cornerstone of this budget. Acknowledging systemic capacity issues that come with an aging population, the budget commits an additional $822 million in the coming year for hospitals. This builds on the province's $19 billion commitment over ten years to build and renovate hospitals.

The government's new Ontario Drug and Dental Program will bridge the gap and reimburse up to 80 per cent of eligible prescription drug and dental expenses for those without workplace benefits or other government programs. Mental health and addictions funding was also boosted by an additional $2.1 billion over four years.

As the most reliable demographic of voters to show up to polls on election day, this health care package targets seniors through various initiatives. Highlights include free pharmacare for Ontarians over 65 years of age, a Seniors' Healthy Home Program that provides up to $750 annually to help seniors live independently, the commitment to 30,000 new long-term care beds and a $650 million home care investment over three years.

In addition to their relevance to seniors, these initiatives target sandwich-generation women, who make up a critically important part of the Liberal support base and are often tasked with caring forfamily members, including aging parents.

Technology and Innovation

Artificial intelligence is all the rage in this year's provincial budget. The Vector Institute will be receiving an additional $30 million to help support AI technology startups and generate investment from companies looking to hire experts and expand their AI footprint. Toronto-based AI accelerator NextAI will also be receiving $15 million over three years to help create new AI ventures with seed funding and mentorship. The government is further investing $50 million over the next decade in a new Transformative Technology Partnerships Fund to accelerate the development and commercialization of emerging technologies, such as quantum computing, artificial intelligence (AI), 5G capabilities, and autonomous vehicles. Finally, the province is creating a new Venture Technologies Fund and expanding supports within the Jobs and Prosperity Fund to better serve innovative startups and early-stage companies.

On other fronts, rural broadband, privacy, copyright and fintech are top of mind for the provincial government, similar to their federal counterparts. They announced a new funding commitment of $500 million over three years, including improvements to wireless service in Eastern Ontario and funds to support the development of a satellite network for remote communities. The province will be pursuing a native data strategy that will uphold the responsible use of publicly funded data generated in Ontario, while protecting the public interest. On copyright, an Intellectual Property Strategy will focus on supporting patent filings by Ontario innovators and educating innovators about intellectual property. Finally, the government expressed a commitment to making Ontario a global leader in fintech through the Fintech Accelerator Office and Launchpad sandbox initiative.

Energy

In addition to the government's efforts to lower residential hydro rates through its Fair Hydro Plan, Finance Minister Charles Sousa confirmed support for low-income families through the Affordability Fund was launched in October 2017. The Province's five-year Climate Change Action Plan also provides relief to residential customers through subsidies for home energy audits, retrofits and smart thermostats. Of course, all of these programs continue to be funded by proceeds from Ontario's cap and trade market, which linked with Quebec and California in January 2018. The government will also continue to provide hydro relief for businesses through the expanded Industrial Conservative Initiative and the Northern Industrial Electricity Rate (NIER) program, while dropping debt retirement charges for industrial, business and other electricity users as of April 1, 2018.

Financial Services

Budget 2018 proposes a series of new tools to beef up the Ontario Securities Commission (OSC)'s enforcement powers. The government would create new offence categories for those in breach of existing sanctions, while according the OSC the ability to automatically reciprocate certain sanctions imposed by other Canadian securities regulators. Further, the regulator would streamline both the administrative penalty process for first-time violators and information-sharing processes with other regulators. There is also an effort by federal and provincial securities regulators to establish a national securities regulator in the Cooperative Capital

Markets Regulatory System, which Ontario fully supports.

The province is creating a new Financial Services Regulatory Authority of Ontario (FSRA), a new financial services and pension regulator responsible for consumer, investor and pension plan beneficiary protection. It will be given new powers by the government to provide prudential oversight of insurance companies incorporated in Ontario and make rules requiring insurers to provide claims and repair-history information to used car dealers to share with prospective buyers.

Consumer protection continues to be a key focus in financial policies unveiled in this budget. The government is developing a new framework to regulate financial planners, with the release of a consultation paper this month. The government continues to work towards reducing auto insurance rates and reducing fraud in the industry through the implementation of the Fair Auto Insurance Plan. The government will also making legislative change to require credit reporting agencies to give consumers free bi-annual access to their credit scores, and in those reports, require disclosures to consumers about with which third parties they shared their credit scores in the last 12 months.

Child Care

Slated to begin in September 2020, the province will introduce free preschool child care for children from the age of two and a half to kindergarten, saving a family with one child an average of $17,000 during the time their child is enrolled in a licensed preschool program. The province will also inject an operating fund of more than $160 million that will help reduce costs and eliminate fee subsidy waitlists for infant and toddler care. Additionally, they have committed $534 million to build 10,000 more preschool child cares spaces in schools and 4,000 in other public spaces.

Affordable Housing

Given the outcry over housing prices recently, Budget 2018 touted the benefits of the Fair Housing Plan, including the non-resident speculation tax, stronger rules and standards for the real estate sector, an updated Growth Plan for the Greater Golden Horseshoe Area, and a plan to work with municipalities to increase housing supply.

The budget further includes an investment of more than $1 billion each year in affordable housing. The ongoing investment will help 6,000 families remain permanently housed as part of the government's goal to end chronic homelessness by 2025. The investment will be targeted to four priority areas: youth, Indigenous peoples, chronic homelessness, and those who are homeless following transitions from provincially funded institutions.

In addition, the province is working with Habitat for Humanity to establish a Build Factory in Burlington. The investment of $5.8 million over three years will be used to increase the supply of affordable housing for low-income families.

Mining

As part of their mandate to improve business competitiveness, Budget 2018 outlines support for developing the Ring of Fire. Ontario is committing up to $1 billion for strategic transportation infrastructure development to make the region more accessible to the local communities. Additionally, the government has expressed a commitment to sharing revenue from natural resource development with First Nation partners.

Cannabis

With just months until the federal government legalizes recreational cannabis,
the provincial government announced a series of initiatives on how it plans to support the safe and sensible framework surrounding the sale, distribution, consumption and possession of cannabis. Highlights include creating a Cannabis Intelligence Coordination Centre to shut down illegal storefronts, new funding for sobriety field tests, and creating a specialized legal team to support drug-impaired driving prosecutions.

To help with the implantation costs of legalization, Queen's Park will provide municipalities $40 million over the first two years through the Ontario Cannabis Legalization Implementation Fund. Should the government collect excise duty that surpasses $100 million in the first two years, the province will provide municipalities with 50 per cent of the surplus.

Despite the province entering into an agreement with the federal government which will see Ontario receive 75 per cent of the federal excise duty, Ontario is not expecting to see any profits until 2019-2020 due to the high costs of setting up Ontario Cannabis Retail Corporation locations across the province.

Insights | Budget and the Ballot Box

By Mike Van Soelen

Today's Ontario budget will be judged a success if it helps redefine the ballot question for Ontarians on June 7th.

Budgets are always political documents, but today's is even more so. The election is nine weeks away, the Liberals are trailing in the polls, and today's spending commitments are meaningless unless the Liberals prevail on June 7th.

Given it's a political document, it should be judged more on its communication value to the Ontario Liberal Party than on its economic merits. And the number one objective of this budget for the Liberals is to try to define the ballot question.

The purpose of all this spending - from free day care, to free prescription drugs, to increased funding on mental health services - is for the Liberals to introduce benefits Ontarians will find so appealing that come election day, they will vote Liberal to ensure they receive them. Without benefits that change the calculus for voters, the strong "time-for-a-change" sentiment we see in poll after poll will persist and the Liberals will lose in June.

The Ontario PC Party, however, wants to continue speaking to and for Ontarians who believe the province needs new leadership at Queen's Park. For them, it's about maintaining strong sentiments around the need for change and defining the ballot questions around themes of trust, good government and economic performance.

With a 15 year track record, the Liberals need people to go into the voting booth focused on protecting things that are important to them. By offering Ontarians every bauble they could ever imagine, the Liberals post-budget communications job becomes convincing Ontarians they have too much to lose by voting for change.

Whether the budget is a success or not may be determined sooner than later. Long weekends often play important roles in elections. They offer a break from people's daily lives (daily lives that aren't spent pondering the merits of government policy) and put them in conversation with family and friends. It's in the conversations over the spiral ham where opinions often get solidified, where undecided voters start to make up their minds, and where elections can be won or lost.

This Easter weekend comes far enough ahead of the election that it may not determine the June 7th outcome, but it certainly comes at the perfect time to settle whether Ontarians like the goodies in the budget and, perhaps, if they see the Liberals as uniquely able to guarantee their delivery.

It could sound cynical to say today's big spending budget is about buying votes. Maybe so, but it certainly is an attempt to change what Ontarians are voting for.

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