



## CEO Bulletin

November 29, 2018

### **Fall Economic Statement charts the course toward difficult 2019 budget**

On Thursday November 15<sup>th</sup>, Finance Minister Vic Fedeli rose in the Legislature to deliver the Ontario PC government's first Fall Economic Statement (FES). This highly anticipated event is second only to the provincial budget in terms of the attention paid to the Minister and the Ministry of Finance every year. The budget and the FES are the two pivotal points to providing a window into the province's finances and how funding decisions are often made.

The PC government, led by Premier Doug Ford, was elected on June 7<sup>th</sup>, partly on a platform of "getting to the bottom" of the state of Ontario's finances. One of the government's first orders of business was to appoint the Independent Financial Commission of Inquiry, led by former British Columbia Premier Gordon Campbell. Its report can be found at: [www.fin.gov.on.ca/en/report/ifci-2018.pdf](http://www.fin.gov.on.ca/en/report/ifci-2018.pdf). Next, the government hired Ernst and Young to conduct a line by review of provincial finances. Completed under an extremely tight six-week timeline. Their report can be found at: [https://files.ontario.ca/ey\\_report\\_2018\\_en.pdf](https://files.ontario.ca/ey_report_2018_en.pdf).

Having reviewed these reports, Minister Fedeli announced in September that the provincial deficit figure was neither what the previous government had presented in its budget nor what had been stated by the Auditor-General. Rather the figure was \$15 billion for the current fiscal year, ending March 31, 2019.

Notably, the Minister began his statement by tabling a bill that will amend, repeal and enact several statutes. The full text of his speech is available at: [www.fin.gov.on.ca/fallstatement/2018/statement.html](http://www.fin.gov.on.ca/fallstatement/2018/statement.html)

The following are highlights from the statement:

#### **FORECAST GDP GROWTH RATE**

For the 2018 to 2021 period, Ontario's economy is expected to grow, with rising employment, higher incomes, improved business investment and gains in exports.

#### **UNEMPLOYMENT RATE**

The government projects that the province's unemployment rate will be at 5.6 per cent by the end of 2018. The unemployment rate for 2016 and 2017 stood at 6.5 per cent and 6 per cent, respectively.



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### TAX CHANGES

The statement notes that recent U.S. corporate tax cuts have eroded what was Ontario's relative tax competitiveness advantage. Using the government's preferred measure of the marginal effective tax rate (METR) on new business investment, prior to the US tax reform, the average US METR was 34.6%, substantially higher than Ontario's 26.5%. However, with the tax reforms, Ontario's METR is now roughly equal to that of the US. Consequently, a number of measures have been introduced to try and ensure Ontario maintains a business tax competitive advantage position, including:

- Advocating for Ottawa to introduce immediate expensing of depreciable assets, similar that done in the US. Ontario will also parallel accelerated depreciation measures introduced by the federal government.
- Not implementing the Budget 2018 measure to eliminate the lower small business corporate income tax rate for some of Ontario's small businesses. This is expected to save approximately \$40,000 annually for about 7,900 Ontario small businesses.
- An increase in the indexation of the Employer Health Tax exemption. This will translate into the first \$490,000 of an employer's payroll (up from \$450,000) being exempt from the Employer Health Tax. This measure is expected to provide about \$40 million in tax savings.

Perhaps the bigger tax change was that introduced for personal income taxes. Promised by the Premier during his leadership campaign and set out in the PC Party election platform, the Fall Economic Statement outlined details for its Low-Income Individuals and Families Tax (LIFT) Credit. Expected to benefit about 1.1 million people, it will take effect January 1, 2019. The credit exempts low-income earners (for example, those working full-time earning the minimum wage) from any provincial income tax (a savings of \$850 for an individual and about \$1700 for a couple). The tax relief is gradually reduced as individuals earn more than \$30,000 (or \$60,000 for a family) to reduce the disincentive to earning more. The credit will provide \$495 million of new tax relief in 2019.

### TRANSPORTATION AND TRANSIT

The statement places a significant focus on transportation issues, particularly in the GTHA. In particular, is the upcoming agency review of Metrolinx. Unspecified amendments to the *Metrolinx Act* indicate the agency may lose some of its mandate, in order to focus more on regional transit delivery and service. It seems that other current Metrolinx functions, including planning policy and investment strategies, may be taken up by the Ministry of Transportation, while the agency will be tasked with a stronger



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implementation role. Also notable was a re-iteration of the commitment to produce a plan for the upload of the TTC's subway system. However, no timeline for this plan has been provided.

Interestingly, the government has pledged to resume work on the GTA West highway corridor, which has been in the planning stages for years and that the previous Liberal government had committed to scrapping.

### **PROGRAMS FOR BUSINESS**

Minister Fedeli spoke of a number of measures for business, in addition to the red tape and regulation-cutting exercise already underway. These include:

- The Open for Business Action Plan with a target to reduce regulatory red tape by 25% by 2022, supported by an on-going review of province's laws and regulations.
- A commitment to introduce a "high-impact burden reduction bill" each fall and spring of the government's mandate.
- Re-iterated support for and leadership of the Cooperative Capital Markets Regulatory System, the effort among Ontario, BC, New Brunswick, Saskatchewan, PEI, Yukon and the federal government to work toward developing a national securities regulator.
- A review of all business support programs to determine effectiveness, value for money and sustainability; all with a view to ensuring Ontario offers a pro-business environment.
- As a response to the LIBOR scandal of recent years, the commitment to amend the existing capital markets legislation to regulate the Canadian Dollar Offered Rate and the Canadian Overnight Repo Rate Average, the two most common Canadian financial benchmarks.
- A public review of current electricity pricing for industrial users. There are few details of how the review will unfold.

### **ENVIRONMENT**

The statement devoted a fair bit of attention to the environment, largely in reminding citizens of the personal savings to be gained from the cancellation of the cap-and-trade program, cancelling of green energy contracts and the scrapping the Green Energy Act. The government also clearly communicated



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that it remains committed to its fight against the federal government on their carbon pricing plan. In its place will be a made-in-Ontario environmental plan, expected to be unveiled in the near future.

### **HOUSING SUPPLY ACTION**

The government used the statement to announce a Housing Supply Action Plan to address housing affordability, particularly in the Greater Toronto Area (GTA). Key elements of the plan include:

- Its launch by the Ministry of Municipal Affairs and Housing in spring 2019, informed by public and stakeholder consultations to begin “immediately”.
- Increasing housing supply by addressing barriers that impede the development of both ownership and rental housing.
- Implementing steps that can be taken to help increase supply quickly, as well as longer term actions that will be introduced over the next 18 months.
- The reintroduction of the rent control exemption that will apply to new rental units first occupied after November 15<sup>th</sup>. Government believes this will help create market-based incentives for developers to build new rental units. However, the Province is keeping its promise to maintain rent control for existing tenants.
- Cancellation of the Development Charges Rebate Program, as the government believes it is an expensive and ineffective method to incentivize new housing supply. Cancelling the program will result in savings of approximately \$100 million to the government over four years.

### **HEALTH AND LONG-TERM CARE**

Health issues in the statement are essentially re-announcements of earlier commitments, including long term care beds and mental health. Reference to the Ontario Drug Benefit plan was made “with the objective of creating an easier to understand, more consistent and more sustainable drug system.”

### **OTHER NOTABLE ITEMS**

Throughout the statement, references to provincial agencies are consistent; the government is reviewing agencies to “ensure that they are relevant, efficient, effective, and use taxpayer dollars wisely.”



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The number of seats in the Legislature required to achieve official party status will increase from 8 to 12, or 10% of the seats in the chamber. Additionally, the per vote subsidy introduced when the previous Liberal government changed the rules for political fundraising activities will be reduced in 2021 and eliminated by 2022 (just in time for the next election).

The number of officers who report to the Legislative Assembly (as opposed to a ministry) is being reduced from nine to six. These include the Environmental Commissioner, the Child and Youth Advocate, and the French Language Services Commissioner.

Building on the PC Party campaign platform promise to expand alcohol sales to any interested corner stores, grocery stores and big box stores, the state announced there will be a comprehensive review of the beverage alcohol sector, particularly retail operations. As a first step, there are expanded alcohol retail hours with sales now permitted from 9 am – 11 pm, 7 days a week. Tobacco taxes will not increase.

### **WHAT THIS MEANS FOR THE FUTURE**

The Finance Minister has set the stage for a difficult budget next spring. Voicing concern for the present status of provincial finances he plainly stated that difficult choices lay ahead for the government and by extension business and citizens. Laying the blame for the current nearly \$15 billion deficit at the feet of the previous government, the current administration has put all Ontarians on notice that everyone, without exception, will be required to make sacrifices in order to lift the province out of its deep fiscal hole. Interestingly however, the statement did not detail a clear path back to a balanced budget. This government had pledged to eliminate the deficit as a key promise, so specific measures to achieve this objective can be expected in the 2019 Budget.

While bleak, the tone of the Fall Economic Statement is not unexpected. This government campaigned heavily on the state of Ontario's finances, promising to clean-up the mess. Historically, governments also make difficult and unpopular decisions early in their mandates with an eye to returning to balance, order and hopefully prosperity in time for the next election. The real question lies in what that road back to balance looks like and we will not see that until next spring.

What is important for the consulting engineering industry and CEO will be our collective ability to demonstrate where our sector provides tangible value for money - that taxpayer dollars spent on professional services to delivery infrastructure are being spent efficiently and effectively. While challenges lie ahead, this new government agenda will also provide us the opportunity to develop, propose and implement new more efficient ways of doing business and delivering projects. This



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government is looking to the private sector to come up with alternative solutions to existing problems which speaks to the nature of consulting engineering.

Should you have any questions about the Fall Economic Statement or the provincial government's agenda and how it is impacting our industry, do not hesitate to contact David Zurawel at 416-620-1400 ext. or [dzurawel@ceo.on.ca](mailto:dzurawel@ceo.on.ca) .