

## A Key Election for Ontario

### OVERVIEW

Ontario's election campaign is highlighting the significant new provincial policy proposals to date in 2018. The Liberals' March 2018 Ontario Budget—*A Plan for Care and Opportunity* ([here](#)) which was passed before the election was called and their platform ([here](#)) outline major new initiatives. The NDP platform, *Change for the Better* ([here](#)) reflects the party's prior endorsement of many of the 2018 Budget's social objectives with its own implementation details. The Progressive Conservatives' *For the People—A Plan for Ontario* ([here](#)) aims to reduce levies and regulation for both households and businesses, trimming the weight of government. This paper summarizes some of the fiscal impacts of the parties' platforms, underscoring their very different consequences.

**After eight years of deficit elimination effort**, the Liberals' March Budget estimated a modest \$0.6 billion surplus for fiscal 2017–18 (FY18) before returning to deficits totalling \$32 billion over the six years from FY19 to FY24 (top chart). The Liberals' practice of incorporating several layers of prudence anchors these estimates (Scotiabank Economics [here](#)) and a return to balanced books is forecast for FY25 with a \$2.6 billion surplus projected for FY26. This new plan replaces the Liberals' former objective of reducing Ontario's net debt, as measured by the Province, to pre-recession levels by FY30 (bottom chart).

**The 2018 Budget substantively extends the social priorities** already adopted by Ontario for more inclusive growth. Leading the new commitments were: \$2.2 billion to provide free licensed child care for children 2½ years to kindergarten age by September 2020; \$1.0 billion to enlarge free prescription drug coverage for youth under 25 years to include Seniors by August 2019; a limited *Ontario Drug and Dental Program* for individuals without coverage; sizeable new mental health and hospital funding; and social and disability assistance simplified and raised by 3% annually for the next three years.

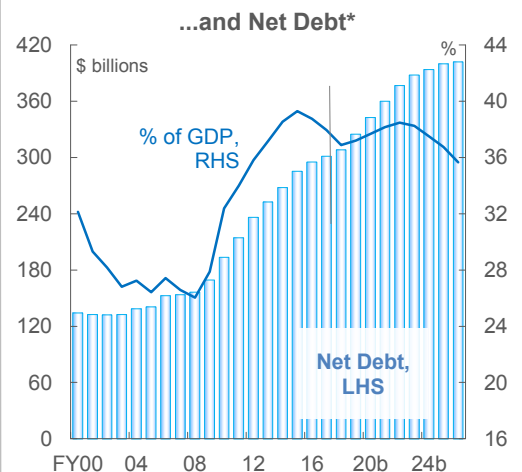
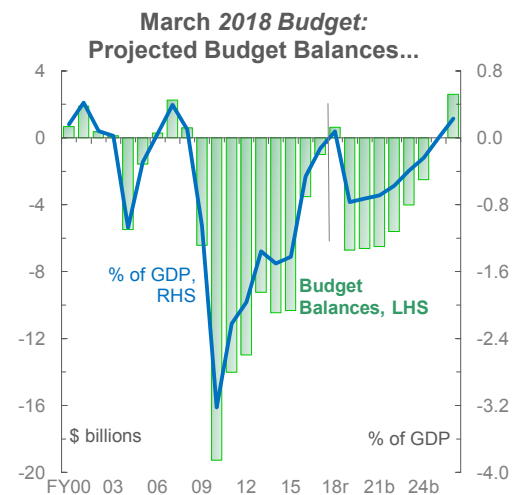
### THE NDP'S PLAN

**The NDP election platform is broad and detailed.** Multiple proposals extend from making Ontario the first Province with universal pharmacare by 2020 to new base hospital funding topping \$2.1 billion by FY23. The NDP aims to provide dental care to every resident through their employer, public dental services or subsidized through a new provincial entity called *Ontario Benefits*. Over time, the NDP aims to enlarge *Ontario Benefits* to cover other benefits such as vision care. Public licensed not-for-profit child care will be funded for infants and toddlers during the NDP's second year and for preschoolers by the third year, at no cost for lower-income families and an average charge of \$12/day for other households. For any student or past student with an outstanding provincial loan, interest owed or already paid will be forgiven at an estimated \$112 million cost. Every post-secondary student qualifying for the *Ontario Student Assistance Plan* will receive a non-repayable grant instead of a loan.

**The NDP's projected deficits from FY19 to FY23 total \$25 billion**, \$4½ billion narrower than the Liberals' forecast shortfalls. Comparisons, however, are complicated by the difficulty of estimating each party's program changes.

### CONTACTS

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\* Net debt as measured by the Province. Sources for charts: Ontario Finance; Statistics Canada; nominal GDP forecasts: Scotiabank Economics.

**Liberals' 2018 Budget Estimates vs Ontario NDP Estimates**

\$ billions except where noted

	FY18e	FY19f	FY20f	FY21f	FY22f	FY23f	FY24f	FY25f	FY26f
<b><u>Liberals' March 2018 Budget</u></b>									
Revenue	150.1	152.5	157.6	163.8	169.5	174.9	180.4	186.5	192.9
Annual % Change	6.7	1.5	3.3	4.0	3.5	3.2	3.1	3.4	3.4
Program Spending	137.5	145.9	150.4	155.8	159.5	162.7	166.0	169.3	172.7
Annual % Change	5.8	6.1	3.1	3.6	2.4	2.0	2.0	2.0	2.0
Debt Service	12.0	12.5	13.1	13.8	14.9	15.5	16.3	16.5	16.9
Annual % Change	2.2	4.8	4.4	5.3	8.0	4.0	4.8	1.5	2.4
<b>Total Expenditure</b>	<b>149.5</b>	<b>158.5</b>	<b>163.5</b>	<b>169.6</b>	<b>174.4</b>	<b>178.2</b>	<b>182.2</b>	<b>185.8</b>	<b>189.6</b>
Annual % Change	5.5	6.0	3.2	3.7	2.8	2.2	2.3	2.0	2.0
Reserve	0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
<b>Budget Balance</b>	<b>0.6</b>	<b>-6.7</b>	<b>-6.6</b>	<b>-6.5</b>	<b>-5.6</b>	<b>-4.0</b>	<b>-2.5</b>	<b>0</b>	<b>2.6</b>
<b><u>NDP Platform</u></b>									
<b>Base Revenue*</b>	-	<b>152.2</b>	<b>157.2</b>	<b>163.5</b>	<b>169.7</b>	<b>176.2</b>			
Difference from 2018 Budget, \$bn	-	-0.3	-0.3	-0.3	0.2	1.3			
<b>Measures to Raise Revenues</b>	-	<b>1.4</b>	<b>3.8</b>	<b>3.9</b>	<b>5.3</b>	<b>5.9</b>			
of which: PIT High-Income Rate Hike	-	0.6	0.6	0.7	0.7	0.8			
General CIT Rate Hike:11.5% to 12.5%	-	-	1.4	1.4	2.1	2.2			
Business Education Tax Fairness	-	-	0.3	0.4	0.5	1.1			
Housing Speculation Tax	-	0.2	0.7	0.7	0.7	0.7			
Revenue Integrity	-	0.4	0.4	0.4	0.4	0.4			
Other	-	0.2	0.4	0.4	0.8	0.8			
<b>NDP Revenue</b>	-	<b>153.6</b>	<b>161.0</b>	<b>167.4</b>	<b>174.9</b>	<b>182.1</b>			
Annual % Change	-	2.3	4.8	4.0	4.5	4.1			
<b>Difference from Liberals' Revenue, \$ bn</b>		<b>1.2</b>	<b>3.4</b>	<b>3.6</b>	<b>5.4</b>	<b>7.2</b>			
<b>Base Prog. Spending Net Budget 2018 Items</b>	-	<b>140.2</b>	<b>144.1</b>	<b>147.5</b>	<b>151.0</b>	<b>154.1</b>			
Annual % Change	-	1.9	2.8	2.4	2.4	2.0			
Budget 2018 Announcements, \$bn	-	-5.7	-6.3	-8.3	-8.5	-8.6			
<b>Total Additional Program Spending</b>	-	<b>5.4</b>	<b>9.1</b>	<b>12.5</b>	<b>14.0</b>	<b>15.8</b>			
Pharmacare for Everyone	-	-	0.5	0.5	0.5	0.5			
Base Hosp.Funding to 5.3% Annual Growth	-	0.4	0.8	1.2	1.6	2.1			
+15,000 Long-Term Care Beds	-	0.2	0.2	0.3	0.5	0.9			
Public Dental Care + Ontario Benefits	-	-	0.7	1.4	1.6	1.6			
Half of Net Transit Operating Costs	-	0.8	0.8	0.8	0.9	0.9			
One-Third Social Housing Repair Backlog	-	0.4	0.4	-	-	-			
Unfreezing College/University Funding	-	0.1	0.2	0.3	0.4	0.5			
Shifting Student Loans to Grants	-	0.4	0.5	0.5	0.5	0.5			
Affordable Child Care	-	0.4	1.1	2.8	3.3	3.8			
Raising Social Assistance/Disability Rates	-	0.8	1.7	2.2	2.3	2.3			
Other	-	1.9	2.2	2.5	2.5	2.6			
<b>Spending Reallocations</b>	-	<b>-0.4</b>	<b>-0.5</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.7</b>			
Negotiate Generic Drug Costs to Hospital Levels	-	-0.3	-0.3	-0.3	-0.3	-0.3			
Other	-	-0.2	-0.3	-0.3	-0.4	-0.4			
<b>NDP Program Spending</b>	-	<b>146.0</b>	<b>153.7</b>	<b>160.6</b>	<b>165.7</b>	<b>170.5</b>			
Annual % Change	-	6.1	5.3	4.5	3.2	2.9			
<b>Difference from Liberals' Prog. Spending, \$bn</b>	-	<b>0.1</b>	<b>3.3</b>	<b>4.8</b>	<b>6.2</b>	<b>7.8</b>			
NDP Debt Service	-	11.6	12.0	12.7	13.6	14.2			
<b>Difference from Liberals' Debt Service, \$bn</b>	-	<b>-0.9</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-1.3</b>			
<b>NDP Total Expenditures</b>	-	<b>157.6</b>	<b>165.7</b>	<b>173.2</b>	<b>179.3</b>	<b>184.7</b>			
Annual % Change	-	5.4	5.1	4.5	3.5	3.0			
<b>Difference from Liberals' Total Spending, \$bn</b>	-	<b>-0.8</b>	<b>2.2</b>	<b>3.6</b>	<b>4.9</b>	<b>6.5</b>			
Reserve	-	0.7	0.7	0.7	0.7	0.7			
<b>NDP Deficit</b>	-	<b>-4.7</b>	<b>-5.5</b>	<b>-6.5</b>	<b>-5.0</b>	<b>-3.4</b>			
<b>Difference from Liberals' Deficit, \$bn</b>	-	<b>2.0</b>	<b>1.2</b>	<b>0.0</b>	<b>0.6</b>	<b>0.6</b>			

\*Ex Hydro One dividends & mining tax rev. sharing with First Nations (\$218mn for five yrs). Sources: Ontario 2018 Budget; The Ontario Liberal Plan for Care and Opportunity; Ontario NDP Party, Change for the Better.

To help finance expanded programs, the NDP proposes a basket of tax increases estimated to boost FY19-FY23 revenues by \$20 billion. Changes include raising the provincial Personal Income Tax (PIT) rate by one percentage point to 21.53% on income over \$220,000, and by two percentage points on income over \$300,000 for a combined federal/provincial top marginal PIT rate of 55.53%. A 3.0% surcharge will be introduced on vehicles sold for more than \$90,000. The current 11.5% general Corporate Income Tax (CIT) rate would increase by one percentage point in FY20 and 0.5 percentage points in FY21. However, firms are expected to realize some savings on pharmacare costs with the Province's greater buying power. Higher receipts are forecast from implementing a uniform Business Education Tax rate across Ontario and \$0.7 billion is expected from adopting an annual Housing Speculation Tax, following the BC model.

The NDP's proposed spending reallocations are forecast to add a more modest \$0.4 billion to the bottom line in FY19, rising to \$0.7 billion by FY22. Aided by narrower deficits, the NDP's assumed debt service averages more than \$1 billion less annually than the Liberals' forecast through FY23.

## THE CONSERVATIVES

The Conservatives' platform (table, p.3) is expensive given the revenues lost from trimming personal and corporate income taxes, cutting power rates by 12% and lowering provincial levies on gasoline by 10¢/litre. To smooth the revenue impact over their first mandate, the decrease in the general corporate income tax rate from 11.5% to 10.5% with a cut of the same amount to the 10% manufacturing/processing rate would be delayed to year 2 and the middle class PIT rate cut would begin in year 3.

For individuals, the minimum wage would not be raised to \$15/hour in January 2019, but workers on minimum wage would pay no PIT via a new tax credit. A 75% refundable PIT credit would help to address child care costs for children up to 15 years.

On the environment and power files, the Conservatives and NDP propose very substantial changes, beginning with the NDP's commitment to return Hydro One to public ownership. The Conservatives would end the existing cap-and-trade framework and resist a carbon tax under Ottawa's pan-Canadian carbon price plan. Eliminating carbon pricing and reducing the provincial fuel tax achieve the Conservatives' promised gasoline price decrease of 10¢/litre.

The election platforms address multiple pressure points, such as municipalities hard-pressed by the operating & capital costs of expanding transit. Ford, supporting subways, would upload responsibility for financing the TTC's new subway lines and its subway maintenance. The NDP would assume half of the net transit and paratransit operating costs for municipalities.

Total revenue and expenditure estimates per annum are not available for the Conservatives' proposals, nor are the details of a promised 4% spending cut, equating to \$6 billion annually, to be achieved through stepped-up efficiencies. Much of the contrast between the Conservatives' and the NDP's proposals relate to the latter's vision of an expanded public sector versus the Conservatives' support for a private- as well as public-sector role in areas such as child care.

Prior elections suggest inevitable and often substantial adjustments to platform promises with a new administration. The size and number of promises in this election suggest that the winner's credibility depends upon proceeding with at least some commitments. Combined with the considerable infrastructure investment plans, little attention is expected towards constraining net debt. Indeed, the return to red ink anticipated in FY19 will likely be challenging for any of the three parties to quickly reverse. Hurdles to near-term fiscal repair include the slower real GDP growth forecast for the next four years compared with the 2¼% annual gains over the last four years and the higher interest rates anticipated.

### Selected Conservative Initiatives

	<u>Annual Cost</u>
	<i>\$ bn</i>
<b>Revenue Measures</b>	
Personal Income Tax (PIT): Middle Class Rate Cut <sup>1</sup>	-2.3
Remove PIT for Minimum Wage Workers	-0.6
75% Refundable Child Care Tax Credit	-0.4
Corporate Income Tax (CIT): General & Mfg Rate Cuts <sup>2</sup>	-1.3
Lower Gas Taxes by 10¢/Litre	-1.2
Ending Auctions of Cap-and-Trade Allowances	-1.9
Directing Hydro One Dividend to Households	-0.3
<b>Expenditure Initiatives<sup>3</sup></b>	
Raise Cap on Risk Management Program for Farmers <sup>1</sup>	0.05
Maintenance of Existing TTC Subway Assets	0.2
Free Dental Care for Low-Income Seniors	0.1
Restore Passenger Rail in North	0.05
Shift Energy Conservation Programs to General Revenues	0.4
Cancel existing <i>Jobs and Prosperity Fund</i>	-0.3

<sup>1</sup>PIT rate cut & lift RMP cap: start year 3. <sup>2</sup>CIT rate cuts: start year 2. <sup>3</sup>Cost estimates for mandate include: \$30mn to challenge federal government on a carbon tax; \$100mn for raising Autism Funding; \$500mn for measures under *Creating a Cleaner Ontario*; \$3.8bn for mental health, addictions & housing. Source: Ontario Conservative Party, *A Plan for Ontario*.

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