

ANALYSIS

Ontario Mini Budget 2020: Extraordinary Times, Extraordinary Measures

SUMMARY

Today, Ontario Finance Minister Rod Phillips delivered what should have been his first, and the Ford Government's second, Ontario Budget. The date for the Budget had been announced some weeks ago. However, given the COVID-19 pandemic and the current emergency that exists in Ontario and around the world, Minister Phillips instead delivered an economic update, more akin to the type of economic update the Minister of Finance tables every November (a.k.a. the Fall Economic Statement).

The Ontario government has largely had this decision forced upon them by events and circumstances. While the Minister has indicated that a complete provincial budget will be delivered at some point this year (by November 15 at the latest), the most immediate needs that have to be addressed are: the health requirements of the people of Ontario and the system that provides them care; and the state of the province's economy. To the government's credit, they have deployed considerable financial and human resources to address both in today's statement.

As of the time we are writing this, Ontario has had 688 residents who have tested positive for the coronavirus. Nine people have died from COVID-19, and eight have recovered. Ontario has tested 35,635 people; 24,458 have tested negative and 10,489 are awaiting results. It is clear from other places in the world, who have been dealing with the coronavirus for weeks before Ontario, that the incidence level will increase, the strains on Ontario's hospitals will intensify, intensive care units will likely be filled beyond capacity, supplies may run low, front-line health care providers will be infected...and you know the rest.

Since the onset of the virus and the disease, the Ford government has been both proactive in its response and responsive when it has needed to be. A Command Table was established fairly early to lead the management of the province's efforts to deal with the crisis. Health Minister Christine Elliott and her team have been working with the major health associations to ensure optimal alignment. Ontario's Chief Medical Officer of Health has been conducting a media availability daily. Staff in other ministries are contributing to what has become a whole of government approach. If you can build or source ventilators, Vic Fedeli's staff over at Economic Development, Job Creation and Trade want to talk to you.

Premier Ford himself has been front and centre in the management of this crisis and has, by most accounts, looked good in doing so. His declarations of priorities, his determination to put all options on the table and his deferral to public health experts for advice will stand him in good stead. We expect that Doug Ford's approval ratings will increase substantially during and in the wake of this crisis.

Today's numbers will likely be juxtaposed to the numbers that have been put forward by the federal government. Obviously, a direct numerical comparison is unfair. The Ontario government does not have to provide for the whole country, just this province. The federal government has greater fiscal capacity than provinces as well. So, rather than compare, it would be more useful to consider what Ontario put on the table today *in addition to* the initiatives put forward by the federal government. In their totality, we can develop a better understanding of what is available for people and organizations in this province.

Before we dive into the contents of Minister Phillips' response, one quick word about the economy. If the economy really is the organized system of human activity involved in the production, consumption, exchange and distribution of goods and services, what do we have right now, today, in this province and in this country? We suggest the answer is we have way less of an economy than we had 4 weeks ago.

Governments are very mindful of this too. The incentives and programs for business that have been unveiled federally and provincially are not for the benefit of a select few. Rather, these initiatives are in an effort keep the economy going, keep businesses (employers) from failing, protect tenants while keeping landlords whole...

Eventually this pandemic will end and, when it does, governments need to think about what life, and their own fiscal positions, will look like.

ONTARIO GOVERNMENT INITIATIVES PRIOR TO TODAY

At Sussex we have been communicating the announcements of the Ontario government during this crisis in real time. We trust you have been receiving them. It may be helpful for a brief recap here:

- 45-day suspension of time-of-use electricity pricing for most residents and small businesses (anticipated hit to the Treasury of \$162-million);
- \$200-million for municipalities and social service providers in their work with vulnerable populations;
- \$304-million in "surge" funding for health care, including \$100-million for increased hospital capacity and \$50-million for more testing and screening through public health;
- A halt on eviction orders and refraining from enforcing eviction orders;
- Passed legislation to provide protections for workers who are absent from work due to COVID-19 (including caring for relatives); and
- \$10-million toward a public education campaign about COVID-19.

ONTARIO GOVERNMENT MEASURES ANNOUNCED TODAY

Most attention – and media headlines – will no doubt be paid to the big (and we do mean big) numbers: a deficit of \$20.5-billion for 2020-2021 and \$17-billion in stimulus measures (comprising \$7-billion in additional resources for the health-care system and direct support for Ontarians and businesses, as well as \$10-billion in support for Ontario families and businesses through tax credits and deferrals to improve cash flow and liquidity).

Beyond those eye-catching numbers, the mini-budget also provided firmer numbers regarding the fiscal position Ontario is in as it tackles the pandemic. For example, the deficit is projected at \$9.2-billion for 2019-2020. This figure is a \$1.1-billion improvement relative to the forecast in the 2019 Budget (but a \$200-million slide from the deficit projection in the 2019 Fall Economic Statement).

To counter the impact of COVID-19, the Province is eschewing the previous plan to achieve a balanced budget by 2023-2024. Rather than continuing to shrink the deficit, Ontario is planning a deficit of \$20.5-billion for 2020-2021.

The other key numbers:

- Projected revenues of \$156.3-billion in 2020-2021, a decrease of \$500-million relative to the 2019-2020 interim projection;
- Program spending of \$161.1-billion, an 8-billion increase from the 2019-2020 interim estimate;
- Real GDP growth for 2019 is estimated at 1.6% (the 2019 Budget projected growth of 1.4%);
- As a result, net debt-to-GDP will be 39.9% in 2019-2020, an improvement from the 40.7% projected in the 2019 Budget, and projected to increase to 41.7% by 2020-2021;
- Approximately 210,200 net new jobs (growth of 2.9%) created in Ontario in 2019, the strongest percentage increase since 2003;
- Projection of no GDP growth (0%) in 2020, a drop from a projection of 1.5% growth in the Fall Economic Statement;
- Expected GDP growth of 2% in 2021, an increase of 0.5% from the projection in the Fall Economic Statement;
- Employment growth expected to slow in 2020 to 0.5%;
- Unemployment rate to increase over the year to 6.6%;
- Wage growth will moderate to 2.7% in 2020 (it was 4.1% in 2019);
- Household consumption will increase by 2.4% (it was 3.6% in 2019); and
- Corporate profits are expected to decline by 2.4% in 2020.

Turning to the stimulus measures, as noted above, there are \$17-billion devoted to these. The health sector sees \$7-billion (set out in more detail below). Relief for Ontario families and businesses is set at \$10-billion, comprised of the following measures:

- A one-time payment of \$200 per child up to 12 years of age, and \$250 for those with special needs;
- A temporary increase to the Employer Health Tax (EHT) exemption, which will provide relief for about 57,000 employers (private-sector employers with total Ontario-based remuneration of \$5-million or less). This exemption will last for all of 2020 and represents a tax cut of \$355-million;
- \$6-billion of liquidity relief (and \$25-million in waived interest and penalties) to Ontario businesses that complements the deferral of Corporate Income Tax owing announced by the federal government on March 18. Specifically, from April 1 to August 31, businesses can defer remittances and payments under the following programs:
 - Employer Health Tax;
 - Tobacco Tax;
 - Fuel Tax;
 - Gas Tax;
 - Beer, Wine and Spirits Taxes;
 - Mining Tax;
 - Insurance Premium Tax;
 - International Fuel Tax Agreement;
 - Retail Sales Tax on Insurance Contracts and Benefit Plans; and
 - Race Tracks Tax.
- Allowing employers to defer payments to WSIB for up to six months. This measure will improve liquidity by \$1.9 billion;
- Deferring the upcoming June 30 quarterly municipal remittance of education property tax to school boards by 90 days. This measure provides municipalities approximately \$1.8-billion of liquidity to fund property tax deferrals to residents and businesses, while ensuring school boards continue to receive their funding;
- Not surprisingly, a number of the relief measures relate to energy, some of which had already been announced. To recap:
 - Time-limited relief for Regulated Price Plan (RPP) customers on Time-of-Use (TOU) rates. Effective March 24th and under the terms of a 45-day Emergency Order (expiring May 7, unless extended), TOU customers will pay 10.1 ¢/kWh for the electricity consumed at every hour of the day (this does not impact delivery or regulatory charges on bills). While the eventual cost to the Treasury depends on actual energy consumption, the estimated cost is \$162-million;
 - Increased spending by \$9 million and expanded eligibility under the Low-Income Energy Assistance Program (LEAP). Administered by electricity and

natural gas distribution companies, the additional LEAP funding will help to support consumers by providing up to \$500 per electricity customer (\$600 per customer on electric heat) and up to \$500 per natural gas customers if bills are in arrears;

- The Electricity Cost Relief Programs, which help to lower RPP electricity bills, has also been continued for the 2020-2021 fiscal year, with \$5.602-billion budgeted. However, this amount will fluctuate based on production costs and consumption. Overall, the amounts budgeted for these relief programs represent an increase of approximately \$1.5 billion compared to the *2019 Budget* plan.
- The creation of a Regional Opportunities Investment Tax Credit, which provides a 10% refundable corporate income tax credit for capital investments made by eligible small businesses in particular named areas of the province. This new tax credit is expected to result in tax credits worth \$25-million;
- Postponing the planned property tax reassessment for 2021, meaning that property tax assessments for the 2021 tax year will be based on the same valuations that were in place for the 2020 tax year;
- Doubling the Guaranteed Annual Income System (GAINS) payment for low-income seniors for six months;
- Expanding access to the emergency assistance program administered by Ontario Works to provide financial support to people facing economic hardship;
- Enhancing funding by \$148 million for charitable and non-profit social services organizations such as food banks, homeless shelters, churches and emergency services. The money will flow directly to Consolidated Municipal Service Managers and District Social Service Administration Boards to determine how best to address local needs;
- Six months of Ontario Student Assistance Program (OSAP) loan and interest accrual relief for students;
- Providing additional supports of \$26 million to Indigenous peoples and communities, including emergency assistance for urban Indigenous people in financial need, and costs for health care professionals and critical supplies to reach remote First Nations.

It should be noted the mini-budget contains a \$2.5-billion contingency reserve. This reserve is significantly larger than the cushion the government sets aside in normal years. This, obviously, is not a normal year.

HEALTH MEASURES ANNOUNCED TODAY

The health sector has a fiscal plan of \$67.8-billion. This is an increase of \$3.3-billion over the interim 2019-20 fiscal plan.

This increase in funding includes \$2.1-billion in new COVID-19 outbreak response measures. These include:

- \$341-million for an additional 1,000 acute care and 500 critical care beds and 25 additional assessment centres;
- \$243-million investment for surge capacity in the long-term care sector, as well as funding for containment including 24/7 screening, more staffing to support infection control, and supplies and equipment to help tackle the COVID-19 outbreak;
- \$100-million for public health funding to support COVID-19 monitoring, surveillance, and laboratory and home testing;
- \$170-million for community capacity and homecare to allow hospitals to direct more resources to COVID-19 patients and investment in virtual care and Telehealth Ontario to allow patients to see their doctor from their own homes;
- \$62-million for health care workers in assessment centres, hospitals and community;
- \$75-million investment to supply personal protective equipment and critical medical supplies to front-line staff to tackle COVID-19;
- Approximately \$80-million for ambulance and paramedic services; and
- Approximately \$70-million for infection control measures in retirement homes, residential facilities and emergency shelters.

The government is also committing to a dedicated \$1-billion COVID-19 contingency fund for any emerging needs to support a timely response.

Additionally, there is a \$1.2-billion increase in health care resources to meet demand for services in the health and long-term care sector. These measures include:

- \$594-million to accelerate progress on the government's commitment to address capacity issues. (There is a total investment of \$935-million to the hospital sector between the two funding categories.);
- \$124-million to support the delivery of more than 90 transitional care projects, creating approximately 1,000 spaces where more than 20,000 patients can move from a hospital bed to a more appropriate transitional care setting;
- \$61-million for publicly funded vaccines to support the province's immunization program to maintain high immunization rates and help prevent disease outbreaks;
- \$62-million to provide more physicians, particularly in rural and remote communities, nurses in hospitals and personal support workers in communities;
- Approximately \$35-million to ensure patients have access to vital blood products, particularly plasma, and support Canadian Blood Services with the establishment of a new plasma site in Sudbury;

- Approximately \$80-million to improve and maintain the quality of care and overall resident experience in long-term care homes, as well as continued funding to increase long-term care capacity and access for residents; and
- Approximately \$23-million for a minor capital program that will support the ongoing repair of homes and allow operators to maintain safe and modern facilities for their residents.

CONCLUSION

Overall, we believe the package of measures announced by the government will be helpful to the health care system and the economy. Whether or not the funding announced for the Ministry of Health is enough will depend largely on our collective ability to contain the spread of the virus. We have no doubt that additional funds will be made available if/when they are required. Many economists and others are predicting further stimulus will be necessary. That being said, the measures announced today will help to stimulate the economy at least somewhat. Only time will tell if the combined federal and provincial measures can keep the economy going. The Minister of Finance and the Premier have emphasized today's mini-budget is the first step in Ontario's response.

As for the opposition parties, they supported the mini-budget, but felt more money is needed for families and needs to get in their pockets immediately.

Finally, the budget was passed today, and the Legislature is now suspended until April 14. That date is important: MPPs are returning on that date because it is when the Legislature would need to renew the state of emergency declaration by the province.

Finally, a word to our valued clients. Although government is an institution, we must recall that it is made up of people, none of whom have had to deal with a global pandemic before, all of whom are under tremendous pressure (drinking out of a fire hose is understating it) and who are themselves feeling anxiety for their health and the health of their loved ones. Just like you and us, they don't have a pandemic manual to refer to.

Our clients have been amazing in realizing this new reality, and while we continue to dialogue with government on your behalf, your patience and understanding has been so very much appreciated – not only by us, but by government staff and elected officials. Please accept our sincere thanks and deepest appreciation for your continued confidence in Sussex. We will all get through this together.

As always, please feel free to contact your Sussex consultant directly.

CONTACT US

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