York Region

Finance Department
Office of the Budget

Memorandum

TO: Members of Regional Council

FROM: Bill Hughes, Commissioner of Finance and Regional Treasurer

DATE: June 29, 2017

RE: **2017 Federal Budget**

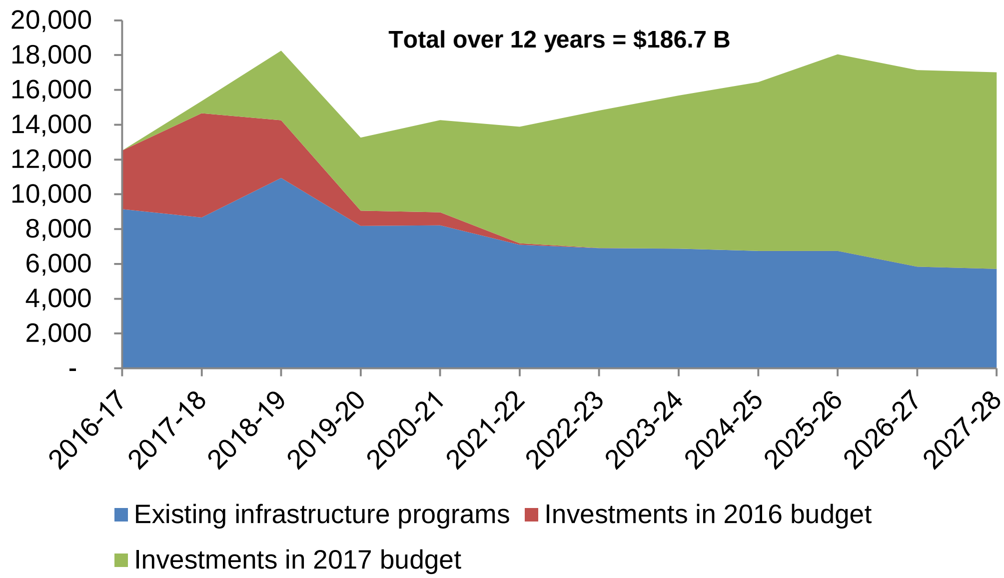
The purpose of this memorandum is to provide Council with an overview of the main elements in the 2017 Federal Budget that are relevant to York Region. The 2017 Budget themes include skills and innovation, tax fairness, communities built for change, equal opportunity and a strong Canada at home and abroad.

The 2017 Budget reaffirms and expands the government's commitment to infrastructure investments

The 2017 budget commits an additional $81.2 billion in infrastructure investments, which brings the total federal commitment to infrastructure to $187 billion over 12 years. This includes $14.4 billion in infrastructure programs over eight years announced in the 2016 budget and $91 billion over 11 years in programs announced prior to the 2016 budget. The general focus of the 11 year $81.2 billion infrastructure plan includes public transit, green infrastructure, social infrastructure, trade and transportation, and rural and northern communities. This funding allocation was previously announced as part of the Fall Economic Statement 2016. The social infrastructure component of the plan includes investments in early learning and child care, accessibility, mental health, home care, homelessness and affordable housing.

Figure 1 provides a breakdown of total federal commitments to infrastructure spending over the 12 year period.

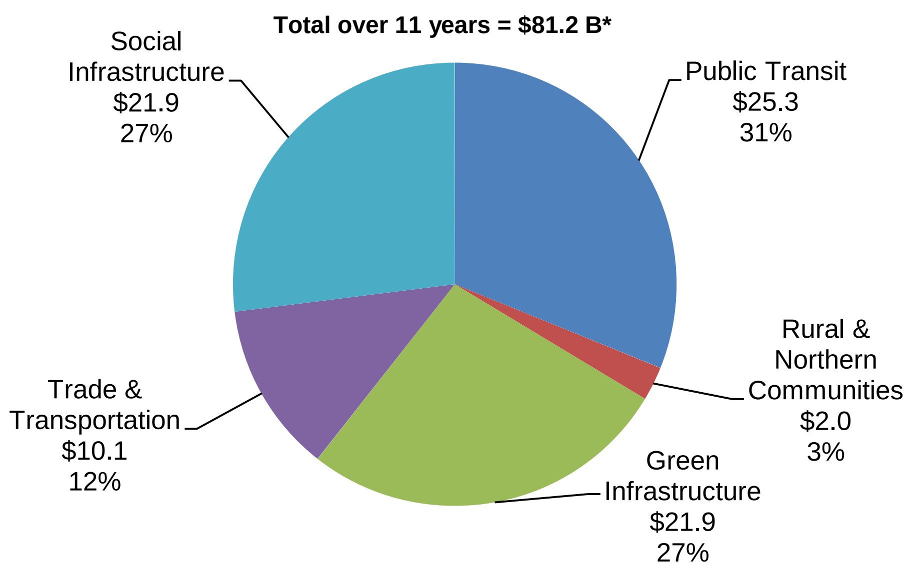
Figure 1
Breakdown of Federal Commitments to Infrastructure (2016-17 to 2027-28)
($ Millions)



Source: Fall Economic Statement 2016: Chapter 2, Table 2.1 and Growing the Middle Class 2016: Chapter 2: Growth for the Middle Class

Figure 2 shows the allocation of funds for the Long-Term Infrastructure Plan announced in the 2016 Fall Economic Statement and the 2017 budget.

Figure 2
Allocation of New Infrastructure Spending and the Long-Term Infrastructure Plan (2017-18 to 2027-28) ($ Billions)



Source: Building a Strong Middle Class 2017: ANNEX I, Table A1.13
*Includes investments proposed through the Canada Infrastructure Bank

A new Canada Infrastructure Bank will invest $35 billion in infrastructure

The federal government will establish the Canada Infrastructure Bank. The Canada Infrastructure Bank will be responsible for investing $35 billion in infrastructure over 11 years with the intent of building a public-private partnership investment model. The $35 billion federal investment will be provided in the form of loans, loan guarantees and equity investments and will target revenue-generating and transformative infrastructure projects. The bank aims to attract private funding, especially from pension funds, to increase infrastructure investments. A total of $15 billion will be allocated to non-repayable funding towards infrastructure. The remaining $20 billion will be repayable capital from the government to invest in projects.

The federal government is expanding investments in public transit

The 2017 budget proposes an additional $20.1 billion investment over 10 years in public transit infrastructure under the Public Transit Bilateral Agreements component. The funding formula allocates seventy percent of the funding based on ridership, while the remaining thirty percent is allocated based on population. For rehabilitation projects, the federal government will fund up to 50 percent of eligible costs. Funding for rehabilitation projects is to be capped at 15 percent of total federal public transit funding. For expansion and new construction projects, the federal government will fund up to 40 percent of eligible project costs.

Finance estimates the Region’s share of funding under the Public Transit Bilateral Agreements to be $348 million.

The budget also includes investments in new initiatives such as the Smart Cities Challenge and Superclusters to support public transit. The public transit component of the Smart Cities Challenge will provide $100 million over 11 years in municipal incentives to address traffic congestion using innovative methods. Through a $75 million investment over 11 years, the public transit component of the Superclusters initiative will provide funding for transportation infrastructure that supports economic growth.

This brings the total federal commitment to public transit to $25.3 billion over the next 11 years, including commitments under the Canada Infrastructure Bank.

The National Housing Strategy will provide funding for various housing initiatives

The 2017 budget proposes to invest $11.4 billion over 11 years to address concerns regarding affordable housing, with an allocation of $11.3 billion for initiatives under the National Housing Strategy. Following stakeholder consultations in 2016, the federal government is in the process of finalizing the strategy.

Table 1 shows the breakdown of investments in affordable housing proposed in the 2017 budget.

Table 1
National Housing Strategy
Breakdown of New Investments in Budget 2017 (2017-18 to 2027-28)
($ Millions)

Initiative	Funding
Federal-Provincial-Territorial Partnership in Housing	$3,200
National Housing Fund	$5,000
Targeted Support for Northern Housing	$300

Targeted Support to housing providers serving Indigenous People not living on-reserve	$225
Homelessness Partnering Strategy	$2,100
Surplus Federal Real Property for Homelessness Initiative	$202
Strengthening Housing Research	$241
Total Investments funded through the National Housing Strategy	**$11,268**
Housing Statistics Framework	$106
Grand Total	**$11,374**

Source: Building a Strong Middle Class 2017: Chapter 2: Communities Built for Change

Under the National Housing Strategy, the 2017 budget proposes $3.2 billion over 11 years to enhance funding for the Federal-Provincial-Territorial Partnership in Housing. These investments are geared towards the construction of new affordable housing units, renovation and repair for existing units and the provision of rent subsidies. Some funding will also be allocated to support seniors' living and people with disabilities by investing in housing accessibility. Community and Health Services will explore opportunities to take advantage of the new funding and monitor impacts on Regional programs and services such as the Seniors Strategy, Homelessness Prevention Initiative, Housing Stability Program and Home Repair Program.

The National Housing Strategy also includes significant investments aimed at directly supporting housing providers. Through the National Housing Fund, $5 billion will be provided over 11 years in the form of low-cost lending to municipalities and housing providers for repairs and renovations and the creation of a co-investment fund to increase collaboration among housing stakeholders.

The Canada Mortgage Housing Corporation (CMHC) will provide loans to invest in energy efficiency retrofits and enhance accessibility for disabled persons living in affordable housing. CMHC will also provide temporary financial assistance to housing providers with long-term operating agreements that are set to expire, enabling them to transition to financial sustainability. Current baseline funding related to these agreements will be maintained as CMHC-supported mortgages are phased out.

Further details on the National Housing Fund and on the renewal of agreements are to be released at a later date.

The National Housing Strategy also commits an additional $2.1 billion over 11 years towards reducing homelessness through the provision of mental health and housing support services. The federal government will consult with stakeholders on how to improve its approach to preventing homelessness. United Way Toronto and York Region is the community entity that receives funding from the federal government to tackle homelessness and is the sole decision maker on how funds are allocated within the community. However, the Region provides input and advice though the York Region Homelessness Community Advisory Board to United Way Toronto and York Region regarding the coordination and allocation of funds.

The budget contains enhanced funding for early learning and child care

The 2017 budget provides $7 billion over seven years to support and create more affordable and high quality child care spaces. The federal government plans to create

40,000 new subsidized child care spaces. Some of the funding will be dedicated to address child care and early learning needs for indigenous people.

Community and Health Services will monitor progress on federal-provincial agreements and the potential for new funding for child care spaces and early learning initiatives in the Region.

The federal government is making new investments in accessibility, home care and mental health

The Enabling Accessibility Fund includes a $77 million investment over 10 years to support projects that create greater accessibility in public spaces for people with disabilities. This commitment could provide an opportunity for the Region to improve accessibility in public buildings and facilities.

The federal government has also allocated $6 billion over 10 years for home care to improve access to home, community and palliative care services, and increase support for informal caregivers. An additional $1 billion over four years will support the infrastructure necessary for home or community-based care for people with conditions traditionally treated at hospitals.

The Region's Seniors Strategy recognizes the importance of helping seniors to age at home through the Region's role in supporting age-friendly and complete communities.

A $5 billion investment is planned over 10 years for various mental health initiatives and to improve access to mental health services for young people. These efforts are expected to provide support to half a million Canadians under the age of 25. Community and Health Services is observing more residents with more complex mental health and addiction-related needs. As a result, Community and Health Services launched the Mental Health Matters initiative to better support clients with mental health and addiction-related needs. Increased federal funding for mental health services may positively affect Regional programs and services.

The 2017 budget increases funding for green infrastructure and climate change adaptation and mitigation initiatives

Commitments to green infrastructure total $21.9 billion over 11 years, including commitments under the Canada Infrastructure Bank. Of this amount, $9.2 billion has been allocated to Green Infrastructure Bilateral Agreements where the federal government will fund up to 40 percent of projects undertaken with municipal and not-for-profit partners and up to 50 percent for projects undertaken through provincial partnerships. This funding will be allocated on a per capita basis. Eligible projects include water and wastewater projects and infrastructure that will mitigate the impact of climate change and reduce greenhouse gas emissions.

The Region has advocated for federal funding for the Upper York Sewage Solutions project, which may qualify under this initiative. Program details have yet to be released.

A Disaster Mitigation and Adaption Fund will allocate $2 billion over 11 years to help all levels of government undertake projects that are necessary to adapt to the impacts of a changing climate and to mitigate the effects of climate change.

The Green Infrastructure component of the Smart Cities Challenge will provide $100 million over 11 years to encourage municipalities to undertake innovative projects that address issues such as air pollution and traffic congestion. This includes improved city planning and implementation of clean, digitally connected technology such as green buildings, smart roads and energy systems. Planning and Economic Development will investigate whether this funding could benefit the Region, including whether the York Telecom Network would be eligible.

The 2017 budget proposes continuation of funding for innovation

The federal government has created a new Strategic Innovation Fund with funding of $1.3 billion over five years to consolidate a number of funding pools. As part of this fund, there is a Superclusters initiative intended to position Canada as a digital leader and attract innovative businesses. The Superclusters initiative will target multiple industries, including digital, advanced manufacturing, health and bio sciences, clean tech, agri-food and clean resources. This program is application based and funding will be provided to a regional not-for-profit entity, as municipalities are not eligible to be the lead applicant. VentureLAB, the not-for-profit regional innovation center and industry consortium supporting businesses in the Region, has engaged a number of businesses and is preparing to submit a letter of intent.

The Region's key economic clusters include Information and Communications Technologies, Life Sciences, Clean Tech, Agri-food, Financial and Insurance Services and Building and Construction. The Region is also developing an Agriculture and Agri-food Strategy. The sectors identified under the initiative appear to align with the clusters in the Region.

The federal government is eliminating the Public Transit Tax Credit

The Public Transit Tax Credit has been eliminated effective mid-2017. The budget suggests that the credit has been ineffective at increasing public transit ridership and reducing greenhouse gases. The new public transit funding under the new Canada Infrastructure Bank is intended to offset the impact of eliminating this credit. Transportation Services will continue to monitor this development and assess the impact of the new provincial tax credit for seniors.

Employment Insurance premiums are set to increase in 2018 and will create additional costs for the Region

The 2017 budget announced a 5 cent (3%) increase in the Employment Insurance premium rate paid by employees that will begin in April 2018. The Region's Employment Insurance contributions will also increase as the employer is required to contribute 1.4 times an employee's contribution rate. The federal budget indicated that the rate is expected to remain stable through 2025.

While the change will not affect the Region's 2017 budget, the Region's costs are expected to increase by approximately $0.5 million in 2018 as a result of the higher rate. The additional cost is expected to be accommodated within the approved outlook.

The 2017 budget extends the Employment Insurance parental leave benefit period to eighteen months

The federal budget also announced more flexible parental leave. Women will be allowed to claim EI maternity benefits up to 12 weeks before their due date, up from the current eight weeks. In addition, parents will be allowed to receive EI benefits over an extended period of up to eighteen months, up from the current 12 months. EI benefits would be provided at a lower rate of 33 percent of average weekly earnings (up to a maximum), resulting in a total amount of EI benefits paid to recipients equivalent to the current system. EI parental benefits will continue to be available at the existing benefit rate of 55 percent over a period of up to 12 months.

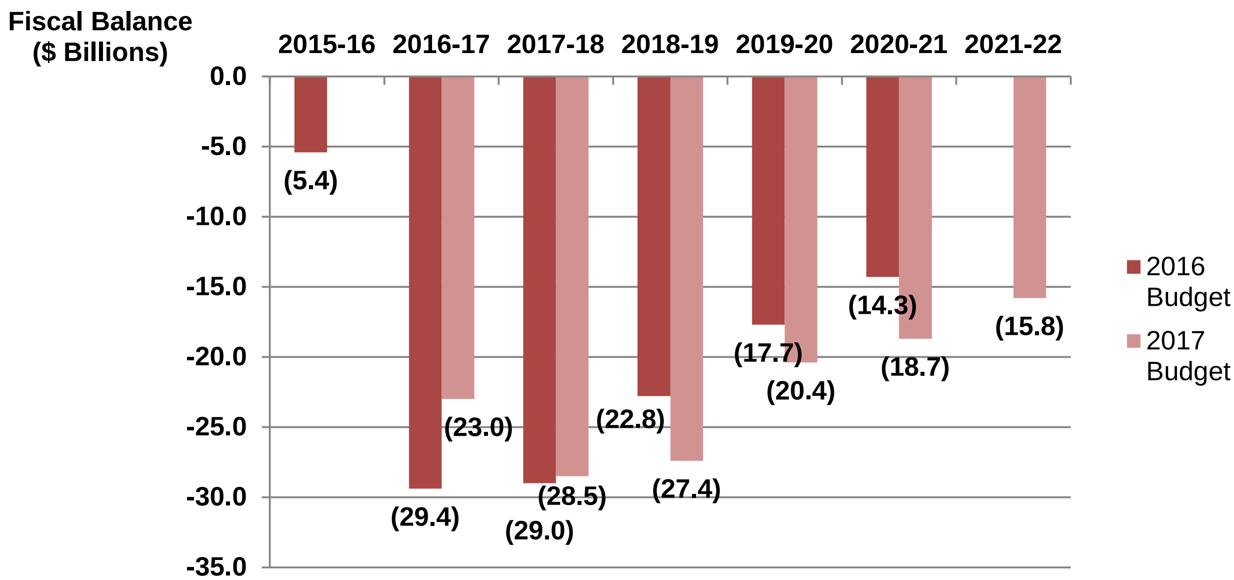
The Region currently provides a top-up to EI parental leave benefits that increases the amount paid to employees to 75 percent of their regular weekly earnings for up to 26 weeks. York Regional Police employees are eligible for a similar top-up, as well as an enhancement for a further 26 weeks that provides a top-up to 50 percent of the preceding 75 percent top-up amount.

While implementation details are not yet confirmed, Regional costs may increase for employees that choose to extend their parental leave to eighteen months, as the top up between 33 percent of average weekly earnings and the 75 percent of employee's regular earnings will be higher than under the current EI provisions. The overall financial impact will also depend on the number of employees that choose to extend their leave beyond 12 months.

Higher deficits will persist in the future to accommodate federal budget measures

The federal government is projecting a $23 billion deficit in 2016-17, followed by a $28.5 billion deficit in 2017-18. Deficits are expected to gradually decrease over the following years, reaching $15.8 billion in 2021-22.

Figure 3
Canada's Budgetary Balance



Source: Building a Strong Middle Class 2017: Economic and Fiscal Overview, Table 3

The increase in forecast deficits over the six years starting in 2016-17 is due to $5.7 billion in budgetary measures and $15 billion to account for a weaker than expected economic outlook, anticipated policy changes in the United States, fluctuating commodity prices and other uncertainties surrounding global economic growth.

In 2017-18, annual program expenses are set to increase by 4.3%, followed by an average increase of 4% over the following four years. In contrast, the 2016 budget proposed a 2.6% increase in program expenses over a four year period. This reflects the increases in investments and other measures in the 2017 budget.

Bill Hughes, Commissioner of Finance and Regional Treasurer

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