



Report: COR-FSD-18-17

Region of Waterloo

Corporate Services

Financial Services and Development Financing

To: Chair Sean Strickland and Members of the Administration and Finance Committee

Date: August 14, 2018 **File Code:** F05-80

Subject: **New Provincial Government and Funding of Regional Programs**

Recommendation:

For Information

Summary:

The outcome of the Ontario general election held on June 7, 2018 was the election of a Progressive Conservative majority government with the New Democratic Party forming the Official Opposition. The change in government has resulted in new policy directions in certain areas and such changes could impact the funding of a variety of regional programs and projects. The Region of Waterloo receives almost \$270 million annually in operating grants and subsidies from the province and is reliant on a number of capital infrastructure programs that are provincially cost-shared.

The Throne Speech and several post-election announcements signal changes in policy direction from the new government. In particular, the government has cancelled the carbon cap and trade program and all related infrastructure programs funded through this regime, ended the Basic Income Pilot, reduced the fall 2018 increase in Ontario Works and Ontario Disability Support payments from 3% to 1.5%, and removed eligibility under the OHIP+ program for individuals under the age of 25 who have private coverage. Through the introduction of the "Better Local Government Act," the Province intends to reduce the number of councillors in the City of Toronto and cancel planned elections for the head of council in four Ontario regions. The province has also signalled its intent to decrease

provincial taxes on gasoline and reduce hydro rates.

Report:

An Ontario general election was held on June 7, 2018 to elect the 124 members of the 42nd Parliament of Ontario. The Progressive Conservative Party won a majority government with 76 of the 124 seats in the legislature. The Ontario New Democratic Party formed the Official Opposition. The change in government has resulted in new policy directions in certain areas and such changes could impact the funding of a variety of regional programs and projects.

This report outlines the current level of provincial funding for both operating budgets and the capital program. In addition, an overview of post-election announcements and the Throne Speech delivered on July 12, 2018 is provided in this report.

A. Background – Current Provincial Funding**1. Provincial Operating Grants, Subsidies, and Gas Tax Revenues**

The Region has seen significant increases in provincial funding for a variety of programs, particularly due to the upload of Ontario Works benefits and significant investments in child care. Since 2015, provincial funding for the Region has increased from \$212 million to approximately \$269 million in 2018 (including the Provincial Gas Tax allocation and all in-year 2018 budget adjustments), an increase of over 27% during the term of this Council. As outlined in Appendix A, the majority of provincial funding relates to Community Services and Public Health & Emergency Services programs such as Income Support, Child Care, Homelessness Programs, Long Term Care, Public Health Programs and Services, Healthy Babies Healthy Children, Infant Development, Paramedic Services, Affordable Housing and Public Transit. Other program areas such as the Waterloo Regional Police Service, Library and Cultural Services also receive provincial funding.

2. Capital Infrastructure Funding

The previous provincial government committed long term funding for capital infrastructure relating to public transit, water and wastewater, and affordable housing. Some of these funding streams were initiated by the federal government and for which bi-lateral agreements have been executed. Most programs are cost-shared between the federal government, the provinces and municipalities to some degree. Appendix B provides an overview of such infrastructure funding programs.

B. New Provincial Policies and Direction

1. Post-Election Announcements

In the weeks following the election, the new provincial government has made several announcements, signalling their intention to end funding for certain programs and reversing some of the more recent changes made by the previous government. Details of various announcements are provided below.

The new government has introduced Bill 4 “Cap and Trade Cancellation Act, 2018.” The Bill repeals the “Climate Change and Low Carbon Economy Act,” cancels the cap and trade program and provides a formula for potential compensation for credits. As a result of cancelling the cap and trade program, the following grant programs available to municipalities have been cancelled:

- Ontario Municipal Commuter Cycling Fund
- Social Housing Apartment Improvement Program
- GreenOn Fund
- Municipal Green House Gas Challenge Fund

Details on each of these programs are provided in Appendix B.

The new government will be altering the eligibility criteria under the OHIP+ program for drug cost coverage for individuals under 25 years of age. Under the previous government’s plan, everyone under the age of 25 was eligible for such prescription drug coverage, while the revised plan will cover those under 25 who do not have private coverage. The effective date of this change has not been announced. This is expected to increase employee benefit plan costs at the Region.

On July 31, 2018, the Minister of Children, Community and Social Services announced that the government has set a 100 day deadline to develop a Social Assistance program that “focusses on helping people lift themselves out of poverty.” The previous government had announced a 3% increase to Ontario Works (OW) and Ontario Disability Support Program (ODSP) benefits that would have come into effect this fall. The new government has cancelled the 3% increase, and instead will increase OW benefits by 1.5% effective September 1, 2018 and ODSP benefits by 1.5% effective October 1, 2018. Additionally, the Minister announced that the Province will be winding down Ontario’s Basic Income research project in order to “focus resources on more proven approaches.”

2. Throne Speech - July 12, 2018

The Throne Speech was delivered on July 12, 2018 and outlined the new provincial government's legislative objectives. The government promised to balance the budget on a timetable that is "responsible, modest and pragmatic." Immediate actions included commitments to provide for 15,000 new long-term care beds and \$3.8 billion for mental health and addictions, including housing supports.

The new government intends to reduce provincial taxes on gasoline from 14.7 cents per litre to 9 cents per litre. This will result in reduced tax revenues to the province, and it is unclear whether this will impact the Provincial Gas Tax transfer to municipalities (the Region receives approximately \$11 million annually). The 5.7 cent per litre reduction in the price of gasoline could reduce the Region's total fuel budget by approximately \$750,000.

In conjunction with eliminating the cap and trade program and reducing gas prices, it has committed to lowering hydro bills and ending "unfair, unaffordable green energy contracts that were imposed over local objections."

The new provincial government has committed to finding approximately \$6 billion in savings and efficiencies. Two initiatives have been announced that are intended to assist the government with finding these savings and efficiencies:

- An Independent Financial Commission of Inquiry: The government has appointed Gordon Campbell to lead this initiative. The inquiry will be authorized to assess the previous government's accounting practices. The final commission's report is expected to be released on August 30, 2018.
- An External Line-by-Line Audit: The government has announced a public request for bids from outside experts to perform a line-by-line audit of all government programs and services. The audit will examine the broader public service and will include public consultations. It will provide the government with a detailed analysis of current spending, benchmark this against other jurisdictions and recommend areas that can be improved, including identifying efficiencies and cost savings.

3. Programs Awaiting Provincial Clarification

The future of certain infrastructure funding initiatives administered by the Province is unclear. While bilateral agreements between the Province and the Government of Canada have been signed, program guidelines for the Public Transit Infrastructure Fund Phase 2 (PTIF2) and the Green Infrastructure Fund are currently under development. Consequently, no signed transfer payment agreement exists between the Province and the Region. As outlined in report COR-FSD-18-08 dated April 10,

2018, the Region's announced allocation under PTIF2 alone is \$341 million, comprised of \$187 in federal funding and \$154 from the province.

The previous government signed a bilateral agreement with the Government of Canada in April 2018 for the National Housing Strategy program. To date only federal unilaterally-funded program guidelines have been announced and provincial program guidelines for any cost-shared federal/provincial programs remain under development. The Region has not been allocated funding beyond the current Investment in Affordable Housing (IAH) funding which ends in March 2020. This funding is necessary to support a future Waterloo Region Housing master plan and other housing initiatives.

Through staff report PHE-IDS-18-07 dated June 19, 2018 Regional Council endorsed a recommendation for the Regional Chair to correspond with the Premier Designate as soon as possible to determine the Provincial Government's policy regarding, and support for, supervised consumption services in the context of the opioid crisis locally, provincially and nationally. Although the Premier has indicated his opposition to such sites at various times, the Minister of Health has advised that the merits of safe consumption sites are being assessed.

Staff is also awaiting clarification with respect to the Development Charge Rebate Program put in place by the previous provincial government. This program allocated funding to thirteen municipalities to provide development charge rebates to developers constructing eligible rental housing. A total of \$25 million was allocated over five years to municipalities with low vacancy rates or high tenant populations, where affordable rentals are hard to find. The City of Kitchener was deemed eligible for funding and was approved for approximately \$5.2 million in funding. A transfer payment agreement has not yet been signed between the Province and the Region of Waterloo (whom Kitchener has requested to administer the program on its behalf).

In addition to direct funding from the Province, the previous government implemented changes in legislation related to certain property tax policies. In 2016, the Municipal Act was amended to provide municipalities with broad flexibility to make changes to tax rate reductions for vacant and excess land in the commercial and industrial property classes and vacant unit property tax rebates for commercial and industrial properties. Through report COR-TRY-18-50 dated May 29, 2018 Regional Council approved a phase-out of the tax rate reduction for vacant and excess land through 2019-2020 and the elimination of the vacant unit tax rebate program effective for the 2019 taxation year. The changes to these tax policies are to be implemented through a regulation. Regulations are already in place for a number of municipalities, while others, like the Region, are currently awaiting passing of the necessary regulation.

In preparation for the legalization of cannabis on October 17, 2018, the Province

passed the Cannabis Act, the Ontario Cannabis Retail Corporations Act and made several amendments to the Smoke Free Ontario Act and the Highway Traffic Act. The new government has announced it intends to open a competitive retail market. Changes to the market however may impact municipalities as legalization is only three months away. Earlier this year, the Association of Municipalities of Ontario (AMO) and the Province had agreed to revenue sharing of the Federal excise duty. Municipalities are to receive \$40 million over two years starting as soon as possible following federal Royal Assent and funding was to be allocated on a per household basis. At this time, municipalities have not heard anything further from the new government about this revenue sharing agreement.

The implementation of the changes to the Smoke Free Ontario Act, 2017 that were set to commence on July 1, 2018 have been “paused” by the new government to allow the opportunity to review new regulations related to vaping. This includes the vaping of e-substances (including those with nicotine) and medical cannabis. This announcement came on June 29, 2018 and no further clarification has been received from the Province.

Certain provisions under Bill 148 (Fair Workplaces, Better Jobs Act, 2017) are scheduled to come into effect on January 1, 2019 including a \$1 per hour increase in the minimum wage (from \$14 per hour to \$15 per hour) and the introduction of a minimum of three-hours of pay for on-call provision. The premier indicated his intent during the election campaign to not proceed with the \$1 per hour minimum wage increase. The government has yet to announce its intentions in this regard.

4. Better Local Government Act, 2018

On July 30, 2018 the Province introduced the Better Local Government Act, 2018. This bill amends the Municipal Act, the Municipal Elections Act and the City of Toronto Act. If passed, the bill would reduce the number of councillors and wards in the City of Toronto from 47 to 25 with boundaries aligning with current federal and provincial electoral boundaries. The Act would remove the City of Toronto's ability to establish, divide or dissolve wards or the composition of council. It would also cancel the 2018 election of regional chairs in the regions of York, Peel, Niagara and Muskoka, and reintroduce the ability for regions to determine how their regional chair is selected in 2022 and thereafter. There would be no changes to the powers or methods of selection for chairs in the Regions of Waterloo, Durham, and Halton. All changes under this Bill are intended to be in place in time for the October 22, 2018 municipal election.

While the bill itself does not directly impact the Region of Waterloo, the process by which the legislation was introduced did not include municipal input. This creates a level of uncertainty for municipalities with respect to future provincial policy and

funding decisions. At the same time that the government announced these changes, it also announced that it would be “conducting a review of regional governance across Ontario.”

Corporate Strategic Plan:

The change in government could potentially change the level of funding available for municipal services and infrastructure in the Region. Consequently this change may impact Council’s ability to implement Strategic Plan objectives.

Financial Implications:

The full financial impact on Waterloo Region will become clearer as details of any legislative changes are released by individual ministries. Staff will continue to monitor these changes and will report to Council as required and/or include impacts in the Region’s 2019 Budget. Generally speaking, staff are in a holding pattern with respect to ongoing operational funding. No new funds have been announced; however thus far, no funding has been revoked other than funds related to the cap and trade program.

Other Department Consultations/Concurrence:

All departments have reviewed the financial information for the reporting period and provided input to this report.

Attachments

Appendix A – Provincial Grants & Subsidies for This Term of Council

Appendix B – Capital Infrastructure Funding Programs Application Status Update

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Approved By: Craig Dyer, Commissioner, Corporate Services/Chief Financial Officer

Appendix A – Provincial Grants & Subsidies for this Term of Council

| Division | Programs | 2018 Funding Share (if applicable) | 2015 Budget | 2018 Budget | Change |
|-----------------------------|----------------------------------|---|------------------------|------------------------|---------------|
| Employment & Income Support | Ontario Works Admin | 50% | 14,542 | 14,383 | (159) |
| | Ontario Works Upload | 100% | 6,010 | 6,645 | 635 |
| | Financial Assistance | 100% | 65,400 | 84,606 | 19,206 |
| | Discretionary Benefits | 100% | 2,255 | 2,676 | 421 |
| Children's Services | Fee Subsidy Programs | 80% | 23,121 | 27,339 | 4,218 |
| | Child Care Expansion | 100% | | 13,314 | 13,314 |
| | Wage Subsidy Programs | 100% | 6,735 | 6,775 | 40 |
| | Special Needs Resourcing | 100% | 3,532 | 3,599 | 67 |
| | Other operating grants | 100% | 2,984 | 10,278 | 7,293 |
| Public Health | various programs (Mandatory) | 75% | 20,837 | 20,794 | (43) |
| | various programs | 100% | 6,727 | 7,949 | 1,222 |
| Seniors' Services | Seniors' Community Programs | 80%-100% | 4,094 | 4,197 | 103 |
| | Sunnyside Home | per diem funding | 14,601 | 15,953 | 1,352 |
| Paramedic Services | | 50% | 12,022 | 16,274 | 4,252 |
| Housing | Investment in Affordable Housing | | 144 | 319 | 175 |
| | Non-profit Co-operative Programs | | 1,250 | 1,250 | - |
| | Homelessness programs | | 9,427 | 11,601 | 2,174 |
| Public Transit | Provincial Gas Tax Transfer | | 10,257 | 10,717 | 460 |
| Library & Cultural Services | Operating grants | | 276 | 260 | (16) |
| POA | French language funding | | 172 | 172 | - |
| Immigration Partnership | | 100% | 81 | 101 | 20 |
| Police | Community Policing | | 3,025 | 3,025 | - |
| | Court Security | | 2,811 | 4,954 | 2,143 |
| | Other operating grants | | 1,964 | 1,800 | (164) |
| Total | | | 212,267 | 268,981 | 56,714 |

Appendix B – Provincially Funded Infrastructure Programs

| Infrastructure Program | Program Overview | Funded Through Cap & Trade Program | Regional Project(s) | Status | Regional Allocation under Program (\$millions) | Received to date by Region |
|---|---|------------------------------------|---|---|---|----------------------------|
| Public Transit Infrastructure Fund Phase 2 (PTIF 2) | The Investing in Canada Infrastructure Program provides for \$10.3 billion over the next 10 years. The cost sharing of funding for eligible project spending is 40% Federal, 33% Provincial and 27% municipal. The funding program is “back-end loaded” with only 23% of the funding available in the first five years of the program. Eligible project spending must be completed by March 31, 2028. | | Project list under review. Potential projects include: <ul style="list-style-type: none"> ● Northfield Drive Bus Storage ● Pedestrian Bridge Hwy 7/8 ● Conestoga College Terminal ● Conventional Bus Additions ● Articulated Bus Additions ● Bus Replacements (up to 15%) ● Active Transportation projects | Bi-lateral agreement has been signed and program guidelines are under development | Fed \$187.0 <u>Prov \$154.0</u> Total \$341.0 | \$0.0 |
| Clean Water and Wastewater Fund (CWWF) | The federal government provided funds of almost \$570 million under the initial Clean Water and Wastewater Fund (CWWF). Federal funding for the CWWF is available to fund up to 50% of eligible costs and the province will fund up to 25% of project costs. Funds are allocated based on the amount of water, wastewater and stormwater assets owned by municipalities and their economic conditions. Eligible expenditures must be incurred between April 1, 2016 and March 31, 2019. | | <ul style="list-style-type: none"> ● Upgrades to the Hespeler Wastewater Treatment Plant (WWTP), Preston WWTP and Foxboro WWTP ● Inlet piping upgrades at the Mannheim Reservoir | Transfer Payment Agreement Signed | Fed \$7.1 <u>Prov \$3.6</u> Total \$10.7 | \$7.8 |

| Infrastructure Program | Program Overview | Funded Through Cap & Trade Program | Regional Project(s) | Status | Regional Allocation under Program (\$millions) | Received to date by Region |
|--|---|---|---|--|--|---|
| Green Infrastructure | The Federal Government will provide \$2.2 Billion with an additional \$1.1 Billion provided by the Province over the next 10 years. The green infrastructure stream will support greenhouse gas emission (GHG) reductions, enable greater adaptation and resilience to the impacts of climate change and climate-related disaster mitigation, and ensure that more communities can provide clean air and safe drinking water for their citizens. This stream includes the following three sub-streams: i. climate change mitigation; ii. adaptation, resilience, disaster mitigation; and iii. environmental quality (additional Clean Water & Wastewater initiatives fall under this sub-stream). | | n.a. | n.a. | n.a. | Bi-lateral agreement has been signed and program guidelines and allocations are under development |
| Municipal Green House Gas Challenge Fund Intake 2 | Competitive, application based program that would fund up to 100% of the eligible costs for greenhouse gas emissions reduction projects up to \$2 million per project. |  | Region developed applications for: ● Northfield Transit Facility Photovoltaic System & Electric Bus Pilot ● Anti-idling, Telematics and Electric Vehicles | Program cancelled prior to submission deadline | n.a. | n.a. |
| Provincial/Territorial delivered National Housing Strategy Initiatives | \$14.8 billion in cost-matched funding for the Canada Community Housing Initiative (\$8.6B), Canada Housing Benefit (\$4B), and Provincial Territorial Priority Funding (\$2.2B). | | Application pending approval of Waterloo Region Housing master plan | Program guidelines announced; project submissions open | to be determined | \$0.0 |

| Infrastructure Program | Program Overview | Funded Through Cap & Trade Program | Regional Project(s) | Status | Regional Allocation under Program (\$millions) | Received to date by Region |
|--|--|------------------------------------|--|---|--|----------------------------|
| Social Housing Apartment Improvement Program (SHAIP) | \$556.25 million across the province over a four-year period commencing April 1, 2017 for retrofit activities to social housing units to reduce greenhouse gas emissions. | R | No costs incurred prior to program cancellation | Program cancelled before Transfer Payment Agreement was signed. Costs incurred to date to wind down the Project would have been provided. | \$2.2 | \$0.0 |
| GreenOn | \$25 million to support greenhouse gas reducing retrofits in Social Housing apartment buildings across the province with less than 100 units. | R | A business case was submitted in March 2018. | Program cancelled | n.a. | n.a. |
| Ontario Municipal Commuter Cycling (OMCC) | Across Ontario, 120 municipalities will receive funding from the province for new bike lanes and other cycling infrastructure. Total program funding is \$93 million. This investment is part of Ontario's Climate Change Action Plan and is funded by proceeds from the province's cap on pollution and carbon market. Eligible project spending must be completed by March 31, 2020. | R | Multi-Use Trails along Homer Watson Blvd. and the addition of on-road bike lanes along Fairway Road. | Transfer Payment Agreement Signed and all funds have been received for year 1. Program has been cancelled. | \$2.2 | \$2.2 |