F-23

F-23

ISSN 1180-4386

Legislative Assembly of Ontario

Second Session, 37th Parliament

Assemblée législative de l'Ontario

Deuxième session, 37e législature

Official Report of Debates (Hansard)

Wednesday 27 February 2002

Journal des débats (Hansard)

Mercredi 27 février 2002

Standing committee on finance and economic affairs

Pre-budget consultations

Comité permanent des finances et des affaires économiques

Consultations prébudgétaires

Chair: Marcel Beaubien
Clerk: Susan Sourial

Président : Marcel Beaubien
Greffière : Susan Sourial

Hansard on the Internet

Hansard and other documents of the Legislative Assembly can be on your personal computer within hours after each sitting. The address is:

Le Journal des débats sur Internet

L'adresse pour faire paraître sur votre ordinateur personnel le Journal et d'autres documents de l'Assemblée législative en quelques heures seulement après la séance est :

http://www.ontla.on.ca/

Index inquiries

Reference to a cumulative index of previous issues may be obtained by calling the Hansard Reporting Service indexing staff at 416-325-7410 or 325-3708.

Renseignements sur l'index

Adressez vos questions portant sur des numéros précédents du Journal des débats au personnel de l'index, qui vous fourniront des références aux pages dans l'index cumulatif, en composant le 416-325-7410 ou le 325-3708.

Copies of Hansard

Information regarding purchase of copies of Hansard may be obtained from Publications Ontario, Management Board Secretariat, 50 Grosvenor Street, Toronto, Ontario, M7A 1N8. Phone 416-326-5310, 326-5311 or toll-free 1-800-668-9938.

Exemplaires du Journal

Pour des exemplaires, veuillez prendre contact avec Publications Ontario, Secrétariat du Conseil de gestion, 50 rue Grosvenor, Toronto (Ontario) M7A 1N8. Par téléphone : 416-326-5310, 326-5311, ou sans frais : 1-800-668-9938.

Hansard Reporting and Interpretation Services
3330 Whitney Block, 99 Wellesley St W
Toronto ON M7A 1A2
Telephone 416-325-7400; fax 416-325-7430
Published by the Legislative Assembly of Ontario

Service du Journal des débats et d'interprétation
3330 Édifice Whitney ; 99, rue Wellesley ouest
Toronto ON M7A 1A2
Téléphone, 416-325-7400 ; télécopieur, 416-325-7430
Publié par l'Assemblée législative de l'Ontario

LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

COMITÉ PERMANENT DES FINANCES ET DES AFFAIRES ÉCONOMIQUES

Wednesday 27 February 2002

Mercredi 27 février 2002

The committee met at 1000 in room 151.

PRE-BUDGET CONSULTATIONS

MINISTRY OF FINANCE

The Chair (Mr Marcel Beaubien): Good morning, everyone. If I could get your attention, I'd like to bring the standing committee on finance and economic affairs to order. It is 10 o'clock. On behalf of the committee, I would like to welcome the Minister of Finance, who will be addressing the committee for an hour this morning. I would like to point out that after you are done with your presentation, whatever time is left will be divided equally between the three caucuses. With that, again welcome.

Mr Gerry Phillips (Scarborough-Agincourt): Mr Chair, we submitted quite a number of questions. I gather there are answers for those. Could we get them before the opening?

The Chair: We just received the answers, apparently. The clerk will be distributing the answers.

Mr Phillips: Just one copy arrived?

The Chair: Anything else? If not, Mr Flaherty.

Hon Jim Flaherty (Deputy Premier, Minister of Finance): Thank you, Chair, and colleagues. I am pleased to have this opportunity to address the standing committee on finance and economic affairs as you continue your pre-budget consultations.

Today I will be providing the committee with updates on Ontario's third-quarter finances, as well as information on how our economic and fiscal policies have positioned the province for continued growth and prosperity.

Last year, when I appeared in front of this committee, I had been the Minister of Finance for only a few days. Economic commentators were talking about the possibility of a slowdown in the global economy, especially in the United States. Since then, the world has changed in unimaginable ways. No one could have foreseen the terrible events of September 11 and the subsequent economic impact. Several months later, the economy is showing signs of renewed growth. While this is welcome news, we cannot take it for granted. We know that jobs and investment flow across borders with relative ease in today's global economy. We know that competitive jurisdictions are winning the jobs. We know we must be increasingly competitive if we want the people of Ontario to benefit. We cannot stand still while the world around us changes.

Over the past six years, our government has made the tough decisions to ensure a strong, healthy and prosperous Ontario. We have brought in lower taxes, reduced red tape and spent responsibly, all policies that have resulted in a much more stable and resilient Ontario economy. These policies have also helped Ontario weather this current economic slowdown and emerge in a position of strength. Let's look at some of the recent signs.

In January, the Ontario economy added 6,900 net new jobs. We have gained 22,200 jobs in the last four months, more than recovering all of the jobs lost in mid-2001. Housing starts rose 34% in January, to a level of 93,500 units. That's the highest level since March 1989. In Toronto, new home sales skyrocketed by 87.7% in December from a year earlier, and resales in January were up a staggering 57%. Retail sales across the province rose 2.6% in the fourth quarter, the best quarterly gain in a year and a half. Consumer confidence rebounded by 6.2% in January from the fourth-quarter level. That's up 21.6% from its post-attack low in October. Business confidence in the final quarter has also rebounded sharply.

These signs are good. Ontario is indeed on the right track, but we still have a lot of work to do.

Consider infrastructure. Our government understands that Ontario needs world-class, high-quality infrastructure to attract investment, create growth and ensure the jobs of tomorrow.

As the minister responsible for the Ontario SuperBuild Corp, I am pleased to report that public capital investment remains strong. Through public-private partnerships, we are pursuing opportunities to renew and rebuild Ontario's infrastructure. We are reducing the burden on taxpayers. We are building needed infrastructure sooner than the province could accomplish on its own. And we are providing jobs and stimulating local economies in every corner of the province. Since 1999, and together with our partners, we have committed $13 billion to more than 3,300 infrastructure projects. If I may, let me outline some of our key accomplishments to date.

SuperBuild and its partners are investing $1.8 billion in college and university spaces so there is a place in school for every willing and qualified student.

Pilot projects at the Royal Ottawa Hospital and the William Osler Hospital in Brampton are testing innovative solutions to delivering quality health facilities.

SuperBuild is investing over $1.5 billion over five years in strategic municipal infrastructure. We have committed over $3.25 billion over the next 10 years to renew and expand transit, and we have asked for matching contributions from municipalities and the federal government. We are also investing more than $10 billion over 10 years in provincial highways.

Virtually all of our public facilities will be enhanced by SuperBuild investments, and every region of the province will benefit.

Our government has put Ontario's fiscal house in order. We have reduced net provincial debt, we have overachieved our deficit and debt-reduction targets six years in a row, and we plan to introduce a balanced budget in 2002-03.

This will not be an easy task. Tough decisions must be made to ensure that spending is kept in line with current economic realities. But we understand the importance of a balanced budget to Ontario's economy, to our competitiveness, our people and our prosperity, and we have long been committed to this goal. We eliminated the deficit in 1999-2000, one year ahead of schedule, we passed the Balanced Budget Act in 1999, and we clearly understand that we cannot go back to the days when deficits were the norm rather than the exception. In fact, last year during the budget lock-up a journalist said to me that in the past the news story was always, "How big is the deficit?" Today, journalists come into the lock-up expecting a balanced budget. The people of Ontario share this expectation. This year, we are on track to achieving a third consecutive balanced budget for the first time in nearly 100 years in Ontario.

Through it all, we have continued to invest in areas of importance to the people of Ontario, such as health care, education and infrastructure.

In the 2000 budget, our government made a commitment to reduce the net provincial debt by at least $5 billion during the current term of office. With a contribution to debt reduction of $1 billion in 1999-2000 and $3.1 billion in 2000-01, we have met more than 80% of this commitment in the first two years. Last year's contribution was the largest single reduction in debt in the history of the province. We are proud of this record. However, the debt is still over $110 billion. It costs the people of Ontario $9.3 billion per year in interest charges alone. That money could be so much more effectively spent in health care, education, and in our communities. Our government will continue to make the tough decisions to tackle this debt.

Our hard work in this regard has been recognized. Ontario's credit ratings were upgraded by both Standard and Poor's and the Dominion Bond Rating Service in 2001 and placed on positive outlook by Moody's, resulting in a savings of $90 million, which we were able to spend on health care.

Today I am releasing the third-quarter Ontario Finances. They show that the prospects for healthy, long-term economic growth remain bright. The 2001-02 fiscal outlook is on track with the budget plan. However, the slowdown of the economy has impacted the amount of revenues that we are forecasting. Total revenue is projected at $63.9 billion, down $406 million from the 2001 budget plan. The decline is mainly due to decreases in corporation, retail sales and employer health tax revenue.

1010

Total expenditure is projected at $63.4 billion, up $144 million from the budget plan.

Ontario's 2001-02 budget plan included a $1-billion reserve designed to protect against unexpected changes such as the current slower economic growth. In addition to the $300 million allocated in the second quarter, a further $250 million of the reserve has been allocated in this quarter to balance the budget this year, leaving a $450-million balance in the reserve which, if not needed, will be used for debt reduction at year-end.

Ontario's economic growth is indeed lower than was predicted in last May's budget. After four years of remarkably strong real GDP growth, Ontario's growth slowed in 2001 to a rate of 1%, after 5.3% growth the previous year. The slowdown has been aggravated by the events of September 11.

Private sector forecasters now predict real GDP growth of 1.3% for 2002. The economy is predicted to rebound to 4.4% growth next year. The slowdown has been considered only moderate, and we have already seen evidence of growth.

By January 2002, Ontario had recovered all the jobs lost in 2001. In fact, we recovered these job losses in four months. During the last economic slowdown, it took nearly seven years to regain all job losses. Clearly this shows our economic policies are working. Over the last four months, Ontario employment rose by 22,200, following a decrease of 22,100 jobs in mid-2001. In all of 2001, Ontario created 90,600 jobs, an increase of 1.5%. This continues the positive trend in job growth that has occurred as a result of our government's policies. Since September 1995, Ontario's economy has generated 845,500 net new jobs.

Mr Chair, last year I said—and I'm quoting myself, which is different—"Even if the US goes into recession, we are in a far better position than we were just a decade ago to withstand the impact." This has since been proven. Our sound policies of lower taxes, balanced budget, debt repayment and more efficient government have helped us weather the storm. They have led to a strong and competitive Ontario.

A recent international survey done by KPMG found Toronto to be one of the lowest-cost major cities in the world in which to do business. The study noted that, "Even with a 20% increase in the value of the Canadian dollar, Canada's cost advantage would still average more than 5%."

We must stay on this path. Though it requires difficult decisions, determination and commitment, it is vital that we do not turn back the clock. The road that we are on is the only one that will result in continued growth and prosperity for Ontario.

Ontario is poised to take advantage of this economic upturn. To do so most effectively, we must follow through on our pledges to lower personal and corporate income taxes and property taxes; encourage innovation and small businesses, and attract and retain highly skilled individuals; rebuild and expand provincial infrastructure; and maintain the fiscal balance and reduce provincial debt levels.

Tax cuts have always made common sense. We understand low taxes are necessary to a competitive, healthy and prosperous economy with a rising standard of living for all of the people of Ontario. That's why we cut personal income taxes by 30% in our first mandate, and it's why we have fulfilled our promise to cut these taxes an additional 20% in this mandate.

A family of four—two working parents and two children—with an income of $60,000 will pay $2,360 less in Ontario personal income tax because of our tax cuts.

We are also proud that we have significantly reduced corporate tax rates. We know that lower corporate taxes encourage businesses to set up shop in Ontario and create jobs. By 2005, Ontario will have the lowest combined general corporate income tax rate in North America, making Ontario a prime destination to do business.

One of the first actions the government took after September 11 was to accelerate the tax cuts that had been scheduled for January 1, 2002. This provided an economic stimulus of $176 million, and it demonstrated our commitment to improving business confidence.

The government has moved to lower property taxes for homeowners and businesses. We are reducing education property taxes by over $1 billion by 2004. In addition, the province has protected businesses from increases in municipal property taxes in parts of the province where businesses are already overtaxed.

Ontario's underlying potential for economic growth is very strong. We have a record of broadly based economic growth. Over the period 1996 to 2000, real GDP grew by an average of 4.7% per year. In the three years from 1998 to 2000, our economy grew faster than that of the United States, the rest of Canada, and any of the G7 industrialized nations, recording real growth of 5.8% per year. According to the average private sector forecast, Ontario's real GDP growth is expected to accelerate from 1.3% this year to 4.4% in 2003, putting Ontario once again at the forefront of growth among the G7 countries in 2003. Our government's policies have been, and will continue to be, imperative to this success.

I must also commend the business owners and entrepreneurs who take the many risks, work so hard day after day, build their businesses, and create the growth and the jobs that benefit all of Ontario. They are truly partners in Ontario's economic success.

As I mentioned in my opening remarks, sound economic policies are helping Ontario weather the current difficulties in the world economy. The prospects for healthy, long-run economic growth remain bright. But we must maintain the course we have charted. We cannot return to the days of high taxes and deficit financing. We must move forward and remain fully committed to the policies that have brought us this far.

In the fall, the Premier and cabinet asked me to undertake a more extensive pre-budget consultation than in previous years. I have traveled across the province to meet with people in their communities. I have heard many new, interesting, bright ideas. I have listened to the people of Jordan, Niagara Falls, London and Sault Ste Marie, and they have told me that we must stay the course. I have listened to the people of Sarnia, Durham region and Barrie, and they have told me that we are on the right track. I have listened to the people of Elliot Lake, Gore Bay, Thunder Bay and Fort Frances, and they have told me that we must continue to balance the budget. I have listened to the people of Stratford, Owen Sound, Pembroke and Peterborough, and they have told me that we must continue to pay down the debt. I have listened to the people of Ottawa, Hamilton and Windsor, and they have told me that we must continue to reduce taxes to remain competitive. I have listened to the people of Ontario, and they have told me that we must maintain our economic and fiscal policies for a strong and prosperous Ontario.

I look forward also to hearing from your committee on the measures that we can take to maintain a strong Ontario, to continue on our road to economic growth and prosperity for all of the citizens of this great province. Thank you, Mr Chair.

The Chair: Thank you very much. We have approximately 12 minutes per caucus, and I'll start with the official opposition.

Mr Phillips: Thank you, and I say again, I wish you would spend more time with us. Frankly, I find it unfortunate that you only have an hour a year to come to our committee and discuss these matters. But I can't do anything other than express my disappointment. I do think the Minister of Finance should be at this committee more than just an hour a year. Each of us gets 12 minutes to ask questions, and it just doesn't seem appropriate for the people of Ontario.

1020

Having said that, let me get into my first question. You haven't talked about the most important thing for this committee, and that's your outlook for the finances for the upcoming fiscal year. That's what we're all about. We're providing advice to you. You said outside this committee that you think there's a potential shortfall of between $1 billion and $5 billion. Last year in the budget you provided a forecast for the upcoming fiscal year indicating revenues would be $65.5 billion and expenditures would be $64.5 billion. Can you today give us your updated outlook for the revenue? You had an estimate a year ago. It must be updated now. You must have done it, when you said the shortfall is between $1 billion and $5 billion. What is the shortfall that the province is looking at for the upcoming fiscal year?

Hon Mr Flaherty: Looking forward to 2002-03, the average prediction of the economists with respect to GDP is 1.3%, as I mentioned, so we are anticipating economic growth in the next fiscal year. But there's no question that there are difficult but necessary decisions that will have to be made given that economic growth will not be as substantial as it certainly was in the years preceding the last fiscal year. So we will have to make some important budget decisions to make sure that we craft a balanced budget for the province of Ontario going forward.

There are some variables still that we have to deal with. As you know, the federal Liberal government has botched the collection of our taxes. They tell us now they've botched it since 1972. They told us that just weeks ago, so we're going to have to have discussions with the federal government about what that means for our tax revenues going forward. We also have to have discussions about what it may mean going backwards. Those are issues that need to be addressed because of their failure to perform adequately in the collection of tax revenues for the provinces of Canada.

Mr Phillips: Listen, you're the Minister of Finance. You're here to give us the advice of where we stand on revenue. You're out telling the people of the province we have a $1-billion to $5-billion shortfall and you won't tell us what your revenue forecasts are for the province? This fiscal year starts in another month. Can't you give us that revenue estimate today?

Hon Mr Flaherty: The 2000 budget estimated that the impact of a one percentage point change in GDP—this should assist you—

Mr Phillips: No, just give me the answer.

Hon Mr Flaherty: —on the fiscal balance was $610 million dollars. I've told you what the economists are predicting for the fiscal year to come, 2002-03, and also for the 2003 calendar year. We are in a difficult position this year; there's no question about that. Things look better for the following year.

Mr Phillips: But listen, you've got a staff there—

Hon Mr Flaherty: I'm sorry?

Mr Phillips: —that the taxpayers are paying a bundle of money for. Can you give us an estimate of what the revenue will be for the next fiscal year? It starts in roughly a month.

Hon Mr Flaherty: I've told you what the effect is of a diminution in GDP. I've told you that the federal government has let us down and that we don't know what the impact of that is going to be to our revenues in Ontario. I've told you that we have a positive prediction with respect to economic growth. We are watching carefully as we complete the fourth quarter of this fiscal year and are planning a balanced budget for the next year. There are pressures on the revenue side, and we're going to have to make some difficult but necessary decisions on the expenditures side as well.

Mr Phillips: Listen, you're looking for advice from the legislative committee and you won't tell us your revenue estimate. A year ago you had a revenue estimate for the upcoming fiscal year. That was 12 months ago. You had an estimate for revenue for the year 2002-03, and we're sitting here today and you will not give us a revenue estimate of what you expect. You can put an asterisk around it and say, "This assumes X from the federal government," but you've got an entire huge staff there, you expect good advice from the legislative committee, and you won't tell us what your revenue estimates are?

Hon Mr Flaherty: What you're concerned with, I'm sure, is, is there a spending gap? Is there a gap between revenues and expenditures? Yes, unless we make some difficult—

Mr Phillips: How big is that gap?

Hon Mr Flaherty: That gap could easily range between $3 billion and $5 billion, if certain assumptions are made.

Mr Phillips: What is the gap? Is that the revenues or the expenditures?

Hon Mr Flaherty: You asked me a question, Mr Phillips. Do you want me to answer your question?

Mr Phillips: Yes.

Hon Mr Flaherty: Yes, all right. That gap would be a gap that would be there and we would not have a balanced budget unless we made some important decisions with respect to priorities in spending. We know, for example, and you know, that health care spending will go up. That is inevitable, given an aging population, given new technologies, given the cost of the drug plan and so on. So it does mean in other areas of our expenditures we are going to have to make some spending decisions in order to balance the budget. You know that and I know that.

Mr Phillips: You say it's a $3-billion to $5-billion gap. Is that because revenues are going to be $3 billion to $5 billion lower than you anticipated a year ago?

Hon Mr Flaherty: No. You know that's not so.

Mr Phillips: I don't know—

Hon Mr Flaherty: Sure you do. You know that there are spending increases required in health care. You know that. And there are spending increases that are necessarily—

Mr Phillips: They weren't in last year's—

Hon Mr Flaherty: Do you want an answer, Mr Phillips, or not?

Mr Phillips: Yes, I do.

Hon Mr Flaherty: I'd be happy to answer your question but you have to give me an opportunity to respond, I hope.

Mr Phillips: Go ahead.

Hon Mr Flaherty: There are pressures on the spending side, certainly, in health and in education. There are demands on the social services side. As you know, when you're dealing with those areas, you're dealing to a large extent with human resources, human resource costs, and there are some built-in increases there in collective agreements and elsewhere. So those spending pressures exist. With a lower rate of economic growth there will be some revenue diminution as well, so we have to deal with it. You asked me what that that gap is and I've given you my best prediction at this time.

Mr Phillips: Last year you predicted revenue would be $65.5 billion and expenditures would be $64.5 billion and that would give you, with a $1-billion reserve, a balanced budget. You're now saying there's a $3-billion to $5-billion change in that. Is it because revenues are going to be down by X and expenditures are going to be up by X? Can you just give us the basis on which you reached the decision it was a $3-billion to $5-billion shortfall?

Hon Mr Flaherty: Both. The answer is both. Unless we take some important decisions, our expenditures would be up and the revenues will be down, given the lower rate of economic growth compared to that which was predicted, compounded by the federal government taxation collection error.

Mr Phillips: So you say revenues will be down substantially and expenditures up substantially and we have now a $3-billion to $5-billion gap. Why wouldn't you present that to the committee at the start, so that we understood what we were dealing with?

Hon Mr Flaherty: I already said that in my opening remarks, Mr Phillips. I already explained that we have some difficult decisions to make this year in order to accomplish a balanced budget and that we intend to accomplish a balanced budget. We have a downward pressure on revenues and we have an upward pressure on expenditures. I thought that was quite plain from my opening remarks.

Mr Phillips: I'm not sure the public ever saw a $3-billion to $5-billion number in your report.

You've indicated that job creation this year, at least your economic outlook, will be the lowest it's been in 10 years. Why would that be the case this year?

Hon Mr Flaherty: As you know, the world economy has slowed. As I mentioned in my remarks, the good news is that in Ontario we're seeing some very positive signs. There was job loss last year, in mid-2001. We've recovered all of those jobs back in the last four months, including the month of January; I believe the figure is some 22,200 new jobs. The last time we had that kind of job loss, as we had in the middle of last year, it took seven years for that job loss to be recovered. As I say, we've recovered it already in the past four months. So there are some very positive economic indicators.

Yesterday we saw figures for Toronto new home sales last month, for example. The sale of new homes in the greater Toronto area soared 86.8% in January, which is the strongest single-month showing since January 1987 and it's the fourth-best month on record. So there are some quite positive indicators in the economy as we come back.

1030

Mr Phillips: I gather from your comments that you will not be implementing the residential education property tax cut until 2004. Is that what I take from your remarks?

Hon Mr Flaherty: I think it was by 2004.

Interjection: No, 2003.

Hon Mr Flaherty: It's 2003.

Mr Phillips: It said 2004 in the document, in the speech.

Hon Mr Flaherty: I can check that.

Mr Phillips: If you could give us what the answer is. I'm just wondering.

When you introduced the Fair Share health levy, you said, "For some time now, there has been growing debate over the most effective way to ensure more responsible use of our universal health care system. In the last decade, user fees and co-payments have kept rising and many health services have been 'delisted' and are no longer covered by OHIP. We looked at those kinds of options, but we decided the most effective and fair method was to give the public and health professionals alike a true and full accounting.... We believe the new Fair Share health care levy, based on the ability to pay, meets the test of fairness and the requirements of the Canada Health Act while protecting the fundamental integrity of the health care system."

You've indicated you're planning to eliminate the Fair Share health levy. Why would you be eliminating the Fair Share health levy?

Hon Mr Flaherty: Because it's a surtax and surtaxes deter initiative and entrepreneurship in Ontario. We know that it is that initiative and that entrepreneurship that creates most of the jobs that have been created and are being created in the province of Ontario by small and medium-sized businesses. It was a necessary step but we are moving forward. I took the first step, as you know, in last year's budget to eliminate surtaxes in Ontario.

Mr Phillips: That's the Fair Share health levy. You're eliminating what you said, when you got elected, was the fairest method of funding health care. Have you decided that somehow or other what you said then wasn't the case?

Hon Mr Flaherty: As you know, it's a surtax. It was necessary at the time. As we move forward, I certainly intend to eliminate not only the surtax but the capital tax. They're both job-killing, non-productive taxes.

Mr Phillips: But it's your own Fair Share health levy that you said at the time was the fairest way of funding health care. Which is right? Were you right then or right now?

Hon Mr Flaherty: It was necessary at the time that we do that. You'll recall, when that was done we had been left with one mess in the books of the province of Ontario by the Liberal and NDP governments that were in power from 1985 to 1995, Ontario's lost decade, which fortunately we're recovering from. We had to do that to put the house in order. But as we move forward in terms of taxation policy, we believe in reducing taxes. We don't believe in payroll taxes, we don't believe in surtaxes and we don't believe in capital taxes.

Mr Phillips: But you need to fund health care, Minister. You said at the time it was the fairest way and now you're abandoning what you called the Fair Share health levy, which I assume you had examined and determined, as you said in your own document, the fairest way of doing it.

Hon Mr Flaherty: At the time, it was necessary to have a surtax in order to fund health care, you're correct. If you look at the big picture, do we believe in surtaxes—

Interjection.

Hon Mr Flaherty: I know you probably believe in surtaxes and you probably would maintain them if you had the choice.

Mr Phillips: No, you introduced the Fair Share health levy. It wasn't me.

Hon Mr Flaherty: I'm telling you, as we go forward, as I demonstrated in last May's budget, I am a proponent of eliminating surtaxes over time. We already have a graduated income tax in Ontario, so that persons who make more money pay more tax. That is, I think, our agreement together, that that's a reasonable way of collecting taxes. But surtaxes pile on top of that and they discourage job creation in Ontario. That's not good for the future of the province.

The Chair: Thank you, Mr Phillips.

Hon Mr Flaherty: To answer your question—can I just—

The Chair: Go ahead.

Hon Mr Flaherty: The property taxes will be completed by 2004, as stated, $1 billion.

Mr Phillips: Does that mean that by January 1, 2004, it will be fully implemented?

Hon Mr Flaherty: No, the residential education cut is completed by 2003, the business education reduction by 2004. So it is by 2004, if you're asking about the business education reduction. If you're asking about the residential education reduction, it's by 2003.

The Chair: Thank you very much. I have to go to Mr Christopherson.

Mr David Christopherson (Hamilton West): Good morning, Minister.

Hon Mr Flaherty: Good morning.

Mr Christopherson: You talk about your list of tax cuts. I can tell you, in the two communities we've been in so far, there have been those who have come in and agreed with you, but they've really been in the minority. The majority of people and groups that are coming in to see us—and I expect that to continue—are people who are living the result of your absolute obsession with tax cuts at the expense of public services.

You've talked about the fact that you've got difficult decisions coming up now to make up the $3-billion to $5-billion deficit that you're facing. What we're hearing out in the communities is the fact that education, health care, homelessness, issues of poverty, children's mental health, services for seniors—these are the issues we're hearing about. What they're telling us is that they have had the impact of your cuts from 1995 till now, through you and your predecessor, and they lived through those "difficult decisions," as you call them, meaning cuts to our public services, in the good times. Now you're coming in here today and saying you've got more difficult decisions, and that means these same groups and these same sectors of our economy and our society are going to be cut again.

Minister, how does anybody win, other than the very well off in this province, when what you do is say, "There are difficult decisions and we have to cut your funding," in good times, and you say, "We've got difficult decisions and we're going to have to cut your funding," in bad times? How on earth are we expected to maintain the kind of society that we've had in the past when all you do is cut, cut, cut, in good times and bad times, and the vast majority of people never see any good times for them? How's that supposed to work?

Hon Mr Flaherty: Thank you for the question. In terms of reductions in spending, let's take the largest part of the budget, health care. Health care spending has increased by about $6 billion since we came into office. It has now reached almost $24 billion in the province. That's not a cut. I'm sure anyone looking at those numbers would go, "That's quite an increase," some $6 billion in the course of the six years or so that we have been in office.

A good question is, is our health care system $6 billion better as a result of that very dramatic increase in spending? I've indicated already here this morning that inevitably health care spending will be higher in the next fiscal year than it is in this fiscal year because of the demands on the system: an aging population and new technologies and new drugs. The reality is, the federal Liberal government refuses to be a true partner with the provinces on health care. When they asked Premier Robarts to go into this federal plan in 1969, the agreement was 50-50. Today it's 14 cents from the federal government, and that's all. So I can't agree with your premise, Mr Christopherson, nor would I agree with persons who would appear in front of this committee and say that we have reduced spending, that we've cut spending on health care, because it's not an accurate statement.

Mr Christopherson: Just on health care, by the time you factor in the increased population, the aging population and inflation, you're not meeting the needs. Your actual numbers may be up, but in terms of the service they're providing, it's down. You may not want to agree with me; that doesn't come as a big shock to anybody. But I'll tell you, the fact that you're prepared to sit here today at your first appearance and just dismiss everybody who's about to come forward and disagree with you is an insult.

I can tell you we heard from the Windsor-Essex Catholic District School Board. Do you know what they said when I asked them whether they would prefer that you run a short-term deficit rather than balance the budget or give them the money they need? Do you know what they said? They said that your balanced budget is not really balanced because you're just pushing the deficit on to them, on to the school boards. If you want to come back down to Windsor with us and tell the Windsor-Essex Catholic District School Board that they don't know what they're talking about, I'd love to be at that meeting, because they were using words like "crisis" and "bankrupt" and "lost futures." That's where the rubber hits the road, Minister: out in our communities.

I find it extremely insulting that you would sit here today and just say that you don't care about what anyone has to say who disagrees with you, that they are just plain wrong. They're not wrong. They are dealing with the kids. While you run around trying to get yourself elected Premier, they're trying to figure out how they are going to provide a decent education, and you're not giving them the money. But, whoa, anybody who suggests you might want to slow down on your tax cuts to make sure there is money for the school boards, suddenly we're speaking Canada's version of evil.

Minister, I want to know what you would tell those trustees, the teachers in Windsor-Essex and in other communities, why it is they're wrong when they say to you that they don't have enough money to provide the kind of education that they're mandated to provide. What are you going to tell them?

Hon Mr Flaherty: I realize the committee has had some hearings so far in Ontario as part of your pre-budget work. I have conducted what may well be the most extensive pre-budget consultations in the history of the province.

Mr Christopherson: By invitation only.

1040

Hon Mr Flaherty: I have been in 17 communities so far. By the time we're finished it will be more than 20 communities. We're taking two very long, full days this week on Thursday and Friday in Toronto to continue the pre-budget consultations. By the time they're finished, I will have met personally with in excess of 1,200 people in terms of pre-budget consultations. It's very important to listen to the people of Ontario.

Yes, I've heard from school boards, including the Roman Catholic school board in Ottawa. I remember our discussions there, and there are specific concerns that do make it important that we listen not only to school boards but to parents and teachers and students across the province. There are concerns about rural funding for buses, for example, which we addressed in-year last year, because it is accurate, and we certainly heard from the rural boards, that they have expenses related to busing that are proportionately greater than those incurred by more urban or suburban school boards.

There are always pressures on the special education side. That's a great concern. I'm sure it's a concern of yours. I share it with many parents who have concerns about special education. It's an area that's always going to be challenging for us in terms of not only identifying students requiring special education and the various ways of doing that, but also developing and funding the appropriate programs.

These are important issues. They are issues we will work on year after year in Ontario. But at the same time, we have to remember that running up debt and deficits simply pushes off to our children and to our grandchildren our responsibilities. It is irresponsible for us as adults to ask our children to pay for our standard of living today and mortgage their futures. I don't agree with that.

Mr Christopherson: I'm going to say to you, Minister, I think it's equally irresponsible to push that deficit down to school boards with the result that children aren't receiving the education they should get. I'm surprised that you would even raise the issue of special education. That gets raised at least four or five times a day in the communities we're in. None of your backbenchers will admit there's not enough money, and yet that seems to be the only solution. So all your words are nice, I suppose, for your friends and the people you meet with—by invitation, by the way. Those are not open meetings. You're not putting out a general notice saying that anybody who wants to come out is welcome. That's certainly not what happened in Hamilton.

When you want to talk about irresponsible, what we're hearing from people responsible for services on the ground is that it's irresponsible to leave children without their special education assistants, because they're disrupting whole classrooms and the whole school is falling behind because you don't give enough money for special ed. Of what value are your words when what they say they need is money, Minister? You've got lots of money for your tax cuts, lots of money for that, but not enough money for special ed.

Hon Mr Flaherty: You know, if the solution to the challenges we face as a society were as simple as throwing money at them, we would have solved all the problems a long time ago. We're spending a lot of money in Ontario: $64 billion. This is not an inexpensive operation. Governments in Canada—federal, provincial and municipal—are spending about 42% of the gross domestic product of this country. We've got lots of government and we've got lots of government spending. May I say respectfully, it's more difficult to choose priorities, focus on those priorities, make government smaller and more efficient and hopefully excellent at what government must do, but stop trying to be all things to all people.

What happened for a generation in Canada, especially from the mid-1970s to the mid-1990s, was rapidly escalating spending by governments of all levels in this country, and of various political stripes, I might add, resulting in very substantial public debt both federally and provincially. That debt burdens us today. If we had the more than $9 billion we pay on interest for education or health care, that would sure go a long way in Ontario toward alleviating the spending pressures in those areas. The answer isn't to run up the debt more so that five years from now we're in a worse situation. That surely isn't the answer. That's the old 1970s, 1980s way of thinking that got us into this debt situation today.

The Chair: You have a minute and a half.

Mr Christopherson: Thank you. But, Minister, what you're not acknowledging is that you haven't made the deficit go away; you've just put it in a different place. You're creating social deficits. That's what we're hearing at the committees. It's fine for you to run around and say, "I've got a balanced budget, I've done all these wonderful tax cuts," and that you don't believe in deficits, but you haven't made them go away; you've just put them somewhere else. It's a shell game.

The reality is that you've cut almost $2 billion per capita from education, and it's showing in terms of the quality of the education that's being delivered in our classrooms. It's showing itself by the budget deficits that are being run in hospitals. A waiting list for a child that needs mental health counselling is a deficit. You haven't eliminated a thing. You've just shifted the problem elsewhere.

A couple of last thoughts in the moments I have. I haven't heard you talk this morning at all about what you're going to do about the crisis in the auto industry as a result of the Auto Pact disappearing. We're losing thousands of jobs structurally in the steel industry, and that came across in the Soo. Certainly in my own hometown of Hamilton there's real concern about the future. You haven't announced any measures in regard to those two areas.

On the issue of hydro, I'd like to know what you would say to John Mayberry, president and CEO of Dofasco in my hometown of Hamilton, who says that your intent to privatize and deregulate hydro "will impact the prosperity of households and families and dampen economic activity by making it more difficult, if not impossible, to compete at a time when we can least bear it."

Those three items, if you would.

Hon Mr Flaherty: I made extensive reference to what we're doing for business in Ontario in my opening remarks. We're reducing taxes. We're reducing personal income taxes and we're reducing corporate taxes. By the way, so is the federal government, because the federal Liberals, unlike the provincial Liberals in Ontario, realize that tax cuts create jobs, they stimulate the economy and they create further investment. That's what we're doing for all businesses in Ontario. Do we play favourites? Do we pick winners and losers in business? No, we don't. Is there good news—

Mr Christopherson: So, what, the auto industry can just disappear?

Hon Mr Flaherty: You may not have heard the announcement by DaimlerChrysler about the Pacifica car, I believe it's called, that's going to be built on the van line in Windsor. There's good news in the auto sector as we move forward in Ontario.

Dofasco, Mr Mayberry's company, showed a profit last year. Good for them.

Mr Christopherson: He's worried about that ability with your privatization of Hydro, though, Minister.

Hon Mr Flaherty: There aren't many steelmakers who can say that in North America, so I congratulate him and his company on their success.

Mr Christopherson: He's worried that he'll be one of them.

Hon Mr Flaherty: I know he's asking about Hydro. I had a meeting earlier this week with some of the major industrial electricity consumers, including Dofasco, I might add. They do have concerns. The biggest protection—

Interjection.

The Chair: You're running out of time, Mr Christopherson. If you're not going to let the minister answer—

Mr Christopherson: I've heard that before.

The Chair: —I'm going to have to go to the other side. You may finish, Minister.

Hon Mr Flaherty: I'll finish quickly. The biggest protection to industry and to all consumers in Ontario about opening the market is that competition is the surest guarantee of fair pricing as we go forward.

Mr Christopherson: You're alone with that answer; you know that.

The Chair: We've run out of time and I'll go to Mr O'Toole.

Mr John O'Toole (Durham): Thank you very much, Minister, for appearing here this morning. Just responding to your remarks, your careful leadership in these difficult times is evident here this morning. It's also evident in the Your Bright Ideas budget tour. I commend you for the confidence you show in staying the course.

The issue of health care is not the only issue that we've heard. This committee has travelled in the last couple of days to Sault Ste Marie and Windsor. Of course, the health care demands are enormous that we've heard about. It's just hard to add up the numbers as quickly as they speak. Education of course is also one of the issues that is continuously pressing. They are using the word "deficit" in most of the cases we hear about, and of course it's illegal to plan a deficit. We're also hearing about children's services and a whole broad range of areas, children's mental health.

But on the issue of health care, I was most impressed with a couple of the presentations that this committee heard on a whole new delivery model which is quite interesting. The Group Health Centre in Sault Ste Marie has demonstrated just one example that they've used in their particular delivery of service—and this is on the record. For instance, they have reported to us that the protocols they use in the congestive heart failure program they have with patients, as well as in dialysis, could result in savings of $100 million annually, if implemented. I know there are new ways of delivering, other than just continue to write the cheque to respond to the demand. I heard from the opposition that their response was basically to write a cheque, not to look at new and challenging methods.

1050

If I listen to the debate on the issue, whether it's Romanow or Kirby or Mazankowski, they are looking for solutions. I haven't heard much from the federal government, either Allan Rock or Anne McLellan. This government made a Blueprint commitment in 1999. I'm looking for solutions. You've made a statement here just in the last couple of minutes that we committed to increase spending—I believe 20% was our Blueprint commitment. I just wonder if you could give the committee some kind of navigational bearings on where we are in that Blueprint commitment. Have we kept our promise or indeed have we exceeded the promise?

Part 2 of the question is, how can we sustain the demands in health care without the fundamentals of the strong economic policies that we've had in the last several years in this province, if that's not putting you on the spot. The health care question is by far the largest demand. As I said, you could hardly keep the calculator going fast enough to respond to the demands in the current delivery model.

Hon Mr Flaherty: On the numbers, health care base operating spending will be $23.7 billion in 2001-02, which is an increase of $1.5 billion, or 6.9%, over the 2000-01 actual base operating spending, which was $22.2 billion. The increase of more than $6 billion is over 35% from the base spending in 1994-95, which was $17.6 billion.

Thank you for telling me about the committee hearings: some good ideas, some bright ideas about smarter spending in health care. Even though it does require more money, we do need to spend in a wiser way to make sure we maximize the funds that are being spent on health care.

In 1995, we did inherit from the previous governments the reality that we had the equivalent of 32 hospitals closed in Ontario, except they hadn't closed any buildings. They closed wings of hospitals and they closed floors of hospitals but not one building around the province. So we still had all those expenses. And yes, we did enter into a period of restructuring to create a true system in health care so that there is a continuum of service, from primary care through hospital care through acute care in hospital through outpatient care through long-term care and chronic care and home care in the community in Ontario.

I've seen some good examples in my pre-budget consultations as well: the rheumatology clinic that's been created at St Joseph's hospital in London, for example, where three separate services were brought together under one roof. I think it's in the Monsignor Roney wing at St Joseph's in London. Patients love it, the physicians love it and the staff like it, and they're delivering the services in an efficient way in that one example of restructuring in London. So there are lots of ways we can spend smarter as we go forward, and I thank you for that example.

Mr O'Toole: How you fundamentally fund health care is really the question, I suspect. I've always come to the basic opening principle of the strong economy that is necessary to grow the revenue to support health and education. I look at the triggering upturn policies that you outlined this morning. Perhaps you could indulge the committee by reinforcing some of the anticipated growth in the GDP. As we know, every point of GDP is about half a billion dollars, so that's a pretty important monitor in terms of where the revenue is going to come from.

Hon Mr Flaherty: It's probably worthwhile looking at the last few years. In 2000, the GDP growth was 5.3%. Then I became finance minister and things slowed. The GDP growth was, as I said earlier, 1% in 2001; 1.3% is the anticipated GDP in 2002, and 4.4% in 2003. If you look at that pattern over the course of the past several years, we are obviously in a time of slower economic growth, but certainly the private sector economists are indicating to us that we're moving out of the trough, back into a period of much more substantial economic growth.

The key is that we have a solid foundation in Ontario, a diversified economy with many strains in the economy, in the automotive sector, the steel industry, agribusiness and the high-tech sector, which is coming back. So we have many areas of the economy that can build for us. And of course we have the construction sector, which has been a stalwart during this time of slower economic growth. So there are many positive signs for the Ontario economy going forward.

Mr Doug Galt (Northumberland): Thank you, Mr Flaherty, for your presentation. I very much appreciate it and your positive outlook on the future. That can certainly almost drive us into economic good times.

The question I have for you has to do with education. I look at our budget and see that we've increased spending by approximately $1 billion, yet I hear the opposition, with their doom and gloom, talking about cuts of $2.3 billion. I think that's approximately the figure they're using. I have no idea where they're coming from. Maybe you could explain to this committee what's really happening in the funding of education, because I see a $1-billion increase. Maybe you could explain this difference that we're hearing.

Hon Mr Flaherty: I suppose the bottom line is that we're spending more money on education than any other government has ever spent in the history of Ontario. So we could start there. When people suggest there are cuts in education spending, certainly in terms of the tax dollars of the people of Ontario going out the door, record spending is happening in education.

The hard numbers are $13.8 billion for elementary and secondary schools in the current school year, September 1, 2001, to August 31, 2002, about $8.5 billion in provincial funding and $5.3 billion from property tax revenues.

Not only is education funding at record levels, but more of the money is focused on the classroom. As you know, Mr Galt, that was a reform that our government initiated. We wanted to target less money for large bureaucratic administrations and more money for the students in the classroom. For that reason, we have some enveloping of some funding for school boards, for example in special education, so that school boards cannot dip into the special education envelope and use it for other purposes. There's been some discussion about whether we should envelope more of that funding, and that's something we can talk about in another forum perhaps.

I think parents and students appreciate the fact that a lot of money is being spent on education in Ontario, that it is focusing on the classroom, and that—and this needs to be said from time to time—because of the Mike Harris government, for the first time in the history of Ontario there is equal funding between Catholic and non-Catholic students in the public system. Not only that, but there is equal funding for students across the province, whether they live in a rich neighbourhood or a poor neighbourhood or something in between. We no longer have rich school boards and relatively poor school boards; we have equal funding for all of our students in Ontario regardless of their parents' means.

Mr Ernie Hardeman (Oxford): Thank you, Minister, for being here this morning. One of the things we've heard discussed a number of times is our provincial debt and the problem that servicing that debt causes with further expenditures, where money that should be going to program spending is going to service the debt of past generations, or my generation spent the money on behalf of my children.

In the past, in the third-quarter finances, the money that is left over in the reserve is usually transferred over into debt repayment to try and lower that debt burden. I'm wondering why in the presentation this morning you didn't put it into the third-quarter debt repayment. You still have it as a reserve. Is there any significance to that?

Hon Mr Flaherty: Thank you for the question, Mr Hardeman. As you know, the surplus reserve is built in each year in budgeting to make sure that we can balance the budget. We are encroaching on the reserve this year because of slower economic growth and the effects of September 11. We did decide to maintain the balance that hasn't been attributed yet, the $450 million, into the fourth quarter because we may need it in order to balance the budget this year. But we will balance the budget this year, and that's why we budget a reserve, so that we can deal with times of slower economic growth.

The Chair: With that, we've run out of time. Minister, on behalf of the committee, thank you very much for your time this morning.

Hon Mr Flaherty: Thank you, Mr Chair.

1100

The Chair: Our next presentation will be from the Minister of Finance. I would ask, for the record, if you could please state your name. On behalf of the committee, welcome. You have one hour for your presentation.

Mr Christopherson: He's higher than that. He's the deputy.

Dr Bob Christie: My name is Bob Christie. I am the Deputy Minister of Finance.

Thank you for giving me the opportunity to say a few words to the committee this morning to help set some of the framework. We have some other people here from the Ministry of Finance and I'd like to begin by introducing some of the people who will be here and available to answer questions. This is Gabe Sékaly, who is the assistant deputy minister of our fiscal and financial policy division. To his right is Gadi Mayman from the Ontario Financing Authority. To my left is David Lindsay from SuperBuild. To David's left is Pat Deutscher from our office of economic policy. I know Tom Sweeting is here. Tom is in the back row there. He's our expert on taxation matters, so we'll be calling on Tom if there are any questions on those.

As the minister noted, today we have released the third-quarter Ontario Finances. Again, as the minister noted, we continue to be on track for another balanced budget this year. This would be the first time in nearly a century that Ontario is planning to balance the budget for three consecutive years.

Revenue this year, as is shown in the Ontario Finances, is projected at $63.9 billion, $63.864 billion, which is down a little bit over $400 million from the budget plan, and $248 million from the second quarter. The decline this quarter is mainly due to decreases in retail sales tax revenue and employer health tax revenue. The decline in the second-quarter finances was more weighted toward corporate income tax.

Total expenditure this year, as of the third quarter, is projected at $63.4 billion, which is up approximately $144 million from the budget plan. The increase in spending of $144 million is largely because of a $300-million increase in funding for hospitals announced last quarter. That's partially offset by some underspending in public debt interest and some of the capital programs.

The balanced budget outlook for this year also reflects a $1.8-billion increase for the year in total expenditures over the previous year, 2000-01, mainly due to the $1.5-billion increase in health care spending that the minister mentioned in his discussion.

With economic growth being slower than projected, and because of the role of the reserve that is included each year in our budget planning, an additional $250 million from the reserve was used this quarter to meet the balanced budget target. If needed, the $450-million balance of the reserve will be available for debt reduction at the end of the year.

A slowing economy obviously means slower growth in government revenues. However, there are indications that the economy will be more buoyant in the not-too-distant future. As the minister noted, Ontario's economy is expected to have grown by only 1% this year. The downturn in the US and the events of the early part of the fall have had a discernible effect, which I'm sure all members of the committee have noted in their own communities. However, we are seeing stronger growth in the US. We're seeing tax cuts at the provincial and federal levels having a continuing impact. Lower interest rates and lower oil and natural gas prices are all expected to contribute to a pickup in activity in the middle of this year.

The private sector forecast for Ontario's real GDP growth this year is 1.3%—I note that's the private sector and I think we've supplied the information from which we have derived that number—rebounding to 4.4% in 2003. These forecasters expect the unemployment rate to rise from 6.3% in 2001 to 7.1% in 2002, and then fall back to 6.7% in 2003.

The slower pace of growth is expected to result in continuing moderate inflation. The CPI inflation rate is expected to decline from 3.1% last year to 1.3% this year and that's already beginning to show in the monthly information that's coming out. It has dropped back into that 1% range.

The current outlook, both fiscal and economic, reflects substantially lower growth projections than we were working with last year at budget time, and certainly last year when we last spoke to the committee about these matters. As we noted, the current private sector forecast for this year is 1.3%. Last year, at budget time in the spring, the private sector was looking for growth of closer to 3.6%. Clearly there is a substantial reduction that has been forecast for this year.

Last year at budget time, the private sector forecasters were looking for about 2.3% growth for the Ontario economy in 2001. We now expect that it grew about 1% in 2001.

Our practice, as we move forward toward finalizing numbers for the budget, is to be cautious in terms of the way in which we approach the economic forecast and the revenue forecast. Over the past few years, our forecasts have been about 0.1% below the prevailing average of private sector forecasts, and that has been a consistent practice of the ministry. These private sector forecasts are not the ministry's forecasts; they are the forecasts of the private sector people, and for planning purposes we will typically consider something somewhat less than that. As views change over the next month or two as we move toward the budget, we will be monitoring the private sector forecasts and changing our plans if we feel that that's needed, given the changing views.

The minister noted the effect of slower growth on revenues. A one percentage point reduction in real GDP is estimated, on average, to result in about a $610-million impact on our fiscal position. This is a rule of thumb, it's an average; the actual number in any specific situation will depend on the composition of the change in GDP. If it's concentrated in retail sales, or perhaps international trade might be a better example, where we do little direct taxation, then it may be less of an impact. If it's concentrated in retail sales, particularly in the durable goods that are part of our retail sales tax base, we may see a larger impact. But, on average, that is the impact we have worked with over time.

By the way, that includes both a revenue impact and an expenditure impact. The expenditure impact would represent the impact primarily upon social assistance costs, the expenditure side being affected by the change in the economy.

Lower interest rates also have an impact on the government's budgetary position. A one percentage point reduction in interest rates would, on average, lower public debt interest charges by about $80 million.

1110

As we go ahead, we are going to be benefiting from, as I noted earlier, the decline in interest rates. The Bank of Canada has reduced interest rates by nearly 4%, 3.75% since the beginning of 2001, and that's been very helpful in maintaining and stimulating activity in interest-sensitive sectors such as housing or consumer durables. The minister noted particularly both the new home and the resale behaviour of the housing market and how strong it's been through the year. Some of that certainly can be attributed to the declines in interest rates.

Most economists, I think, would see interest rates as being near at least their cyclical lows and not likely to go a lot lower, but we will continue to benefit from the low level that we've experienced over the last little while as we go ahead through 2002.

On oil prices, there was of course a significant decline in energy prices in 2001. Since peaking at about US$34 per barrel in November 2000, oil prices have declined to the US$19 to US$20 range recently. This is saving Ontario consumers about $2.3 billion a year in lower gasoline price, lower oil price etc.

Natural gas prices have also fallen by 70% and that saves Ontario consumers another $750 million, all of it available for spending or saving or investing on the part of our consumers.

The US is expected to rebound as well, and that will be very helpful to us as we proceed with the recovery. Lower interest rates and energy prices will help the economy in the US as well as here. Recent data have shown an improvement in economic conditions in the US, with consumer confidence and spending rising, new orders for manufactured goods rising, and an improvement in the assessment by the major US forecasters of the situation down there. They now expect growth to be 1.5% in the US in 2002 and 3.5% in the US in 2003.

In detail, the private sector forecast for Ontario is shown on the slide. I draw your attention to the broad-based pickup in activity that people are seeing for the economy. Consumer spending will grow. It's projected to grow next year through higher after-tax income and low interest rates, so we're expecting retail sales growth of about 5.7% next year, according to the private sector forecasters.

The housing market is expected to remain buoyant; again, growth in after-tax incomes, low interest rates, growth in population.

The investment outlook is continuing to be affected by the performance of the manufacturing sector and some excess capacity, so firms are likely to be cautious in their investment spending plans in the near term, although as growth picks up through 2002 and 2003, investment spending is expected to rise quite sharply.

Exports are expected to gain strength as the world economy and particularly as the US economy continues to improve. Markets for some of our key products such as autos and telecommunication equipment are likely to remain soft in the months immediately ahead. As a result, private sector forecasts don't expect trade growth to resume on an annual basis until 2003.

In conclusion, the minister has noted that the province is in a position where some tough choices will have to be made in preparing next year's budget. However, for some of the reasons outlined here, and as the minister noted, there are significant grounds for optimism and confidence that the Ontario economy will proceed to recover from this slowdown in strong shape. Thank you very much.

The Chair: That completes your presentation?

Dr Christie: Yes, sir.

The Chair: Thank you very much. We have approximately 13 minutes per caucus. I'll start with Mr Christopherson.

Mr Christopherson: Thanks for your presentation, Bob. Just to warm up a bit here, you talked about the impact of lower Bank of Canada interest rates. Conversely, what is the impact as they start to be raised again?

Dr Christie: It will depend, clearly, on the pace and level that they get back to. They are at unprecedented low levels, so some increase is expected and will likely have minimal impact. Depending on how strong the recovery is, the bank will likely react more strongly the stronger the economic recovery. So I think the higher interest rates than people might be expecting are likely to end up being a sign of unexpected economic strength, because they'll reflect the bank reacting to the economy, as opposed to attempts by the bank to slow down the economy from the kind of numbers that we've seen.

Mr Christopherson: I realize it's all crystal ball, but are you expecting anything—some of the numbers people are touting are coming in strong. Are those indicators strong enough to suggest to you that we're going to see something in calendar 2002?

Dr Christie: Something in terms of—

Mr Christopherson: Increased interest rates. Do you think the Bank of Canada is going to be confident enough that, if things continue, they'll start to do that this year, or is it still too fragile?

Dr Christie: I think they'll want to see the economy establish something of a track record in that regard and I think they'll want to be confident that a recovery is reasonably well underway and that it has some vitality to it before they begin raising rates. But I think that, particularly, as I said before, the stronger it begins to look, the more aggressive they're likely to be in terms of moving on interest rates. They moved very aggressively after September 11, as did the Fed in the States, and I expect that as we see the impacts of that move out of the system they will want to move interest rates back up.

Mr Christopherson: In the Ontario Finances report, which was tabled today, on page 8 under "Revenue," "Government of Canada," third line down, "Social housing," 2001-02, you're looking to receive $530 million from the federal government. Again, your line item for the revenue generation is "Social housing," yet we know in the estimates, I believe, that the money allocated for housing is down about $600 million. I'm wondering where that $530 million has gone. Has that gone into the general revenue fund? Has it been earmarked for housing? As I'm understanding this, that's $530 million transferred to Ontario from the government of Canada for social housing. I'm wondering, where that appears as revenue, where is that actually going?

Dr Christie: Where's the corresponding expenditure?

Mr Christopherson: Where is it going? Because housing seems to be down by almost $600 million. So we have trouble understanding how it could be going there, and if it's not, then the question for the politicians will be why. But from you on a technical basis I'd like to know where the $530 million is.

Dr Christie: We're having the technical expert brief us on that.

Mr Gabe Sékaly: My understanding is that we get the money from the federal government and it's flowed through to the municipalities for social housing, for their costs. So it is a flow-through.

Mr Christopherson: A 100% flow-through?

Mr Sékaly: That's my understanding.

Mr Christopherson: Is it specifically for housing, geared to municipalities? Is that the only thing they can spend it on?

Mr Sékaly: I believe so, yes.

1120

Mr Christopherson: Also, Bob, you were suggesting that this year you're looking at about a 1% increase in GDP. I'm wondering, at this point everything still seems to be pretty flat, so 1% looks a little optimistic. That sounds almost strange to say, but in these times that fits. It seems a little optimistic. Where are you getting even the 1%?

Dr Christie: I think we had a slide up there showing an expectation of some balance between the various sectors, with the exception of trade. We don't expect the trade side to show much this year, but we still have some strength on the domestic side: housing, retail sales is beginning to come back. You, I think, saw reports that some of the Christmas and post-Christmas retail sales performance was better than people expected, department store sales were better than people expected, consumer confidence coming back. So I think there's potential on the consumer side to contribute to some growth. Consumers are something like two thirds of the economy, so they are a very powerful influence on the growth side. As the economy picks up, investment will follow it. Again, it's not likely to be terribly strong.

Mr Christopherson: What does that represent, in dollars, for the provincial government, the 1%? The 1% translates into how—

Dr Christie: The 1% of GDP is how many billion dollars?

Mr Pat Deutscher: About $4 billion.

Mr Christopherson: About $4 billion.

Dr Christie: That's adjusted for inflation.

Mr Christopherson: So if that's over-optimistic in any way, that's serious. That's up from zero to $4 billion, right? Four billion dollars is 1%; if you lose it all, it's $4 billion.

Dr Christie: It's $4 billion worth of economic activity, not of revenue.

Mr Christopherson: Oh, I see. What's that revenue for you?

Dr Christie: Oh, it would depend on what the composition was. We've indicated that 1% on GDP is about $600 million. It's around $560 million in revenue and about $50 million in expenditure, primarily social assistance.

Mr Christopherson: And the last budget projected was supposed to be what?

Dr Christie: For growth?

Mr Christopherson: Yes.

Dr Christie: For this year, I think the private sector people were looking for 2.3% for this year. No, it was in the 3% range, wasn't it?

Mr Deutscher: It was 2.3% for 2001 and 3.6% for 2002, so it has come down about two and a half percentage points for the calendar year now beginning.

Mr Christopherson: And you're projecting what for next year—2002-03?

Mr Deutscher: In terms of economic growth?

Mr Christopherson: GDP increase, yes.

Mr Deutscher: This is on a calendar-year basis, and this is the private sector forecast. It's now 1.3% for 2002, accelerating to 4.4% in 2003.

Mr Christopherson: So if you go back where we were a year ago, the projection was 3.6% and now you're at 1%, and put at the same point today looking down the road, again, you're looking at 4.4% from 1% this year. That's an awful lot of economic activity in 12 months, going in a 180-degree different direction to where you were a couple of months ago. It sounds pretty optimistic.

The minister also talked about how 90,000 jobs were created in 2001. I'm a little confused. Some of the numbers that we have suggest that it's less than 10,000. The numbers that you gave us suggest less than 10,000. How did we get from 10,000 to 90,000?

Dr Christie: I'll ask Pat to comment in some detail on this, but my understanding is that you've got to be careful whether you're comparing January to January or annual average to annual average.

Mr Christopherson: Exactly. If we're talking January to January, it's less than 8,000.

Dr Christie: The figures we use in the budget, the monthly numbers, are sufficiently noisy—that is, they bounce around all the time for reasons that have sometimes more to do with seasonal adjustment and other factors—that we tend to use the annual average and compare annual averages. The annual average rate sits at about—

Mr Christopherson: You picked a month and then picked another month and said, "There's a year." If we go calendar, January to January, it looks like 8,000 jobs, not 90,000. Correct?

Dr Christie: Yes.

Mr Christopherson: Yes, that's correct.

Dr Christie: I think that's what the numbers—

Mr Deutscher: That's right. That reflects the economic slowdown that occurred, but we use the average level of employment for the year as a whole in order to get away from the bumps that occur when you just look at one month at a time.

Mr Christopherson: I understand. I wouldn't have a problem with that if that just meant a few thousand here and there, but we're talking the difference between the minister saying 90,000 jobs, and calendar—January to January—the real number saying a little less than 8,000. From 8,000 to 90,000—a huge difference.

The last question that I probably will have time for is, the minister has been talking about between a $3-billion and $5-billion shortfall in revenue. Can you give us a bit of a breakdown? Where exactly is that showing itself? Is it the corporate side, the income tax side, the retail side? Which taxes are failing to generate the expected money?

Dr Christie: I think the minister indicated that the $3 billion to $5 billion was a combination of some revenue weakness and some expenditure pressure. But to comment on the revenue weakness, as we've seen in the Ontario Finances to date, the revenue weakness has been reflected in corporate income tax, employer health tax and retail sales tax. They've been—

Mr Christopherson: To what degrees, though? Just a little bit more detail if you could, please.

Dr Christie: Pat, do you want to give the specifics?

Mr Deutscher: On page 8 of the quarterly finances there is the breakdown of the revenue change relative to the budget projection that we've seen for 2001-02. You can see the corporations tax is down by $400 million for the current year relative to the projection. That is the single largest component—

Mr Christopherson: Sorry. Which one was that again?

Mr Deutscher: This is the corporations tax.

Mr Christopherson: Yes, OK. The third line under tax—

Mr Deutscher: So at a $400-million decline, that's the largest part of the decline in our revenues, and certainly that reflects what we're seeing in profit performance economy-wide.

Mr Christopherson: The government plan would have that reduced even more based on the planned tax cuts, correct? This is a result of the downturn in the economy. There's going to be a further decrease in corporate tax revenue as a result of cuts in those tax rates. Is that correct?

Dr Christie: Yes, there are reductions scheduled for corporate income tax rates. The actual impact on corporations tax will really be driven by the level of corporate income, which is so volatile. If the economy does begin to recover, we're likely to see reasonably strong performance there, perhaps not this year but by 2003.

Mr Christopherson: But in fairness, if we're anywhere near as wrong in the projection from now one year out as we were a year ago to today, then it's going to exacerbate an already very difficult situation, meaning you're already expecting to be short $400 million. If we don't get this great, enormous, miraculous turnaround and the difference is anywhere near as huge as it was the last time—I remember we went from 3.6% to 1%. Now you're looking at going from 1% to 4.4%. So there's a lot of room just based the history from one year ago for that number to increase in terms of the loss of corporate tax revenue. Then on top of that we're going to have the loss of revenue to what tune as a result of the planned tax cuts? What's that loss?

Dr Christie: In this fiscal year?

Mr Christopherson: In this fiscal year and the one out.

Dr Christie: We can get the exact numbers for you. I believe on a full-year basis it would be less than $500 million now, with a lower corporate profit base that the rate is being applied to. For this year, because the rate reduction comes in January—

Mr Christopherson: I understand, but you're saying annualized it could be close to $500 million? That's half a billion. So right now, if I'm understanding—

The Chair: With that, Mr Christopherson, I have to go to the other side because we've run out of time.

Mr Joseph Spina (Brampton Centre): My question really ties into the provincial transit investment plan that was announced by the Premier back last September, the announcement to take GO Transit back. This is of particular interest to Brampton. We're suburban GTA commuters. These changes, the capital component, don't show up in the third-quarter finances, but I'm trying to tie that into really partly what Mr Christopherson was leading at. The prediction was 3.6% going into the second quarter of this past fiscal year. It actually nose-dived, and then of course the third quarter after September 11 became a negative.

My concern is that even with these factors, the expenditure is coming in over budget. I don't know if one has anything to do with the other, but I'm wondering if there was a directive on the part of the ministry to tighten the belts of the various ministry budgets. Was there a concerted effort to delay or defer expenditures that perhaps had been planned with the various ministries in order to try to address this? If so, it obviously didn't work.

1130

Dr Christie: I assume you're referring to the current fiscal year, Mr Spina?

Mr Spina: Yes.

Dr Christie: I just want to be sure that these various numbers are understood. The 1% with respect to the year 2002 will have its biggest effect in the 2002-03 fiscal year, in the year coming up. The 4.4% that Mr Christopherson was talking about for 2003 will really have its effect for the 2003-04 fiscal year. So if the 4.4% is wrong, it will have significantly less impact on this year than on next year.

But having said that, in terms of what the response has been on the spending side for this year and for next year, we've certainly worked with Management Board and the ministries, as we do every year, to assure that monies are being spent only on priorities, that discretionary expenditures are controlled and only the most necessary expenditures are undertaken. Management Board of Cabinet has been working very diligently and very rigorously to see that only the most necessary expenditures are undertaken.

SuperBuild, which David represents, manages the capital side of the budget. If I could address those and then perhaps I'll ask David to comment. They tend to make a commitment and then it takes time to execute it. They may be slowed down because of the difficulty of getting the contracts in place or hiring the labour or whatever. We have certainly not slowed down any of the capital investments. In fact, we've been trying to get them to move ahead as rapidly as possible, because one of the sources of strength in the economy right now is the very large amount of investment that's coming through SuperBuild, as the minister noted, and not just because of the size but because of its distribution across the province. It's providing strength in a lot of communities across the province.

I'll ask David, though, to expand on that.

Mr David Lindsay: The Ontario Finances just tabled today gives you a detailed breakdown of the fluctuations in capital expenditures. On page 3, you'll see—and when you deal with capital dollars, they all tend to be very large dollars. So whenever I say a "small" fluctuation of $6 million here or $12 million there, people tend to think of that as not a small dollar, but when you're talking on a $2-billion budget, it is a minor variation.

Each of those individual variations as detailed on page 3 is as a result, as the deputy pointed out, of specific capital construction challenges. It could be weather; it could be supplies; it could be negotiating a request for proposal, finalizing agreements.

I won't read you the details on page 3; you can see those those yourself.

Mr Spina: Is that page 3 in here?

Dr Christie: No, page 3 in Ontario Finances.

Mr Lindsay: The point I make for you is that there has been no holding back of money because of the economy. Indeed, we've been working closely with our partners to make sure we continue these projects and get them out the door to keep economic activity going in the various communities. If I understand the underlying point of your question—are we slowing down capital expenditures?—the answer is no.

Mr Spina: What's the status, then, with GO Transit?

Mr Lindsay: The reason you don't see GO Transit in your statements here is because it was not assumed by the province until January of this year, so it's not reflected in this quarterly statement. It will be reflected in the next quarterly statement.

Mr Galt: Thanks for the presentation. My question relates to debt and understanding the debt. Back in 1995, we were told that Ontario Hydro had a debt of $33 billion. Over the next few years we paid off $3 billion, in my understanding, and now I hear it's $38 billion. My math doesn't quite work that way. Also, going with the opening up to the market, the competition, the stranded debt will be moved. Help me understand the Ontario debt as it relates to the Ontario Hydro stranded debt coming in: at what point in time, and did we really pay off some of that debt back in the mid-1990s?

Dr Christie: I'm not sure about the mid-1990 reference. I'll ask Gadi Mayman from the OFA if he can help out there. I'll just give him a moment and say that on the stranded debt side, we've been showing that in the public accounts of the province for certainly last year. That's already being shown because with the creation of Ontario Power Generation and Hydro One, they couldn't carry the debt that was there from the old Hydro. Within our public accounts we show the stranded debt from electricity restructuring at $19.8 billion. That's the figure as of March 31, 2001. There's a plan in place that the dedication of the revenues that the province receives from the electricity sector as well as the proceeds of any sale of assets would go toward paying down that stranded debt. The plan that's in place looks at paying that off sometime between 2010 and 2015, I think.

Mr Galt: So it will be carried in brackets, whatever, until it's paid off, identified separately from the rest of the provincial debt.

Dr Christie: It's shown in our public accounts separately from the net provincial debt of the province itself. They are added up for a total debt figure, but they are shown separately in the presentation.

Mr Galt: So the grand total is slightly under $130 billion?

Dr Christie: About $130 billion, right on.

The Chair: Mr Hardeman. I must point out that you have two minutes left.

Mr Hardeman: I just wanted to question a little bit about SuperBuild, our Blueprint commitment to fund infrastructure over the mandate of the government. I was just wondering, Deputy, through you to Mr Lindsay, how we're doing on that. In the first year or so of our mandate we didn't seem to be moving along very rapidly with getting money out the door, as we've heard. As the economy is starting to go somewhat, there is a greater need to put money into infrastructure in the province. I wonder how we're doing with that now. Are we moving along and on schedule to meet our commitment of the Blueprint by the end of the four years?

Dr Christie: I'll ask David to answer.

1140

Mr Lindsay: There are some assumptions in the question that I'd like to tease out of that if I could. The assumption was that the government wasn't spending a lot of money on infrastructure in the first year of SuperBuild. What happened—and this is an assumption on my part and you can correct me if I'm wrong—I think there was a lot of attention paid to the Canada-Ontario infrastructure program, and because it was not moving quickly, which I'm glad to delve into if you would like, therefore it was perceived that the government wasn't spending money on infrastructure. In actual fact, in the first year of operation, in 1999-2000-01, the government spent considerably more on health care, on colleges and universities and on highways than it ever had before. In that respect, the government had been spending considerable amounts of money on infrastructure, broadly defined. It was the municipal programs which were slow in getting up and running.

Having said that, the government's commitment that you asked about was to spend $10 billion over five years and find $10 billion of other partners' money, for a total of $20 billion of infrastructure spending.

To date, as of February of this year, we have 3,300 projects that the provincial government is a funding partner of, including highways, hospitals, colleges, universities, local sewer and cultural programs and other forms of capital expenditure, for a total provincial expenditure of $8.79 billion. We've levered another $5 billion, $4 billion, off of that for a total capital expenditure of $13.2 billion in our first three years.

To conclude, I think the government's plan of $10 billion over five years will be more than met, and our challenge of getting partnership funding of $10 billion over five years will also be met.

The Vice-Chair (Mr Doug Galt): I'll turn to the official opposition.

Mr Phillips: I'm obviously upset about the lack of revenue projections for next year, because I think it's unfair that we don't have those numbers. You've got them. You prepared them a year ago. I think the public is owed it. Those are your political masters telling you that you can't provide them, so I'll try and get at it a little bit indirectly.

The federal government's $2.8-billion miscalculation: for me, one of the most important things is what impact it has on this fiscal year, the one that's just ending, the next and the year after that. My understanding is that they were over-calculating by $700 million and therefore Ontario was getting "$700 million more than." This is such a huge number that I would have expected by now that the staff would have been all over it and would have said to us today, in the third-quarter results, "Here's the impact." Yet we don't have the impact on this year. If it is a $700-million impact, that's huge; if it's $500 million—it's all around capital gains, I gather. My question to you, the staff, is, you must have done a calculation by now on the going-forward impact; how much of an impact do you think it will have on the fiscal year that's just ending and next fiscal year's revenue?

Dr Christie: We have not got from the federal government the results of the assessments of the returns that their error relates to. The error that was being made had to do with the treatment of mutual fund capital gains, capital gains earned in mutual funds. In order for us to know how it would have affected this year, we would need them to have assessed those returns. The tax year 2000 income tax returns for these things still have not been assessed, so we don't have the information from them that would allow us to say the impact on that year, which would roll through into this year. It would be an adjustment that would be rolled through into this year. We don't have that.

I think, based on what we've seen, in a very good year of capital gains, they might have paid us $700 million to $900 million from that source—in a very good year.

In terms of an impact going forward—well, let me deal more specifically with the impact on this fiscal year. The impact on this fiscal year is that we will not receive money from that source; we will not receive those funds. We already know from the assessments, and it's reflected in the Ontario Finances, that in 2000, income tax was quite strong and the strength of just the basic income tax base, excluding these special returns, is enough to have us above our forecast. We would have been substantially more above forecast had the federal government continued to make payments as they had in the past, continued to treat these as they had in the past.

Mr Phillips: Are you finished?

Dr Christie: I was going to deal with next year.

Mr Phillips: OK, go ahead.

Dr Christie: With respect to next year, because it depends on capital gains, and given the performance of equity markets and capital markets generally, the amount of capital gains out there is not what it used to be, for sure, as a result, we weren't planning for a lot of revenue going ahead. We would not see there having been a lot of revenue coming from the capital gains side in any event, so it doesn't have that much impact going forward.

In the longer term, it might have, but we really don't throw a forecast out that far. So for next year, when the numbers come together, we don't think there will really be any significant impact, because of the lack of capital gains.

Mr Phillips: If we knew what your estimates were, we could reach a judgment on that, but you won't release those. So you said that in the secret estimates you've prepared, you built that in.

Dr Christie: No, Mr Phillips, what I think I said was that when the estimates are prepared, we don't expect that there will be any component of them that we'll be able to trace to, or any impact that we will be able to identify from, this processing error.

Mr Phillips: Hansard will say something different, but just so I'm clear then, you have built into this year's revenue estimates the impact of the federal government's recalculating its capital gains payments.

Dr Christie: Yes.

Mr Phillips: You must have built it in then three months ago because the number—

Dr Christie: No, sir. We found out about the number on January 29 and we found about the error the federal government had made on January 29. The figure in Ontario Finances reflects the basic strength in the assessed returns, and because they hadn't assessed these returns, it didn't include any great amount of money for revenue from this source. The fact that we're not getting something that we had not included yet in the numbers will not affect the year.

Mr Phillips: It's very interesting, because it's the same number you had three months ago. I will remember this.

The minister indicated that it is the plan of Ontario to have corporate taxes 25% lower than our competitors in the neighouring jurisdictions. You want to get corporate tax in Ontario—I think 30% is what he showed, versus 40% in neighbouring jurisdictions.

Can you just share with us the rationale for Ontario? I'm a big supporter of competitive taxes. I just don't know, when we are faced with a $3-billion to $5-billion shortfall, why we need corporate taxes 25% below the US. I see in your comments you look at state taxes or something like that, but I think the way to look at it is the way you've looked at it, which is the combined federal-provincial taxes at 25% below. Why do we need them 25% below?

1150

Dr Christie: What the corporate tax cuts, which are being phased in over a period of years, are intended to create, as you noted, is a competitive tax system, and competitive not just this year or next year but for the medium term. We're not sure or we don't know particularly what the American federal government is going to do. They've certainly given an indication of their desire to cut taxes from all sources, so the combined American rates in 2005 aren't known.

When you talk about 25%, I think you're comparing our rate in 2005 to the American rate now, and we don't know what the American rate will be in 2005. We rather expect that they will be coming down as well. I think what the multi-year plan on reducing corporate rates does is ensure that we'll remain competitive.

Mr Phillips: I can't understand this. Are we saying that we want to lead the US so they will reduce their corporate taxes? Why would we want to be saying to the US, "We now have corporate taxes 25% below your rates"? Why would we want to be leading them down in corporate taxes? Why would we not say our policy should be to have corporate taxes competitive, equal with the US?

Dr Christie: I think the government has said that it wants to have competitive taxes, that it will have that regardless of whether our federal government does it or the US federal government.

Mr Phillips: When you say "competitive," do you mean equal to or 25% lower?

Dr Christie: I think in this context, competitive means not higher than, certainly, and the degree to which it's below will depend on the actions of other players in the equation. But I don't think there would be any concern about having been aggressive about pursuing competitive corporate tax rates.

Mr Phillips: But isn't the problem that the minister just told us we've got a $3-billion to $5-billion shortfall in revenues and yet I see already our corporate taxes are below any of our neighbouring US jurisdictions? So we've got a huge revenue problem and we've decided we're going to have corporate taxes lower than, and then dramatically lower than, our competitors.

Dr Christie: At the moment our general corporate tax rate, based on the information, I think, that was supplied, is 38.6% versus the US weighted average of 39.8%. So there is currently not a large gap with the United States.

Mr Phillips: Their manufacturing, I guess, is 3% to 4% lower than that?

Dr Christie: Yes.

Mr Phillips: I just for the life of me don't understand why we would be—if I were now a bordering US state, I'd say, "Boy, we'd better start to reduce our taxes." We start to chase ourselves down, at the same time, as you've told us today, we've got this huge revenue problem. Yet we are almost challenging US states to reduce their corporate taxes.

I repeat, I am 100% in favour of totally competitive taxes, but the rationale for 25% lower has never, ever been explained to me by anybody in the government, including you. You've said "competitive taxes"; I understand. That isn't the policy that you're pursuing.

The Chair: You have two minutes left, Mr Phillips.

Mr Phillips: I've got many questions. If we have more questions, how would we get answers to them? Can we have some more time with the staff? I guess we can just get a private briefing.

Dr Christie: It would depend on the question, I think, Mr Phillips. We've supplied some answers to some specific questions. If we can do that—

Mr Phillips: It's just so much. The next thing, I guess is—

Dr Christie: I'd be happy to discuss it after the session about how we could assist you.

Mr Phillips: Thank you. I notice in the last two years that the province has essentially taken a profit on the teachers' pension of roughly $1 billion in total. When I say "a profit"—rather than expenses or revenue. It's been a huge windfall of $1 billion of what used to be an expense. It's turned into a revenue. If you look at the teachers' pension on the books in the fiscal year 2000-01, it was almost an $800-million profit. I see today that the teachers' pension has had a not-unexpected fairly significant loss in their fiscal year that just ended. Will that have any impact on the pension number that we see on our books, both this year and next year?

Dr Christie: It will have some impact. It won't be as large as might be concerning people, given the newspaper report. The investment returns of the teachers' pension fund, in terms of the way they affect the expense numbers and the revenue numbers, are averaged. The investment performance is averaged over five years, it's smoothed over five years, so that the impact of such an investment performance in one year is smoothed in terms of the actual impact on, say, a deficit or a reduction or a surplus. If there was actually a shortfall created in the pension fund, then that again would be amortized over 12 years under the accounting conventions we have. So these practices would tend to spread out any impact over a very extended period of time, largely because they are so volatile year to year that it would make things unrealistically variable.

Mr Phillips: I noticed there was a $500-million swing from one year to the next without this volatility, so I'm mildly—what you may regard as rounding errors are fairly large.

Dr Christie: It's certainly the case that that line, that figure—as the investment return comes down and begins to average over a period of time, something more normal for capital markets, those large gains will not be being made and the large benefit that you've observed is not likely to continue. It's not as sustainable.

The Chair: With that, I have to bring the discussion to an end as we've run out of time. On behalf of the committee, thank you very much for your time this morning.

1200

CANADIAN AUTO WORKERS

The Chair: Our next presentation will be from the Canadian Auto Workers. I would ask the presenters if you could come forward. I realize that you may need some time to set up. If you could, introduce yourselves for the record, and on behalf of the committee, welcome. You have one hour for your presentation. Whenever you're ready, you may start.

Mr Buzz Hargrove: Thank you very much, Mr Chairman. I'm Buzz Hargrove, national president of the Canadian Auto Workers union. With me is the director of policy for the Canadian Auto Workers union, Jim Stanford. He's also an economist.

We appreciate the opportunity to appear before the committee to talk a little bit about the auto industry. The auto industry, I think the committee members will understand, is the most important industry to the economy of Ontario and, one could argue, to the economy of Canada. One in six jobs, by most conservative analysts, in Ontario are directly or indirectly related to the auto industry, and one in seven in the Canadian economy.

We're here because the industry is in a crisis, a crisis that was inevitable, as it always is in industry. Changes take place very rapidly in most industries, but in the auto industry it's even more rapid. We're here, although we know it runs against the grain of the current government of Ontario, to argue that it's going to require government leadership. We've lost some 12,000 jobs in auto assembly and auto parts since our peak in 1999, and we estimate we'll lose at least that amount over the next two to three years if strong government leadership, strong government action, is not taken.

I'd like to take just a few minutes, if I could for the members of the committee, to give a bit of the history of the auto industry in Ontario.

At one time, when the American companies started simply building in the United States and shipping into Canada, the Canadian government saw fit to put tariffs in place and they continued to raise those tariffs to a point where it became almost impossible to sell in Canada if the companies didn't come to Canada and invest. That's how we started getting investment in the auto industry by American corporations. Our industry, as it is today, was always owned outside the borders of Canada—different players today—but it's always been owned, for the most part, by players outside of Canada. The tariffs were there throughout the 1940s, the 1950s and into the 1960s.

The government decided to try to deal with this issue differently. They felt it would benefit the economy of Canada, especially Ontario, but also consumers and especially the companies. They negotiated the 1965 Auto Pact, which I would argue without fear of contradiction is probably the most important and effective trading agreement that's been negotiated in the past century between any two nations in the world.

That led to major investments in Canada and major improvements to the industry. We've doubled the workforce in the auto industry in the 10 to 12 years following the introduction of the Auto Pact in 1965. For example, Ford built its St Thomas assembly plant, 3,000 direct jobs at that time, in 1967. General Motors built a plant in Sainte-Thérèse, Quebec. They took an old refrigerator plant and an electronics plant in Scarborough and changed it into a van plant. They started building vans there, and that lasted from 1968 through to 1993, when General Motors closed it shortly after the free trade agreement with the US was signed.

We had literally hundreds of parts operations that opened up, anywhere from Budd Automotive in Kitchener, which provided 3,000 jobs for several years and are now down to 2,000 and struggling—I had a meeting with them yesterday—to Hayes-Dana, Lear Corp. There is just a host of these companies that came in and situated throughout Ontario—small numbers in Quebec but mainly in Ontario.

Then the world started to change in the late 1970s when we had the oil crisis. The Japanese couldn't sell cars in North America prior to that. All of a sudden, with a fear of oil shortages, people were looking for fuel-efficient, small vehicles. The Japanese had a pile of them and they started capturing the market. That went throughout the 1980s.

Through a lot of government leadership throughout the late 1980s and 1990s, in spite of this Japanese invasion into our market—but not investing in our economy—we still were able to keep the North American or the Big Three automakers investing and putting a lot of new investment, a lot of new jobs, in Canada.

Then in the 1990s, we continued that. We had massive new investments, and our union did an enormous amount of work during this period with the auto companies and with both levels of government throughout the 1980s and early 1990s. Going back we did as well, but I just want to use those as starting points. Because we had the Auto Pact and we forced people to come here and invest, we ended up with the most productive, high-quality and low-cost producer of most vehicles throughout the world.

As just one example, we're the only country in the world that had three assembly plants with three shifts of production. It went back to the mid-1980s, when Chrysler had a huge demand for a minivan that was a new vehicle, a very popular vehicle. They wanted more product out, and they were struggling with whether they should build a second plant in the United States. We took the initiative. We put together a proposal for a third shift of production in Canada, which was rejected by the company. In those days, the management felt that you couldn't have three shifts on an assembly operation, different than a parts plant. It was just too complex. I think members will understand that an assembly plant with in many cases 4,000, 5,000 or 6,000 people is bigger than most communities in the province of Ontario and has a massive challenge to make it operate.

It was a decade later, in 1993, that we were able to, through a strike deadline because of the huge amount of overtime being worked in our plants, force Chrysler to put a third shift on in the Windsor assembly plant. It was an absolute success from the day it started. The quality and productivity improved, absenteeism improved, and accidents were down. That led Chrysler a few years later to add a third shift in its Bramalea assembly plant, working with our union; then General Motors put a third shift on in their truck plant in Oshawa.

With each one of these changes, when we added these shifts, we had support from the Ontario government and the federal government. There was money put in to assist in the introduction of new technology and in training. There was government leadership. Government recognized the importance of the industry and of these investments, what they meant to communities, to the economy of the province and of the country.

Payroll in the auto industry in Ontario is almost $9 billion. It's a huge amount of money spent in this economy today because of the work that has been done. We find ourselves now with that in decline, and it's going to seriously decline. Our peak year was 1999. We assembled three million vehicles in Canada, mostly in Ontario, and we sold one and a half million. We were assembling two vehicles for each one we sold. Last year that dropped down to around 2.6 million vehicles. This year that will drop to 2.2 million vehicles, and next year it will even be lower. We'll drop below two million. We're heading almost back to where we were pre-Auto Pact in 1965.

In the last few months we've been notified of a plant closure in Quebec by General Motors, the Sainte-Thérèse plant that was built because of the Auto Pact in 1967. We've now been notified that Ford's going to close its F-150 truck plant in Oakville, and Chrysler, although they haven't announced a closure, tell us they have no product after July 2003 for that plant, which is a nice way of saying the plant's going to be closed.

As I've said already, 12,000 people have lost their jobs in the last two years, and we have at least that many more who are on notice to lose their jobs. We have that in spite of the fact that our market last year was the best market for vehicle sales in Canada in the history of the country. Our major market, as everyone knows, is the United States. They had their second-best year ever. It was off by about 1.4% from the record year of 2000, but still an incredibly healthy case. So you ask yourself, "What is the problem that we face today?"

First, it's imports: imports from Japan, from South Korea and from Mexico. Right-wing newspaper editorial writers like Terence Corcoran will say, "Well, the Japanese have these plants in Canada." I'd just like to take a minute and explain. They have two plants: Toyota and Honda each have a plant. Honda is in Alliston and Toyota is in Cambridge. Combined, they have about 18% of the Canadian market, much more than they have in any other nation in the world, much more than any nation would allow them to have. The Japanese in total are over 25% of our market. These two companies, with 18% of the market, provide about 6,000 direct jobs in those two facilities in Alliston and Cambridge.

Ford has about 18% of the market. Ford has 16,000 direct jobs in its operations in Canada. Even if it closes its assembly plant in Oakville, it will still have 14,500 jobs.

1210

In the parts producers field out there today, when you talk to the parts people, they will tell you they can't sell to the Japanese. They buy from their own Japanese companies that followed their assembly operations to the US and they ship into Canada or they buy their parts directly from Japan. For every job these two Japanese companies provide in Ontario by buying parts that are produced by Canadian parts makers—maybe American but parts plants that are in Canada—Ford, GM and Chrysler, on average, provide 15 jobs. That's an enormous difference to the economy of Ontario and leads me to always say that the Japanese are major players in our market with their sales but they are minor league players in our economy in terms of their commitment to investment and jobs.

The new players, since NAFTA was signed in 1994—Mexico was always the cheapest place to build automobiles on this continent and will remain that way for the next 50 years regardless of anything that would happen. But companies would never go there to invest because of the political uncertainty and all of the challenges that Mexico faced. But NAFTA legitimized Mexico as a new player in North America.

To show what that has meant, just some quick numbers. There was a study released last week by the external affairs department that looked at Canada and Mexico and where competition in this important industry for investment and jobs was going. It showed that from 1994, when NAFTA was signed, until last year, Canada received $22 billion in investment; that's both foreign investment and Canadian investment in the auto industry, mainly in Ontario. During that same period, Mexico received $48 billion and every dollar of it was foreign investment. So they received more than double from offshore producers, and they are now producing, much as we had claimed, more than two vehicles for each one they sell in their country.

Since NAFTA was signed, their market has improved a bit. From a low of around 700,000 vehicles, I believe, they went up probably close to a million vehicles, but they are producing almost two million vehicles and they're shipping them into the United States and Canada. That impacts on what we've always produced. The PT Cruiser is one example that you see. It's a beautiful car and people like it, but it's built in Mexico. Of course, literally hundreds of parts suppliers went into Mexico, have built plants there and are shipping parts into both the US and Canada.

So the industry has changed. Industries always change. This industry is the largest user of computers or robotics of any industry in the world. It's the most dynamic and changing industry in terms of its technology and its requirement for skills and skills training for its workforce and it has always taken government leadership. We've been through a stretch where we had major new investments and we had good demand for our products and governments didn't have to do much. But we're now back to where we were in earlier times where government has choices to make.

I recall when the Ford Motor Co, in the 1970s, was looking at putting an engine plant somewhere in North America. The government of Bill Davis at that time put up $68 million as part of a package to entice Ford to build that plant in Canada. They eventually made the decision to build it in Windsor and it has provided a lot of good jobs over the years.

The federal government put $200 million in the Chrysler Pillette Road truck plant that's scheduled to close next year. That plant has provided 2,500 jobs, on average, since 1975. The federal and Quebec government put $300 million into a GM plant.

If you look at the comparison to US states, they are pumping money in like crazy to attract foreign investment, Japanese investors. South Korea right now is looking at a US location for a new assembly facility and are going around shopping to the states seeing who will put up the best financial package. That's who is going to get this important facility.

We're here today to say to the committee—this is an important committee—people can't look at the success we've had, as we can't as a union. If we don't take leadership as major players at the provincial level—we met with Allan Rock last week and made the case with him—and join with our union and some of the challenges that we face—and the most immediate one is Pillette Road. I read with interest—and I'll quit on this and have my colleague add some of the other statistics to this—Mr Harris went to Stuttgart, Germany. We did not know he was going. He didn't talk to us. I guess he has a right to do that as Premier, but you'd think he would want to talk to our union, which has been so involved and worked so hard to get investments out of DaimlerChrysler, especially the Pillette Road truck plant. We played a key role in Chrysler's announcement two weeks ago that they're going to put the Pacifica, this new vehicle, in the Windsor assembly plant alongside the minivan, which I believe will stabilize that facility.

We're working now. We've got a proposal in front of General Motors in Oshawa that would add a new shift there to get more Impala production out of that facility. We do this ongoing, so I would have thought Mr Harris would have wanted to talk to us about what's the best case for Pillette, but he didn't. I read in the Windsor Star, and quite frankly I was furious, that he was there talking to them about the Sprinter, which isn't going to be built until the 2007 model year. Our plant is closing in July of next year.

But Chrysler has told us they can continue the production of the current van, the commercial van, for another three or four years but it would be a cost of $430 million. As I said to Mr Rock and I'll say to the committee today, Mr Harris said in Stuttgart, Germany, that he is willing to do whatever it takes to keep those jobs there. We should be working with the federal government and the union to put together a financial package that will allow Chrysler to restructure this commercial van so it meets the requirements of the environmental regulations in the United States and the new crash test requirements that they have in the United States, which is the main market for this commercial van. We could keep about 1,400 people working through a three- or four-year period until Sprinter production starts, if the decision is made to put it in Pillette. The chances of it being in Pillette are much greater if the plant is running, it's operating, you have a trained workforce and you have the technology there still in use, as opposed to dismantling it.

I will end there with an appeal to the committee that we are not in a situation of business as usual. I listened a little bit to the discussion with Mr Phillips and the other group that was here in terms of revenue. If you look at the closure of the Oakville truck plant, 1,400 people directly, and then you look at the multiplier for that for the parts industry, the amount of revenue that's going to take away from the Ontario economy, both in terms of the payroll for our members and the taxes, and then you add the closure next year of the Pillette Road truck plant and you add all of the parts people that we're out there dealing with today who are really struggling with their ability to survive, there is a leading role for government here.

I'll make the case for management. We need management training. There are a lot of good companies. A.G. Simpson is a good Canadian company. It has a good record and a good history in this province, but they've had management changes and the new management isn't up to speed and we end up in a bankruptcy proceeding. They've closed a couple of plants. They've now got the operations up for sale. But at the end of the day, if we don't have a greater commitment by government to management training in these areas, we're going to lose the parts industry which has provided—Jimmy can tell you better than I can—in the last five or six years about 15,000 new jobs, up until two years ago, and then we started going the other way. So we're on a slippery slope and it needs the input and the support of government if we're going to make this industry stop the bleeding and start to thrive and grow again.

Thank you very much, Mr Chairman and committee members.

Mr Jim Stanford: I'll just take a few more minutes to run over some of the statistical background for the downturn in the auto industry and its possible impact on Ontario government finances, and also lay out some of our proposals for what the Ontario government could be doing to help to turn things around for the industry.

The relevance of the auto industry's outlook for your committee is obviously twofold. First of all, the state of the industry is going to be crucial to the revenue streams which the provincial government continues to take in from the economy.

I saw the finance minister's Outlook for the economy over the next two years. If you look at the aggregate numbers on employment and GDP, it seems relatively rosy. He is expecting gradual expansion in GDP. He's arguing employment is back to where it was before the slowdown last year and we're going to see further job growth. There's nothing specific in there about the outlook for the auto industry, which is Ontario's most important industry.

The crisis of the auto industry means that underneath that relatively placid surface that you look at with aggregate numbers on GDP and aggregate employment, you've got a lot of dangerous currents, if you like, underneath the surface. While overall employment might be stable in terms of where it was before the slowdown, the manufacturing sector has shed over 80,000 jobs in Ontario, and you're going to lose more of those jobs in the coming period. Most worrisome, I think, for the provincial government is that those jobs are not going to come back on their own with a recovery and economic growth of 1% or 2% annual growth rates, as the minister is forecasting. We're looking, in the auto sector, at a downturn that is not a cyclical problem. It's a structural problem, and it's going to take more than a recovery in the overall economy to bring those jobs back.

1220

Of second relevance to your proceedings as a committee, of course, is that some of our proposals for Ontario government action in response to the crisis are obviously going to cost money. We're hoping this is something you can factor into your budgeting decisions. It's not a lot of money, we think, in the grand scheme, and ultimately the provincial government gets more than it gives from a healthy auto industry in the province. But obviously, if the government's going to play a role in turning it around, that role has to be financed.

First of all, what are we looking at in terms of the downturn in the industry? We're looking at a shrinkage in auto assembly of about 30%, almost certainly, comparing the 1999 peak of the industry to where it will be in 2003. We're likely looking at the loss of five assembly shifts out of the 24 that existed before the downturn, with parts production falling in step with the decline in Canadian assembly. Obviously, many parts producers in Ontario are oriented to serving Ontario-based manufacturing assembly operations, although not all of them. Many of them export to the US market, of course, but the US market has experienced a similar downturn in production. Some 12,000 jobs in the auto assembly and auto parts sectors have already disappeared in Ontario since the peak levels of 1999 and 2000, about half in each: 6,000 in assembly, 6,000 in parts. We're looking at a situation where the gains of the 1990s for this industry will be largely wiped out by 2003, which is worrisome when we think of the leading role the auto industry played through the 1990s.

This shows the path for new vehicle assembly in Canada. Again, over 95% of this is in Ontario. You saw in the 1990s an incredible period of growth. Even though the overall economy was in recession in the early part of the decade, that almost didn't affect Ontario's auto industry, which continued to expand on the strength of new investments that were announced right through the decade, reaching a peak of over three million vehicles assembled. That's come down considerably, to just over 2.5 million last year. It's going to fall again toward the two million mark over the next couple of years, based on what we already know in terms of announced plant closures, layoffs and likely demand conditions for Ontario-made vehicles. That, of course, translates into a decline in employment.

The parts sector, as Buzz mentioned, was a very important source of new high-wage jobs in the manufacturing industry during the 1990s. About 30,000 jobs were created in the parts sector in Ontario that decade. We're looking at a situation where that could fall by about 20,000, compared to peak levels, over the next two years. In the assembly sector, we're looking at more than offsetting the modest gains in employment that were made in the 1990s, with employment falling back down toward 40,000. So we're looking at the loss of 25,000 to 30,000 relatively high-wage jobs, and that, of course, is just the tip of the iceberg, because every one of those jobs is associated with two or three other jobs in the various supply industries that feed into auto.

Mr Phillips: Could I ask you to move that a little bit, the screen? I can't see it from here. Thank you.

Mr Stanford: So as I mentioned, that's just the tip of the iceberg, the 25,000 to 30,000 jobs, compared to 1999, that could be lost from the industry. You have the steel industry, other plastics, rubber industries that feed into the auto sector. Then you have the downstream spinoff spending effects from auto in terms of auto workers and everyone else employed in the broader industry spending their incomes.

What has caused the problem? It is not, I stress again, a cyclical problem that resulted from the general mild macroeconomic weakness that was experienced in North America. Despite that macroeconomic weakness, auto sales remained relatively strong. It's a structural problem that's affecting Canada's industry.

Two key factors: our industry is very dependent on the production and investment decisions of the Big Three automakers, which account for well over three quarters of our total auto industry. The Big Three have experienced a decline in their market share over the last couple of years, continuing a longer-run trend, and that has translated into reduced production in Ontario of about 300,000 units.

At the same time, Ontario's share of the total production of the Big Three—given that their market share is shrinking anyway, but then our share of what is left for them—has also declined because of decisions on the Big Three's part to shift more production to Mexico and to certain US plants, and also to a certain bad luck of the draw. You know that how much we produce in Canada depends on the specific models that are assigned to Canadian plants. Sometimes you luck into a model that's a really hot seller, and as a result your plant is bursting at the seams, as we have with the Impala produced in Oshawa. Sometimes you don't have the same luck, and some of the vehicle types that are assigned to a Canadian plant, like the minivans, for example, which have been very important traditionally, are under sharp market pressure. That decline in Canada's share of total Big Three production has contributed another 200,000 units to the lost production.

If you're looking for the blame, you've got 60-40 in a way in terms of the downturn that we've already experienced: 60% due to the continuing encroachment of offshore producers, largely from imports but also from their own transplant operations in North America; 40% to decisions by the Big Three to locate more of their production outside of Canada than in it.

Through this period, production at the two offshore-based automakers in Ontario, the Honda and Toyota plants, has remained roughly constant. They have not experienced the same decline. At the same time, though, our share of total transplant production in North America has also declined during that period. Those two plants are there, but there's no sign of any other greenfield plants. The new facilities that are being built by the Toyotas, the Hondas, the Mercedes, the BMWs, the Hyundais are all going into the Deep South of the US—Mississippi, Alabama, South Carolina—or into northern Mexico. This is a reality that we have to face up to. Even if we want to argue that, "Well, this is the Big Three's problem; we'll let them solve it," in fact it's a wider problem. Even among the transplant producers, Canada's share of production and investment is declining because we're not there to offer the same sorts of incentives that the other locations are.

Again, just to show you how dependent we are on the Big Three in our industry, a comparison of the direct employment in Ontario by the Big Three compared to the Toyota and Honda plants—and don't get us wrong. Those are great facilities; we're glad for the investment and we're glad for the jobs that are there. We think those two companies could do more for Canada, given how many vehicles they sell here. We think the dozens of other companies which sell here and have no investments in Canada could do a lot more as well.

The future threats to the industry: we're going to see continued pressure on the Big Three's market share, again partly because of imports and transplants. We'll also see a southward shift of production even by the Big Three within North America, to Mexico, taking advantage of these huge incentives that are offered in the Deep South of the US—incentives from local and state governments which can total more than 50% of the cost of building a facility. They go around and they do the lobbying and they say, "Here we are. We're going to create 2,000 or 3,000 high-paid jobs. What are you prepared to give me?" and they can get back over 50%, consistently, of the cost of their investment from those jurisdictions.

So far in Canada provincially, and federally to a lesser extent, we've been playing kind of the "Scout's honour" approach, that we're not going to get into that. Whether you agree with the underlying economics of that position or not, the reality is that if we continue along that road of refusing to get involved in negotiating investments with the companies and putting some money on the table, we're going to see more and more of those plants move to the US south and to Mexico.

The traditional kind of right-wing, free market vision is that government should not play a role in trying to build the auto industry, that we should simply get the fundamentals right in terms of our taxes, our labour costs, get inflation down, balance our books, and everything else will take care of itself. I think the current downturn in the industry is really questioning the adequacy of that policy approach to this most important industry.

Look at Ford's decision to close the Ontario truck plant in Oakville. They closed that plant despite an incredible competitive advantage for remaining here, an advantage that came partly from productivity. It was the second most efficient of the five plants that Ford produces the F-series pickup truck in, and those productivity savings are worth US$150 for every truck that comes off the line, even though the plant only operates on one shift, and it's very difficult to get good productivity numbers when you're only running one shift. They also have a huge labour cost saving from operating in Canada because of the dollar and our medicare system. Our public health care in the auto industry saves the auto assemblers C$6 for every hour worked. That's the difference in private health insurance premiums in the US compared to the lower levels in Canada, C$6 for every hour worked. That and the other components of labour cost savings translate into another US$400 per vehicle. If they located two shifts of production at that plant instead of at the existing plants that they're going to keep operating in the US, that would save them C$200 million. They've even got a corporate tax saving coming down the pike because of the provincial measures.

1230

What more could we do? We've bent over backwards, as a union and as a society, to make that a profitable, efficient plant for Ford, yet when they sit in their office in Detroit and make their bottom-line decisions, we can still be out on the street the next day, as long as we leave the entire industry up to the private sector, which is the current approach.

In short, we obviously need to have a competitive industry, but that competitiveness alone won't protect us. We need to have an active auto strategy, one that involves all stakeholders in the industry: the federal government, the provincial government, local governments, the union, the business, the assemblers, the parts producers and the research community. We've got to pull everyone together and take an active look at this industry to see what we can do to promote it, rather than crossing our fingers and hoping that our fundamentals will take care of it.

I don't think I need to explain why the auto industry is so important. Again, the importance of the industry's future goes well beyond just those who are—this is taking care of itself here, isn't it? Come back here, you. I put it on automatic pilot or something here, did I? There we go. Sorry about that.

We need to have all of those parties together to promote the industry, and the benefits of that strategy will go far beyond just those who work in auto plants. At the Canadian level, auto accounts for 30% of our exports. Over half of our merchandise trade surplus as a nation comes from the auto industry. It's a key source of productivity growth. We know that productivity is a concern for Canada's industry, that we're lagging further and further behind the Americans. The auto industry is one rare example where our productivity exceeds American levels, in part thanks to the strong investment that's been there and the spinoff jobs and so on.

Government has a huge stake in the future health of the industry, provincially and your federal counterparts as well: income taxes paid by auto workers directly to the two levels of government at over $3 billion a year, sales taxes on new vehicle sales, corporate income tax, tariffs collected by the federal government on offshore imports. Fiscally, we're asking you to put some money into guaranteeing the future of the industry, but governments are going to take away far more than that in revenues if the industry does stay healthy.

We've put forward an auto policy vision that contains four major ideas, and we're taking this vision around now to all the stakeholders in the industry: all levels of government, the industry itself, the research and policy communities and so on. The four thrusts of our vision—we've provided more details in the document that we'll leave you with.

Government's got to play an active role in managing the current downturn, to help ease the pain of the current contraction and also preserve as many jobs and as much capability as we can as we move forward.

But just managing the downturn isn't going to save us in the long run. We've got to be catching a healthy, strong share of the next wave of investment in the industry, and that's where we're especially worried when we see most of the new plants, most of the new models going to the southern US or to Mexico. We've got to position Canada well to catch that investment.

We've got to address the growing trade imbalances that have been a contributing feature. I realize that's primarily a federal responsibility.

We recognize, as a union, that we don't have all the answers, that the industry faces a very complex situation, and we've said that part of what we've got to do is just collectively get our minds around this. We've proposed a ministerial-level task force that would investigate the auto industry's problems.

Let me conclude just by quickly running through some of the proposals we've made that would affect the provincial level of jurisdiction.

In the first category, managing the downturn, we think we have a responsibility to try and ease that downturn but also protect as much of our capacity and capability as we can. The things the Ontario government could do here:

We'd like to see a willingness to look at emergency financial assistance to independent parts producers in particular. They face an incredible structural financial crunch right now. They've been pushed by the assemblers to invest in new technology, new engineering capabilities and so on as the assemblers outsource more of their operations, but they are financially proving unable to do so. If we sit back and let the A.G. Simpsons and the Budd Canadas and the dozens of other companies that are right on the brink now go under in this downturn, we'll be left with Magna—which is a great success story; believe me, we like Magna's success as well—but we won't be left with much else. This is a long-term structural challenge, and we think the Ontario government has got to play a role there.

Work with assemblers to preserve existing jobs and models where that's possible, and Buzz mentioned the case of the Pillette Road maxi-van plant and the provincial government playing a role there.

We've got to look at restoring some of the legal protections for laid-off workers. This again is a provincial responsibility through labour relations legislation, pensions legislation and other areas, to make sure that when workers are laid off they have a fair chance to collect what's owed them and negotiate decent arrangements.

We've also proposed here the establishment of community adjustment funds, where the provincial government would mandate large employers to pay a certain amount into a community-based fund for every major layoff. That would cover some of the community's costs, help with retraining and job creation and so on.

Positioning Canada for future investments, the second category, is where the crucial future of the industry will be determined. We have been very attractive as an investment site on cost grounds, but there are other factors now working against us: the emergence of Mexico, reaching critical mass, the subsidies paid in the Deep South and so on. We've got to take some proactive measures, and here again we see a role for the Ontario government.

We've proposed that the federal government extend its Technology Partnerships Canada initiative, which has been successful in leveraging new investments in the aerospace and defence and environmental industries, to apply to the auto industry. We've asked them to put in $500 million per year to help stimulate leading-edge technology in the assembly and parts sectors, and we'd like to see the Ontario government put in half that much—50 cents on the federal dollar—recognizing the large provincial stake. The Technology Partnerships Canada initiative would support, on a case-by-case basis, new investments which either were in technologically sophisticated new products or in technologically leading processes.

Another area where the Ontario government can play a crucial role is in terms of transportation infrastructure. The September 11 crisis and the border problems that sparked and so on I think highlighted for everyone that we in Ontario are still quite vulnerable in terms of our access to the US market. That's led some people to go off in directions, saying we should simply abandon areas of our sovereignty and immigration and financial and monetary policy and so on. We think there are actually some very sensible things we can do, while remaining an independent country, that will be an insurance policy for our trade with the US, and transportation is one of them.

Clearly the bottlenecks around Highway 401, the link between the 401 and the bridges in Windsor—which is an embarrassment, frankly, for an industrially sophisticated country like ours—and the need for more infrastructure at the border are again something where the federal government and the Ontario government, instead of pointing fingers at each other, which is what has been happening for the most part, could go in on a 50-50 basis and make a real difference.

Some people argue that paying subsidies for investment and so on is a form of corporate welfare. I disagree with that underlying philosophy. Obviously, we're not interested, as a union, in handouts and no-strings-attached boondoggles and so on, but this shows the total value of business subsidies in Canada as a share of our economy, and it's been more than cut in half over the last two decades. Some can say that's a good way for the government to save money, but the flip side of the coin is that when you face an industry in crisis, as the auto industry is, if government isn't there with some money on the table and some leverage and some bargaining tools, government can't do a lot, other than throw up its hands and hope for the best. We'd like to see, at the provincial and federal levels, a more pragmatic approach to trying to capture those future investments.

I'll skip through the trade part, which is primarily a federal responsibility.

Finally, the task force that we proposed on the long-term future of the industry—these proposals we have don't address some of the even bigger structural questions facing the auto industry in the future:

—Environmental issues around global warming and the need for sustainable technology in vehicle transportation.

—Technology changes. Assembly technology now is increasingly flexible, where companies can run four or five models off the same assembly line. That's going to revolutionize the way auto assembly takes place. Is Canada going to have a role there or not?

—Issues about working hours. We've seen this industry have incredible productivity growth over recent years, which has been beneficial economically, but the flip side of that coin is that if you keep working everyone at 50 or 60 hours a week, it means the number of actual jobs you're getting as a result of this valuable industry is shrinking over time.

Those are some of the longer-run problems that I think need to be addressed. We've proposed pulling together all the stakeholders in the industry in a high-profile task force that would draw attention to the crucial moment we face in auto, to the social, economic and fiscal effects of the auto industry, and hopefully develop through interviews and investigations some recommendations that would help to turn the industry around.

1240

That's kind of our one-two punch on the problem we face in auto. Just to conclude, I'd emphasize how important this sector has been to Ontario's economic and fiscal progress over the last few years, but we can't take it for granted any more. We're in a structural decline that is not going to solve itself unless government gets involved and starts to play an active role.

Thank you all for your attention.

The Chair: That completes your presentation? We have approximately six minutes per caucus. I'll start with the government this time.

Mr O'Toole: Thank you very much, Buzz and Jim. I'd have to concur that it probably is the unsung story of the strength of the Ontario economy. Having worked over 30 years in the auto industry, I completely agree that it's sometimes taken for granted. It is an important part of the infrastructure and the economy, and you're certainly an important part of that and a strong voice that we should hear.

I guess I'll just go through a couple of things. I really do think that both the Premier and Minister Runciman, not just in the Algoma case but certainly more recently in the Oakville situation, have been there trying to create the right kind of supports that I believe are in harmony with our government's policy of not overtly subsidizing any sector but allowing them to be more competitive. I think "competitiveness" is a word that's used in other phrases in your own language, because that's really what it's about—you know that as well as I do—whether it's direct or indirect competitive advantage for investment. I think that's really what the minister was saying this morning.

Even if you look at your four main ideas that you've outlined, in that you say "value for investment." Those investment decisions, whether they're under the old rules of NAFTA or the rules of the free trade agreement, it's about being competitive. That competitive advantage is where corporate tax, capital tax and municipal tax all come into being competitive—General Motors uses that in every presentation: the municipal tax is too high, the tax rate—so by reducing those you're actually supporting, competitively, when they make their business plan at Detroit or wherever else they make their investment calculations.

Bottom-line, though, I kind of wish that Sam McLaughlin had retained an interest in General Motors, as opposed to selling it. Really, we all championed that. He was the last Canadian who really had a major stake in the auto decision-making process, but he gave that up some time ago.

I can recall from my days—some time ago, and in a very minor role, I might say. They've been dealing with excess capacity in the auto industry for years. It's a huge issue. There's probably 20% excess capacity in all the capital and all the outputs, and there are going to be some tough decisions. We've got to be in a position to get the investment here. I'd like you, in your response, to acknowledge that. You're a part of that—the cost of labour—and there's the cost of capital and how you depreciate that capital over time. You know yourself, as well, that these negotiations you go through every three years—there's a little phrase in there called the productivity improvement factor, where basically the payroll stays the same so we're competitive, and fewer people collect it. So you're negotiating productivity improvements for fewer people. I've sat and watched it. I've said, "You're negotiating away jobs." So you've got some decisions to make; I think that's important.

The last one, and I think it's probably going to be the more important longer-term solution: Canadian, and more specifically the Ontario equation—today and yesterday and in the prior editorials I've read, the Kyoto situation is an absolutely paramount decision. Recognizing that the environment is an important element of our quality of life and standard of living, there are a lot of numbers going around on the ultimate impact on the GDP. I think the federal government is ignoring it. I think they're saying, "We're going to sign Kyoto," without knowing the cost to the people of Ontario. That's you and I. Theirs is 0.5% impact on the GDP growth in Canada, and I've read numbers of 2% and 4%. I'd like your response. Yesterday in the paper it said there is going to be a 20% reduction in the number of jobs in auto and steel if they implement Kyoto. So there's a negotiating item that's further out, that we can deal with now—the decision has been made—and how you feel with respect to any future agreement in terms of investment and keeping strong the competitive advantage of that important sector of our economy.

Mr Hargrove: Let me just make a comment and then I'll ask Jim if he wants to add to that.

At the same time General Motors was making all these wonderful presentations and asking for tax cuts, they took 20,000 jobs out of Canada. We had 39,000 people. We now have a little less than 19,000 jobs. So ask yourself: all of these tax cuts you gave them, what did it do? It helped them move the jobs somewhere else, Mr O'Toole.

And negotiating away jobs: how do you explain the growth in the industry that we've had over the last 25 or 30 years? Our industry has grown throughout this whole period. Sure, we negotiate better wages, but we also take a share of the productivity improvements that we play a major role in bringing about in the workplace and we put that into reduced work time, which means we bring people in. We bargain early retirement benefits. I say to people who chase a production line for 30 years, "Get out and enjoy life. Do something in the community, do some volunteer work, and let's bring some young people in." So people leave and new people are in.

As I said earlier, we're the only country in the world that has successfully launched auto assembly operations in both truck and car with three shifts of production. The output at the Windsor assembly plant, at Chrysler, is down by about 20%. We think the Pacifica will bring it full up. But it has over 6,000 people. It's one of the most populated workplaces in the auto industry around the world for a single plant producing a single product, and it was through our efforts. The only problem is, it took us 10 years and a strike deadline to get Chrysler to agree with it.

On the question of signing the Kyoto agreement on the environment, on global warming, we have been meeting the auto industry and challenging the auto industry and challenging governments about how we take a lead role in this. Instead of saying, "Let's not sign it"—as Ralph Klein is suggesting this morning, we should all quit breathing. Instead of doing that, we should have forced the industry—a carrot-and-stick approach has always been how we've done it. If you look at the history of this industry, it was tariffs and incentives that brought the industry here. We should have been producing the new green engines. We have aluminum in Canada. We have an incredible capacity for aluminum, one of the lightest vehicles available, but it's very expensive. But we haven't done the research and development work to make sure we can make it less expensive, to take the weight out of the car, which cuts down on the fuel consumption. Canada could play a leading role in this area, but we haven't. As long as people will buy the engines that are out there today and there are no rules to stop them from doing it and the companies can pollute, they're not going to make the decisions, as long as they're making the money.

Surely we've learned something from the Enron situation: money drives the system. If you don't have some rules governing it within that—by the way, it drives us too. We're all part of the system. I always say that I much prefer bargaining with companies that are making money to those that are losing money. But we also recognize, as the corporations do—when we're sitting around talking without the microphones or the television cameras, they talk about what drives their decisions. So I'm not sure we should just accept the logic of Ralph Klein that the only solution to global warming is that we all quit breathing. We have to force the corporations to make the changes that are required to make the environment a sustainable environment for our children and our grandchildren long term.

One more point. This idea of competitiveness: we are the most competitive. We have an incredible advantage. Ask yourself, why is Ford closing the Oakville plant? They could make $200 million a year more in profit. Wall Street is saying, "Get your house in order. Get your excess capacity out and make some money for shareholders." The logical thing would be to move production from a US plant to Canada. They're not doing that. They're moving production from a Canadian plant to where they're going to pay 35% more in labour costs alone and in a less productive environment to produce that vehicle. It's Americans making decisions in the interests of America. I don't have any quarrel with that. The Ontario government should make decisions in the interests of Ontario, as well as the federal government in the interests of Canada.

Softwood lumber: the Americans don't accept that we can ship in, because we're the most competitive. Steel they don't accept. Now they're challenging our wheat board. The Americans say, "Trade, yes, free trade, yes, as long as it doesn't interfere with our ability in major sectors." We have to quit being the Cub Scouts of trade and start challenging on behalf of our own economies.

1250

The Chair: Thank you very much. I have to go to the official opposition.

Mr Phillips: I don't think you need to persuade anybody on this committee, of any political party, of the importance of the auto sector. I think we all know it and all of our communities are tremendously impacted by it. It's right at the heart of Ontario. My recollection was that we produce almost as much, if not as much, as Michigan does, and Michigan we think of as being just the auto business. So it's equally important to us.

On one chart you put up there you had the word "patriotism," I think, with a question mark. Particularly after September 11, I do worry that when we are competing and you are competing for plants or business with US plants, this kind of parochialism comes in, that the US companies can use a little bit of the border crossing as an argument. I am a little bit worried that we may see an increase in that as a hidden factor almost, one that's not too public. I wonder if you could comment on that. I take from your chart that at least you think it may be a possibility. If that is a factor, what do we do? I realize you've given us some suggestions today on how we compete for new product here, but what should we be doing to kind of, the best we can, neutralize that trend perhaps in the US?

Mr Hargrove: A big step would be to recognize that nationalism plays a role in investment decisions. We just watched a wonderful winter Olympics, and anybody who doesn't walk away from that and understand that nationalism plays a role in everything missed the main point of the Olympics, from the cheating of the judges in support of their countries to the competitiveness of the athletes.

It's the same thing. In the United States today, rightfully so, there's a mood that America is under attack. Governments, at both the federal level, from the President of the United States down, and the local level are calling on Americans—General Motors' advertisement is, "Let's get America rolling." Let's do that. If you look at Ford's decision and ask yourself, "Why did they close?" they're saying, "We want to share the pain."

Why is Mexico continuing to get these big investments? Their production is going up, their jobs are going up, and the pain is coming to Canada. At one time in the Canada-US context we had the Auto Pact, which guaranteed us a certain amount of investment in jobs and gave us the opportunity to show that Canadians can be more productive and produce better quality than anyone in the world. Those things—the quality, the productivity, the costs—with the Auto Pact gave us an advantage to get investment out of Americans. Today we're in an environment that includes Mexico, which has no rules, no rules at all. You don't have an Auto Pact that says you've got to come to Canada. The cost advantage is now in Mexico. They can do the quality, because they've got the same investments, the same technology, the same companies that are investing in Canada. They can do all of that in Mexico today. They have all of that advantage that we used to have, and the Americans have the ownership and they have the power of saying to the Japanese and the Koreans and others, "You're not going to ship into our market without major investments into our market." Where does Canada now sit in this with no auto policy?

We're saying we need to recognize this, and the federal government has to take the lead here by saying to players, like the US does, "You have to restrain your imports into our market until you make the investments and create the jobs in Canada." If that doesn't work, then they have to take tougher lines, as Ed Lumley did back in the 1980s. We don't have Toyota and Honda in Ontario because they want to be. Ed Lumley stopped the ships in Vancouver through tightening up the inspection process. The ships were backed up on the dock for miles before the Japanese finally met and said, "Yes, we recognize Canada is different. We always thought that if we invested in the US we were satisfying the Canadian problem." We got two small investments. It's now time to take another step in this direction.

The Chair: You've got a minute left. Mr Ramsay.

Mr David Ramsay (Timiskaming-Cochrane): Thank you both for your presentation. I found it very informative and it helped me better understand this very important industry to Ontario.

Jim, in your presentation you talked about one thing government could do, and that would be some additional investments in infrastructure. You mentioned the Windsor linkage and the 401. The 401, when you're in government, seems to be a big challenge for all of us when we see that the highway has really become the largest auto parts warehouse in this province with the just-in-time system. I was wondering, with that amount of money you're talking about, what specifically could we do to the 401 to assist the industry?

Mr Stanford: I proposed a $1-billion fund targeted at the export-oriented transportation infrastructure split 50-50 with the federal government. The federal government has already put some money aside in its recent budget for border infrastructure issues. Perhaps we could ride on that coattail a little bit.

What could you do with $1 billion? That wouldn't solve the whole thing; $1 billion alone wouldn't pay for widening the 401, which I think is what's ultimately going to be required, from London down to Windsor. A billion dollars would help certainly by redoing some of the worst sections of the 401 there and I'd say most importantly connecting the 401 directly to the US-Canada border. In the wake of September 11 we had a situation where in the first days, of course, the trucks at the border were backed up for hours and hours. Then it settled down and you had 30-to-45-minute-extra waits because of the tightened inspections on the US side.

The trucker can spend at least that much time getting from the end of the 401 to the staging area where they approach the border. There are 15 traffic lights. You actually go down a residential-commercial street in Windsor. It's unsafe and it's unfair to the residents of Windsor that we can't invest in a dedicated infrastructure, given the $100 billion a year that goes both ways on that little stretch of road. I'd view that as the first priority.

In the longer run, with more funds, then you could look at widening the 401 all the way to London and start talking to the Americans about another bridge in Windsor as well. I know that's been on the table a lot over the years and ultimately that's going to be, I think, required as well.

Mr Christopherson: Thank you, Buzz and Jim, for your presentation. Buzz, you'll be interested to know that, probably before you came in the room, I specifically asked the finance minister whether he was prepared to look at the auto industry and the steel industry, and, Jim, you referenced that. It's in the same kind of structural crisis. Being from Hamilton, of course, we're impacted by both. They're very much linked. When I asked him very directly whether he was prepared to undertake putting together a made-in-Ontario steel strategy and an auto strategy, his answer was that he wasn't going to play favourites, and then went into the rhetoric of all that he's done for business, pretty much mirroring what you suggested is their response. You may want to take a look at Hansard for the exact quote, but basically at this point he's just washing his hands of it and saying he's not going to play favourites. Maybe when I'm finished with another question you can comment on what the implications are if Ontario continues to take a hands-off approach for the next two to five years. What are the implications for communities like Oshawa, Hamilton, Windsor and all those that are affected by steel and auto?

Also, Buzz, on the issue of deregulating and privatizing Hydro, we've heard from John Mayberry. I read the quote into Hansard about the concerns he has regarding Hamilton steel. I'm wondering what your thoughts are on the implications for the auto industry in the coming years if we follow through with the current plans, and what are you perhaps hearing from business officials, without naming names, behind closed doors? You talked about the discussions that you have when the cameras and the microphones aren't there. Can you give us some reflection of what you're hearing from them in terms of the long-term competitiveness of the auto industry?

Mr Hargrove: Thank you, David. I think the auto and steel made-in-Ontario strategy makes a lot of sense. It deserves special treatment, so to speak. These two industries are incredibly important to Ontario and the government did recognize that somewhat in the Algoma situation recently, at least the importance to the north.

Special treatment: I repeat, I've watched the tax cut strategy and if you look at the number of jobs, one would almost think our strategy was to pay General Motors to move jobs out of Canada. You can't say that about Ford and Chrysler until these recent announcements, but General Motors has reduced its Canadian operations by 20,000 jobs in St Catharines, which Gerry will recognize. We just had over 1,000 people notified of layoff and it's going to have a devastating impact, coupled with the Ford announcement, on the people who live in that general vicinity and work in both of those locations. Jim may want to comment more specifically on the impact it'll have, but one doesn't have to be very smart to realize it's going to have a major impact.

1300

On the deregulation and privatization of Hydro, our assessment has been that this is going to be a disaster, and every company we deal with says the same thing. I've not met one company CEO or manager that's said they support this. I don't know who is driving this, but it certainly is not—and we're not just in the auto industry; we're in the aerospace industry, we're in the hospitality industry in a big way, as you are aware, retail, wholesale, department stores. We represent 150,000 members and we deal with some 1,500 different employers in Ontario, and I haven't found one that is supportive of what the government is doing here or sees it as being something that they even want to gamble on. All of them are saying that they believe this is a mistake and it's going to be costly to them as corporations and to their ability to compete and their jobs. We have a cost advantage today in this area that they say they're going to lose.

Jim, I don't know if you have anything you want to add to that?

Mr Stanford: The implications of doing nothing are certainly, then, to accept this 30% decline in our auto industry, and more or less make it permanent, because if we don't do something, those jobs are not coming back and that production is not coming back. It's not a cyclical issue, it's a structural issue, and it will take some active measures to reverse it.

Mr Christopherson: One last question, to Jim: last year, if you recall, sitting in exactly this room, we talked about where the macro-economy was heading. Right at that time, Nortel was doing its swan dive, just as we were meeting. At that time, there were some of us who said that, given a number of factors out there, this is going to be really serious. There were many economists who were sort of downplaying it.

I loved the alphabet soup. I remember back in my days in the Ministry of Finance and now, as a critic, listening to all these alphabet soups: there's going to be the V, there's the U and now there's some talk that maybe we're into a W. But anyway, at that time, it was going to be the V; we were going to go into a deep downturn, but we were going to come right back out of it. Even you at that time said you didn't agree with some of us who were saying that it was going to get really bad, and you were saying very clearly that you didn't see a recession coming.

We just got the third-quarter results. Whether or not we get a second quarter in a row to give us a technical recession or not, clearly the fact that we even hit one quarter with those kinds of numbers—September 11 alone is not the issue. It exacerbated things, it accelerated them, but it didn't cause them.

I'm just curious what fundamentals changed in terms of the assumptions that you were making a year ago today, looking forward, that made it a deeper—I won't say "recession" yet, because technically it's not, but certainly a downturn; that it was a lot more severe and that there may be some real questions about when we're pulling out. What changed in terms of the assumptions you were making at that time vis-à-vis fundamentals?

Mr Stanford: Boy, you're making it a risky proposition to come back here a year later if someone's going to remember what I said a year ago. I didn't know that happened around here. Wow.

No, you're right. I was, I think, kind of with the mainstream economists in suggesting that we were looking at a slowdown, not a recession. Technically speaking, we probably were. The indications are that the economy did indeed grow again in the fourth quarter of last year.

Now, whether it's a recession or not doesn't really matter when you're one of the 100,000 people who have lost their jobs. I certainly take the point that it proved to be worse than I thought it was going to be.

The main factors, if you look at the economic statements: first of all, a cutback in business investment, and we obviously see a portion of that—

Mr Christopherson: Why, then?

Mr Stanford: I think it reflects a kind of herd mentality among the private sector. As our economy becomes more and more invested in the private sector—and the private sector now accounts for over 85% of Canada's GDP. That's the highest in our national history because of the downsizing of government, the privatization of functions that were formerly performed in the public sector. The more eggs you put in a private sector basket, the more you are vulnerable to the inherent boom-and-bust herd mentality that you see.

When companies think times are going to be good and things are hunky-dory, they kind of look around at each other and say, "Yes, he feels optimistic, she feels optimistic, I feel optimistic. Let's go for it." Then the mood can swing very quickly. We see it obviously in the stock market, but even in real business as well, where you saw manufacturing companies, which were investing very heavily in 1998-99 and even 2000, suddenly contract. Obviously, it wasn't interest rates that were the problem. Interest rates fell quickly and effectively. It was their perception of where the demand conditions were going.

Also, the inventory adjustment was incredibly fast in this slowdown, more so than in any other slowdown before, where I guess with the just-in-time technology, the information systems, companies could detect immediately that their products were not selling as quickly and cut their inventory. So our inventories in the auto sector are actually lower than average right now, and elsewhere, and that cuts into production very quickly as well.

In terms of the aggregate number, that sort of placid surface of our economic waters, I'm still relatively sanguine. I expect the economy is going to continue to grow in line with where the consensus economists—and maybe that will come back to haunt me next year. But structurally, underneath that, we've got some real problems in some important revenue-generating industries.

The Chair: With that, I have to bring it to an end, gentlemen. On behalf of the committee, thank you very much for your presentation.

This committee is recessed until 2 o'clock this afternoon.

The committee recessed from 1306 to 1402.

The Chair: Good afternoon, everyone. If I can get your attention, we'll bring the committee back to order.

GREATER TORONTO HOME BUILDERS' ASSOCIATION

The Chair: Our first presentation this afternoon is from the Greater Toronto Home Builders' Association. I would invite the presenters to please come forward and state your names for the record. On behalf of the committee, welcome.

Mr Sheldon Libfeld: My name is Sheldon Libfeld, and I'm president of the Greater Toronto Home Builders' Association. I'm also president of the Conservatory Group, which builds approximately 1,500 housing units annually in the greater Toronto area. With me is the GTHBA's director of government relations, Jim Murphy. You should have copies of our presentation in front of you.

I want to speak to five issues today: the state of the housing industry; the land transfer tax refund for first-time homebuyers; capital tax; labour laws affecting our industry; and last, rental housing.

As you will see in our submission, the housing industry is doing well. Indeed, according to both the Ontario and federal finance ministers, the housing sector alone is keeping Ontario and Canada out of a recession. We have recorded record sales for new homes in each of the last two years. Over the last three years, we have sold and constructed over 100,000 new homes in the greater Toronto area, equivalent to the total number of households in Victoria, British Columbia. The GTA is responsible for 60% of Ontario's new housing starts, and one quarter of the national total. Each new home, according to CMHC, generates three jobs, meaning that our industry, on an annual basis, creates over 130,000 person-years of employment, roughly the total population of Kingston or Thunder Bay.

The land transfer tax refund for first-time buyers of newly constructed homes is a great program. Indeed, it is the only program that we are aware of at the provincial level that promotes home ownership and job creation in the housing sector. Since its inception in 1996, over 100,000 purchasers have benefited from the program. As you can see in our brief on page 3, this current year will see roughly 18,000 refunds, worth $28 million. These refunds are immediately reinvested in the local community where the new home is purchased and are immensely helpful to first-time homebuyers who have scratched and clawed to put together their down payment. As you know, in 1999, the refund for first-time buyers was increased to $2,000 to reflect the higher cost of housing in the GTA and elsewhere in the province.

To promote home ownership and increased fairness, GTHBA is recommending that the limit be eliminated altogether, which would cost $5 million to $8 million annually. At the very least, we are recommending an increase in the refund to $2,500. This would cost $2.5 million annually. These total costs pale in comparison to what the province generates annually from the land transfer tax. This year, with a strong housing market, Ontario will generate $600 million from the land transfer tax, meaning that the refund program accounts for less than 5% of the total annual revenues.

Third, GTHBA strongly supports the desire of the government to eliminate capital taxes. These taxes bear no attachment to a company's profitability and are job-killers in asset-intensive industries such as ours. Last year the province increased the exemption threshold on capital tax to $5 million. We encourage the province to follow through on its promise to eliminate the tax entirely and, at the very least, the threshold should be increased again.

Fourth, I'd like to raise an issue that is not tax-related but could certainly have an effect on the provincial revenues if it is left unattached; namely, legislation governing collective bargaining in the residential construction industry. The government, in late 2000, passed Bill 69, which provided increased certainty to our industry and new homebuyers during labour negotiations. This legislation worked well in last spring's collective bargaining session. As the Minister of Labour reviews the legislation, GTHBA strongly recommends that the 46-day strike window which was included in Bill 69 as a sunset provision be made a permanent feature in any new legislation.

Last, let me speak to rental housing, which is not covered by our brief. We will be submitting a separate brief with the Fair Rental Policy Organization and the Urban Development Institute that speaks to the issue of certainty in rental housing legislation. With the passage of the Rental Housing Protection Act, we have seen an increase in new rental activity. In addition, with low interest rates, we have a window of opportunity to see new private rental investments made. Our industry is working at the federal level for changes to tax policies to promote new rental construction. The province has set up an advisory group, of which we are a member, that is making detailed tax policy recommendations for the rental industry; however, the greatest impediment to new rental investment is the instability of legislation affecting rental accommodation. Our industry, like any other industry, requires investment certainty. The paper that we will forward speaks to doing this by either commercial agreements or some form of insurance. If investors think the policies dictating their investment will change in the next few years, they will not make rental investment. We're prepared to take the business risk. All we are asking for is what any investor in any other sector of the economy is asking for, namely, certainty on the rules.

Thank you for your time. Jim and I would be pleased to answer any questions.

1410

The Chair: Thank you very much. We have three minutes per caucus, and I'll start with Mr Phillips.

Mr Phillips: One of the very pleasing things in the last few months has been how well the housing market has held up. I don't think any of us, perhaps yourselves included, would have bet that it would have been as strong as it has been over the last few months, and I'm very happy for that.

I'm very interested in rental accommodation, but I gather I should await another presentation. So just on your association, what do you think the natural market is? I remember last year, I think the Ontario Home Builders said that roughly 70,000 units a year need to be built to sustain the growth in the market. The household formation grows 70,000 a year and therefore 70,000 units should be produced, and if you see much more than that, you start to get into an over-supply, much less than that—do you have any sense in your area how many units need to be constructed in a year, and are we now at the stage where we are heading to over-supply or are we still trying to catch up?

Mr Jim Murphy: Our association and a lot of associations have economic outlooks ever year, two or three times, and we have economists come in and always increase their estimates in terms of the housing starts. Everybody I think has been surprised at the strength of the housing market. I think the reasons for that are obviously low interest rates, low mortgage rates, growth in population, particularly in the greater Toronto area, and strong job growth.

Our association just released figures yesterday that show that the new home sales for January were at an all-time record level—some 8,000, I think, across the GTA. I think as long as interest rates remain low and mortgage rates remain low, the market is going to be fairly strong.

One of the things we're seeing within the market is a move-out of rental to first-time buyers. A lot of the market is first-time buyers, and that's why the land transfer tax refund is a very good program. But a lot of people can, on a monthly basis, afford to own now, in terms of what their average rents are. The only issue they have to worry about, obviously, is their down payment, do they have that money for a down payment, which is why the land transfer tax refund was brought in.

Part of the reason there's been a bit of an increase in the vacancy rate in recent media reports is because people are moving into the new home market because it's that affordable. How long will it continue? It's been very strong the last two or three years. We had a pent-up demand from the early 1990s, where starts were very, very low, particularly on the home ownership side, but we are, I think, the second-fastest-growing city in North America, so there's just a natural demand there. I don't know what Sheldon might want to say in terms of the market individually, because you build both condominium and low-rise.

Mr Libfeld: We're seeing a very strong market and I think it's primarily a result of the low interest rates. I think that's driving people into new homes and into the housing market. In some places, you can virtually buy a house and pay as much as you're paying for rent in some segments of the marketplace.

It's also that there has been, I would think strongly, throughout the 1990s a deficiency in the demand of new homes, given the economic climate we experienced during the 1990s. I think that's a huge correction also.

Mr Christopherson: Thank you very much for your presentation. I have to say, being a natural contrarian, once things start to look like a bubble to me, I sort of start heading the other way. If you take a look around, the housing market has been defying financial gravity for quite some time. I understand the fundamentals that you've outlined, but I have some serious concerns about our ability to hit continuing levels of record, record, record. Normally, that's the indication that something's about to give. That may not happen this time. Certainly, mine is a lone voice. Everybody else is where you are. That's probably got more to do with my character than any kind of real sense of the economy. Nonetheless, that is how I feel.

Let's just for the sake of argument say that does happen, that suddenly the bubble bursts and there isn't a demand. How does it start to roll out? In other words, where do we start to see it first and, if it stays suppressed long enough, how does that last? I guess the last time this would have happened would have been, what, in the early 1990s, when the big drop-off, the big burst happened? How does that happen? When it does, if the good times suddenly ended and the bubble burst, what do we see happening in your industry? How does it unfold?

Mr Libfeld: I think it's all a matter of affordability. I think today we're seeing affordability levels in the housing market where they've never been. That's primarily because of the interest rates. So I think that if we see interest rates starting to climb quickly, we will see a big problem with our industry.

I think also you must know that the real costs of a new home over the last 10 years haven't gone up and, in some segments in this market, they are still not where they left off in 1998. We're still below that price for a new home. So I think we still have a ways to go before we see a change in the market.

The availability of land and how the land is available would help maintain a stable market. If the land was able to be put on to the marketplace more quickly and was available to do the development of these lands, that additional supply would suppress the increase in the prices. So it's very important that we have a continued backlog of land to be able to deal with the issue.

Mr O'Toole: Thank you very much for your presentation today. The minister, in his comments earlier this morning, was quite animated with respect to the success in the Ontario economy of the housing infrastructure and the builders like yourself. It counts for a great part of the growth in jobs.

If you want to relate that to some of the issues that you've brought before this committee, both today and in previous times, whether it's the land transfer tax—but I'd put to you that it's the interest rate and other factors. It's also having more disposable income for people. Their actual income is being attacked less by the taxman. They actually have more amounts to plan in their budget to have a mortgage payment. That's an important part of it.

I just want to get you to comment with respect to two parts of the tax: the small business tax threshold will be reduced to 4% by 2005, and also the phasing in of reducing the capital tax on the first $5 million. In what respect does that show up in terms of encouraging the industry, specifically on the capital tax side, to take the risk and have more housing stock out there? Is this part of giving the industry more confidence? It's really an investment incentive to have that capital up there and ready for potential new homebuyers.

Mr Murphy: The short answer would be yes. They're very helpful. In any asset-intensive industry, whether mining, forestry or real estate, a capital tax is just a tax that bears no resemblance to profitability. It's something that has to be paid whether you make a profit or you don't make a profit. We have suggested to the province in every submission I think we've done to the provincial pre-budget consultation process to get rid of capital tax or to increase the threshold. In fact, I think the province, in its first budget, increased it to $2 million and then increased it to $5 million and now they're going to phase it out. It will be a benefit to all companies in the industry.

We also have capital taxes, although they don't call it that, at the federal level. The federal government has also been making noises about perhaps revisiting whether they should have capital taxes there.

Mr O'Toole: On the issue of affordability in housing—

The Chair: Mr O'Toole, I have to bring it to an end, as we've run out of time. But gentlemen, on behalf of the committee, thank you very much for your presentation this afternoon.

1420

ELEMENTARY TEACHERS' FEDERATION OF ONTARIO

The Chair: Our next presentation will be from the Elementary Teachers' Federation of Ontario. I would ask the presenters to come forward and state your names for the record. On behalf of the committee, welcome. You have 20 minutes for your presentation this afternoon.

Ms Phyllis Benedict: Good afternoon. My name is Phyllis Benedict. I'm the president of the Elementary Teachers' Federation of Ontario. With me today I have our first vice-president, Emily Noble, and general secretary, Gene Lewis.

The Elementary Teachers' Federation of Ontario represents 65,000 teachers and education workers in the public elementary schools across our province. This is the fifth year that I've come before a pre-budget hearing. I could just come in and say, "Ditto. The record is the same as it was before. The words are the same." However, once again we come before you to try to convince our current government that education is truly underfunded.

If you take into account inflation and enrolment, school boards now have $2.3 billion less annually to spend on education than when this government came into power. That's over $1,000 per student. This seriously affects the education that Ontario students receive, and the needs of elementary students are particularly ignored.

School boards now get $750 more for a secondary student than for an elementary student. Since the student-focused funding formula was introduced, the gap between elementary and secondary funding has increased by almost 30%. There is nothing that can be shown to justify this. All the research shows that when you put the money in at the beginning of a child's education, you will see the payoffs throughout their whole life.

We are releasing our third annual school-based research survey report today. This survey demonstrates the effects these funding cuts have had on our system. A reduction in special education programs is reported by 31% of schools, on top of a 35% cut last year and 12% the year before.

This year, 20% of schools have lost special education teachers. Thirty per cent of our schools report a cut in library programs, on top of 29% of schools reporting cuts last year and 47% the year before, and 16% of our schools have lost teacher-librarians just in this year alone. We have also seen a dramatic cut in design and technology, English as a second language and music programs.

Class sizes remain too high. The board-wide averages mask what is really going on in our schools. Class sizes in grades 1 and 2 have risen dramatically. Ten per cent of schools report class sizes six students higher than the provincial average by grade; for example, 25.6 in junior kindergarten and 26 students in a senior kindergarten class, and it continues through to the end of grade 8. In some of our grade 8 responses we have seen 32.8 students.

There aren't enough textbooks. Not only do we have too many children per class; there are not enough resources, not enough learning materials for our students or our teachers. Over 70% of our schools reported insufficient textbooks for students.

Half of our schools reported spending less on field trips, with 36% reporting cutting back on the number of trips they take with their students outside the classroom. This is a very serious impact on education, for we know that the field trips our students go on bring the curriculum to life and give it real meaning rather than just something the students read about.

The members of the Elementary Teachers' Federation know what is needed in education. We have identified what works, and we've identified what is needed for our schools and our classrooms.

Let me begin with small class sizes, particularly in the early years. The research in this area could not be clearer. Students in small classes—fewer than 20—in the early grades will then return to regular classes of about 25. We found that those students do measure better on achievement tests. They are likely to stay in school longer. They are less likely to display behaviour problems. They are less likely to repeat a grade or a course. They are less likely to drop out of school, and they are more likely to take advanced-level courses.

No other single education reform can produce results like this. We know that students learn best in small classes. You will find appended in our brief that we do have recommendations regarding class size. The government must start to invest new money to reduce primary classes significantly.

In regard to qualified teachers, teachers, as professionals, know the importance of keeping up with developments in pedagogy, assessment and classroom management. We know that we need professional development to maintain and improve our skills. Specialist teachers provide an important role in our elementary schools. They provide the language instruction, the library programs, the music and art programs, the design and technology programs, the physical education programs, which are all important for the development of Ontario students.

We do recommend that the government scrap the money they're putting into the re-certification program and the entry into the profession test and redirect this money to school boards for professional development programs. We recommend too that this money could be used to hire additional much-needed specialist teachers.

Curriculum and assessment: this government relies on standardized tests rather than on providing an education that responds to the needs of students. Not every student learns in the same way or at the same rate. Ontario's curriculum expectations and assessment methods need to be more flexible to reflect the differing needs of our students. Again, we call upon this government to redirect money away from standardized testing to learning resources for students and for teachers.

In the area of special education, 31% of public elementary schools report that special education programs have been cut this year, on top of cuts in the last two years. This is shameful. These are the highest-needs children that we have. We also know that they exist in school boards where the waiting list is over a year for mere assessment. Again, redirect monies in the right direction. Invest in the delivery of special education programs for those students who require them.

Schools are the hearts of our communities, and yet what we've seen in recent years is that too many of our schools have had to close under the new funding formula. Too many of our students are spending incredibly long periods of time on school buses to go to schools that are away from their home communities. We know that the school boards have presented over and over again the need to address transportation issues. There must be additional funding in this area, and we must ensure that our small community schools remain open so that they can continue to be the hearts of those communities.

As I mentioned before, we need to provide early years support. Young students need the small classes and a rich variety of resources. They need high-quality programs including full-day, everyday kindergarten.

On accountability: accountability means that everyone in our society needs to take responsibility for ensuring a strong public education system. It does not mean giving more students and teachers more tests. ETFO supports accountability that appropriately addresses the importance of ensuring teacher competence and student achievement, and we're committed to ensuring the best education system that we can provide. We believe there are many ways for the government to show its commitment.

It's very hard for us to accept the rhetoric that the changes that have been made to Ontario's public education system are truly improving the education our students receive. The members of the Elementary Teachers' Federation see the impact of the funding cuts every day in every classroom. The elementary teachers of Ontario do not want to maintain the status quo. That's never been the goal of the ETFO or our members. We want to improve the education system in ways that are meaningful and in ways that benefit our students. We want to see smaller classes. We want to see community schools maintained and textbooks and learning materials available to all our students. We want to see a variety of programs available to students, from special education to English as a second language, music and art.

Our students deserve a well-rounded, balanced education. You don't improve a system by starving it. You improve it by investing in it and ensuring that students and teachers have the tools and resources necessary to do the job. You do it by providing support. I put it before you this afternoon that it's not too late.

The Chair: Thank you very much. We have about two minutes per caucus, and I'll start with Mr Christopherson.

1430

Mr Christopherson: You may know that prior to today's hearings we've already been to Windsor and Sault Ste Marie. In both communities we had representatives from the education field, whether it was trustees, teachers, parents, the public board or the Catholic board, coming in and saying they're on the brink of absolute bankruptcy, crisis—those were words that were used. By the second day, I said to one of the presenters, "If you can get those folks over there," meaning the government backbenchers, "to admit that the problem is funding"—

Mr O'Toole: Backbenchers?

Mr Christopherson: I know you want it changed after the election for Premier, but for now you're backbenchers.

Interjection: You've been there too.

Mr Christopherson: I'm back even further. But I've been there.

The Chair: It's your time.

Mr Christopherson: That's fine.

I couldn't, nor could any of the presenters, get those members to say there was any kind of funding problem whatsoever. If you can achieve it, then you've really done something well today.

They will talk about Lord knows what. They'll go all over the map. They'll try to blame bureaucracy and process. This morning we had the minister in, Mr Bright Ideas. Everybody's going to come up with bright ideas about how we can serve the children of our society, and the education they need, without funding. At the end of the day, we've got to get the message out that this is about money. The government will argue, "You can't just write a cheque to pay for everything and solve all the problems." Of course the other side of it is that without adequate funding, you won't have the kind of education system that gives us the economy we have. You won't have the health care system. You won't have all the things that make the quality of life that we have.

Perhaps there's something you can add to this debate that will jar one of them over there to acknowledge today that maybe, just maybe, one of the problems is lack of funding.

Ms Benedict: Well, I will do my very best. If you have your pencil ready, I would like to point out some figures that are from the ministry data. It's not dollars we've pulled out of the air or something we came up with to justify our presentation today.

According to ministry data, the funding for school operations and capital has increased from $13.37 billion in 1995 to $13.862 billion in 2001-02. However, to maintain the 1995 level of real expenditure per student—and it has to be adjusted for inflation, because we know that has happened—then the total funding would have had to increase to $16.135 billion. Compared to the actual total spending of $13.862 billion, this represents an annual shortfall of $2.273 billion for 2001-02.

If we are going to compare the amount of dollars coming in, we need to take into account the whole environment we are in. Unfortunately, we haven't seen that happen when the current government puts funding into education: the facts alone that transportation costs went through the roof last year, with increased gas prices, and trying to heat the facilities was virtually impossible with the dollars that are given.

Mr O'Toole: I apologize that I wasn't in, but I did catch it on television. I really do appreciate it.

We have heard from the education community in the two prior locations we've been to, and they've made a concerted effort. I think one of the biggest parts was the request for additional funding for special education. I know we certainly hear that in our area, and I'm sure most members do.

I put the question to you: is there anything the government can do to reduce what I've heard to be an extensive amount of red tape and regulatory stuff with respect to the ISA levels of funding? Is it more flexibility that's needed in the schools? Yesterday, one special education person in Windsor said they spend the first two months of the school year applying for ISA funding, filling out forms and doing all this kind of red tape stuff, and I wouldn't include that.

That being said, can you explain perhaps the anomaly that since ISA funding or special-ed funding was broken into two, the SEPPA and the ISA—it's clear ISA is problematic for some reason; experts, psychologists and all this stuff doing all this work, defining criteria. Yet the actual number of people applying has in excess of doubled. In other words, the number of special education applications is doubling. Is it because there's more money there, if it can be identified? Perhaps you could explain the red tape and the reason why the IPRC is actually doubling.

By way of background, my sister, who has retired in the last couple of years, was a speech and language pathologist. I chaired a SEAC committee when I was a trustee for a couple of terms. It seems like there's a whole new pot of money there. Should there be more flexibility in the classroom or in the school or the board? I'll just give you some time to respond to that.

Ms Benedict: Thank you, Mr O'Toole. In response to the first part about the red tape, I hesitate to bring this up because on a number of occasions I have talked with Minister Ecker and her predecessors about the red tape that schools need to go through to identify a child in order to get funding. While I do support that we need proper identification of children so that we can put the appropriate programs in place for those children, after our discussions she said she had heard that from other teachers in the field and she'd look into it. What happened then was that the red tape increased. There was more paperwork. So I hesitate to bring that up. I don't believe we are really meeting the needs of the kids soon enough.

Also tied to that is the fact that you mentioned identification of children. What we've seen is a reduction in the number of paraprofessionals, if I can use that term for speech pathologists, psychologists, those types of people who used to be employed by school boards who could assist with identification. What we find now is that if parents have the money, they can go to private institutions, have their child identified and cut through the red tape, if you will. Unfortunately, many of our students—most of our students—are not able to do that.

To go to the last part of your question about the number of students who are on the waiting list or applying for it, I wouldn't put words in your mouth, but I think I heard underneath that there was an indication that perhaps the money is there and we're finding kids. We don't have to go looking for special-education-needs kids. They've been in our classrooms for years. What we're finding is that the needs of those children are far greater now than ever before for a variety of reasons, and some of it comes from the cuts to social services. We talk about early identification in early years. To try to find quality daycare for students that people can afford is virtually impossible, and also to find other kinds of early stimulation types of programs for young mothers with children. There's a multitude of reasons here. So I really don't believe it's because there's any magic pot of money, because we know how hard it is to get to the pot of money.

Mr Phillips: Thank you for the presentation. One of the enormous challenges in this area is that there is so much opportunity to hide behind formulas and jargon and funding formulas—Mr O'Toole's comments were sort of a series of things. I think the public really doesn't quite understand the language you were using around special education. It's not a criticism; it's just that we get into language. My point is that when there's that much confusion, it seems to me the government can essentially do what it wants. I think the challenge for us in the opposition has been that they can hide behind the funding formulas. I think you've got a very solid case, and I think the facts very much support you. But it's a challenge to communicate that to the public, particularly, I might add, because so many of the public now are non-parents or at least they don't have children in the school system.

Has your organization thought about any way that almost an independent body can look at this? Have you ever thought of saying, "Listen, you've heard from our side, you've heard from the government side. Let's get some respected body to take a look at the facts and present them to the public in a way that would be accepted by all sides"?

1440

Ms Benedict: If I can, I will use the example that actually came from the government initiative, Mr Phillips, about early childhood and how important that is, and the report that Dr Fraser Mustard put forward. I remember being at that press conference. The Premier was there, talking about the importance of young children. We know that within that document were an incredible number of sound recommendations that would make a difference. It didn't come from an independent body, it came from one that was generated by the government itself, yet the will has never been there to take those recommendations and put them into practice. So to go to an outside body—the will has to be where the power lies, and we haven't seen that yet.

Mr Phillips: Good comment.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

INCOME SECURITY LEGAL CLINIC

The Chair: Our next presentation this afternoon is from the Income Security Legal Clinic. I would ask the presenter or presenters to please come forward. Could you state your name for the record, please. On behalf of the committee, welcome. You have 20 minutes for your presentation.

Mr John Fraser: My name is John Fraser, and I'm here today with Candice Beale. We're going to be raising some concerns we have about the inadequate shelter allowance levels for people receiving social assistance in Ontario. I'm going to speak briefly first and then hand it over to Candice to take over from me.

The Income Security Legal Clinic is a test case and law reform legal clinic that works with and on behalf of low-income people in communities across Ontario to address issues of poverty and income security.

Over the past six years, people receiving social assistance in Ontario have seen their meagre housing options virtually disappear. Social housing programs have been scrapped, new landlord-tenant legislation has been enacted which significantly erodes tenant rights, private market rents for vacant units have been deregulated and, most devastatingly, social assistance rates have been cut by almost 22%. For individuals and families relying on social assistance, finding and keeping good, affordable housing is next to impossible.

Under Ontario Works and the Ontario disability support program, financial assistance is provided in two parts: a shelter allowance to cover housing costs and a basic allowance to cover food, clothing and other necessities. Currently, these benefits are completely out of line with real-life costs. Shelter allowances in particular are far removed from the actual housing costs that people pay when they're looking for a place to live.

In the past six years, we've seen rents in many cities across Ontario jump dramatically. In most large urban centres, the increases have been greater—often significantly greater—than inflation. For example, the average monthly rent for a two-bedroom apartment in Toronto, according to Canada Mortgage and Housing Corp statistics, is currently $1,027 per month, almost 30% higher than it was in 1995. In Ottawa, the average rent is $914, or 23% higher than in 1995; in Hamilton it is $740, or 21% higher; and in Kitchener it is $722 per month, or 17% higher than in 1995.

However, it's really important to realize that these CMHC average rents I'm giving you are calculated using rents for vacant and occupied apartments. Since occupied apartments tend to have significantly lower rents than vacant apartments of the same size, these CMHC average rents actually underestimate significantly the rents that a person looking for housing is actually going to find. Similarly, utilities are often not included when calculating average rents. So basically things are much worse than the CMHC statistics would have us believe.

Unlike these rents that have been jumping over the past five years, the maximum shelter allowance for a single parent with one child receiving Ontario Works has been stuck at a mere $511 per month since 1995. That's 50% less than the CMHC average rent for a two-bedroom apartment in Toronto, 44% less in Ottawa, 31% less in Hamilton and Windsor, and 29% less than the average rent for a two-bedroom apartment in Kitchener. For a family of two receiving benefits under the Ontario disability support program, the maximum shelter allowance of $652, while better than $511, is still far from adequate to cover actual housing costs.

Invariably, people living on social assistance, whether through Ontario Works or the Ontario disability support program, have to pay a huge proportion of their income to cover housing costs. Very little money is left over to pay for groceries, shoes, jackets for kids, bus passes and other necessities. When all income is considered, a single mother with one child receiving Ontario Works could be paying as much as 90% of her income on rent in Toronto, leaving her with less than $200 for everything else. It's safe to say that no one relying on social assistance in Ontario and living in a market-rent apartment is paying less than 50% of his or her income on rent.

Frequently, people receiving social assistance cannot even access apartments at or below average rent levels. Landlords renting relatively affordable apartments regularly turn away prospective tenants who are in receipt of social assistance. Often the reasons are blatantly discriminatory. Landlords will say, "We don't rent to people on social assistance." In other cases, landlords use illegal minimum income requirements to screen out tenants on social assistance. As a result, these renters are, in many cases, forced into overpriced accommodation because they have no other choices.

Because of inadequate shelter allowance levels, thousands of families in Ontario are forced to effectively choose between paying the rent or feeding their kids. Too often, people cannot maintain the balancing act and fall into homelessness. Families with children represent one of the fastest-growing groups of shelter users in Toronto. In 1999, 6,200 children stayed in Toronto's shelters. These families are forced into shelters for one reason: they cannot find and keep apartments they can afford. It costs almost $3,000 a month to house a two-person family in one of Toronto's shelters. That would be a very luxurious two-bedroom apartment. So besides being cruel, the current inadequate shelter allowance levels just do not make sense.

Over the past few years, there have been increasing calls for a raise in the shelter allowance levels. Among others, the Federation of Canadian Municipalities, the United Way, the mayor's Homelessness Action Task Force in Toronto, the city of Ottawa and, significantly, the chief coroner's jury looking into the death of Gillian Hadley have all recommended raising the levels.

We urge the government to look at these issues, to consider these issues and raise shelter allowance levels so that they are adequate to cover average rents in Ontario. Specifically, we recommend that the province raise levels so they are in line with the CMHC average rents in different communities across Ontario. It's about time that shelter allowances do what they were supposed to do, what they were intended to do, and actually cover housing costs.

Candice, I'll pass it on to you.

Ms Candice Beale: My name is Candice. I'm a single mother of two children. We live in market housing, meaning we do not receive a rent subsidy, and we receive social assistance.

"Pay the rent or feed the kids?" is a question people have been asking over the last few weeks. That's quite the dilemma. I'm sure many people feel the situation is being exaggerated, but I assure you that's not the case. Every day hundreds of families have to make that choice.

When I was asked to tell my story, I thought, "Well, at least I can feed my kids. Paying the rent is almost impossible, but my kids are OK." When I thought about it some more, I realized that's not really true—far from it. We run out of things quite often, things like milk, juice or bread. I give the kids vitamins to make up for whatever their diet might lack and then we run out of those too. Sometimes it can be over a week before I can get more. I realize the kids don't get the variety of foods that other kids enjoy. They almost never get their favourite foods. We have to choose foods that have the highest nutritional content and cost the least instead of foods that are interesting or taste good. Other kids I know are allowed to go to the fridge whenever they want to, eat as much as they want and drink juice by the gallon. Not my kids. My kids get carefully planned meals at specific times designed to maximize the nutrition they receive. There are no extra trips to the fridge.

Even with all this care, paying the rent is a monthly challenge. I am late with the rent every month. I used to pride myself on paying the rent on time and in full. That just isn't possible any more, no matter how I rearrange my finances.

1450

There are no extras left to cut out of my budget. We already have no money left for clothes, entertainment, school fees or transportation. We don't buy anything that isn't food, except soap, shampoo or other cleaning supplies. We can hardly cut those out of my budget.

You, the provincial government, simply don't acknowledge that my rent is $200 more than my shelter allowance, and I'm lucky enough to pay lower rent than average. Most people who are living in market housing are paying significantly higher rents than I am, over $200 more. You, the government, don't seem to care that my family and hundreds like mine are only days away from homelessness. My landlord can evict me any time he chooses for paying my rent late every month, and there would be no way for me to fight it.

It's only going to get worse for my family and others like mine as rents rise higher and inflation eats up our food money. I can't understand the reasoning behind denying people an adequate shelter allowance. The cost of keeping a family in a shelter is much higher than independently housing them, and the damage done to these families will ultimately result in higher long-term financial consequences in terms of health care costs, extra supports for school children and family counselling, to name a few. It makes no financial sense.

In addition, families in shelters have to focus all their energy on finding housing. They can't search for a job, volunteer or get involved in their communities. This benefits no one. The threat of homelessness is terrifying. Living under this constant threat causes such high levels of anxiety that some days it's hard to get out of bed, the fear and depression are so overwhelming. I don't know how much longer my family can hang on.

I don't think people realize how easy it is to become impoverished. Most people are much closer to poverty than they realize. Sometimes it happens overnight when a catastrophe strikes. Sometimes it can take a long time. Maybe you start carrying a balance on the credit card you used to pay in full every month. Maybe you don't pay the phone bill this month and pay twice next month. Pretty soon you're juggling your money and not paying some bills at all. Things that break don't get fixed as quickly as they used to, and you start convincing yourself that the old one will last a little while longer and it's still in good shape, just worn a little around the edges. That's how poverty can start.

What I want people to realize is that this is your safety net too. What will happen to you and your family if you ever have to make use of it? Could your family survive? Could you pay the rent and feed the kids?

You have the right to be secure in times of trouble. It's up to the public to make sure the policies that are put in place to protect everyone are adequate. People need to feel secure in the knowledge that the things they need will be accessible, things like food and shelter. We need to demand that you, the government, provide an adequate shelter allowance that reflects the actual shelter costs people have to pay.

We all deserve to feel safe. People living in poverty contribute to their community like everyone else. If you want our children to take up that torch and contribute as well, they need the solid foundation that secure housing, adequate nutrition and a stable environment provide. We can't provide that foundation if we continue to have to make the choice between paying the rent and feeding the kids.

Finally, please don't tell me that social assistance rates in Ontario are 10% higher than everywhere else. We all know that the cost of living here is higher as well.

Don't tell me about your wonderful programs like Success By 6. What good is a program like that going to do for a child who is homeless? That child needs a home, not a program. I also don't want to hear about the homelessness initiatives, which are basically building shelters. I want you to make it possible for people to stay out of shelters in the first place. I don't want to hear any more of your political rhetoric, and I don't want to hear about any more of your grand schemes to help the poor. I've heard them all before. The reality is that more people are ending up in shelters every year. The measures you've taken so far aren't working.

So here's a radical idea. How about just giving people enough money to pay the rent? Then we can all live in our own homes, feed our kids and get on with the business of being productive citizens. I recommend that the maximum shelter allowance for social assistance be tied to the average rent according to the figures compiled by the Canada Mortgage and Housing Corp. Thank you.

The Chair: Thank you very much. We have one minute per caucus, and I'll start with the government side.

Mr Galt: Just looking at how you calculated average rent, I notice you listed the big centres and not small-town Ontario or some of the other areas where the vacancy rate is pretty high. I think you would find a very different kind of figure if you were going out to some of those. I was just wondering why you picked large centres only to calculate the rental rates.

Mr Fraser: We picked these particular centres to get a certain representativeness across the province. But where you see the most dramatic increases is definitely in the larger centres. I would not say it's necessarily any more affordable in smaller centres. In a smaller centre such as Sault Ste Marie you may not see the dramatic rent increases you will see in Ottawa or Toronto, but you still experience affordability problems. That's why we said that what we need to do in setting shelter allowances is look at what people are paying in those communities and set the shelter allowances accordingly. If there are communities where the rents are significantly lower, then you adjust the shelter allowance accordingly.

Mr Ramsay: Thank you very much for your presentation. I think we all judge societies and governments on how they treat their most vulnerable people. When the report card is done on this government, it's going to get a failing grade for sure. More than that, as you know, the tendency of this government and its representatives, almost on a daily basis, is that they like to pick on poor people and the homeless. What makes me angry is that right now we are going through a phase of rampant corporate theft in North America, whether it be Enron or a very famous Ontario software company owner in Ottawa who has been charged by the securities commission here, and I don't hear anybody in this government saying this is a terrible crime. For some reason in Ontario it's a crime to be poor and a crime to be homeless.

I think it's time that all of us in society understand that we are not doing well, none of us is doing well, if there's any group in society that's not doing well. We've all got to be rolling up our sleeves, all of us around here, and making sure that the most vulnerable people in our society are helped.

I thank you for coming forward today and bringing forward your submission. I say to you that the permanent member of this committee, Gerry Phillips, and all the Liberal caucus will be working very hard on your behalf.

Mr Christopherson: Thank you for your presentation. One minute is not a lot of time to deal with an issue that has as many different pieces and such implications for families. But I note that again we mentioned to this government that the income of the poorest of the poor was cut by 22% in 1995. Certainly if you take a look at what has happened to the well off in this province, the privileged, it's quite the opposite: they have received enormous tax breaks and benefits. The poorest of the poor are left with a 22% cut, and that's going on seven years ago now. In addition, I think we have to add in inflation, and then if you add to that the cost of heat and hydro, you just wonder how much worse it can really get, how much strain and how much poverty can they push the least fortunate Ontarians into before something gives. You can comment on that, if you will.

I have one specific question. I want to give you an opportunity to tell me what you think about the finance minister's bright idea—he's had this tour going around; it's called "Bright Ideas." His latest bright idea in terms of dealing with homelessness is that he's just going to wave a magic legislative wand and outlaw it. It will be against the law to be homeless, and then, I guess, it will all just disappear. I wonder what your thoughts are on this idea of a would-be Premier who just wants to outlaw homelessness.

Ms Beale: Maybe we all go live at his house, and then there won't be any homelessness. How does he think that's going to work? People are homeless—that's a fact—and unless you give them someplace to live, they will remain homeless. That's not going to change.

Mr Christopherson: Well said.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

GREATER TORONTO HOTEL ASSOCIATION

The Chair: The next presentation will be from the Greater Toronto Hotel Association. I would ask the presenter to please come forward and state your name for the record. On behalf of the committee, welcome. You have 20 minutes.

Mr Rod Seiling: My name is Rod Seiling, and I'm President of the Greater Toronto Hotel Association. I want to thank you for the opportunity to appear before you today.

The GTHA represents about 140 hotels in the GTA. Our members generate over 32,000 jobs and represent over $1.6 billion in GDP. Total tax revenues generated for all levels of government by our members' activities represent about $579 million annually. As such, we comprise an important component of Ontario's tourism industry, which generates $13.1 billion in revenue. This represents about $7.4 billion to the province's GDP, a large percentage of it being "export." Almost one out of every seven businesses provides tourism products and services to visitors. Those businesses support 250,000 direct jobs and another 170,000 indirect jobs province-wide. These jobs represent 9% of Ontario's total employment.

1500

I want to limit my discussions today to two issues: property tax and destination marketing. I also want to remind you of the double whammy our industry has received as a result of the recession and the events flowing from 9-11.

Property tax: the Assessment Act is quite specific in that it limits assessment and taxation to land and improvements to the land. The act does not contemplate the valuation of tangible personal property, intangibles or business value. Unfortunately, assessors in Ontario believe that the deduction of a management fee removes the entire business component. This assumption is wrong. Assessors have also argued that hotel cap rates are higher than other cap rates to reflect the business risk and to thus remove the risk. The higher cap rate does remove a portion of the risk, but the problem is that assessors in the past have used the lowest possible cap rates based on a number of unique sales. Hotel cap rates should be 20% to 30% higher than office cap rates.

Assessment policy in the past has focused on equity within the class; that is, if they are all over-assessed, there is no need to change the assessment. This policy captures business value which does not form part of the real property as authorized by the Assessment Act.

Separating out business value can be and is being done. Jurisdictions are now recognizing this fact. There is now available case law that validates this statement.

The industry has submitted a proposal developed by experts in hotel valuation as to how to extract business value from the assessment methodology. It is our understanding that it was validated by an independent ministry study. We urge you to recommend positive action in this area. The continuance of the current assessment methodology has turned it into a form of income tax. As hotel revenues rise, so too does the assessed value. This is totally contrary to the Assessment Act.

We would also like to draw to your attention the abuse by Toronto and other municipalities of the so-called clawback tool. It was introduced as a short-term mitigation measure and is now being used to effectively preclude taxpayers from receiving tax fairness.

We would also like to raise a concern about the upcoming reassessment. The current date for valuation is set for June 30, 2001. The events of September 11, 2001, have had a dramatic impact on hotel values. Hotels, I would suggest, are an anomaly. We ask that some consideration be given in the valuation process as values are forecast to take years to recover.

Finally, we want to support the continuation of the hard caps as set out in Bill 140. The rationale for the hard cap was good public policy at that time, and it still is good public policy for its continuance.

Business property taxes in Toronto are five times those of the surrounding areas. A recent KPMG study ranked Toronto 54th out of 55 major cities in terms of taxes. Only New York City fared worse. With numbers such as these, it is not surprising that we cannot get a major new hotel built in Toronto despite the well-accepted need.

Destination marketing: tourism is not a frill, it is an economic engine. Up to the recession, it was creating jobs faster than any other sector of the economy. Ontario's 100 million visitors in 2000 spent over $13.1 billion annually.

The good news is that tourism, pre 9-11, was the world's fastest-growing industry and that Canada's market share was growing. The bad news is that Ontario was losing market share in that growth market. If Ontario had held its traditional market share since 1996 to 2001, it would have received an additional 1.6 million visitors who would have spent another $1 billion. This would have resulted in another 25,000 new jobs and Ontario would have received approximately another $150 million in tax revenues.

Quebec and British Columbia, Ontario's two primary competitors for Canadian tourism, experienced increases in market share. The key difference between Ontario and its competitors is not price and is not product; it is destination promotion. Ontario is underperforming. Despite strong economic incentives and a weak Canadian dollar, Ontario tourism continues to drop. Border crossing statistics, for example, are a cause for concern. In 2000, border crossings from the US to Canada were down by 0.4%; entry by auto was down 1.6%; entry by air was up 1.5%. Border crossings in Ontario dropped 3.1%. Border crossings into Quebec were up 3.9% and border crossings into BC were up 1.4%.

Overseas travel to Canada set a record in 2000, increasing by 4.9%. As Canada's major gateway, Ontario benefited by 7.1%. However, that figure is misleading, given that many of the people entered through Pearson International Airport and subsequently left Ontario.

International customers—which are higher-yield—are the targets of most of the industry. Here again, Ontario is losing ground. Since 1998, Quebec grew its share from 12.8% to 13.9%, and BC held its share despite the economic collapse of its major market, Japan. Ontario fell from 50.6% to 48.2%.

Hotel occupancy is a good barometer of tourism. In 2000, occupancy dropped 2.4% to 67.4% from the previous year. While the provincial number is not available yet for 2001, I can tell you it will be down again. In the GTA, which represents a significant portion of the industry, occupancy for 2001 was down over 3% to 67.18%. This ongoing scenario has serious negative impacts on the accommodation industry. Hotel operations and development have significant long-term economic implications, including creating thousands of jobs.

Return on investment had improved, but with the advent of the recession, combined with the impacts of September 11, it has dropped substantially. Creating demand to improve profitability is crucial to making hotels an attractive investment again. This applies to all other business sectors that make up the tourism industry. Otherwise, owners' equity will become more at risk, and with that comes the loss of more jobs and investment.

Toronto's underperformance is a real concern, given its negative impact on other Ontario centres. Greater volume in Toronto drives overflow to other centres. As well, it serves as the benchmark for the industry economically.

Destination marketing is an investment, not a cost. There are numerous studies on various markets that demonstrate the correlation between destination marketing and tourism growth. Insufficient marketing has also been shown to negatively impact tourism. Colorado, for example, decided to cut its advertising budget to zero. That decision contributed to an annual $2-billion loss in tourism expenditures.

The ability to leverage is now key. Quebec and BC have had substantial marketing programs in effect for a number of years. In Ontario, the Ontario Tourism Marketing Partnership and the government public-private sector partnership are now in the game.

The provincial programs are based on the principle of matching. That is, the local funds that are put up for marketing are then matched by the province and then are used jointly to match with the national Canadian Tourism Commission program. Both Quebec and BC have passed enabling legislation that allows the industry to raise substantial monies. It is those funds that begin the leverage process.

In Ontario, no such mechanism is in place. With no money, our destination marketing organizations can't spend to generate demand. The provincial funds don't have partners, so they cannot lever the national funds that should be going to market Ontario. Quebec and BC are able to get larger shares of the national funding because they take more funds to the bargaining table than does Ontario.

Government resources are available. The government of Ontario has recognized, as have all the other provinces and the federal government, the value of destination marketing. The OTMP has an annual budget of $34 million; the federal government, through the CTC, has a $75-million budget on an annual basis.

The challenge for Ontario is to identify a means for a stable source of funding at the local level. It would facilitate the creation of marketing programs that could be levered at both the provincial and national levels. In virtually every instance where such a program has been instituted and the funds not allowed to be utilized for other purposes, tourism demand has been substantially increased. The result is more investment, more jobs and more tax dollars.

We are proposing to address Ontario's loss of market share and to offset the ongoing impacts of 9-11 with the introduction of enabling legislation that would give the industry the option to apply a destination marketing fee on hotel room sales at the request of the local accommodation industry; 100% of the funds raised would be dedicated to destination marketing. We have sought and received legal advice that it is not a tax. It is voluntary for the industry and could only be implemented by a democratic vote. The alternative is for the province to substantially increase its tourism marketing funding via its own tax base. Without more funding to match our competition's ability to fund its respective marketing programs, Ontario will continue to lose more visitors, jobs and tax revenues. As well, owners' equities will also decline.

Everything is in place except a stable funding mechanism at the local level for Ontario to improve its tourism performance. The OTMP has been formed to mirror the CTC; there is increased provincial and federal funding; some $300 million is targeted by SuperBuild for tourism, sports and culture; and strong partnerships exist among tourism agencies across the province.

A destination marketing fee would boost Ontario's tourism industry and, by extension, its accommodation industry. Our owners support it, as they see it as the only means to increased occupancies, which in turn will generate higher room revenues, thus improving their equity through better returns on investment.

The DMF would also improve Ontario's tourism industry and the 400,000-plus people who depend on it. It will allow the industry to engage in destination marketing on a planned and timely basis, helping to raise awareness of Ontario as a must-see destination and thus encouraging visitors and improving our competitiveness in the global marketplace.

The Chair: Thank you very much. We have approximately three minutes per caucus, and I'll start with the official opposition.

Mr Phillips: On the property tax issue, it's now the—what do they call it now? They took the word "Ontario" out of it.

Mr Seiling: MPAC.

Mr Phillips: Yes. It used to be "Ontario," but I guess there were too many complaints so they changed the name to "Municipal."

Have you approached that body with your concern?

1510

Mr Seiling: We have, and we have argued this case with its predecessors and have gotten nowhere, and I make reference to that in my presentation, that they consider the deduction of the management fee adequate. It's well accepted, it's in the new assessment manual and so on and so forth, but it does not address business value fairly. What happens is that as our revenues increase, so does our property tax. In fact, we have documentation. We created some mythical hotels and looked at what we thought the property tax would be. We did this three years ago. It was by coincidence, but the percentage increase in revenue almost equated out to the percentage rise in assessed value.

Mr Phillips: What does it require? As I listen to you, it sounds to me like, in your opinion, they are contravening the Assessment Act.

Mr Seiling: In essence, they are, yes; they have been for eons. All that's required is that the minister has the power through regulation to make the change.

Mr Phillips: What has the minister told you so far?

Mr Seiling: We are awaiting results. The Chair of this committee actually has a study ongoing, and we're hopeful for something. But we thought we would take the insurance policy of coming to this committee as well.

Interjection.

Mr Phillips: I don't want to get involved in your politics here.

On the destination marketing, one would have speculated, because there has been no increase in hotels and because of the value of the Canadian dollar, that the Toronto hotels would be doing quite well. I'm kind of surprised that we haven't—I realize September 11 has thrown a bit of a damper on things, but I would have thought the future would have been quite optimistic.

Mr Seiling: In absolute terms, we have seen an increase in numbers, up until a certain point, and we're seeing that decrease largely because we've had a very strong convention business, which changes. Last year we had an abnormally poor convention year, where we only had about six or seven city-wides. This year it returns to more traditional levels of 14. That kind of masked the problem that we've had, and our leisure business has been dropping substantially.

The problem I'm trying to convey, because the majority of our business, while it only represents 30% to 40% of total visitors in terms of revenue—international is about 70% of revenue, and 62% of all our visitors now are out-of-country. They don't understand the difference in the dollar. Most Americans think a dollar is a dollar is a dollar, and it's very hard to convey, but as well, virtually every state in the US has identified tourism as a means to grow their economy and they have put tremendous resources into that, and simply we are now being outspent dramatically. The strong business growth we've enjoyed here, up until the past few years, comes as a result of us at one time being competitive in that marketplace. Our destination marketing budgets were competitive. The budget for tourism in Toronto, as we speak, is $8 million. Discretionary spending is only about $300,000. You can't do one campaign well, and that's to do the whole year.

Mr Phillips: Is it a problem, Rod, of—

The Chair: Thank you, Mr Phillips. I have to go to Mr Christopherson.

Mr Seiling: It is a problem of funding.

Mr Christopherson: That's exactly where I was planning to pick up anyway. The destination marketing fee—a couple of things. If I understand correctly, when they go to the negotiating table to leverage federal funds without having a larger component from a partnership in Ontario, we're missing out on federal funds that we could otherwise access. Our two major competitors, BC and Quebec, are indeed doing that. This is, in part, why they are doing so well in terms of competing with us.

The other thing, if I'm understanding this correctly, is that it's not a tax legally. I'm not so concerned about whether it's called a tax or not; that would matter a lot to the government, what it's called. What I'm gathering is that it's voluntary. It's a fee that your members would apply, that a hotel would apply to their own bill. Since it's being done internally, within the industry, and there's good competition within the industry, there has to be a piece of this I'm missing. I don't understand why the government wouldn't give you enabling legislation saying, "Fine, if you want to do that, it's your money. You may drive away customers. You have to learn to offset this in a competitive marketplace."

I don't understand. Maybe what I need to know is, first, how much the government regulates these things and to what degree; and second, what political rationale the government is giving for not saying to you, "Yes, go ahead if you want. It's your money, it's your business."

Mr Seiling: First off, the process, the matching, actually starts at the local level. You take the funds at the local level, match them at the provincial and then go to the federal. So if you can't start at the local level, you never get to the provincial or federal. That's why the other two provinces take a disproportionate amount of the federal money. Ontario simply doesn't have the programs to match with the federal program.

On the second part of your question, this is a proposal we're making to the government. We're hoping their ears are open. It is a serious issue. Virtually every competing jurisdiction raises their funds this way, and that's why we are asking for this ability. While we would like to see it come in a grant form—that would be Nirvana—we don't believe that is fiscally responsible or possible.

Mr Christopherson: No, that's why I appreciate—

Mr Seiling: But it's a solution that we've said we need to do ourselves. The owners would prefer not to have to do this. The alternative is to watch the equity decrease more. It's ironic that a number of years ago owners were virtually unanimously opposed to this. Now it has switched around almost 100% the other way. They recognize that the only way they're going to see their business improve and attract more visitors, which will then eventually filter down to improve their equity, is to increase demand.

Mr Christopherson: Why do you need enabling legislation? What's the regulatory restriction?

Mr Seiling: The reason we need enabling legislation is because, if you're going to do something like this, you need to have compliance across the board. You can't have free riders, because you are increasing the costs.

Mr Christopherson: So it's not really enabling; it would be more mandating, wouldn't it?

Mr Seiling: The enabling part is that it allows the industry to make the decision whether they want to do it within a jurisdiction.

Mr Christopherson: But then it becomes mandatory.

Mr Seiling: We don't believe it has to be province-wide. There are areas in the province that don't need it, but there are areas such as Toronto, Niagara Falls and Ottawa, the destinations which are points of entry, where we are at a competitive disadvantage right now because we compete with jurisdictions that have this funding available to them.

Mr Christopherson: Is there any obvious reason why the government would say no?

The Chair: I have to go on the other side now. Mr Hardeman.

Mr Hardeman: Thank you very much, Mr Seiling, for your presentation. I want to go back to Mr Phillips's comment just for a minute about the way that hotels are assessed. As was mentioned, the Chair of the committee is working on a project to try to deal with some of the processes. But as I read your presentation, in fact the hotels are assessed based on their ability to generate revenue in the rooms they rent out. Is that not similar to or exactly the same as you would assess an apartment building, based on the rent that you can generate from it? Is that also not how a purchaser would look at the hotel if they were buying it, to say, "How much can I afford to pay, based on what kind of a return I can expect from the rooms to pay for it?"

Mr Seiling: No, there are substantial differences. If you own an apartment building or you own commercial space, you're allowed to deduct for vacancies. If you want to give us a system that allows us to deduct for vacant rooms, we'd be very happy to take it. Unfortunately, we don't get that ability.

We are assessed on an income approach. There are three ways you can assess. You can assess on replacement value, sales or income approach. Most jurisdictions assess on income approach. We're not arguing that. All we're saying is that the methodology for assessment has to be tweaked to reflect what the act says. The act says that valuation is supposed to be based on the land and the value of any structure you've got on that land.

The best example I can give you is, if you took two doughnut shops and you put them at the same corners in this city, and you called one Tim Hortons and the other Tim's Doughnuts, we know which one will do better business. If they were hotels, the Tim Hortons location would have substantially higher assessed value because of the income that it generates.

All we're saying is, whether it's management, whether it is the brand, those are tangible or intangible factors that should and can be taken out of the assessed value methodology, and it's being done in other jurisdictions. We're saying, do it here.

The Chair: Mr Hardeman, I have to bring it to an end as we've run out of time. You're right on the minute. On behalf of the committee, thank you very much for your presentation this afternoon.

Mr Seiling: Thank you for the time.

1520

ONTARIO PUBLIC SCHOOL BOARDS' ASSOCIATION

The Vice-Chair: Our next delegation is the Ontario Public School Boards' Association. Twenty minutes have been set aside for your presentation. What is not used in your natural presentation will be divided between the three caucuses afterwards. Please, as you begin, state your names for Hansard.

Ms Gerri Gershon: My name is Gerri Gershon. I'm vice-president of the Ontario Public School Boards' Association. With me today are Rick Johnson, who is second vice-president of our association, and Carla Kisko, who is the superintendent of business for the Halton District School Board.

Thank you for inviting us to speak this afternoon. We have distributed our pre-budget paper to you to read. As time is sensitive, we will be referring to it but not reading from it.

The Ontario Public School Boards' Association represents the interests of more than 1.5 million elementary and secondary students, public district school boards and school authorities from across Ontario. Our job is to provide every individual with equal access to educational opportunities regardless of gender, race, religion, ethnicity, ability and place of residence, in English or in French.

It has been five years since the province revised the education funding formula and it has been a tumultuous five years. We are here to tell you that the dollars in the formula are quite simply inadequate, and why.

The benchmarks in the funding formula, which determine the per pupil amount in each category, are based on costs determined in 1997. It is now 2002, five years later. Much has chanced. The funding benchmarks must be adjusted to cover the current costs.

In an unprecedented move, directors of education from all 72 district school boards—public, Catholic, French and English—have written to the Minister of Education expressing their concern at the severity of the funding situation. We have worked co-operatively with our senior staff, both directors and superintendents, to quantify some of the funding shortfalls which we will present to you today.

Our analysis is based on the exact figures that the district school boards are required to submit to the Ministry of Education when reporting their budgeting and spending practices. We compared the actual 2002 costs of running the system versus the 1997 costs, on which the funding benchmarks are based. The result: a conservative $1.1-billion shortfall in key operating areas. This funding shortfall is for all publicly funded school boards: public, Catholic, French and English.

In addition, there is a $1.4-billion annual backlog in renovation repairs of existing schools. This figure was identified by education minister Janet Ecker in a report to caucus in August 2001, where she reported a shortfall in this area of $6.8 billion over the next five years. In total, the real shortfall is approximately $2.5 billion per year.

The OPSBA paper we distributed details how the $1.1-billion shortfall is broken down. We encourage you to take time to read the document in its entirety as it will impact every school in the province. In the interests of time, I will present some highlights for you here.

Human resources: not surprisingly, in a labour-intensive knowledge industry like education, a school system's greatest investment is in its human resources. Presently, we predict a shortfall of $589 million in this area. If this issue is not adequately addressed, our new, highly trained teachers will continue to accept positions in the United States and abroad, where they can attain signing bonuses, interest-free mortgages, cars and other incentives.

Technology: I personally continue to be astounded at the pace of technological change. Using five-year-old benchmarks to fund technologies in our schools is a significant problem. The level of funding for technology is woefully inadequate for the province that should be on the leading edge of using classroom technology to improve student learning. In order to keep equipment up to date and provide adequate services, our analysis demonstrates that an additional $200 million is required in this area.

Textbooks and learning material: we calculate a funding shortfall of $50 million for textbooks and learning materials. The new curriculum has placed a greater demand on boards for new textbooks, yet the grant in this area was reduced by 50% in 2001-02. As a result, boards are becoming dependent on local fundraising for core classroom materials.

Transportation: transportation is another area of chronic underfunding. While boards appreciate the funding top-ups received the last two years, we are still no closer to a workable transportation funding model. The initial budget estimates for 2001-02 showed 62 of the 72 boards with a total transportation deficit of $57.3 million. This shortfall merely addresses increased 2002 fuel costs and aging bus fleets. It does not begin to address service improvements.

Special education: funding has been a continuing challenge for district school boards. Our analysis demonstrates that $84 million has been diverted from other programs to address underfunding in special education. This figure only addresses current spending and does not allow boards to replace programs or services that have already been cut, nor does it allow for improved services.

Professional development: with appropriate professional development, the full implementation of new program initiatives will not reach its maximum potential. New curriculum, coupled with additional initiatives such as safe school requirements and revised performance appraisal procedures, needs financial support for staff professional development if their successful implementation is to be realized. Our analysis estimates that an additional $70.5 million is required in professional development.

There are other pressures on school board budgets as well which we have laid out in our document. Declining enrolment, for example, will be a significant problem in education funding because grants are generated by student enrolment. Whether a class has 15 students or 25 students, most costs are fixed. That is to say, you need a teacher, a classroom, a bus to get there, heat to keep the kids warm etc.

The truth of the matter is that we are in a downward spiral. In the first year of the funding model—I think we've got a chart to show you—12 of the 32 public district school boards had operating surpluses and only three had deficits. By the end of last year, 11 public district school boards were in a deficit and only two had surpluses. We estimate that by the end of the current budget year at least half of the public district school boards will be in a deficit.

Our only source of revenue is the provincial government. We are very concerned that the grants this year will not be sufficient to meet contractual or legal obligations.

Not only are the boards legally required to balance our budgets, there are legal obligations regarding class size, workload requirements, special education, Labour Relations Act requirements, Employment Standards Act requirements, pay equity, occupational and safety requirements, building code requirements and federal statutory obligations, and that's only a partial list.

1530

The school boards' question to the provincial government is quickly becoming, "Which law would you like us to break?" I repeat, we calculate the shortfall between school board revenue and legitimate expenditures to be a conservative $1.1 billion annually for all provincial district school boards. At this point, a funding cut, stable funding or a freeze, whatever you want to call it, or even a minimal increase in per pupil revenue is unworkable. If the provincial government fails to provide a significant cash infusion for public education, public district school hoards will clearly be faced with a choice between gutting student programs or running a deficit. Running a deficit is illegal, but there is no place left to cut that won't damage the quality of education offered. Ontario students will be in significantly underfunded schools, with minimum optional programs and insufficient staff support. Funding education at 1997 costs is impossible; 1997 dollars simply won't buy 2002 goods, services or student programs.

The Ministry of Education's business plan states that its vision is to offer Ontario students the best education in Canada and that Ontario students will have access to top-quality education. We cannot be clear enough: unless significant investment is made in Ontario's public school system, the ministry's vision will not be met. Thank you.

The Vice-Chair: Thank you very much. We have approximately two minutes per caucus, beginning with the NDP.

Mr Christopherson: Thank you for your presentation. I guess if the government has been successful at anything, it's been the implementation of the Snobelen doctrine. They wanted to create a crisis to justify the changes and goodness knows they've sure created one heck of a crisis.

I've said it a lot and I'll say it again: good luck talking to the government backbenchers. They're not going to acknowledge that funding is a problem at all. I don't know where they'll go this time with their discussions with you, but I can all but guarantee you it won't be a pointed debate about whether or not you need the funding. It'll be something either off the point or a little obscure: process, paperwork, bureaucracy. It'll be something but it won't be the issue of funding.

We heard in Windsor and in Sault Ste Marie terms like "bankruptcy." You're talking about the fact that you're faced with a choice of breaking the law. You said you're going to have to run a deficit, not meet the obligation that you have—there was a third one. You had three choices.

Ms Gershon: Gut programs.

Mr Christopherson: Cut programs. That was it.

Ms Gershon: Not cut programs, gut programs.

Mr Christopherson: Gut programs, yes.

The Vice-Chair: You're running out of time. Put the question.

Mr Christopherson: I will.

In Hamilton we're facing exactly the same situation you've outlined here. I want to focus on special needs just for a bit because everybody has talked about that a lot. It would seem that if we take at face value what we're getting at these hearings, if we don't do something about special education, we've got a whole generation of young people who are not going to get the education they deserve, specifically those children who need assistance, but also the other children who are impacted in the classroom. That's the other point that's being hammered by the teachers, that this isn't just about those kids alone, and we're talking somewhere around 18% by some estimates, but it's the entire classroom. There are not enough supports to deal with a lot of behavioural problems and other things and it's disrupting classrooms and none of the children are learning to the same degree. Is that accurate or do you think that's a little over the top?

The Vice-Chair: You have about 15 seconds to respond. He's used two and a half minutes of his two minutes.

Ms Gershon: It's true that in many instances we're not able to meet the needs of the kids, but we are also borrowing from other budgets to try to provide it.

The Vice-Chair: Thank you very much. We'll move on to the government side.

Mr Hardeman: Thank you very much for your presentation. Contrary to the members across the aisle, we are going to talk about funding; at least, I'm going to ask about the funding.

I have here a document that was prepared by the legislative research people to talk about education funding. When I look at it, I see funding has gone up each and every year. I'm not trying to make a case that there is sufficient funding; I'm just making a case that each year it's gone up. When we look at the chart as to what is happening at the school boards, we seem to be going the wrong way in needs. What has been done in the meantime to deal with trying to match the two, trying to say, "This is how much money we've got; this is the type and amount of education we can provide for the money that's available"?

Not only has the individual grant gone up each year, we also have here a listing of all the special grants for students. There was one here for technology. There's a special grant that's just for that purpose and it's considerably higher than the amount of money that's suggested in your presentation for technology. I realize that money can be moved from one envelope to the other and I'm sure that's what's happened but, in total, when we put the whole package together, per student funding—not global funding—for in-the-classroom spending has gone up each and every year since this funding formula has gone into place. What hasn't gone up, of course, is the administrative funding. Have we been able to get the money into the classrooms that we need to get into the classrooms and not use it for other purposes?

Ms Gershon: I'm going to ask Carla Kisko to answer.

Ms Carla Kisko: You're speaking of funding increasing over the last five years, and there's no question it has, because you have per pupil funding in place. I want to recognize that per pupil funding means you're paying for the additional enrolment. Provincially, Enrolment has gone up by 4% over that same period of time.

Mr Hardeman: Mine wasn't on the total enrolment; it was based on per student.

Interjections.

Ms Kisko: Yes. Per student, though—can I continue with this, Mr Chair?

The Vice-Chair: Yes, 15 seconds.

Ms Kisko: I think a good contrast is that we have $97 per student and we're having to put in place programs and services in 2002. Inflation has grown at the rate of 8.4%. There are two components where there have been increases in funding to education. The 1.95% addressed some of the salary and wage indicators in the foundation grant, and there was a $100-per-pupil amount that was provided for local priorities last year. Those are the only two adjustments that were made to funding and that represents, in total, about 3.6%, compared to inflation of 8.4%. So that chart is showing the truth in terms of the financial reality of school boards. We're going the wrong way.

Mr Phillips: I have just a comment and then a question. I really believe that we don't look at education finances properly any longer. The province sets the property tax and they set it alone. I am strongly of the opinion that that revenue should be shown on the province's books—they have 100% responsibility for it—and total education should be on the province's books. You don't set the tax rate; nobody sets it but the province.

The minister said this morning that they've reduced education property taxes by over $1 billion, and I see the document he prepared for us shows property tax revenue actually going up, not going down. It's $5.707 billion, and last year it was $5.7 billion. It's up $300 million. Until we get on our books the real spending, we're all going to be dealing with fog on this thing.

I also believe, by the way, that school capital should be on the province's books. They gave us an answer today that the school boards now have another $1.6 billion of debt that they didn't have two years ago. In my opinion, you've got no source of revenue. It's all the provincial revenue. It's a shell game. It's hiding debt on your books.

The legislative library did prepare some good material for us that you should get showing there is quite a substantial shortfall in spending when you take into account enrolment increases and inflation, and that's essentially what you're saying to us today. How serious is this comment you make, "Which law do you think we should break?"

Ms Gershon: I think it's very serious. I don't think duly elected trustees want to break any laws, nor do we want to gut the programs for our kids. The question is, are we going to be able to meet our contractual obligations with our staff, are we going to be able to provide the special ed support that is needed for our kids, are we going to be able to have safe buildings and safe transportation systems? These are very costly issues that we have to fight with constantly.

The Vice-Chair: Thank you very much for your presentation. We appreciate your coming before the committee.

1540

ONTARIO COALITION FOR BETTER CHILD CARE

The Vice-Chair: Our next delegation is the Ontario Coalition for Better Child Care. There has been 20 minutes set aside for you. After your presentation, whatever is left will be divided between the three caucuses. Please, for Hansard, state your name as you begin.

Ms Mary-Anne Bédard: I'd like to thank the Chair and the committee for allowing me to present to you this morning. I'm Mary-Anne Bédard, the executive director of the Ontario Coalition for Better Child Care.

Child care has experienced a surge of international attention in recent years. Policy-makers around the world are recognizing that access to quality early childhood education and care can strengthen the foundations of lifelong learning. The term ECEC, early childhood education and care, refers to both the care component and the education component, and that is what I'd like to talk about today.

Considerable research now supports the view that if they are of high quality, ECEC services can meet a multitude of goals simultaneously. They can support and enhance a child's well-being, development and lifelong learning; they can support parents in education, training and employment, socially and personally; they can foster social solidarity and social cohesion; and they can provide equity for diverse groups in society.

Last year, a comprehensive 12-nation study came out, prepared by the influential OECD, the Organization for Economic Co-operation and Development—not the usual organization to bring out a study about early childhood education and care. But this economic organization, well respected worldwide, has recognized that early childhood education is an essential component in our economy today. They have identified eight key elements of public policy that need to be in place for early childhood education and care.

I'd like to spend my time today looking forward to where Ontario needs to be and I'd like to use these policy elements to examine what we have today.

The first element is a systemic and integrated approach to public policy development and implementation. In Ontario, the delivery of early childhood education and care is highly fragmented. Early childhood education, kindergarten, child care and family support services are all scattered across different government departments and programs. On any given day, young children and their families may participate in several of these programs and there is little coordination or integration among them.

The second element is strong and equal partnership with education. In Ontario, we do not have systems in place that blend these two functions. In fact, in the latter half of the 1990s, the relationship between child care and public education had become increasingly strained. A number of steps have been taken by the present Ontario government and have directly contributed to this situation.

The third step needed is a universal approach to access, with particular attention for children in need of special support. In Ontario there are almost two million children between the ages of zero and 12, of whom close to 70% have mothers in the paid workforce. At the same time, there are only 167,000 regulated child care spaces. This means there is space for less than 12% of the children who need care. This percentage worsens considerably when you're looking at infants, school-aged children, children who live in rural communities and children who have special needs.

Unlike health care, schools, police, emergency and ambulance, child care has never been considered an essential public service. Each child care centre is privately administered, usually by a non-profit board of directors, and at the provincial level, there is nobody responsible for ensuring that anyone's early childhood education needs are met.

The fourth policy framework is substantial public investment in services. In Ontario, we have declining levels of public investment that have seriously affected the accessibility of quality services. The Ontario government maintains that it's spending more for child care than any previous government. That is not true. An analysis of provincial allocations for regulated child care shows a reduction of almost $100 million, and this comes from the government's own policy papers. The annual child care expenditure has dropped by 15% as of 1998, which is the most recent number we can get hold of.

Child care is a fee-for-service system, and most parents cannot afford the fee. According to our calculations, an average Ontario parent will pay $10,000 a year for care for an infant, $6,000 a year for a preschooler and $4,000 for a school-age child.

The fifth step is a participatory approach to quality improvement and insurance. In Ontario, we have the Day Nurseries Act, which governs the quality of care in our licensed and regulated system. It is provincially enforced. However, the government has continually examined ways of lowering these standards as a way to manage and put in efficiencies and cost-cutting. This is very worrying for us. In 1996, then-Minister of Community and Social Services Janet Ecker came out with a report ironically entitled Improving Ontario's Child Care System. She made many recommendations about diluting the Day Nurseries Act. In fact, many of them are in place today.

The sixth step is appropriate training and working conditions for staff. A 2000 national study confirmed what we all know: that child care workers are among the lowest paid in the province. There is a huge shortage of qualified staff, as fewer and fewer people are entering the field. Those who do enter the field use it as a stepping stone to more lucrative careers in education. Wage grants were implemented in 1987 as a way to address soaring parent fees and low child care wages, and those are constantly under threat.

The seventh step is systematic attention to monitoring and data collection. In Ontario, there is no data collection. The most recent statistics we were able to get our hands on are from 1998. Nothing is available since then.

The final element is a stable framework and long-term agenda for research. In Ontario in the past few years, the government itself has conducted, publicized and then ignored study after study after study. There was the much-touted Early Years Study. There was the Education Improvement Commission, which called on the province to strengthen its commitment to Ontario's children by ensuring their access to affordable, high-quality child care. Despite public support, none of these studies have been implemented.

What is the context? Early childhood education and care is a public good. The elements outlined in the OECD report illustrate how these services can make a significant contribution to children's development and support for families. It takes a village to raise a child. We've heard that often enough, but what exactly does it mean? It means ensuring healthy, supportive communities that participate collectively in supporting children. It requires considerable support from government.

Early childhood education and care has the potential to be the core element in social development. The National Council of Welfare called child care the backbone of support to families. UNICEF explained that nearsighted leaders understand that money spent now on early childhood education won't pay off for many years to come, and that is why they continue to refuse to invest. The National Forum on Health has pointed out that a comprehensive child care package would be a key component for population health. The National Crime Prevention Council has identified child care services as the best way of preventing crime at a community level. We are continually finding different arguments to hang the hat on, but we continue to get refusal from government to implement anything.

Under Canadian constitutional agreements, you, the provincial government, are responsible for early childhood education and care services, but you downloaded responsibility for child care to municipalities. Following in the federal government's footsteps, you downloaded the responsibility and you did not download adequate funding or mechanisms for municipalities to handle the responsibility.

1550

The band-aid solutions are failing, local inequities are growing, the cracks are widening and parents are slipping through at an alarming rate.

We have eight objectives for the future that I would like you to consider when looking at your budget this year.

Ontario must adopt a systematic and integrated approach to early childhood education and care. We must move away from the targeted subsidy-based system to a publicly funded system.

Ontario must devise a system of early childhood education and care that is based on the best available knowledge and is integrated between the Ministry of Community and Social Services and the education ministry.

Ontario must develop a multiyear plan that reflects the goal of universal access and moves toward an expanded system that meets the needs of every child.

Ontario must set a goal to match that of the European Union, spending 1% of GDP on early childhood education and care services. The first step would be for Ontario to immediately reinstate the money it has cut since 1995.

Ontario must strengthen its legislative and regulatory role and ensure that best practices in early childhood education become the norm.

Ontario must immediately restore funding for pay equity for early childhood education teachers.

Ontario must create a plan for monitoring, collecting and providing up-to-date and reliable information so that we know the quality of care that is available for families in Ontario.

Finally, Ontario must remain at the forefront of new research, not only in collecting it but in implementing it.

It is time for Ontario to move forward into the modern era, in which most governments in modern nations now recognize early childhood education and care as a priority. Thank you.

The Chair: Thank you very much. We have two minutes per caucus, and I will start with the government side.

Mr Hardeman: Thank you very much for your presentation. In the last couple of days, we have had a number of presentations from early childhood educators. Continually we get the numbers that, in fact, funding and money from the government has gone down for daycare over the last number of years. I guess one of us needs to check with our research. Either we have to tell the Provincial Auditor he's off the mark or we have to find out where these other figures are coming from, because my numbers, which have gone through the Provincial Auditor, show that spending has gone up considerably each and every year from 1990-91 to the year 2000-01. Basing 1990-91 on 100, in 2000-01, it's 145. So it has gone up 45%. That's for the direct child care funding the province puts in. When you put it together with the direct and indirect funding, in fact, from 1997-98, it was $549.7 million to $722 million over those five years.

I'm not trying to find fault. I'm having trouble trying to adjust. When we say, "Put the money back," are we suggesting that we need to take $200 million out so we'll have the same funding? I'm sure that's not what you're suggesting, but I think it's important that if we want to go back to the same base, that's where we would end up.

Ms Bédard: According to the Ministry of Community and Social Services' own numbers, in 1995 we were getting $520 million spent on child care. According to the Ministry of Community and Social Services' leaked report in November, you are now spending $470 million on child care. Those are your own numbers. I'm happy to show you those reports. The difference is that you now include in the overall child care budget things that are not child care: $200 million for the child care supplement for working families, which is federal money clawed back from welfare recipients; it is not money spent on regulated child care. The reductions in funding I'm talking about are money spent on regulated child care.

You have to be really clear on this, because the government does continue to say they spend more on child care than any other government. They are not spending money on child care; they are spending it on other benefits for families, which are good benefits but are not child care.

In 1995, you were spending $520 million; you are now spending $470 million.

Mr Phillips: I want to follow up on the same point, because it is an important debate and we have heard, as you can see, the government members saying that we spend more money. I gather Mr Hardeman has a document there that shows the spending.

The Chair: It has already been circulated.

Mr Hardeman: You have it too, Gerry.

Mr Phillips: Good. That's very helpful. I gather your background document—have you any more than what you have in this document here?

Ms Bédard: Yes, I do. I have the government's leaked report from November, which clearly states all the areas that they invest in and says that they are spending $470 million on child care. I also have documents provided by the Ministry of Community and Social Services in 1998, the last time we were able to collect data, which shows them spending $520 million. So it definitely has gone down.

Mr Phillips: It would be very helpful for all committee members if we could get that, because I gather the government members feel that there is a need for spending on it and I think they felt the money was already being spent, but you're suggesting that's not the case. I think, Mr Chair, that would be very helpful if we can get that from the delegation.

The Chair: If you would provide them to the clerk, she can photocopy them.

Ms Bédard: I will do that.

Ms Marilyn Churley (Toronto-Danforth): Thank you for your presentation. I admire your patience. I know you have come before this committee time and time again since 1995, telling the same story, and it gets worse. But I believe Mr Hardeman deserves a gold in his gymnastic performance there in trying to explain why he thinks the government is spending more money. They've been saying that in the Legislature, much to our frustration. Ms Martel, who is our critic in this area—quite often in question period we don't get to come back and say, "But wait a minute. Your numbers are wrong." It's very important that the government members understand that every time you say that, you're avoiding the real issue, and the fact is that the funding has gone down instead of up. I believe the waiting list in Toronto is—how many?

Ms Bédard: It is 17,000.

Ms Churley: It is 17,000 and going up, just in the city of Toronto, and it's getting worse and worse. We have to accept that reality.

I wanted to ask you quickly about the Quebec program, which is working so well. They have a waiting list and can hardly keep up with it. Are you proposing that we go in that direction here?

Ms Bédard: Quebec is absolutely the most progressive province in Canada in how they have chosen to address child care issues. The biggest problem they have in Quebec is the demand. They can't create child care spaces fast enough, because when you give parents the choice to put their child in quality early childhood education programs, they jump at it. It doesn't matter if they're employed or if they're at home. It's recognized as something that's important for the child, for the development of the child, not for whatever the parent is doing. These are valuable years that we need to maximize, and putting your child in early childhood education is the way to go.

I think Ontario could follow Quebec and almost every progressive nation. Twelve nations in the OECD report had all recognized that publicly funded, accessible child care was the way to go, socially and economically. So, yes, I would support that.

Ms Churley: We would save a lot more money, leaving aside the social implications. Just economically, it makes sense to invest in our children in the early years. It's that simple.

Ms Bédard: Economically it makes sense. Absolutely, yes.

Ms Churley: Thank you once again for your presentation.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

Ms Bédard: I'll get those documents to Ms Sourial.

ONTARIO MOTOR COACH ASSOCIATION

The Chair: Our next presentation this afternoon is from the Ontario Motor Coach Association. I would ask the presenters to please come forward and state your names for the record. On behalf of the committee, welcome. You have 20 minutes for your presentation.

Mr Ray Burley: I'd like to thank members of the committee for having us here today and for this opportunity to speak to you. My name is Ray Burley. I operate Can-ar Coach Service, and I am a chairman of the board of the Ontario Motor Coach Association. Beside me is Brian Crow, president of the OMCA.

We appreciate that you have heard from many groups throughout the course of these consultations, many of whom have asked for increased spending in areas that they view as priorities. The objective of our presentation today is to suggest a couple of areas where we at the OMCA feel you can actually save taxpayers' money while at the same time improve Ontario's transportation network and the quality of the environment. We recognize and support the government's commitment to smart growth, and we want to be a part of that effort. That being said, there is also one tax measure we would like to address, and we'll get to that in a moment.

I turn the floor over to Brian Crow.

1600

Mr Brian Crow: First of all, I'd like to tell you just very briefly about the OMCA and our role in the intercity bus industry. We were founded in 1930. We're the largest travel-tourism association in Canada. We are the voice of private sector bus operators, scheduled-service bus lines, charter carriers and coach tour companies in Ontario. We have over 1,200 members throughout the province and the country. Ontario's intercity bus industry, which we represent, is an important player in Ontario not only for transportation but for the economy.

We'll give you a couple of examples to highlight the impact we can have on Ontario. For example, we move over three million scheduled passengers through the downtown terminal in Toronto alone. We take, on average, 77 coaches to Casino Rama, in the Orillia area, every day of the year. In the good days, when the Blue Jays were winning pennants and had four million spectators, 600,000 of those spectators came in groups, and the majority of them were delivered by motor coach. During the run of Phantom of the Opera, in one month we had 630 coaches take passengers to that theatre alone. The Ministry of Tourism spends millions of dollars promoting Asian and European group travel to this great province. Virtually all of them use coach transportation when they arrive at an airport. We serve virtually every city and town with scheduled service and/or charters. There are thousands of motor coaches each day. One overnight tour generates on average $7,000 a day per bus to the local economy.

The are three main areas we'd like to cover today: the expansion of government-operated transit services, municipal transit subsidies and the role the private sector can play as part of the solution and, as Ray mentioned, diesel fuel taxes.

First, on the issue of expansion of government-operated publicly subsidized transit services into areas currently served by private operators, as you might expect, we have some very serious concerns. With the province taking back responsibility for GO Transit, we understand the province is considering expanding GO services into a number of centres where private operators currently provide safe, comfortable, reliable service without any subsidy from the taxpayer.

Let us be clear: we believe there is a role for GO Transit. They are a very important entity, and we believe they have an essential role in planning and coordinating service.

Our members currently provide 49 trips per day between Toronto and St. Catharines, 37 trips per day between Toronto and Barrie, 37 trips between Guelph and Toronto, and 23 trips between Peterborough and Toronto. Why should taxpayers throughout the province be asked to subsidize government-operated competition to these services, competition that could force, and in the past has forced, private operators out of business? It simply makes no sense for a government agency to be considering spending untold millions of taxpayers' dollars for terminals, coaches, drivers and other personnel and infrastructure that would be necessary to duplicate services that are already being provided by viable, efficient, job-creating and taxpaying private operators, specifically on those services I mentioned above.

Again, we believe there is a role for GO Transit in planning and coordinating, but we feel the provision of bus services should be by the private sector under the control of the public entity. In the words of one minister when he was defining the role of government, "service management, not service operation." You don't need to increase funding.

The government of Ontario finds itself in the same position with respect to municipal transit. Cities keep asking you for more money to operate transit services, yet many of them refuse to assure you that they run their systems in the most efficient and cost-effective way.

In our submission you will see the results of a study conducted for us on a number of major cities around the world that chose to operate their public transit systems in partnership with the private sector. In every case, the result has been improved levels of service at considerable savings to the taxpayer, ranging from 15% to 51%.

Here in Ontario, private sector competitive tendering of transit services has been successful in 20-some municipalities. Even the province of Quebec has moved to competitive tendering of transit services in communities to Montreal. Unfortunately, many municipalities in Ontario, including the big ones, have declined this option.

Finally, I would like to touch on an environmental issue. All of us recognize the importance of a clean environment. One of the challenges we face as a province is, how do we continue to thrive and grow while at the same time protecting our land, air and water? One of the answers is to try to get more people out of their cars. Each motor coach replaces up to 27 cars on our highways. Coaches achieve a remarkable average fuel efficiency of 385 passenger-miles per gallon. A 1991 royal commission determined that intercity buses are twice as fuel-efficient as trains, three times as fuel-efficient as cars and four times as fuel-efficient as commercial aviation.

The US federal government, many states and the province of Quebec recognize the value of buses in reducing emissions of greenhouse gases and other pollutants and in easing road congestion and therefore have fuel tax rebates for qualified bus operators. We call on Ontario to follow their lead in promoting travel by bus and the environmental benefits of buses over private automobiles, rail and air.

Mr Burley: To summarize, we recommend the following solutions:

(1) We recommend that the Ontario government save money and reduce expenditures by rejecting the expansion of government-operated subsidized GO Transit bus services that will displace existing non-subsidized services provided by the private sector. Instead, have GO Transit develop public-private partnerships with Ontario's private sector bus companies.

(2) We recommend that the province withhold increased funding allocations to municipal transit authorities until they can demonstrate that they have seriously analyzed alternative service delivery options, and in particular competitive tendering.

(3) We recommend that the Ontario government implement a 50% diesel fuel tax rebate for motor coach operators, which would amount to seven cents a litre, similar to that in place in the United States. This incentive would help to make intercity motor coach travel a more competitive option to automobile usage.

We'd like to thank you for the opportunity to appear before the committee today. The Ontario Motor Coach Association stands ready to work in partnership with the province to help save taxpayers' money; grow our tourist business; provide safe, efficient, reliable transportation services; and help reduce road congestion and improve our air quality.

The Chair: Thank you very much. We have approximately three minutes, and I'll start with the official opposition.

Mr Ramsay: Thank you very much for your presentation. I'm sorry I was late. I guess you guys must have started early.

The Chair: No, right on time.

Mr Crow: The bus left on time.

Mr Burley: They always leave on time.

Mr Ramsay: That's fine. I've just been going over your recommendations, and they're very interesting in regard to GO Transit. Obviously you come to this from your perspective. I'll tell you, this is going to be a big challenge for governments. As you know, in the 905 area and in Toronto there's a tremendous challenge in how to manage the tremendous growth that's happened here in the last 20 years, and transportation is one of those challenges. There are some others, like waste disposal, but transportation is certainly a big one. As you know, initially the government thought they would get out of GO Transit service, and then rethought that and decided to get back into it. As you also know, the government has decided that the whole region should take a look at these problems on a broader basis than just the GTA, because these challenges really affect a much broader area. I'm not so sure at this time—and I know from my point of view—that abandoning government involvement in urban rapid transit is a good idea. Quite frankly, I think the government has to keep its hand on this. In fact we have to do a much better job, although a job you could probably be a partner in.

To really make rapid transit attractive to people, say, in the Golden Horseshoe area, it has to be seamless in all the various components of it. It has to be low-cost, and that's why I think there has to be a subsidy. That's why I think the government has to have a hand on it too, for the planning and coordination of it. It has to be low-cost and it has to be seamless, so that it's convenient, so that you could get on a GO train in Hamilton and end up north of Toronto through the system with one tariff in a seamless way.

So I appreciate this recommendation, but from my point of view—and I'm not the government right now, so you don't have to worry about me too much at this time—this is a big problem and something that I think the government is going to have to keep its hand in.

1610

Mr Crow: You made a couple of points and I want to clarify something: we're not suggesting that the government should abandon transit at all in any of Ontario areas, let alone the 905 or around-Toronto area. It's not a suggestion to abandon it, it's a suggestion to work with the private sector in existing services.

You also made the point about it having to be low-cost. We certainly agree. I understood you to say that for it to be low-cost, it must be subsidized. That's where I might disagree with you. There are low-cost services, as we've reported here a few minutes ago, like 49 trips a day between Toronto and St Catharines that are costing you nothing. That is not subsidized. Having 49 trips a day between those two cities is a lot of movement of a lot of people. It is being done without subsidy, so we do not connect low cost with subsidy. Low-cost is connected to cost efficiency and we think we can add that to the equation.

The third point you made was on seamless transportation: absolutely; we've attempted in Toronto to have our bus terminal moved down to Union Station to make it intermodal, and the city of Toronto has prevented that. We believe it's seamless. We want to work with VIA Rail; we work with GO Transit. We are providing passengers to GO trains now at the terminal areas. We want to improve that. We think you can accept all three recommendations and meet your targets and your goals as well.

Mr Christopherson: I wouldn't mind picking up on the same discussion or just following it along because I share some of the concerns the previous speaker has raised.

You mention in one of your paragraphs here actually taking over some municipal services and said that unfortunately Toronto didn't—let's just try this. In Hamilton, of course, you know the HSR, the Hamilton Street Railway. Already as a result of funding cuts, mainly because of the pressure on Hamilton city council from transfer payments that have been cut from the province, there is reduced money for the HSR, so some of the routes that may not be used the most but are important to the people who do use them are being cut or limited.

One of the main reasons government actually provides some services hands-on, and transportation is a really good example, is because of the geography of our nation and our province. I appreciate and respect the fact that between Toronto and St Catharines you can do 49 trips a day. You've got the business there, the customer base, the road infrastructure is there for efficiencies, so I can appreciate that you could operate your company, make money and provide that service at a fair price to customers; no problem. It's when you get into areas where there isn't the customer base and there aren't the efficiencies—yet citizens, particularly seniors and others who have no other options, are entitled to be able to get around in our province.

Those two examples: first, where distance doesn't allow you the same business efficiencies that you can have in some of the higher population density areas; and second, just with HSR for instance, I don't understand how, if it became private, it would automatically be more efficient all of a sudden just because it's not public. So maybe your thoughts on those two.

Mr Crow: Certainly. First your point about our taking over services: I want to make sure we're very clear on that. We're not suggesting that we take over the operation of the Hamilton Street Railway, the TTC or anything like that. What we're suggesting is that those transit properties can do the planning, the controlling and that they competitively tender the actual operation of the buses. If they want a bus going down a road empty at two o'clock at the morning, we'll operate it for them. So the transit entity controls the routes, the fares, the schedule and they can even control the colour of the driver's uniform. They put it out to tender and companies bid on the tender and actually operate the service. There can be incentives in there. If you are late five times a month you forfeit $5,000. You can do more with a private contractor than you can with a direct ownership.

The point about the low-usage routes: we operate services now. Every one of those trips from Toronto to St Catharines isn't full. There are times of the day when there are only one or two people on there. So, to your point, we're proving that we operate those services whether there are two people on it or whether there are 50 people on it. On average, the passengers pay enough to justify the cost of operating it.

Please understand we're not suggesting that we're going to take over the TTC or that we're going to abandon the routes. That's what you hear so often when somebody starts talking about this, Mr Christopherson. We are not saying the routes are abandoned and that we're going to cherry-pick, nothing like that at all. The transit property controls the routes, fares, schedules and puts the operation of the buses out to competitive bidding.

Mr Christopherson: Some of us have a difficult—

The Chair: Thank you very much.

Mr Christopherson: Done?

The Chair: Yes.

Mr Christopherson: OK. Thanks very much.

Mr Galt: Thank you for your presentation. It was much appreciated. I'd like to zero in on your third recommendation. It's kind of a two-pronged question. One, if that was to happen, I can hear the people with the railway saying, "We also have to pay for the rails," and on the highways, unless you take the 407, you have more or less a free highway to travel on. So there would be that argument back. The other is from another hat that I wear as Chair of the select committee on alternate fuels. You're asking for a reduction in the gasoline tax or fuel tax. Would you consider, if that were to happen—and I'm coming from discussions in that other committee, not necessarily from government—that those buses would run on alternate fuels such as biodiesel?

Mr Crow: First, your comment about the rail industry wanting a rebate, and I guess maybe the airline industry would too, and the trucking industry—and you're going to hear from them, I think, later today. What we are saying is that as road users we are paying more in fuel taxes and permits and licensing fees than what is spent directly and indirectly on the roads and the highway system. All we're asking for is on diesel fuel only, not gasoline. So it's not a rebate to car users; it's a rebate on diesel fuel. What we're asking for is just to return some of the excess money that is being collected from us. I'm not sure the rail industry can make that same argument. I'm not sure they can say that their taxes cover the cost of the land they got from Canada for nothing to run the tracks on and so forth. I'll leave that answer up to them.

Your second point about alternative fuels: some in our industry have done that already. The problem with intercity travel, especially the longer distances, is that there are not those service depots, there are not places to refuel on the road. Motor coaches are constructed with 200- to 300-gallon capacity of diesel fuel because that's what's available. It's difficult, when you get outside of a major centre into rural areas, to find a place to load up with alternative fuels. What we're also learning from some of the transit industry on hydrogen and so forth is that it takes so long to refuel the bus, that it's out of service for so long, you can't become efficient and so forth.

We are looking at, would continue to look at and would welcome any suggestions on alternative fuels, but as it stands today, with the distribution network, we have to rely on diesel.

Mr Galt: It's kind of a chicken-and-egg problem, isn't it?

Mr Crow: Yes.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

Mr Crow: Thank you for your time. Good luck on your budget.

ONTARIO NON-PROFIT HOUSING ASSOCIATION

The Chair: Our next presentation will be from the Ontario Non-Profit Housing Association. I would ask the presenter to please come forward and state your name for the record, please. On behalf of the committee, welcome. You have 20 minutes, and you certainly may grab a glass of water.

Ms Noreen Dunphy: My name is Noreen Dunphy and I'm with the Ontario Non-Profit Housing Association. This is a very timely moment for us in the affordable housing sector because we believe we are on the eve of an announcement of a federal-provincial agreement, a joint agreement, to begin to fund and build affordable housing in Ontario. This is something we haven't seen since 1995. But there are a number of matters relating to that that need to be addressed in this and subsequent years' budgets. So that is why this is very good timing from our perspective.

For the purpose of this presentation, I'm going to really just focus on the first three pages of the written pages that have been distributed. The background information for our recommendations is in the bulk of the actual document, but I'll stick with the first three pages.

We are going to make a number of recommendations and focus on five topics: first, the need for a comprehensive national affordable housing strategy; secondly, what the appropriate Ontario government response ought to be to a recently announced federal initiative for a capital grant program; third, comment on the evolving role for municipalities with regard to affordable housing development; fourth, touch on some of the continuing provincial responsibilities in housing—that is, those things that have not been downloaded to the municipal sector; and finally, if time permits, just a brief forward look to the future, where there are some ideas circulating about using the tax system and other innovative financing mechanisms to help in the development of affordable housing.

I should just mention that our organization represents non-profit housing providers in the province of Ontario. We currently have over 700 non-profit providers as our members, representing about 100,000 social housing units in the province today.

1620

I'd just like to briefly mention, in terms of the current status of housing needs in Ontario, that we publish an ongoing series of reports and updates each year called "Where's Home?" that are published on our Web site and on some others. We track 21 Ontario municipalities as well as Ontario-wide statistics. I'm sorry to report that the trend we've seen in recent years has continued, namely, that the situation for tenants is getting worse: vacancy rates are continuing to decline in most Ontario municipalities and new rental housing still compromises only about 2% or 3% of all housing built in Ontario. I always think it's worth taking a moment to stop and turn that on its head and say that of all new housing built in Ontario pretty much over the last decade, 98% has been ownership housing, yet somewhere between 40% and 50% of the population of Ontario are tenants. That fact alone ought to tell us that something is out of whack.

We certainly saw a deficit in social housing construction once the programs were cancelled in 1995. That did not cause the problems for tenants in the private sector, but that growing deficit of construction of social housing has absolutely aggravated an already bad situation for tenants. Canada is the only country we're aware of in the western world that doesn't maintain an ongoing program or set of initiatives that are directly targeted to produce new affordable rental housing each and every year. It's considered to be something that's just part of what you do as a western country, an acknowledgement that keeping a balance in the market will only be possible if there is at least a minimal addition to the social housing stock year in, year out. We've unfortunately just now come out of seven years of nothing being built, so we've got a lot to catch up on.

In terms of our recommendations, we believe that both this provincial government and the federal government need to work on a more comprehensive national affordable housing strategy, and notwithstanding some early initiatives, agree to ramp up their budget commitments to this over time to more closely approximate the targets that the Federation of Canadian Municipalities has been advocating for over the last several years.

Second, we think that this recent federal initiative, a capital grant program for affordable rental housing, is only one part of the strategy. It's not the strategy by itself. It's a welcome initiative, it's a critical initiative, but the federal minister himself acknowledged that it's just a five-year "temporary program," which is the phrase he used. So I just need to bring us back to realizing that we need a more comprehensive strategy. We haven't got one at the moment.

What should Ontario be doing in response to this particular capital grant initiative? Starting with the 2002 budget, Ontario should fulfill its obligations under the federal-provincial agreement and provide matching capital grants to the federal money. That would come to $50 million annually contributed by the Ontario government to match that of the federal government. This would produce in Ontario about 2,000 new rental units a year for each of the next five years.

Starting in the 2003 budget, we believe that Ontario should additionally budget for a portion of the units to be made available for rent supplement purposes. As I think members of the committee will know, the lowest-income tenants in a social housing project are paying according to their income, whereas other people are able to pay something around the low end of market rent. That way you find a way to make sure that the lowest-income people get the assistance they need but you're not providing more assistance than is needed for the more moderate-income tenant.

Third, municipal contributions, which are an important part of the new picture of having to cobble together funding from different sources to get affordable rental housing built, are important and they have a critical contribution to make. However, the provincial government currently has announced only $4 million a year in matching funding to the federal $50 million a year. It is not possible or appropriate to expect municipal contributions to make up the additional $46 million a year that's required to make this initiative fly.

Just a brief comment in terms of what room there might be in the Ontario budget to possibly contemplate $50 million a year when the announcement so far by Minister Hodgson has been only $4 million a year: I bring to your attention two points that are covered in more detail in the back of our presentation. One, in the last year that I've seen the statistics, 1999, Ontario was spending $300 million less each year on assisted housing than it was in 1995. So it took a massive hit, a massive reduction in the spending on social housing. We would argue that if even a small portion of that were to be reinstated, a very small portion indeed, it would be enough for Ontario to fulfill its partnership requirements with the federal government, namely, the $50 million a year.

The other thing we noted from last year's budget: the provincial government drew to everyone's attention the fact that they were receiving windfall surpluses in the land transfer tax revenue account. Last year alone I believe they received an extra $50 million on top of the half a billion, approximately, that had been budgeted. Again we'd say that if even a small portion of just the windfall part of that surplus had been redirected to the part of the real estate market that isn't functioning well, namely, the rental market, we might have seen significant amounts of housing built.

The evolving municipal role: we've already commented on how critical their contributions will be. They can also play a critical planning and coordinating role to get housing actually built on the ground. But we would say that if the provincial government is not able to increase its matching share of this capital grant program—right now it's providing about 8%—if it's not able to get that up to the 100% and if it's going to rely on the municipal contributions, then frankly the provincial government should just step back out of the way, pass the federal money on to the municipalities that are going to have to do the matching and leave it up to the municipalities to design the program to meet their local community needs.

Continuing provincial housing responsibilities: I won't go into it today except to note that the province has never relinquished its responsibility in the area of supportive housing. This is particularly critical to ensure that people don't spend the rest of their lives in institutions. If you think of it as a deinstitutionalization strategy, whether we're talking about people with mental illness, people with physical disabilities who need attendant care or adults with developmental disabilities, this is an area of responsibility. Ontario needs to continue to expand housing for that population.

Now we come to the area of taxes. The provincial government position in recent years, as we've heard it articulated, is that all levels of government should amend their tax system and remove tax barriers so that affordable rental housing could be built more efficiently and at lower cost. Indeed, the Ontario government has made quite a number of recommendations as to changes to the federal tax system. It has also enacted a number of regulatory changes that make it easier for municipalities to also forgo tax revenue and fees and charges in favour of rental housing. These are good moves, by the way. There's not a problem with that.

The only problem might be what I would call the problem the Bible admonished us about thousands of years ago: namely, the danger of pointing out the mote in one's brother's eye while ignoring the even larger one in one's own. At the moment, Ontario has absolutely no tax concessions of any nature whatsoever for affordable rental housing—not one—but it's spending a lot of time telling the other levels of governments what they ought to do in regard to removing tax barriers.

We have two very practical immediate suggestions that we think could be implemented in the 2002 budget. Ontario should waive the land transfer tax payments and the provincial sales tax for any new qualifying affordable rental housing that is being developed under any of the federal, provincial or municipal initiatives. We think that would be a simple gesture, but an appropriate one, to make sure the proper incentives are in place and the cost reductions possible to get affordable rental housing built. I think Ontario would find it easier to get the attention of the federal government on their longer-term proposals on changing the tax system, were they to take some direct moves on their own.

I think I'll stop my presentation at this point, other than to say that we have other recommendations that might be fun to look at in the future. They have to do with the future direction of other kinds of changes to the tax system and innovative financing that we suspect may be in part the way of the future for funding affordable housing. Thank you.

1630

The Chair: We have approximately two and a half minutes per caucus, and I'll start with Mr Christopherson.

Mr Christopherson: It's good to see you again. Thanks for your presentation.

The first thing is your thoughts on Minister Flaherty's idea that he's going to solve the homelessness problem just by outlawing it and making it illegal to be homeless, and I guess therefore we don't have a problem. That's my first question.

I'll load you with a second question before we go any further. I asked a question earlier today based on a document tabled by the minister about a social housing line item here for revenue, under the government of Canada—meaning money that the province of Ontario will receive from the federal government—that shows they were expecting to receive $530 million. I asked where that money resided within the government coffers, and I was told it was a 100% pass through. As I understand pass through, it comes from the federal government into the province, which merely does a notional booking account and they transfer it automatically, 100%, to the municipalities.

I just wondered if you know what that's about, exactly what that does and doesn't do and how it dovetails with the recommendations you've made here today.

Ms Dunphy: Fair enough. On the first point, the only comment I would make about outlawing homelessness is that we know that if you're going to bring people to shelters, if you're going to allow them to go into either second-stage housing or housing with supports, you need to have the facilities there to bring people to. So if we're not building or providing the support funding for community agencies that work to keep people who are chronically homeless off the street, then that strategy is not going to work.

But that strategy also doesn't speak to the non-visibly homeless, the families who are in the welfare motels on Kingston Road simply because of the lack of affordable family housing. I don't think the question of laws would come in there, but the question of providing appropriate affordable housing for them would.

In terms of the federal money, I'm awfully glad you asked that. For the last three or four years, the federal government has passed on $530 million a year to the provincial government. In the first two or three years, the provincial government realized a saving of, I believe, anywhere from $75 million to $100 million annually, mostly due to the fact that mortgages have been rolling over in recent years at lower interest rates so the cost to subsidize social housing has dropped dramatically. That's a good thing.

We had asked the Ontario government to reinvest those savings into new affordable housing. A fairly significant amount of that money—I can't tell you exactly how much—I believe was taken into the general treasury. Some of it was set aside for the announcement of a private rent supplement program, the so-called 10,000-unit program. I believe at best 3,000 or 4,000 units currently have been taken up for that.

Having said what I've just said, I believe the provincial government has stated their intention in the future to pass through, as you're saying, the bulk, if not all, of that money to municipalities. But when I ask our colleagues in the municipal sector whether they have an ironclad guarantee that they're getting every penny of that $530 million, they say no. They think they're probably getting the majority of it, but they haven't actually seen the books and they haven't got the certainty that they will actually get every penny of it. Certainly, they did not in the past two or three years.

Mr Christopherson: I strongly suggest you check the Hansard to get the exact quote, and then we can back it up from there, because it was the question I asked. Thank you, Chair.

Mr O'Toole: Thank you very much for your presentation. We've had other presentations on housing, and it is an issue with respect to—I suspect there is a driving force today for the strong economy. That would in itself create some surplus demand issues within the rental part, if people are moving to homes. As an owner, there would be theoretically some opportunity there for the market to loosen up, but there is a strong economy. Fundamentally, that's the time that people try to move into home ownership.

Mr Christopherson has indicated there's half a billion dollars flowing through from the federal government. There are other initiatives the province has taken, and you mentioned one, that the multi-residential property class has been allowed to lower the tax rate. I'm going to dwell on that for a moment because I know, without embarrassing the Chair, Mr Beaubien is looking at the assessment issue in the province. The facts he brought to my attention in one of the reports he issued were alarming. In Toronto, for instance, the multi-residential property tax rate is four times residential. Let's think about that for a moment. That's four times more for the rent component with respect to taxes, versus living in a residential situation. That's really a choice of council to set that hidden tax burden on the apartment renter, who really doesn't see it. It's all blended into their rent. I think that's unconscionable of all municipal levels that are charging. I hope his report addresses that with respect to allowing them. I fully know that if you spread it from the multi-residential group to residential or some other group within the tax-rate groups, it's going to flow somewhere else. They have to get the revenue from somewhere else. But that's one theory I would like you to respond to.

The other issue is the $2,000 grant to offset the PST that the province has introduced to encourage rental properties to be developed. I suspect that's another stimulus that hasn't really been totally picked up. I put to you that part of it is the multi-residential tax rate. If I look at the number of buildings going up, most of them are condos. The reason it's condos is, if there are two buildings side by side and one is a condo and one is a multi-unit residential, one is paying 400% more tax than the other. Guess which you build? Which can you bring to the market cheaper? They are building condos. Many of those condos are being bought as groups and bundles and being rented. That's how they are being handled in the marketplace. You know that; I know that. I know people who live in Toronto who actually rent a condo that somebody owns. I think the market is somewhat difficult.

I would appreciate if you could respond to the two issues I've brought up. You seem to work with it, you seem to be a very patient, thorough person and I'd like your response to those two issues.

Ms Dunphy: I have a couple of quick things. First, there are lots of ways in which what we call the secondary rental market occurs, whether it's people being in basement flats, renting condos or tenants who then move out and buy homes, as you are pointing out. What I would say to you is this: if those were sufficiently taking up the slack, then we would not see rental vacancy rates at less than 1% and rents consistently going up at twice the rate of inflation. In other words, if that secondary market or tenants moving to ownership were sufficient to ease the demand, then we would see a little more balance in the market. That's the way you could observe it if it were working well. We could say we'd be worse off if that wasn't happening, but we just can't be complacent in thinking that has solved the problem.

Secondly, the percentage of condos that are rented out to tenants now is significantly lower than it was even three or four years ago. Again, not to say it isn't important, but what it was several years ago has been reduced. In part, that's because it's an unstable supply of rental housing. You can't count on it, and there is a very good illustration of it.

The tax issue—I would just like to caution members on the following point: yes, there is no question that where you've got a big gap between a multi-residential tax rate and the home ownership rate there are inequities, no question about that. However, I would caution you from assuming that therefore it means, in your example, that they're paying four times the tax they are, because they are assessed completely differently. The way you assess rental is different than ownership. It might be more accurate for us lay people who aren't assessors to say, in your example, if we build two buildings side by side with relatively modern construction—one might have more luxury features if it's a condo, but let's say it's a two-bedroom apartment—what you would want to see is at least some rough equity in the tax they pay. It might be more like twice rather than four times, which doesn't take away from the equity issue, but I'm just saying it's important for us to keep that in perspective.

I think those moves that were made by the provincial government to allow that to happen were very significant and very welcome, and I think we're going to see cities like Toronto, Ottawa, Hamilton, London and Waterloo following up on that in order to make sure we get affordable rental housing built. The point is, in and of itself, it isn't enough.

Mr Ramsay: Thank you very much for your presentation. I have two questions. I'll just give them to you at once and then I'll let you have the floor.

I'd be very interested to know—because homelessness gets quite a bit of attention from time to time, and I think it's an area that both levels of government have let our country and province down in—do we have an understanding of how big a problem this is in Ontario, how many people we have who don't have homes? The number of people, I suppose, who have substandard shelter would be part of that. When we're talking about increasing the Ontario budget to match the federal contribution of $50 million a year, how many units of social housing would $100 million a year provide?

1640

Ms Dunphy: In terms of the homelessness numbers, nobody has that for Ontario. We did a report called Where's Home? in 1999 that looked at the 21 municipalities. We did eight of them in depth, and we realized that you had to use other ways to measure them. You had to look at things like increases in the use of food banks or other emergency food providers. You certainly could look at the growth in waiting lists, and you could look at the rate of growth in the number of stays in overnight shelters, growth of out-of-the-cold programs and so on. Honestly, there is no efficient and effective way to measure it.

What I would say is that since we did that report in 1999, quite a number of municipalities have done their own homelessness snapshots, and many of them, I think most helpfully for the purposes of our discussion today, have begun to develop an approach to talking about preventing homelessness, not just counting the ones who are, or tenants who are on the brink of homelessness. There, what I can tell you is that almost one in four tenants in Ontario today is paying more than 50% of their income on rent. It doesn't mean that they all could become homeless; it means, though, that any number of them could, because they are one paycheque or illness or accident away from not being able to afford to pay their rent.

In terms of the $100 million a year, essentially what you'd be getting is anywhere from 2,000 to 3,000 rental apartments built, with a significant number of them being family units. You could build more if you were just building for singles, so we're kind of averaging things out. But with municipal contributions and with achieving a variety of different rent levels, using both private sector proposals and non-profit, you could probably stretch that further. We might be talking about something that's more like 3,000 to 4,000 a year rather than 2,000 to 3,000 a year.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

TORONTO CIVIC ACTION NETWORK

The Chair: Our next presentation will be from the Toronto Civic Action Network, Toronto CAN. I would ask the presenter or presenters to please come forward. Please state your name for the record. On behalf of the committee, welcome. You have 20 minutes.

Ms Tanya Gulliver: My name is Tanya Gulliver, and with me is John Cartwright. We are here as representatives of the Toronto Civic Action Network, known as Toronto CAN, because we believe Toronto can do a lot for its citizens with the help of the other levels of government.

Over 50 community groups and many individuals, as well as labour unions, have endorsed us in our platform. Our supporters want the provincial government as well as the federal government to negotiate new governance and funding structures for municipalities.

It is time to critically examine the future of our cities. Over the last seven years, Ontario has dumped hundreds of millions of dollars of costs on to its cities, creating a funding crisis that threatens to overwhelm the property tax base. The Provincial Auditor recently found that the city of Toronto alone faces a $140-million shortfall because of downloaded costs. Downloading to municipalities and school boards may have helped balance the provincial budget, but for many cities, especially Toronto, it's proving to be a disaster. If this damage is to be contained and reversed, there must be a fundamentally new financial funding agreement between Ontario and its large cities, especially Toronto.

We're going to touch on a few different issues that we feel are of particular concern. As the last speaker mentioned, housing and homelessness are an incredible crisis in Toronto. A vacancy rate of less than 1%, increased evictions of tenants, the lack of affordable housing—we are at an extreme crisis. The dumping of social housing on to municipalities by the province is a ticking time bomb. The problem of homelessness will not be dealt with until we produce more affordable housing; without intervention of governments at all levels, this will not happen.

I'm on the board of St Clare's Multifaith Housing Society, which is a new housing project that recently opened 50 units of housing at 25 Leonard Avenue in the Bathurst and Dundas area. This could not have been done without funding from all levels of government. The commitment from the provincial government, which I believe is $2 million in rent supplements, was absolutely critical. But this is only one small step. The city of Toronto alone needs 2,000 to 3,000 units a year in order to start dealing with the homeless crisis. Fifty units is not enough, but it certainly was a start.

The Gillian Hadley inquest, which concluded recently, recommended that the provincial government get into the development of new, affordable rental housing, as well as increasing the shelter component of welfare. We believe it's necessary to increase the entire welfare rate, but particularly the shelter component must be addressed, or some form of rent supplement must be addressed. Three hundred and twenty-five dollars a month for a single person in the city of Toronto is absolutely ludicrous. With a vacancy rate of less than 1%, I challenge you to find suitable housing for $325 a month.

The newly agreed upon national housing strategy is a great step, but we need the province to step up to the plate and come on board with new money; not just PST supplements and not just land, but new money that can help in the creation of social housing across the province.

Mr John Cartwright: My name is John Cartwright. I am the president of the Toronto-York region labour council as well as the spokesperson for Toronto CAN. I have appeared in front of your committee before, when I was the business manager of the Construction Trades Council. I also had the honour of taking our city's Olympic bid to Lausanne, to the IOC, just over a year ago. One of the things that was involved in that bid, besides our saying we would put on great games that the people of Toronto and Ontario could be proud of, was that that bid was signed by the Premier. It talked about the things we would commit to as a province and as a city. One of those things, as part of the bid, was affordable housing, and we don't see any coming out today.

One of the other things we talked about was a legacy of facilities, recreational facilities for young people where they would be able to enjoy sports, learn sports, start to love sports, and see that as part of growing up adequately in today's society. This evening at the Toronto District School Board, down the street, there's a debate on whether or not the school board can afford to keep any of its pools open. The other day at Toronto city hall there was a debate about whether the city of Toronto could afford to pay for any pools because of the downloading of other obligations that are put onto it.

The irony of all this is that we went to the world and said that we can do some great things, and less than a year later the pool where my kids swim is in danger of being closed. I don't know how anybody here, of any of the three parties, thinks we could ever mount another Olympic bid with a straight face, with a clear conscience, and have the people of Toronto believe us. I think we have some real, serious concerns about our credibility when we look at the tiny amount of money that would be required from this government to maintain something as basic as keeping those 84 swimming pools open, when you compare that to the $2.2 billion of corporate tax cuts that are going to be maintained.

Gentlemen—I'm looking over there—you've got to get your priorities straight; you've got to figure this thing out. I'm very proud of this city, but I don't want to be ashamed by turning to the 2.3 million other residents and saying, "I was really fooling when I took that bid over there, because the people who signed the bid had no intention of living up to the kinds of things we were talking about with this city."

We also talked about ensuring that we had good transit there—fundamentally key. We looked at the horror of Atlanta and we said, "We're going to have good transit." The province has finally decided to get back, a little bit, in the transit business, but you're not paying what you should be paying. You're not paying the fair share that this province has traditionally done. There's an old expression about the guy who walks into a bar and he's boasting about how good he is, but he's got long pockets and short arms. The province of Ontario can't walk in there and talk about offering to give money for transit when they've withdrawn the vast majority of it and asked the federal government to fill that place, or the municipalities or the single-family homeowners to fill the place, because of course there is a cap on the multi-res, commercial and industrial tax base in Toronto. One of the recommendations from this budget committee has to be that the province go back to 75% of all capital costs and support 30% of operational costs of public transit.

It has to look at the difference in what the Toronto District School Board is talking about of the real costs of public education, the costs for our kids to succeed—what they're calling now a need-to-succeed budget—a hundreds-of-millions-of-dollars shortfall from the funding formula that the province has imposed and applies to the schools in Toronto. It's a tremendously multicultural city. We boast about it when we go on the world stage. The reason we can say that we have people here from 169 different countries, speaking 100 languages, and yet they live in harmony is not because we around this room are smart; it's because our education system got its act together 15 or 20 years ago and did ESL courses and heritage language courses and taught kids to respect themselves and where they come from, and by doing that, respect others around them. But that costs money. When I look at the elementary teachers, the stuff they presented to you earlier today, and the loss of special education, the loss of teaching assistants, you can't do this. You can't shortchange the system and still have a healthy, strong city.

1650

The final piece that I'm going to touch on is around the environment. Going back to the sports issue, there was an ironic newspaper article about two weeks ago about how the incidence of smog and asthma now is hitting kids who are athletic more than those who aren't, and it's hitting major cities more and more because of the chemical soup that's pumped into the air, largely through automobile exhaust and NO_x and CO_2 emissions. The province has to live up to the responsibility of ensuring that the Ministry of the Environment is fully funded so they can protect the water and the soil and the air and the public health. It also has to take a lead in providing the money for proper solid waste diversion; not asking us to go and dig a hole in northern Ontario and dump it in that lake, or even trucking it to Michigan, which is not an alternative, but to provide the supports that are required for public policy that looks at solid waste and says, "This has got to be dealt with as a resource, not as something that's garbage."

All of this stuff takes money. When you're trying to live in the GTA, in this capital city of Toronto, you can't starve a city. You can't starve your capital city and have it maintained as a healthy place, as a place that we can be proud of in the future. Maybe some people don't care about that, but the folks I represent, the folks Tanya represents and those folks who are sleeping on the sidewalk who used to be construction workers, who used to be steelworkers or autoworkers making wealth for this province and fell on hard times, people who can't put a roof over their heads because there is no affordable housing being built, we all want a strong city, we all want a decent city, we all want a decent standard of living and quality of life for all kinds of working families. But it does take money to do that.

Ms Gulliver: In closing, fundamentally, Toronto CAN feels that there needs to be a fair deal between Queen's Park and the municipalities and school boards in Ontario. For the city of Toronto in particular this is required today—not years from now, not after many more commissions and studies, but today. The city must have a stable revenue stream other than property taxes, and school boards need to have adequate funding for all the educational needs of its citizens. The city needs the ability to sell municipal bonds; it needs a share of the fuel tax; it needs to be able to levy hotel tax; and there needs to be a negotiation between all levels of government to find ways for cities to support themselves. We need the province to pay its fair share and to address the costs of downloading. We need the province and the federal government to enter into a new agreement with regard to municipal governance and financing. Thank you.

The Chair: Thank you very much. We have two minutes per caucus and I'll start with the government side.

Mr Spina: I just wanted to say welcome back. I know I've seen you before and heard your presentations. Your points are well made, and you put a lot of thought into it, I know. You certainly have brought a point forward that has been brought forward by others. I think you were here a little earlier when the non-profit housing people were here as well. We appreciate that and will take it into account.

Mr Hardeman: Thank you very much for your presentation. I was intrigued by your last comment about municipalities needing the ability to issue municipal bonds. I know this has been discussed over a number of years. I was a municipal politician for 14 years. In your mind, are municipal bonds not just another way of borrowing money? Is that really a problem, that municipalities can't borrow enough money?

Ms Gulliver: I would say that municipal bonds are a way of citizens to invest in the city, the same as provincial bonds or federal bonds are a way for citizens to invest in the province or the country. If all levels of government are saying there's not enough money, which we disagree with, then we have to look at other options. Right now, $4 billion more flows out of Toronto to the provincial and federal governments than comes back in services for the citizens of Toronto. So we need to renegotiate the whole system of financing. If in the meantime one way of doing that is municipal bonds, we think that's something that should be explored. But the whole financing system is something we're very concerned about.

Mr Ramsay: Thank you very much for your presentation. I really liked the thrust of all the challenges Toronto faces. It was a good summary of all that, and I really agree that our capital city has to be rebuilt, basically. I've represented my northern riding for almost 17 years now, so I've been down here for part of my life for 17 years, and I've noticed a big difference in how this place has really slipped and how the quality of life for people has really slipped. All Ontarians, regardless of where we live, are very proud of our capital city. We come to it for business and for pleasure. It's a cultural and sports centre. We want to see it world-class again, and that's based upon quality of life. I think it is a tragedy, too, that this debate goes on about swimming pools. There has got to be basic recreation for people; it has to be there. We are a very rich province in a very rich country, and to be having this debate now is ridiculous.

I'm glad you brought up smog and asthma. We have the second-dirtiest gasoline in North America. It would just take the swipe of a pen by this government ordering the refineries to produce the cleanest gas. That's what the automobile manufacturers also want, because the anti-pollution devices in automobiles do not work properly with the poor grade of gasoline we produce. Yes, the refineries are going to come in and say, "That's going to cost us millions of dollars." But just about every other jurisdiction in North America has already done this. There is no excuse to have this dirty air, at least what we're producing through automobiles. We need to clean that up. It's a matter of government having a vision as to the role of government in society.

Are there, in this case, provincial goals that we all should have as a people? Should the government lead that or, as this government believes, will the private sector somehow take care of everything? They've got it all one way, and it's somewhere in the middle. You need good regulation and vision by government to drive a capitalistic system, and you get the best of both worlds if you do that. But if you just leave it to the capitalistic system, the degrading of our society, as we're seeing now, is what is going to happen. This has to stop. We've got to start to have a sense that this is the greatest place in the world to live.

I'll just give you a quick anecdote. I met a PC staffer downstairs who just went to Ireland, and she said to me, "Wow, I can't believe the turnaround of that society. It was one of the poorest countries, and now it's one of the richest." I said, "Do you know what? For over 15 years they've had free tuition, and they've got a trained workforce." It's a government investment in its people that will bring about wealth, and that's what this government doesn't understand.

Mr Cartwright: On the issue of refineries, it's exactly the point—and it's not a criticism just of this government—that changing those refineries over would actually create jobs, and they're what we call green jobs. Recycling and composting programs for solid waste would create jobs. When we look at the dispute right now between the federal government and some of the provinces—and I'm kind of ashamed of our province's role on the Kyoto issue—people have to realize that we can actually create more jobs, and they'd be good-paying jobs, and be a healthier society by taking some environmental initiatives today. That's a fundamental piece of rethinking how the economy takes place and how our investments, both public and private, better our society.

Mr Christopherson: Thank you both for your presentation. I'm sure you were comforted by Mr Spina's warm words, and I'm sure he meant them. I think it would mean a lot more, though, if they were saying they would commit themselves to urging the minister to spend some money in the areas you've raised, because nice, fuzzy warm words aren't going to change a damn thing.

I agree that you gave a really good overview. I want to ask if you have a sense, and can explain it for us, of how we compare with our capital versus other provincial capitals across the country or other large cities outside Ontario. Are there any provinces that are approaching these issues in a different way that is giving them more positive outcomes than we're getting here in Ontario, specifically in Toronto?

Ms Gulliver: Particularly with regard to housing, I think if you look at the province of Quebec, the national housing strategy was barely dry and already Quebec was negotiating its share and starting to build housing. Certainly we see the crisis in Toronto much quicker. Because of the size of Toronto and because of its location, people come to Toronto from across the country and from other communities in Ontario, and so the situation is manifested in a greater way. Other capital cities of provinces across Canada are starting to express the same concerns we saw a few years ago.

I think Quebec is the best example of a province that has completely come on board and committed to building housing that is really affordable; not housing that costs $700 or $800 for a single person but housing that is at the level we would like to see in Ontario, somewhere around $325, unless the welfare shelter component is increased, which is what happened with St Clare's. The tenants at St Clare's pay $325, and the provincial rent supplement makes up the difference. That's a great model, but, as I said, it's only 50 units.

1700

Mr Cartwright: In fact most other provinces in this country now provide municipalities with much more flexibility in their funding, in their revenue-raising and in their expenditures. Of course if you go south of the border—certain people love to emulate what happens south of the border, except for one big issue: senior levels of government pour huge amounts of money into the municipalities, into the issues of transit, affordable housing, urban redevelopment and, until recently, even around environmental renewal, significant investments by senior levels of government that are not found here in Ontario.

Mr Christopherson: It's interesting: Quebec is also one of our main competitors, and they beat us out in a lot of areas. That testimony was given here earlier today. So one doesn't necessarily cancel the other out.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

ONTARIO TRUCKING ASSOCIATION

The Chair: Our next presentation is from the Ontario Trucking Association, Canadian Trucking Alliance. I would ask the presenter to please come forward and state your name for the record. On behalf of the committee, welcome. You have 20 minutes for your presentation.

Mr David Bradley: Thank you very much, Chair and members of the committee. I'm David Bradley, president of the Ontario Trucking Association. I'm pleased to have the opportunity to speak to you again this year.

The challenges that Ontario faces this year, of course, have been impacted greatly by the events in the US economy over the last year and obviously the events of September 11. In terms of the border situation at the present time, we can report to you that delays or transit times have basically returned to what they were prior to September 11. However, one has to recognize that the reasons for that are twofold: (1) there has been an increase in the number of border guards hired, at least on a temporary basis, on the US side. However, over the longer term more border guards mean more inspections. And (2) we have seen a marked decline in car traffic across that border. I'm very concerned that once the recovery takes hold on both sides of the border, we will, without a new sophisticated bilateral border system, be back in the soup one more time.

I think, though, that the aftermath of September 11 has created some additional awareness of some issues we've been trying to bring to government's attention for some time, and perhaps has served as somewhat of a wake-up call. I think there is now a greater awareness among all people in Ontario of the importance of and interrelationship between economic prosperity in the province of Ontario, trade, direct investment and the importance of an efficient transportation network. A third of Ontario's gross domestic product is dependent on trade with the United States, and 74% to 80% of that moves by truck. A great deal of that, in fact the vast majority of that, would be just-in-time shipments serving some very important sectors like automotive.

There are lots of reasons, I assume, for Ford's decision to close the truck plant in Oakville or to announce they will be doing that. For me, the big issue and the big concern Ontario has to address moving forward in the aftermath of September 11 is, what is the future of direct investment in some of those key industries in this province? All the auto companies—I'm sure you've heard this, or you will hear this when they come before this committee—have had to increase their inventory of supplies so they don't get caught again. There's a real cost associated with that. You can be bound and bet that when those decisions are taken in future in terms of where to source parts from, where to put direct investment, even the perception of problems at the border is going to be a very real factor.

Consequently, I think it's imperative that Ontario take a renewed and energetic look at all those areas where we can become more competitive, where we can become more efficient and where we can become more productive, because I believe we have lost some productivity as a result of September 11, and certainly we have lost the confidence of some of those US suppliers, some of those US manufacturers and customers of Ontario product as to whether they should source from here or from somewhere else.

I guess what I'm saying, in a sense—and I don't like to use the term "industrial strategy"; it's something that reminds us all of the 1970s and times like that. But I do believe we need to have a renewed and vigorous look at an industrial competitiveness strategy for Ontario that embraces not just tax and budgetary issues, but also looks at where efficiency and productivity might be impeded by antiquated, overly cumbersome regulation, where policies are developed without a broad-based strategic view of the world that takes account of why people invest in this province and what they're looking for. I would say to you that one of the great things Ontario has had going for it is its close proximity and easier access to the United States than perhaps any other market in the world. That's something I think we need to work very hard to protect, and at the same time provide infrastructure—my interest is obviously in highways and feeder roads at the municipal level into the trade corridors, but there are other forms of infrastructure as well—so that we can be competitive.

That's more of a broad-brush issue. A lot of the issues at the border of course relate to the federal regime. I don't want to get into that here, but I think there's a lot of work we can do in Ontario to make sure our economy is as competitive as it can be. We should not take anything for granted.

In terms of specific trucking measures and budgetary measures, I have but one issue to bring forward to you. Last year in the provincial budget, it was announced that Ontario was considering implementing a new way of imposing sales tax on trucks and truck equipment for multi-jurisdictional vehicles; that is, vehicles that cross either provincial or international boundaries. Indeed, on October 1, the province did introduce a new system of sales tax for that equipment. We would have preferred to see Ontario follow the lead of most other provinces, which would have been to harmonize with the federal goods and services tax or take a page out of our competitor jurisdictions in New York, Michigan and elsewhere, where truck equipment has in fact been exempted from business input taxation, much like the agricultural, manufacturing and other sectors have here in Ontario. However, Ontario was experiencing revenue leakage with the demise of the interprovincial sales tax agreement from other jurisdictions, and therefore has introduced this new system.

I'll grant you that by working with us, the new multi-jurisdictional vehicle tax has introduced some additional fairness in the system because, for example, we are now collecting tax from US carriers for the first time, and that has allowed some moderation in the tax rate for trucks in Ontario over time for some companies. It really depends on your mix of tractors, trailers and the like.

In addition, the province saw there was a matter of double taxation. Whereas trucking companies have been paying 8% upfront, they are now going to be paying on a decreasing basis year by year. So we've been provided with some credit, going back five years, for taxes already paid on existing tractors.

While the tax rate will only be applied to tractors, it included a portion for trailers and for parts, maintenance and repair labour. What the province neglected to do, however, was provide a credit for tax paid on trailers that are already in existence, where we've already paid 8%, and starting October 1 we're paying more tax again on those trailers. That's clearly double taxation. I don't think the Ministry of Finance would dispute that, and that's something that should be addressed.

1710

In addition, if you've got a fleet that operates in Ontario and into and out of other jurisdictions, it's become a real nightmare for the industry to determine how to segregate that fleet, how much tax should apply on parts, on trailers that operate in Ontario versus elsewhere. Trailers are used in both circumstances, so you've got to come up with some fair and reasonable way to segregate that. That's difficult and costly to do, not only for the industry but, I would argue, as well for the Ministry of Finance auditors. For the amount of money we're talking here, it doesn't seem to me to be an efficient allocation of resources.

We're urging the province to make the new system apply to all vehicles—all trucks, all trucking equipment—regardless of where it operates. We think that would be fairer for everyone.

Those are my comments. I would welcome any questions.

The Chair: Thank you very much. We have approximately two and a half minutes per caucus. I'll start with Mr Phillips.

Mr Phillips: First, just a piece of information from me: a few years ago when you were presenting here, there was a fair bit of concern that US trucking companies might—at least, that's my memory—take over the trucking industry in Ontario. Has there been any trend one way or the other in that?

Mr Bradley: There has been in the last couple of years a significant increase in merger and acquisition activity in Ontario of Ontario trucking companies. At this point, as much of that activity has been other Canadian trucking companies purchasing Ontario trucking companies as there has been US activity. That doesn't mean there hasn't been any US activity, but so far that's been balanced by companies in Quebec and Manitoba buying Ontario trucking companies. I don't know if any one is better or worse than the other.

It has been a surprise to me, particularly with the dollar at 62 cents, that there hasn't been more M&A activity with US companies coming up here and buying up Ontario trucking companies. The only reason that I can put to why there hasn't been more of that is that up until the last 12 months, the US economy was doing so well that the US carriers were busy enough in their own marketplace. I think going forward we do have to be concerned about that.

But one thing that is happening in the transportation sector is that decisions in terms of who to source and who to use for your distribution needs are being made more and more in the United States, which means freight is going to US carriers whether or not the ownership is in the United States.

Mr Phillips: It looks like increasingly in the future, we may be looking at more toll roads in the province; at least those are the signals we're getting from the government. The thing I've noticed on the 407 is that there are relatively few trucks on the 407. Does your industry have a view, firstly, on the 407 situation, and secondly, is there any advice you've got for us in terms of future expansion of roads using toll roads?

Mr Bradley: First, with respect to the 407, you're right—you're not seeing many trucks on it. The reason is that it's a rip-off. Quite frankly, the owners of 407 have bluntly told us they don't really want trucks on there anyway. So they've jacked up the prices to a point where it doesn't make any sense to operate on there. I would argue that the only trucks that are operating on there for the most part are from out of province, because they can't collect the tolls from them. There's no mechanism; they can't pull their licences, so what do they do? That's a bit disappointing.

Going forward, we wouldn't say that we've seen the last toll highway in Ontario, but I think we have to go back to when the 407 was first introduced. There were certain conditions set on the tolls that appeared in legislation and were an attempt to protect the public interest. We at the time were supportive of that, as was the Canadian automobile club, and both organizations tend to be opposed to tolling in the first place. So I think if we're going to move in that direction, we need to have some protection for the public. We need to have some conditions like that there has to be an alternative road, that the monies go to paying down the debt, ta da, ta da, ta da—those sorts of things.

But having said that—and we've got some numbers in the package that has been placed before you—we hear a lot, particularly from people who support the railways and those kinds of things, that trucks don't pay their fair share of the infrastructure, whereas the reality of it is, and the numbers are there before you and they're sourced from public documents, that the trucks are paying almost the entire portion of the provincial capital and maintenance budget for the provincial highways program, about 85%, we figure. If you include in the federal tax—and Ottawa puts nothing in—we're paying more than 100% of the costs of the provincial highway program in the province of Ontario.

So I'm not so sure that the case can always be made for toll highways, but if it is going to happen, it needs to be done a little more fairly than in the 407 situation.

Mr Christopherson: It's good to see you again. Thanks for your presentation. You've got to be careful when you're coming close to complimenting measures of the NDP government. It causes heart palpitations over in the Tory backbenches.

Mr Bradley: We're fair and equitable to everyone.

Mr Christopherson: No, I hear you. Listen, the truth shall prevail. It's just they're not cushioned for that. They're not ready to hear a business group say the NDP did something they agree with. So we've just got to be careful with these folks. They're kind of fragile.

At the risk of further frightening your members, and mine, we agree on something that the government disagrees with. You called it an industrial strategy. We've put forward and put to the minister today that the Ontario government needs to focus on a steel strategy and on an auto strategy or we're going to lose these two key fundamental drivers of our economy. So any help you can give in urging the government that this is a pragmatic, business approach and is not an ideological thing, that if we don't concentrate on steel and auto and maintain the edge we have competitively and as a huge part of our economy, we're going to lose it and we're going to lose the thousands of jobs that go with it.

Those are two comments. My question to you would be this. You've provided a chart that shows the growth in trade between Mexico, Canada and the northeastern United States, where it shows the Mexican, the green lines, going way up in terms of their trade and ours remaining stagnant. I would take from this that the increase in the Mexican trade has not taken away Ontario business, given the fact that ours is stagnant. Is there a concern you have down the road that they will indeed continue to grow, eventually at the expense of some of our market?

Mr Bradley: No doubt. I think that's the message. Clearly, the Mexicans are starting from a smaller base, but in discussions I've had, for instance at the federal level with Industry Canada, it's just a matter of years—I can't recall exactly, but it's within the five- to 10-year period that in fact Mexico will overtake Canada as the favourite source of imports into the United States. That doesn't mean that there hasn't been export growth from Ontario, but in comparison, it's stagnating. So we're just holding our own. We've got to grow that.

I guess what's really interesting in that is—I'm not at all surprised that states like Texas and California are seeing just astronomical growth in trans-border trade with Mexico. What did surprise me was looking at New York, Michigan, Ohio, Indiana, Illinois, which are four of the five top trading states that Ontario trades with. It just so happens as well that Mexico, of course, is seeing a lot of new investment in auto manufacturing, parts manufacturing and the like. It's a commodity. That's something I think we have to be extremely, extremely aware of and concerned about.

The Chair: I'll have to go to Mr Spina.

Mr Spina: Thanks, Dave. It's good to see you again.

Mr Bradley: Likewise.

Mr Spina: Your industry covers a broad spectrum. There's no question that the automotive industry has some impact on import-exports. What breakdown do you have between cross-border business that your industry services versus internal?

Mr Bradley: About five years ago, the share of revenues to the average trucking company in Ontario from trans-border outpaced, for the first time, internal Ontario trade, because most truck shipments were short distances within municipalities, that kind of thing. But in the last 10 years that has been clearly overtaken by trans-border trucking, because Ontario now operates in a mid-continent just-in-time manufacturing sector. That's basically what we serve. So the growth has been and the majority of our revenue now—I think it's about 60% of overall industry revenue—is generated by trans-border shipments. That's clearly where the action is now.

Up until a few years ago the Ontario economy was still slow to bounce back in terms of economic recovery, so the only area where we could go for growth and to keep our business going was the United States.

1720

Mr Spina: Just to jump on a bit of what David started talking about, where the growth is still happening in terms of our import-export business with the US or our export business to the US particularly—it is growing. It just appears stagnant because it is not growing at the same rate as the business from Mexico. Is that correct?

Mr Bradley: There is such a huge market available in the United States that our share—while our exports are increasing, Mexican exports to the United States are growing exponentially.

In terms of direct investment, what that means is that when a plant locates in Ontario, an auto plant or any plant, one of the things it's looking at is the access to the US market. They're not looking to sell everything they produce in Ontario, we're just not big enough, so they're looking to the United States, and that's been a major advantage for us.

Now, with the border issues and the perceptions of the border issues, I think that's in some question, so we've got to work doubly hard to make sure we have an advantage. We can't survive just with a level playing field here in Ontario. We should have an advantage.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

ONTARIO LONG TERM CARE ASSOCIATION

The Chair: Our next presentation is from the Ontario Long Term Care Association. I would ask the presenters to please come forward, and if you could state your name for the record. On behalf of the committee, welcome. You have 20 minutes for your presentation.

Ms Karen Sullivan: Good afternoon. My name is Karen Sullivan. I am executive director of the Ontario Long Term Care Association. With me is David Cutler, the president of our association. We would like to thank you for the opportunity to address this committee today on an important issue for our members and a critical issue for Ontario's elderly citizens and their families who need the services our members provide on behalf of the government.

OLTCA represents the private, municipal, charitable and not-for-profit operators of over 340 long-term-care facilities. These facilities provide care and accommodation services for over 34,000 elderly men and women in virtually every community in Ontario.

Long-term-care facilities are funded and regulated by and accountable to the Ministry of Health and Long-Term Care to provide 24-hour nursing and personal care services. This distinguishes us from retirement homes, assisted living and other types of services.

Long-term-care facilities are part of a publicly funded health system, much like hospitals. The major difference is that long-term care incorporates a funding partnership between the government, the resident and the provider. The government currently funds health care delivery in long-term-care facilities at approximately $62 per resident per day. The resident contributes, on average, $38 per day to help cover their room and board expenses. Providers contribute to facility construction, operation and management.

I now would like to quote two statistics that demonstrate how care funding is clearly inadequate to meet the needs of residents. Because care is and has been underfunded, our sector cannot fully assist government in achieving its vision of a long-term health care system solution.

My first statistic comes from a 2001 Ministry of Health and Long-Term Care funded level-of-service study. It showed that residents in Ontario long-term-care facilities are receiving 2.04 hours of care per resident per day. This was the lowest of any jurisdiction in any Canadian, American and international jurisdiction studied. Manitoba was 25% higher and Saskatchewan 50% higher. In fact, a resident in the southern state of Mississippi received twice the amount of nursing care as a resident in a long-term-care facility in Ontario.

My second statistic is the ministry's measure of the health service and care needs of long-term-care-facility residents, called the case mix measure or CMM. Compiled on the basis of an annual survey of long-term-care facilities, the CMM charts the trend in the level of care that residents need. To the surprise of no one, it has been increasing. In 2001 the CMM went up by 2.1%. It went up by 2.1% in 2000 and 1.4% in 1999.

The level-of-service study combined with the CMM statistics is both informative and disturbing. They point to a widening gap between needs and care and an increasing and we think unacceptable level of risk to residents, staff and facilities. In the face of chronic underfunding, the annual CMM-based funding increase only keeps us from slipping even further behind.

Let me illustrate the gap and the risk by using a typical 100-bed long-term-care facility, which is pretty typical in this province, and the government's own data. If you were in a 100-bed facility you would find that 70 of those residents are over the age of 80 and 25 over the age of 90; 95 of them wouldn't be able to get dressed on their own; 94 would require assistance to eat; 90 would be incontinent or would need assistance with using the washroom; 84 would need assistance to move about; 63 would have dementia; and 45 wouldn't be able to find their own room.

In short, most residents need staff to assist them with daily routines such as getting dressed and eating a meal as well as to provide medical care. Things like tube feedings and oxygen are very typical now in long-term-care facilities.

To put this in some perspective, our funding provides about four minutes to get these frail elderly residents I just described to you up, dressed and to the dining room each morning. In addition, the level-of-service study showed that about 10% of residents who would benefit from having physical therapy actually get it.

The above reality is played out every day in over 500 locations throughout Ontario. In the next three years there will be some 650 to 700 locations as the government's 20,000 new long-term-care beds are opened. Quite simply, this illustrates that long-term-care facilities are not funded to provide the staff, services and care to meet the needs of residents.

The underfunding is chronic and it remains despite the efforts of our association and others to raise the issue. As a result, the care/needs gap has been widening and the impact on our grandparents, our parents and our relatives has been deepening. Long-term-care residents, staff and facilities now face unacceptable levels of risk, risks that are directly related to this chronic underfunding.

Our members and their staff have struggled, and still struggle, to provide the best possible care with insufficient resources. They have now reached the limit of their capability to stretch those resources any further.

Government is the guardian of the public interest and public trust in our health care system. In that role it has the responsibility as the primary funder of long-term-care services. We believe it is time for government to step forward in a manner consistent with this responsibility.

Our members are clearly hearing this every day from family members and caregivers. Every day they witness how government underfunding results in the needs of their loved ones not being met. This also has a physical and an emotional impact on family and caregivers. In fact, the same government data that I spoke about indicate that 45% of our family members need support from staff at least once a week, and another 10% daily.

Long-term care in Ontario is now a highly intense, demanding, stressful and risky environment. We are here today to seek the support of this committee for the solution that will address this critical issue. That solution is a government commitment to increase operating funding to long-term-care facilities by $750 million over the next three years, with $220 million in the 2002-03 fiscal year. This is the amount required to correct the gap identified in the level-of-service study and address increasing resident acuity in all the long-term-care beds, including the 20,000 that are opening.

For an additional government contribution, the $220 million would turn into $8.25 per resident per day. Our members could begin to increase the number of professional staff, personal support workers, occupational therapists and other caregivers in order to help our residents in terms of feeding, helping them move around safely and for their health and medical needs. They could also begin to make improvements to the physical environments that are needed to support increasing care requirements.

The full $750 million over the next three years will begin to raise the levels to where Saskatchewan was in 1999. Most critically, it will also begin to reduce the now unacceptable levels of risk.

1730

We urge this committee to take this request forward on behalf of the residents, their caregivers, their family members, and the long-term-care staff. Our members recognize the current economic forces; they live with them every day as well. However, they cannot continue to ignore evidence that they personally witness every day, along with residents, families and staff.

As I noted earlier, the long-term-care sector has an established and accepted tradition of a resident copayment. This could be an option that government may want to consider. I would like to stress, however, that a copayment increase can only be a small part of the solution. Government is the guardian and prime funder of long-term care, and it must provide the resources and support consistent with this role. Doing so will improve service and help governments realize a promise of a long-term-care solution.

This government has a health care vision of the right service to the right person at the right time in the right location and at the right cost. We support this vision. Further, we believe that for many currently in hospitals and in the community, we are the right location when measured against all of these criteria.

For example, increased operating funding will ensure that long-term-care facilities are able to provide the care required by patients currently trapped in hospitals, which are the highest-cost care setting in the province. This will increase the availability of existing in-patient beds, positively impact wait-lists for surgery and other acute care services and reduce the demand on emergency services.

In the last few days we again saw a story in the news of a hospital seeking to build additional beds to accommodate the demand of more surgery. We find this interesting. It doesn't coincide with adding 20,000 new long-term-care beds.

I would also point out that the benefits to emergency rooms will come not only from the availability of hospital beds; it will also come from a reduction in the number of long-term-care residents who require emergency room services, something that occurs every day in emergency rooms across the province, partly because there are not enough staff in long-term-care facilities to meet the needs.

Furthermore, adequate funding of long-term-care facilities provides a viable alternative to home and community care patients who are at risk and need 24-hour supervision.

In terms of timing, government has a real window of opportunity to do this now, a window that has never existed before. Government's much-needed capital investment to increase the capacity of long-term care is starting to happen. The 20,000 beds are opening; in fact, about one third of those beds will be open by the end of the next fiscal year. We're at about 3,200 new beds right now.

Appropriately funding new and existing long-term-care facilities will enable them to offer both the capacity and the care required to meet the needs of hospital, home and community care residents who are already waiting in the system.

We know and acknowledge that many health care provider groups indicate that if government invests in their sector, it will produce savings in other parts of the health system. We know we all do that. The difference for us is that the capacity issue has been addressed. You've addressed that, as a government. Now we need you to ensure that the government's capital investment is optimized. The added benefit of making this investment is that you will be able to actually monitor the results.

We would suggest that the long-term-care sector has the strongest and most visibly accountable framework, both financially and operationally, in all of the health care system. We all report financial data. Every year it's audited, all based on the same lines; you can compare all of it.

Honourable members, it is said that one of the barometers of a society is how it meets the needs of its elderly. This is now a critical challenge for all of us in this province. OLTCA believes there is a solution, and our members are fully prepared to be part of that solution.

We stand before you today to ask you to do your part to ensure that Ontario's barometer begins to rise, while moving us toward a more effective and efficient health care delivery system. Thank you.

The Chair: Thank you very much. We have approximately a minute and a half per caucus, and I'll start with Mr Christopherson.

Mr Christopherson: Thank you for your presentation. Like good lawyers, we're not supposed to ask questions we don't already know the answers to, but I'm going to do that. You stated on page 2 that residents are receiving 2.04 hours of nursing care. Is that not down from where it was a while ago?

Ms Sullivan: There used to be, a number of years ago, a requirement to have a specific level of care in every long-term-care facility. We moved to a level-of-care funding program and that changed, so there are different levels of care. We're measured every year, and we get a score called a case mix index. Some people would be above and some people would be below. But the study that quoted the 2.04 looked at long-term-care facilities in all the different locations based on the same measurement tool, and our average was 2.04; Mississippi was just over 4.

Mr Christopherson: I gather that figure needs to be increased; that's part of what the funding is about. That number needs to go up to provide adequate service to the residents, correct?

Ms Sullivan: If additional funding was provided, some of it would go, absolutely, into the nursing envelope and you would see an increase in the care.

Mr Christopherson: Right. Now, I noticed on page 10 you talked about the benefits to emergency rooms, because you wouldn't have as many patients who needed to go in the hospital. I gather that they not only go into the emergency rooms, but they actually back up into regular hospital beds and some of them become chronic patients. I know that happens in Hamilton. We've got bed blocking, where they can't go into any other facility because the services aren't there, and yet they've got way too much service in a hospital. What else are you going to do? Therefore, they stay in hospital when they really should be in the community.

Ms Sullivan: I think we can help in two ways. Because we're adding beds, we can help get ALC patients out of hospitals. I'm not sure we can do that on $102 a day, but with some additional funding we could take on a number of those patients who are receiving—about $600 to $800 is what it costs to keep them in that type of bed. So with the capacity, you could use that, add to the $62 investment that you make—we're saying $8.25 in the first year—and we could get some of those people out. At the same time, if we had more staff, we'd send fewer people to emergency rooms. I'm not suggesting we'd stop doing that. If there's a reason to send someone to the hospital, we would do that.

Mr Christopherson: But your threshold would be up.

Ms Sullivan: Yes.

The Chair: Thank you very much. I have to go to the government side.

Mr Hardeman: Thank you very much for your presentation. I have a couple of short questions. First of all, the comparisons to Manitoba and Saskatchewan: do you also have the numbers to compare the percentage of population that is using their services? It's one thing to say that the level of service is higher, but is that based on the needs of their patients, going in, being higher?

Ms Sullivan: A tool called MDS was used. It is able to compare apples to apples, so it looked at residents, and there was no difference in terms of what the care requirements were. It just looked at what they got.

Mr Hardeman: Thank you. The other thing I was intrigued by—and you would also represent the home for the aged and the municipal home for the aged and where they have both residential care and long-term care in the same home. I've had the opportunity to serve on the board of one of those. I always found it interesting that I would pay the full cost of residential care in the residential care section, and then when I needed more care as a patient, I move into the long-term-care facility and my actual contribution to my own care drops significantly because it now becomes health care. Would changing that help? I think you mentioned that it would help to have a higher copayment, shall we say. Would that be able to be done, to have a different factor used for what is residential care and what is health care in a long-term-care facility?

Mr David Cutler: I don't think you can confuse the two, because in the residential facility you're serving a different type of population, as you identified, whereas in long-term care there are greater needs. So the increase of the copayment in long-term care is something that we say can happen, but it's a very small percentage of the hours that we have put before government, based on the need.

Government has always said, "We will not ask the residents to pay for their nursing and programming needs. All they will pay for is accommodation and those types of things."

Ms Sullivan: I would add that in 1993, when the two systems came together, there were 10,000 residential beds. They became long-term-care beds. So that model doesn't really exist any more.

The Chair: I have to go to the official opposition.

Mr Phillips: Just so I understand, your recommendation is that the per day or per diem, or whatever the expression is, go from $62 to $70.25. Is that right?

1740

Ms Sullivan: If you combine what the resident and what the government put in, it's between $100 and $102, and we are suggesting $8.25 be added in the first year. There is a suggestion that a piece of that could be an increase in a co-pay, but it would have to be proportional. The government, we feel, should invest to increase the nursing program, and there could be potentially an increase to the co-payee for the room and board expenses, or the government could put the entire $8.25 in.

Mr Phillips: Right. So the $750-million cost is an annual cost after three years, is that correct?

Ms Sullivan: Right. It would increase the per diem $25. So it's just over $8 each year that we're looking for in a per diem, and it would go into what we call base funding. It becomes annualized.

Mr Phillips: How much of that spending goes to the 20,000 new beds?

Mr Cutler: That is pro-rated on the number of beds that are open. The government has already budgeted to pay for the 20,000 beds at today's level, so we're proposing that the $750 million be divided among the number of beds that are open at that time.

Ms Sullivan: So pretty much it's that $750 million divided by the 77,000 beds gets you $25 for each of those residents.

Mr Phillips: So you've already assumed X hundred million dollars increased funding, which has nothing to do with your $750 million.

Ms Sullivan: Right, because it's part of previous commitments when those beds were tendered and awarded.

The Chair: With that, I have to bring it to an end. On behalf of the committee, thank you very much for your presentation this afternoon.

SHERBOURNE HEALTH CENTRE

The Chair: Our next presentation will be from the Sherbourne Health Centre. I would ask the presenters to please come forward, and if you could state your names for the record. On behalf of the committee, welcome. You do have 20 minutes for your presentation.

Mr Stephen Squibb: Thank you, Mr Chairman and members of the committee, for inviting us here today. My name is Stephen Squibb. I am the chair of the board of directors of Sherbourne Health Centre. With me today is Suzanne Boggild. Suzanne is the chief executive officer of Sherbourne Health Centre.

We're both very pleased to be here today to participate in the committee's pre-budget consultation process. Let me take just a moment to give you an overview of our presentation. I'll spend the next few minutes introducing you more officially to Sherbourne Health Centre, or Sherbourne, and give you some background on what is a very exciting, new primary health care organization being planned for 333 Sherbourne Street in Toronto. I'll touch briefly on how we came to be, on some important milestones we have achieved since being created and our current status as an organization.

Suzanne will then provide you with some specific details on the health care programs and services that we've proposed be funded and delivered through Sherbourne to the local community and which serve as the basis for our ongoing discussions with the Ministry of Health and Long-Term Care. She will also tell you about the unique partnerships we have with other health care providers in the community.

We conclude by asking for your support in finalizing our negotiations with the ministry and in allocating resources to make Sherbourne an operational reality.

A package of information on Sherbourne Health Centre, including a copy of these remarks, is being circulated for your review. We'd be pleased to answer your questions at the conclusion of our remarks.

Sherbourne Health Centre is an innovative, community-based health care organization mandated to provide primary care services accessible to all residents of downtown southeast Toronto. A 15-member board of directors, the majority of whom are residents of southeast Toronto, governs the centre. As well, we have a very dedicated group of staff who have worked tirelessly over the past four years to develop the proposed programs and services and reach out to the community. Together, these committed people are working to ensure the success of our organization and the fulfillment of the government's health care vision in this part of the province.

The creation of Sherbourne Health Centre was mandated by the Health Services Restructuring Commission four years ago to fill the gaps in ambulatory care that would result from the closure of Wellesley Hospital and its outpatient programs, which took place last year.

Located at 333 Sherbourne Street, in the heart of the community, Sherbourne Health Centre will serve St James Town, Cabbagetown, the upper Jarvis and Church Streets neighbourhood, Moss Park, Regent Park and the St Lawrence neighbourhood. These six neighbourhoods house approximately 100,000 people.

We've conducted extensive research and consultations over the past four years in an effort to ensure the programs and services we offer are integrated with current health care services provided in the community and address the unmet health care needs of the community. Those consultations include working with our local councillors and our local MPP, George Smitherman, all of whom are supportive.

What we found is quite remarkable. These neighbourhoods are densely populated with a high proportion of hostels, shelter beds and rooming houses, as well as many newer immigrant groups. People with disabilities and seniors living alone reside in the area to a greater extent than elsewhere in the city. The community is also home to the largest population of gay and lesbian individuals in the country. This is a wonderful and diverse part of the city with strong communities that add much to the life of the city. Within this, however, there are many people facing disadvantages in terms of their health. Many of the neighbourhoods in the centre's catchment area have death, disability, disease, hospitalization and adverse birth outcome rates that are 20% to 50% higher than the city average. Despite the efforts of current service providers, the people of downtown southeast Toronto lack sufficient access to health and social services and face growing health service needs with fewer resources.

Progress toward making Sherbourne Health Centre an operational reality has been steady, but very slow. Most recently, the provincial government provided funding of $1.6 million to begin the first phase of renovations to 333 Sherbourne Street, a decommissioned six-storey building—the former Central Hospital—right in the heart of the community, and it will be the operational home of Sherbourne.

In 2001, the Ministry of Health and Long-Term Care provided Sherbourne with funding to acquire the site and to move its administrative and planning staff into the annex of the building, paving the way for further renovation of the site that will allow us to move into service delivery.

I'm now going to ask Suzanne to provide you with specific details regarding Sherbourne's proposed programs and services plan, or functional program, which we've submitted to the Ministry of Health and Long-Term Care, and the operating and capital funding requirements needed to implement it.

Ms Suzanne Boggild: Thank you, Steve, and thank you, Mr Chairman and members of the committee, for inviting us here today. I believe the provincial government showed great foresight in establishing Sherbourne Health Centre, and I'd like to share with you the programs and services we believe are required to achieve the government's goal.

We have submitted, as Steve said, a functional program to the Ministry of Health and Long-Term Care. In fact, we've been discussing that with the staff of the Ministry of Health and Long-Term Care for over a year and are currently on the fourth edition of that functional program.

Notwithstanding the frustration associated with the slow progress of these discussions, we are still negotiating with the Ministry of Health to reach final approval and funding for our functional program. But as Steve says, this has the full support of the community and of the opposition members and we believe the sooner we could receive final approvals for service delivery and for renovations to the building we own at 333 Sherbourne Street, the sooner we'd be able to offer local residents the primary care they need and which we believe is a goal of the government in terms of primary care reform and alleviating some of the current burdens on the health care system.

The functional program that is under discussion is, we believe, a very innovative blend of primary care services that are tried and true in other municipalities, other jurisdictions. Just briefly, the functional program includes an extended-hours primary care response centre. It also includes primary health care for the lesbian-gay community, as Steve mentioned. Mental health services are badly needed in the urban core, as many folks in the area have mental health issues. Mobile outreach services will reach the homeless and underhoused and people living in the shelters and rooming houses. In addition, an infirmary for homeless people to receive short-term home care is included in the functional program.

Our extensive community consultations clearly indicate that access to primary care with extended hours is the top priority for the community. We propose an immediate-care, seven-day-a-week, 18-hour-a-day centre where doctors, nurse practitioners and other health professionals will serve the community.

1750

You can imagine how this would help alleviate the burden on the crowded emergency rooms and remove many of the barriers to access to primary care experienced by people, particularly people in urban areas. The model we are proposing has been shown to be highly effective in Calgary and in many other areas across the country, particularly in downtown areas like the one we'll serve in southeast Toronto.

Our program and service plan also includes Toronto's first primary health program for lesbian, gay, bisexual, transgendered and transsexual communities. Our goal is to develop a centre of excellence in this area that provides wellness and preventive care, safe-sex and health education, psychological support and counselling in an appropriate manner. Again, programs of these kinds exist in other North American cities, and we're eager to achieve the same positive outcomes that those cities have achieved here in Toronto.

Mental health services will complement our programs as well. Outreach and on-site services will be provided for people in the community with emotional and psychiatric issues. We are developing a framework where culturally competent, interdisciplinary care, with flexible hours to meet client needs, will be based on needs of the population and the patterns of use. We believe there is a strong gap in mental health services in downtown Toronto.

Similarly, all our consultations have shown that there is a great need to reach out to the homeless and underhoused, and we would like to develop mobile outreach services. Once our operational funding is confirmed, we will begin operating the former Wellesley Health Bus. Some of you may have seen this bus as it drives around Toronto providing nursing care, health education and counselling for people who live in the streets or in shelters and rooming houses. I've been out on the bus. It's a phenomenal program. It is also a great example of a public-private partnership, because the actual bus was purchased by the Rotary Club of Toronto, and most of the nursing care is provided by volunteer nurses. What is particularly striking is that over the last year, visits to the bus increased by 10%, so that the bus now serves 14,000 visits a year right out of a Winnebago-style bus.

To complement that mobile service, we are prepared to develop an on-site infirmary for recuperative care. You may ask, "What is this?" We in this room may all receive home care at home, but if you're living in a shelter or in a rooming house or on a grate in the street, there's nowhere for you to receive home care. As you know, over the last few years there's been a big increase in moving care out into the community and into people's homes. That's fine if you have a home. If you don't have a home, where do you receive care before hospital, after hospital? In many cases now you don't, so we want to develop an infirmary where people who are underhoused could have a temporary home and get that service.

In fact, models of infirmaries like this have existed for over 15 years in the United States. We've contacted people who run these infirmaries in Boston, Chicago and New York and believe they are tremendous models. The model builds on the mayor's homelessness task force and the well-known Anne Golden report. The city is fully behind the infirmary development and in fact has allocated some seed money for the initiative.

We want to develop our services in partnership with others, and that's what we feel our real value proposition is: that we would build on what already exists, creating partnerships on both a public and private basis to fill the gaps in services. Some of the examples of how we've done that already: we have on-site with us the Canadian Memorial Chiropractic College and are working on a program with them to serve the local community. We also have located on our site the Tamil seniors' wellness program that has been running out of St James Town to reach isolated Tamil seniors; and also a Canadian working group on HIV and AIDS. We want to work together with others, fill the gaps in service and get into service delivery.

What we need to achieve this innovative and cost-effective model for addressing the health needs we've indicated is operating funding and capital funding. As Steve mentioned, we have the building already and thank you for that. The centre was created four years ago. The Wellesley hospital is now closed and its outpatient programs are gone but the Sherbourne Health Centre is still not operational. What we would ask members of the committee and, through the committee, the Minister of Finance is to support our recommended plan for programs and services and to allocate the necessary funds in the coming fiscal year to make the centre a reality.

We are currently finalizing the detailed costing and estimates for our operating capital budgets and we have been discussing these estimates for some time with the Ministry of Health and Long-Term Care. Our capital funding requirements are currently estimated at $25 million to complete renovations of the building. The building has been unoccupied for six years, so it needs building upgrades. It was initially built in the 1960s and has not had much capital investment since that time.

In terms of operating funding, we are seeking $3.5 million for the coming fiscal year to begin initial service delivery, to get the bus going and to continue with our other programs. Our final operating budget that is under discussion currently with the Ministry of Health and Long-Term Care is between $6 million and $9 million. With these funds, we believe the return on the government's investment will be great in terms of improved health care for the local community and quality of life for its residents. We are proposing programs for which there is a demonstrated and well-supported community need and we are proposing service delivery models with proven effectiveness.

In closing, we'd like to thank you again for the opportunity to speak with you today. We would invite all members of the Legislative Assembly, and in particular the members of this committee, to visit the Sherbourne Health Centre to learn more about the community and the urgent health needs that exist in the communities and to learn more about the associated human and economic benefits that will accrue through your investment in the Sherbourne Health Centre.

Thank you again for the opportunity to address you. We look forward to taking questions.

The Chair: Thank you very much. They'll have to be brief, about a minute per caucus. I'll start with the government side.

Mr Spina: Thank you for your presentation. It sounds like a wonderful project. I just wanted to clarify the status you're at now, and that is that you've received funding, obviously, for the acquisition of the building and I guess for the preparation of the operational plan. Is that correct? And you've submitted the operations plan to the ministry?

Ms Boggild: Yes. We have an operating budget in front of the Ministry of Health now. What we've received in the past have just been one-time start-up and planning dollars.

Mr Spina: How long has that been before the Ministry of Health?

Ms Boggild: We've been discussing the functional program which forms the basis of the operating plan since a year ago December. We first submitted a functional program to them over a year ago.

Mr Spina: Now, is it just sitting there or have you had dialogue back and forth?

Ms Boggild: It's been sitting there at some times but we've had dialogue back and forth. But certainly the dialogue has not been as rapid, as conclusive as we'd like, obviously. The process has been quite frustrating.

Mr Spina: But basically do you feel that they have all the information they need to move forward?

Ms Boggild: Absolutely. I believe they've had all the information for a long time. There has been a lot of work put into this. I don't really know why it's not moving forward faster.

Mr George Smitherman (Toronto Centre-Rosedale): Ms Boggild, you use the words "steady but very slow" to describe the progress which, from where I'm sitting, looks terrible. If you were only allowed one word to describe the progress on this file, what would it be?

Ms Boggild: Frustrating; I would say very frustrating.

Mr Smitherman: The present proposal doesn't exactly reflect what the Health Services Restructuring Commission originally envisioned for Sherbourne. It seems to me from recollection that the ministry has often changed exactly what it was that they asked. Is there a consistent trend whereby what you give to them in answer to their questions is then followed up with a series of questions from them that take you on another path, or has there been a settled sense of what the plan would be for a while now? Do you understand the question? It's a bit convoluted.

Mr Squibb: Can I just add something? There have been meetings that we've walked away from believing that we had reached agreement, and subsequently learned that in fact the agreement wasn't there, that something had changed.

Ms Boggild: I think what's been frustrating is that we believe that the proposal we have and the original vision of the restructuring commission, and before that the Metropolitan Toronto District Health Council, was for a primary care resource in the community, and that need has, if anything, increased in the community. What has been frustrating for us is that although that's a government direction, the Ministry of Health does not seem to have been able to move that forward at a rate one would expect.

Mr Christopherson: Thank you for your presentation. I congratulate you on your vision and tenacity. I have just one question. Obviously, a lot of this is predicated on the street life. The current Minister of Finance has said that if he becomes Premier, he wants to pass a law making it illegal to be homeless. Number one, I wouldn't mind your thoughts on that. I recognize that you're someone who's hoping to do business with the government, so I'm not looking for a great flourish of rhetorical comment, but I would like your thoughts on it. Second, if that indeed did happen, as weird and horrible as that likely would be, how do you see that affecting your plans? My first-blush reaction is that it just takes the whole thing and tips it upside down.

Mr Squibb: I'd like to say first of all that I don't know how practical it is to make living on the street illegal. I guess all that does is transfer a lot of cost to the jail system. But I need to remind you that there are many, many more people in our communities whom we intend to serve than there are homeless people. That's a small percentage of our community.

The Chair: On behalf of the committee, thank you very much for your presentation this afternoon.

Ms Boggild: Thank you very much for your time.

The Chair: I would point out to the committee that tomorrow morning we will be meeting in committee room 1 because this room is going to be used by public accounts all day tomorrow. This committee now stands adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 1802.

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Chair / Président
Mr Marcel Beaubien (Lambton-Kent-Middlesex PC)

Vice-Chair / Vice-Président
Mr Doug Galt (Northumberland PC)

Mr Marcel Beaubien (Lambton-Kent-Middlesex PC)
Mr David Christopherson (Hamilton West / -Ouest ND)
Mr Doug Galt (Northumberland PC)
Mr Ernie Hardeman (Oxford PC)
Mr Monte Kwinter (York Centre / -Centre L)
Mr John O'Toole (Durham PC)
Mr Gerry Phillips (Scarborough-Agincourt L)
Mr Joseph Spina (Brampton Centre / -Centre PC)

Substitutions / Membres remplaçants
Mr David Ramsay (Timiskaming-Cochrane L)

Also taking part / Autres participants et participantes
Ms Marilyn Churley (Toronto-Danforth ND)
Mr George Smitherman (Toronto Centre-Rosedale / Toronto-Centre–Rosedale L)

Clerk / Greffière
Ms Susan Sourial

Staff / Personnel
Ms Elaine Campbell and Mr Larry Johnston, researchers,
Research and Information Services

CONTENTS

Wednesday 27 February 2002