Ontario Alternative *Budget*

Addressing the *real* fiscal imbalance

2005

Contents

Acknowledgments

The Ontario Alternative Budget Working Group is a coalition of labour, social action, community and church groups which have come together to develop budget alternatives for Ontario. The participants in this year's budget project are listed below.

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The Ontario Alternative Budget is a project of the CCPA-Ontario. www.policyalternatives.ca

The 2005 Budget was printed by the Ontario Federation of Labour OPEIU local 343.

CAW 567 OTTAWA

Introduction:
Peering through Dalton McGuinty's fiscal smokescreen

Budget issues dominated the political news at all three levels of government in the first quarter of 2005, underlining the fact that we have not yet recovered from the tax cut mania of the late 1990s and early 2000s.

Premier Dalton McGuinty went on the attack against the Federal Government over Ontario's share of federal spending. Toronto Mayor David Miller and other municipal leaders in Ontario took on the Provincial Government for its failure to address the financial consequences of the unfinanced downloading of the Harris-Eves era. The Federal Government cruised on in blissful ignorance of the severe fiscal problems faced by other levels of government, refusing to acknowledge that its surplus meant little to Canadians suffering through the effects of budget cutting by cash-starved provincial and local governments.

Premier McGuinty talks about fiscal imbalance, as if it means something to the average Ontarian, and mutters darkly about Ontario "flexing its muscles" if nothing is done to give Ontario a fair share of the federal surplus. Prime Minister Martin cites numbers showing that Federal Government transfers to Ontario have increased substantially in the past five years, conveniently ignoring the even more substantial cuts in transfers that he imposed in the five years before that, when he was Minister of Finance.

Meanwhile the same Premier McGuinty who has been complaining about the Federal Government steadfastly ignores the claim from the City of Toronto — in a near-tie with Saskatchewan as the seventh largest government in Canada — that Ontario is not meeting its obligations in shared cost programs with municipalities. For its part, the City of Toronto, despite its financial problems and the failure of either the Federal or Provincial Governments to cooperate in addressing them, refused to increase its own taxes beyond an arbitrary ceiling of 3%.

So Dalton McGuinty blames Paul Martin. Paul Martin blames Dalton McGuinty. David Miller blames Dalton McGuinty. Dalton McGuinty blames David Miller.

And just for a little variety, when the audience gets tired of the federal / provincial / local blame game, provincial politicians have turned to health care, fingering "out of control" health care costs as the beast that ate the provincial budget. Premier Dalton McGuinty rarely fails to mention that escalating health care costs are making it difficult for his government to find room for other priorities. Minister of Finance Greg Sorbara takes great pains to emphasize that getting health spending under control is the key to his government's fiscal plans. Even former premier Bob Rae has jumped into the act, fingering health care's demands on the provincial fiscal system as the reason why there hasn't been and won't be enough money to meet the needs of the post-secondary education system.

It's a pretty good line, as political lines go. Everyone knows health care costs are going up. And Canadians attach such a high value to health care that to suggest taking money out of health care to pay for anything else is an absolute conversation-ender.

Unfortunately, it's not true.

As chart 1 clearly demonstrates, Ontario's spending on health care has not increased as a share of GDP since 1993. In fact, the share of provincial GDP made up by provincial government spending on health care is slightly lower today than it was in 1993.

Health care has gone up as a share of provincial program spending, but that's not because health care spending has increased as a share of our economy; it is because other areas of provincial program spending have gone down as a share of the economy.

Chart 2 illustrates what is actually going on.

It shows health care spending as a share of provincial revenue — with and without the tax cuts that were introduced by the Harris and Eves governments between 1996 and 2003.

Health care expenditures have increased as a share of provincial revenue since 1993, as the solid line in the chart shows. However, if we add the value of Ontario's tax cuts back into provincial revenue to get a measure of provincial revenue potential without the tax cuts, we see the opposite trend. Health care costs have actually gone down as a share of revenue potential.

So the beast that ate the provincial budget is not health care, it is tax cuts.

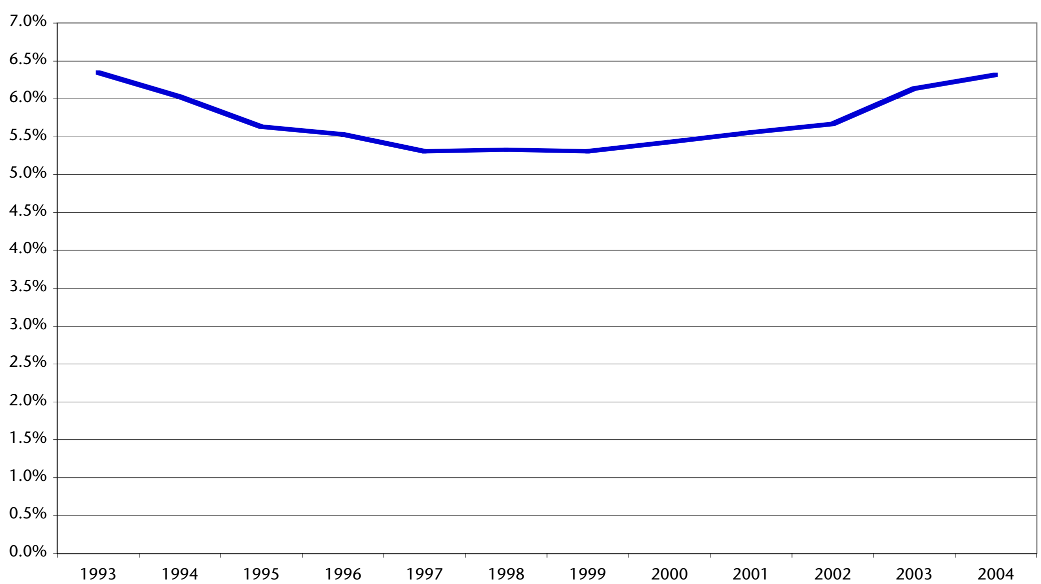
Chart 3 shows the impact of Ontario's tax cuts on Ontario's ability to support program spending in each year since the 1995-6 budget year.

The combined effect of Ontario's cuts in personal income tax, corporate income tax, the Employer Health Tax and other miscellaneous tax cuts implemented in the late 1990s and early 2000s has been to reduce Ontario's fiscal capacity by $14.7 billion. Add in the $850 million additional debt service costs incurred because the Conservatives borrowed money to pay for their tax cuts, and the legacy of the Harris-Eves era is a fiscal hole $15.5 billion deep.

But Ontario was by no means alone in its tax cut mania.

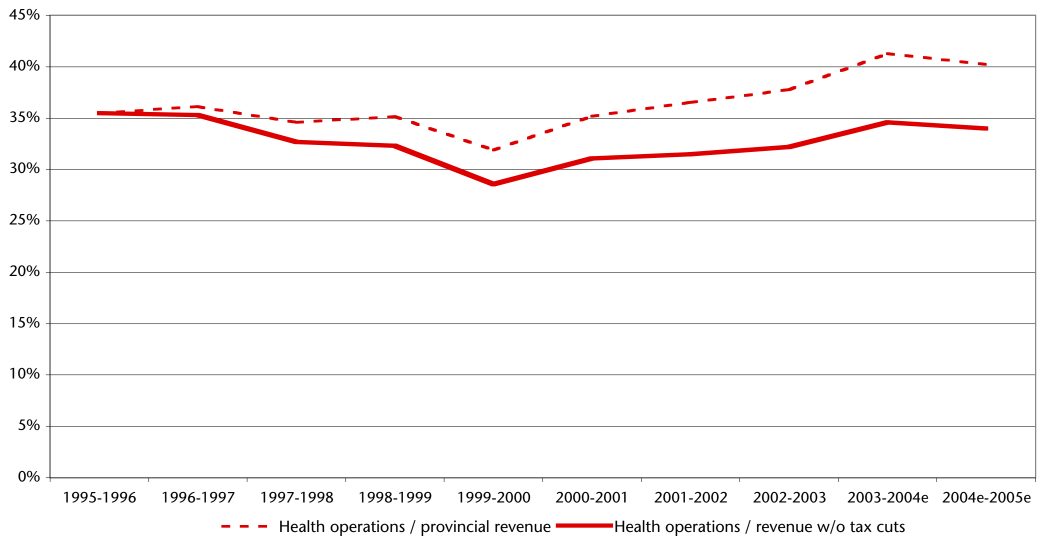
Many Ontario municipalities — most notably the City of Toronto under former Mayor

Chart 1: Health expenditures and the economy
Health expenditures as a share of GDP 1993 to 2004



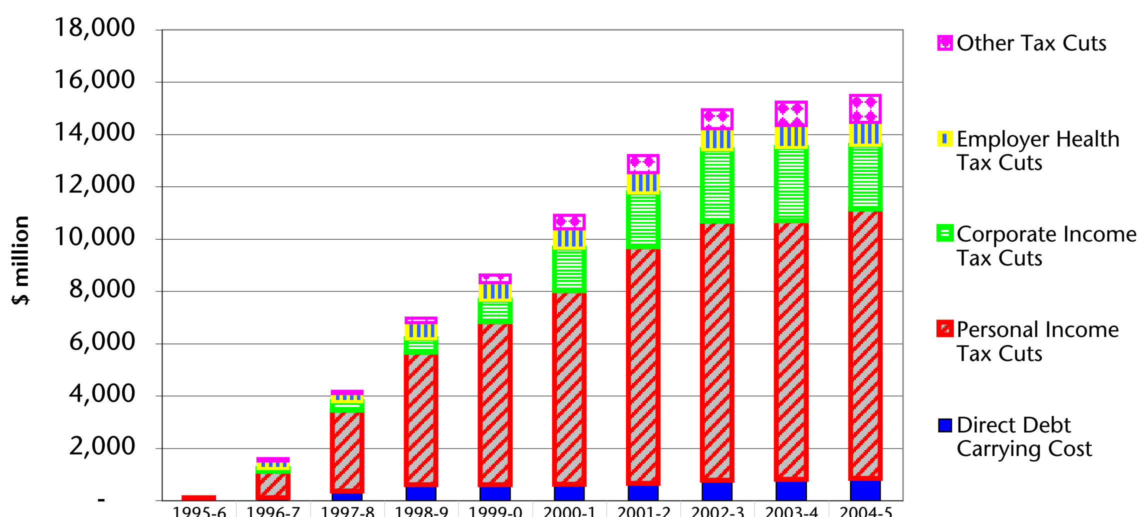
Source: Canadian Institute for Health Information, 2004

Chart 2: Health operating expenditures and provincial revenue Health expenditures as % of provincial revenue 1995-6 to 2004-5



Sources: Ontario Ministry of Finance, Economic Update November 2004; Ontario Economic Accounts, 1995-6 to 2003-4; Department of Finance, Ottawa, unpublished data
Revenue w/o tax cuts = revenue plus tax cuts as estimated by Department of Finance, Ottawa
Expenditure w/o non-health cuts = health expenditure plus 1995-6 non-health expenditures at constant GDP ratio

Chart 3: Annual tax cut impact on fiscal capacity in Ontario Debt carrying cost and revenue loss



	1995-6	1996-7	1997-8	1998-9	1999-0	2000-1	2001-2	2002-3	2003-4	2004-5
Other Tax Cuts	-	85	98	183	295	520	656	724	896	1,024
Employer Health Tax Cuts	-	290	306	613	663	732	768	809	843	883
Corporate Income Tax Cuts	-	110	327	514	824	1,639	2,059	2,723	2,798	2,445
Personal Income Tax Cuts	109	998	3,096	5,059	6,236	7,392	9,050	9,920	9,892	10,297
Direct Debt Carrying Cost	-	111	353	608	608	622	659	766	804	842

Mel Lastman — compounded the problems caused by provincial downloading by sticking to ill-advised tax freezes. Lastman's 3-year freeze on single family residential taxes has left the City with a revenue base $60 million lower than it would have been if he had simply allowed taxes to increase at the rate of inflation. Indeed, the City's 2005 budget crisis is a direct consequence of Lastman's 3-year freeze on residential taxes and Mike Harris' indefinite freeze of taxes on commercial, industrial and rental residential properties. The latter freeze is costing Toronto $90 million a year, and counting.

And at the federal level, the tax cuts introduced by Paul Martin as Finance Minister in 2001 are now costing the federal treasury more than $30 billion a year. When you add in the $6.6 billion annual cost by 2009-10 of the tax cuts introduced in the 2005-6 Federal Budget, by 2009-10, Federal Government fiscal capacity will be $46 billion lower than it would have been without the tax cuts.

So all of this mutual blaming has served to obscure one basic fact. Our governments do not have enough money to pay for the public services we want and need. And the reason why our governments don't have enough money to pay for those services is not because costs are out of control, or because the economy is weak, or because there's a lot of sun spot activity. Governments don't have enough money to pay for those services because they cut taxes far beyond what we could afford and still meet the needs of Canadians.

This may seem academic. After all, the tax cuts have been implemented. Our revenue raising capacity has been reduced. And as the furor over Dalton McGuinty's so-called health premium clearly demonstrates, actions to recover some of that lost fiscal capacity will attract a great deal of political resistance.

But it is not academic, for three reasons. First, through its 'health premium' the McGuinty Government has clawed back the Harris era tax cuts from some Ontarians — those in the lower-middle-income range. That begs the question: why just lower-middle income Ontarians? Why is it that lower-middle income Ontarians are the only income group in Ontario being drafted into the effort to rebuild fiscal capacity? Surely those who benefited the most from the ill-advised cuts — high-income earners and the corporate sector — should pay at least a fair share of the cost of recovering our lost fiscal capacity.

Second, by attempting to direct attention away from the real cause of Ontario's fiscal problems, the provincial government is encouraging us to have the wrong debate. The issue is not what programs can be cut to create fiscal room for new initiatives; the issue is what can be done to rebuild our ability to pay for public programs.

Third, the government's decision to focus exclusively on the spending side of its budget is leading it into a series of service-delivery dead ends. For public infrastructure renewal, it is continuing to explore financing capital spending through public-private partnerships, despite clear evidence that these schemes are both unacceptably costly and damaging to the public interest. For service delivery, it has done nothing to address the damage caused by the previous government's drive to turn community home care services and some correctional facilities over to the private, for-profit sector and refuses to close the door to other schemes to profit from public services.

The government is not without options for rebuilding our fiscal capacity, its claims to the contrary notwithstanding. In the Ontario Alternative Budget for 2005-6, we detail two broad themes under which the government could begin to rebuild our fiscal capacity — themes within which we believe the government would find public support for concerted action.

The first is a campaign against wasteful tax expenditures — costly tax breaks that cost the Ontario treasury billions, while delivering little or no identifiable benefit. We estimate that Ontario could generate additional revenue of $2 billion by closing loopholes in the Employer Health Tax and the Corporate Income Tax alone.

The second is a campaign to enlist all Ontarians — and not just those with low-and-moderate incomes — in rebuilding fiscal capacity. Moderate-income earners have contributed more than their fair share through the health premium. Simple fairness demands that the high-income individuals and corporations that benefited the most from the Harris-Eves tax cuts make a reasonable contribution to rebuilding our lost fiscal capacity. Modest increases in taxes on the 10% of individuals with the highest incomes — those with incomes over $100,000 — and a partial roll-back of the corporate tax cuts of the early 2000s would generate more than $2 billion in additional revenue.

In this introduction to the 2005-6 Ontario Alternative Budget, we focus on rebuilding Ontario's fiscal capacity because the government's claim of poverty is the centerpiece of its effort to get Ontarians to forget the promises it made in the 2003 election to rebuild public services, or to forgive the government for breaking them.

It is just as important to highlight our priorities in the 2005-6 Alternative Budget.

This year, one issue stands out: poverty, and the utter failure of the government to deal effectively with any aspect of the issue.

Our income security system is a disgrace. The amount we expect low-income families and individuals to live on bears no relationship whatsoever to the cost of even the most basic living in this province in 2005. Our social assistance system is oppressive, intrusive and punitive. It immiserates the poor and penalizes those who try to get out of poverty. It purports to encourage work, and then erects obstacles that make taking a job economically irrational.

Virtually every community in this province is dealing in one way or another with the crisis of homelessness. Yet Ontario has not added a single unit of affordable housing since 1995. For five years, there wasn't either a federal or a provincial program that addressed the issue. And for the past five years, Ontario has been either unwilling or unable to take up the limited amount of federal funding that has been made available. We have had announcement after announcement, with not a single unit of housing even approved for construction.

We know that child care is vital to parents' success in breaking into the workforce, yet for all of the government's good intentions, the system remains fragmented and ineffective. We know that early childhood education can be a key to future success in school, yet ideas remain ideas, experiments remain experiments, pilot projects remain pilot projects. If we do not know enough now to take decisive action on early childhood education, we will never know enough to take any action on anything.

The government's failure to address these issues is a social policy failure. The problems are painfully evident. And the government is doing nothing about them. It is an economic policy failure. At a time when policy analysts are becoming increasingly concerned with the potential for labour shortages in the near future, we are wasting the contribution that thousands of Ontarians could be making to the economic life of this province.

Most important, the government's failure to address these issues is a moral failure. Our treatment of families and individuals who live in poverty is not consistent with our self-image as a community that cares about the welfare of all of its citizens. If the test of the value of a policy is how we would feel if it applied to us, our policy on income security is a failure.

That must change. Proposals to start Ontario down the road to that change are the centerpiece of this year's Alternative Budget. Our proposals include not only a new approach to social assistance — for those able to work and for those unable to work — but also a substantial reinvestment in Ontario's social infrastructure at the community level and a reinvestment in provincial labour market regulation to make the labour market both more accessible and more rewarding to every Ontarian who is able to work.

In education, we focus directly on the shortcomings in the provincial funding formula for elementary and secondary education, and highlight the corrosive effects that those shortcomings have on every aspect of public education in this province. The structure of the funding formula reflects the education ideology of the Harris era. It took a narrow, outdated and ultimately destructive view of how public education should be defined, of what its role should be in our society, and of what investments and programs are needed to support its success. The formula does not need fine-tuning; it needs to be reconsidered.

In post-secondary education, the Alternative Budget takes on directly both the recommendations and the underlying logic of the Rae Report. The evidence does not support the government's apparent view that the appropriate response to a decade in which rapidly declining provincial government funding led to record tuition increases is to claim poverty on the government's behalf and to increase tuition still further. The evidence does not support the contention that subsidies for tuition amount to subsidies of the wealthy paid for by the poor. Analysis of the Rae Review's proposals on student assistance does not support its contention that the outcome produced by those proposals would meet the test of fairness.

In accepting a proposal that calls for even higher tuition and that imposes even greater burdens on students from all but the lowest-income families, the government is ignoring the evidence of the negative impact of the current system on students, most notably the evidence that students are graduating with crippling levels of debt and that students are finding themselves forced to work during the school year to make ends meet to the extent that it is compromising their academic performance.

We propose a 10% reduction in college and university tuition to confront the high-tuition orthodoxy of Premier Rae-McGuinty head on.

In health care, we believe the government is making a major mistake in attempting to reform the system without putting substantially increased resources into funding the transition. The record in health care and elsewhere shows that successful attempts at reform cost more in the short term, not less. That is not to suggest that we support giving the health care system and the many powerful vested interests in that system a blank cheque. Our proposal for increased funding over the next two years is based on the conviction that it is not possible to starve a system into reforming itself. It requires both leadership and investment.

Nowhere has the ratio of hot air to action been greater than in the issue of financing for local governments in general and for infrastructure in particular. Despite irrefutable evidence that funding capital projects through direct public borrowing is by far the most cost effective approach, the government continues to explore unnecessarily expensive private sector options that do nothing more than create the illusion of lower public debt.

The Alternative Budget proposes a massive injection of new funding into public infrastructure generally, and into urban infrastructure in particular.

The government's refusal to acknowledge that the issues facing our largest cities are both unique to them and extremely expensive to resolve is a luxury that we must lose. The Alternative Budget lays out a framework for a real new deal for Ontario's largest cities that encompasses both the need for new powers and resources for the City of Toronto and the need to recognize the special needs of large urban areas in other aspects of public policy.

Chapter 1:
A commitment to eradicate poverty

Defining the problem: The income gap

In Ontario, as elsewhere in Canada, the gap between rich and poor is widening. A recent report prepared by Statistics Canada[1] revealed that between 1990 and 2000 incomes among the richest 20% of families have risen by about 10% while total family income stagnated among the poorest 20% of families. Recent immigrants, Aboriginal people and people living with disabilities are among the most affected groups.

Declining social transfers are identified as being a significant factor in the growing income inequality. While many Canadians benefited from the economic growth of the late 1990s, the most marginalized were hit by unprecedented cutbacks to income support programs. Governments mercilessly chopped away at the social safety net in the name of deficit reduction and tax cuts. This was coupled with a stagnant and eroding minimum wage and the replacement of full-time jobs with precarious and low-wage work. More than one million workers in the province earn less than poverty level wages.[2]

The result is enduring and deepening poverty.

Both individual and community health suffers in direct proportion to the gap between the rich and poor. The life and death of Kimberley Rogers is but one of many examples that poignantly tells that story. Daily, people with low income are faced with having to make grotesque decisions between paying the rent and feeding the kids. Despite this, governments have consistently attacked the poor and, by their policy decisions, have chosen to entrench rather than eradicate poverty. Ontario is no exception.

The OAB strategy

Spending now to save later

Income and its distribution, the availability of affordable housing and the provision of social services profoundly influence health. Modest or inadequate government expenditures in these areas are directly linked to increased demand for health care services.

According to statistics from the Organization for Economic Development and Cooperation (OECD),[3] Canada allocates only 18% of the GDP to social spending, just slightly more than the United States (14.6%) but less than the U.K. (20.8%) or Sweden (31%). A mere 3% of Canada's GDP is spent on income support. Studies show that infant mortality rates are linked to the incidence of low-wage earnings, income inequalities and high poverty rates.[4] More generally, the Health Council of Canada states that governments can improve significantly the health status of their citizens by reducing the number of people leading disadvantaged lives. Socio-economic status has been identified as the most important factor contributing to health disparities.[5]

The reduction of income inequalities has been identified as a "health strategy" that may have greater impact on health than reduced wait times and other more usual indicators. One study found that 37% of Winnipeg's premature deaths, 22% of the heart attacks, and 20% of the hip fractures could have been avoided if residents of the less wealthy 80% of neighbourhoods enjoyed health similar to those in the wealthiest neighbourhoods. This would result in a saving of 15% of total expenditures on hospitals and physicians ($62 million in 1999 dollars). Even this figure underestimates the total savings because expenditures on drugs and health care services other than services provided by physicians and in hospital were not included. Also excluded from the study were costs due to lost productivity and costs incurred outside the health care sector.[6]

In a recent review of Ontario's existing social assistance regime, Deb Matthews, Parliamentary Assistant to the Honourable Sandra Pupatello, Minister of Community and Social Services, notes that current social assistance rates have implications for nutrition, housing, participation in community life and physical and mental health. Specifically, Matthews links low rates to increased demand for health care, child protection and other government services.

The OAB is committed to spending now to save lives and dollars later. The elimination of poverty and the reduction of income inequality are key components of our approach.

An integrated response

Poverty is the by-product of an array of government actions and inactions. As we have already noted, Matthews links the need for social assistance to "failures in other sectors of government and society, and conversely, the failure to address the needs of social assistance recipients has a direct impact on the demand for other government services." It is for this reason that the OAB believes that the eradication of poverty requires an integrated response that focuses on:

- decent wages and working conditions;
- adequate and accessible income security programs; and
- quality social and community services provided by unionized public sector workers including affordable housing and child care.

One of the themes of the Harris era's attempt to starve poverty out of existence was to stress the importance of volunteerism and community based private charity as a response to social inequality. In practice, this strategy simply served to underline the fact that private charity cannot possibly serve as a substitute for public policy — private charity could not possibly fill the gap left by the cuts. It also highlighted a fundamental contradiction, reflecting an equally fundamental misunderstanding of how volunteer organizations work. At the same time as it was gutting Ontario's income security system, the Harris government was also systematically destroying the funding base of the thousands of cultural, social, recreational, community service and community action groups which form the core of Ontario's voluntary sector.

The OAB will re-establish a core funding base for the voluntary sector, beginning with a budget of $225 million per year.

Decent wages and working conditions

The McGuinty Liberals made a commitment in the 2004 provincial budget to build a strong economy and to ensure that people in Ontario enjoy a high standard of living. However, ineffective and under funded protection of workers' rights persists and is a factor in the deepening of poverty.

Jobs are increasingly part-time, occasional, contract, seasonal or temporary. The wages are typically low. Workers have no security and no benefits. Women, immigrants from racialized communities and young workers are over-represented in these jobs.

The current employment standards regime in Ontario doesn't reflect current labour market conditions, with the result that workers are left with no protection from unscrupulous employers. The laws need to be reviewed through a process that would involve low-income workers.

In Ontario, approximately 191,000 workers earn the minimum wage.[7] Low wage workers are more likely to be people of colour and women — 60% of workers earning less than $10 an hour are women. Thirty-two percent of workers of colour fall into this group as do 38% of women of colour.[8] Given lax enforcement of employment standards, there are undoubtedly many workers who are paid less than the minimum wage.

In 2003, the Ontario government announced that the minimum wage would increase by 30 cents every February 1 until it hits $8.00 an hour in 2007. Prior to that, the minimum wage had not budged from $6.85 an hour since January 1, 1995. During that time, the real purchasing power of Ontario's minimum wage had eroded by more than 18% due to the steady climb of consumer prices. The increase to $8.00 amounts to a 17% increase - not even a restoration of the loss of purchasing power between 1995 and 2003.

The OAB would immediately raise the minimum wage to $10 an hour indexed and adjusted annually. Contrary to the protests of the Ontario government and some sectors of the business community, raising the minimum wage will help rather than hinder small business. More money in the hands of low-income individuals and families guarantees that millions of extra dollars will be poured into the local economy. Unlike the wealthy, low-income workers spend their money at local small businesses.

It is also not true that employers paying minimum wage are small and struggling family businesses. In 2000, 71% of low wage jobs were in businesses with more than 20 employees; 40% were in businesses with over 500 employees.[9] And it is important to note that $10 an hour barely brings a single person living in a large urban centre to the poverty line.

Increasing the minimum wage means little if it is not coupled with effective enforcement. Employers have learned that they can break employment standards laws without penalty. Of the 350,000 workplaces in Ontario, the Ministry of Labour conducted only 357 inspections in 2004 — that's a 0.1% chance of being inspected.[10] In the few cases where a claim actually succeeds against employers who have violated the law, the employer has only to pay the worker the wages that should have been paid in the first place. No interest or penalty is charged. In 2003, the Ministry of Labour determined that employers owed $28.7 million dollars in unpaid wages to over 15,000 workers in Ontario.[11] Despite that fact, the Ministry initiated only one prosecution in 2003.

Enforcement of employment standards laws is critical to any strategy for eradicating poverty. The Provincial Auditor recently concluded that there is no real or effective protection for workers in Ontario work places. Workers are forced to leave their jobs when their rights to be paid minimum wage, overtime and other basic entitlements are violated. Low-income workers move from one precarious and inadequately paid job to another. When all else fails, there is often no choice but to turn to social assistance.

The OAB would implement the Provincial Auditor's recommendations by ensuring that resources at the Ministry of Labour are redirected and increased to effectively enforce the

Employment Standards Act. To this end, we would hire an additional 100 employment standards officers. Further, we would:

- return the collection of money owed to workers to the Ministry;[12]
- establish an employer paid wage protection plan to ensure workers are paid in cases where an employer claims bankruptcy or disappears without paying;
- require an audit of workplaces in which the Ministry of Labour has supported workers' allegations of violations of the Employment Standards Act; and
- increase funding for the Ministry of Labour to enable it to meet Ontarians' legitimate expectations for effective enforcement of employment standards.

Adequate and accessible income security programs

Social assistance

In Ontario, approximately 675,000 people receive social assistance. The majority have lost their job or their spouse, or have become ill. When people are in crisis, they need financial support to ensure their basic needs are met.

The Ontario government's recent review of the social assistance system, the Matthews report, picks up a major theme contained in the 2004 OAB — that the present program is based on labour market conditions that existed in the 1960s when a job was a clear route out of poverty.

The report makes a number of welcome recommendations designed to ease the transition from social assistance to employment, some of which have already been implemented.

Although the report does not address the issue of adequacy directly, it notes that "low rates affect employability". In particular, Matthews observed that current rates have implications for nutrition, housing, participation in community life and physical and mental health.

The rates of assistance are so low that recipients often have to choose between buying food or paying the rent. The government raised social assistance rates by 3% effective March 2005. A single parent with one child now receives $987 per month from Ontario Works. The inadequacy of the increase is obvious given that the average cost of a two-bedroom apartment is $898 a month,[13] leaving less than $100 to cover food, telephone, transportation and clothing.

It must also be recognized that, by law, the rates inform the allowable asset level for applicants and recipients. For people receiving Ontario Works, the value of assets they are permitted to retain while on assistance is frighteningly low — one month's assistance. Savings must be all but depleted for people to qualify for Ontario Works. Depending on family size, the allowable asset level could be less than the rent for one month. This makes it all but impossible to accumulate the first and last month's rent on an apartment — the normal required deposit — trapping people in inadequate housing and exposing them to the risk of homelessness.

To make matters worse, Ontario continues to deduct the National Child Benefit Supplement (NCBS) each month from social assistance cheques — just over $121 for families with one child and $226 from families with two children.

As the OAB noted last year prior to the 3% increase, given inflation and the 21.6% cut implemented in 1995, welfare rates had declined by about 38% since 1993. Disability rates had been frozen since 1993. The rates are still considerably below any measure of poverty or cost of basic needs including the Market Basket Measure, the Low Income Cutoffs and the Sarlo-Fraser Institute Poverty Line.

The OAB proposes that rates reflect the actual cost of living. This was the recommendation of the jury in the inquest into the death of Kimberly Rogers, the woman who died in her Sudbury apartment while under house arrest after her conviction for welfare fraud. Specifically, we propose:

- shelter allowances based on the average local rents as calculated by the Canada Mortgage and Housing Corporation;
- basic needs allowances based on the Nutritional Food Baskets prepared by local public health units as well as the calculations of the costs of household needs, clothing, transportation and health care as reported in Statistics Canada's Average Household Expenditures;
- the full elimination of the NCBS clawback; and
- asset levels reflecting the cost of living in each community.

The government says the deficit does not permit anything more than the 3% increase to social assistance rates. The OAB responds that both morally and fiscally, we cannot afford *not* to address the inadequacy of social assistance rates. As Deb Matthews stated in her report, inadequate social supports may result in increased demand on and therefore increased costs in the health care and justice systems and Children's Aid Societies. Raising the rates to reflect actual costs of living is not only the right thing to do, it is cost effective.

Despite their rhetoric, the Harris and Eves Governments did little to address barriers to employment faced by people receiving social assistance. Indeed, by destroying Ontario's social housing programs, cutting back on and reducing access to child care and limiting the choices available to social assistance recipients, barriers went up, rather than down.

To address these barriers, we would:

- increase the Employment Start-Up Benefit (ESUB) from $253 to $500; and
- index the earnings exemptions under Ontario Works, retroactive to from 1995.

We also call on the government to implement the following recommendations from the Matthews report:

- free off-peak transit passes for social assistance recipients;
- transportation allowances during the transition to employment;
- increased number of subsidized child care spaces;
- continued access to child care support during transition to employment; and
- individualized employment plans.

We would ease restrictions on earnings while receiving social assistance benefits by eliminating the three-month qualifying period for exempt earnings and eliminating the phased reduction in exempt earnings.

To recognize the reality that many people who want to work face increasingly difficult barriers to employment as they grow older, we would permit Ontario Works recipients to transfer to ODSP at age 60.

Finally, we would broaden eligibility for "in kind" benefits to include the working poor.

One of the biggest barriers for people moving from social assistance into employment or people trying to sustain themselves and their families on precarious and low wages is the insufficient drug and dental benefits available to low income wage earners. These workers are ineligible for public benefits, and work in jobs which typically provide no employment-related benefits.

There are no universal dental services available to low-income families. Some school districts, through public health departments, offer emergency dental services to school age children.

Lack of dental benefits pulls people unnecessarily onto social assistance and keeps them on social assistance for extended periods of time. Social Assistance recipients and their families are able to access limited dental benefits. These benefits are not comprehensive. As a result, people often cannot get access to preventative oral health care and cannot get support until the problem is a crisis and the interventions are extreme, costly and with potentially life long implications.

A job applicant who is afraid to smile because of the holes in his or her teeth does not impress prospective employers.

The Trillium Drug plan, which provides income support for prescription drugs for low income families is inadequate to the real needs of low wage earners. The program is not made known to many low income families; it is excessively bureaucratic; it kicks in only after low income families have already over extended themselves financially; it kicks out at very modest levels of income; and its design exacerbates the cash flow problems that most low income workers experience.

To extend and improve Drug and Dental Coverage, the OAB would allocate:

- $80 million to provide dental coverage to low wage and precariously employed individuals and families on social assistance to include prevention and maintenance; and
- $80 million to improve the accessibility and eligibility of the Trillium Drug Plan for a comparable coverage for low income workers and to improve the prescription drug coverage of Social Assistance recipients.

Income security – cost of reform	$ million
Strengthen enforcement of employment and health and safety standards	25
Establish secure funding base for community organizations	225
Set shelter allowance at actual rent (interim)	400
Increase OW basic needs allowance to Statistics Canada market basket requirement	1,200
Increase ODSP basic needs allowance to Statistics Canada market basket requirement	400
Restore National Child Benefit	200
New investment in job training	250
Increase employment start-up benefit	10
Ease and rationalize asset restrictions in income security programs	20
Index earnings exemptions in Ontario Works	20
Expand dental coverage for working poor	80
Expand drug coverage for working poor	80

Workers' compensation

An ailing workers' compensation system allows employers to evade responsibility for unhealthy workplaces and shifts the costs to government. The OAB would ensure the adequacy and accessibility of the workers' compensation system program by revamping the current system so as to make employers responsible for maintaining the program — the vision of the program set out in the law.

We would revamp workers' compensation by:

- ensuring coverage that reflects total income loss into retirement for all injured workers and in recognition of all work related disabilities;
- establishing a minimum wage loss benefit;
- eliminating the deeming of wages as the basis for the calculation of benefits;
- indexing benefits to the cost of living;
- providing pensions for the duration of the injured worker's life;
- penalizing employers who refuse to continue to employ injured workers or who provide fictional, unsafe return to work options at reduced wages;
- vigorously prosecuting employers who violate health and safety laws;
- eliminating employer experience rating; and
- guaranteeing worker representation on the WSIB board.

Social assistance has become a catch basin for all those falling between the cracks in other income support programs such as workers' compensation. Restoring the integrity of the workers' compensation system and ensuring that employers assume the responsibility for and costs of the program will provide the government with more fiscal freedom in redesigning the social assistance system.

Chapter 2:
Homes for all

The vacancy rate in Ontario's so-called conventional rental sector (which represents perhaps half of the overall rental market) has increased slightly in a number of communities for the second year in a row, prompting private sector landlords and some politicians to declare that the province's affordable housing crisis is over. Lobbyists now say that hundreds of millions of dollars should be handed over to private landlords to help them fill those empty units.

The rental vacancy rate in the conventional rental sector in Ontario rose in 2004 from 3.5% to 4.1%, leading private sector landlords to more desperate pleas for more handouts. Housing allowances (sometimes called rent supplements) paid to private landlords to make up the difference between what a low or moderate-income household can afford to pay, and what the landlord wants to charge for rent, fell out of favour in the 1990s when rental vacancies were low. In fact, the Harris government cancelled thousands of private sector rent agreements in the late 1990s.

But as long as vacancies are on the rise, landlords want some financial relief. In conventional economic theory, when market supply exceeds demand, then the costs should fall. But rents are not dropping in most parts of Ontario, despite the higher vacancies. Landlords want to keep their high rents — and get a handout from taxpayers.

Housing allowances are used extensively in the United States, where economic studies have shown that these payments inflate the rents of all tenants and tend not to reach those households in greatest need. There have been recent experiments with housing allowances in Ontario — notably Toronto's Emergency Homelessness Pilot Project (known as the "Tent City" rent supplements). Housing allowances succeed in the short run in quickly moving people into available units, but they are costly and inefficient over the long run.

Despite these concerns, the Ontario Alternative Budget supports the use of housing allowances as one part of a broader social housing strategy. Some of those allowances can be used as a transitional measure to move people into vacant rental units, but most would be tied to desperately-needed new housing supply.

Canada Mortgage and Housing Corporation's 2004 rental market survey reported that there were a total of 25,460 vacant units in all of the province during the past year. Compare that to the 158,456 households on social housing waiting lists across the province, according to the Ontario Non-Profit Housing Association's most recent survey. If every one of those vacant units was filled, then more than 80% of the households on the province's waiting list would still be waiting for a decent, affordable home.

That's what prompted the chief economist of Canada Mortgage and Housing Corporation, Bob Dugan, to note on the release of the 2004 rental market report: "There are not enough vacant units to meet the needs of all households in core housing need; for example households living in crowded conditions.

Therefore, additional affordable housing units continue to be required."

Ontario's affordable housing crisis and homelessness disaster remain desperate. Fully 565,000 households (that's about 1.5 million women, men and children) are paying more than 30% of their household income on rent — the standard warning sign that rents are unaffordable. That's 42% of the 1.3 million renter households in the province.

The provincial housing crisis has two dimensions: supply and affordability. There are simply not enough homes to meet the housing needs of all Ontarians. And the homes that are available have rents that are too high for low, moderate and often even middle-income renter households.

On the supply side, Ontario has suffered a net loss in the number of rental units at a time when the need for new homes is rising rapidly. The province lost 13,258 private rental units between 1995 and 2002, according to a 2003 technical report from the Canadian Centre for Policy Alternatives. Add to this the estimated 58,800 units on which subsidies were cut by the Harris government from 1995 to 2002, and the total adds up to more than 72,000 units since 1995 — enough to provide homes for almost 200,000 Ontarians.

While the province's renters have suffered a net loss of rental housing, the need for new units grows every year. Federal and provincial studies estimate that Ontario needs between 12,000 to 20,000 new rental units annually to meet the growing need for new affordable homes.

On the affordability side, rents in the private market have risen so high that a growing number of low, moderate and even middle-income renter households have literally been priced out of the market. Or, in the words of a CMHC economist in 2002, rents have reached a "price-sensitive threshold" and many tenants simply cannot afford to pay them. So tenants are forced to double and triple up — two, three or more families living in a one-bedroom unit — and many face economic eviction as they cannot afford to pay the rent, feed the kids and cover the utility bills.

A recent survey by Statistics Canada shows that half of all renter households in Ontario have annual incomes of $23,215 or less. Based on the standard affordability calculation of 30%, about 900,000 renter households can only afford rents of $580 a month or less — yet average rents are 44% higher.

The McGuinty Liberals campaigned in the fall of 2003 on a promise to re-build Ontario's public services. Their specific housing commitments include:

- "almost 20,000 new housing units for needy families";
- "a housing allowance for low-income families [to] provide direct, immediate housing relief for 35,000 families";
- "a provincial rent bank to help tenants with short-term arrears so that they can keep their homes";
- a "priority to the development of affordable housing on Ontario government-owned lands";
- the creation of a new "Ontario Mortgage and Housing Partnership to provide competitive financing rates for non-profit, co-operative and commercial developers who want to build rental housing in Ontario"; and
- a "significant increase [to] supportive housing options for those suffering from mental illness", approximately 6,600 units over four years.

The homeless, low-income tenants and housing advocates welcomed the Liberal promises, even as they warned that the numbers were

Affordable housing	$ million
A new Ontario Housing Supply Program @ 9,300 units per year	650
Ontario's share of Federal-Provincial Affordable Housing Program @ 2,400 units per year (fully funded as of year one)	72
Rent supplements for 40,000 new rent supplement units	178
Housing rehabilitation fund	200
Province re-assumes responsibility for housing	850

too low to meet the real needs of Ontario's renters.

To date, the Liberals have announced $10 million for the rent bank and re-announced a promise made by the Harris government in May of 2002 to provide $2,000 per unit to help build new affordable housing.

The Ontario Alternative Budget proposes a socially and fiscally responsible affordable housing program that includes:

- $650 million annually for 9,300 new provincially-funded social housing units;
- $72 million annually for 2,400 new social housing units as Ontario's share of the federal-provincial Affordable Housing Program;
- $178 million annually for 37,000 new rent supplement units; and
- $200 million annually for a housing rehabilitation fund.

As in previous years, the OAB also proposes to return the cost of social housing programs to the provincial level, where they belong. The Harris government downloaded the cost of co-op and non-profit housing to municipalities starting in 1998.

The OAB housing plan would fund the creation of 11,700 new social housing units every year in Ontario. These new homes, along with the 2,000 or so private rental units that are currently being built annually in Ontario, would — over time — ease the affordable housing crisis and end homelessness in the province.

About one-quarter of the new rent supplement units would be allocated to the new social supply to ensure that low and moderate-income households could afford the rents. The remaining 28,000 units would go to low-income households in existing social or private units that are struggling to pay their rent.

As Ontario's rental housing supply ages, especially the former public housing (known as Ontario Housing Corporation), the housing rehabilitation fund would allow housing managers to maintain the buildings to a proper standard.

Chapter 3:
The early years — It's time for action

The need for a child care strategy for Ontario has never been greater.

Quality early learning and child care services promote healthy child development at the same time as they support families, reduce child poverty, advance women's equality, deepen social inclusion and build a knowledge-based economy. Despite these widely recognized benefits, we have made no progress towards a system that benefits children, families and the future of our province.

We need a child care transformation in Ontario that puts in place the human and financial resources, legislative tools, partnerships, expertise and political will to make an early learning and child care system a reality. In this budget, the OAB sets out a plan for achieving a universal, affordable, publicly funded, not-for-profit early learning and care system for all children aged 0 - 12.

Meeting the needs of Ontario's families

For the vast majority of children and families in Ontario, using regulated child care is not an option. There are simply not enough regulated spaces to meet demand, and programs are often unaffordable for families. Availability of regulated care is considerably less for infants and school-age children, those in rural communities and children with special needs. Kindergarten is universally accessible, but not until children are 4 or 5, and then only for part of the day.

The available stock of regulated child care — including regulated centre and family-based child care, nursery school, and after-school spaces — fails to meet the need of more than 90% of children in Ontario. For the 70% of families where mothers are in the paid labour force, available spaces meet the needs of only 12% of their children.

Decades of ad hoc, piecemeal government policies, a market-driven approach based on parents' ability to pay, declining provincial child care budgets and downloading onto cash-strapped municipalities have caused a serious child care crisis for families with young children.

Long-established child care centres, including community college lab schools, have been forced to close. Parents are having a tough time affording quality child care — if they can find it to begin with. Existing child care centres report difficulties attracting and retaining qualified staff since wages in the sector are low and benefits and working conditions poor.

Instead of being a leader in developing a system of early learning and care that gives children a good start in life, Ontario has fallen behind. We lag behind most other industrialized nations and behind Quebec, which has taken great steps towards a universal child care program since it introduced a systematic and comprehensive child care plan in 1997.

Towards a child care system in Ontario

There are a number of short-term measures that would make an immediate difference in the lives of many of Ontario's families and children. These include:

- removing eligibility restrictions for student parents receiving OSAP, families with RRSPs and RESPs over $5,000 and parents looking for work;
- amending the education funding formula to ensure that space for existing and new child care programs in schools is available to not-for-profit groups at no charge;
- directing school boards to incorporate space for child care centres in every new school in the province where appropriate;
- addressing the issue of increasing wage gaps in the proxy pay equity sector; and
- funding wage enhancement grants (WEG) so that every person working in a not-for-profit child care program has an adequate salary.

While of great importance in the short term, a visionary strategy for child care in Ontario requires bolder steps.

The recent federal budget announced new funding for a national child care system. Ontario will receive $2 billion over the next five years towards early learning and child care, starting with $280 million in the first year. While encouraging, the budget failed to tie any strings to how provinces and territories can spend the funding they receive.

Starting strong: The OAB plan for early learning and child care

Ontario's strategy as outlined in the OAB gives the province an opportunity to kick-start a much-needed, ambitious early learning strategy that will stand as a powerful example of leadership to the federal government and other provinces.

To get to a point where all children in Ontario have access to a universal, affordable, publicly funded, not-for-profit, base funded early learning and care system we must start building now. The OAB will jump-start our plan by matching new federal dollars to early learning and child care. This will mean an infusion of $1.1 billion new dollars in the next two years for child care in Ontario. Existing provincial expenditures in child care ($450 million annually) will also be applied to the transformation and expansion of Ontario's child care system.

The OAB plan will be concurrently phased in, with services for children aged 0-3 and school-age children up to age 12 being expanded at the same time that 4- and 5-year-olds make the transition to a full kindergarten program. By year 10, all children aged 0-12 will have universal access to high quality early learning and care.

The system proposed by the OAB will be community-based and non-profit, providing services that meet the diverse and distinct needs of different communities and families. Services will be universally accessible, regardless of children's abilities, cultural or linguistic backgrounds, or location, and regardless of family income or parents' employment status.

To stay on track, the OAB proposes a plan that includes goals and objectives, timelines and targets, and review and evaluation strategies. In the first two years of this plan, the OAB will take the following steps:

1. Establish and pass framework **legislation** to develop a comprehensive system of high quality early learning and care services. The OAB will enshrine the principles of quality, universality, accessibility, inclusion and developmentally appropriate programming in provincial law.

2. Begin Quebec-style phase-in of **direct funding** and move towards 100% funding of child care delivered by municipalities. Set the following targets for entitlement to uni-

versal services: 4- and 5-year-olds by year 2 (2006); 3-year-olds in year 3 (2007); 2-year-olds in year 4 (2008) and infants in year 5 (2009). In addition, develop targets for entitlements to before- and after-school services for children aged 6-12.

3. Begin transition to wholly **non-profit system**. No one should profit from child care: every dollar of public money should go directly into services. Non-profit child care services provide equitable access, are accountable to governments and taxpayers, and are developed in a way that responds to the real needs of families and communities. As well, a system that is not-for-profit is also necessary in order to prevent challenges under the North American Free Trade Agreement (NAFTA) and the General Agreement on Trade in Services (GATS) that would open the way for large commercial child care chains and undermine child care regulations.

4. Develop a redesigned, integrated, **junior and senior kindergarten program**. The new program would offer a 6-hour core that is free to parents as a universal service. Our strategy also involves immediately implementing base-funding for a new, redesigned 6-hour, full-day junior and senior kindergarten program based on a child-centred, holistic approach.

5. Provide school boards with resources to **create capacity** for all 4- and 5-years olds in the junior and senior kindergarten integrated program in the next three years. New kindergarten programs could be put in off-school sites (hubs) if this better meets community needs (space, numbers, location). Facilities should also be put in all new schools where appropriate to start increasing capacity for all children as they come into the new integrated program.

6. Set a flat **parent fee** to cover extended hours before and after the 6 free hours as well as non-school days during the school year and summer hours. The flat fee will be set so as to recover 20% of total program costs. This fee will be a transition measure until services are available for all children and families free of charge. Subsidy provisions will be set up for families for whom even a small fee is a barrier.

7. Allocate federal/provincial funding to **strengthen and expand the current system for 0-3** and **expand existing child care centres** to provide new capacity for 0-3. Until year 3, 3-year-olds would still use the subsidy system; 2-year-olds until year 4; 1-year-olds until year 5; under 1 year of age until year 6.

8. Develop new qualifications, salary scales and a 10-year **training strategy** for staff delivering early learning and care programs, and assessment and evaluation mechanisms to ensure staff meet occupational standards.

9. Other components of the OAB's plan:
   - Ensure **curriculum** guidelines for all new integrated full-day programs emphasize the importance of play-based learning and support staff development programs;
   - Put in place **tools to evaluate t**he baseline of the current system for rating and monitoring all programs, including new ones receiving base funding;
   - Establish "**transition committees**" in every community to begin coordination of services in practice and development

to neighbourhood early learning and care hubs;

- **Integrate Ontario Early Years Centres** into new child care services. In some communities they could become hubs and increase the capacity for serving ages 0-3; and
- Set up an independent task force/commission to hold **province-wide consultations** in partnership with key stakeholders to determine government jurisdiction and the authority responsible for delivery of services, and the content and scope of legislation.

Next steps: Looking down the road

In subsequent years, the OAB will continue to allocate federal/provincial funding to strengthen and expand a new hub system for children aged 0-3 to catch-up to increased demand and expanding before- and after-school services for children aged 6-12. We will implement early learning and care hubs which will eventually combine all programs in a geographical radius into one hub to coordinate all services.

Our plan in the long-term will also see the end of the existing subsidy system, while introducing a mechanism to support access for those parents for whom a parent fee for extended hours is still a barrier.

As an integrated system for children of all age groups comes on line, we will focus on expanding services and improving quality. The expanded service target is half of the child population 0-12 by the end of year 10.

The time has come to begin implementing meaningful changes that will transform the fragile patchwork of early learning and child care services in Ontario into a coherent and comprehensive system. The OAB is committed to a prudent course of action that lays a critical financial and legislative foundation for the expansion of an affordable program. By taking a measured, long-term approach the OAB is taking the necessary steps to make the vision for a system of early learning and child care services a concrete reality.

Early childhood education and care program	$million
New funding of $560 million each year, for two years	1,120

Chapter 4:
Fulfilling the promise of public education

It is now 18 months since the McGuinty Liberal Government took office; more than two years since former Guelph University President Mordechai Rozanski submitted his final report to the government of former premier Ernie Eves; eight years since the government of former premier Mike Harris introduced its transparently ideological transformation of elementary and secondary education funding in Ontario.

Yet the Government's approach to funding for elementary and secondary education continues on the trajectory established by the Conservatives, as if it had just taken power yesterday; as if the Rozanski Report had delivered the last word on the adequacy of the Harris Government's funding formula; and at least implicitly as if it had no fundamental disagreement with the conservative ideology deeply embedded in the structure of the formula.

In short, the Government is funding elementary and secondary education on a business-as-usual basis, with add-ons to reflect the promises made by the Liberal Party in its 2003 election campaign.

Business as usual will not work

This strategy will not work. Without action soon to address fundamental structural flaws, the current funding formula stands to become as irrelevant to the actual needs and functions of school boards in Ontario as the previous formula had become by 1997. The only difference is that because local property tax funding acted as a safety valve for its inadequacies, it took nearly 20 years for it to become dysfunctional. Without that local funding safety valve, the damage to the education system caused by the current formula is already evident.

The under funding built into the structure of the formula has a number of corrosive effects. Grants ostensibly intended to enable boards to address special needs like the Learning Opportunities Grant and the Language Grant are called upon to offset inadequate funding of basic requirements. So-called "flexibility funding" turns out to be anything but, since for most boards it is required to offset funding shortfalls for core services. In other areas in which funding is inadequate, the level of activity is often cut back towards the level that can be supported by the funding provided. For example, the new funding formula has led to a substantial reduction in adult education programming, as boards trim programs to fit the funding provided. Inadequate funding for school operations and maintenance led boards to defer maintenance to save money in the short term — at a substantial long-term cost.

The inadequacies of the formula also undermine the effectiveness of the government's new initiatives. For example, in school operations and maintenance, the Ministry estimates the deferred maintenance backlog for elementary and secondary educational facilities in Ontario at $8 billion. In the 2004 Ontario budget, one of its major initiatives involved new funding intended to address approximately $2 billion of that backlog. But the fundamental features of the funding formula for school operations that led to the backlog in the first place have not been changed. And unless those features are changed, the process that created the deferred maintenance problem will simply repeat itself.

The government's efforts to improve the system may also be frustrated by the inadequacies of the core formula, even if specific accountability requirements are imposed. Take the new funding for smaller primary class sizes. At best, reducing primary class sizes will impose new pressures in other areas of board operations. For example, the overall average class size requirement for elementary students has not been changed, leaving open the possibility that class sizes in the senior grades will be allowed to increase. Similarly, the reduced primary class size has not resulted in any increase in the classroom space funded per student. Since the size of existing classrooms cannot be changed, this will put increased pressure on boards' budgets for school operations.

Challenging the premises of the elementary and secondary education funding formula

Addressing these problems is not a simple matter of pumping more money into the existing formula structure, because that structure itself reflects a vision for the school system in this province that is at variance with the government's reform objectives.

The principal objective of the Harris government in designing the funding formula was financial — to reduce the provincial government's total financial commitment. The formula's success in doing just that provided much of the fuel for the funding debate. But the funding formula is more than a mechanism for rationalizing funding cuts. In its detailed provisions and restrictions, it reflects a well-defined ideological perspective.

First and foremost, the formula is built around a narrow definition of "education" and of the role of schools in our communities. It makes no provision for community use of schools. It makes no provision for student nutrition and health — programs that have proven positive impacts on learning. It makes no provision for programs to support the role of parents in their children's learning. In its failure to provide funding for the use of school space for child care, the formula embeds the previous government's hostility towards publicly funded and regulated child care. It provides totally inadequate funding for adult education.

Second, the formula is clearly designed to produce equality in funding regardless of circumstances or need, rather than equity. Funding benchmarks are based on province-wide standards, which are completely insensitive to local differences in needs and costs. Even where formula elements were supposedly introduced to generate additional funding for boards with extraordinarily high needs, funding levels were adjusted so that, overall, the outcomes were remarkably similar from board to board. For example, the Learning Opportunities Grant, which was supposed to provide additional support based on the socio-economic characteristics of communities, has been both underfunded and distorted by the introducing factors unrelated to community characteristics.

Third, the distinctions between classroom and non-classroom spending and between "administrative" and "non-administrative" spending around which the formula is supposedly based are unrelated to any coherent perspective on how students learn or how schools support learning. No justification has ever been offered, for example, for classifying teacher preparation time, school principals and vice principals and school operations and maintenance as "non-classroom" expenditure. These restrictions have driven some controversial adverse decisions, for example the closure of Toronto's outdoor education centres, expenditures considered by the Ministry to be administrative in nature. These distinctions may work as populist campaign rhetoric; they have no legitimate place in running a school system.

Fourth, the formula was clearly intended to reflect the Harris government's hostility towards teachers, by putting downward pressure on teachers' salaries. How else can one explain why the formula does not provide sufficient funding to enable school boards to employ the teachers they are legally obligated to employ to meet class size requirements at the salaries they are contractually obligated to pay?

Fifth, the benchmark for school operations and maintenance was set at a level so far below the actual costs incurred by large urban school boards that it can only have been intended to drive boards to contract out these services and drive the Canadian Union of Public Employees out of the education sector. The Harris government in effect tried to use its funding formula to make a change in school board operations that it could not legally have implemented directly. The inadequate level of funding for school operations and maintenance and the insensitivity of the formula to local variations in costs remains a major flaw in the design of the formula and a major contributor to deteriorating maintenance standards in schools.

Sixth, the formula set out to punish large urban public school boards for what the Harris government deemed to be excessive spending and their defiance of the government's earlier attempts to cut funding for education. By under funding those elements that were intended to address largely urban cost drivers, the Harris era formula in practice has been almost completely insensitive to the cost of providing education in urban centres.

Finally, the highly touted requirement that special education funding be spent on special education turns out, on closer analysis, to be a smokescreen for the fact that the formula actually provided for substantially less special education programming than school boards were actually delivering before the formula was introduced.

We believe the government should re-think the whole approach taken to the development of the current funding formula. Specifically, the formula should be re-cast so that it is built from the funding needed to achieve educational goals, from the teacher-student relationship as a base, rather than the current approach, which drives funding decisions from the top down.

As an interim step, the process of rebuilding from the damage caused by the current formula must continue. Base funding in the 2005-6 Alternative Budget provides sufficient funding to maintain the real value of current spending on education. In addition, it provides for additional investments targeted towards addressing the most obvious of the fundamental flaws in the design of the current funding formula.

Addressing fundamental flaws in the funding formula

Class size in the early grades

Educators have welcomed the government's commitment to improving education in the early years. We believe it is critical to continue the process of reducing class sizes in the primary grades. The research on the benefits of small class sizes in the early grades (kindergarten to grade three) continues to mount. Students in small classes (fewer than 20 students) in the early grades, who then return to regular class sizes (about 25):

- do better on measures of achievement;
- are in school more;
- are less likely to display problem behaviours;

- are less likely to repeat a grade or a course;
- are less likely to drop out of school; and
- are more likely to take advanced level courses.

No other single education reform can produce these results. Students learn best in small classes. We would continue to phase in a reduction in class sizes in the early grades with increased funding of $125 million in each of the two years covered by our budget plan.

Funding for school board commitments under pay equity

Nowhere in the funding formula is there any recognition of the legal requirements that school boards face with respect to pay equity. The Ontario Secondary Schools Teachers' Federation estimates that these costs amount to $60 million per year.

The OAB would provide funding to support boards' compliance with these requirements.

Funding for actual credit loads in secondary schools

The funding formula caps its funding for secondary schools at an average of 7.5 credits per student. That funding is made up of a standard of 7.2 credits funded under the Foundation Grant. This amount is topped up under the Teacher Qualifications and Experience Grant, to a maximum of 7.5 credits.

With the elimination of grade 13, many boards experience average credit loads well in excess of the funded maximum of 7.5. The OAB would remove the cap on funding for excess credits, at an estimated cost of $10 million.

Funding for the additional costs associated with technical education

It costs more to provide technical education than it does to provide the regular academic program. Equipment must be kept up-to-date. And to ensure safety and program quality, class sizes must be smaller. Despite this fact, neither the teacher allocation formula nor the school space allocation formula makes any allowance for the additional costs associated with technical education.

As a consequence, many boards are cutting back on their technical schools programs, and those that are continued are starved for funds.

As part of a comprehensive review of what is needed to meet the standards expected of our elementary and secondary schools system in Ontario, the OAB will identify and fund the true costs of providing an appropriate technical education in Ontario schools.

Funding the actual cost of employing teachers

The benchmark in the formula for teachers provides boards with substantially less than their actual teacher employment costs. The consequences are that boards employ substantially fewer teachers than the number contemplated by the funding formula. This under funding has also forced school boards to pull funding out of other areas, contributing significantly to cuts in other programs.

On average across the province, employment costs for teachers are 8.5% higher than the allocation under the funding formula. The total cost across the province to bring teacher funding in the Foundation Grant up to actual costs would be approximately $525 million. A further $125 million would be required to fund foundation grant non-teacher salaries at actual costs.[14]

For the 2004-5 school year, the average class sizes upon which the Foundation Grants for elementary and secondary schools are based would require boards to employ a total of 97,000 teachers. At the rates that teachers are actually paid, however, the teacher allocations under the Foundation Grant permit the hiring of only 89,000 teachers. The funding formula short-changes boards by 8,000 teachers in the Foundation Grant alone.

This calculation does not taken into account the impact of under funding of teacher salaries generated by grants other than the Foundation Grant. Including the teachers implied by these budget allocations would increase the estimated shortfall by a further $500 million — another 6,700 missing teachers.

These two increases would enable boards to hire significant numbers of additional teachers — additional staff that would enable boards both to deliver on their class size commitments and to provide the additional support implied by grants like the Language and Learning Opportunities Grants. This funding increase will be spread out over a three year period to ensure that enough new teachers are available to satisfy the additional demand.

The Alternative Budget increases funding under the Foundation Grant to the level required to employ the number of teachers needed to meet class size requirements and to adjust the non-teacher salary benchmarks in the Foundation Grant by the same percentage as for teachers.

Funding for teachers under grants other than the Foundation Grant will be part of a broader review of the relationship between needs and funding in the funding formula. As an interim measure, as funding for declining enrolment is phased out, it will be reallocated to the teacher components of all grants other than the Foundation Grant.

Funding adequate standards for school operations and maintenance

As it was originally conceived, the provincial formula short-changed school operations, in four respects. First, school operations and maintenance were funded at a level substantially below provincial average costs in 1997. Second, those initial inadequate funding levels failed to keep pace with increases in costs. Third, the space for which funding was provided was based on a uniform provincial standard per student that took no account of the physical characteristics of the buildings actually operated by boards. Fourth, funding allocations took no account of geographic differences such as local labour market conditions, climate and age and condition of existing school buildings.

In practice, this formula has driven unnecessary or shortsighted school closures and forced boards to both siphon funds out of other program areas and allow maintenance standards to deteriorate.

Pending a review of the funding needed to maintain all school buildings in the province to an adequate standard, the 2005-6 Alternative Budget would increase funding for each board to its 1997 costs of operations per square foot, adjusted to reflect projected inflation from 1997 to 2005-6.

The cost of this change would be approximately $235 million.

Adult education

Funding for adult education, on a full-time equivalent per student basis, is just over half of the funding provided for regular secondary school students. The Alternative Budget would fund adult students at the same rate as regular secondary school students. Funding per student would increase from $2,478 to $4,771 plus an adjustment for inflation between 2004-5 and 2005-6, for a total of $144 million.

Learning Opportunities Grant and English / French as a Second Language

The Learning Opportunities Grant and the ESL / FSL grant were intended to account for the increased costs of education in disadvantaged communities and in communities with a significant immigrant population.

However, both grants are substantially under funded, relative to need. The expert panel on the learning opportunities grant recommended $400 million in funding, in 1997 dollars, or $484 million in estimated 2005-6 dollars. In 2003-4, the demographic component of this grant (the portion comparable with the expert panel's recommendation) is $381 million — a shortfall from the original LOG concept in 2005-6 dollars of $103 million.

Although ESL / FSL funding has been increased in recent years, it still falls far below need. For example, the current formula assumes that no additional support is required after a student has been in Canada for four years. In addition, it does not adequately address the needs of ESL students who are not immigrants. To address this funding problem, the Alternative Budget would add a fifth year to ESL funding, at a cost of $47 million.

Elimination of deferred maintenance backlog

The Ministry of Education has announced $150 million per year in additional funding to enable school boards to finance expenditures of $2 billion aimed at reducing the deferred maintenance backlog. The Ministry's own figures put the total value of the maintenance backlog at $8 billion.

The Ontario Alternative Budget would fund the remaining 3/4 of the deferred maintenance backlog on the same basis as the Ministry is using for the 1/4 that has been funded to date. Recognizing that there are capacity considerations that limit the speed with which this backlog can be addressed, the Alternative Budget will provide a further increases of $150 million in the 2006-7 budget year.

Testing

Finally, the Ontario Alternative Budget will recover the $50 million currently spent by the Ministry of Education on province-wide testing of elementary and secondary school students. In providing an illusion of accountability, these tests impose significant costs on both school boards and the provincial government

Continuing elementary and secondary funding renewal	$ million
School board pay equity funding	60
Funding for actual costs of employing Foundation Grant teachers	650
Funding for actual costs of school operations	235
Increased funding for LOG and ESL/FSL	150
Adult and continuing education at regular rate	140
Acceleration of maintenance backlog elimination program by funding $2 billion in investments – annual funding for boards	150
Remove credit cap for secondary school funding	10
Class size reduction phase-in over two years	250
LESS: Savings from eliminating standardized testing	(50)
Annual updates in funding to reflect enrolment and costs	

and consume significant classroom time, while delivering questionable results whose value is not accepted by school administrators and teachers — the very people in the education system who are responsible for delivering education in the schools and in the classroom.

Re-thinking the funding formula

While the Rosanski review of elementary and secondary education in 2002 recommended that the non-salary benchmarks in the funding formula be updated to reflect changes in cost since they were established in 1997, it did not evaluate the adequacy of the benchmarks themselves.

Rather than simply update those benchmarks to reflect cost changes, the Alternative Budget will integrate a first-principles review of all of the non-salary benchmarks into an overall review of the funding formula. The focus of the review will be on what is needed to deliver the quality of education that the people of Ontario expect from their school boards. It will be driven not by body counts, but on accepted standards of what is needed at the classroom, school and system levels to make our education system as effective as it can be.

In the interim, the additional funding provided for 2005-6, including the general increase to reflect increased costs, will ease the financial pressure on the school system.

Chapter 5:
Post-secondary education — improving the system and avoiding traps

This year's Ontario Alternative Budget demonstrates that the provincial government has the fiscal capacity to deliver on its promise to make post-secondary education a priority without downloading further costs onto students.

As former Premier Bob Rae concluded in his review of post-secondary education, "higher education has not been the public priority it should be." There is urgent need for reform and investment.

Rae said more money needs to go into post-secondary education and the OAB agrees. But he only got it half right. We question his underlying premise that post-secondary education yields a private benefit and, therefore, students should be prepared to bear a higher cost.

All public services from kindergarten to health care to road construction yield a private benefit. We have built these public services on the notion that we accomplish more by working together, collectively. For generations, Canadians have provided the education of our youth through our tax system. Quite simply, one generation takes care of the next, to ensure a broader public benefit.

The OAB takes issue with the Rae report's assumption that students can afford to pay more tuition. It ignores two basic facts: (1) Ontario's university tuition levels are second highest in the country; and (2) student debt is at record high levels. It also contradicts Rae's own observation that "in order for post-secondary education to fulfill its role in society, it must be affordable for students."

It is not in the interests of social inclusion and equality-seeking groups for tuition fees to skyrocket. Working families and students from diverse backgrounds will be further marginalized if this trend remains unabated.

Finally, Rae's assertion that higher learning is a private benefit ignores his own observation that 70% of jobs in Ontario require workers with post-secondary education. For Ontario to prosper economically, it is in the province's strategic interest to graduate more students from college and university.

In essence, post-secondary education has become "the new high school." More and more people need it to find jobs, and job satisfaction. The time has come to make a meaningful, multi-year investment plan. The OAB lays out such a plan.

Multi-year funding commitments

The OAB does not endorse downloading the cost of improving post-secondary education onto students who are already financially beleaguered. The province holds the ultimate responsibility, and the fiscal capacity, to cover the operating funding increase that's necessary to make up for years of chronic under funding, to redress the problem of high tuition, and to improve the student aid system.

But how much is enough? Over the next two years, the OAB is allocating an extra $1.5 billion in provincial operating expenditures to bring Ontario to the national average on per student funding.

This investment will yield several needed outcomes, including: enhancing the quality of education in the classroom; addressing the pending faculty shortage crisis; improving student-faculty ratios; increasing support staff such as library and laboratory support staff, trained programmers and technicians, financial aid officers, and qualified security guards. It will, in short, help return excellence to Ontario's network of higher learning.

Once post-secondary education funding is stabilized and Ontario has reached the national average, the OAB will increase the investment, building it up to an additional $2.2 billion — the additional funding Rae estimates it would take to make Ontario a national leader in post-secondary education.

In both stages, the OAB takes immediate action to ensure quality education in the classroom, to lower student-faculty ratios, to increase the number of eligible students who attend university or college, and to boost faculty and support staff. It does so by staving off the twin threats of contracting out and privatization. And it does so by alleviating some of the financial burden students face, allocating new funding to lower tuition and enhance student aid for both university and college students.

Reducing financial barriers: Tuition fees

Despite the current tuition fee freeze, Ontario tuition fees for graduate and undergraduate students are the highest and second highest in Canada, respectively.

Under the previous provincial government, tuition fees increased from 300-700% for programs such as computer animation, dental hygiene, law, medicine, and dentistry. Over the past decade, average university undergraduate tuition fees in Ontario increased by 137% in current dollars.

Today, tuition fee revenue comprises 44.7% of university operating revenue and about 24% of college operating revenue. Increasing numbers of families worry about paying for education and have concerns about the consequences of condemning current and future generations of students to a lifetime of debt.

Numerous American studies have documented the negative impact that rising tuition fees and debt have on access to higher education. Dozens of such studies conclude that high tuition fees and reliance on student debt conspire to limit both the access and aspirations of students from low and modest income families.

These consequences are concentrated among visible minority students and others who face system inequities in the workplace and job market. One study demonstrated that every $1,000 in tuition fee increases made it 20% less likely that a student from a low-income family would complete her program.

The reality is that Ontarians are concerned enough about the cost of a university or college education. A recent survey by Ekos Research Associates found 89% of Ontarians believe the cost of attending university in Ontario is too expensive.

The OAB takes as its starting premise that university and college must be affordable to every eligible student who would like to attend.

The Ontario Alternative Budget provides $320 million to reduce tuition fees by 10%. Such a measure will begin to reverse the tide in Ontario that saw tuition fees double and increase exponentially for programs where fees were deregulated between 1998 and 2004.

Reducing financial barriers: Debt

Ten years ago federal plans to download the cost of college and university onto students and their families through income contingent loan repayment schemes (ICLRs) were resoundingly rejected.

Since then, various governments have tried to resurrect such schemes as an alternative to adequate public funding.

The move last year by the federal government to increase student debt through higher Canada Student Loan limits simply ignores the root cause of student debt in the first place: the absence of up-front grants and high tuition fees.

The Rae report leaves the door open to "go now, pay later" income contingent loan repayment schemes (ICLRs) — but that defies the reality facing most Ontario families.

Rae's "go now, pay later" approach suggests that such a system would make post-secondary education "free at the point of use."

These kinds of "don't pay a cent" marketing ploys have been used in conjunction with furniture and car sales as a means of luring low- and modest-income families onto credit schemes that many cannot afford.

All income contingent loan repayment schemes are predicated on the notion that students should continue to pay higher fees as long as they have unfettered access to credit, repayable after graduation with payments geared to income.

The difficulty with such schemes specifically, and with over-reliance on student loans in general, is that students from modest- and low-income families borrow the most and therefore must pay the most back in interest after graduation. Should the graduate face systemic inequities in the workforce after graduation, heavy reliance on loan debt will only deepen and entrench those inequities.

There is no evidence to suggest that Ontario families should or could absorb higher levels of debt. Statistics Canada reports seven in 10 Canadians are worried about personal debt. The study also shows that over 75% of Canadians are not making headway in paying down their debt.

There is simply no basis for the suggestion implicit in income contingent repayment plans that modest-income working families have the financial means to cope with either higher tuition fees or additional debt.

This year's OAB allocates $300 million to increase access to student financial assistance. Such assistance would include a grant component for all eligible students including both full-time and part-time students. By adding a grant portion for all eligible students, students in need would have access to increased financial resources each year, but would complete their programs with significantly less debt.

The OAB is also implementing a return to the pre-Tory policy days when parents with children could collect Ontario Works or Ontario Disability Support Program (OW/ODSP) and student loans without having to declare part of the student loan — the living needs portion — as income. With this change, their OW/ODSP benefits will no longer be affected by student loans.

Investing in faculty and support staff

The quality of Ontario's university and college education is being jeopardized by chronic under funding.

Enrolment in Ontario's universities increased by 14% between 1992-3 and 2002-3. At the same time, provincial operating grants were cut by 25% (in real terms). Typically, universities have cut departmental budgets and dropped programs to cope, affecting students, faculty and support staff. The number of university students increased by almost 20% between 1987 and 2001 but the number of support staff decreased by 6%.

The story is similar in Ontario's colleges. Between 1995 and 2000 total college enrolment increased 2.8% while the number of full-time employees decreased; administrative staff decreased by 18%; faculty by 22%; support staff by 11%.

As student enrolment rises, so do class sizes. Teaching loads have grown heavier and more duties have been shifted to part-time faculty and graduate students. Full-time staff in Ontario colleges decreased by 22.8% between 1991 and 2000. Meanwhile, part-time faculty and support staff increased by 13% between 1997 and 1998 alone.

Ontario has the highest student-faculty ratio in Canada at 24:1, up from 19:1 a decade ago. Ontario's ratio is 35% higher than in peer jurisdictions in the United States. There are many ways to measure quality within an education system, but student-teacher ratio remains the gold standard. Reducing that ratio is a direct investment in quality education.

There is a further challenge: within this decade, one-third of Ontario's faculty members are due to retire. The Rae Review noted that 11,000 university and 7,000 college faculty will need to be hired by the end of the decade to address faculty retirements, enrolment growth, and the growing student/faculty ratio. While new hiring is finally taking place — after a nine per cent decline in the number of university faculty between 1992-3 and 2002-3 — it does not come close to meeting the needs of our higher education system. We estimate an additional 22,000 new support staff will also need to be hired in universities, as well as an additional 1,610 new administrative staff and 5,810 new support staff for colleges.

Clearly, academic renewal is essential. The answer doesn't lie in more contracting out, privatization, or commercialization. Contracting out does not strengthen the quality of Ontario's universities. Privatization and commercialization of parts of the university, such as support services, leads to increases in contingent employment and increased work loads among support staff. Public money should not be used to facilitate private investment in Ontario's universities and colleges.

This year's OAB allocates a $700 million fund for hiring faculty and support staff, as well as providing funding to develop their skills. Better student services could not be provided without valued, well-trained, fairly compensated and properly treated support staff. Under this package, the OAB sets aside resources for hiring new support staff when a new faculty member is hired.

The Rae report says "an immediate start to graduate expansion is imperative" and we agree. In order to compete globally and prosper economically, Ontario needs to invest in a highly educated and skilled workforce. The OAB adds

Post-secondary education – investing in Ontario's future	**$ million**
Increase annual per-student funding for colleges and universities to Canadian average	1,500
Facilities deferred maintenance upgrades	200
Capital expansion -- facilities	300
Capital expansion – equipment	40
10% tuition cut	320
Student aid improvement	300
Annual updates in funding to reflect enrolment growth and costs	

33,000 university undergraduate spaces, increases college enrolment, and doubles the number of graduate students to 60,000. It follows Rae's recommendation to create a separate funding envelope for this purpose, available on top of the base graduate funding transferred from existing enrolment "corridors." A final measure that will help improve the quality of post-secondary education is to increase funding to university and college libraries.

Funding capital repairs and expansion

The need to renew Ontario's declining university infrastructure is a pressing issue. Almost half of audited university buildings are considered to be in poor condition and require $1.5 billion in capital repairs. Colleges also require significant funds for facilities renewal.

This year's OAB accepts Rae's recommendations to increase capital repair funding by $200 million a year, available to post-secondary institutions over a 10-year period. It also allocates $300 million a year to fund new facilities and $40 million for equipment.

Chapter 6:
Health care — cuts and reform, a toxic mix

In its first 18 months in office, the McGuinty government has begun some positive health policy initiatives. It has made progress on primary health care reform; made investments in community health care; and started a regionalization process that still has the potential to make health care systems more responsive to communities.

However, the government's record has been much less positive in a number of other areas. While it did return MRI and CT scan clinics to the public sector after the failure of the Harris government's privatization experiment, it allowed the William Osler Health Centre and Royal Ottawa hospital public-private partnership (P3) deals to go through, at great public expense.

The Minister of Public Infrastructure Renewal has only committed to public ownership of hospitals; and left open the possibility of private financing and operations.[15]

The overarching weakness in the Liberal government's approach to health care reform is that its initiatives have been limited and to some extent distorted by its perceived fiscal constraints. The government is justifying and structuring much of its reform agenda as a series of cost containment measures. This has led, in some circumstances to a misdirection of policy, and in other circumstances to problems in sequencing and funding of reform measures. This will have a detrimental impact on both the health care system and the health of Ontarians.

Contrary to the explicit premise of the government's approach, health care costs in Ontario are not spiraling out of control. Provincial program spending on health has fluctuated in a narrow range of between 5 and 6% of GDP over the last 10 years. At the same time, health spending accounts for an increasing share of total program spending. Arguments have been made that the increase in the share of program spending taken up by health is due to a number of complex issues from technological changes and poor cost control to demographics. If this were true, then wouldn't it show similar increases as a share of GDP?

In fact, health care's increasing share of total program expenditures reflects something much simpler — policy choices of governments. It reflects the Conservative government's policy of reducing taxes and cutting back on public services. Over the term of the previous government, the province's annual revenue base was reduced by $13.3 billion.[16] This means that tax revenues available were 27% lower than they would have been without the tax cuts. Had program spending remained at its 1995-96 share of GDP, it would have been $10.8 billion or 18% higher in 2003-4.

Investments in reform

As stated above, the Liberal government has made some long over-due investments in the health care system. These include:

- $103 million new dollars for home care during 2004-5 and $29.2 million in new funding for community support services;
- $273 million to increase the provincial share of public health care costs and a further $41.7 million to restore public health;

- $406 million in new funding for long-term care homes, which will grow to $531 million annually;
- $65 million in new funding for community mental health services; and
- $111 million to enhance front-line primary care and create family health teams.

These funds have provided some much needed investments into the community sector and toward reform of primary health care. They will provide increased access both to family physicians and community health services; which will ease pressures on hospitals.

The government is claiming that increased transfers to other sectors must be offset by slower growth in transfers to hospitals. In July, Health Minister George Smitherman announced that hospitals would be limited to a 4.3% increase in operating funding for fiscal year 2004-5. This was less than half the rate of increase in funding to hospitals over the previous two years. At the start of the fiscal year, the OHA estimated that hospital expenditures would rise by 7.9% in 2004-5.[17]

On January 17, 2005, Minister Smitherman announced a further $200 million in one-time transitional funding. He also announced that the Ministry had approved hospital cutbacks that would result in the elimination of 1,145 full-time equivalent positions.[18] We know that many more workers will be affected because of the prevalence of part-time work in the sector. Because of these layoffs, $91 million of the transitional funds — almost half — will be used for severance payments and other costs associated with these layoffs.

We have seen this movie before. Like the Tory government before them, the Liberals don't seem to understand that you cannot provide health care without health-care workers. These layoffs will be harmful to patients and to those who provide care to them. They will also be expensive. These laid off workers will inevitably have to be re-hired, as they have been in the past. Like the Tory government before them, the Liberals don't seem to understand that you cannot force the health care system to reform itself by cutting its funding. Like the Tory government before them, the Liberals don't seem to understand that even reforms that are expected to increase efficiency and reduce costs on the long-term cannot work without increased funding in the short term.

After taking into account the $200 million in transitional funding, the OHA estimates that it faces a further shortfall of over $1 billion in 2004-5 and 2005-6. And, that up to an additional 6,500 positions could be lost as a result of shortfalls.

- The Alternative Budget would ensure that there are no cutbacks in hospital services during this transitional period. It would provide hospitals with an additional $500 million to ensure that Ontarians get the hospital care that they need.

Recognizing health cost reality

The government's fiscal projections suggest increases in baseline health costs in 2005-6 and 2006-7 of 3.3% and 3.5% respectively.

These projections are hopelessly unrealistic. Ontario's population is growing at about 1% per year. In addition, the ageing of our population adds independently to health costs. Even if base health care unit costs were to increase only at the rate of inflation, the government's projections understate likely cost increases. This has two important implications. First, it will lead inevitably to another round of threats of cuts and layoffs, another round of the pointless "he said / she said" debates between vested interests in the sector and the government and another round of "temporary" funding increases. Second, and more important in the long term, putting the health care system in the position of having to scramble for cash threatens the very reform initiatives the government is counting on for its longer-term reform plans.

As we noted above, you don't embark on health care reform to save money in the short term; you don't cut the system to greater efficiency.

This year's Ontario Alternative Budget builds in a 5% increase in the base health budget to account for population growth and the ageing of the population and allow for increases in unit health costs at 1% above the rate of inflation. In doing so, the OAB will avoid cuts in service and give the system the breathing space it needs to implement and absorb reforms.

- The Alternative Budget would increase base health care funding by 5% in each year, at a cost each year of $1.5 billion.

Maintaining the momentum for primary care reform

Primary health care reform will transform Ontario's Medicare program. The Liberal government's expansion of family health networks is a step in the right direction; it is important to keep up the momentum for change.

In addition to the $100 million already set aside for primary care reform in the 2004-5 budget, most of which has not as yet been allocated, the Alternative Budget allocates a further increase of $100 million in 2006-7. The primary health care system should change from doctor-dominated, fee-for-service practices to an expansion of community health centres open seven days a week, 24 hours a day. Salary based teams of health care workers, including doctors, nurses, nurse practitioners, therapists and counselors will work together to make the most of all the talents of the health care team.

Home care and long-term care

The substantial additions to the home care and long-term care budgets for 2004-5 and 2005-6 announced by the government in its 2004-5 budget essentially match the increases called for in the Ontario Alternative Budget in 2004-5.

The focus must now be on reform of delivery, to ensure that these services are properly coordinated and integrated into the rest of the health care system, delivered by community-based, not-for-profit agencies and focused on delivery of high-quality care rather than generation of profit.

Interactions between health care and other issues

Health care programs and costs are closely linked to other public policy issues. As former Saskatchewan Premier Roy Romanow has emphasized repeatedly, many of the most important determinants of health, and therefore of

Health care summary	$ million
Increased hospital funding	500
Primary care reform	100
Maintain existing health investment base (5%)	1,524

health care system usage, lie outside the health care system. Income inequality, employment insecurity and housing adequacy play critical roles in health care costs. Thus investments that address homelessness will produce benefits for the health care system.

By the same token, our failure to address appropriately the issue of homelessness creates real health care needs in many areas. For example, it necessitates further investments in long-term care, infirmary care and palliative care specifically linked to the homeless. The OAB will ensure that sufficient resources are directed to dealing with the health care implications of homelessness.

Another example of these linkages is in the area of mental health treatment, where the cost effectiveness of increased investment in community based "consumer / survivor initiatives" that go beyond narrowly-defined professional care to provide support for mental health consumers and survivors in the community has been clearly demonstrated. The OAB supports the recommendations of the 2004 Ontario Community Mental Health Evaluation Initiative to increase funding for consumer and survivor initiatives by $5 million per year, from the existing mental health budget.[19]

Chapter 7:
Time to reinvest in environmental quality

Ontario's environmental deficit

Public health, an efficient economy, and our children's future: all of these depend on a clean environment. Repeated public opinion polling shows that a huge majority of Ontario citizens support strong environmental laws, even in times of recession and government deficit cutting. Yet one of the Harris Eves era's most dubious achievements was the undoing of the entire environmental protection regime in this province. Its four-part strategy — dismantle environmental laws, weaken the role of government, shut out the public, and sell off our natural heritage — essentially crippled the province's ability to regulate environmental quality in the public interest.

When the people of Ontario "chose change" and elected a Liberal government in 2003, they wanted to see the restoration of environmental protection, policies and programs to significantly reduce pollution and improve public health, and a public power system that will meet Ontario's future energy needs in environmentally sustainable ways.

In their first year in government the Liberals appeared to take small steps in the right direction — the promise of a share of the gas tax for public transit, clean water programs and funds, water-shed based source protection programs, some protection of farm lands and environmentally sensitive areas, a promise to close polluting coal-powered electricity generating plants by 2007 and increased targets for municipal waste diversion.

In its first budget, the new Liberal government announced $52 and $26 million for new clean water programs in the operating budgets of the Minister of the Environment and the Ministry of Natural Resources respectively. But the Ministry of Energy budget was only increased $40 million overall, and the MNR budget was reduced by $13 million from the year before. There has been no real gain in Ontario's capacity to monitor environmental performance or to implement new standards that are badly needed. An effective environmental policy must start by reinstating the enforcement and planning capacity in both the MOE and MNR. We are committed to doing that. We would increase funding for environmental regulation and enforcement in the Ministries of the Environment and Natural Resources $200 million in the next year.

Ontario pays a tremendous price every day for our failure to regulate environmental quality. The Ontario College of Family Physicians is concerned that in southern Ontario Canada's highest levels of smog, caused by urban sprawl, automobiles, industry and coal-fired power plants, on both sides of the Canada U.S. border, cause premature deaths for up to 6,000 Ontarians each year.

To have any serious impact on air quality issues, this government has to make funding for public transit a priority, rather than new spending on highways. Successful public transit systems require greater contributions from senior levels of government than we now see in Ontario. Both the federal and provincial levels of government have agreed to make contributions from gas tax revenue. The province has the authority to determine how the contribution from federal gas tax is allocated to transit systems across the province. The Federation of Canadian Municipalities has recommended that 25% of the Federal Government gas tax revenue earmarked for municipalities be distributed on the basis of transit use and 75% on the basis of population. While we accept that Ontario may feel compelled to follow the FCM guideline, we believe that a greater share than 25% of the revenue should be distributed on the basis of transit use.

Senior government funding for transit operations in Ontario is totally inadequate. Our transit systems are more heavily dependent on the fare box for operating finances than virtually any other transit systems in the world. As a first step, we would revert to the funding formula that existed prior to the cutbacks imposed by the Conservative Government in the mid-1990s. Under this interim arrangement, fares would be expected to cover 70% of operating funds, with subsidies of 15% of operating costs from each of provincial and municipal governments. This support would be over and above local governments' revenue from federal and provincial gas tax sharing.

Capital costs would be shared equally between federal, provincial and municipal governments. The OAB allocates $200 million in the next fiscal year for capital costs and $105 million for operating, in addition to the federal contribution to public transit.[20] Any special projects such as new "smart cards" and new subway construction would require additional funding. This additional funding would be conditional on the withdrawal of all P3 transit plans, such as the ones proposed for York Region and Ottawa. These plans accomplish nothing that normal government borrowing could not accomplish, at a substantially higher cost, and at the expense of public accountability.

Ontario's energy system has a profound impact on the quality of our environment, as well as the strength of the province's economy. The Liberal government is headed down the same path as the Harris-Eves Conservatives, but with more stealth. By requiring that all new power come from private sources — power to replace the coal plants as they are closed, limited development of renewable power sources, power to replace aging nuclear plants reaching the end of their lives, and power to meet any growth in demand — the government's electricity policy will result in the piece-by-piece privatization of all of Ontario's electricity generation within 20 to 25 years.

Private power is more expensive than public power. It will add to the cost of doing business in Ontario and to the cost of providing public services. The government intends to put the cost of long-term, guaranteed-profitable contracts with private companies building new electricity generation facilities right onto our power bills. If the people of Ontario are going to pay for the new plants, they want to get the best deal and they want to own them when they're paid for.

Building increased generating capacity is not the best energy investment for Ontario to ensure that the people of this province have an affordable, accessible, reliable energy supply for the future. The first step must be investments in energy efficiency and conservation. The government is proposing to spend $1 billion over the next 5 years to install "smart meters" in each home in Ontario, charging everyone $3 or $4 extra per month, every month for all time, to pay for them. "Smart meters" and time-of-use pricing don't save power, they allow consumers to rearrange their power usage. There is no evidence that consumers will even be able to save the amount needed to cover the cost of the meters. That $1 billion is better spent on

Environmental investments	$ million
Increased capacity for regulation and enforcement	200
Clean Water Fund	250
Transit operations	105
Transit capital	200
Energy efficiency and conservation programs	200

serious energy efficiency and conservation programs.

Investments in energy efficiency have been found to produce four times more jobs than equivalent spending in new supplies of conventional energy. We are lagging behind Europe and Japan in utilizing new energy-efficient technologies and techniques, even though these new approaches could reduce energy cost, improve air quality, improve public health, stimulate new industries, and create new jobs. We support implementation of the Low Income Conservation Program proposed by the Low Income Energy Network. That program is funded through electricity bills. The Alternative Budget calls for $200 million — funded from provincial general revenue — for new programs supporting energy conservation and efficiency.

Many of the ideas we can use have already been developed in other jurisdictions around the world. In these days of rising worldwide temperatures and shrinking ice caps, what we need in Ontario is the political will to take on our environmental deficit for the crucial challenge it really is. This budget would be an important first step in the right direction and provide a base for much more innovative and creative solutions for the future.

Chapter 8:
Rebuilding infrastructure

That Ontario faces a crisis in public infrastructure is hardly news. That fact has been obvious for more than a decade. The evidence of the wide and growing gap between what we need and what we have is uncontested. And the basis of the problem — under-investment by the provincial government and the agencies for which it is ultimately responsible — is equally obvious.

As a province, we have not been building new public infrastructure to keep pace with need. We have not built a single unit of social housing in nearly ten years. The Walkerton Inquiry condemned our water and sewage treatment facilities as inadequate. Public transit investments — particularly in the Greater Toronto Area — are falling far short of demand.

Nearly 20 years of negative pressure on operating funding for schools, hospitals, colleges and universities and municipalities has limited investment in new facilities to accommodate growth and driven a steady deterioration in the state of good repair of existing facilities as funds have been diverted from capital into operations, and maintenance has been deferred, and deferred and deferred again.

Estimates of the infrastructure funding shortfall amount to billions of dollars, in every sector of the public economy.

According to Statistics Canada, Ontario's public infrastructure is valued at $240 billion. The Government of Canada owns approximately 12%. The rest — an estimated $211 billion — is either owned directly by the provincial government or owned by transfer payment agencies for which the provincial government is ultimately responsible. Just to maintain this capital stock in a state of good repair through life cycle replacement is estimated to cost 3% of the value of the stock, currently about $6 billion a year. That amount will tend to increase over time as the size of the capital stock grows and as repair and replacement unit costs increase.

That amount doesn't take into account the need for public infrastructure investment to keep pace with growth. Since for most public infrastructure, demand is related to the needs of the economy, we should expect to increase the stock of public infrastructure at a rate roughly equal to the rate of real growth in the economy. With long-term real growth at roughly 3%, annual capital expansion requirements will also require an investment of approximately $6 billion, indexed to unit costs.

And these numbers do not address the backlog of deferred maintenance and unmet needs for new facilities created by prior years' funding constraints.

None of this should be surprising.

What is surprising is the failure of successive governments to come to terms with the problem.

Governments are approaching the infrastructure funding problem as if there is some magic, undiscovered pot of money out there that will enable them to avoid paying the political price for years of neglect — as if involvement of the private sector in public infrastructure is some kind of magic bullet for funding shortfalls. Unfortunately for governments trying to avoid tough choices, the idea that private sector involvement will enable governments to avoid costs is an illusion.

Even the initial premise is false. It is not true that the private sector is not now involved in either the construction or the financing of public infrastructure. Almost all infrastructure construction is carried out under contract by private construction companies and builders. And the financing of public infrastructure is generally funded through the issuance of bonds, which are sold in private sector markets.

There are five primary differences between traditional public sector capital investment and so-called public-private-partnerships, or P3s. First, the private sector developer generally retains some degree of control of the asset for a considerable period of time, often as the exclusive operator. Second, the private sector developer expects to earn a profit over and above normal borrowing costs, and that expectation is build into the financing structure for the project. Third, the private sector developer, as the borrower of the capital needed to fund the project, will pay interest based on its credit rating, which will generally be lower than that of any government-backed agency. The resulting higher interest cost will be built into the financing structure for the project. Fourth, in some cases income is generated for the project through user fees. Fifth, the cost of the project will not appear on the government's books when the project is completed. Instead, the costs will appear on the books spread out over time as the payments are made under the contract.

Three of these differences are clearly negative. One need only look to Highway 407 for an example of the problems associated with loss of public control. Or for an example closer to home for the Liberal government, consider the economics of the P3 at the William Osler Health Centre in Brampton. As a result of paying more to borrow the money needed to build the hospital through the P3 than it would cost the government to borrow the money itself, Ontarians are paying 30% more for this facility than it would cost to do it using conventional financing in the public sector. These examples demonstrate that the profit and higher interest costs inherent in P3s amount to paying a private operator for a financing transaction which the government could do itself for substantially less money.

One is neutral. The only obstacle to the government itself levying user charges is political. It would appear that governments interested in P3s believe that the public is more willing to accept a user charge levied by a private operator than one levied by the government.

And the final difference is a quirk of the nonsensical way governments account for capital investments. Under the accounting rules that applied until 2001 in Ontario, all capital spending was counted as a cash cost in the year the investment was made, rather than spread out over the economic life of the asset, as is the practice in the private sector. Even now, with new rules in place for the province's own capital spending, capital funding for transfer payment agencies of the government — municipalities, school boards, universities, hospitals — are still accounted for on a cash basis. The one substantive difference between P3 financing and direct government financing is that P3 financing costs to the government can be spread out over the life of the project.

In other words, with P3s, we are giving up public control and incurring substantially higher costs to deal with an accounting problem.

Until the problem of how to account for and pay for public infrastructure investments is addressed and resolved, governments will continue to face an artificial political obstacle to making those investments, and will continue to be vulnerable to costly and short-sighted public private partnerships that are little more than costly money-laundering schemes designed to make it appear as if taxpayers are not on the hook for the costs.

The size of the problem is substantial. We estimate that the annual investment required to offset depreciation of the existing capital stock in the entire broader public sector under provincial jurisdiction in Ontario is $6 billion. A further $6 billion a year is required to keep pace with growth.

A portion of the required investment is already undertaken in the existing provincial capital budget and in the current capital budgets of hospitals, school boards, colleges and universities and municipalities as well as other provincial agencies. In addition, in a number of areas of capital spending, costs are shared among orders of government and between the government and its agencies.

Pending a comprehensive review of the needs and sources of funding for infrastructure funding in Ontario, the Alternative Budget provides an increase in funding for infrastructure renewal and new investments equal to 50% of this estimated annual requirement.

This investment is presented at two levels. First, the OAB for 2005-6 proposes a substantial increase in annual allocations for capital investment in a number of specific areas:

- $250 million for clean water investments;
- $922 million for social housing investments;
- $540 million per year for college and university capital improvement;
- $150 million a year to enable school boards to commit to $2 billion in deferred maintenance investment; and
- $200 million for transit.

The remainder of the total of $6 billion in annual capital commitments is provided for in a public sector capital renewal and expansion fund: $2 billion in 2005-6 and $4.9 billion in 2006-7

Given cost sharing arrangements, this investment of $6 billion annually by the province will result in substantially more than that amount in annual infrastructure investment activity.

In addition, the substantial increases in support for local governments will enable municipalities to focus on renewing services, including their capital investment needs. The proposal to return responsibility for housing funding to the province and the gas tax sharing proposal alone will direct more than $1.3 billion into the municipal sector.

Chapter 9:
Federal — Provincial — Municipal issues

Premier Dalton McGuinty's attempts to obscure the issue by whining about Ontario's "raw deal" from the Federal Government notwithstanding, Ontario's budget and public investment deficits are entirely self-inflicted, thanks to the Harris-Eves era of unaffordable tax cuts.

The incessantly repeated claim that Ontario is short-changed by the Federal Government to the extent of $23 billion a year is little more than the government's latest attempt to deflect public attention from that basic fact.

That is not to say that all is well in the Canadian fiscal system.

It has long been said of the Canadian fiscal system that local governments have the responsibility, but not the money; the federal government has the money, but not the responsibility; and the provincial governments sit in the middle. Indeed, intergovernmental fiscal arrangements have been a preoccupation in Canada for most of the country's existence.

Historically, about once a generation, we study ourselves and develop new arrangements between provinces and the federal government designed to address fiscal capacity imbalances both among individual provinces and between the provinces as a group and the federal government.

In the 1960s and early 1970s, we created fiscal arrangements that made possible the development and maintenance of national standards for health, social services and post-secondary education. Provinces, in turn, increased their transfer payments to local governments.

Federal government budget cutbacks, which began in the mid-1980s and continuing until the late 1990s, destroyed those fiscal arrangements. Federal government transfers to provincial governments shrank dramatically. Provincial governments responded by squeezing their health care systems and pushing responsibilities and costs down onto their transfer payment agencies.

While health care funding is the most prominent issue in federal-provincial fiscal arrangements, it is by no means the only one. The shrinking fiscal equalization program is having a profound negative impact on services in Canada's "have not" provinces. The end of the Canada Assistance Plan and the reductions in federal government support for the unemployed have effectively shifted the burden of economic stabilization onto provincial governments, whose revenue bases are simply not robust enough to cope. Post-secondary educational institutions have been damaged by the exit of the federal government from direct funding. Direct assistance to students is not an adequate response.

Because big city governments sit at the front line in meeting service needs and at the bottom of the food chain when it comes to revenue, all of these issues have come to a head in the demand for a "new deal" for Canada's major cities. Although much lip service has been paid to the idea of a new deal by both the federal and provincial governments, there are ominous signs that even at this stage in the debate, senior governments — most notably the federal government — do not get it.

This is not a problem of "communities", or of "municipalities" in general. It is a big city problem. And it demands responses that recognize that fact.

The allocation of shared gas tax revenue among municipalities and the seriousness with which affordable housing is taken as a financing issue have emerged as powerful symbols. A distribution of gas tax revenue based on expenditures on public transit would demonstrate recognition of these issues as big city issues. A distribution based on population would demonstrate a total lack of understanding of the problem. Likewise, refusing to fund an adequate social housing program indicates a failure to appreciate the nature of the issue.

We believe that these issues must be resolved, on an urgent basis. However, we have not based our 2005-6 budget on the assumption that they will be.

Our revenue projections assume that federal health transfer increases will be limited to those already announced; that funding for child care will in fact come through, and that other federal transfers will be maintained at their 2004-5 levels.

As a first step towards a rationalization of taxation arrangements, we are proposing to harmonize Ontario's corporate income tax system with the federal system. Tax system transfers for the arts and culture will be converted into targeted grant programs, delivering the same dollars in a much more effective way.

The most regressive single tax change made by the federal and Ontario governments in recent years was the reduction in the capital gains inclusion rate from 75% to 50%. That had the effect of reducing taxes on unearned income by one third. And because gains within RRSPs and gains on principal residences are already totally exempt, the benefit from these changes went almost entirely to very high-income taxpayers.

Mike Harris and Ernie Eves were the drivers of this dramatically regressive change in Canadian taxes. Ontario pushed the federal government into its first stage reduction, to 62.5% and then pre-empted the federal government by reducing its own inclusion rate even more, to 50%.

Unfortunately, it is difficult to turn a race to the bottom into a race to the top. Provinces may be able to start a race to the bottom; it is virtually impossible to reverse the process from the provincial level.

Ontario should pressure the Federal Government to restore the principle that a buck is a buck in Canada's corporate and personal income tax systems. Rather than returning to the 75% inclusion rate, the rate should be increased to 100% with the capital gains base indexed to the cost of living.

If this measure were taken by the Federal Government and followed by Ontario, provincial revenue would increase by at least $1.6 billion.[21] This in turn would enable a $1.6 billion reduction in the size of the OAB 2005-6 tax proposal.

With respect to corporate taxes, while we support the harmonization of tax rules, we reject totally the Federal Government's insistence, reflected in its 2005-6 budget, on staying well ahead of competing jurisdictions in the United States in the race to the bottom. The Ontario Alternative Budget will occupy the corporate tax room opened up by the unjustifiable corporate tax cuts announced in the Federal budget.

With respect to Ontario's cities, the Alternative Budget makes a substantial down payment on a "new deal".

Under our proposal, Ontario will:

- reassume responsibility for funding affordable housing, at a cost of $850 million annually;
- reinstate the 75% funding formula for public transit capital;

- transfer over $500 million annually in gasoline and motor vehicle fuel tax revenue to local governments based on public transit expenditures;
- make contributions of $2 billion in 2005-6 and $4.9 billion in 2006-7 to a capital renewal fund, much of which will be directed towards local government initiatives;
- reform and renew the social assistance system, which will alleviate some costs currently borne by local governments;
- restore the ability of school boards to participate fully in supporting services to children;
- implement the recommendations of the Walkerton Inquiry by creating a clean water fund at $250 million per year; and
- provide additional direct funding for the non-profit organizations whose work is so important to developing and maintaining community social infrastructure.

Chapter 10:
Fiscal framework

According to a Federal Department of Finance study of provincial tax cuts in October 2002, by the 2005-6 fiscal year, the budgetary impact of the tax cuts introduced and planned by the Harris and Eves governments would have reached $17.5 billion per year. Add to that the $900 million in interest costs incurred because taxes were cut while the budget was in deficit, and you get an estimated annual budgetary impact of $18.4 billion.

Because the McGuinty government cut off the scheduled tax cuts for 2004 and beyond, approximately $2.9 billion of the announced cuts did not take effect. In addition, some of the lost fiscal capacity has been recovered — albeit from a different group of taxpayers than those who benefited from the cuts — through the health premium introduced in the 2004-5 budget. That measure is estimated to raise $2.35 billion in 2005-6. So the remaining net legacy from Harris-Eves tax cuts is a fiscal capacity reduced by $12.2 billion and additional interest costs of $900 million.

Ontario cannot begin to redress the damage caused to its public economy in the Harris-Eves lost years without dealing with the destruction of this province's fiscal capacity that accompanied it. The fact is that, thanks to the tax cuts, the province no longer has the fiscal capacity to pay for the services we need, and without which this province cannot fulfill its promise. No amount of blaming the previous government for the fiscal mess the Liberals inherited — no matter how justified that blame might be — can avoid the harsh fact that, to enable Ontario to reinvest in renewed public services, Ontario's fiscal capacity will also have to be rebuilt.

It is undoubtedly true that Ontario has suffered fiscally from the Federal Government's decision in the mid-1990s to cut back on its transfers to provincial governments. To that extent, the provincial government has a point when it calls attention to the current fiscal imbalance reflected in buoyant Federal revenues while a number of provinces are struggling with deficits.

But in the context of what Ontario needs to do in this budget to address the problems created by previous governments' ill-advised tax policies, complaints about Federal transfer payments are a sideshow.

The OAB fiscal framework for 2005-6 sets out the basis for a substantial reinvestment in public services over the next two years.

The framework is based on the following goals and assumptions:

Goals

- new investments in the renewal of public services operations of $9.6 billion over the next two years;
- a public infrastructure renewal investment of $6 billion per year, amortized over a 20-year period;
- increases in base spending to cover costs and the impact of population growth as well as demographic changes of 5% for health; 3% for education; and inflation plus population growth for all other operating expenditures; and

Economic assumptions

	2004	2005	2006	2007
Real GDP	2.5%	2.7%	3.0%	3.0%
Inflation	1.9%	1.9%	1.8%	2.0%
Nominal (real + inflation)	4.4%	4.6%	4.8%	5.0%
Population	1.0%	1.0%	1.0%	1.0%
10-year Government Bonds	4.5%	4.5%	4.5%	4.5%
GDP ($ billions)	516	540	566	593
OAB economic impact	0%	0.2%	0.4%	0.2%

- a gradual improvement in the government's budgetary balance over the two fiscal years, at least matching the schedule set out in the government's 4-year budget plan.

Assumptions

Our economic assumptions are set out in the table above.

Forecast real GDP growth and inflation for 2005 and 2006 is the average of the forecasts of the four chartered banks that have updated their 2005 forecasts for Ontario. For 2007, we make the conservative assumption of 3% real growth and 2% inflation.

Population growth is based on the long-term average population growth in Ontario, as reported by Statistics Canada.

The 10-year government bond rate is assumed to stay at the current level of 4.5%.

Revenue and expenditure forecasts

GDP is forecast using the current estimate for 2004, increased at the rate of nominal GDP increase forecast by the banks.

The table below sets out the government forecast for revenue and expenditure for 2004-5, together with the next two years of the outlook as set out in the 2004-5 budget and confirmed in the November 2004 Economic Statement.

This summary reflects the provincial government's decision to abandon its plan to account in the 2004-5 budget for the full $3.881 billion accounting gain arising from the end of the electricity price freeze. We assume that the gain will be spread out evenly over 12 years, at approximately $300 million per year. While this adjustment does not affect the underlying fiscal situation of the province, it does serve to

Official outlook and forecast with accounting restatement

	2004-5	2005-6	2006-7
($ billions)			
Revenues	75.5	81.1	83.9
less Expenses			
Programs	67.5	68.4	70.2
Capital	2.6	2.5	2.5
Interest on Debt	10.1	10.8	11.1
Total Expense	80.2	81.7	83.8
less Reserve	1.0	1.5	1.5
Annual surplus as reported	(5.7)	(2.1)	(1.4)
Amortize electricity over 12 years	(3.6)	0.3	0.3

March 2005 accounting change announcement
Sources: November Economic Statement and Ontario Finances 3Q 2004-5

underline the extent of the longer-term fiscal problem created by the Conservatives' tax cut program. The budget deficit never really was $2.1 billion in any sense that would be meaningful for fiscal planning. It was always $6 billion. The government was only able to show an improvement from $5.8 billion to $2.2 billion by claiming the electricity pricing windfall in a single year. Now that the government is now reporting the real underlying deficit of nearly $6 billion for 2004-5, the lack of realism in its original plan to cut the deficit to $2.1 billion in 2005-6 is evident.

From that base, we make several adjustments.

We assume that the budgetary reserves that had not been spent by the end of December 2004 will not be spent.

We incorporate revised estimates of provincial revenue for the years 2004-5, 2005-6 and 2006-7 based on the most current bank forecasts of economic growth and inflation, as set out above. This has the effect of reducing forecast revenue for 2005-6 and 2006-7. We also assume that federal government health transfers will be as scheduled after the September 2004 first ministers meeting, that child care transfers will be as scheduled, and that other Federal Government transfers will remain at their 2004-5 levels. This adjustment increases forecast revenue compared with the numbers in the four-year outlook.

We adjust the estimate of interest on the public debt. The current forecast implies an increase in the average cost of servicing Ontario's debt from the current 7.1% to 7.5% by 2006-7. Such an increase is inexplicable, given the fact that additions to debt and refinancing of current debt will be at substantially lower interest rates than this average. The current long-term bond rate is less than 4.5%, and shorter-term rates are even lower. Our revised forecast is based on an assumed 4.5% interest rate on new and refinanced debt, and on additions to debt consistent with forecast budgetary deficits and cash adjustments.

The table below summarizes the revised forecast, together with the impact of the revisions.

We expect that year-end adjustments in 2004-5 will result in a reported $5.7 billion deficit, consistent with the government's original budget plan. However, these one-time adjustments will not affect projections for 2005-6 and 2006-7. We would also note that these

Official outlook and forecast with accounting restatement, revised

	2004-5	2005-6	2006-7
Revenue	77.5	81.2	86.2
Program	66.6	68.4	70.2
Capital	2.4	2.5	2.5
Interest on Debt	9.6	9.4	9.2
Less reserve	0.0	1.5	1.5
Surplus / (deficit) based on adjusted 3Q Ontario Finances	(1.2)	(0.6)	2.8
End of year 2004-5 adjustments to meet target	(4.5)		
Expected 2005-6 and 2006-7 changes to meet target		(1.5)	(4.2)
Expected reported balance	(5.7)	(2.1)	(1.4)
Adjustments			
Operating reserve not spent	0.9		
Capital reserve not spent	0.1		
Interest cost adjustment	0.5	1.4	1.9
Revision to revenue forecast	1.0	0.0	1.1
General reserve not spent	1.0		

projections leave room for the government to increase spending relative to its budget-time 4-year outlook by $1.5 billion and $4.2 billion in 2005-6 and 2006-7 respectively and still meet its deficit reduction targets.

The OAB plan

The starting points for our fiscal framework are: the revenue outlook in the revised forecast; capital and operating spending flat lined from the 2004-5 spending levels (with the operating and capital reserves added back in); and interest on debt as adjusted.

From that base, we then add: operating expenditures required to keep pace with costs and population growth; new operating expenditures to support the OAB program for 2005-6 and 2006-7; and the costs associated with the additional capital spending planned for the Alternative Budget.

The derivation of our plan is set out in the following table.

Over the two-year period, operating expenditures increase by $14.8 billion, roughly 40% of which is required to keep pace with costs and population increases in current programs, and 60% funds renewal investments in public services.

The amortization and financing of the OAB's $6 billion per year infrastructure invest-

OAB budget framework			
Flat line revenue & expenditure	**2004-5**	**2005-6**	**2006-7**
Revenue	77.5	81.2	86.2
Program	66.6	67.5	67.5
Capital	2.4	2.6	2.6
Interest on Debt	9.6	9.4	9.2
Less reserve	0.0	1.5	1.5
Surplus / (deficit) based on adjusted 3Q Ontario Finances	(1.2)	0.2	5.4
OAB program over flat line			
Increases in base program costs		2.4	4.9
OAB new program		8.4	9.9
TOTAL OAB over flat line		10.8	14.8
OAB capital over flat line		0.6	1.4
OAB PDI over flat line		0.2	0.7
OAB Revenue Measures		7.5	8.0
Fiscal position after tax changes		(3.3)	(2.1)

OAB Revenue Summary ($ billion)	**2005-6**	**2006-7**
EHT exemption	1.206	1.269
CIT harmonization with Federal	1.184	1.239
High-income rate 2% above $100,000	1.180	1.245
EHT 20% of health costs	0.776	0.904
Tobacco $12 per carton	0.966	0.998
CIT to 2000 rates	1.376	1.439
Tax administration	0.439	0.461
Motor vehicle fuel 2 cents	0.419	0.426
Total	7.544	7.982

ment plan adds $2.1 billion to budgetary expenditures: $1.4 billion in amortization costs; and $0.7 billion in interest costs.

The budget deficit declines from the estimated $5.7 billion in 2004-5 to $3.3 billion in 2005-6 and $2.1 billion in 2006-7. In this plan, the deficit declines somewhat more slowly than in the government's now-discredited 4-year outlook.

Detailed summaries of the operating and capital investment plans are presented in Appendix I and Appendix II, respectively.

Chapter 11:
Revenue to support the fiscal plan

The revenue recovery measures required by our budget framework are significant. The Harris Government left behind two substantial deficits: a multi-billion dollar fiscal deficit; and a debilitating public services investment gap.

While the Conservatives' last budget and the McGuinty Government's first budget were welcome changes from the cuts of the Harris era, the gap between what Ontarians need in public services and the province's reduced fiscal capacity remains large. While about 35% of our program can be financed from natural revenue growth, additional revenue is required to pay for the rest.

Blaming the Federal Government for Ontario's fiscal problems may make attractive politics, but it deflects attention away from the real causes of the fiscal pressures on this province. And as a practical matter, it doesn't generate the resources we need.

Revenue package

The OAB revenue package for 2005-6 to 2006-7 is based on the following objectives:

- generate the revenue needed to finance services renewal;
- reverse the Harris Government's race-to-the-bottom legacy of concessionary corporate tax rates, restoring rates to their pre-2000 levels;
- eliminate costly and ineffective Ontario-only corporate tax expenditures by harmonizing to the Federal corporate tax structure and converting tax expenditures for film, television, book publishing and the arts into direct grants;
- harmonize Ontario's tobacco taxation regime with the highest tax jurisdictions in Canada;
- establish a structure for the Employer Health Tax that reflects the substantial benefit to ALL Ontario employers from publicly funded health insurance;
- reaffirm a commitment to progressive taxation with a new tax bracket applicable to income in excess of $100,000, 2% above the current top bracket; and
- raise additional revenue from gasoline and motor vehicle fuel taxes to pass on to municipal governments.

All Ontarians paid a price, in reduced or deteriorating public services, to achieve the Ontario Conservatives' single-minded goal of reducing taxes. And we believe that all Ontario taxpayers can and should share, based on their ability to pay, in the additional costs that will be incurred as we rebuild public services. As a result of the introduction of the "health premium" in the 2004-5 Ontario Budget, lower- and moderate-income Ontarians have already made a substantial contribution towards this effort.

Much of the additional fiscal capacity we need can be recovered by stabilizing revenue sources that should never have been reduced in the first place.

We will introduce fairness into the system for funding health care by ensuring that every employer makes a contribution to the health care system through a flat rate employer health tax. We will target a fixed 20% share of health care costs to be funded from the EHT.

We believe that a portion of the cost should be generated through increases in the Personal Income Tax — increases that would be paid by all Ontarians, based on their ability to pay. Through the Health Premium, Ontarians of modest means have already seen a noticeable tax increase.

To ensure that the income tax cost of services renewal is distributed more fairly, and to offset some — but by no means all — of the exceptional tax reductions provided to high-income Ontarians by the Conservative government, we call for a marginal tax rate increase of 2% for income in excess $100,000 per year.

This change will restore about 20% of the personal income tax cut that remains after the introduction of the health premium in the 2004-5 budget.

Corporate tax rates will be rolled back to their pre-2000 level and Ontario's corporate income tax base will be harmonized with the federal base, eliminating approximately $1.2 billion in Ontario-only tax expenditures. A further $200 million in tax expenditures directed towards the arts and culture will be converted into targeted grants.

Gasoline and motor vehicle fuel taxes will be increased by 2 cents per litre, with the revenue to be passed on to municipalities based on a combination of transit operating costs and roads and traffic operating costs.

Tobacco taxes will be increased to the western Canadian standard of $32 per carton.

The Alternative Budget sets a modest goal of increasing revenue from provincial taxes by 1% as a result of tighter enforcement of tax rules.

Revenue summary

Personal Income Tax

- Introduce a new tax bracket 2% above current maximum on income in excess of $100,000 — revenue, $1.2 billion.

Corporate income tax rates.

- Restore corporate income tax rates to levels existing prior to 2000 — revenue, $1.3 billion.

Corporate tax expenditures

- Reduce cost of Harris-Eves era corporate tax expenditures by eliminating some and converting others to direct grants, reducing the total cost of tax expenditures in excess of those provided for in the Federal Corporate Income Tax by 80% — revenue, $1.2 billion.

Employer Health Tax

- Immediately eliminate graduated rate structure; establish a flat tax rate sufficient to cover 20% of health care operating costs (estimated 2006-7 rate, 2.25%) — revenue $2.0 billion.

Tobacco taxation

- Increase tobacco taxes by $12.00 per carton, putting Ontario among the Canadian leaders in pricing tobacco as a disincentive for smoking — revenue, $1 billion.

Revenue recovery from tax administration

- Following up from repeated recommendations by the Provincial Auditor, generate 1% more revenue from the existing tax system through tougher enforcement — revenue, $440 million.

Gasoline and motor vehicle fuel taxes

- 2 cents per litre, earmarked for municipalities — revenue, $420 million.

Appendix I:
The operating expenditure plan

Investing in public services renewal -- summary	**2005-6**		**2006-7**	
Operating	**Detail**	**Subtotal**	**Detail**	**Subtotal**
Health Care				
Hospital funding enhancement	500			
Primary Care Reform	-		100	
Maintain real per capita funding base (5%)	1,524	2,024	1,625	3,749
Income Security				
Community social infrastructure.	225		-	
Restore Ministry of Labour	25		-	
Set shelter allowance at actual rent (interim)	400			
Increase OW basic needs allowance to Statcan market basket	1,200			
Increase ODSP basic needs allowance to Statcan market basket	400			
Restore National Child Benefit by ending claw back	200			
New investment in job training	250			
Index earnings exemptions in Ontario Works	20			
Increase employment start-up benefit	10			
Ease and rationalize income security program asset restrictions	20			
Dental and drug coverage for working poor	-		160	
Inflation adjustment of benefits	-	2,750	99	3,009
Housing				
Province re-assume responsibility for housing	850			
Rent supplements for new & existing housing (37,000 units)	178	1,028		1,028
Early years and child care				
Early learning and child care	560	560	560	1,120
Education -- Elementary and Secondary				
Annual update -- 3%	449		334	
Actual cost of employing teachers	650			
Actual cost of school operations (1997 updated)	235			
Learning opportunities grant and ESL	150			
Adult education	140			
Class size reduction	125		125	
Cancel province-wide testing program	-50	1,699		2,158
Education -- post-secondary				
Increase funding to national average	750		750	
10% tuition reduction	320			
Annual update -- 3%	84		111	
Student Grants Program	300	1,454	-	2,315
Environmental Protection				
Environmental regulation -- Environment and Energy and MNR	200			
Transit operating support	105			
Energy conservation and efficiency programs	200	505	-	505
Supporting Communities				
2 cents per litre of gas tax	420			
Native Affairs	8	428	-	428
Increase to sustain real value of programs not otherwise specified	328	328	316	644
Total program funding increase, 2005-6 to 2006-7	10,775	10,775	4,181	14,956
Base program cost increases	***2,385***		***2,486***	***4,870***
New program expenditures	***8,391***		***1,535***	***9,926***

Appendix II:

The infrastructure renewal plan

Summary of capital spending program

	2005-6 Detail	2006-7 Detail
Housing		
New Ontario Housing Supply Program (9,300 units)	650	
Federal-Provincial Program (2,400 units)	72	
Social housing rehabilitation fund	200	
Education		
Elementary and secondary maintenance backlog	2,000	-
Postsecondary infrastructure rehabilitation	540	-
Infrastructure		
Clean Water Fund	250	-
Transportation and Transit	200	-
Total specified amounts	3,912	-
Converted to annual grant	2,000	-
Amount to be amortized and financed	1,912	-
Unamortized portion	1,816	-
Current year amortization	48	-
Current year interest costs	43	-
Cumulative prior year amortization		96
Cumulative prior year interest		86
Grant funding for converted portion		
Current year	150	-
Cumulative prior year	-	150

Infrastructure fund	***2005-6***	***2005-6***
Maintain state of good repair	6,000	6,000
Additional spending to keep pace with growth	6,000	6,000
Total annual capital	12,000	12,000
Specified and financed above	3,912	-
Net amount to be financed	8,088	12,000
Unamortized portion (20-year)	7,684	11,400
New allocation to capital	202	600
Prior year amortization	-	404
Total amortization reported as capital	202	1,004
Current year interest costs	182	270
Cumulative total interest costs	182	634
Implications for capital in budget		
Annual financing grants, reported as capital	150	150
Amortization of principal	250	1,100
Amortization amounts reported as capital	400	1,250
Total for converted to grants, reported as capital	150	150
Total capital for budget relative to base case	550	1,400
Implications for public debt interest in budget		
Capital program interest costs	225	720

Appendix III :
Additional background on revenue measures

Paying for health care — the Employer Health Tax

When the Ontario Employer Health Tax (EHT) was introduced in the late 1980s as a replacement for OHIP premiums, it included a graduated rate structure. The rate was 0.98% for employers with total payrolls of less than $200,000, increasing on a graduated scale to 1.95% on payrolls exceeding $400,000.

It was the only payroll tax levied in Canada with a graduated rate structure. In its analysis of the tax, the Ontario Fair Tax Commission concluded that the graduated structure in place at the time was not appropriate. Although it was presumably designed to provide relief to small business, benefit from the rate structure concession actually bore very little relationship to the size or nature of a business or its ability to pay the tax.

The fact that payroll taxes tend to be shifted back onto employees raised further questions about the fairness of the system.

Since the graduated rate was based on total payroll rather than the pay of individual employees, an individual earning $200,000 a year in a one-employee business would pay the preferential rate whereas a minimum wage employee in a supermarket would generate tax at the full rate. In its first budget, the Harris Government compounded the unfairness. It replaced the graduated structure with a blanket exemption for the first $400,000 of annual payroll. In addition to being unjustifiable on fairness grounds, ironically, this exemption is not even primarily of benefit to small business.

The Fair Tax Commission's analysis of the Employer Health Tax found that two thirds of the benefit from an exemption for the first $100,000 of payroll would go to employers with annual payrolls in excess of $400,000. Using data from the same Fair Tax Commission Technical Paper on the EHT, we estimate that the Harris Government's EHT exemption reduces EHT revenue by a total of $893 million in 2003-4 compared to what would have been raised on the pre-CSR graduated scale. More than 54% of the benefit from the Harris exemption went to employers with payrolls in excess of $400,000 a year.

In addition to the problems of fairness and targeting of the EHT exemption, there is a further problem in principle. Public health insurance is not only a major benefit to Canadian individuals and families, it is also a significant competitive advantage for Canadian business. The EHT is the only tax levy that reflects in any way that competitive advantage, and in fact covers only a fraction of the cost of OHIP.

Eliminating the Harris Government's EHT exemption give-away and moving to a single rate of EHT would raise an additional $1.1 billion. This change would take effect with the 2005-6 budget.

In addition, the tax rate would be adjusted and reviewed annually to maintain a 20% ratio between EHT revenues and provincial budgetary expenditures on health care, lagged by one year. We estimate that the rate required to achieve the 20% target will be 2.2% in 2005-6 and 2.25% in 2006-7 compared with the current rate of 1.95%.

Corporate income taxation

In the late 1990s, the Conservative government initiated a race to the bottom in corporate taxation in North America. Although the McGuinty Government stopped the slide by canceling the cuts that were due to take effect in 2004, it did nothing to address the substantial earlier losses in fiscal capacity. Unfortunately, although Ontario has abandoned the race to the bottom, the Federal Government has joined in, with a vengeance.

In the 2005-6 Federal Budget, the government proudly announced plans to cut corporate taxes so as to maintain Canada's 4.9 percentage point lead in the North American race to the bottom in corporate taxation. This is a race that Canada and Ontario should not be part of.

There is no evidence that this policy will have any impact, other than to deprive the people of Ontario of revenue from the profit-making activities that take place here and to reduce the contribution of the corporate sector to the financing of the public services on which much of their earnings potential depends.

Given the province's fiscal situation, however, the Federal Government's decision opens up some welcome new fiscal room for corporate taxation in this province.

All corporate tax rates — including the small business rate — will be maintained at their levels prior to January 1, 2000.

In addition, the structure of Ontario's tax system will be harmonized with that of the Government of Canada. This will save administrative costs, make enforcement more effective and reduce compliance costs for corporate taxpayers. It will also have the effect of removing the many costly corporate tax give-aways — corporate tax expenditures — of the Harris-Eves era from the tax system. The tax expenditures for film, television, publishing and the arts, will be converted to equivalent grants. All other current tax expenditures will be subjected to a value for money audit. Those that are found to deliver value for money will be converted into grants and subjected to normal government accountability requirements. We estimate that this change will reduce the cost of these subsidies by 80%.

Tobacco taxation

In the early 1990s, the tobacco industry persuaded the Government of Canada that high taxes on tobacco products in Canada were giving rise to a massive increase in tobacco product smuggling. According to tobacco industry reports, Canadian-manufactured cigarettes exported to the United States and smuggled back into Canada were taking up a substantial proportion of the market for Canadian cigarettes.

Despite widespread evidence that steady increases in tobacco taxation over the years had a real impact on smoking by young people, the Federal Government met the industry's request and reduced its taxes. But rather than simply lower federal excise taxes on cigarettes, the Federal Government chose to lever corresponding reductions in provincial taxes. In provinces that chose to lower their taxes, federal taxes would be reduced. In provinces that did not choose to give the industry a break, there would be no federal tax reduction.

Ontario reduced its taxes, as did Quebec. Other provinces either reduced taxes by lesser amounts, or did not reduce taxes at all.

It is evident that this policy shift was a significant mistake. Tobacco use by young, first-time smokers is on the increase. The promised dramatic reductions in smuggling activity did not materialize, and to the extent that smuggling has declined, the change has been attributed to other factors.

The Federal Government signaled its view that this policy was a failure by restoring a portion of the tax that was cut in 1993 and by taking the tobacco industry to court.

Ontario has been moving gradually to recover revenue lost in the early 1990s. The Liberals have made a commitment to move Ontario's tobacco taxation levels to the current Canadian average. The problem with that strategy is that Ontario itself brings the average down. We believe that Ontario should be a leader in Canada in all aspects of tobacco policy, including taxation. Ontario's rates should be increased beyond the Liberals' promise to match the $32 per carton rate in Alberta, BC and Saskatchewan.

Tobacco taxation currently raises approximately $1.5 billion from a tax rate of just under $20 per carton. An increase to $32 would generate an additional $1 billion, phased in over two years.

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