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2009 PROVINCIAL BUDGET

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report dated March 31, 2009, from the Commissioner of Finance.

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

The purpose of the report is to provide a summary of the 2009 Provincial Budget and the general provisions as they pertain to the Regional Municipality of York.

3. BACKGROUND

The Minister of Finance, the Honourable Dwight Duncan, presented the McGuinty government's seventh budget on March 26, 2009. As noted in the document, "the budget is intended to help Ontario families weather the economic storm" and "…aims to make Ontario's economy stronger and more competitive, so that when the prosperity returns, families and businesses benefit."

The budget addresses a range of issues and initiatives. In particular, the initiatives affecting Ontario municipalities are included in the following topics:

- Infrastructure Investment
- Tax Reform
- Social Assistance

York Region is expected to be impacted by a number of initiatives announced and these are highlighted below.

4. ANALYSIS AND OPTIONS

2009 Ontario Budget confirms the province will match federal infrastructure investments and offset additional total costs to the municipal sector related to the creation of a harmonized sales tax

Pending receipt of further details relating to the Provincial budget announcement, the following summarizes the impacts [as best determined at this time] of various initiatives on York Region.

Table 1
Provincial Budget Municipal Highlights

Details	Potential Impact
Infrastructure Investment	$32.5 billion in total Provincial funding over the next two years; including $5 billion flow through funding from the federal government. Some details have been announced previously, including more than $600 million in matching social housing investments as announced March 20, 2009
	Includes $6.8 billion over the next two years for “new short term stimulus investments”, the majority of which will be for municipal infrastructure
Social Housing	More than $700 million over two years to rehabilitate and improve energy efficiency
	More than $360 million to create affordable housing for low income seniors and persons with disabilities
	$175 million over two years to extend the Canada-Ontario Affordable Housing Program
Capital Investments in Northern and Rural Ontario	$273 million for new infrastructure projects
New Highway Projects	$219 million over six years for new highway projects in Southern Ontario
Investing in Communities	By leveraging federal funding, provide $780 million in new funds for municipal projects such as arenas, libraries and local transportation projects.
Pension Reform	The current economic downturn has affected pension plans. Proposed reforms will allow plan sponsors to spread solvency payments over a longer period. This will help reduce pressure on contribution rates in coming years and could result in savings to municipalities for the employer contribution under OMERS
Tax Reform	
Sales Tax Reform	Staring July 10, 2010 Ontario is moving to harmonize the federal GST and the provincial PST into a combined new rate of 13%

	Estimated the blended rate will reduce business costs by $500 million per year
	The government will provide up to $400 million in transitional assistance to businesses
	This change will be "fiscally neutral" to municipalities meaning that the municipal sector as a whole will not be paying any more sales tax as a result of the harmonization of these taxes, however, may not be neutral to individual municipalities
	The provision of the current federal GST rebate to municipalities will remain in effect
Property Tax Credit	The Ontario Property and Sales Tax Credit will be replaced by a new refundable Ontario Property Tax Credit for low to middle income homeowners and tenants that will provide an additional $270 million in property tax relief annually
Social Assistance	ODSP and Ontario Works rates will increase by 2% beginning Jan. 1, 2010
	Providing more than $5 million annually in funding for municipal rent banks
Green Initiatives	$390 million as Ontario's share of the federal Green Infrastructure Fund to develop initiatives that assist in the implementation of the proposed Green Energy and Green Economy Act, 2009
	$250 million over 5 years for a new Emerging Technologies Fund
	The Assessment Act will be amended to exclude the additional value of specific energy-efficiency enhancements when calculating current value
PSAB Legislation	The Municipal Act will be amended to make it consistent with the new accounting standards of the Public Sector Accounting Board related to tangible capital assets

Following receipt of further details relating to the budget announcement, financial analysis and budget impacts on York Region will be more clearly determined.

Ontario's economy has been impacted by the global economic downturn, including a recession in the United States, and heightened financial-market turbulence

The 2009 Ontario Budget document, "Confronting the Challenge: Building Our Economic Future", includes a section that outlines Ontario's current macroeconomic outlook, which underlies the fiscal plan.

The Ministry of Finance's key economic planning assumptions are below the average private-sector forecasts that were available when the economic assumptions were finalized on March 13, 2009.

Table 2 summarizes Ontario's economic outlook as included in the budget document.

Table 2
Ontario Economic Outlook
(percent)

	2007	2008	2009	2010	2011
Real GDP Growth	2.3	(0.4)	(2.5)	2.3	3.3
Employment Growth	1.6	1.4	(2.0)	0.8	1.6
CPI Inflation	1.8	2.3	0.4	1.9	2.0

The budget document notes that an unusual degree of uncertainty remains regarding the outlook and that the strength and timing of the Ontario recovery largely depend on the depth and duration of the current global economic downturn.

Growth is expected to resume during the second half of 2009 and strengthen over the next few years, with GDP growth rates for planning purposes of 2.3% in 2010 and 3.3% in 2011. Resumed U.S. economic growth, government efforts to provide jobs for today and for the future, low interest rates and actions taken to improve the functioning of global credit markets are expected to bring about the mid-2009 turnaround. Job creation is expected to pick up, with 161,000 net new jobs expected during 2010 and 2011.

The Ontario economy is expected to recover as financial conditions improve and fiscal actions provide jobs.

- Due to the economic downturn, Ontario's economy is expected to remain weak throughout the first half of 2009. For the year as a whole, real GDP is expected to decline by 2.5%, because resumed growth during the latter half of the year will only partially offset reduced output during the first half.
- Exports are identified as the biggest drag on the Ontario economy in 2009, which are expected to decline by 9.7%.
- Exports are expected to recover next year, reflecting the competitive rebound in the US economy.
- Lower profits are expected to lead to a 2% decline in employment and an increase in unemployment rate to 8.8% in 2009.
- Consumer spending is expected to fall by 0.6% in 2009 due to the declining employment, lower consumer confidence and reduced personal wealth due to lower stock and home prices.
- Home sales are expected to decline by 25% in 2009.

- Housing starts are expected to fall to 50,000 from 75,076.
- Recovery is expected to begin in the latter half of 2009, with growth resuming at a strengthening pace over 2010 and 2011, led by improving global economic conditions.
- In 2010 and 2011, 161,000 net new jobs are expected to be created.
- Housing activity is expected to recover in 2010.
- The fiscal recovery plan outlined in the budget is based on the assumption that the Ontario Economy will recover to trend GDP in 2015-16, with Ontario's real GDP growth averaging 3.8%
- As a result of economic conditions, the budget forecasts a deficit of $3.9 billion for 2008-09. The deficit is expected to reach its peak of $14.2 billion in 2009-10. The budget lays out a plan to balance by 2015-16.

5. FINANCIAL IMPLICATIONS

Based on preliminary analysis of the provincial budget announcement, it appears that impacts and financial implications will commence in late 2009, early 2010. The finer points of the infrastructure spending are being worked out between the provincial and federal governments, including whether municipalities will have to put up a one-third share before being eligible for funding for particular projects.

ODSP and Ontario Works rate increases will begin in late 2009. Municipalities will not be impacted by the rate increase until January 2010. A 2% rate increase has already been factored into York Region's 2010 operating budget forecast. Beginning in 2010, cost sharing for ODSP benefits will shift to 90% provincial, 10% municipal and the phased upload of Ontario Works will begin. ODSP will be fully uploaded in 2011 with Ontario Works uploaded by 2018.

6. LOCAL MUNICIPAL IMPACT

It is expected that the announcements contained in the 2009 Provincial budget will affect all municipalities. The actual impact will be determined based on further details related to the respective programs and the degree of eligibility and participation by local municipalities. The budget contains initiatives that will enable York Region to continue to provide services that will benefit residents and businesses in all local municipalities with the Region.

7. CONCLUSION

The initiatives announced will impact municipalities and in particular York Region. As further details become available, we will be in a better position to assess their impact on York Region services and proposed new initiatives in partnership with funding partners.

The information contained in this report is based on excerpts and summaries from the Provincial budget document and budget communications from the MFOA and AMO.

For more information on this report, please contact Kelly Strueby at Ext. 1611 or Kelly Fenchak at Ext. 1680.

The Senior Management Group has reviewed this report.