

# Ontario Alternative Budget 2005

## Addressing the *real* fiscal imbalance

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### Budget in Brief

Budget issues dominated the political news at all three levels of government in the first quarter of 2005, underlining the fact that we have not yet recovered from the tax cut mania of the late 1990s and early 2000s.

Premier Dalton McGuinty went on the attack against the Federal Government over Ontario's share of federal spending. Municipal leaders in Ontario took on the Provincial Government for its failure to address the financial consequences of the downloading of the Harris-Eves era. The Federal Government refused to acknowledge that its surplus meant little to Canadians suffering through the effects of budget cutting by cash-starved provincial and local governments. And just for a little variety, provincial politicians have turned to health care, fingering "out of control" health care costs as the beast that ate the provincial budget.

Ontario's spending on health care has not increased as a share of GDP since 1993. In fact, the share of provincial GDP made up by provincial government spending on health care is slightly lower today than it was in 1993. Health care has gone up as a share of provincial program spending because other areas of provincial program spending have gone down as a share of the economy. And if we add the value of Ontario's tax cuts back into provincial revenue to get a measure of provincial revenue potential without the tax cuts, we see health

care costs have actually gone down as a share of revenue potential.

The combined effect of Ontario's cuts in personal income tax, corporate income tax, the Employer Health Tax and other miscellaneous tax cuts implemented in the late 1990s and early 2000s has been to reduce Ontario's fiscal capacity by \$14.7 billion. Add in the \$850 million additional debt service costs incurred because the Conservatives borrowed money to pay for their tax cuts, and the legacy of the Harris-Eves era is a fiscal hole \$15.5 billion deep.

This year's Alternative Budget tackles the gap between what we need and the revenue available to pay for it.

Including annual adjustments to reflect population and cost of living increases, our proposals will increase annual budgetary expenditures by \$15 billion over a two-year period. There is no question that this is a substantial amount.

But not one of the individual proposals we make could legitimately be considered outlandish.

We propose that low-income individuals and families receive enough to meet the actual costs of a basic living standard in their communities. We propose an increase in the minimum wage to a level that would make it possible for the working poor to earn their way out

of poverty. We propose that Ontario actually begin again to make modest investments in affordable housing.

We propose that Ontario make a serious investment in early childhood education – an investment that will pay huge dividends in the future. We propose increases in funding for elementary and secondary education that will simply provide school boards with enough money to pay their teachers and operate their schools. We propose increases in funding for colleges and universities that will bring Ontario's funding to the national average in Canada, and that will make a start at reversing the trend of ever escalating student tuition.

We propose increases in funding for health that will enable the system to achieve the reform objectives set out by the government – objectives that are shared by the vast majority of the people of this province.

We propose to reinvest in environmental protection, so that our environmental laws will actually be enforced for a change.

Our proposals take important first steps towards the rehabilitation of our dangerously deteriorating public capital stock, with specific proposals for affordable housing, elementary and secondary schools, colleges and universities, public transit and clean water, and with the creation of a capital renewal fund that would ensure that we both maintain our current capital stock and build what is required to support future growth.

To pay for this ambitious program, and to continue to reduce the fiscal deficit left behind by the Harris and Eves governments, we are proposing measures that will increase Ontario's revenue base by nearly \$8 billion a year by the end of our two-year budget period.

The combination of these measures results in projected deficits of \$3.3 billion in 2005-6 and \$2.1 billion in 2006-7. These projections are slightly above the unrealistic projections set

out by the Government in its 2004-5 Budget, but put the province well on track to eliminate the deficit over a 3-4 year period.

## **A commitment to eradicate poverty**

This year, one issue stands out: poverty, and the utter failure of the government to deal effectively with any aspect of the issue. Our income security system is a disgrace and our social assistance system is oppressive, intrusive and punitive. Virtually every community in this province is dealing in one way or another with the crisis of homelessness, yet Ontario has not added a single unit of affordable housing since 1995. And we know that child care and early childhood education is vital to parents' success in breaking into the workforce, yet the system remains fragmented and ineffective.

OAB 2005 proposals include not only a new approach to social assistance but also a substantial reinvestment in Ontario's social infrastructure at the community level and a reinvestment in provincial labour market regulation to make the labour market more accessible and rewarding to every Ontarian who is able to work.

Specifically, we propose:

- core funding of \$225 million per year for community-based organizations in the voluntary sector;
- an immediate increase in the minimum wage to \$10 an hour, indexed and adjusted annually;
- strengthened enforcement of employment standards;
- to improve the living standards of individuals and families on social assistance;
- increases in social assistance rates to provide shelter allowances based on average local rents as calculated by the Canada Mortgage

- and Housing Corporation and basic needs allowances based on actual costs of living;
- the elimination of the National Child Benefit Supplement clawback;
  - to bring down obstacles to employment;
  - an increase in the Employment Start-up Benefit under Ontario Works from \$253 to \$500;
  - indexation of the earnings exemptions under Ontario Works, retroactive to 1995;
  - ease restrictions on earnings while receiving social assistance;
  - provide dental coverage and broaden drug coverage for the working poor.
  - implement reform recommendations from the report of Liberal MPP Deb Matthews, as follows:
    - free off-peak transit passes for social assistance recipients;
    - transportation allowances during the transition to employment;
    - increased number of subsidized child care spaces;
    - continued access to child care support during transition to employment;
    - introduce individualized employment plans for Ontario Works participants.
    - permit Ontario Works participants to transfer to Disability Support at age 60;
    - reform the workers' compensation system to ensure that employers, and not the social assistance system, are responsible for the full cost of work related illness, injury and disability.

## Homes for all

The Ontario Government's response to the affordable housing and homelessness crises is virtually non-existent.

There are simply not enough affordable homes to meet the housing needs of all Ontarians. A recent survey by Statistics Canada

shows that half of all renter households in Ontario have annual incomes of \$23,215 or less. Based on the standard affordability calculation of 30%, about 900,000 renter households can only afford rents of \$580 a month or less – yet average rents are 44% higher.

The Ontario Alternative Budget's affordable housing program includes:

- \$650 million annually for 9,300 new provincially-funded social housing units;
- \$72 million annually for 2,400 new social housing units as Ontario's share of the federal-provincial Affordable Housing Program;
- \$178 million annually for 37,000 new rent supplement units; and
- \$200 million annually for a housing rehabilitation fund.

The OAB also proposes to return the cost of social housing programs to the provincial level.

## The early years – It's time for action

The available stock of regulated child care - including regulated centre and family-based child care, nursery school, and after-school spaces - fails to meet the need of more than 90% of children in Ontario. Among the 70% of families where mothers are in the paid labour force, available spaces would only meet the needs of 12% of their children.

A number of short-term measures that would make an immediate difference in the lives of many of Ontario's families and children include:

- removing eligibility restrictions for student parents receiving OSAP, families with

RRSPs and RESPs over \$5,000 and parents looking for work;

- amending the education funding formula so space for existing and new child care programs in schools is available to not-for-profit groups at no charge;
- directing school boards to incorporate space for child care centres in every new school in the province where appropriate;
- addressing increasing wage gaps in the proxy pay equity sector; and
- funding wage enhancement grants (WEG) so that every person working in a not-for-profit child care program has an adequate salary.

The OAB will match new federal dollars to early learning and child care—an infusion of \$1.1 billion new dollars in the next two years for child care in Ontario. Existing provincial expenditures in child care (\$450 million annually) will also be applied to the transformation and expansion of Ontario's child care system. By year 10, all children aged 0-12 will have universal access to high quality early learning and care in a community-based and non-profit system.

In the first two years of this plan, the OAB will take the following steps:

1. Establish and pass framework **legislation** to develop a comprehensive system of high quality early learning and care services.
2. Begin Quebec-style phase-in of **direct funding** and move towards 100% funding of child care delivered by municipalities.
3. Begin transition to wholly **non-profit system**.
4. Develop a redesigned, integrated, **Jr. and Sr. kindergarten program**.
5. Provide school boards with resources to **create capacity** for all 4- and 5-years olds in the junior and senior kindergarten integrated program in the next three years.
6. Set a flat **parent fee** (based on affordability) to cover extended hours before and after the 6 free hours as well as non-school days during the school year and summer hours, until services are available for all children and families free of charge.
7. Allocate federal/provincial funding to **strengthen and expand the current system for 0-3** and **expand existing child care centres** to provide new capacity for 0-3.
8. Develop new qualifications, salary scales and a 10-year **training strategy** for staff delivering early learning and care programs, and assessment and evaluation mechanisms to ensure staff meet occupational standards.
9. Other components of the OAB's plan:
  - ensure **curriculum** guidelines for all new integrated full-day programs emphasize the importance of play-based learning and support staff development programs;
  - put in place **tools to evaluate** the baseline of the current system for rating and monitoring all programs, including new ones receiving base funding;
  - establish "**transition committees**" in every community to begin coordination of services in practice and development to neighbourhood early learning and care hubs;
  - **integrate Ontario Early Years Centres** into new child care services; and
  - set up an independent task force/commission to hold **province-wide consultations** to determine government jurisdiction and the authority responsible for delivery of services, and the content and scope of legislation.

## Fulfilling the promise of public education

In education, we focus directly on the shortcomings in the provincial funding formula for elementary and secondary education, and highlight the corrosive effect that those shortcomings have on every aspect of public education.

Our proposals include:

- an additional \$650 million per year to cover school boards' actual costs of employing the teachers required to meet class size requirements;
- an additional \$235 million for school operations, to cover actual costs;
- Funding for adult education at the same level as secondary, at a cost of \$140 million;
- sufficient additional funding to enable school boards to invest a further \$2 billion in paying down their maintenance backlog;
- \$150 million in additional funding for English as a Second Language programs and for the Learning Opportunities Grant, the grant that provides school boards with additional funding to address education issues related to socioeconomic disadvantage;
- an additional \$125 million increase in each of two years to reduce primary class sizes;
- \$60 million in increased funding to enable school boards to meet their commitments under pay equity;
- \$10 million to fund the actual load for secondary schools.

This is offset by a saving of \$50 million from the elimination of the province-wide testing program.

## Postsecondary education – improving the system and avoiding traps

The OAB is allocating an extra \$1.5 billion in provincial operating expenditures as part of a multi-year funding plan designed to bring Ontario to the national average on per student funding. Once PSE funding is stabilized the OAB will increase the investment, building it up to an additional \$2.2 billion.

The OAB takes immediate action to ensure quality education in the classroom, to lower student-faculty ratios, to increase the number of eligible students who attend university or college, and to boost faculty and support staff. It does so by staving off the twin threats of contracting out and privatization. And it does so by alleviating some of the financial burden students face, allocating new funding to lower tuition and enhance student aid for both university and college students.

The OAB will:

- provide \$320 million to reduce tuition fees by 10%.
- set out \$300 million to increase access to student financial assistance. Such assistance would include a grant component for all eligible students including both full-time and part-time students.
- implement a return to the pre-Tory policy days when parents with children could collect Ontario Works or Ontario Disability Support Program (OW/ODSP) and student loans without having to declare part of the student loan — the living needs portion — as income.
- allocate a \$700 million fund for hiring faculty and support staff, as well as providing funding to develop their skills. Under this package, the OAB sets aside resources for hiring new support staff when a new faculty member is hired.

- add 33,000 university undergraduate spaces, increase college enrolment, double the number of graduate students to 60,000, follow Rae's recommendation to create a separate funding envelope for this purpose on top of the base graduate funding and increase funding to university and college libraries.
- accept Rae's recommendations to increase capital repair funding by \$200 million a year, available to postsecondary institutions over a 10-year period.
- allocate \$300 million a year to fund new facilities and \$40 million for equipment.

### **Health care – cuts and reform, a toxic mix**

In health care, our proposal for increased funding over the next two years is based on the conviction that it is not possible to starve a system into reforming itself. It requires both leadership and investment.

In its first 18 months in office, the McGuinty government has begun some positive health policy initiatives but its initiatives have been limited and distorted by perceived fiscal constraints.

The Alternative Budget would ensure that there are no cutbacks in hospital services during this transitional period, and would provide hospitals with an additional \$500 million.

Because the government's projections are hopelessly unrealistic, this year's Ontario Alternative Budget builds in a 5% increase in the base health budget to account for population growth and the ageing of the population and allow for increases in unit health costs at 1% above the rate of inflation at a cost each year of \$1.5 billion.

In addition to the \$100 million already set aside for primary care reform in the 2004-5 budget the Alternative Budget allocates a fur-

ther increase of \$100 million in 2006-7. The primary health care system should change from doctor-dominated, fee-for-service practices to an expansion of community health centres open seven days a week, 24 hours a day, with salary based teams of health care workers working together.

While substantial additions to the home care and long-term care budgets for 2004-5 and 2005-6 announced by the government in its 2004-5 match the increases called for in the 2004 OAB, the focus must now be on delivery reform.

The OAB will ensure that sufficient resources are directed to dealing with the health care implications of homelessness. The OAB also supports the recommendations of the 2004 Ontario Community Mental Health Evaluation Initiative to increase funding for consumer and survivor initiatives by \$5 million per year, from the existing mental health budget.

### **Time to reinvest in environmental quality**

When the people of Ontario elected a Liberal government in 2003, they wanted to see the restoration of environmental protection, policies and programs to significantly reduce pollution and improve public health, and a public power system that will meet Ontario's future energy needs in environmentally sustainable ways. But there has been no real gain in Ontario's capacity to monitor environmental performance or to implement new standards that are badly needed.

The OAB would increase funding for environmental regulation and enforcement in the Ministries of the Environment and Natural Resources by \$200 million in 2005-6.

To address issues of water quality still unresolved from the Walkerton Inquiry, \$250 million would be invested in a clean water fund.

We would put \$105 million into public transit operations, to restore the 70% fare box; 15% provincial; 15% local cost sharing that prevailed for 25 years in Ontario before the Harris Government ended it.

As part of our capital renewal program, we would put an additional \$200 million towards transit capital, restoring the 75/25 capital cost sharing formula.

We would take concrete action to address issues of energy conservation, through a \$200 million per year program to promote energy conservation and increased energy efficiency.

## Rebuilding infrastructure

The Alternative Budget proposes a massive injection of new funding into public infrastructure generally, and into urban infrastructure in particular, in stark contrast to the McGuinty government's exploration of unnecessarily expensive and unaccountable private sector options.

According to Statistics Canada, Ontario's public infrastructure is valued at \$240 billion, 12% of which is owned by the Government of Canada. The rest—an estimated \$211 billion—is either owned directly by the provincial government or by transfer payment agencies for which the provincial government is ultimately responsible. Maintaining this capital stock in a state of good repair is estimated to cost 3% of the value of the stock, currently about \$6 billion a year, an amount that will increase over time as the size of the capital stock grows and as repair and replacement unit costs increase. This does not address the backlog of deferred maintenance and unmet needs for new facilities.

We estimate that the annual investment required to offset depreciation of the existing capital stock in the entire broader public sector under provincial jurisdiction in Ontario is

\$6 billion. A further \$6 billion a year is required to keep pace with growth.

Pending a comprehensive review of the needs and sources of funding for infrastructure funding in Ontario, the Alternative Budget provides an increase in funding for infrastructure renewal and new investments equal to 50% of this estimated annual requirement.

The OAB proposes a substantial increase in annual allocations for capital investment in a number of specific areas:

- \$250 million for clean water investments;
- \$922 million for social housing investments;
- \$540 million per year for college and university capital improvement;
- \$150 million a year to enable school boards to commit to \$2 billion in deferred maintenance investment; and
- \$200 million for transit.

The remainder of the total of \$6 billion in annual capital commitments is provided for in a public sector capital renewal and expansion fund: \$2 billion in 2005-6 and \$4.9 billion in 2006-7.

Given cost sharing arrangements, this investment of \$6 billion annually by the province will result in substantially more than that amount in annual infrastructure investment activity.

## A new deal for cities

The Alternative Budget lays out a framework for a real new deal for Ontario's largest cities that encompasses both the need for new powers and resources and the need to recognize the special needs of large urban areas in other aspects of public policy.

With respect to Ontario's cities, the Alternative Budget makes a substantial down payment on a "new deal". Ontario will:

- reassume responsibility for funding affordable housing, at a cost of \$850 million annually;
- reinstate the 75% funding formula for public transit capital;
- transfer over \$500 million annually in gasoline and motor vehicle fuel tax revenue to local governments based on public transit expenditures;
- make contributions of \$2 billion in 2005-6 and \$4.9 billion in 2006-7 to a capital renewal fund, much of which will be directed towards local government initiatives;
- reform and renew the social assistance system, which will alleviate some costs currently borne by local governments;
- restore the ability of school boards to participate fully in supporting services to children;
- implement the recommendations of the Walkerton Inquiry by creating a clean water fund at \$250 million per year; and
- provide additional direct funding for the non-profit organizations whose work is so important to developing and maintaining community social infrastructure.

## Fiscal framework

The OAB fiscal framework for 2005-6 sets out the basis for a substantial reinvestment in public services over the next two years based on the following goals and assumptions:

- new investments in the renewal of public services operations of \$9.6 billion over the next two years;
- a public infrastructure renewal investment of \$6 billion per year, amortized over a 20-year period;
- increases in base spending to cover costs and the impact of population growth as well as demographic changes of 5% for health; 3% for education; and inflation plus population growth for all other operating expenditures; and
- a gradual improvement in the government's budgetary balance over the two fiscal years, at least matching the schedule set out in the government's 4-year budget plan.

Our plan is summarized in the table on the following page.

Over the two-year period, operating expenditures increase by \$14.9 billion, roughly 40% of which is required to keep pace with costs and population increases in current programs, and 60% funds renewal investments in public services.

The amortization and financing of the OAB's \$6 billion per year infrastructure investment plan adds \$2.1 billion to budgetary expenditures: \$1.4 billion in amortization costs; and \$0.7 billion in interest costs.

The budget deficit declines from the estimated \$5.7 billion in 2004-5 to \$3.3 billion in 2005-6 and \$2.1 billion in 2006-7, somewhat more slowly than in the government's now-discredited 4-year outlook.

To finance these initiatives, we will:

- introduce a new personal income tax bracket 2% above current maximum on income in excess of \$100,000 – revenue, \$2.4 billion.
- restore corporate income tax rates to levels existing prior to 2000 – revenue \$1.3 billion.
- reduce cost of Harris-Eves era corporate tax expenditures by eliminating some and converting others to direct grants, reducing the total cost of tax expenditures in excess of those provided for in the Federal Corporate Income Tax by 80% — revenue, \$1.1 billion.
- immediately eliminate graduated rate structure in the employer health tax and estab-

**OAB budget framework**

Flat line revenue & expenditure	2004-5	2005-6	2006-7
Revenue	77.5	81.2	86.2
Program	66.6	67.5	67.5
Capital	2.4	2.6	2.6
Interest on Debt	9.6	9.4	9.2
Less reserve	0.0	1.5	1.5
Surplus / (deficit) based on adjusted 3Q Ontario Finances	(1.2)	0.2	5.4

## OAB program over flat line

Increases in base program costs		2.4	4.9
OAB new program		8.4	9.9
TOTAL OAB over flat line		10.8	14.8

OAB capital over flat line		0.6	1.4
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OAB PDI over flat line		0.2	0.7
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OAB Revenue Measures		7.5	8.0
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Fiscal position after tax changes		(3.3)	(2.1)
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**OAB Revenue Summary (\$ billion)**

	2005-6	2006-7
EHT exemption	1.206	1.269
CIT harmonization with Federal	1.184	1.239
High-income rate 2% above \$100,000	1.180	1.245
EHT 20% of health costs	0.776	0.904
Tobacco \$12 per carton	0.966	0.998
CIT to 2000 rates	1.376	1.439
Tax administration	0.439	0.461
Motor vehicle fuel 2 cents	0.419	0.426
Total	7.544	7.982

- establish a flat tax rate sufficient to cover 20% of health care operating costs (estimated 2006-7 rate, 2.25%) – revenue \$2.0 billion.
- increase tobacco taxes by \$12.00 per carton, putting Ontario among the Canadian leaders in pricing tobacco as a disincentive for smoking – revenue \$1 billion.
- following up from repeated recommendations by the Provincial Auditor, generate 1% more revenue from the existing tax system through tougher enforcement – revenue \$440 million.
- increase gasoline and motor vehicle fuel taxes by 2 cents per litre, earmarked for municipalities – revenue \$420 million.



Canadian Centre for Policy Alternatives  
410-75 Albert Street, Ottawa, ON K1P 5E7  
tel: 613-563-1341 fax: 613-233-1458  
email: [ccpa@policyalternatives.ca](mailto:ccpa@policyalternatives.ca)  
<http://www.policyalternatives.ca>