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# 2005 FEDERAL BUDGET

**The Finance and Administration Committee recommends that:**

1. **the presentation from Tony Haddad, Director, Business Planning and Budgets, be received;**
2. **the recommendation contained in the following report, March 2, 2005, from the Commissioner of Finance be adopted; and**
3. **staff continue to monitor Federal grant programs and report back to the Committee as necessary.**

## 1. RECOMMENDATION

It is recommended that:

1. This report be received for information.

## 2. PURPOSE

The purpose of this report is to provide summary highlights of the 2005 Federal Budget and the anticipated impacts on York Region.

## 3. BACKGROUND

The Minister of Finance, the Honourable Ralph Goodale, presented the 2005 Federal Budget on Wednesday, February 23, 2005. This budget addressed four themes:

- A robust economy
- A secure social foundation
- A sustainable environment
- A sound fiscal framework

This budget addresses a variety of issues and includes a number of initiatives affecting municipalities, which have been addressed under the theme of Sustainable Environment and Communities.

The 2005 Federal Budget proposes to deliver on the Government's New Deal for Cities and Communities commitment by:

- Providing municipalities with a share of gas tax revenues
- Renewing existing infrastructure programs as necessary
- Increasing contributions to the Green Municipal Funds

Municipalities have been anticipating that the 2005 Federal Budget would provide further information on the federal promise announced in 2004 to share gas tax revenues. The development of a New Deal is based on the following principles that:

- Provides municipalities with long-term, reliable and predictable funding
- Ensure equity between regions and between large and small communities
- Respects jurisdiction by harnessing the roles and responsibilities of each order of government
- Builds intergovernmental partnerships
- Sets shared objectives and reports regularly to Canadians on common outcomes

## 4. ANALYSIS AND OPTIONS

Financial analysis and impacts will be determined following receipt of guidelines and further details relating to the budget announcements. These will be reflected in the development of the 2006 business plans and budgets, as many of these initiatives are expected to commence, impacting York Region in 2006 and subsequent years.

## 5. FINANCIAL IMPLICATIONS

Areas of particular interest with an impact on York Region, relating to the budget announcements are outlined in the following sections.

### 5.1 Federal Gas Tax

Beginning in fiscal year 2005–06, the government will transfer 1.5 cents/litre which will increase to 5.0 cents in 2009-2010. This will represent approximately $600 million in the current fiscal year and approximately $2 billion when fully implemented in 2009-2010.

The following table indicates the planned phase-in for this revenue sharing initiative:

**Table 1**
**Funding Profile for Gas Tax Sharing**

| Fiscal Year | Funding ($ millions) | Share of Gas Tax (cents / litre) |
|---|---|---|
| 2005-2006 | 600 | 1.5 |
| 2006-2007 | 600 | 1.5 |
| 2007-2008 | 800 | 2.0 |
| 2008-2009 | 1,000 | 2.5 |
| 2009-2010 | 2,000 | 5.0 |
| **Total** | **5,000** | |

The federal government will negotiate bilateral agreements with each province and territory to ensure that the gas tax revenues are used strategically and in support of shared national outcomes. Complementary actions by all partners will be required, including annual reporting to Canadians. It is currently unknown when in 2005 these revenues will begin to accrue to municipalities and the methodology for allocations.

To ensure gas tax revenue allocation results in stable, predictable and equitable funding, the Government will allocate funds to the provinces, territories and First Nations on a per capita basis, with a minimum amount of funding assured for the smallest jurisdictions equal to 0.75 per cent of total funding, or $37.5 million over five years.

Funding will flow to provinces and territories, and they will make these funds available to cities and communities according to the terms of New Deal agreements being negotiated with each province and territory. Once agreements are signed, that will ensure the funds are received by municipalities promptly, and are targeted to sustainable development.

Eligible investments will include capital expenditures for "environmentally sustainable municipal infrastructure." Eligible projects will depend on the size of the community and the region. In each large urban centre, investments will be targeted to one or two of the following priorities:

- Public Transit
- Water and Wastewater
- Community Energy Systems
- Solid Waste

In smaller municipalities, eligible funding will be considered more broadly to provide flexibility to meet priorities. In all municipalities, some funds may also be used for capacity-building initiatives to support sustainability planning.

Assuming a commencement date of October 1, 2005, the impact on York Region includes certain assumptions, including allocation on a per capita basis and remains a best estimate at this time. Allocation formula determination for Ontario municipalities and the split between regional and area municipalities is undetermined at this time. The estimate of York Region's share of Federal gas tax revenues are illustrated below:

**Table 2**
**Estimate of York Region's Share of Federal Gas Tax Revenues**

| Fiscal Year | Annual $ (millions) | Cumulative $ (millions) |
|---|---|---|
| 2005 | 2.9 | 2.9 |
| 2006 | 11.5 | 14.4 |
| 2007 | 12.4 | 26.8 |
| 2008 | 16.2 | 43.0 |
| 2009 | 23.9 | 66.9 |
| 2010 | 38.2 | 105.1 |

### 5.1.1 Existing Infrastructure Programs

The budget contains a list of previously announced infrastructure initiatives that include the:

- Canada Strategic Infrastructure Fund
  - For projects greater than $75 million and require Provincial priority
- Municipal Rural Infrastructure Fund
  - For municipalities with populations less than 250,000
- Border Infrastructure Fund
  - For municipalities sharing an international boundary

The federal government intends to extend some of these programs as required on expiry. Gas tax revenues are expected to be in addition to and not a replacement of Infrastructure Program funding initiatives. Further details are expected to be included in future budgets.

### 5.1.2 Green Municipal Funds

The federal government established the Green Municipal Funds in 2000 with an initial endowment of $125 million, which was increased to $250 million in the 2001 budget. The Fund is operated by the Federation of Canadian Municipalities and supports investments in innovative green municipal projects such as the installation of deep water-cooling systems for commercial buildings, district energy systems, and more efficient water and wastewater treatment facilities.

Repayment of loans from these and other projects will provide the Green Municipal Funds with cash flow for further opportunities to fund innovative municipal projects. The funds have been able to leverage over $1 billion in municipal, provincial and private sector funding for environmentally sustainable infrastructure. Budget 2005 builds on earlier investments by contributing an additional $300 million in 2004–05 to the Green Municipal Funds.

York Region has received funding for energy management programs in prior years. Potential benefits for York Region under this initiative will be explored to determine qualification for further funding as details for this program are available.

#### 5.1.3 New Partnerships

The federal government is seeking ways to involve municipal governments in decision-making processes on national issues that affect their interests. A new Department of Infrastructure and Communities will be the primary contact point for municipalities. The government commits to seek further opportunities for dialogue with municipal leaders.

#### 5.1.4 Child Care

The 2005 budget reiterates the federal government's commitment to National Early Learning and Child Care initiatives, which include:

- Allocation of $5 billion over next five years to early learning and child care initiatives
- $100 million dedicated for the development of improved research and common evidence-based indicators and benchmarks
- $700 million to be shared with provinces on a per capita basis through 2006, the Ontario share estimated to be approximately $280 million
- An additional $3.4 billion allocated to the provinces from 2006 through 2010 in a similar fashion

Family & Children's Services has provided the following comments on Child Care:

This is the first indication of significant funding for national child care in a federal budget. The 2005 Federal budget included $700 million for child care in fiscal year 2005/06. Another $700 million is promised in fiscal year 2006/07 and $1.2 billion in each of the following three years.

The Federal budget will create a trust fund that provinces can draw on. Provinces will receive their share of the $700 million fund based on population. While the Federal government has not announced the provincial allocation, Ontario's share is expected to be $280 million in fiscal year 2005/06. The province has not yet announced funding allocations to the Consolidated Municipal Service Managers (CMSM's).

The provincial government has indicated its intention to use this federal funding to support Best Start, a 10 year provincial strategy commencing in 2005 designed to give children the best possible start and help them achieve success in school. The first priority of Best Start in 2005/06 is a major expansion of child care for children enrolled in Junior or Senior Kindergarten. This will be accompanied by a move from needs testing to income testing to determine eligibility for child care subsidy. These priorities are expected to increase access to regulated child care spaces as well as access to child care fee subsidy for residents of York Region.

It must be noted this federal funding will flow directly to the province and it is uncertain what restrictions/conditions the Province will put on this funding. In addition the Province has not advised CMSM's of the cost share arrangements for this funding.

#### 5.1.5 Housing

A commitment to renew and extend Housing Initiatives once they expire was indicated. The previous commitment was for $1.5 billion in funding over 5 years. York Region has received commitments for project funding for Armitage Gardens and Blue Willow Terrace.

#### 5.1.6 Other Budget Initiatives

- Allocated $41.3 billion to health care over the next 10 years to improve access and reduce wait times
- Additional $33.4 billion over 2004 equalization payments to provinces and territories over next ten years

## 6. LOCAL MUNICIPAL IMPACT

It is expected that all municipalities may realize benefits from the announcements contained in the 2005 federal budget. The actual impact will be determined based on further details relating to the respective programs and the degree of participation by local municipalities.

## 7. CONCLUSION

The initiatives announced in the 2005 federal budget will provide a variety of benefits to municipalities and in particular to York Region. As further details are released relating to these initiatives, we will be in a better position to assess their impact on York Region's programs and services.

The Senior Management Group has reviewed this report.