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2006 FEDERAL BUDGET

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, May 3, 2006, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

The purpose of this report is to provide summary highlights of the 2006 Federal Budget and the anticipated impacts on York Region.

3. BACKGROUND

The Federal Minister of Finance, the Honourable Jim Flaherty, presented the first Conservative budget under Prime Minister Stephen Harper on May 2, 2006. The budget is based on the following five themes, as presented in the Throne Speech:

Accountability - Making the budget framework more transparent and limiting the growth of spending.

Opportunity - Creating greater opportunity for Canadians by reducing the goods and services tax (GST) by 1 percentage point effective July 1, 2006, and reducing personal and business taxes.

Families and Communities - spending on families and communities by introducing Canada's Universal Child Care Plan, tax relief for pensioners and investments in public infrastructure.

Security - Protecting Canadians by hiring more Royal Canadian Mounted Police (RCMP) officers, securing safe and open borders, better preparing for emergencies, bolstering defense and strengthening Canada's role in the world.

Restoring Fiscal Balance in Canada - Working to develop a Patient Wait Times Guarantee and addressing concerns about fiscal imbalance, based on fundamental principles all Canadians can support.

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

- Public Transit – support to provinces and territories
- – a tax credit for individuals
- New Highways and Border Infrastructure Fund and Canada's Pacific Gateway Initiative
- Renewal of Canada Strategic Infrastructure Fund
- Renewal of the Municipal Rural Infrastructure Fund
- Social Housing
- Fiscal Imbalance

More specifically, York Region is expected to benefit from a number of the initiatives announced and these are highlighted below.

4. ANALYSIS AND OPTIONS

4.1 Public Transit – Support to Provinces and Territories

$1.3 billion is being provided to support public transit capital investments. Investments will be accelerated by making $400 million available to provinces and territories

A one-time payment of $900 million to provinces and territories to be paid into a third-party trust, contingent on sufficient funds being available from the 2005–06 surplus in excess of $2 billion. The Public Transit Capital Trust will support capital investments in public transit infrastructure including rapid transit, transit buses, intelligent transportation systems and other investments including high occupancy vehicle and bicycle lanes.

Funding will be notionally allocated over three years and distributed to provinces and territories on an equal per capita basis. Ontario's share is comprised of $155.2 million for transit payments and $351.5 for the public transit capital trust, for a total $506.7 million. The Government expects that provinces and territories will take transit ridership in the municipalities into account when the funds are disbursed.

4.2 Public Transit - A Tax Credit for Individuals

The budget proposes a tax credit on the purchase cost of public transit passes effective July 1, 2006. This measure will provide $150 million in 2006–07 and $220 million in 2007–08 in benefits to approximately 2 million Canadians. An individual who purchases passes costing $80 per month throughout the year will receive up to about $150 in federal tax relief for the year. All transit users, including commuters, students and seniors, will qualify.

4.3 New Highways and Border Infrastructure Fund and Canada's Pacific Gateway Initiative

The $600-million Border Infrastructure Fund committed funding towards infrastructure improvements at Canada's border crossings with the United States, including Windsor, Sarnia, Fort Erie and St. Stephen. The new Highways and Border Infrastructure Fund will provide funding for future federal investments in infrastructure improvements that support Canada's major gateways, including border crossings with the United States.

4.4 Renewal of the Canada Strategic Infrastructure Fund

The Canada Strategic Infrastructure Fund makes investments in all regions of Canada in projects such as highways, urban transit, sewage treatment and flood mitigation. These investments have been made in cooperation with the provinces and territories, municipalities and the private sector. The budget provides an additional $2 billion for the Canada Strategic Infrastructure Fund.

4.5 Renewal of the Municipal Rural Infrastructure Fund

The budget provides an additional $2.2 billion over five years to the Municipal Rural Infrastructure Fund. This will allow this fund to support further improvements to municipal infrastructure, such as the Evergreen Commons at the Don Valley Brick Works in Toronto.

4.6 Social Housing

Confirming up to $800 million in one payment to provinces and territories to address immediate pressures in affordable housing.

4.7 Fiscal Imbalance

The Government is committing to take immediate action to restore fiscal balance and plans to address concerns over fiscal imbalance through a number of initiatives including:

- Certainty for equalization and Territorial Formula Financing payments for 2006–07 through reliance on more current economic and fiscal data, as well as one-time adjustments of $255.4 million to offset declines.
- Additional funding of up to $3.3 billion for provinces and territories to help address immediate pressures in post-secondary education, affordable housing (including Northern and off-reserve Aboriginal housing) and public transit, contingent on sufficient funds being available from the 2005–06 surplus.
- A commitment to work with provinces and territories toward a common securities regulator.
- A principle-based framework on fiscal arrangements, outlined in the document *Restoring Fiscal Balance in Canada*, which will lead to:

- o A new approach for allocating unplanned federal surpluses.
- o Renewed, transparent and principle-based Equalization and Territorial Formula Financing programs.
- o A new approach to long-term and predictable support for post-secondary education and training.
- o A new framework for long-term funding support for infrastructure programs.

4.8 Accountability

The Government will reduce the federal debt by $3 billion annually. The Government is advancing by one year, to 2013–14, the goal of lowering the debt-to-GDP ratio to 25 per cent.

4.9 Tax Changes

This budget proposes a number of tax relief for individuals of almost $20 billion over two years. In particular, the budget proposes a reduction of the goods and services tax (GST) by 1 percentage point as of July 1, 2006.

In addition, the budget proposes to reduce personal income taxes for all taxpayers through:

- A new tax credit on employment income of up to $500, effective July 1, 2006, to help working Canadians. The eligible amount will double to $1,000 as of January 1, 2007.
- A reduction in the lowest tax rate to 15.5% from 16.0% as of July 1, 2006. The budget also confirms that the lowest tax rate will be 15.0% from January 1, 2005 until June 30, 2006.
- Increases in the basic personal amount that all Canadians can earn without paying federal income tax.
- A tax credit for the purchase of monthly public transit passes, effective July 1, 2006.

4.10 Childcare

$3.7 billion over two years for the Universal Child Care Benefit (UCCB), which will provide all families with $100 per month for each child under age 6. The UCCB will not affect federal income-tested benefits and will be provided as of July 1, 2006.

$250 million each year to support the creation of new child care spaces beginning in 2007/2008. The goal is to create 25,000 additional spaces each year.

4.11 Agriculture

The budget provides an additional $2 billion over two years to the farming sector. $1.5 billion will be provided this year. This includes $500 million for farm support, plus a one-time investment of $1 billion to assist farmers in the transition to more effective programming for farm income stabilization and disaster relief.

4.12 Crime and Security

- $20 million for communities to prevent youth crime, focusing on guns, gangs and drugs.
- $101 million to begin arming border officers and eliminating "work-alone" posts.
- $1.4 billion over two years to protect Canadian families and communities, to secure borders and to increase preparedness. Over the same period, the budget provides $73 million to better secure the financial system.
- An additional $1.1 billion over two years in Canada’s armed forces.
- $460 million ($1 billion over five years) to further improve Canada’s pandemic preparedness.
- $19 million per year to Public Safety and Emergency Preparedness Canada to enhance our capacity to deal with catastrophes and emergencies.
- $64 million to enhance Canada’s anti-money laundering and anti-terrorist financing regime.
- $9 million to fund integrated enforcement teams to combat currency counterfeiting.

Following receipt of further details relating to the budget announcements, financial analysis and budget impacts on York Region will be more clearly determined. Where applicable, these will be reflected in the development of the 2007 business plans for operating and capital budgets, as many of these initiatives are expected to impact on the Region’s 2007 and subsequent year’s programs and service delivery.

5. FINANCIAL IMPLICATIONS

Based on the preliminary analysis of the Provincial Budget announcements, it appears that impacts and financial implications will commence in the current fiscal year with continuing benefits into 2007 and subsequent years.

Some of the impacts related to York Region are:

- *Public Transit* – the amount proposed for transit is far below what is needed for the Toronto-York subway project alone. Further details and clarification are anticipated as this project progresses.

- *Public Transit Credits* – individuals who purchase a pass costing $80 per month throughout the year will receive up to about $150 in federal tax relief for the year. All transit users, including commuters, students and seniors, will qualify.

- *Infrastructure Fund* – a commitment to continue funding for existing infrastructure programs.

- *Rural Infrastructure Fund* – a commitment to continue funding for this initiative.

- *Subway Extension* – as noted above, the amount proposed for transit is far below what is needed for the Toronto-York subway project alone. A separate report is being prepared on this subject.

- *Social Housing* –confirmation of funding for this initiative through a new Affordable Housing Trust. Dependent on provincial agreement for allocations to municipalities.

- *Childcare* – the budget did **not** reinstate the previous federal government's commitment to national early learning and child care initiatives under the Early Learning and Child Care Initiative. It offers qualifying families $100 per month, per child for a total of $1,200 per annum.

- *Crime and Security* – funding for a variety of initiatives includes policing, border security, armed forces, pandemic preparedness, public safety and emergency preparedness.

Comprehensive analysis of these announcements and related financial implications will be undertaken as full information becomes available.

6. LOCAL MUNICIPAL IMPACT

It is expected that all municipalities may realize benefits from the announcements contained in the 2006 Federal Budget. 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 Federal Budget contains initiatives that will enable York Region to continue to provide services that will benefit residents and businesses in all local municipalities within the Region.

7. CONCLUSION

The initiatives announced in the 2006 federal budget will provide a variety of benefits to municipalities and in particular to York Region. Additional investment in some initiatives is contingent on funds being available from the 2005-2006 surplus and may not be realized or be sustainable.

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 Federal Budget documents and budget communications from AMO and MFOA.

The Senior Management Group has reviewed this report.