
ANNEX III

FAIRNESS FOR ALL CANADIANS

INTRODUCTION

For over 15 years, successive Ontario governments have urged the federal government to address the systemic unfairness towards the people of Ontario in federal programs and transfers. In 2004, the McGuinty government documented the inequities in greater detail than ever before and its call for fairness received support from business, community, sectoral and municipal leaders from all regions of Ontario.

The Government of Ontario and the people of this province believe that equitable treatment is a fundamental principle that must serve as the underpinning of our fiscal arrangements. Outside of the country's formal Equalization program, federal transfers and programs of general application should treat all Canadians equally. Federal cash transfers to provinces and territories that support these programs should be allocated on an equal per-capita basis.

This unfairness represents a real drain on the Ontario economy and a significant barrier to progress for the people of this province. With fair support from the federal government, Ontario could do even more to strengthen the economy and improve vital public services like health care and education.

More and more, studies are supporting what Ontario has been saying: that outside of the Equalization program itself, all Canadians deserve the same level of support from their national government for their public services. Even the federal government's own study, the O'Brien Report, agrees that backdoor equalization with respect to health and social transfers needs to be addressed. All Canadians are equal, and the federal government should invest fairly in the future prosperity of all Canadians and all regions.

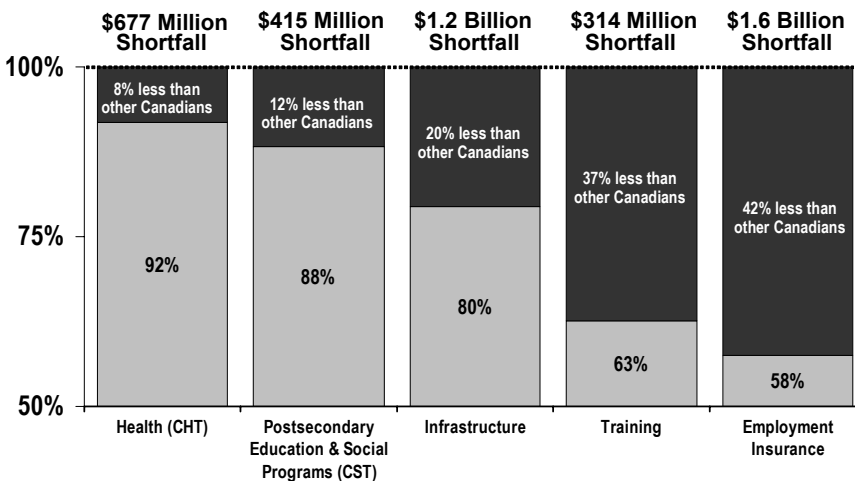
ONTARIANS DO NOT RECEIVE FAIR TREATMENT

The Ontario Government recognizes the importance of modern and efficient infrastructure to support economic growth. That's why the 2006 Ontario Budget included a \$1.2 billion investment in the Province's public transit systems, municipal roads and bridges. This investment includes \$670 million through the Move Ontario Trust to enable the extension of the Toronto subway to Vaughan, and \$167 million to enable expansion of public transit in Mississauga, Brampton and York Region. The initiative builds on the provision of two cents per litre of gas tax revenues to municipalities in support of public transit, and the government's ReNew Ontario plan to invest more than \$30 billion over five years in health care, education, water and wastewater, justice, transportation and transit infrastructure.

The federal government is a necessary partner in the Toronto–York subway extension, the North America Gateway and other projects of national strategic significance, and must distribute infrastructure funding fairly over the long term. Under the terms of the existing infrastructure programs, on a per-capita basis, Ontario has only received 80 per cent of the funding made available to the rest of Canada over the terms of those agreements. Over the life of the existing federal infrastructure programs, this shortfall will add up to \$1.2 billion.

Ontarians Do Not Receive Fair Treatment¹

Per-Capita Funding for Ontarians Compared to the Rest of Canada



Average Per-Capita Funding in the Rest of Canada = 100%

Source: Ontario Ministry of Finance, Statistics Canada.

At the same time, the federal government must address the inequities in how it distributes the Canada Health Transfer (CHT), which supports Ontario’s hospitals and health care providers, and the Canada Social Transfer (CST), which supports colleges, universities and social programs. Federal support for health care in Ontario is only 92 per cent of the average support given to Equalization-receiving provinces.² This means Ontario will receive \$53 less per person – an annual shortfall totalling \$677 million. Federal transfers to support Ontario’s postsecondary education sector and social programs are only 88 per cent of the average support given to Equalization-receiving provinces. This means Ontario will receive \$33 less per person – an annual shortfall totalling \$415 million.

Federal funding for labour market training in Ontario is also distributed inequitably. Federal support for training and employment services per unemployed person in Ontario is only 63 per cent of the average funding per unemployed person provided to Canadians in other provinces. Ontarians would benefit by \$314 million annually if they received the same funding for training as other Canadians.

¹ CHT and CST figures are for the 2006–07 fiscal year and the “rest of Canada” refers to Equalization-receiving provinces; figures for infrastructure refer to funding over the terms of existing federal infrastructure programs; figures for training are for 2004 and refer to per unemployed person, and “rest of Canada” refers to other provinces only, not territories; EI regular benefits figures are for 2005 and refer to per unemployed person, and “rest of Canada” refers to other provinces only, not territories.

² All provinces except Ontario and Alberta receive Equalization. Saskatchewan receives more CHT and CST cash per capita than the other seven Equalization-receiving provinces.

Ontarians also receive less federal Employment Insurance (EI) regular benefits per unemployed person than unemployed persons elsewhere in Canada. EI regular benefits for unemployed Ontarians are only 58 per cent of the average for unemployed persons in the rest of Canada. Ontarians would benefit by \$1.6 billion annually if they received the same level of EI benefits as other Canadians.

CANADA–ONTARIO AGREEMENT

In 2005, the Canadian and Ontario governments entered into a historic agreement that finally addressed some of Ontario's concerns about fairness. Progress was made in a number of areas, including funding to support Ontario workers and immigrants at levels comparable to that of other provinces.

The Canada–Ontario Agreement, although historic and a significant victory for the people of Ontario, represented just a first step towards addressing Ontario's fairness issues. Regrettably, it has not yet been honoured by the new federal government.

The new federal government made an unequivocal commitment to honour that Agreement, recognizing that it was in the interests of all Ontarians and all Canadians to invest in a fair way in Ontario's prosperity.

Letter from Stephen Harper to Dalton McGuinty, January 18, 2006

Dear Premier McGuinty,

It was a pleasure to speak with you earlier this week.

When we met in my office in May 2005, no agreement had been finalized between yourself and the Prime Minister. We did reach an understanding that **I would be amenable to supporting a fiscal imbalance agreement reached between Ontario and Canada.***

Our platform released last week does not provide for the last two years of this agreement as that would put us beyond the term of the current Ontario government. However, given your strong commitment to the terms of the current agreement, **I have no difficulty in accommodating your request.*** This means **we will be fully funding this agreement*** through the 2009–10 and 2010–11 fiscal years, a commitment which is **clearly within the fiscal flexibility of our plans.***

I have attached the spreadsheet which sets out the details of the funding of that agreement in order to avoid any confusion.

Sincerely,

Hon. Stephen Harper, P.C., M.P.

* Emphasis added.

PRIME MINISTER HARPER'S COMMITMENT TO THE CANADA–ONTARIO AGREEMENT (\$ MILLIONS)

	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	Total
Higher Education	400	–	350	400	400	400	1,950
Housing and Infrastructure	150	150	100	100	100	–	600
Cities	149	149	–	–	–	–	298
Labour Market Development and Immigration	80	300	400	560	634	634	2,608
Climate Change	–	40	140	158	200	–	538
Corporate Tax Collection and Meat Inspection	10	80	350	250	100	100	890
Total	789	719	1,340	1,468	1,434	1,134	6,884

Based on the specific, firm, written commitment to the Canada–Ontario Agreement, set out in the Honourable Stephen Harper’s letter to Premier Dalton McGuinty on January 18, 2006, Ontario built these revenues and corresponding expenditures into its March 2006 Budget medium-term fiscal plan.

**REVENUE FROM 2005 CANADA–ONTARIO AGREEMENT INCLUDED IN
ONTARIO’S MEDIUM-TERM FISCAL PLAN
(\$ MILLIONS)**

	2006–07	2007–08	2008–09	Three-Year Total
Immigration ¹	2	2	2	6
Labour Market Partnership	93	108	155	356
Corporate Tax Collection	–	250	150	400
Higher Education	–	350	400	750
Housing	150	–	–	150
Infrastructure	–	100	100	200
Climate Change	40	140	158	338
Total Included in Fiscal Plan	285	950	965	2,200

¹ Annual funding to support the development of an immigration portal. Under the Canada–Ontario Agreement, \$320 million annually by 2009–10 in newcomer services will be delivered to Ontarians by the federal government.

Uncertainty remains regarding the Agreement resulting from the unanticipated announcement in the 2006 federal budget of the intention to include several trusts, certain tax measures and “further amounts allocated” as counting towards the Agreement.

Furthermore, the federal government made unexpected changes to the form and timing of revenues to flow to Ontario through the Agreement. Finally, Ontario awaits the balance of the funds committed under the Agreement, including outstanding 2005–06 amounts and the long-term funding that was promised in the Honourable Stephen Harper’s January 18, 2006 letter.

FEDERAL TRUSTS

The May 2006 federal budget announced the federal government’s intention to create several trusts worth \$3.3 billion for the benefit of all provinces and territories. These trusts provide support to provinces and territories for postsecondary education, public transit and housing.

Ontario will receive \$390 million over two years from the Postsecondary Education Infrastructure Trust; \$352 million over three years from the Public Transit Capital Trust; \$312 million over three years from the Affordable Housing Trust; and \$80 million over three years from the Off-Reserve Aboriginal Housing Trust.

The Province is including \$1,134 million of revenue from these trusts in its medium-term fiscal outlook. The Province proposes that the Operating Contingency Fund under the Ministry of Finance be increased by \$1,134 million over three years to reflect supplemental spending related to these trusts, pending satisfactory resolution of issues related to the Canada–Ontario Agreement.

Ontario does not accept the position that the unanticipated measures announced by the federal government in its 2006 Budget count towards the Canada–Ontario Agreement. No other province has been called upon to use these trusts to offset pre-existing federal commitments, deals or obligations.

If the federal government maintains that the trusts apply against the Canada–Ontario Agreement revenues already built into the Province’s fiscal plan, which also already have expenditures aligned against them, then there is no supplemental funding available to spend in those areas beyond what was already included in Ontario’s March 2006 Budget.

To maintain otherwise would be to claim that funds provided once are to be spent twice.

FAIRNESS FOR ALL CANADIANS

Ontario is calling on the federal government to honour its commitment to the government and to the people of Ontario. This means moving forward to ensure that Canadians living in Ontario are treated fairly by their national government in the areas of health and social transfers, infrastructure funding, support for workers – and all federal programs designed to help Canadians across the country.

Ontario and the federal government must work together in a forward-looking manner to address the future prosperity of the Province and Canada.

The Government of Ontario welcomes Ottawa’s acknowledgment and attention to the fiscal imbalance and Ontario’s equitable treatment concerns. In the longer term, we need a fundamental re-examination of our fiscal architecture. The Government of Ontario has put forward a number of suggestions for such a review.

Ultimately, the Government of Ontario’s position can be summarized, simply, as *Fairness for All Canadians*. We expect the federal government to make meaningful, concrete steps towards achieving fairness immediately.