

2007 Ontario Alternative Budget • *Budget in Brief*

No Time to Lose

An Action Blueprint for Ontario

The McGuinty record

The McGuinty Liberals were elected in 2003 on the strength of Ontarians' hopes that their new government would lift the dark cloud over public services left behind by the Harris-Eves Conservative era. There was great promise this new government would restore Ontario to a position of leadership on the key issues of the day.

Measured against those expectations, the McGuinty government has been a disappointment. In some areas there has been progress — most notably in health and education, where new investments have dispelled an atmosphere of near-perpetual crisis and made it possible again to have a real debate about how to make education and health care better in this province. This exercise of political will for change in health care and education, however, highlights the impact of its absence in areas of public policy where the shadow of the Harris era still looms large.

We still don't have an affordable housing policy worthy of the name. Local governments are still struggling financially from the impact of the Harris municipal government download, which has been ignored by the McGuinty government. Infrastructure funding, hobbled by the

Harris government's misplaced belief that public-private partnerships would produce "new" money for public capital projects, is now hobbled by the McGuinty government's misplaced belief that value for money can be found in Alternative Financing and Procurement projects (AFPS) — P3s by a different acronym.

Even where there have been significant new investments, results have fallen far short of what is needed. In health care, the new investment has clearly been substantial. What is not clear is how much change those new investments have really bought.

In elementary and secondary education, investments in new program initiatives have been loaded on top of a basic funding structure that doesn't work. So we have increased funding to reduce class sizes and provide additional teachers for "student success," but the formula still does not provide enough funding to pay staff, buy supplies and maintain buildings.

In post-secondary education, substantial new funding is on the way, but the government has abandoned its critique of the Harris government's reliance on higher tuition fees, moving on as if the more-than-doubling of tuition fees under Harris

had never happened. The tuition fee freeze that was a centerpiece of its 2003 campaign is gone. Indeed, as of September 2007, tuition fees will be higher than they would have been if the Harris-Eves policy of increasing tuition fees in step with inflation had remained in place.

And on the two most critical issues that confront Ontario today, the government has flopped. On global warming, the environmental issue of our generation, the government has done nothing, and has nothing to say. It abandoned the one campaign promise that might have made a difference — the closure of Ontario's coal-fired generating stations — leaving behind a policy vacuum on a critical issue.

With respect to growing income inequality, the government's inaction has been nothing short of a disgrace. Ontario's lowest-income citizens — punished relentlessly under the Harris government — are now worse off.

Shamefully, families and individuals receiving social assistance — both Ontario Disability Support Program (ODSP) and Ontario Works (OW) benefits — are actually receiving *less* in provincial benefits, when inflation is taken into account, than they were when the McGuinty government was elected in 2003. Ontario's poorest citizens had been falling behind for 10 years when the McGuinty government was elected. Nearly four years later, the poorest among us are still falling behind. Even the government's crystal-clear commitment to end the claw-back of the Federal Child Benefit Supplement from the poorest Ontario families disappeared as it redefined the commitment as a promise to pass on only any *increases* in the Child Benefit Supplement during its first term in office.

It is clear that Ontarians want to see leadership from their government on these issues. They want the government to take action to clean up the environment, and to play a constructive role in addressing the threat from global warming. They support government action to address the growing income gap.

On these and other issues, Ontarians had a right to expect leadership and vision. Instead, all too often, we got political gamesmanship and spin.

And at the centre of the gamesmanship is Premier McGuinty's campaign against the federal government over the so-called \$23 billion gap between what the federal government collects in revenue from Ontario and what it spends in this province.

It's a very large number. And large numbers get attention, even if — as even the Premier himself occasionally admits — the real gap is actually only about \$2 billion. But those who quibble about the credibility gap between a claimed \$23 billion and an actual \$2 billion are missing the point. The campaign isn't really about federal-provincial fiscal policy. It is pure political theatre, aimed at distracting attention away from issues that the government can actually do something about, here in Ontario.

The \$23 billion gap campaign simply provides the framework for a more concentrated effort to shift the blame for the government's lack of headway in rebuilding public services weakened during the Harris-Eves years.

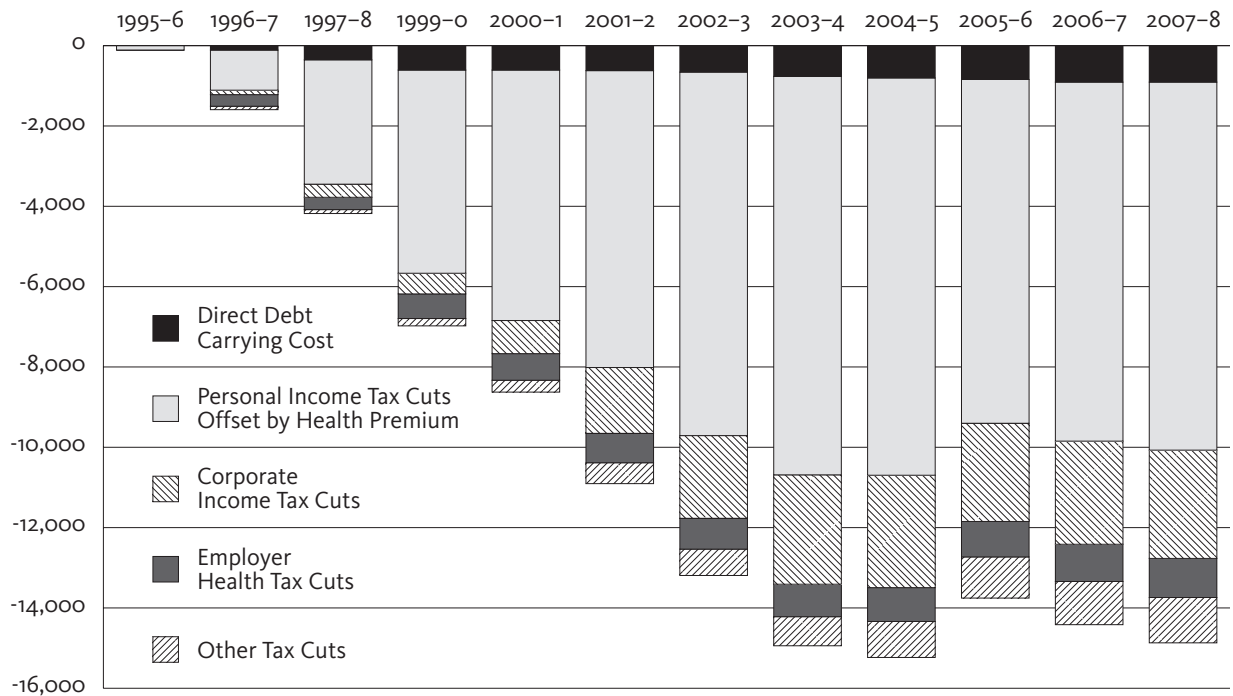
Lack of progress on child care? It's the federal government's fault for canceling the national child care program.

Nothing happening in housing? It's the federal government's fault for short-changing Ontario.

The problem with Ontario's venture into political theatre is that the facts keep getting in the way.

Ontario has a legitimate beef about a \$2 billion gap in federal funding, not a \$23 billion gap. While that's not a small number, it pales beside the annual revenue loss to Ontario from post-1995 provincial tax cuts. Even taking into account the Health Premium, which restored more than \$2.5 billion in lost fiscal capacity, the annual revenue loss from Ontario's tax cuts is \$15 billion. That, and not any federal spending gap, is the

CHART 1 Annual Tax Cut Impact on Fiscal Capacity in Ontario, 1995-6 to 2006-7
Debt Carrying Cost and Revenue Loss



real cause of Ontario's revenue shortfall relative to the province's public services needs.

Chart 1 shows how Ontario's revenue shortfall has developed since tax cut mania hit the province in 1995.

The fate of Ontario's early childhood education initiative presents another inconvenient fact. Best Start was announced in the 2003 election campaign — before there was a federal child care program. Implementation of Best Start began in 2004 — before there was a federal child care program. Now the government wants us to believe that it has been forced to put the brakes on its program because of the cancellation of the federal child care program.

The status of Ontario's commitment — or lack thereof — to affordable housing is even harder to justify. The government promised substantial action on affordable housing in its election campaign. It has delivered only a small fraction

of what it promised. It refused for years to accept \$400 million in housing funding from the Federal Government, arguing that it wasn't enough. Premier McGuinty finally relented at the end of February 2007 and released the Federal housing money. But in the meantime, the government held thousands of families hostage to make a point in its long-running battle over transfer payments with the Federal Government.

Ontario deserves better than phony revenue gaps and equally phony political wars with the federal government.

The OAB plan

The 2007 Ontario Alternative Budget is in part a report card on the McGuinty government's first term in office, and in part a blueprint for the leadership Ontario needs from the next On-

tario Legislature, whichever political party happens to lead it.

It sets a four-year program to continue the job of rebuilding public services, including proposals to rebuild the fiscal capacity necessary to pay for them.

Income security

Ontario Works pays, on average, only 42.5% of the Statistics Canada Low Income Cut-Off (LICO). Ontario Disability Support Plan benefits reach only 67% of the Cut-Off.

The Ontario Alternative Budget proposes a new Ontario Child Benefit. It ends Ontario's claw-back of the National Child Benefit Supplement.

And it increases social assistance benefits rates: 35% for Ontario Works; 20% for ODSP.

These increases are a step towards lifting those who depend on social assistance benefits out of poverty. Ontario Works benefits would, on average, reach 59% of the Statistics Canada LICO; ODSP benefits would reach 80% of the LICO.

The OAB increases the minimum wage to \$10 an hour, modernizes employment standards protection to reflect the realities of today's labour market and the growing importance of non-standard work. It also invests in tougher enforcement of employment standards, adding one hundred new inspectors.

Community infrastructure

Community-based non-profit organizations were crippled by provincial budget cuts in the 1990s. These community agencies play a vital role in this province's social services system, particularly as it relates to ethno-cultural communities. They also serve as the catalyst for the work of the voluntary sector.

The OAB will provide stable, core funding for community-based non-profit organizations.

Affordable housing

One of the first acts of the Harris Government in 1995 was to cancel Ontario's cooperative and non-profit housing program — the most successful affordable housing program in our history.

Tens of thousands of Ontario families sit on waiting lists for affordable housing. Thousands more are homeless, living on the streets or in crowded, temporary shelters.

The McGuinty government's performance in housing has been a disgrace, using housing as a political football in its battle with the federal government.

The OAB will establish a new non-profit and cooperative housing program with an annual capital commitment of more than \$830 million and another \$260 million to rehabilitate the existing stock of social housing. It provides funding for 45,000 rent supplements for low- and middle-income households.

It also reverses the \$600 million provincial download to municipal governments of responsibility for social housing operating costs.

Child care

The McGuinty government has abandoned its promising plans for early childhood education, hiding behind the elimination of the Federal child care plan.

The Ontario Alternative Budget will make up for the time lost in the past two years in early childhood education, building towards a guarantee of affordable, high-quality, non-profit regulated early childhood education for every child in the province.

This will include:

- a new child care act to set the framework for Ontario's comprehensive new system;
- direct funding for new child care spaces, replacement of the intrusive means test for subsidies with a straightforward income test;

- increases in the salaries and benefits of workers in the child care system;
- new investments to integrate early childhood education with the child care system;
- increased support for Best Start Networks in rural and under-serviced areas;
- exclusively non-profit expansion of the child care system, with eventual replacement of for-profit care.

Elementary and secondary education

Shortfalls in provincial funding for the basics of elementary and secondary education have forced school boards to divert funding from other services to fill the gaps. The result has been deteriorating maintenance standards in schools and reduced programming for students at risk.

The provincial government claims to have fixed many of the problems with the formula. But all it has really done is re-label funds originally intended for other purposes. The result is that funding for students at risk has been reduced and funding for local priorities has been completely eliminated.

The OAB provides increases to bring school operations and maintenance funding to inflation-adjusted 1997 levels; to fund adult credit courses at the same rate as for students under the age of 21; to increase funding for students at risk to the level, inflation adjusted, that was recommended in 1997; and re-institutes the \$200 per student funding level for local priorities.

Post-secondary education

Students and their families have been betrayed by the McGuinty government. Promised a tuition fee freeze after a decade in which fees more than doubled, the government has now imposed fee increases that will leave tuition fees higher at the end of its term in office than they would have been had the Eves government's policy of

increasing fees in step with inflation had been left in place.

And even with increased tuition revenue and provincial grants, Ontario's funding for colleges and universities still won't hit the national average.

The OAB reinstates the tuition freeze for college and university students, and begins a transition to a needs-based grants system that reduces the student assistance system's reliance on loans.

It looks to the future by increasing funding for graduate students.

The key to a high-quality postsecondary education is teaching and research. Yet every college and university in Ontario is being held back by a shortage of faculty. The OAB addresses this serious and growing shortage, setting in motion a program of faculty hiring that will result in 18,000 new hires in colleges and universities by the end of the decade.

Health

The McGuinty government has put a lot more money into the health care system, but that increased investment has not bought a lot of real change.

The OAB will drive towards fundamental reform of the primary care delivery system in Ontario, shifting the emphasis towards primary care group practices that offer the services of a variety of health professionals under one roof.

It funds the establishment of five new nurse-led clinics in under-served areas. It sets aside new funding to support innovation in health care delivery.

It provides financial support for projects to increase community engagement and participation in Local Health Integration Networks.

And it rationalizes the pay of health care workers, equalizing wages and salaries across the health care delivery sector in Ontario.

Renewing public infrastructure

Ontario faces a huge public infrastructure gap. Our public infrastructure has failed to keep up with the growth in our population. And the facilities we have are crumbling after more than a decade maintenance shortfalls.

After campaigning against the Harris-Eves governments scheme to shift public infrastructure to the private sector through P3s, the McGuinty government has embraced this costly and inefficient idea even more whole-heartedly.

The OAB eliminates the infrastructure gap over five years, calling for an increase in provincially-funded infrastructure investment of \$6.7 billion, to bring the annual total to \$12 billion.

Cities

Much of the increased infrastructure funding will go to local governments, and will transform the most visible part of our system of public infrastructure: local roads, highways, public transit, sewer and water systems.

In addition, the OAB will meet the request from municipalities in Ontario for financial assistance equal to a 1% share of the sales tax. The OAB will end the download of housing and income security costs onto local governments, effectively transferring \$1 billion. In addition, the revenue raised by half of 1% of the Retail Sales Tax will be transferred to the municipalities in which it was raised, for a transfer with a total value of \$1 billion.

Environment

The Harris-Eves era destroyed Ontario's ability to regulate environmental quality in the public interest. It also wiped out provincial support for transit operations.

Even before the Eves government was defeated, the gaps were becoming obvious, as events from the Walkerton tragedy to increasing numbers of smog days in major cities demonstrated.

The election of the McGuinty government changed very little. The problems it inherited remained untouched. The regulatory system has still not been revived. Transit funding has not recovered. We are still far short of the clean water targets set in the Walkerton Inquiry report. Ontario has yet to make a commitment to energy conservation and efficiency. And its signature climate change promise — the closure of Ontario's dirty coal-fired generating stations — has long-since been abandoned.

This year's OAB will be an important first step in the right direction and provide a base for much more innovative and creative solutions for the future. The OAB calls for \$200 million for new programs supporting energy conservation and efficiency. It restores funding for transit to its pre-Harris formula, providing funding totaling more than \$300 million. It invests in rehabilitating environmental protection regulation, in both the Ministry of Environment and the Ministry of Natural Resources. And it puts \$250 million per year into a Clean Water Fund, to meet the post-Walkerton commitments.

TABLE 1 Program Summary

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|--|--------------|--------------|--------------|---------------|
| Income Security | | | | |
| Community social infrastructure. | 113 | 225 | 225 | 225 |
| Employment standards enforcement/ODSP access | 10 | 10 | 10 | 10 |
| End download of social assistance | | 400 | 400 | 400 |
| Introduce Ontario Child Benefit | 250 | 1,000 | 1,000 | 1,000 |
| Increase OW and ODSP benefits to pre-tax LICO | 600 | 1,315 | 1,430 | 1,545 |
| End claw-back of Federal Child Tax Benefits | 250 | 250 | 250 | 250 |
| Housing | | | | |
| Province re-assume responsibility for housing | | | 600 | 600 |
| Rent supplements for new & existing housing (37,000 units) | 220 | 220 | 220 | 220 |
| Early years and child care | | | | |
| Early learning and child care | 600 | 750 | 900 | 1,200 |
| Education — Elementary and Secondary | | | | |
| Local priorities reinstatement | | 200 | 400 | 400 |
| Actual cost of school operations (1997 updated) | 188 | 375 | 375 | 375 |
| Learning opportunities grant | 125 | 250 | 250 | 250 |
| Adult education | | 62 | 123 | 123 |
| Education — post-secondary | | | | |
| Funding for faculty hiring recommended in Rae report | | 303 | 606 | 1,212 |
| Continue tuition fee freeze | 260 | 300 | 340 | 380 |
| Student financial assistance | | 226 | 226 | 226 |
| Health Care | | | | |
| Health care salary equalization | | 488 | 975 | 975 |
| Expand Trillium Drug Plan | | 60 | 60 | 60 |
| Environmental Protection | | | | |
| Environmental regulation — Environment and Energy and MNR | 200 | 200 | 200 | 200 |
| Transit operating support | 105 | 105 | 105 | 105 |
| Energy conservation and efficiency programs | 100 | 200 | 200 | 200 |
| Cities | | | 1,000 | 1,000 |
| Total program funding increase | 3,020 | 6,938 | 9,895 | 10,956 |

TABLE 2 **Infrastructure**

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|------------|------------|--------------|--------------|
| Infrastructure fund | | | | |
| Maintain state of good repair | 6,000 | 6,000 | 6,000 | 6,000 |
| Additional spending to keep pace with growth | 6,000 | 6,000 | 6,000 | 6,000 |
| Total annual capital | 12,000 | 12,000 | 12,000 | 12,000 |
| Infrastructure in base plan 2007-08 to 2010-11 (est.) | -5,300 | -5,300 | -5,300 | -5,300 |
| Net amount to be financed | 6,700 | 6,700 | 6,700 | 6,700 |
| Annual amortization | | | | |
| Current year amortization (20-year) — half year | 168 | 168 | 168 | 168 |
| Prior year amortization | - | 335 | 670 | 1,005 |
| Total amortization reported as capital | 168 | 503 | 838 | 1,173 |
| Cost of capital | | | | |
| Current year interest costs | 151 | 151 | 151 | 151 |
| Prior year interest costs | | 302 | 603 | 905 |
| Interest costs associated with capital program | 151 | 452 | 754 | 1,055 |
| Budgetary expense | | | | |
| Amortization | 168 | 503 | 838 | 1,173 |
| Interest | 151 | 452 | 754 | 1,055 |
| Total cost | 318 | 955 | 1,591 | 2,228 |

Paying for public services

As a result of the Harris government's ill-advised tax cuts, Ontario suffered a loss of nearly \$18 billion a year (in 2006-7 dollars) in lost fiscal capacity.

Some of that lost capacity — \$2.5 billion — was restored through the so-called Health Premium.

But that still leaves Ontario in a huge fiscal hole.

To put it bluntly, Ontario currently does not have the fiscal capacity to pay for the public services we need.

The OAB proposes to restore a further \$7.2 billion in fiscal capacity by:

- eliminating costly exemptions in the Employer Health Tax and linking the EHT directly to health care costs, setting rates to raise 18% of health care costs;

- sharing the cost of rebuilding public services more fairly through modest increases in tax rates on incomes above \$100,000 per year;
- moving Ontario's taxes on tobacco products to the levels currently charged in British Columbia;
- adding 2 cents per litre to the provincial gasoline and motor vehicle fuel taxes to promote energy conservation;
- occupying the corporate tax room vacated by the federal government by raising Ontario's corporate tax rates (other than the small business rate) by 2%; and
- tightening up the administration of Ontario's current taxes to generate a 1% annual increase in revenue.

TABLE 8 OAB Framework Summary

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Planned Balance (Target) | (2.2) | (1.0) | | |
| Projected balance w/o reserve | (0.2) | 2.1 | 4.3 | 6.7 |
| Reserve | (1.0) | (1.0) | (1.0) | (1.0) |
| Projected balance with reserve | (1.2) | 1.1 | 3.3 | 5.7 |
| Program Spending | 4.5 | 7.6 | 8.9 | 10.7 |
| Capital (Expense) | 0.3 | 1.0 | 1.6 | 2.2 |
| Total Expenses | 4.8 | 8.5 | 10.5 | 12.9 |
| Additional revenue required | 3.8 | 5.4 | 6.3 | 6.2 |
| New Revenue Sources | | | | |
| Eliminate EHT exemptions | - | 1.4 | 1.5 | 1.6 |
| PIT 2% income + 100,000 | 1.2 | 1.3 | 1.3 | 1.4 |
| EHT 18% of health costs | | 0.8 | 0.8 | 0.9 |
| BC Tobacco Tax Rates | 0.7 | 0.7 | 0.7 | 0.7 |
| Gasoline & motor vehicle fuel 2 cents | 0.4 | 0.5 | 0.5 | 0.5 |
| Tax Administration | 0.6 | 0.7 | 0.7 | 0.7 |
| Corporate Tax 2% Increase | 1.2 | 1.3 | 1.4 | 1.5 |
| Total new revenue | 4.2 | 6.6 | 6.9 | 7.2 |
| Balance | (1.9) | (0.8) | (0.4) | (0.0) |

With these new revenue sources, the OAB matches the timetable of the McGuinty government to reduce the deficit in each year of the four-year plan, balancing the budget in 2010-11.

The McGuinty government has tried to govern as if the Harris government had never existed. As if the incomes of families dependent on social assistance had never been slashed. As if the formula for elementary and secondary education funding introduced by Harris actually worked. As if the more-than-doubling of tuition fees in the Harris era had never happened. As if early childhood education hadn't been decimated by a decade of funding cuts. As if the downloading of provincial responsibilities onto local governments had never happened. As if Ontario's abil-

ity to regulate in the public interest in areas like employment and environment had not been fundamentally compromised by staffing and funding cuts. As if tax cuts had not undermined our ability to pay for the public services we need.

As if none of the elements of the Harris government's record around which it based its 2003 election campaign had ever happened.

Ontarians don't live in McGuinty government's world of the "as if". Ontarians live the Harris legacy — and the government's failure to deal with it — every day.

The Ontario Alternative Budget tackles these issues head-on and lays out a plan to get this province back on track and deliver the services Ontarians need.